

# Rethinking, reimagining and transforming: the “whats” and the “hows” for moving towards a more productive, inclusive and sustainable development model

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## Abstract

The Latin America and Caribbean region is mired in three development traps: a long-term inability to grow, high inequality, and low institutional and governance capacity. This article offers an analysis of development challenges that centres on a 10-point catalogue of gaps constituting priority areas of action for public policy and collective transformation efforts. To this is added an eleventh area concerned with how to move from the present situation to the desired scenarios, something that requires a focus on challenges related to governance, institutional capacities and opportunities for social dialogue, not only to envision the future but also as tools for the management of change and transformation. All this adds up to an agenda of 11 great transformations, presented as a vision of the priority issues the countries of the region should address to move towards a more productive, inclusive and sustainable future.

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## Keywords

Economic development, globalization, sustainable development, development traps, decalogue of gaps, governance, institutional capacities, social dialogue, major transformations, Latin America and the Caribbean

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## I. Introduction

Although national experiences and characteristics vary widely, the development pattern of the Latin American and Caribbean countries has common structural features. The countries have been unable to grow at high and sustained rates, development is not sufficiently inclusive and sustainable, inequality is high and social mobility low, and there are large gaps in social protection, deficiencies in education and vocational training systems and great gender inequality, all compounded by environmentally polluting production processes and limited regional and global economic integration.

These characteristics exist in a world that has moved from the celebration of interdependence in the form of globalization to geopolitically inspired mistrust of this. We are in a new era of rapid technological change, more numerous and severe natural disasters associated with climate change, increased migration flows and slower global economic growth. Addressing development challenges and historical structural gaps in this new international context of “permacrisis” (Brown, El-Erian and Spence, 2023) has become a more daunting task for the countries of the region.

The unsatisfactory long-term trajectory associated with the structural gaps mentioned has been compounded by the critical situation the world is going through because of the cascading crises that have affected it: the coronavirus disease (COVID-19) pandemic which began in 2020; the disruption of global value chains; inflation and rising interest rates in 2021 and 2022, which have raised international financing costs; the war in Ukraine since 2022; and war and tensions in the Middle East more recently. All this adds up to what can be called without exaggeration a development crisis in Latin America and the Caribbean, characterized by low growth, high inequality, high and persistent levels of poverty and extreme poverty and of exclusion, limited fiscal space, high financing costs, and low institutional and governance capabilities.

Political crises and crises of democracy could arise from the development crisis in the region, because if the countries do not address the syndrome of low or mediocre growth, not only will they be unable to reduce the levels of poverty, informality and inequality that characterize them, but their societies will become increasingly unequal and violent, there will be more migrants, and democracy will be jeopardized, because democratic life is incompatible with stagnant economies and frustrated citizens without the hope of a better future. There are very real risks of rising anger and political polarization, in turn affecting the prospects for progress towards patterns of more rapid, sustained, inclusive and sustainable growth.

I have been raising these issues since I took office as Executive Secretary of ECLAC in October 2022. At the thirty-ninth session of the Commission, held that same month, I presented a 10-point catalogue of structural gaps as a way of envisaging and better understanding the main development challenges affecting the region and of identifying the main areas of economic and social transformation on which the countries of the region need to work urgently if they are to move towards a more productive, inclusive and sustainable development model.

I also placed emphasis on the importance of looking past “what” needs doing to “how” it should be done. In other words, of ensuring that we do not stop at lists of goals and aspirations but systematically address the challenges of governance, institutional quality, social dialogue and political economy in order to implement successful policies and transformations and to move from plans and strategies on paper to actual transformations in reality.

The present article introducing the special issue of *CEPAL Review*, together with the article “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, co-written with Marco Llinás and also included here, systematizes this renewed vision promoted by ECLAC. Aspiring to create a new development consensus in the region may be a very ambitious goal, but it is certainly desirable, and it is in this spirit that we offer the articles in this special issue of *CEPAL Review* to mark the seventy-fifth anniversary of the Commission.

Because this is a special issue, it is appropriate to review the major contributions made by ECLAC in its seven and a half decades of existence, and this is done in section II. Section III examines changes in the global context, particularly as regards globalization. Section IV presents the decalogue of development gaps and challenges in Latin America and the Caribbean. Section V moves from diagnostic to prescriptive mode and sets out 11 great interrelated and mutually reinforcing transformations that will be needed to significantly change development patterns in the region. Pointing out what should be done is not the same as showing how to do it. The latter is vital for progress and is a conversation whose main subjects are the challenges of governance, institutions, management and processes for inducing transformations. This key topic is dealt with in section VI. Lastly, section VII offers conclusions.

## II. Seventy-five years of ECLAC contributions to the development of Latin America and the Caribbean

In its beginnings in the 1950s, ECLAC promoted Latin American development through State-led industrialization policies, seen as the most efficient way to achieve the spread of technical progress in a framework of trade between the “centre” and the “periphery” of the world economic system. In several countries of the region, industrialization was a practice before it was a policy, and a policy before it was a theory. ECLAC strengthened the policy and developed the theory. The emphasis on industrialization was justified by what at least in those years were its unique characteristics of incorporating economies of scale and backward and forward linkages, its ability to disseminate technical progress and increase productivity, and its appropriation by developing countries. In that decade, ECLAC also researched and worked extensively on the challenges of inflation.<sup>1</sup>

In the 1960s, an additional component was added to the industrialization message: the proposal for the countries to carry out institutional reforms (agrarian, fiscal and financial, among others) deemed indispensable to the continuity and further progress of industrial development. In that decade, ECLAC also formulated criticisms of import substitution industrialization as it was then evolving, emphasized the importance of promoting industrial manufacturing exports and analysed the obstacles to the formation of a Latin American common market. It also worked on two phenomena: high inflation and the external imbalance or constraint on development. This was also the decade in which ECLAC contributed strongly to the influential school of “dependency theory”, which further enhanced its global influence.<sup>2</sup>

During the 1970s, ECLAC thinking advanced in two core areas: the nature and difficulties of economic growth and industrial development, and income distribution. These and other ideas developed into a comprehensive theorization of the characteristics and challenges of “peripheral capitalism”, a concept formulated by ECLAC. The notion of the “dynamic insufficiency” of peripheral capitalism for generating growth and employment was also emphasized. In that decade, moreover, the structural historical method was developed more explicitly as a way of theorizing from reality with an explicit analytical system. Lastly, criticisms and self-criticisms that distanced ECLAC from at least some versions of dependency theory were made, and changes and opportunities in what was termed “transnational capitalism” were analysed.<sup>3</sup>

The deep economic and social crisis suffered by most countries of the region during the 1980s led the then Executive Secretary of ECLAC, Norberto González, to call this the “lost decade”. During that decade, ECLAC worked on analysis of the debt crisis and forms of debt renegotiation, on proposals

<sup>1</sup> Some of the decade’s most influential texts were Prebisch (1949, 1950 and 1959), Furtado (1952 and 1958) and Sunkel (1958).

<sup>2</sup> Among the most notable publications of this decade were Prebisch (1963), ECLAC (1961 and 1963) and Cardoso and Faletto (1979). See Fajardo (2022) on the role, influence and debates of ECLAC in relation to dependency theory.

