Emerging challenges and shifting paradigms

New perspectives on international cooperation for development

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Contents

Foreword

We are determined that no one should be left behind in the current context of global development. The European Commission, the Economic Commission for Latin America (ECLAC), and OECD Development Centre have thus come together to lead a timely discussion on how to make international relations more relevant, responsive and fit for purpose.

Looking through the lens of "development in transition", this document, jointly prepared by ECLAC and the OECD Development Centre, notes that some developing and emerging economies have increased their levels of national income yet still face daunting multidimensional development challenges. This calls for a more comprehensive approach to international cooperation that, combined with effective domestic policies, can better support countries as they move up the income ladder and seek ways to turn income gains into lasting development gains.

The analysis presented here sketches out some of the features of a new paradigm of international cooperation for development. This paradigm recognizes that development is an ongoing process, understands that countries at any level of income face development challenges, acknowledges multidimensional measures, embraces tailor-made national strategies and orients the multilateral agenda towards the 2030 Agenda for Sustainable Development. It also supports the strengthening of multilateral governance structures, including through South-South and triangular cooperation, and broadens the cooperation toolbox beyond purely financial instruments to also use, for instance, knowledge-sharing, capacity-building and technological transfers.

While our reflections on *development in transition* may have initially been triggered by the obvious mismatch between levels of income and development, we recognize that this issue matters far more broadly. Globalization has brought benefits in terms of a more interconnected global economy, but inequalities persist and there are various forms of political backlash. We face a dramatically more complex world, one that is multipolar, multi-stakeholder and multilevel. These changing dynamics have implications for the policies, practices, processes and partnerships we forge for inclusive and sustainable development. *Development in transition* seeks to better frame the analysis and understanding of these implications for countries at all levels of development and for how they cooperate with one another.

The wider applicability of *development in transition* is evident. While this paper focuses on Latin America and the Caribbean —a heterogeneous and diverse region with structural and new challenges for development— the discussion is very relevant for other regions as well. The universality of the 2030 Agenda, reflected in the Sustainable Development Goals, makes development everyone's business. The shared pursuit of regional and global public goods in which we all have a stake, such as environmental sustainability, climate action, security and the dissemination of innovation and technology, underscores the urgency of establishing new approaches to international cooperation. The ideas framed in this document are a useful starting point for a much-needed, in-depth analysis and set the agenda for cooperation actions and policies of wider scope.

Our three institutions are fully engaged in the ongoing dialogue framed by *development in transition*. We invite all stakeholders —partner countries, global and regional institutions, academics, think-tanks, the private sector and civil society— to join us. Together, we can continue to rethink and redefine the continuum of international relations for development and act jointly to ensure that no one is left behind.

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Abstract

The international economy is going through a period of major transformations that demand new policy responses. The emergence of new actors in the global arena, the environmental impacts of economic growth, the technological revolution, increasingly globalized trade and financial flows, rising migration flows and high inequality in some countries have made traditional economic paradigms and policy strategies inadequate in many respects. This inadequacy is compounded by the interdependence of international challenges and new and persistent domestic vulnerabilities. The concepts of development and development cooperation are not immune to these changes. Therefore, the need is growing to reconceptualize international cooperation that “leaves no one behind”. This is particularly the reality in countries whose incomes are growing while, at the same time, quality of life is not necessarily increasing in all its dimensions. Such “development in transition” thus requires a multidimensional approach to international cooperation for development that adopts effective policies to address new and persistent structural challenges. This paper briefly presents new perspectives on development, their implications for international cooperation for development, and the need to remain engaged with all Latin American and Caribbean countries, as good examples of economies experiencing development in transition.

This paper discusses how to think about international cooperation for development. It proposes that new narratives of development cooperation should move from graduation to gradation, using a toolkit based on five pillars. First, international cooperation for development should measure development beyond per capita GDP. Second, the cooperation strategies and focus of development should be linked to national strategies and reflect a multidimensional approach. Third, the focus of the multilateral agenda should be based on the 2030 Agenda for Sustainable Development promoting better global public goods. Fourth, the governance and financing approach to cooperation should look beyond official development assistant (ODA) and be multilevel in nature, taking into consideration South-South and triangular cooperation as well as horizontal cooperation across different levels of government. Finally, international cooperation should go beyond traditional instruments and include such modalities as innovative instruments of knowledge-sharing, capacity-building and technology transfers.

The new global context and challenges in the Latin American and Caribbean region call for new international cooperation perspectives based on common interests, shared values and strong complementarities, including the partnership between the European Union and Latin America and the Caribbean. Although discrepancies and heterogeneities remain across emerging and developing economies, the policy implications in this document are useful for other regions.

Introduction

The international economy is going through a period of major transformations that demand new policy responses. The environmental impacts of economic growth, the technological revolution, increasingly globalized trade and financial flows, rising migration flows and still-high inequality in some countries have made traditional economic paradigms and policy strategies inadequate in many respects. This inadequacy is further compounded by greater complexity due to the emergence of new actors in the global arena.

This landscape has important implications for thinking about the relationship between and within economies experiencing development in transition, those whose incomes are growing but whose quality of life is not necessarily improving in all its dimensions. This requires a multidimensional approach to adopt effective policies to address new and persistent structural challenges. For countries transitioning to high-income levels, development challenges are related less to financial transfers and more to building the institutional, financial, social and technological capabilities required for catching up and diversifying the economy, possibly through more cost-efficient and innovative cooperation modalities. While improvements have been achieved in some of these countries, challenges remain and new ones have emerged. Some of these economies have attained considerable poverty reductions, the emergence of a middle class and a more stable macroeconomic framework. These dynamics have improved social and economic structures, but still the need persists to further social inclusion, support a vulnerable middle class with a significant share of informal jobs, and advance low-productivity sectors.

Most Latin American and Caribbean countries are transitioning to high-income levels and thus offer good examples of the implications of these dynamics, as they are facing both traditional and new challenges on several development fronts. These challenges can be illustrated within the framework of the five major dimensions of the 2030 Agenda for Sustainable Development (also known as the 5 Ps of sustainable development).

(i) The prosperity agenda: Slow productivity growth, an undiversified production structure and lack of technological upgrading contribute to the income gap between Latin America and the Caribbean and the developed economies and, increasingly, between the region and other developing countries. Although some countries in Latin America and the Caribbean have improved their macroeconomic framework, the region has shown a marginal contribution to global growth, less than 10% since 1990. This contrasts with emerging and developing Asia, which has more than doubled its contribution to global growth since 1990, to reach almost 50% today.

(ii) The people's agenda: In the past decade, poverty has declined dramatically and a new middle class has emerged. This progress supposes new challenges for advancing towards further social inclusion. While poverty has been almost halved since the beginning of the twenty-first century, it still trapped some 24% of the Latin American and Caribbean population in 2015. In addition, almost 40% of the population could be considered vulnerable to slipping back into poverty in 2015. Compared to other emerging regions, Latin America and the Caribbean still presents the highest inequality levels in the world (with a Gini coefficient of 0.50), exceeding those of sub-Saharan Africa (0.45).

(iii) The peace and institutions agenda: Institutional capacities have improved and several measures have been taken to increase transparency and good governance. At the same time, Latin American society, especially its growing middle class, is demanding more of its institutions. In 2017, 75% of Latin Americans had little or no trust in their governments (OECD/CAF/ECLAC, 2018). This undermines the legitimacy of the State and governments' capacity to raise revenues that are indispensable for financing better public services and ensuring their sustainability to deliver inclusive growth.

(iv) The planet agenda: Latin America and, especially, the Caribbean are vulnerable to —and indeed have already experienced— the negative effects of climate change. Unless action is taken, by 2050 climate change will have pushed 17 million Latin Americans to migrate (Rigaud and others, 2018). At the same time, Latin America and the Caribbean is increasingly becoming part of the solution, through its commitment to the Paris Agreement. The region's engagement in tackling climate change and mitigating its effects is therefore a priority.

(v) The local partnership agenda: Despite the economic slowdown in the region, fiscal revenues increased in the past decade by close to two percentage points, to 22.7% of GDP in 2016. However, taxes remain low compared to economies of the Organisation for Economic Cooperation and Development (OECD), where the tax burden averaged 34.3% of GDP in 2016, and financing for development is still a concern, as is the lack of progressive tax structures. Public revenues are particularly crucial given the region's considerable decrease in total official development assistance (ODA) inflows in past decades and the difficulty of channelling private flows into development-related sectors.

The different challenges in Latin America and the Caribbean will only be tackled by complementing local action with an international partnership agenda. Addressing local and global challenges requires a comprehensive approach to partnerships. A multi-stakeholder process of engaging different countries, actors and partners, including the private sector, development banks, local governments, foundations and civil society, is necessary to widen the toolkit of instruments and mechanisms for social and economic development.

The 2030 Agenda for Sustainable Development is the latest attempt to define this multi-stakeholder and multilevel development framework, including follow-up, reviews and peer learning mechanisms to build new, more effective development tools. A thorough approach to the 2030 Agenda implies redefining relations between countries at different stages of development as a fluid process that can translate into sustainable and inclusive growth, new partnerships, and instruments for action in common areas such as trade, migration and climate change. In this sense, Latin American and Caribbean countries are being transformed from predominantly aid recipients into active contributors to the advancement of the global sustainability agenda through their growing influence over global public goods and challenges and new role as development actors.

Five principles should guide the design of a toolkit to promote effective international cooperation for development that includes a comprehensive ideal-type of international cooperation for economies experiencing development in transition:

First, **new development measures** must be considered since per capita income and related measures of growth fail to fully reflect a country's development state. As economies with similar levels of per capita gross domestic product (GDP) might present different vulnerabilities, this income measure falls short. For instance, graduating to high-income or upper-middle income does not necessarily entail higher levels of well-being. Therefore, alternative metrics, such as the OECD *How's Life* framework or the United Nations Human Development Index (HDI), can help better assess the state of development.

Second, instead of merely sectoral approaches, **cooperation strategies for development should be deployed across the national level, as institutions are shaped at this stage and affect synergies and trade-offs between policies**. These national strategies must be designed with a multidimensional, multisectoral approach and be based on tailor-made country diagnoses (such as the *Multi-Dimensional Country Reviews* of the OECD or the ECLAC structural gaps approach), capturing the key policy measures necessary to address the wider structural impediments to development. They should also be built using a participatory approach, with subnational and local actors participating in the design of the national-level strategy. This will help policymakers design and implement policy priorities.

Third, the increasingly active contribution to **regional and global public goods** being made by countries transitioning to higher income levels must be taken into account and encouraged, with a view to achieving the sustainable development agenda. The interdependence of domestic policies and global dynamics, as a result of an intense globalization process and persistent vulnerabilities, cannot be overlooked and calls for new views on development. National strategies should internalize the existence of regional and global public goods, where mutual interests for global development should be included.

Fourth, **the governance of international cooperation for development must be redefined**. The latest wave of globalization revealed a new level of multipolarity and complexity associated with the growing economic and political relevance of emerging actors. Achieving the global development agenda requires multidimensional cooperation that shifts from traditional bilateral relations to multi-country, regional and international partnerships. This also includes embracing different actors —not just governments, but also the private sector and civil society. Taking into consideration the global public goods agenda, South-South and triangular cooperation are key in this integrated perspective. Finally, horizontal cooperation among local governments is also fundamental. International cooperation for development across actors from cities, municipalities and other subnational entities should contribute to the design and implementation of effective, targeted policies at subregional levels.

Finally, international cooperation for development should **go beyond traditional modalities**. Tailor-made approaches would allow some countries to benefit from ad hoc instruments supporting domestic resource mobilization and other policy priorities key for transitioning to higher development levels. These instruments include capacity-building through twinning or other similar institution-to-institution type of exchanges, as well as innovative modalities of knowledge-sharing and technology transfers. In addition, new financial instruments will develop new capital markets and shape the international development finance landscape to include institutional and impact investors as well as new and emerging institutions. These include recently emerging modalities, such as blending arrangements or debt-for-nature swaps, and new financial institutions in the making (European Bank for Reconstruction and Development, Chinese-backed multilateral development banks).

The above five principles could make international cooperation for development more effective and better adapted to the current global context. In particular, moving from graduation to gradation could allow for ongoing engagement in a new international cooperation. The graduation mechanism is built on countries moving from one income level to the next and no longer qualifying for sources of official assistance to support their development. Conversely, gradation means constant but evolving engagement amongst countries (former "donors" and "recipients") in the spirit of a renewed global commitment to the Sustainable Development Goals and multilateralism. Gradation adopts a gradual, stepwise approach towards a flexible mix of public and private financial instruments for all countries, based on a country's ability to mobilize domestic and external resources, its willingness and capacity to contribute to regional and global public goods, and a common diagnosis and prioritization of the challenges to be addressed.