<sup>3</sup> Major publications from the 1970s include Prebisch (1970, 1976, 1978 and 1979), Sunkel and Paz (1970), Sunkel and Fuenzalida (1978), Pinto (1976) and Iglesias and others (1972).

for a macroeconomic adjustment that would be more efficient and less onerous and better able to promote growth than the one actually implemented, and on policies to mitigate the social costs of economic adjustments. Export-led industrialization in South-East Asia and its lessons for industrialization in Latin America and the Caribbean were also thoroughly analysed.<sup>4</sup>

In the 1990s, neostructuralism emerged as an ECLAC school of thought, the aim of which was to modernize ECLAC thinking, adapt it to the changes of the decade and give it a higher profile. In a new context where the countries were embracing the idea of trade and financial globalization, a period widely known as hyperglobalization, ECLAC insisted that the guiding principle should be productive transformation with equity, ensuring a broad-based productive transformation with an eye to the negative impacts that globalization could entail and a focus on developing competitiveness within a framework of open regionalism. Part of the approach concerned ways to “reform the reforms” of the so-called Washington Consensus of those years.<sup>5</sup>

In the first decade of the twenty-first century, neostructuralism was organized around four main areas: macroeconomics and finance with an emphasis on countercyclical policies, international trade, social development and environmental sustainability, themes that were addressed in a number of influential publications.<sup>6</sup> This was an unorthodox macroeconomic vision, developmentalist with regard to resource allocation and State intervention, universalist in the social field, and conservationist in the environmental field. ECLAC called for the asymmetries of globalization to be balanced in the interests of development based on productive transformation, distributive equity and social protection and cohesion.

In the 2010s, equality occupied a central place in ECLAC thinking, something that was expressed and justified in the set of publications known as the “equality trilogy”. The main ideas were to promote sustainable development through progressive structural change, an environmental big push and compacts for equality based on the 2030 Agenda for Sustainable Development. The themes of gender equality and the care society were also prioritized.<sup>7</sup>

The transition to the 2020s was dominated by the cascade of crises that have impacted the region and the world since the COVID-19 pandemic began in 2020. The focus of ECLAC between 2020 and 2022 was on analysing the consequences of this cascade of crises and conducting dialogue with governments and other key actors about how to manage uncertainty and complexity. There has also been in-depth analysis of changes in globalization and geopolitics, the technological revolution, climate change, migration, and gender equality and the care society, among other issues.

### III. Changes in globalization and challenges for Latin America and the Caribbean

#### 1. A changing and redefined globalization

Globalization has undergone tectonic shifts. It may be wrong to speak of the “end of globalization”, but what we can be sure of is that the “end of hyperglobalization” has come, as Rodrik (2011) pointed out. Certainly, we are witnessing the emergence of a very different form of economic interdependence, associated with the great geopolitical shift. In her Raúl Prebisch Lecture, published in this special issue

<sup>4</sup> The most important contributions of this decade include Sunkel (1981), Prebisch (1981), Fajnzylber (1983), ECLAC (1984 and 1986) and French-Davis (1988).

<sup>5</sup> Influential studies from this decade include ECLAC (1990 and 1994), Fajnzylber (1990), Sunkel and Zulueta (1990), Sunkel (1991) and Ocampo and Rosenthal (1998).

<sup>6</sup> The influential publications of the decade include ECLAC (2002, 2004 and 2006).

<sup>7</sup> Among the main ECLAC documents of this decade are ECLAC (2010, 2012, 2014 and 2016).

as “Globalization disrupted: Prebisch, trade imbalances and the future of the global economy”, Rebeca Grynspan called this new stage “polyglobalization”, meaning a more decentralized globalization with a network of regional poles, competitive rather than universal multilateralism and a strong predominance of geopolitics, with blocs not only engaging in economic and military competition but having different worldviews, among other characteristics.

There is no consensus about when hyperglobalization began and ended. However, as Grynspan points out, there is no doubt that the zenith of the period was the two decades from 1990 to 2010. When and why did hyperglobalization come to an end? This question is important to better understand the changing international scene. The North Atlantic financial crisis of 2008 and 2009 was a first tipping point. That crisis had a qualitative impact on world trade: in the decade from 2010 to 2020, even before the pandemic, there was a slowdown in the growth of the world economy and, even more so, of international trade. The financial crisis marked a clear change of trend in goods trade. Another turning point has been the cascade of crises that has affected the entire world since 2020, including the COVID-19 pandemic, disruptions in global value chains, the war in Ukraine, inflation, rising interest rates, food insecurity and increased debt levels.

Of greater interest is to understand why this happened. As Grynspan explains, while hyperglobalization brought large positives, such as growth in international trade and investment, and coincided with an acceleration of the technological revolution, involving China’s entry onto the international stage and a huge reduction in global poverty, it was also associated with negative trends that led to widespread dissatisfaction with globalization:<sup>8</sup> a sharp increase in inequality in both developed and developing countries, the acceleration of premature deindustrialization and an increase in the vulnerabilities and fragilities of developing countries in particular vis-à-vis the global economic system.

Besides growing discontent with these negative impacts (inequality, unemployment, deindustrialization, vulnerability), there are also deep-seated causes associated with geoeconomics and geopolitics that have manifested themselves over the last decade but come very clearly to the fore in the last two or three years. The main one is that with the emergence of China as not only a manufacturing but also a technological power, the major geoeconomic powers, in particular the United States and China, have intensified their rivalry for technological and productive supremacy in relation to new technologies, especially with regard to the digital revolution, artificial intelligence (AI), Internet standards and a number of high-technology industrial sectors, such as microprocessors and those linked to electromobility and battery manufacturing. The latest chapter in this rivalry has been the revival or intensification of industrial and nearshoring or friendshoring policies, reinforcing the trend towards regionalization.<sup>9</sup>

This geopolitical rivalry has strongly affected the multilateral trading system established in the era of hyperglobalization, a system based on general and widely accepted rules, highly fragmented production and location of global value chains in pursuit of productive efficiency and comparative advantage, and an environment of reliance on economic interdependence. All this has changed radically. Today, interdependence is mistrusted; the term “security”, associated in the post-war period mainly with military considerations, is now applied to food and energy security, supply chains and strategic high-technology industries. The multilateral trading system has shifted to a kind of “protectionist regionalism”, manifested in the reconfiguration and concentration of global chains from motives of technological rivalry and for geopolitical reasons (ECLAC, 2022a).

However, it would be misleading, or at least inadequate, to characterize the ongoing transformation of globalization simply as a transition from “free trade” to “protectionism”, or from “globalization” to “deglobalization”. These dimensions do not capture the essence of the matter, which is that we are living through a transition to a new era in the ground rules for trade and investment. It is a transition from a

<sup>8</sup> See, for example, Rodrik (1997) and Stiglitz (2003).

<sup>9</sup> Artecona and Velloso (2022), Khanna (2023) and Salazar-Xirinachs (2022b).

set of rules that privileged efficiency criteria to one that incorporates the demands of national security, development of domestic production capabilities, job creation, protection for nature and the planet, safeguards against the risks of the digital revolution and artificial intelligence, and consideration of the negative social impacts of interdependence and investment, among other things. As Rodrik (2024b) argues, “instead of expressing nostalgia for a bygone era that produced mixed results and was never sustainable in the first place, economists can help design a new set of rules for the global economy that assist in the rebalancing”.

Of course, the concern that this new set of rules will lead to an excessive degree of “deglobalization” or “decoupling” between economic blocs is valid, but this outcome is not preordained, nor does it necessarily have to be the future scenario. The greatest harm and the worst scenario could arise if harsh geopolitical competition takes over. But there are some aspects of a recast trade and financial globalization that would be positive from the point of view of nature and the planet, of the multilateral system and of spaces for more productive, inclusive and sustainable development.

## 2. The challenge for Latin America and the Caribbean: contributing to reshaping globalization and navigating it successfully

The challenge for Latin America and the Caribbean is to successfully navigate this reconfigured globalization process and understand it in order to identify its risks and threats, take advantage of the opportunities it offers and uphold regional positions in multilateral negotiations that help forestall unfavourable scenarios and strengthen a multilateral system with clear rules.

In terms of opportunities, the trend towards the global relocation of value chains is of particular interest, as it creates areas of potential attraction for foreign direct investment (FDI) in a variety of industrial and service sectors. Also significant are opportunities related to the global energy transition towards renewable energies and electromobility, which are creating global competition for access to and control of critical minerals and resources such as lithium, copper, nickel, manganese, cobalt and graphite, of which the region has a significant proportion of the world’s reserves. This also includes the circular economy, the bioeconomy, biodiversity and sustainable tourism, areas where several countries of the region are highly competitive.