New forms of cooperation would benefit the partnership between the European Union and Latin America and the Caribbean in the current local and global contexts. Engaging in a regional perspective is crucial to tackle such global challenges as climate change, migration, international trade and security, the technological revolution and the future of work, as all these areas are fundamental to greater global economic and social stability. At the same time, more effective forms of cooperation should support economic stability and prosperity at home by increasing domestic capacity and avoiding reversals in economic development, such as increases in poverty, that are ultimately more costly in terms of financial aid. Finally, any perceived weakening of the European Union's ongoing and committed engagement with Latin American and Caribbean countries that builds on historic ties could be an opening for other actors to engage.

This paper briefly presents new perspectives on development and their implications for international cooperation for development and for remaining engaged with Latin American and Caribbean economies in particular. Section I below presents the global challenges that have arisen in past years, highlighting the need for international cooperation. Section II describes how development is a continuum and highlights the limitation of per capita income as a measure of development. Section III presents some existing and new challenges in Latin America and the Caribbean to achieving further sustainable and inclusive development. Section IV highlights the intersection between global challenges highlighted by the 2030 Agenda and the region's growing international role, which could be harnessed to address these challenges through even closer cooperation between the European Union and Latin America and the Caribbean. Section V describes a toolkit for rethinking international cooperation for development. Finally, Section VI concludes and proposes new avenues for moving from graduation to gradation.

I. Emerging global challenges: a more complex and multipolar world

Traditional development cooperation is taking place in a changed —and changing— global context, calling into question the viability of current cooperation practices and the ability of traditional strategies to successfully address this evolving context.

Certain characteristics of the last wave of globalization redefined the global context and fuelled possible backlashes. A key feature is the high level of interconnectedness in finance, trade, information and other policy areas. This characteristic makes the world economy more vulnerable to systemic shocks, and this is exacerbated by widespread questioning of the benefits of globalization. Trade is perceived as being beneficial for some, especially certain income groups, but detrimental to others. Nevertheless, global inequality has declined, thanks to the strong income growth among the vulnerable and the middle class in developing and emerging economies, including most of Latin America (Milanovic, 2016). Trade has delivered unprecedented access to goods and services for households in low- and middle-income economies. At the same time, in some OECD member countries, the middle class has not experienced the expected gains from trade (OECD, 2017a). A concern is that trade openness, greater in OECD member countries, may cause a “race to the bottom” in labour standards (Head and Ries, 2003), environmental regulation and consumer protection (OECD, 2017a; OECD/CAF/ECLAC, 2018). As a result, the risks of globalization backlashes have intensified recently as certain countries call for tariff protections, to the point of risking a trade war.

The traditional characteristics of globalization are combined with emerging challenges that will heighten global externalities, complexity and interdependence. For instance, climate change —and the unequal distribution of its impacts, affecting mostly regions that contaminate the least— threatens the whole system’s sustainability. Similarly, technological transformation is reshaping the geography of production. Irrespective of borders or level of development, it challenges the stability of social protection systems. Demographic changes are intensifying production and resource demands. Furthermore, the demographic dynamics of developing countries call into question the stability of future economic growth. These challenges must be addressed in a global multipolar context in which economic and political powers have shifted from traditional centres and are now more evenly distributed between old and new economic players.

The magnitude of traditional and emerging global challenges has new policy implications and demonstrates the increasing importance of international cooperation for development. National and location-specific perspectives are not enough to harness change in a borderless world. New and more comprehensive perspectives are needed as development needs spread across regional and national borders. As such, the current governance structure is dated. Institutions and development policies have to be able to adapt to the new context to tackle emerging issues. New partnerships and new governance schemes are needed for the world to face the increasing number of development challenges.

A more globalized and integrated world makes it more difficult to separate domestic policies from international policies. The lack of environmental regulations and labour protection mechanisms in some countries, coupled with technological transformation, increase the risks of climate change, the uncertainty of the future of jobs or the constraints on social policies in others. International cooperation for development must be tailored to this new context, considering that multilateral cooperation has become an imperative not only to ensure global economic stability, but also to broaden the space for domestic policies in all countries.

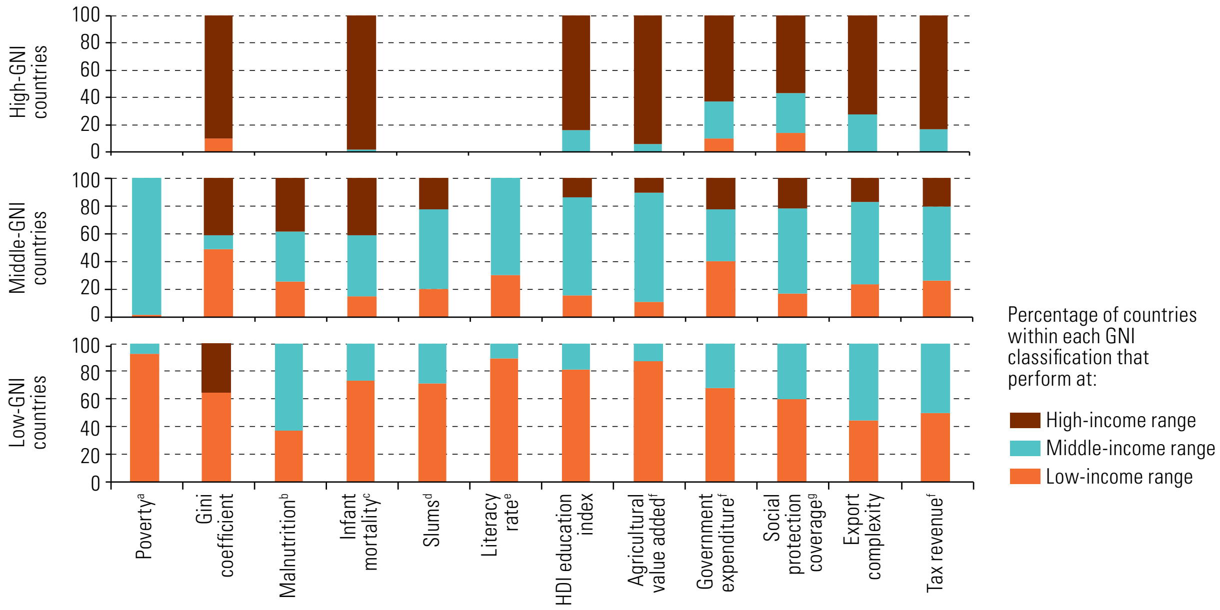
II. Development as a continuum and the limitation of per capita income as a measurement

To fulfil the goals of the 2030 Agenda for Sustainable Development, it is necessary to reconceptualize development and rethink domestic policies and international cooperation for development in order to “leave no one behind”. In that context, it is essential to acknowledge the heterogeneity across countries in terms of development challenges that are independent of the level of income. This is particularly evident for countries transitioning to higher income levels that, in spite of their income growth, still do not have a sufficiently broad capability base enabling them to compete and narrow their economic and social gaps vis-à-vis more advanced developed countries.

There is no single universal path to development. Development processes are not linear over time. They are not a succession of stages with common, linear increases in per capita GDP over a given threshold, homogeneous elements and similar policies, as was once conceived —or as is still conceived when development is equated with linear increases in per capita GDP over a given level. While each country’s experience is unique, new research has emerged demonstrating that higher levels of per capita income do not necessarily mean higher levels of development, welfare or well-being, lower levels of poverty, or less inequality across a broad spectrum of indicators. Development must be understood as a multifaceted process that consists of addressing the structural challenges of a particular country, rather than a one-size-fits-all approach based on grouping countries by income levels. Figure 1 summarizes the limitation of the per capita income measurement when it comes to assessing and comparing countries’ development levels.

In the case of Latin America and the Caribbean, the socioeconomic disparities among income groups are glaring. The majority of Latin American and Caribbean countries are upper-middle income economies. Yet their levels of development, measured by well-being indicators, vary considerably. This is the case for satisfaction with living standards, share of non-vulnerable jobs, housing facilities, expected years of schooling and perceived honesty, for example. It is also the case for Latin American and Caribbean high-income economies, where, for instance, performance in education is mixed. Graduating to high-income or upper-middle-income does not necessarily entail higher levels of well-being, and some countries exhibit challenges to improving their development outcomes.

Figure 1
Divergence between country income grouping and their progress across other development dimensions



Source: Organisation for Economic Cooperation and Development (OECD), "Next steps for development in transition: a background paper", document presented at the meeting Next Steps for Development in Transition, Brussels, 18 May 2017.

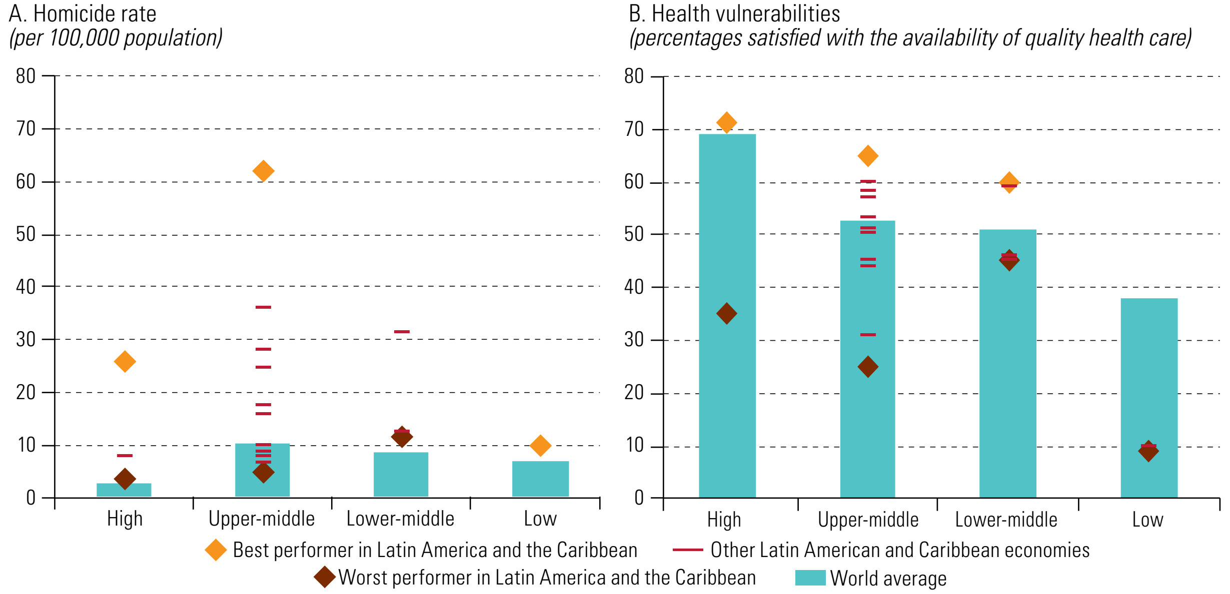
Note: Indicators for poverty headcount (at US$ 1.90 a day), malnutrition, population living in slums and the literacy rate are not included for high-income countries as the corresponding range is reduced to one point. In the case of slums, data are not available from comparable sources for most high-income countries. The HDI education index is a composite of mean years of schooling for ages 25 and above (years) and expected years of schooling (years).

[a] Percentage of the population living on less than US$ 1.90 PPP per day.
[b] Percentage of children under age 5 with low weight for height.
[c] Per 1,000 live births
[d] Percentage of the urban population.
[e] Percentage of the population aged over 15 years.
[f] Percentage of GDP.
[g] Percentage of the population.

Therefore, despite being in the same income group, some economies present large shortfalls in key well-being dimensions, while others perform well. This is clear to see in two indicators from the OECD *How's Life* framework measuring well-being. Despite becoming a high-income economy, Trinidad and Tobago and Uruguay both present above-average homicide rates for all income groups, including the low-income group (see figure 2A). Similarly, most Latin American and Caribbean upper-middle-income economies have far worse homicide rates than their respective income group average and that of lower-income groups. This is also the case with respect to satisfaction with the availability of quality health care in Latin America and the Caribbean (see figure 2B). For this indicator, most upper-middle countries in Latin America and the Caribbean perform worse than the world average for this income group, and even the best performing upper-middle country performs below the world average for high-income countries.

All in all, income thresholds ignore the complex nature of development and the diversity and heterogeneity of countries that are in transition. In the context of development in transition and the reimaging of international cooperation for development in this light, moving up the income ladder does not necessarily guarantee higher living standards or the ability to mobilize further resources to finance development gaps.