Climate change-related shocks (heat waves, hurricanes, floods, phenomena such as El Niño) will require substantial investments in adaptation to offset their economic and social effects, including those on infrastructure and population relocation. ECLAC has calculated that by 2050 these climate shocks could cost the countries of the region between 9 and 12 points of GDP, which is why it is necessary to include this issue in public investment priorities (ECLAC, 2023e).

One key area is the need for changes in the international financial architecture, which remains largely unchanged from the way it was designed after the Second World War, 70 years ago, and no longer serves the needs of the vast majority of developing countries. The Secretary-General of the United Nations has made a comprehensive proposal for reform that includes aspects such as changes in the governance of the Bretton Woods institutions; recapitalization of multilateral and regional development banks and a strengthened role for them; debt workout mechanisms for middle-income countries; recirculation of International Monetary Fund (IMF) special drawing rights (SDRs); new methodologies for debt sustainability analysis; innovative financing systems for climate change mitigation and adaptation; and changes in global taxation systems. In all these areas, consultation and collaboration among the countries of the region would result in increased influence in international forums and could yield major benefits in the form of improved financing for development in the region (United Nations, 2023; Ocampo, 2023; ECLAC, 2023c).



To cope successfully with these and other adjustments, Latin America and the Caribbean must engage in a strategic rethink of its position, in respect not only of individual countries but of coordination between regional leaders to develop positions as a group in the global forums where the major challenges facing the planet and the world economy are examined and decisions are taken, so that it can forge its own future, deal with critical situations, external shocks and global megatrends on advantageous terms and take advantage of opportunities as they arise.

This is not only a task for governments; the participation of the private sector and civil society is also essential, with the support of academia and the international cooperation community so that, together, they can influence State decisions and policies.

International cooperation, multilateralism and the 2030 Agenda for Sustainable Development are essential to prevent globalization from becoming yet another casualty of the new geopolitical environment and tensions from leading to high economic costs or even open conflict. Many challenges are regional or global and cannot be solved unilaterally by any one country. Having a common development vision and agenda is a way to build trust and to stimulate collaboration and channel it towards positive ends, rather than towards polarization and conflict. From this point of view, the Sustainable Development Goals Summit in 2023 and the Summit of the Future being prepared in 2024 are unique and irreplaceable opportunities to build a reconfigured globalization and a better future for current and future generations.

## IV. The regional development crisis: a decalogue of gaps and challenges

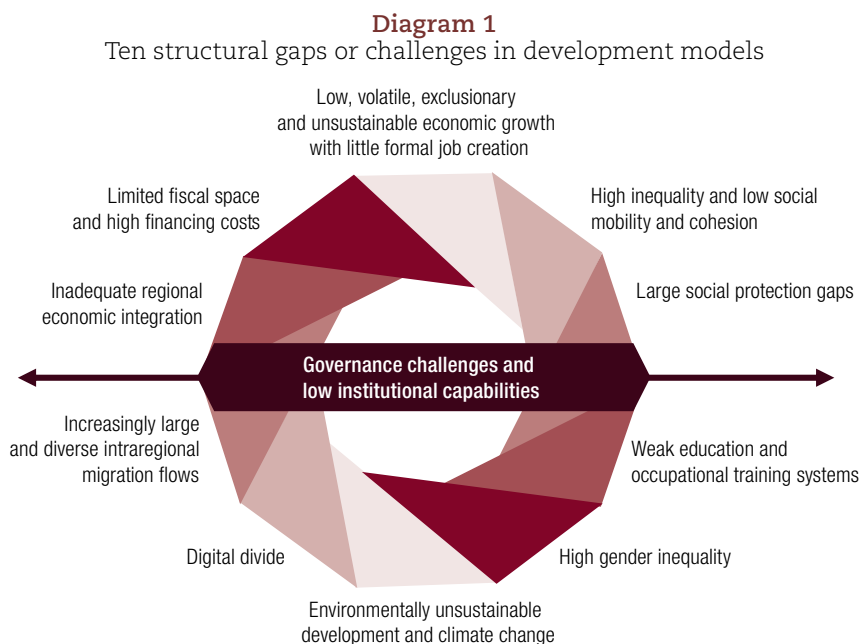
From the point of view of development challenges, and taking a medium- and long-term view, it can be argued that the region is in a real development crisis which is manifested in three main traps or syndromes:

- (i) A low-growth trap. From 2014 to 2023, annual growth in the region averaged only 0.8%, or less than half the 2% of the lost decade of the 1980s, which means that the region has just completed a second lost decade, with per capita GDP growth of only 0.1% per year. To avoid a third lost decade, ECLAC recommends that the countries urgently step up their growth efforts, particularly when it comes to productive development policies, because what the countries need is nothing less than a great productive transformation.
- (ii) A high-inequality trap. This has been aggravated by six key factors: low growth and structural heterogeneity; deficiencies in education and vocational training; gender inequalities; sluggish job creation; regressive tax systems; and major weaknesses in social policies. ECLAC recommends that the countries take a comprehensive view of these causes of inequality and low social mobility and inclusion, and that they act comprehensively on all of them.
- (iii) A low institutional capacity and ineffective governance trap. Here, ECLAC has emphasized that it is not enough to diagnose and describe what needs to be done to address the development challenges characterizing the countries in all their magnitude,<sup>10</sup> but that special attention must be paid to how it should be done, which is why the Commission is working harder and more systematically on finding ways to improve the governance of public policies and the technical, operational, political and prospective capabilities of institutions, and on the issues of social dialogue, the political economy of reform and financing.

In summary, the great development challenge for the countries of the region is to work out how best to move forward from the current situation and build a more productive, inclusive and sustainable future, and how to do this in the new global geoeconomic and geopolitical environment.

<sup>10</sup> See Mazzuca and Munck (2020) for a summary of the literature on the subject.

In my presentation at the thirty-ninth session of ECLAC in October 2022, with a view to synthesizing and clearly expounding my diagnosis of the situation in the countries of the region, I offered a decalogue of structural challenges or gaps in the region's development models, and this is presented in diagram 1.



**Source:** Prepared by the author, on the basis of J. M. Salazar-Xirinachs, “Hacia la transformación del modelo de desarrollo en América Latina y el Caribe: producción, inclusión y sostenibilidad”, presentation at the thirty-ninth session of the Economic Commission for Latin America and the Caribbean (ECLAC), 2022 [online] [https://periododesesiones.cepal.org/39/sites/pses39/files/presentations/ppt\\_se\\_espanol\\_-\\_periodo\\_de\\_sesiones\\_cepal.pdf](https://periododesesiones.cepal.org/39/sites/pses39/files/presentations/ppt_se_espanol_-_periodo_de_sesiones_cepal.pdf).

The items in this decalogue of structural gaps are not independent of each other, but are interrelated and often mutually reinforcing, creating vicious circles. For example, low-growth syndrome hinders the reduction of poverty and informality and the creation of quality employment, i.e. is an obstacle to more inclusive growth; limited economic integration and productive diversification and sophistication is an obstacle to higher and more sustained growth; social protection gaps and shortcomings in education and vocational training systems limit social mobility and improvements in the equity of income distribution.

Below is a brief discussion of each of these items and the gaps associated with them, which in turn provide the main themes for the articles in this special issue of *CEPAL Review*.

## 1. Low, volatile, exclusionary and unsustainable economic growth

As noted, the region suffers from a chronic problem of low growth. This low growth is not just an issue of the last decade, but a long-term trend: the region's potential output growth fell from 5.5% in the almost 30 years from 1951 to 1979 to 2.7% in the following 30 years (1980 to 2009) and just 1.6% from 2010 to the present (ECLAC, 2023a). This explains why average per capita GDP in the region was the same in 2023 as in 2013.

The characteristics and causes of this low-growth trap are examined in the article “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, mentioned above, which proposes six specific guidelines for what to do and how in order to break out of this trap:



- (i) Raise the level of ambition and improve the implementation of new-generation productive development policies.
- (ii) Target specific sectors and activities.
- (iii) Achieve a better balance between a centralized (top-down) and decentralized (bottom-up) approach, working with stakeholders in the territories.
- (iv) Use cluster and other initiatives of territorial productive articulation as a practical and effective way of organizing management and collaboration processes for productive development.
- (v) Improve the governance of productive development policies in line with the experimentalist governance approach.
- (vi) Conduct continuous evaluations, to be able to correct policy direction in a timely manner under changing conditions of strategic uncertainty.

With regard to the targeting of specific sectors and activities, ECLAC has identified a list of dynamizing sectors that can have important effects not only in driving growth but also in transforming the development model into one that is more productive, inclusive and sustainable.

The article mentioned above explains that it is not a matter of growing for growth's sake, but of achieving socially broad-based growth, creating jobs and being respectful of nature and the planet, i.e. growing in an inclusive and sustainable way. It argues that if the countries make the necessary changes to their development models in these dynamizing sectors in a sufficiently far-reaching way, the investments required by these changes will raise the growth rate, because there are no significant transformational changes in a stagnant economy or one growing by less than 1% over the course of a decade or more.

## 2. High inequality and low social mobility and cohesion

It is a well-known fact, and one that is analysed extensively in the article “The challenge of income inequality in Latin America” by Verónica Amarante, Nora Lustig and Andrea Vigorito in this special issue, that Latin America and the Caribbean is the most unequal region in the world. Inequality not only runs counter to basic concepts of social justice, but is inefficient for growth and corrosive for social cohesion and for the stability of social pacts. While there are numerous factors that explain inequality in the countries of the region, they can be simplified and reduced to six main points.

The first factor is that inequality is entrenched and reflects sectoral productivity differences (structural heterogeneity) in the region's production systems, i.e. the differences between a few sectors with very high productivity and a majority of sectors with low or very low productivity. Business owners and workers in high-productivity sectors receive much higher incomes and wages than those in sectors where productivity is low and where most employment is in informal and low-quality jobs. This model of productive development with low growth rates and marked productive dualism has only a limited capacity to create high-quality jobs and marginalizes and excludes certain groups, thus reinforcing the trend towards greater inequality. This indicates that part of the solution lies in productive development policies to boost growth and narrow these large productivity gaps between sectors, reduce dualism in production and spur a structural shift in production and employment towards higher-productivity sectors and companies.

The second is that productivity differences are also associated with firm size: the region is dominated by self-employment and micro and small enterprises, which employ the vast majority of the population and have very low productivity. The share of employment in large and medium-sized enterprises is relatively low.

The third is that the effects on income distribution of this structural inequality rooted in the production system can be reduced and partially offset through fiscal, social and social protection policies: on the expenditure side, by way of social policies that transfer significant resources to the

poorest sectors and social protection policies that provide a minimum level of well-being for all citizens; and on the income side, by means of tax reforms that transition towards progressive tax structures, i.e. structures in which higher-income sectors pay a fair share of their income in taxes. None of these factors operate positively in the region, as they do in developed countries. The region's social policies have serious gaps in coverage and in the adequacy of transfer amounts. Tax structures are regressive, i.e. the poorest strata and the middle classes provide the bulk of tax revenues, while the richest strata are able to evade a large portion of their taxes and also benefit from large rents.

The fourth factor is the role of education and its relationship with technology and the labour market. A high-quality education system with wide coverage can be a potent mechanism for social mobility between generations and thus help to reduce inequality. If children from poor families are educated, they can find good jobs and earn much higher incomes than their parents. This upward social mobility can be a powerful mechanism for reducing inequality. However, public education systems are underdeveloped in many countries of the region and have generally deteriorated in almost all of them. Dropout rates in secondary education are extremely high, and even those who complete this cycle perform very poorly in the Organisation for Economic Co-operation and Development (OECD) Programme for International Student Assessment (PISA) tests, which measure skills in the areas of reading, mathematics and science.

Moreover, education systems have become segmented between public and private systems, with private systems of higher quality, which exacerbates and reproduces inequality. In addition, with the technological revolution and digitalization, the trend is towards increased demand for high-level digital skills and competences in better-quality, higher-paying jobs, while manual and routine work is increasingly being replaced by automation, which has created a tendency towards income polarization in labour markets. This increases yet further the importance and responsibility of education and vocational training systems in preparing the workforce for the jobs of the twenty-first century.

It is crucial to note that these deficiencies and trends affect not only poverty levels, but also the middle class, which bears the social and unequalizing brunt of the combination of deteriorating education and the technological revolution. Unfortunately, most education and vocational training systems in the countries of the region are not up to these challenges. Social transfers and the welfare State can help reduce inequality, but just as important, if not more so, is the creation of good jobs and solutions to stimulate labour markets.

The fifth factor is marked gender inequality, itself a core dimension of the region's high inequality. That inequality is discussed further on in this article.

The sixth factor are the political, sociological and historical aspects related to the discrimination and human rights violations suffered by certain ethnic and population groups, such as indigenous peoples and those of African descent, who do not have the same opportunities as other population groups either in the education system or in the labour market, quite apart from their historical disadvantages in access to capital. The human rights approach is a powerful cross-cutting dimension in diagnoses of inequality and in policymaking for greater equality of opportunity.

Other factors could be mentioned, but these six explain most of the inequalities in the region and, at the same time, shed light on the areas that need to be addressed in order to reduce them.

### 3. Social protection gaps

The region continues to be characterized by high levels of poverty: 29% of the population, or 181 million people, were below the poverty line in 2022, and 11.2% of the population, or 70 million people, were in extreme poverty that same year. However, as explained in the article "Universal, comprehensive, sustainable and resilient social protection to eradicate poverty, reduce inequality and move towards inclusive social development" by Alberto Arenas de Mesa in this special issue, certain groups are particularly likely to be in these situations: the incidence of poverty is 16% higher among women of working age than

among men of the same age, and is higher in rural areas (44.1%) than in urban ones (21.2%), among the indigenous population (46.3%) and Afrodescendants (30.0%), and among children and adolescents (aged 0 to 17) (45.5%). It is also strongly associated with people's level of education, since the poverty rate is 46.8% among people with incomplete primary education, 31.8% among people with complete secondary education and only 9% among those with complete tertiary education. Furthermore, people with some form of disability, estimated at 70 million across the region, suffer inequalities in the exercise of their rights and high levels of exclusion, including in the labour market, which are far from being compensated for by social protection systems.

Besides poverty, levels of vulnerability vary widely by social stratum: in 2019, 52.1% of people in the region lived in low-income households (less than 1.8 poverty lines per person). If lower-middle-income households (22.0%) are added to this stratum, the result is that 74.1% of the region's inhabitants, or three in every four people, live in vulnerable households. Levels of access to education are also very uneven, as will be seen below.

As for pensions, in 2021 only 45.7% of the economically active population (EAP) contributed to a pension system, reflecting the high incidence of labour informality and the weakness of mechanisms to control pension system evasion and avoidance.

The data show that the region has made progress in increasing the coverage of both contributory and non-contributory social protection systems. In the case of non-contributory mechanisms, conditional cash transfer programmes expanded considerably during the 1990s and up to 2010, attaining coverage of 22.9%. In 2000, only 11 of the region's 33 countries had a non-contributory pension system; by 2021, 28 of them did, raising the coverage of non-contributory pension systems among the population aged 65 and over from 3.4% in 2000 to 26.6% in 2021.

Where health systems are concerned, there has also been progress, but large gaps remain and were exposed during the COVID-19 pandemic. Health systems are underfunded, segmented and fragmented, with long waiting lists in the case of public systems and problems with the organization of services. One consequence is that life expectancy at birth in the countries of the region ranges from 65 years to 80 years, depending on the country.