Figure 2
Latin America and the Caribbean and global average: homicide rate, 2013, and health vulnerabilities by income group, 2016



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Office on Drugs and Crime (UNODC), "Statistics on drugs, crime and criminal justice at the international level", UNODC Statistics [online database] https://data.unodc.org/; and Gallup, "Gallup World Poll", 2016 [online] https://gallup.com/services/170945/worldpoll.aspx [accessed in July 2017].

III. Latin America and the Caribbean: remaining and new challenges in the new development landscape

Although Latin American and Caribbean countries are heterogeneous in terms of socioeconomic structures, they share a number of already existing and new vulnerabilities that offer good examples of the intertwining of domestic and international policies and the need for a regional perspective on development. On the one hand, the externalities of a highly globalized economy with which Latin America and the Caribbean is relatively well integrated can have strong impacts on the region. On the other hand, if the region's current vulnerabilities are not addressed, they could have global or negative externalities in climate change, global financial stability or migration. Therefore, understanding the interrelations between local and global challenges can help to design better national, regional and international policies to reduce current regional vulnerabilities and help to tackle global challenges.

As Latin America continues to progress on its development path, fresh challenges have arisen, that, coupled with existing ones, have policy implications and call for a new international cooperation for development. Favourable external conditions in the 2000s, along with a more stable macroeconomic framework and the implementation of effective social policies in some countries, allowed many Latin American and Caribbean economies to improve their income levels, reduce poverty and see the emergence of a middle class. Yet, increased expectations from the consolidated middle class for more and better public goods have not been satisfied. As a result, social dissatisfaction and mistrust in governments have surged. In recent years, the economic slowdown has also highlighted the pending vulnerabilities: these include slow productivity growth, a narrow knowledge and technology base, inadequate domestic and external finance, still-poor social inclusion, and weak institutional frameworks (OECD/CAF/ECLAC, 2016). To tackle new and existing vulnerabilities, the region must enact policies within the five major dimensions of the 2030 Agenda (also known as 5 Ps of sustainable development). The international partnership agenda, as part of this framework, should contribute to designing and implementing these policies.

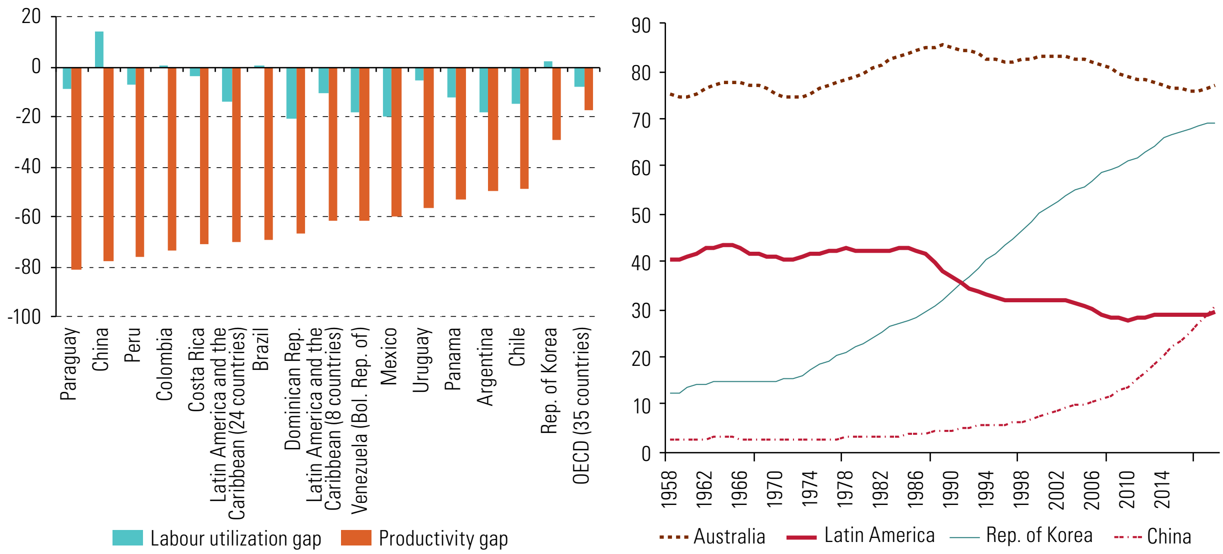
1. The prosperity agenda: slow productivity growth with a poorly performing production structure

Most Latin American countries achieved relative macroeconomic stability during the recent decade. Economic stability is a key ingredient for economic growth, but not enough to drive it on its own. Therefore, the challenge remains of increasing sustainable long-term growth, with low productivity at the heart of the problem. The Latin American and Caribbean region's contribution to world GDP growth has remained below 10% since 1990. This contrasts with emerging and developing Asia, which has more than doubled its contribution to global growth since 1990 to reach almost 50% today (OECD/CAF/ECLAC, 2016). The limited contribution of productivity to growth is key to understanding the region's income gap relative to developed economies and to other developing countries. Low labour productivity in Latin America and the Caribbean explains 70% of the per capita GDP gap vis-à-vis the 50% of OECD economies with the highest per capita GDP (see figure 3A). In 2016, average labour productivity in Latin America and the Caribbean was merely one third of that of the United States, even lower than 60 years ago. This is in stark contrast to the performance of high-growth countries in Asia, such as the Republic of Korea or, more recently, China, whose relative productivity has surged in recent decades (see figure 3B) (OECD/CAF/ECLAC, 2018).

Figure 3
Latin America and OECD (selected countries): per capita income and labour productivity differences

A. Sources of per capita income differences, 2014[a]
(percentages)

B. Labour productivity in Latin American countries, Australia, China and Republic of Korea, 1958-2014
(percentage of United States productivity, five year moving average in PPP)



Source: Organisation for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

[a] Compared to the simple average of the 17 OECD member countries with the highest per GDP capita in 2014 in PPPs at 2011 prices. The sum of the percentage difference in labour resource use and labour productivity does not add up exactly to the per capita GDP difference, since the decomposition is multiplicative. Labour productivity is measured as GDP per employee. Labour resource utilization is measured as employment as a share of population.

An undiversified production structure and the lack of technological upgrading explain the region's low productivity growth. On average, Latin American and Caribbean exports are concentrated in primary goods and raw materials. Commodity price fluctuations, driven largely by China through the shifting wealth process, have influenced the reprimarization of the Latin American and Caribbean export basket. Since 2000, the region has lost ground in high-technology manufactures and services exports, pointing towards a global deterioration of its competitive position.

Latin America and the Caribbean has been unable to reap the productivity gains from trade. The share of Latin America and the Caribbean in world exports has stagnated since 1970. The region's participation in world merchandise exports has averaged 5.2% since that year, with minimal variations. Such stagnation contrasts with the performance of developing Asia, whose share of world merchandise exports was at similar levels to Latin America and the Caribbean in 1970 but has steadily grown to 31% in 2015. Latin America's integration into global value chains has been weak. The region's participation as a source of foreign value added in world exports (forward linkages) remains negligible. The seven Latin American countries[1] for which data are available had a joint share of only 4% as the origin of the foreign value added embedded in world exports in 2014 (compared to nearly 3% in 1995) (OECD/CAF/ECLAC, 2018). As a result, the lack of technological upgrading of the export basket is associated with weaknesses in production sector strategies. Furthermore, and despite almost 60 years of effort, Latin American and Caribbean regional economic integration remains far from its full potential. In 2015, just 16% of total Latin American and Caribbean exports were destined for the regional market, well below the intraregional trade figure of close to 63% in Europe (OECD/CAF/ECLAC, 2018).

The region's inability to converge with the productivity levels of OECD economies is associated with the middle-income trap. This phenomenon refers to the long-lasting slowdown in growth that occurs in many countries when they approach middle levels of per capita income and lack the capabilities to compete with developed countries. In this scenario, the rapid growth registered by some countries at the early stages of development is followed by persistent stagnation. Arriving at middle-income levels usually requires new engines of economic growth, which are based on capital- and skills-intensive manufacturing and service industries and entail a multidimensional approach to policy interventions. The middle-income trap is prevalent in Latin America and the Caribbean because of shortcomings related to production structures with fewer knowledge-intensive activities.

Evading the middle-income trap involves a diverse set of policy priorities including the social, institutional and financing areas (Melguizo and others, 2017; OECD/CAF/ECLAC, 2018). To determine the main policy priorities to overcome the middle-income trap, a linear discriminant analysis that contrasts the experiences of 76 emerging economies (including 14 Latin American and Caribbean economies) and OECD member countries compares those that evaded the middle-income trap and those that have stayed there since the 1950s. That research identified the top 10 variables that contribute to emerging from the middle-income trap. These variables are multidimensional: rule of law, quality of education, tax revenues, age dependency, degree of democracy, total investment, capabilities (economic complexity index), value of stocks traded, domestic credit provided by the financial sector and percentage of complete tertiary education.

Policy priorities differ across economies, and there is no unique development path. Reinforcing the "no one size fits all" argument means countries should identify their main policy gaps according to their unique characteristics (Melguizo and others, 2017). This is particularly relevant in a context where budget constraints force countries to focus on a select group of policies that contribute to overcoming the middle-income trap (OECD/CAF/ECLAC, 2018). Specifically regarding the Caribbean countries, their poor economic performance results from macroeconomic weaknesses as well as structural challenges

[1] Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

similar to the Latin American and Caribbean region, but compounded by their status as small island developing States (SIDS). The annual GDP performance in the Caribbean has averaged only 0.8% since 2010, well below other developing countries, including SIDS elsewhere, which posted average 4.7% annual growth during the same period. The weak performance is related to a great extent to the stagnation of the production structures and the ineffective institutions of Caribbean economies (ECLAC, 2016).

Despite some heterogeneity, the Caribbean countries are amongst the world's most indebted. In 2015, 4 of the 25 most highly indebted countries in the world (measured by gross general government debt levels relative to GDP) were in the Caribbean: Antigua and Barbuda, Barbados, Grenada and Jamaica. It is estimated that 10 Caribbean countries now have debt-to-GDP ratios that exceed the accepted sustainability threshold of 60%. At the end of 2015, the overall debt burden amounted to US$ 52 billion, which on average represents 70% of the subregion's GDP (see figure 4). As a result, the Caribbean subregion's total debt service payments represented, on average, over 20% of total government revenue in 2015. Despite the high debt burden, the subregion's total debt to the rest of the world is relatively insignificant and its resolution would pose no systemic risks for global financial stability.

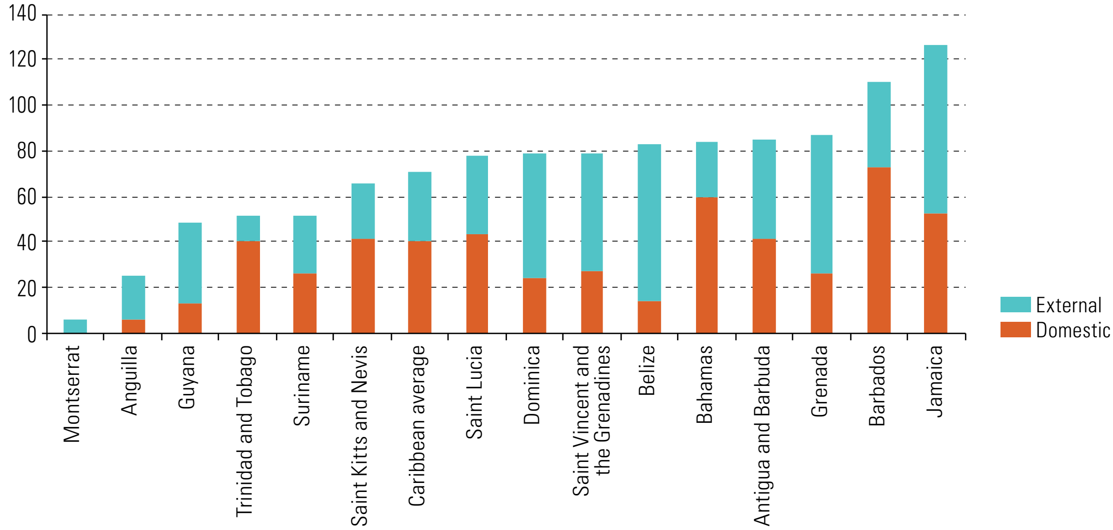
The level and composition of public debt is highly heterogeneous among Caribbean SIDS, which adds to the difficulty in finding a workable regional solution. In 2015, the total public debt stock ranged from 6% of GDP for Montserrat to 127% of GDP for Jamaica. In the same year, the domestic public debt ranged from 0% of GDP (Montserrat) to 73% of GDP (Barbados), with high levels also in the Bahamas, Jamaica and Antigua and Barbuda. The external public debt component ranged from 6% of GDP (Montserrat) to 74% of GDP (Jamaica). Given the broad range in the levels of total public debt, Caribbean SIDS may be subdivided into three categories of indebtedness: highly indebted (over 80% of GDP), moderately indebted (between 40% and 80% of GDP) and less indebted (40% of GDP or less). Using the foregoing classification, 13 of 15 Caribbean economies are either moderately or highly indebted.