Clearly, much remains to be done in the countries of the region to develop universal, comprehensive, sustainable and resilient social protection systems, which is crucial for building welfare States that can close social protection gaps and strengthen social cohesion, i.e. eradicate poverty, reduce inequality and achieve more inclusive economic growth and development. This is particularly important in the face of new trends such as the demographic transition, digital transformation, the rapid changes shaping labour markets, the impacts of climate change and the increased frequency of natural disasters, which are creating greater demands for social protection and measures to combat inequality and exclusion.

The difficulties are associated with multiple factors: the fiscal space needed to finance and secure the sustainability of social protection systems, the financing architecture of some programmes, and deficits and weaknesses in social institutions, information systems and other areas. There are also conceptual discussions and debates about the comparative costs of increasing conditional transfer programmes, expanding emergency income programmes and developing mechanisms for guaranteed minimum incomes or a universal basic income.

## 4. Weak education and occupational training systems

Education is a human right and is critical for progress in narrowing the other gaps in the region's development models mentioned in this section, which include low productivity and slow economic growth; exclusion, inequality and low social mobility; the absence of a dynamic labour market able to act as a magnet for investment; limited progress towards greater gender equality and the care society; the challenges

of an environmental big push requiring strong workforce skills; and digital divides and the push for digital transformation. In other words, education is a cross-cutting and absolutely central element in the transformation of the region's development models.

In her article "Improving education is crucial for inclusive and sustainable economic and social development" in this special issue, Daniela Trucco notes that the countries of Latin America and the Caribbean have made major advances with educational access, progression and completion. The countries had achieved near-universality in primary education by 2020 (93.3%), but progress in secondary education has been slower and quite uneven, with completion rates of 79.1% at the lower secondary level but only 63.7% at the upper secondary level.

In recent years, moreover, the pace of progress has been slowing, and the education blackout associated with the COVID-19 pandemic caused serious setbacks. There are stark inequalities in completion rates, particularly at secondary level, between the lowest and highest income quintiles. In 2021, the completion rate of students in the highest income quintile at the upper secondary level was 90.5%, but in the lowest quintile it was only 55.7%. This is a very substantial gap that reproduces social inequalities, despite being a major improvement over the situation in 2000. This and other inequalities are related to gender, geographical area of residence, ethnic and racial origin and migration status.

With regard to pre-primary education, despite progress, in 2021 more than half of all children did not have access to this level of education until the age of 5, a critical stage in the formation of so-called soft and socioemotional skills. In the case of young people who did attend secondary school, learning outcomes on various standardized tests were very poor even before the pandemic. The data show that the socioeconomic level of schools is the factor with the greatest impact on learning achievement. This reveals the impact of marked social segregation in education on learning outcomes and thus on employment trajectories.

There is no doubt that education systems need a profound transformation, not only to ensure their financial sustainability, but also to achieve good learning outcomes.

The same can be said of vocational training or training for work. Short educational programmes play a fundamental role in the generation of human talent, in line with the needs of labour markets and production sectors. Technical and vocational education is part of what is provided at the secondary and higher levels in the region, and there are also institutions specializing in this segment. However, coordination with the needs of production sectors is often deficient, the scale is less than needed, and there is a need for flexibility to facilitate the transition of students between formal education systems and technical and vocational education and training systems.<sup>11</sup> Cluster initiatives are a highly efficient mechanism for improving this alignment, but are very little used. There are also shortcomings in skills certification systems.

## 5. Marked gender inequality

Gender inequality in the countries of the region remains unacceptably high. This is not only a human rights issue: it is a moral imperative and it is economically inefficient. This inequality has multiple origins, such as the macho or patriarchal culture that limits women's opportunities to enter the labour market, creates stereotypes assigning women to certain occupations and leads to women taking on the bulk of unpaid child and older adult care work, something that is influenced by the lack of care networks allowing women to work in paid employment. These factors explain why the labour participation gap between women and men is 25 percentage points, although the trend has improved in recent years. In addition, population ageing is increasing the demand for care for older persons to the point that in the coming years it will exceed the demand for childcare in some countries.

Gender inequality is deeply rooted in the culture, laws and organization of economic activity in the region, and its pernicious effects are not limited to individual violence and injustice, but constitute a powerful

<sup>11</sup> See also Salazar-Xirinachs and Vargas-Zúñiga (2017); Busso and others (2012).

constraint on the potential for economic growth, social cohesion and full democracy. Perhaps there are few other areas in which the thesis that “inequality is inefficient” is so clearly borne out as in this one.

Moreover, this is a form of inequality that cannot be alleviated solely by legislation prohibiting discrimination, criminalizing violence or ensuring equal participation by men and women in the various spheres of political, economic and social life; specific public services also need to be provided, particularly in respect of women’s labour inclusion and health, including reproductive health, and the social organization of care for children and older persons.

The article “Gender equality and the care society” by Ana Gúezmes García, Nicole Bidegain Ponte and María Lucía Scuro in this special issue explores the different dimensions of gender gaps in the region, describes the extensive intergovernmental work that has been done in this area and the regional gender agenda that has been developed, and explains the ECLAC proposal for moving towards a care society and its implications for public policies, including financing.

Specifically, four key structural aspects of gender inequality are explained: (i) socioeconomic inequality and the persistence of poverty; (ii) discriminatory and violent patriarchal cultural patterns; (iii) the sexual division of labour and the unfair social organization of care; and (iv) the concentration of power and hierarchical relations in the public sphere. The article also considers a number of policy areas for dealing with these and moving towards a care society, a concept that involves a paradigm shift in diagnosis and identification of comprehensive strategies and policies that set a clear direction involving a distinct change of course when it comes to gender equality and care. This is another of the dimensions in which the region’s development models require a major transformation.

## 6. Environmentally unsustainable development and climate change

In this as in other areas, Latin America and the Caribbean is a region of contrasts, as analysed in the article “Environment and sustainable development: contemporary challenges for ECLAC and Latin America and the Caribbean” by Carlos de Miguel and Jeannette Sánchez in this special issue. On the one hand, it is a region with a great wealth of renewable and non-renewable natural resources and a rich biodiversity, home to six megabiodiverse countries and the lungs of the planet: the Amazon. It also has a third of the world’s fresh water and 15% of its agricultural land, the cleanest energy mix on the planet and substantial global reserves of strategic minerals for the energy transition and electromobility. All this offers major opportunities for the region to drive its own sustainable development and contribute to decarbonization, not only for itself, but also for the rest of the world.

On the other hand, the region has been rapidly losing forest area to deforestation (which reduces its population of species), has lost at least 30% of the glacier area in the Andes since 1980 and has suffered from soil erosion and negative land use and biodiversity trends. Levels of air, water and ocean pollution from plastic and other waste are high. Production systems are only just beginning the long journey towards the circular economy. With more than 80% of the population living in urban areas, urban waste has been growing substantially without modern methods of treatment, disposal and recycling.

In parallel, the increasing effects of climate change and high vulnerability to extreme events (hurricanes, heat waves, droughts, floods, etc.) are a major drag on economic development, requiring greater investments in climate change adaptation, exacerbating fiscal constraints and further limiting the availability of resources for social policies and other priorities.

The combination of low economic growth and a low level of quality job creation, with environmental degradation and climate shocks, is exacerbating socioenvironmental conflict in a context where multiple-use resources, such as water, are becoming critical. This convergence of unmet economic,

social and environmental demands comes on top of the erosion of people's trust in institutions and means that the issue of how to achieve a just and responsible transition is a critical one.

The challenge is to grasp opportunities for productive development and competitiveness in sectors essential to the global carbon transition while continuing to exploit traditional comparative advantages (in mining and agrifood, for example), but to do so responsibly, so that the costs and benefits are shared out fairly and the costs of avoiding environmental degradation are evenly spread.

Thus, the environmental dimension is an integral part of the proposed new growth strategy, which seeks to broaden the scope of productive development policies by focusing on a number of dynamizing sectors, several of them directly related to green growth, such as the energy transition, electromobility, the bioeconomy, the circular economy, food security and sustainable tourism. Consistently with this, ECLAC has offered alternatives for development in the framework of what it has called the “environmental big push for sustainability”.

The region has demonstrated its commitment to the environment through its nationally determined contributions, commitments to carbon neutrality, concern for biodiversity and deforestation, ocean protection and efforts to tackle plastic pollution, to mention a few examples. It is important to see all these efforts not as isolated or confined to the environmental issue, but as core elements of the strategy for growth and productive development and the corresponding investment, financing and innovation efforts.

## 7. The digital divide

Gaps in access to and use of digital technologies are large in the countries of the region. This is a challenge for development because the future is digital, and the longer it takes for countries to increase not only access but smart and large-scale use of the opportunities of the new digital economy, the longer it will be before its benefits are reaped (Salazar-Xirinachs, 2021).

Where access is concerned, Internet penetration in the region was above 80% in 2022, an increase of approximately 20 percentage points from 2016. This growth was the result of several factors: the expansion of broadband Internet coverage driven by the roll-out of 4G and 5G networks, declining access costs thanks to the development of telecommunications markets, and the increasing adoption of mobile devices, among others. However, household Internet penetration in urban areas is 80.1%, while in rural areas it is 44.4%; in households in the highest income quintiles it is 84.7%, while in the lowest income quintiles it is 50.3%.<sup>12</sup>

Part of the explanation for these inequalities of access is that the region still has a large investment gap in telecommunications infrastructure compared to regions such as Europe or countries such as the United States, which invest about twice as much as a share of GDP. In addition, there are problems with the regulatory and incentive environment for infrastructure roll-out in areas of low profitability.

Other factors relate to demand gaps. These include in particular the lack of digital skills in various sectors of the population and the inability to afford the costs of equipment and Internet service, even when the infrastructure is available. These issues call for policies to address the deficiencies proactively. ECLAC has proposed the implementation of a “digital basket” to finance access to basic devices and digital services for individuals and families in poverty (ECLAC, 2020).

A key dimension of the digital divide in the region is related to productive development. The level of adoption of even the most basic digital technologies by companies is low. For example, more than 60% of the region's companies with an Internet presence have a passive presence, i.e. they do not even use the Internet to carry out transactions. The situation is worse in the case of microenterprises and small and medium-sized enterprises (MSMEs), where it is estimated that more than 70% do not even have an Internet

<sup>12</sup> See Regional Broadband Observatory (ORBA) [online] <https://www.cepal.org/es/observatorio-regional-de-banda-ancha>.



presence. In a region where MSMEs account for more than 95% of the business fabric and generate around 70% of employment in many countries, this gap seriously affects productivity and competitiveness and requires further and greater efforts to extend digital technology so that it can be remedied.

If take-up gaps persist for mature technologies, they are much larger when it comes to emerging digital technologies such as AI. For example, between 2010 and 2021, aggregate private investment in AI across all Latin American countries was no more than 1.7% of the amount invested in the United States or 5% of China's investment, and just 2.7% of scientific publications on AI were from Latin America.<sup>13</sup>

Advanced technology-based ventures are a key driver of digital development. These have increased significantly in the region over the last decade: of every 10 start-ups, almost 9 (86%) are based on digital technologies or belong to the sector. In 2022, there were 34 unicorns (start-ups valued at more than US\$ 1 billion) in the region. However, this number remains far short of the 633 and 180 in the United States and Europe, respectively.<sup>14</sup> There is therefore still plenty of scope for increased investment in digital entrepreneurship, and governments, businesses and investors need to work on joint strategies to this end.

Digitalization can be a powerful tool for addressing structural problems in the region in different dimensions such as education, health, security, justice, institutional strengthening and productive transformation, but only if it is treated as a core element of national development strategies, there is appropriate governance and a systemic approach is adopted to prevent it from becoming a new source of inequality. Moreover, it is essential for national initiatives to be complemented by regional agendas and efforts in this area.

## 8. Growing intraregional migration flows

International migration has taken centre stage in the policy debate in Latin America and the Caribbean. Virtually all the countries in the region are part of migration cycles as countries of origin, destination, return or transit. According to United Nations estimates, 43 million people in the region were living outside their countries of birth in 2020, representing 15% of the world's migrant population (United Nations, 2020). The United States remains the main destination for migrants, although a number of South American countries have attracted many. For example, the Regional Inter-Agency Coordination Platform for Refugees and Migrants from Venezuela (R4V) estimates that 6 million Venezuelans are migrants and refugees in the region, living mainly in Colombia, Peru, Ecuador, Chile and Brazil.

Migratory movements in the region are explained by both push and pull factors. The former include the structural lack of decent work opportunities and economic crises, environmental disasters and the effects of climate change, humanitarian crises and, increasingly, rising insecurity and violence of all kinds. The latter include increased opportunities for employment, education, better wages and family reunification.

While Latin America and the Caribbean has traditionally been a region of migration, a striking feature of today's migration landscape is its increasing intensity and complexity. International migration is characterized more and more by irregular flows and includes economic migrants, environmental migrants, forced or involuntary migrants, asylum seekers, refugees, irregular migrants, victims of trafficking and enslavement, stranded migrants and unaccompanied children and adolescents, among others. The main characteristic of these mixed movements is the vulnerability of many of those involved.

The difficulties faced by migrants as they move about have reached unacceptable proportions that should trouble our consciences. Journeys to the United States feature caravans and the migration of unaccompanied children and adolescents in Central America and Mexico, as well as a sharp increase

<sup>13</sup> See Digital Development Observatory [online] <https://desarrollodigital.cepal.org/en/home>.

<sup>14</sup> *Ibid.*



in the flow of migrants through the Darién Gap, one of the most dangerous migration routes in the world: some 400,000 people are estimated to have used this route in the first nine months of 2023. In South America there are also a number of routes, such as the Colchane border crossing in the Chilean-Bolivian altiplano, where lives are lost in crossings.

Migration is a development and rights issue that requires responses based on a comprehensive approach to sustainable development and the obligation of States to protect human dignity without distinction of gender, age, origin, ethnicity or migration status. As noted in the article “International migration in Latin America and the Caribbean: a development and rights perspective” by Simone Cechini and Jorge Martínez Pizarro in this special issue, ECLAC proposes a profoundly humane approach to migration governance that would allow countries to make appropriate decisions without affecting the dignity of migrants and would recognize the contribution these make to sustainable development. What is proposed is safe, orderly and regular migration in line with the Global Compact for Safe, Orderly and Regular Migration. Migration has these characteristics when it takes place in accordance with laws and regulations governing departure, entry, return and stays in countries, and in accordance with obligations under international law to respect, protect and enforce the rights of migrants, recognizing and mitigating the risks associated with the movement of people.

Migrants contribute in many ways. In several of the countries with the highest immigration in the region, the population is ageing, which means there is a need to bring in people of working age, given that labour shortages are beginning to be detected in some sectors, such as agriculture, care and the service sector. Furthermore, ECLAC studies have identified substantial contributions to economic growth and cultural diversity. In all countries, remittances are a considerable factor in the composition of household income and help to alleviate situations of poverty.

However, decent work, social protection, health care, education and housing are troublingly difficult to access for many migrants, who constitute one of the most vulnerable groups in the population. To enable migrants to access employment and social services, regularization must be facilitated. Xenophobia and discrimination against migrants must also be combated.

ECLAC recommends cooperation and co-responsibility among States, taking the whole migration cycle into account. It also recommends that States update their migration legislation so that it responds adequately to the new challenges. More profoundly, it recommends efforts to close the other gaps and shortcomings in development models referred to in this section and in the other articles of this special issue of *CEPAL Review*, which are often precisely what cause migration flows in the first place in the countries of origin.

## 9. Inadequate regional economic integration

Despite a decades-long aspiration towards integration among the countries of the region and the enthusiasm and rhetoric surrounding the subject, the results have been rather modest. Intraregional trade has held steady at around 15% of total trade, being stronger among the Central American countries and between them and Mexico than among the South American countries. For example, exports to other Central American Common Market (CACM) partners average a quarter of member countries’ total exports, and CACM is the third-largest destination market for them after the United States and Europe.