The high cost of debt service has greatly reduced countries' fiscal space and undermined their ability to assume the costs involved in achieving the Sustainable Development Goals, particularly those associated with investment in social and economic development programmes (ECLAC, 2018a, p. 34). In 2015, external debt service payments absorbed 11% of receipts from exports of goods and services. This consumes vital foreign-exchange earnings that could have been used for intermediate and capital goods and technology imports to boost growth, or to bolster foreign reserves. In the Caribbean subregion, total debt service payments accounted on average in 2015 for 29% of government revenue.

While corrective efforts such as fiscal consolidation measures, prudent fiscal debt management and structural reforms aimed at promoting macroeconomic stability have met with some degree of success in certain economies, they have been unable, thus far, to solve the Caribbean's high-debt, low-growth conundrum. This may be due to the fact that the debt burden of the subregion and its pace of economic growth are closely associated with the impact of natural disasters, which severely restrains the capacity of government to pursue development goals. When debt management becomes the overriding focus of economic policy and institutions, economic policy and institutions become divorced from their roles in the development of real sector activity (ECLAC, 2018a).

In terms of human capital, the Caribbean has not improved the skills levels and educational standards of the population or closed the mismatch between the region's educational system and the labour market's requirements. The region also has one of the world's highest levels of migration of tertiary educated and skilled people and its population is undergoing an ageing process that affects productivity negatively. In particular, the increased mobility of professional workers, especially in nursing, allied health, teaching and engineering professions, to more developed nations has resulted in a shortage of qualified labour in critical sectors in the subregion (ECLAC, 2018b).

Figure 4
The Caribbean: public debt
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *The challenges facing Latin America and the Caribbean regarding financing for the 2030 Agenda for Sustainable Development* (LC/TS.2018/26), Santiago, 2018.

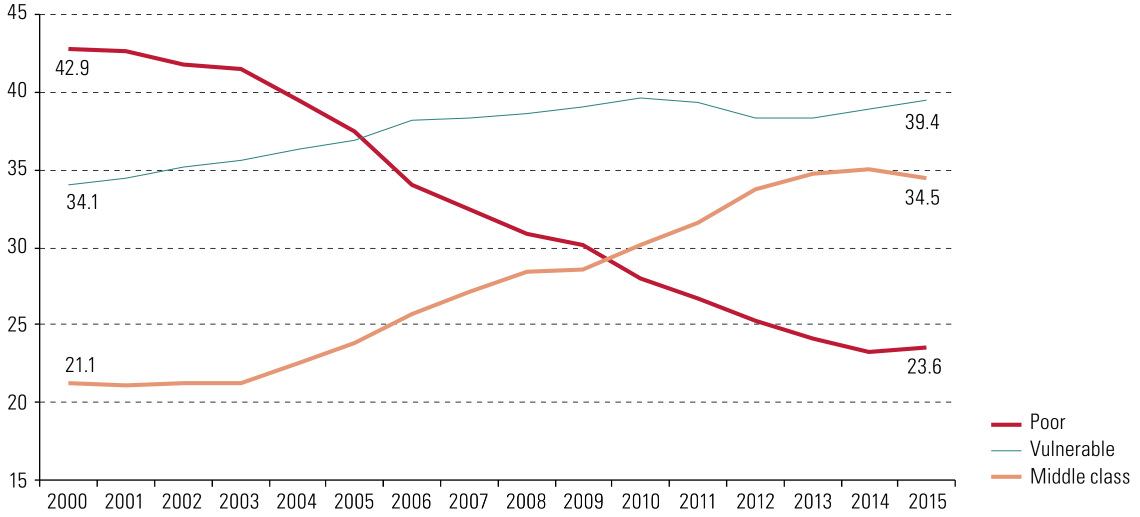
2. The people's agenda: new challenges to promote social inclusion

Despite considerable poverty reduction in the past years, almost a quarter of the population in Latin America and the Caribbean remains poor (see figure 5). Over the period 2010-2014, the poverty rate fell in the majority of countries in the region, especially in Uruguay (-14.9%), Chile (-9.1%), Peru (-9.8%) and Brazil (-7.9%). Between 2002 and 2014 in Latin America and the Caribbean, more than 50 million people were lifted out of poverty and almost 30 million out of extreme poverty, or indigence, thanks in significant measure to countercyclical spending after the 2008–2010 global economic recession. However, 168 million people in Latin America and the Caribbean still live in poverty. In some countries, poverty actually rose; Honduras and Mexico, for example, saw poverty increases of 2% to 3% per year in the 2010-2014 period. Finally, despite some progress, in 2013, 17.1% of persons employed in the region were still living in conditions of indigence and poverty that reflect major shortages in decent work (see figure 6) (ECLAC, 2014; ECLAC, 2016; ECLAC, 2017a).

Most of the population that escaped poverty now forms part of a vulnerable middle class that requires new targeted policies. Over the past 15 years, the consolidated middle class[2] has increased from 21% to more than 30% of the population (see figure 5). However, in 2015, almost 40% of the Latin American and Caribbean population could be considered vulnerable to slipping back into poverty[3] (CEDLAS/World Bank, 2017).

2 Refers to those living on between US$ 10 and US$ 50 per day in purchasing power parity (PPP) dollars at constant 2005 prices.
3 Refers to those living on between US$ 4 and US$ 10 per day in PPP dollars at constant 2005 prices.

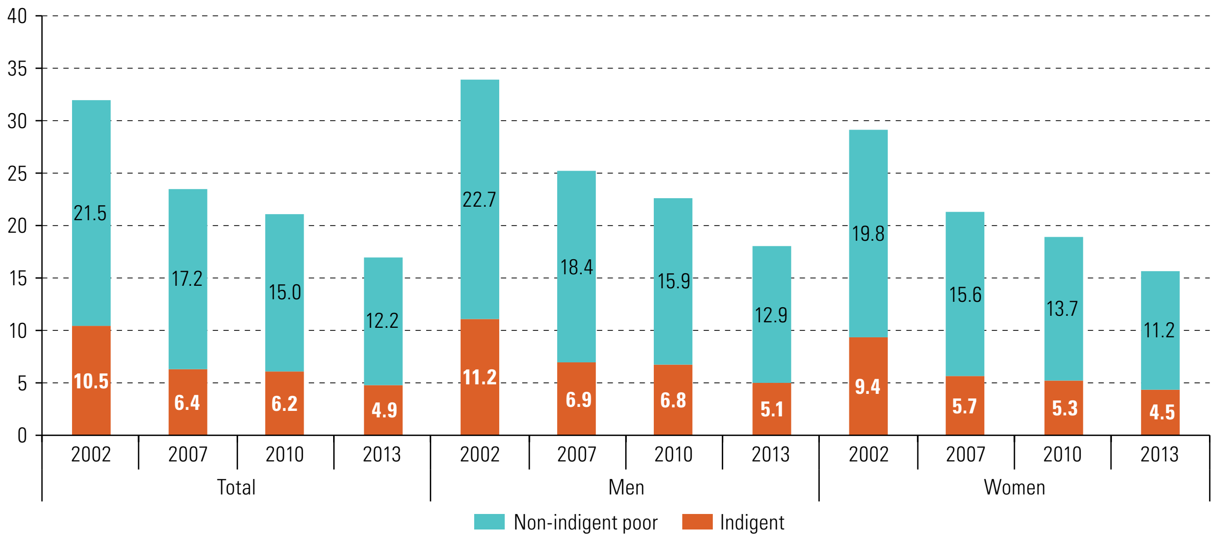
Figure 5
Latin America: population by socioeconomic group, 2001-2015
(Percentages of the total population)



Source: Center of Distributive, Labor and Social Studies (CEDLAS)/World Bank, Socio-Economic Database for Latin America and the Caribbean (SEDLAC), 2017 [online] http://cedlas.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/#1496166206215-2d0bfa0c-fb30; and World Bank, World Development Indicators [online database] https://data.worldbank.org/products/wdi.

Note: Middle class refers to those living on US$ 10–US$ 50 a day, poor to those on US$ 4 a day, and vulnerable to those on US$ 4–US$ 10 a day. The aggregate for Latin America and the Caribbean is based on the 17 countries in the region for which data are available at the national level (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay).

Figure 6
Latin America: employed persons aged 15 years or over by poverty status and sex, national totals 2002-2013[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

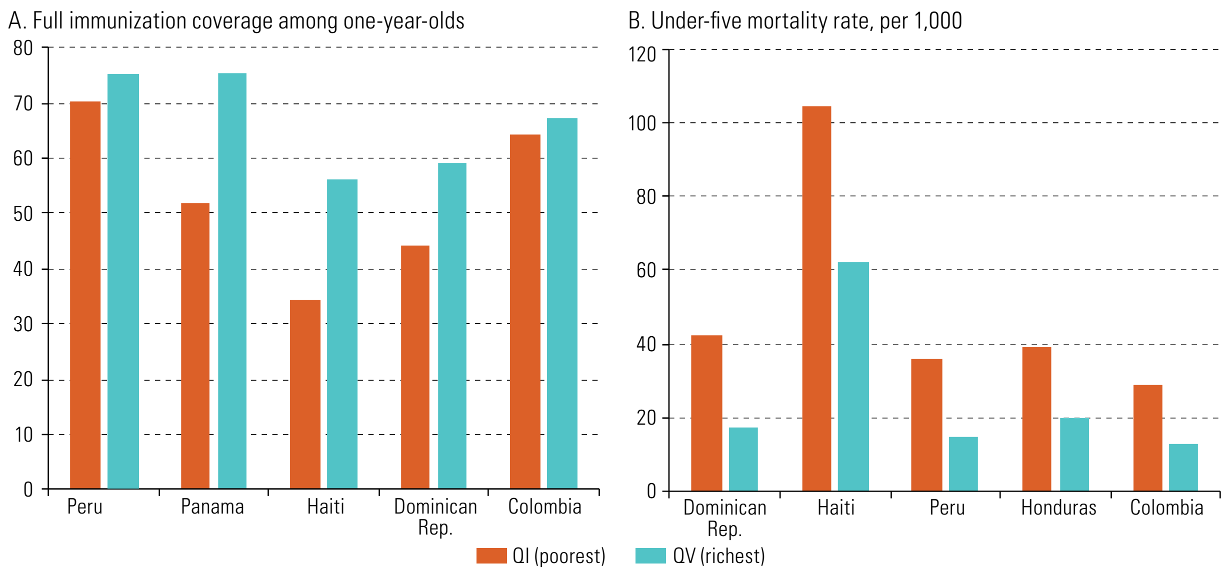
[a] Weighted average on the basis of information from Argentina (Greater Buenos Aires), the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador (urban areas), El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay (Metropolitan Asunción), Peru, Plurinational State of Bolivia (departmental capitals and El Alto) and Uruguay (urban areas). The figures for 2007 do not include El Salvador or Peru. The data for 2010 do not include Guatemala; and those for 2013 do not include Guatemala, Honduras or Nicaragua.

The vulnerability of the middle class and the poor population is associated with high ratios of informality and vulnerable jobs. On average, more than half the workers in the region did not contribute to pension or health-care programmes in 2014 and are therefore considered informal workers. Although informality rates vary significantly across countries, a common feature of informality is its great prevalence among the poor and vulnerable. On average, 71% of poor households and 56% of vulnerable households are associated with informality (OECD/CAF/ECLAC, 2018). Informal jobs are generally of poorer quality than formal jobs. This is the case not only in terms of average earnings (Jütting and De Laiglesia, 2009), but also across a range of labour quality indicators such as labour market security or the quality of the working environment (OECD, 2016a).

Despite improvements, Latin America and the Caribbean has one of the highest levels of income inequality among developing regions. The Gini coefficient is close to 0.5, compared to 0.45 in sub-Saharan Africa. Similarly to poverty trends, income inequality decreased between 2000 and 2009, but the pace of reduction decelerated thereafter. Furthermore, the reduction in inequality has stalled in some countries in the region because of the deceleration and greater fiscal constraints experienced since 2011, due in part to the decline in commodity prices (World Bank, 2017a).

Inequalities are also reflected in other dimensions, including territorial inequalities within countries, gender inequalities, and inequalities in social and economic aspects, such as in access to and quality of education, basic infrastructure and health services. In particular, inequalities in access to health services among and within Latin American and Caribbean countries persist. In the five countries of the region for which recent data are available, the average difference in immunization rates between the highest and lowest income quintiles is approximately 13.9 percentage points (see figure 7A). At the same time, the average difference in the under-age-five mortality rate between the two quintiles is 50 deaths per 1,000 live births (WHO, 2017) (see figure 7B).