The share of total inward foreign direct investment originating in the region’s countries themselves is also low. Although the integrationist project has led to the creation of numerous regional institutions, progress has been modest and uneven. These and other characterizations are analysed in the article “The perpetual pursuit of integration in Latin America and the Caribbean” by Luz María de la Mora in this special issue of *CEPAL Review*, which also explains why it is still important to strengthen economic integration on a renewed basis and offers a number of pragmatic suggestions for doing this.

As the article points out, economic integration in the region has been conceived from two very different perspectives: a trade and economic perspective, and a more political and ideological one. Unfortunately, the latter has often predominated, slowing or derailing progress towards economic and trade integration. The first conclusion and recommendation, then, is that moving towards true integration requires a pragmatic and economic rather than an ideological approach.

There are also other elements to what might be called new foundations for a revitalized regional integration process.<sup>15</sup> The first is the recognition that development economics has historically seen regional integration as an alternative to full participation in the international economy or, in a version more in line with Raúl Prebisch's thinking, as a preliminary stage necessary to develop an industrial sector capable of exporting to the developed countries and competing with them. Changes in technology and trade demand adjustments to these approaches. Owing, for one thing, to the strong integration of several economies in the region with trading partners such as the United States, Europe and China, not only in terms of trade flows but also via trade agreements, and, for another, to the new production and technological paradigms in global and regional value chains, regional integration and integration into the world economy can no longer be seen as mutually exclusive alternatives, but must be understood as complementary.

Second, the size and dynamism of global value chains and the strong forces reshaping them in the form of geopolitics, nearshoring and technological trends are opening up great opportunities to redesign integration strategies, not only by reducing tariffs but especially by reducing non-tariff barriers and harmonizing technical standards. Geographical proximity allows production structures to be integrated only if there is adequate infrastructure for transport and physical contact, with the right rules to provide legal security but also to facilitate and reduce the costs of interoperability at border crossings, payments and the movement of products. Thus, traditional integration issues, known in the modern literature as "trade facilitation", remain fundamental. The costs of trade between countries in Latin America and the Caribbean are very high, and this is one reason why the region's countries trade little with each other compared to other regions (Mesquita, Volpe and Blyde, 2008). The cost reduction and trade facilitation agenda is therefore very important. There is also a great diversity of rules of origin that not only raise costs but also complicate trade and supply between the countries of the region in the effort to export among themselves and to the rest of the world. The countries of the region participate in 33 preferential trade agreements, giving a total of 47 sets of product-specific rules of origin. For intraregional and inter-industry trade to flourish, it is also necessary to standardize technical regulations, a dimension that becomes even more important in the light of the new production paradigms.

Third, in contrast to the analyses and realities of old-style integration, limited to trade in goods, the new integration must recognize the digital revolution and the enormous potential of trade in services and electronic or digitally mediated trade. This is why twenty-first century integration efforts need to pursue deeper trade agreements that incorporate new disciplines related to e-commerce, competition, government procurement, services and technical regulations, among other things. In addition, the interoperability of the countries' information systems must be enhanced. In the field of digital integration, regulatory harmonization is needed on issues such as cybersecurity, privacy and data protection, data transfer protocols, platform taxation and e-commerce facilitation, as well as local capacity-building for interconnectivity in respect of regulatory frameworks, bandwidth, fibre optics and digital literacy.<sup>16</sup> There is in fact a digital agenda for Latin America and the Caribbean, aimed at developing a regional digital ecosystem, which has been negotiated and updated at successive meetings of the Ministerial Conference on the Information Society in Latin America and the Caribbean, but progress is slower than it ought to be (ECLAC, 2022b).

<sup>15</sup> See Sanguinetti and others (2021), Rocha and Ruta (2022) and Mesquita (2018) for different perspectives on these new foundations.

<sup>16</sup> These and other issues are included in the Digital Economy Partnership Agreement (DEPA) signed by Chile with New Zealand and Singapore.

These are some of the new issues, but with the proliferation of latest-generation trade agreements, both between countries in the region themselves and with extraregional trading partners, the integrationist aspiration now raises other fundamental questions. What is the best route towards convergence? What are the operational options for this? One possibility would be to return to an ambitious and comprehensive regional agreement model, such as the old idea of the Free Trade Area of the Americas (FTAA), either with or without the United States. This would be a single regional agreement, a modern version of the Latin American common market formulated by Raúl Prebisch himself, in which all the countries would negotiate a new agreement covering them all. This does not seem a feasible model at present. Another option would be to work on specific issues such as cumulation of origin, trade facilitation, energy integration and infrastructure improvement. This seems to be the most plausible way forward, pragmatically deepening integration agreements and accelerating convergence between them while adding the new topics required for trade in services.

Another area of work is the attraction of FDI to jointly harness opportunities from the reconfiguration of global value chains. The traditional way to do this is by improving the local business climate, institutional capacity for attracting FDI, the services available once investments have been made and the generation of linkages. Now, though, consideration must also be given to joint or cooperative productive development policies in high-potential sectors or clusters of value chains, such as the growth-enhancing sectors presented in the article “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies” already mentioned.

In conclusion, what is needed is a new road map to relaunch integration with this type of agenda. A new stage, grounded in a new integration paradigm, has been reached. What lies ahead is a practical task centred on generating convergence in integration agreements and regulations and introducing the new issues, supplemented by collaboration in more traditional areas such as physical infrastructure, energy interconnection and customs facilitation.

## 10. Limited fiscal space and high financing costs

The region’s low-growth syndrome is the result of a number of factors, including very low investment rates and slow productivity growth. Raising investment rates and productivity growth are therefore two priority tasks in the effort to overcome the chronic low-growth situation, close or narrow the gaps identified and accelerate progress towards the Sustainable Development Goals (SDGs). In addition, the increase in climate shocks (hurricanes, floods, heat waves and other natural disasters) and their impacts on agriculture, infrastructure and populations require an additional investment effort, often amounting to several points of GDP, just to compensate for the destructive effects of these phenomena.

Thus, as pointed out in the article “Macroeconomic policies for investment and sustained and sustainable development” by Daniel Titelman in this special issue, if the region is to boost growth, make progress towards the SDGs and tackle the impacts of climate change, it is imperative for it to increase investment, in a context where its capacity to do so is affected by limited fiscal space and high financing costs. This requires a macroeconomic framework that actively implements fiscal, monetary, macroprudential, exchange-rate and financial policies, complemented by efforts in the international agenda to restructure debts and reduce the development distress imposed by high debt servicing and financing costs. The article examines a variety of issues relating to the characteristics of macroeconomic frameworks that would be less procyclical, incorporate automatic stabilizers and serve to better manage the business cycle. It also discusses proposals to improve the level and progressiveness of tax collection, as well as opportunities to access financing through innovative instruments such as thematic bonds.

The concept of “development distress” refers to the way a growing burden of interest payments and their impact on fiscal space impose severe constraints on growth. In a number of the countries, these payments equal or exceed expenditures on education, health and social protection. Moreover, the reduction of public investment has been the main fiscal adjustment variable in the last decade. Most countries devote more resources to interest payments than to public investment, to the detriment of economic growth, productive development and investments in climate change mitigation and adaptation (ECLAC, 2023d).

As for private investment, part of the explanation for why the private sector is not investing more concerns the investment climate, and part has to do with low levels of public investment, but it should be added that a major cause of the low level of private investment is the need for greater clarity and scale in productive development policies with sectoral commitments and public-private partnerships, a subject discussed in the article “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, co-authored with Marco Llinás and included in this special issue.