Figure 7
Latin American (5 countries): inequality in access to and quality of health services by socioeconomic group, 2010-2013



Source: Organisation for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for *Latin America and the Caribbean (ECLAC), Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

In the years to come, Latin America and the Caribbean will need to address the implications of its ageing population. The latest projections indicate that, at the regional level, the ageing process is a little more advanced across the Caribbean than it is in Latin America, but far less advanced than in North America. The dependency ratio (percentage of persons over 65 years old to persons aged between 15 and 64) was 11% in 2015 in Latin America, 14% the Caribbean and 22% in North America. By 2040, it is projected that the dependency ratio will be 24% in Latin America, 28% in the Caribbean and 37% in North America. Accordingly, over this period, the number of older persons will almost double in the Caribbean, from 1.2 million in 2015 to 2.1 million in 2040 (ECLAC, 2018b).

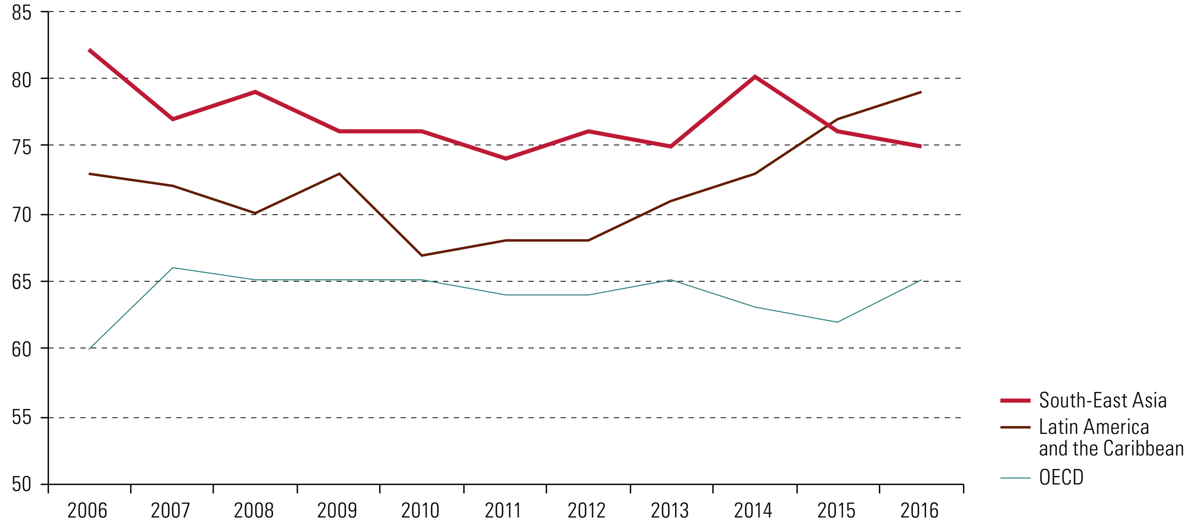
3. The peace and institutions agenda: citizens in the region request better institutions

Latin America and the Caribbean has made progress in strengthening its institutions to make them more credible, capable, open and innovative. To increase transparency, most Latin American and Caribbean countries have already prioritized anticorruption policies, sometimes by stronger use of information and communication technologies (ICTs). To increase capability, merit-based recruitment processes for civil servants are also critical. While most of the region's countries lack a formal professional civil service and see a high proportion of political appointments among public servants, between 2004 and 2015 significant progress towards merit-based processes was made (OECD, 2016c). In order to increase innovation, a number of Latin American and Caribbean countries have created local citizens' councils to make governance more inclusive and participatory. These local spaces bring together representatives of civil society, academia and the private sector to discuss and make decisions about local development issues. Furthermore, innovation labs such as Mi Quito, Mi Medellín, Bogotá Abierta or Ágora Rio have helped to promote collaboration and citizen engagement within core public institutions to design cost-effective, risk-taking small pilot projects that respond to citizens' needs.

However, citizens' perceptions of public institutions in the region have deteriorated in recent years, in part owing to unmet demands by the new middle class. The expansion of the middle class has been one of the major socioeconomic transformations of recent times in the region and has been accompanied by higher demand for quality public goods and services that has gone unmet. As a result, mistrust has deepened, with the share of the Latin American and Caribbean population having little or no trust in governments reaching levels of around 75% in 2017. This represents a drop of confidence of almost 20 percentage points from 2006, according to Latinobarómetro. Similarly, in 2016, 8 out of 10 Latin Americans claimed their government was corrupt (compared with 6 out of 10 in OECD), according to Gallup data (see figure 8). Just 34% had confidence in the national judicial system (versus 49% in OECD), and 29% had confidence in the national government (as against 37% in OECD). The perception of corruption across governments in Latin America and the Caribbean has also reached higher levels than in South-East Asian countries (OECD/CAF/ECLAC, 2018).

As a result, the social contract is weakening. When citizens perceive that public institutions are unable to respond to their demands, they have fewer incentives to fulfil their obligations. In Latin America and the Caribbean, high and middle classes usually channel their dissatisfaction by "opting out": abandoning mediocre public services in favour of better-quality private services. But they still have to pay taxes for public services that they do not necessarily use. In fact, the willingness to pay taxes —i.e. "tax morale"— has been falling in Latin America and the Caribbean since 2011: in 2015, 52% of the Latin American and Caribbean population were willing to evade taxes if possible (up from 46% in 2011). Tax evasion undermines the State's capacity to provide quality public goods and services effectively. This, in turn, has a negative impact on citizens' lives, as shown by the deterioration of well-being indicators in recent years, and risks perpetuating a negative spiral.

Figure 8
Latin America and the Caribbean, South-East Asia and OECD: perception of government corruption
(Percentages)



Source: Organisation for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

Weak institutions, measured as weak legal enforcement, make crime more likely. Latin America and the Caribbean is one of the most violent regions in the world; home to 9% of the global population, it records 33% of the world's homicides. The growth of crime and violence during the past few decades has brought high economic and social costs for the region, since it disproportionally affects the poor and constrains investment in production sectors. At the same time, it has compromised governance and the legitimacy of the State by undermining the confidence of citizens in authorities and institutions, and in each other (CAF, 2014). The incidence of crime affects the countries differently, in a manner that is not related to income levels. Trinidad and Tobago, a high-income economy, has a homicide rate of 26 per 100,000 residents, above even the average for lower-middle-income economies and far exceeding the average for its own income group. Chile and Uruguay, also both high-income economies, perform worse than the world average for this income group.

Finally, better institutions are crucial for the region. While weak institutions might have little impact at low-income levels, they could dampen growth in middle-income economies (World Bank, 2017b). Further evidence suggests that economies that are successful in avoiding the middle-income trap have rule of law, solid State capacities in the form of sufficient tax revenues and strong democracies (Melguizo and others, 2017).

4. The planet agenda: reducing emissions and mitigating vulnerabilities

Latin America and the Caribbean has an important role to play in climate change mitigation, a growing global challenge that calls for the prioritization of mutual interests. Forests account for more than 80% of terrestrial biodiversity in Latin America and the Caribbean and play a vital role in determining climate patterns, particularly through natural carbon capture. The region also accounts for 57% of total primary forests. The challenge faced by Latin America and the Caribbean regarding the conservation of biodiversity and the sustainable management of ecosystems is essential not only for the region but also for the planet. Despite substantial progress in reducing deforestation, the region continues to lose primary and secondary forests at an alarming rate. Changes in land use and in the forest sector are generating 49% of the Latin American and Caribbean region's total greenhouse gas emissions (compared with an average of 13% worldwide).

Latin American and Caribbean countries' vulnerabilities to the effects of climate change are heterogeneous. By 2050, climate change will push 17 million people in Latin America to migrate (Rigaud and others, 2018). Furthermore, a 4°C temperature rise would affect almost all land area in the region (90%), with strong droughts in the Amazon basin and many densely inhabited areas. With this temperature rise, the Andean glaciers would be gone by the end of the century and strong hurricanes would be expected to occur more often. Furthermore, the Caribbean would face a 1.4 m rise in sea level, as would cities such as Rio de Janeiro and Barranquilla (Familiar, 2014).

Climate change has had a significant effect in the Caribbean subregion over the past few decades. The special geo-ecological characteristics of Caribbean small islands and low lying coastal States are well known. Their generally small landmass, large marine space, populations and economies contribute significantly to their vulnerability to external economic and environmental shocks. Coastal population density has grown throughout the region in recent decades, with over 41 million people living within 10 km of the coast, and some 166 million within 100 km. Further, 14.5% of residents in Caribbean and Pacific SIDS live in low-elevation coastal zones, less than 10 m above sea level, and more than 50% of the population lives within 1.5 km of the shore (Mycoo and Donovan, 2017). This coastal concentration of population not only contributes to environmental degradation, but also heightens the impact of natural hazards on the region, especially through hurricanes and sea level rise.

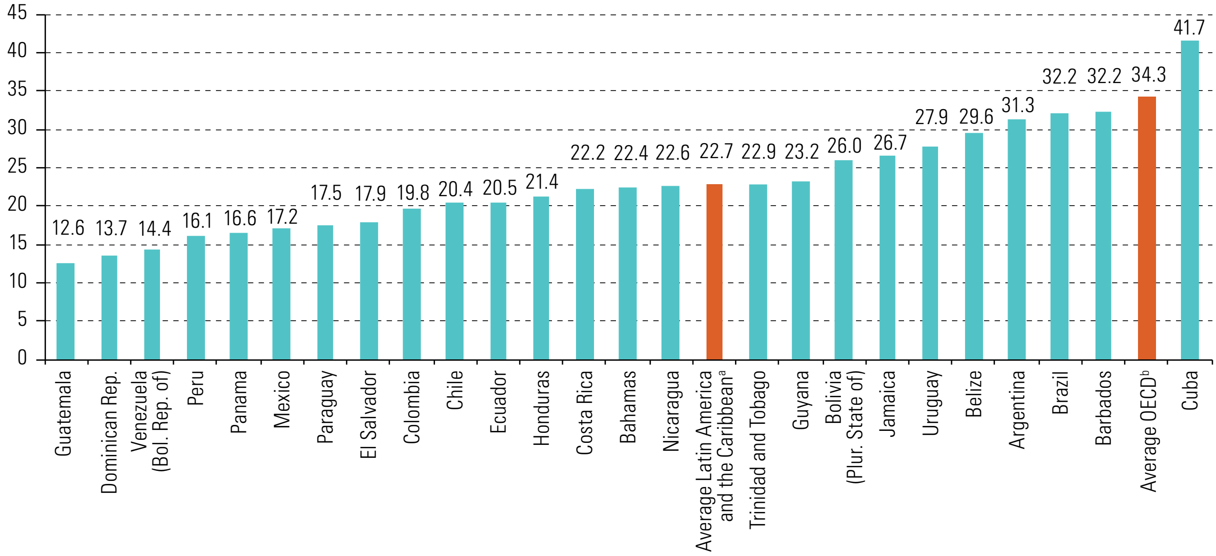
It is estimated that mean annual temperatures in the Caribbean will increase between 1°C and 5°C by 2080. Warming will be greater in the north-western Caribbean territories than in the eastern Caribbean and will not manifest homogeneously, as the increases are expected to be much larger over land areas than over the sea. Precipitation is also expected to vary: while it is projected to increase in some parts (i.e. the Greater Antilles), many climate change projections forecast that various regions within the Caribbean will become drier. What is more, sea levels are anticipated to rise, with several countries in the region already experiencing coastline loss. Although the degree to which all these phenomena will occur is still unclear, the influence of the El Niño-Southern Oscillation (ENSO), volcanic and tectonic crustal motions and the variation in the frequency and/or intensity of extreme weather events could cause problematic issues for Caribbean countries in the future.

5. The local partnership agenda: financing for development

The new development agenda requires not only mobilizing vast resources but also fostering an inclusive international development cooperation system with profound changes in the funding, organization and allocation of resources and innovative cooperation tools. Weak domestic revenue mobilization, decreasing ODA flows and the difficulty of channelling private flows for development risk limiting Latin American and Caribbean countries' capacities to succeed in this new agenda for development.

While the level of taxes over GDP has been increasing in the past years, most Latin American and Caribbean economies need to mobilize further domestic resources to implement their development agenda and progress towards achieving the 2030 Agenda for Sustainable Development. Despite an increase of close to two percentage points in the past decade, tax revenues as a percentage of GDP are on average relatively low in the region's economies, at 22.7%, compared to OECD, at 34.3% (see figure 9) (OECD and others, 2018; OECD, 2017c). Some upper-middle-income countries in Latin America and the Caribbean, such as the Dominican Republic, Mexico, Panama, Paraguay and Peru, might be unable to meet their financial needs for development, presenting tax levels below the lower-middle- or low-income world average (OECD 2015 and 2017d). Similarly, high-income countries, such as Chile or Uruguay, or economies that should graduate to high-income during the next five years, such as Panama or Costa Rica, register levels of taxes over GDP well below OECD and high-income world averages, undermining their capacity to meet socioeconomic needs and to improve the well-being of their citizens.

Figure 9
Latin America and the Caribbean and OECD: tax-to-GDP ratios, 2016
(Total tax revenue as a percentage of GDP)



Source: Organisation for Economic Cooperation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2018*, Paris, OECD Publishing, 2018.
[a] Unweighted average for the 25 Latin American and Caribbean countries shown in the figure.
[b] The average for OECD includes Chile and Mexico.

How tax revenues are collected is as important as how much is collected. In Latin America and the Caribbean, taxes and transfers do little to reduce inequalities. In OECD economies, taxes and transfers help reduce the Gini coefficient by approximately 15 percentage points, compared with less than 3 percentage points in most Latin American economies (OECD/CAF/ECLAC, 2018; Lustig, 2016). Latin American and Caribbean countries are reliant on indirect taxes, which tend to be less redistributive, rather than income taxes. In 2015, taxes on goods and services made up about half of all tax revenues compared with a third in OECD. In contrast, regarding direct taxes, 43% of tax revenues in Latin American and Caribbean countries come from taxes on income and profits and social security contributions, compared with 60% in OECD (OECD and others, 2018).

With regard to external financing, the proportion of ODA received by the region has declined, as compared with other developing regions and relative to its average gross national income (GNI). ODA flows currently represent below 0.2% of regional GNI, a significant drop from the average of 0.4% in the 1980s. At the same time, the region's share of total ODA dropped from 11% in the 1980s and 1990s to roughly 7% in the first decade of the 2000s. With economies such as Chile and Uruguay, which are no longer eligible for ODA, the effects of graduation go beyond direct financial effects and are visible even in the early years after the graduation announcement (see box 1).

Box 1
Direct and indirect effects of graduation: the cases of Chile and Uruguay

Even small amounts of official development assistance (ODA) in middle- or high-income economies can help to achieve quick sustainable development results. In Chile and Uruguay, for instance, ODA for renewable energies —solar energy in Chile and wind energy in Uruguay— has been crucial to foster policy design and long-term planning. In a short timeframe, these countries have transformed their energy patterns. Today, renewable energies are a national priority and investments are attaining high volumes in both countries. Based on the successful results of initial ODA projects that mobilized national budgets and the private sector, these countries are now able to engage in triangular or South-South cooperation supporting other developing countries in their transitions in this field, through knowledge-sharing and other cooperation practices, for instance. The value for money of these small amounts of ODA in middle- or high-income developing countries can be significant in terms of agenda-setting and incentives for research and development (R&D) and public policy innovation. Risk is relatively low, national budgets co-fund the initiatives, local and international private sectors are attracted, and institutional capacities are strengthened —all promoting innovations and development results that are relevant for other countries as well.

ODA graduation can jeopardize such positive results both directly and indirectly. The direct impact occurs in at least three different ways: (i) a decrease in ODA flows, including grants and loans; (ii) a decrease in the capacity to maintain the leveraging effect of triangular cooperation, e.g. the contribution by OECD partners to triangular cooperation co-led by Chile in support of a third country decreases as well; and (iii) a decrease in multilateral ODA provided by the graduating economy. The indirect impact occurs over a broader area that includes innovation, R&D, the lack or loss of ODA incentives to public policies (meaning also the agenda-setting role), and loss of trade preferences under the Generalized System of Preferences (GSP)).

In Chile, the amount of ODA flows began to decrease in 2015 with the expected 2017 graduation. In 2015, total ODA to Chile fell by 63% compared with 2014, and represented only 1.6% of total ODA to South America, when in 2014 it had represented 5.3%. Similarly, ODA grants to Chile decreased by 20% in 2015, relative to 2014. Concessional loans to Chile rose in 2014, but declined by 89% in 2015, even countering global and regional trends. As a result, key development projects have already been or might be affected. For instance, scholarships going mainly to the environment and agriculture fields declined by 58% in 2015, compared with 2014.

In Uruguay, total ODA fell by 43% between 2014 and 2015. Indeed, total ODA in 2015 was equivalent to 0.9% of the country's GDP, compared to 1.9% in 2014. In addition, despite a US$ 3-million increase in grants to Uruguay, in 2015 concessional loans were 64% down on 2014. Most of these loans went to supporting the implementation of the 2030 Agenda by addressing key Sustainable Development Goals on areas such as ending poverty and inequality, education, inclusive growth, employment and decent work, and sustainable industrialization and innovation.

Both Chile and Uruguay have also lost capacity to maintain the leverage of triangular cooperation. OECD partner countries' contribution to triangular co-operation with Chile, in favour of a third developing country, declined by 45% between 2014 and 2015. Chile maintained similar ODA contributions, yet the previous trend was an increase in both Chile's and partners' funding. Total 2011 triangular cooperation volumes were multiplied by 10 in 2012, but this positive trend had been reversed by 2015.

Yet, some areas have not yet been affected by graduation. Multilateral ODA contributions from Chile had not been affected by the increase in quotas or mandatory contributions as a result of graduation, as per 2017. ODA multilateral contributions from Uruguay have increased, but this could be based on voluntary contributions. Evidence suggests that ODA from China or the Development Bank of Latin America (CAF) are not significant in the case of Chile, but have a larger presence in Uruguay.

Graduation has negative spillovers on innovation. In Chile, the Global Innovation Index shows that between 2007 and 2015, 63% of all ODA made a high (47%) or medium (13%) contribution to innovation activities. High-innovation projects supported by ODA decreased by 66% in 2015 (compared with 2014). However, innovation in terms of public policy development is far more extensive, so is difficult to assess and quantify.

Box 1 (concluded)

The indirect impact on trade is not significant for Chile, since its trade agreements and strategic partnerships architecture absorb the losses of GSP preferences, most of which occurred in early 2017. However, this impact is stronger for economies such as Uruguay.

In addition to the decline in ODA volumes since 2015, several partners deactivated some of their existing cooperation mechanisms. The impact of graduation may far exceed the related ODA financial flows and can lead to a relative vacuum in a country's policy engagement and knowledge-exchange with others, which were previously facilitated by cooperation mechanisms. For example, when a country ceases to be included in the list of countries eligible to receive ODA maintained by the OECD Development Assistance Committee (DAC), its eligibility for the regional programmes of the European Union's Development Cooperation Instrument (DCI) is discontinued under current rules. The first situation of this kind emerged at the beginning of 2018, with the graduation of Chile and Uruguay from the ODA-eligibility list of DAC. As such, innovative regional programmes financed by the European Union, such as EUROCLIMA or EUROsocial, which provide a platform and space for region-to-region policy dialogue and knowledge-sharing, might exclude Chile and Uruguay in the future. A shift in the current rules would undermine wider political and policy engagement under the biregional partnership and introduces a de facto division of the Latin American and Caribbean region based on differences in per capita GNI.

Source: Chilean Agency for International Cooperation (AGCI)/United Nations Development Programme (UNDP), *Primer análisis de impacto de la graduación de Chile,* December 2017 [online] https://agci.cl/images/centro_documentacion/Primer_Analisis_Impacto_de_la_Graduacion_Chile.pdf.

The largest component of external financing is foreign direct investment (FDI), which are directly related to the region's trade specialization patterns and comparative advantages. On average, net FDI inflows in Latin America and the Caribbean have exceeded those received by upper- and lower-middle-income countries, but are heterogeneous across countries and often concentrated in a few sectors. In 2015, these flows represented on average 3.7% of GDP, above the level for lower- and upper-middle-income economies (2.4% of GDP for both groups) and for OECD (2.7% of GDP), but below that of low-income economies (4.4% of GDP). In 2015, net FDI inflows in Latin America and the Caribbean exhibited wide variation, from 1.2% to 9.7 % of GDP (for Paraguay and Panama respectively) (World Bank, 2017a, ECLAC, 2017b).

In the case of small island developing States (SIDS), such as Caribbean countries, private financial flows are highly volatile. This reflects the lack of creditworthiness of many SIDS to raise funds in capital markets and, in other cases, especially in the Caribbean, the recent deterioration in international capital market and debt sustainability ratings (OECD, 2018a).

Another major part of these private flows is remittances from migrant workers, which totalled US$ 20 billion in 2000 and US$ 60 billion in 2015, or nearly 25% of the region's net financial flows. While remittances have the potential to lift individuals and households out of poverty and contribute to economic growth, they are insufficient to finance the poorest and most vulnerable households in Latin America and the Caribbean. In 2016, personal remittances represented on average 1.6% of GDP, more than those received by high-income economies (0.3% of GDP) and upper-middle-income economies (0.7% of GDP), but well below those of lower-middle-income and low-income economies (4.2% and 4.9% of GDP, respectively) (World Bank, 2017a).

Public and private flows must be better coordinated to ensure sufficient resources are available to fund development. As private capital is largely profit-driven, private investment might not always be channelled to crucial areas of development. As a result, there is an important role for the public sector as it can furnish the proper incentives to channel private capital towards the achievement of the Sustainable Development Goals and, if necessary, provide additional funding for development.

To achieve the 5 Ps of the 2030 Agenda in Latin American and Caribbean countries, local action must be complemented with a renovated international partnership agenda. The partnership must be inclusive and engage different countries and different partners, including the private sector, development banks, local governments and civil society. It must go beyond traditional paradigms and treat development as a process in transition. The following sections describe the characteristics of this partnership and an effective toolkit to shape it.

IV. Addressing global challenges: new opportunities for the biregional partnership between the European Union and Latin America and the Caribbean

Global and local challenges are more interconnected than ever, highlighting the need for new partnerships between countries and regions. Climate change, innovation and technology, labour market issues, trade and financial dynamics have both local and national implications and are, at the same time, at the centre of the global agenda. To tackle them, coordinated and concentrated investment efforts are increasingly necessary. This requires redefining the relations between countries at different levels of development in the international system from a typically donor-recipient, North-South division to a partnership aimed at addressing global challenges and harnessing global goods in the spirit of mutual benefit, common goals and shared values.

Regional and global public goods rely on engaging both developed and developing countries. Cooperation in financial and non-financial schemes is fundamental to overcoming the challenges inherent in the Sustainable Development Goals, hence the need for partnerships at the international level. Both the European Union and Latin America and the Caribbean have key roles to play under a new multilevel development framework and to achieve the 2030 Agenda for Sustainable Development. The European Union contributes with its experience and expertise in environmental issues, climate change adaptation and mitigation, science, innovation and technology, regional integration and renewable energy, which can provide valuable inputs for other countries through international cooperation for development. For its part, Latin America and the Caribbean is an emerging actor with great potential in the global public goods agenda, not only because it is key for providing a large part of such goods, but also because as economies with an increasing international presence, the region’s countries are among those at the forefront of appropriately and fairly defining this agenda. The region has a growing presence and participation in international agreements —and in their design and implementation— and in international forums and institutions.

A number of Latin American and Caribbean countries were closely involved in the process of defining the Sustainable Development Goals. Brazil hosted the United Nations Conference on Sustainable Development (Rio+20) in 2012. Following this, an Open Working Group of the General Assembly on Sustainable Development Goals was formed with representation from all major world regions. The Latin American and Caribbean Group had 6 of the 30 seats in the Open Working Group, shared by 14 countries in rotation. In addition, Brazil, Colombia, Cuba and Mexico served on the High-level Panel of Eminent Persons on the Post-2015 Development Agenda.

Regional bodies have also participated in international forums to foster sustainable development. For example, the Economic Commission for Latin America and the Caribbean (ECLAC) set out shared priorities in the high-level political forum on sustainable development. These included the need to continue with the unfinished agenda of the Millennium Development Goals and to meet emerging challenges relating to energy, demographics, urbanization, natural disasters and public safety. ECLAC stressed the need for a new development model based on structural change for equality and environmental sustainability, and to address key policy and institutional issues in terms of regulation, financing and governance. ECLAC also advocated for a global system of governance for development that provides genuine opportunities for socially participatory decision-making. Finally, three Latin American countries —Colombia, Mexico and the Bolivarian Republic of Venezuela— are among 22 countries that presented voluntary national reviews at the meeting of the high-level political forum on sustainable development in July 2016.

Latin American and Caribbean countries also contributed to reaching the Paris Agreement, adopted at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in 2015, marking a positive step in constructing a new environmental governance. On the basis of decisions taken at COP16 and subsequent sessions, certain Latin American countries (Brazil, Chile, Costa Rica and Mexico) assumed mitigation commitments by 2020. In the framework of the Paris Agreement, nearly all countries (except Nicaragua and Panama within the region, according to information as of January 2016) assumed commitments that will come into effect as of 2020 and that will be reviewed periodically to make them progressively stricter. The first review of intended nationally determined contributions (INDCs), prior to their entry into force, will come in 2018.

Furthermore, Latin American and Caribbean countries are actively involved in international disaster reduction agreements. Several have taken advantage of the Sendai Framework for Disaster Risk Reduction 2015-2030, incorporating a disaster reduction management framework (DMR) into regional disaster management governance frameworks. The Regional Comprehensive Disaster Management (CDM) Strategy and Programming Framework 2014-2024, developed by the Caribbean Disaster Emergency Management Agency (CDEMA), is a prime example of that.

Latin American and Caribbean countries are active members of international forums and international organizations, such as World Trade Organization (WTO) and the Group of Twenty (G20). The G20 grouping currently includes three Latin American countries: Argentina, Brazil and Mexico. Since November 2017, Argentina has served as president of the G20, targeting three key issues in particular: the future of work —focusing on technological change and inclusion—, infrastructure for development, and a sustainable food future. Between the mid-1980s and the mid-1990s, Latin American countries completed their adhesion to the General Agreement on Tariffs and Trade (GATT) and WTO, reduced their tariffs and opened up their economies. The Latin American stance on free trade was enhanced by the region's active participation in promoting regional agreements and bilateral free trade agreements. The region has been an active user of multilateral trade instruments, such as the dispute settlement mechanism under WTO (Herreros and García-Millán, 2015).

Finally, Latin American and Caribbean countries are emerging as new assertive development actors. In 2015, 19 Latin American and Caribbean countries participated in a total of 721 bilateral South-South cooperation projects and 155 actions. Moreover, the number of projects exchanged in the region increased by 30.6% between 2014 and 2015 (SEGIB, 2017). Based on data from the Ibero-American Secretariat (SEGIB), the bidding countries that develop the most through South-South cooperation are Argentina and Brazil, which together account for 48.1% of this type of cooperation in the region. Some 86.5% of South-South cooperation is concentrated in Mexico, Colombia, Uruguay and Chile. Of this cooperation, 31.2% goes to projects in the economic sector, with a focus on production activities, 30.4% to the social sector, and the remaining 38.4% to institutional strengthening, economic infrastructure, services, the environment and others.

In their bilateral relations, the European Union and Latin America and the Caribbean could explore complementarities and mutual efforts to foster inclusive growth through not only traditional development cooperation, but also wider international cooperation on global public goods and challenges, trade and investment or region-to-region knowledge-sharing.

V. Rethinking the international cooperation for development strategy

Two main factors underscore the need to analyse the development process from a broader perspective and to redefine international cooperation for development strategies:

(i) The 2030 Agenda emphasizes development challenges that have broader impacts and that affect all countries regardless of their level of development, given the effects of regional and global public goods. The world is changing, and new dynamics require active international cooperation for development in areas such as climate change, security, migration, technology and innovation, labour markets and international trade (as described in section III).

(ii) Despite some progress in past decades, some newly middle-income or even high-income countries still grapple with problems of poverty, inequality, low productivity and poor institutional development. This is the case for most Latin American and Caribbean economies. Despite being mostly a middle-income region, with some upper-middle- and high-income countries, large development challenges remain, such as the levels of poverty, a vulnerable middle class, violence, and lags in technology and innovation, compounded by insufficient access to capital markets and FDI, with little saving capacity. Modern enclaves coexist with large low-productivity sectors based on informality and precarious labour relations. The dynamics of technical change and inconsistencies in engaging global markets and value chains produce divisions in the social and economic structures of Latin American and Caribbean countries (as described in section III).

Development and international cooperation for development need to take into account the fluid nature of these ongoing challenges. A more universal paradigm needs to have five key dimensions:

(i) It needs to offer additional measures beyond per capita income; in particular metrics that measure people's objective and subjective needs as well as other areas, including productivity and economic transformation.

(ii) It needs to redefine cooperation strategies to focus at the national level and take into account specific national institutions and development traps in order to define policy priorities under a multidimensional framework.

(iii) It needs to focus on the global challenges of an increasingly interconnected and multipolar world, reflected mainly in the 2030 Agenda for Sustainable Development.

(iv) It needs to include a refounding of multilateralism in a complex international landscape, which is more and more multipolar given increasing concentration of economic and political power and new emerging actors. This integrated perspective should also include horizontal cooperation across different levels of government.

(v) It calls for advancing international cooperation for development beyond traditional financial assistance to include a new set of modalities, such as innovative instruments of knowledge-sharing, multilateral policy dialogue, capacity-building, technology transfers, blended finance and resource mobilization.

Together, the five dimensions shape an updated toolkit for international cooperation on development. Table 1 presents a comprehensive ideal type[4] of international cooperation for economies experiencing development in transition.

[4] "Ideal type" is a concept first formulated by Max Weber (1958) and defined as an analytical construct formulated on the basis of carefully collected facts to characterize given social phenomena.

Table 1
A new paradigm of international cooperation for development: an updated toolkit

Dimension	Traditional	New paradigm
Measures	GDP and related measures of growth	Multidimensional measures of development and well-being
Cooperation strategies	Predominance of sectoral approaches among main development aid actors favouring one-size-fits-all	National strategies tailor-made to specific development challenges and opportunities of a given country and its contribution to regional and global public goods
Focus of the multilateral agenda	Poverty reduction and bilateral trade	2030 Agenda for Sustainable Development, emphasis on global public goods and global challenges
Governance	ODA-based development agencies / national governments	Refounded multilateralism: Multilevel and multilateral cooperation that includes traditional and new actors (horizontal, regional, South-South, North-South, South-North and triangular cooperation)
Modalities (including financing)	Financial assistance: budget support, technical assistance and project aids	Wider toolbox of development and international cooperation, including financing instruments (captured by total official support for sustainable development (TOSSD), climate funds, blended finance, debt-for-nature swaps, domestic resource mobilization) and innovative modalities of cooperation (e.g. knowledge-sharing, multilateral policy dialogue, capacity-building, technology transfers, etc.)

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

1. Measures

The most common indicator used to measure development is per capita income, which is assumed to be a true reflection of countries' level of economic and social development. Per capita income provides important information about the functioning of the overall economy and allows comparisons between countries both at an international level and over time. However, as discussed in section II, this variable can misrepresent actual living conditions. Development extends well beyond the increase in per capita income. It is a broad and multifaceted concept that envisions not only improving living standards but also achieving sustainable and inclusive growth that addresses the social and economic inequalities that characterize many countries. Since well-being does not depend on any single variable, it is necessary to rely on multiple dimensions that determine how people actually perceive their lives (OECD, 2011).

Alternative metrics can help inform policies to achieve better impacts. Global and local challenges in developing countries require a multidimensional approach to measure development. They call for specific frameworks, indexes and tailored country diagnoses to inform policymaking and international cooperation decisions.

Several multidimensional metrics already exist that serve to analyse developing countries and could be used for this new international cooperation for development paradigm. The OECD *How's Life* framework looks beyond macroeconomic variables to offer a clearer picture of people's experiences across a range of life areas (OECD, 2011). It is a useful approach to understand whether or not well-being is actually improving in a country or region. The framework has also been adapted to measure well-being in non-OECD countries by reflecting societal preferences that may vary across countries and groups (Boarini, Kolev and McGregor, 2014). This adapted framework measures well-being outcomes in two broad pillars: material conditions and quality of life, which comprise several dimensions including jobs, health status, education and skills, social connections, empowerment and participation, vulnerability and life evaluation (OECD/CAF/ECLAC, 2016).

Composite indexes are another example of multidimensional metrics that could help assess level of development. The Human Development Index (HDI), for instance, gathers information about the performance of countries in terms of health, education and economic conditions and ranks them by a single measure. It is based on life expectancy at birth, mean and expected years of schooling, and per capita gross national income (GNI) (UNDP, 2016). Likewise, the OECD multidimensional living standards

(MDLS) is an index based on three well-being dimensions, namely income, jobs and health, measured by disposable income, unemployment rate and life expectancy at birth. This measure can be used to complement per capita GDP in assessing the outcomes of pro-growth policies (Boarini and others, 2016).

2. Cooperation strategies

Policy priorities should be designed to take into account specific national institutions and development traps. A national strategy should entail a multidimensional approach and be based on a tailor-made country diagnosis. Analysing developing countries by the abovementioned multidimensional measures helps to better understand their gaps and specific bottlenecks. As a result, national strategies, as well as international cooperation projects, such as financial and non-financial investments, can be better targeted to deliver more effective results. This becomes crucial in the context of the new development agenda, which encompasses multiple policy areas and specific objectives. Already, the ECLAC structural gaps approach and the OECD *Multi-Dimensional Country Reviews* are good examples of multidimensional diagnoses for emerging and developing economies.

The structural gaps approach of ECLAC identifies key structural obstacles that are holding back sustained, equitable and inclusive growth for middle-income countries. It uses 11 indicators as proxies for gaps in per capita income, inequality, poverty, investment and savings, productivity and innovation, infrastructure, education, health, taxation, gender, and the environment. Its objective is to build a comprehensive set of indicators that reflect the reality of each country and detect the main country-specific needs, in order to prioritize development needs (ECLAC, 2012).

The OECD *Multi-Dimensional Country Reviews* (MDCRs) look at the multidimensionality of development, since they imply an aggregate improvement in a set of interlinked desirable outcomes, as opposed to progress within a single dimension. This approach enquires into whether the issues that cause constraints to progress in one sector are also issues elsewhere, and whether those issues are manifestations or the underlying sources of weaknesses. It also analyses the extent to which existing policies address the constraints to progress and account for the political economy of the country, discounting or prioritizing development challenges based on whether the issue is already receiving significant attention, or is not politically feasible.

3. Focus of the multilateral agenda

The nature of today's regional and global challenges requires thinking beyond countries' borders. In many cases, lingering social, economic and environmental vulnerabilities can be a result of regional and global shocks. Similarly, national policies can have transnational effects that might negatively or positively impact on the international community. Transnational effects arise because the multipolar world is increasingly interconnected, and specific national policies directly affect regional and global public goods. Multilateral strategies are needed to face issues related to such regional and global public goods as security, health, migration or climate change.

The need to shift to a broader view of development policies is aptly illustrated by the 2030 Agenda for Sustainable Development. The Agenda defines universal development challenges that apply to all countries independent of their income and requires international cooperation, beyond national efforts. Social policies are defined nationally but economic policies are more linked to external factors. The high level of interdependence and the emerging development needs of the current multipolar world are the cornerstones for defining a multilevel and multi-stakeholder development framework. The 2030 Agenda stresses the need for new and more effective development tools to meet the challenges of sustainable development. As a result, it represents not only a framework for economic and humanitarian development, but also the reference point for multilateral cooperation.

The active involvement of Latin America and the Caribbean and the European Union in defining the 2030 Agenda and in reaching the Paris Agreement make the two regions key actors for maintaining established commitments and implementing these agreements going forward. Together, they could collaborate to foster inclusive growth across several topics that remain crucial for both regions. For example, regional integration in Latin America and the Caribbean, which has been at a standstill since the mid-2000s, can benefit from the regional policy of the European Union. This is a good example of redefining cooperation among countries at different levels of development.

European Union regional policies welcome the regional dimension of development. They include a variety of actors and institutions in defining and implementing policies. Most importantly, they serve as a cushion or buffer between the global requirements of production and competitiveness and the local demands for building social capabilities. Already well-established regional institutions serve, for instance, as platforms for a fruitful regional policy dialogue and for more dynamic regional strategic partnerships that could promote local, regional and global development.

The EU-LAC Foundation is a good example of a platform to transform and adapt the strategic partnership between two different regions for mutual interests in a balanced manner. Another example relates to welfare States —a work in progress in Latin America and the Caribbean and one traditionally implemented in the European Union. Welfare States are being challenged by several factors, such as globalization or ageing populations who will become recipients instead of contributors. The long-held view is that European Union welfare and Latin America and the Caribbean welfare are no longer as distant as in the past. EUROsocial and similar programmes are valuable not only as cooperation initiatives for mutual support but also as collaborative platforms between the two regions to learn from each other and work together profitably. Nevertheless, the challenge of a division of the Latin American and Caribbean region occurring along per capita income lines will have to be overcome, if such programmes are to fully harness the potential of biregional dialogue.

The heterogeneous nature of Latin America and the Caribbean, with significant differences in development both between and within countries, offers a test case for advancing this new form of multilateral cooperation for development. The dynamics between and within countries highlight many differences in areas such as productivity, social inclusion, institutions and climate change. Closing these gaps is a key concern in development policy.

Finally, new forms of cooperation, such as triangular cooperation, could form a bridge between emerging South-South and more traditional forms of cooperation and provide an innovative angle for economic and social collaboration among countries in the context of the 2030 Agenda. These cooperation mechanisms leave behind the long-standing vertical relationship between donors and recipients typical of traditional forms of cooperation, focusing instead on a scheme of collaboration among equals centred on capacity-building, knowledge-sharing and technology transfers.

4. Governance

Evolving challenges require international modes of cooperation, such as triangular cooperation, for example, that promote new partnerships with a wide variety of actors. In recent years, cooperation has ceased to have the sole objective of lifting people out of poverty. Socioeconomic progress in many regions, particularly Latin America and the Caribbean, has revealed new challenges across the 5 Ps of the 2030 Agenda for Sustainable Development, as described in section III. These new challenges reflect a society that has better socioeconomic conditions in some areas but remains vulnerable and requires multidimensional cooperation embracing bilateral, multi-country, regional and international partnerships. This is where triangular cooperation is particularly relevant.

Most traditional donors engage in triangular cooperation or directly support South-South schemes as ways to make their cooperation more effective. This involves Southern-driven partnerships between two or more developing countries supported by one or more developed countries or multilateral organizations to implement development cooperation programmes and projects (United Nations, 2012). Triangular cooperation can bring together different actors to share knowledge and best practices to address development challenges. Countries engage in triangular cooperation mainly through project-type interventions, technical cooperation activities and knowledge exchanges with experts. One of the main motivations for engaging in triangular cooperation is to share experiences that help forge mutually beneficial relationships and create new opportunities for regional integration (OECD, 2016b).

International cooperation for development should address domestic challenges and global public goods by engaging traditional donors, non-State actors and the acquired knowledge of emerging economies. Indeed, the latest globalization wave has revealed a new level of multipolarity and complexity by shifting economic and political power to new emerging actors, such as China. Emerging economies have engaged in collaborative learning models to share innovative, adaptable and cost-efficient solutions to address development challenges.

At the international level, emerging actors and institutions follow diverse development paths and therefore have relevant lessons worth sharing. In 2006, the intergovernmental association of Brazil, Russia, India, China and South Africa (BRICS) became a significant weight in the global economy. BRICS represent 42% of the world's population, 26% of land territory and nearly 30% of world GDP (RIS, 2016). These actors play a growing international role. Between 1990 and 2008, world trade expanded almost fourfold, but South-South trade multiplied more than tenfold. The contribution of developing economies to world merchandise exports has increased significantly since the early 2000s (OECD, 2010). Developing economies' share of world merchandise exports was estimated to have reached 42%, with South-South flows making up about half of that total. This, together with sustained growth of merchandise imports, has resulted in a sharp increase in the share of developing economies in global flows, to over 40% (WTO, 2016).

These emerging actors have also become important players in cooperation. Although countries in the OECD Development Assistance Committee still provide the majority of total ODA, the first decade of this century saw the number of non-DAC countries providing aid rise steeply, to almost 30. This group includes such emerging market countries as Brazil, China, India, Malaysia, the Russian Federation and Thailand. Moreover, ODA from non-DAC donors reporting to DAC, representing a part of wider South-South cooperation, amounted to almost US$ 17.7 billion in 2015, up from US$ 8.9 billion in 2011 (OECD, 2017e).

International cooperation can also take the form of horizontal cooperation, crucial to tackling development challenges at different levels of government. International cooperation across actors from cities, municipalities and other subnational entities should contribute to designing and implementing effective targeted policies at subregional levels. Therefore, horizontal cooperation at different levels of government is fundamental to developing strategies for better well-being in a specific subregion.

5. Modalities

Thinking about development as a process in transition requires going beyond traditional development cooperation tools. Such traditional tools refer mainly to financial mechanisms such as grants, concessional loans or special trade measures in the form of development aid provided to developing countries. Today, global interlinked challenges, as described in section I, need to be tackled with alternative modalities, which might also include financing instruments. Alternative modalities include capacity-building, technology transfers or knowledge-sharing (RIS, 2016). Regional policy dialogues are also a modality of international cooperation for development that could help share policy lessons between Latin America and the Caribbean and other regions. Sharing policy lessons to promote sustainable domestic resource mobilization for development is a key example. In addition, financing instruments such as debt-for-nature swaps, climate investment funds (CIFs) or blended finance and improving the transparency and monitoring of international development finance —including total official support for sustainable development (TOSSD)— are needed as well. For instance, these might be particularly relevant for the Caribbean countries, where vulnerabilities such as high indebtedness and exposure to natural disasters narrow development options.

In Latin America and the Caribbean, knowledge exchange is increasingly being used as a modality of international cooperation for development. Brazil has made a concerted effort to step up its international participation, increasing relations and South-South knowledge exchanges with African and other Latin American countries. For example, many Latin American countries sought to raise their level of skills training to improve the quantity and quality of enterprise performance and workers' living conditions. Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia and Uruguay have created new national vocational training services with technical assistance from the International Labour Organization (ILO) through the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), and based on close collaboration with workers and employers to train apprentices and adult workers (UNOSSC, 2016). With cross-national policies, governments are thus responding to the skills gaps found in several countries in the region.

International cooperation for development through capacity-building, knowledge-sharing and technology transfers can play a role in increasing the effectiveness and efficiency of the taxation system in Latin America and the Caribbean. Capacity-building can be used to strengthen tax administration and improve the human capital of tax officers. As a result, greater capacity can help construct the necessary statistics to design tax policy and reduce both tax evasion and tax base erosion. Knowledge-sharing can be used to better design and implement necessary structural reforms.[5] Finally, technology transfers could similarly be used for the region to simplify tax payments, increase tax transparency or avoid tax evasion as financial markets deepen and the use of electronic money broadens.

In addition to alternative modalities, international cooperation for development could make use of financing tools as well. Blended finance, for instance, is a tool with great potential to boost development outcomes. Developing economies need to mobilize further resources to face current development gaps, given the vast financial resources needed to achieve the objectives of the 2030 Agenda. In this sense, the private sector plays an important role in developing, launching and executing projects in developing countries. The potential of the private sector can be tapped through the use of development finance for mobilizing additional resources, primarily commercial finance, for sustainable development in developing countries. Since commercial finance is not currently being directed towards development-related investments, blended finance could be used as the instrument to mobilize those resources to have wider impacts (OECD, 2018b).

In the particular case of Caribbean SIDS, a mechanism of swapping debt for climate change adaptation measures may be a useful tool in building a viable solution for their heavy indebtedness. The idea of this kind of debt swap is loosely based on the concept of debt-for-nature swaps, which are designed to reduce the debt of a debtor country in exchange for a greater commitment to conservation efforts. In exchange for a given extent of debt forgiveness or cancellation, the debtor country allocates funds to environmental conservation projects. These projects may deal with such areas as natural resource management, investment in renewable energy technologies and climate adaptation, building resilience, education and training, and the designation and management of protected areas.

[5] In 2015, taxes on goods and services made up about half of all tax revenues compared to only a third in OECD countries. In contrast, 43% of tax revenues come from taxes on income and profits and social security contributions in Latin American and Caribbean countries, compared to 60% in OECD countries (OECD and others, 2018).

The domestic resource mobilization agenda is another good example of how new international cooperation for development mechanisms can be useful for Latin America and the Caribbean. As noted earlier, the region's tax systems mobilize insufficient funds to provide quality public goods and services, reduce inequalities and guarantee sustainable development (see section III).

Along with these instruments, shifting from a graduation to a gradation model allows continued engagement with developing countries through international cooperation. Gradation would allow for a gradual, stepwise approach towards a flexible mix of public and private financial instruments for all countries, based on a country's ability to mobilize domestic and external resources, on its willingness and capacity to contribute to global public goods, and on a common diagnosis and prioritization of challenges to be addressed (Sagasti, 2013).

For this to be possible, capturing all financial flows directed towards supporting development challenges —namely the 2030 Agenda— is essential to understand countries' potential contribution. Total official support for sustainable development (TOSSD) is a mechanism for monitoring and reviewing such flows, and it aims to complement ODA by increasing transparency and monitoring new trends that are shaping the international development finance landscape. This mechanism incentivizes broader external finance for development as a complement to developing countries' own domestic resources. Sources of financial flows include institutional and impact investors, new and emerging institutions, such as the recently announced European Investment Bank (Jones and Guarasio, 2017), new and growing development finance institutions (DFIs), the Chinese-backed multilateral development banks (MDBs), and the shifting capitalization and conditionality requirements and soft/hard portfolio mix of traditional MDBs.

But this proposed gradation approach is not completely new. Lessons from multilateral institutions could help countries better understand the graduating process from the least developed country (LDC) category and plan for a smooth transition (United Nations, 2017). This means making instruments for a gradual transition subject to political decisions based on a wider set of considerations than per capita GNI, and with full provision made for transition periods. In addition, some multilateral development banks allow for a gradual adjustment of the appropriate mix of finance (concessional/non-concessional, domestic/external, and public/private) to be applied to countries' development challenges as they move along the development spectrum. A gradation approach could be introduced in regional programmes that are currently funded through the Development Cooperation Instrument, in order to allow all countries to participate in technical assistance schemes and triangular cooperation, notwithstanding their "graduation". The gradation approach looks to continue engagement on common challenges, thanks to different financial instruments and modalities, independent of the level of income.

VI. Conclusions

New global challenges that are directly interconnected with national strategies highlight the need to broaden the concepts of development and international cooperation for development. Increasingly globalized trade and financial flows, the environmental impacts of economic growth, the technological revolution and the future of jobs, rising migration flows, and still-high inequality in some countries have made traditional economic paradigms and policy strategies inadequate in many respects. Furthermore, this inadequacy is compounded by the interdependence of international issues and existing and new domestic challenges.

Therefore, the need for coordinated efforts to address global and local challenges is growing. The concept of development in transition implies precisely a call to rethink international cooperation for development and redefine relations between countries around the world at all levels of development to better respond to today's local, regional and global challenges in innovative and creative ways. It is about building a new multilateralism based on a new international cooperation approach —including metrics, frameworks, tools and partnerships— adapted to countries that are left behind by traditional cooperation once they move up the income ladder.

The new paradigm of development and international cooperation for development requires constituting an effective toolkit for developing countries. The whole toolbox is framed within a gradation approach to support countries as they move away from —or phase out—development assistance. The underlying principle is the need to remain engaged with developing countries and foster multilateralism to promote international cooperation for development. This paradigm must take into account the multidimensional nature of development and go beyond traditional measures such as per capita income. In addition, cooperation strategies need to address national challenges, while also considering their effects on an interconnected multipolar world and taking into account mutual interests for boosting development. In this context, it must pursue an integrated perspective for better regional and global public goods that reflect the multipolarity and complexity of shifting economic and political power to new emerging actors. Regarding governance, several dimensions of cooperation, such as triangular cooperation, South-South cooperation and horizontal cooperation are key to this integrated perspective. In particular, triangular cooperation should play a key role since it involves funds and policy experiences from countries at different levels of development and on different development paths. Triangular cooperation supposes the involvement of several actors, including traditional donors, non-State actors and emerging economies. Finally, international cooperation for development should go beyond traditional instruments to include a new set of modalities, such as capacity-building, innovative instruments of knowledge-sharing and technology transfers. In particular, sharing policy lessons to promote sustainable domestic resource mobilization is fundamental for countries in the midst of development in transition. Furthermore, a set of new financing modalities that include climate funds, blended finance or debt-for-nature swaps are needed alongside adequate monitoring and transparency of international development finance (including TOSSD).

Within a new paradigm of international cooperation for development, a deeper relationship is needed between the European Union and Latin America and the Caribbean to tackle regional and global challenges. Both have key roles to play in the multilateral agenda. Furthermore, they both share common interests, values and strong complementarities. New actors are entering international cooperation, prompting the European Union to build on its long-standing position and further engage Latin American and Caribbean countries. Finally, partnering with Latin America and the Caribbean under the gradation scheme could benefit both parties by driving economic stability and prosperity to bolster domestic capacity and avoid reversals in economic development that, in the end, would cost more financial aid.

Overall, this new paradigm and updated toolkit for international cooperation for development should lead to a framework that fosters multilateralism and drives the design and implementation of concrete tools and policies to tackle local, regional and global challenges so as to leave no one behind.

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