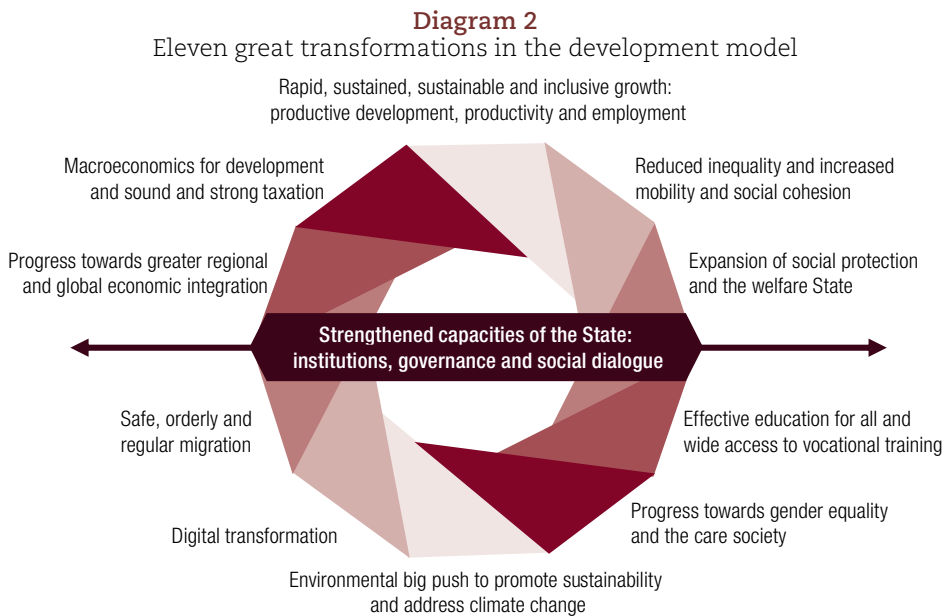
In sum, this decalogue of gaps, briefly summarized in the preceding paragraphs and discussed at greater length in the various articles included in this special issue of *CEPAL Review*, is a way of pointing out fundamental weaknesses in the current development patterns of the region’s countries. Situations vary widely, of course, but it is clear that, to a greater or lesser extent, each of these characterizations applies to all the countries of the region without exception. Moreover, the gaps listed, and thus the priority areas for action, are not independent but highly interdependent and mutually reinforcing, so that progress with some of them drives progress with others. Thus, the greatest transformational momentum will be achieved if progress is made on a number of these fronts simultaneously.

## V. What should be done? The 11 great transformations needed to create a more productive, inclusive and sustainable future

### 1. The 11 great transformations

In contrast to diagram 1, which presents the decalogue of structural gaps for diagnostic purposes, diagram 2 is prescriptive, showing 11 great transformations needed in the development model of the region’s countries if they are to move towards a more productive, inclusive and sustainable future, with a view to stimulating a discussion about what should be done, and how, for these gaps to be closed or narrowed. These are the transformations required to address each of the 10 structural gaps identified, plus an additional one that is cross-cutting and concerns the “how”: the strengthening of institutional, governance and social dialogue capabilities for public policies. As mentioned at the beginning of this article, in addition to the low-growth and high-inequality traps, a third trap affecting the region is its limited institutional and governance capacity for dealing with development challenges on the scale that characterizes its countries.<sup>17</sup>

<sup>17</sup> The 11 great transformations approach draws its inspiration from the classic book by Karl Polanyi (1944). In arguing for what he considered at the time to be the great transformation that public policy needed to achieve, Polanyi pointed to the costs of failing to do so. Similarly, it can be argued now that if the countries fail to manage these 11 transformations, they could be mired yet further in the three traps identified and left defenceless in the face of climate change, not to speak of the threat to democratic life itself.



**Source:** Prepared by the author, on the basis of J. M. Salazar-Xirinachs, “Hacia la transformación del modelo de desarrollo en América Latina y el Caribe: producción, inclusión y sostenibilidad”, presentation at the thirty-ninth session of the Economic Commission for Latin America and the Caribbean (ECLAC), 2022 [online] [https://periododesesiones.cepal.org/39/sites/pses39/files/presentations/ppt\\_se\\_espanol\\_-\\_periodo\\_de\\_sesiones\\_cepal.pdf](https://periododesesiones.cepal.org/39/sites/pses39/files/presentations/ppt_se_espanol_-_periodo_de_sesiones_cepal.pdf).

Experience shows that it is not enough to list objectives and aspirations if there are no clear strategies to bring about change and if institutions do not have the capabilities to drive forward the necessary transformations or transitions. These capabilities are essential to the management and governance of the transformations and include the creation and management of spaces of social dialogue for the development of widely shared, forward-looking visions by key actors and for their implementation, or the monitoring of implementation, by the same actors in each policy area.

Section VI reviews the challenges of governance, capabilities and processes involved in managing the transformations. First, though, it is worth examining an example of the transformative vision for development models being presented here, relating to productive development policies as a tool for breaking out of the low-growth trap.

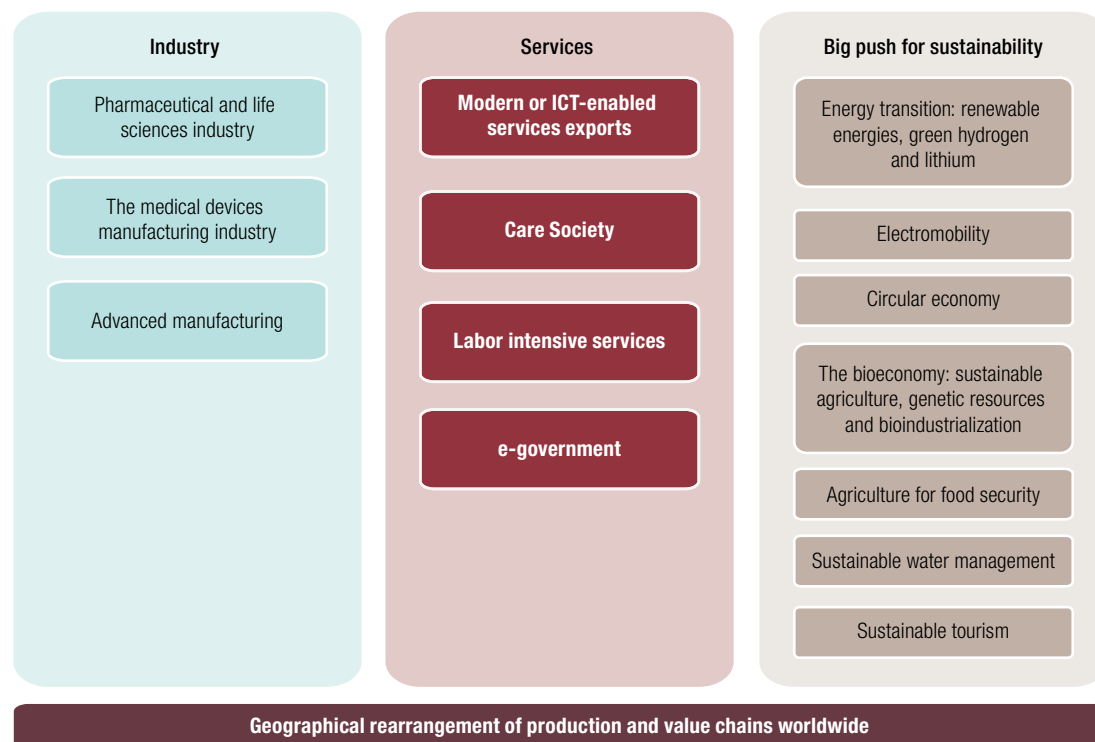
## 2. The pursuit of higher and more sustained, inclusive and sustainable growth as an example of integration between the “what” and the “how”

A fundamental ingredient in the ECLAC proposal for “what” should be done and “how” in order to avoid a third lost decade, boost economic growth and make this growth more sustained, inclusive and sustainable is for countries to expand their productive development policies, with a focus on the latest generation of these policies. This necessitates sectoral commitments and the use of the cluster approach as a concrete and effective way of organizing collaboration and management for productive development and improving the governance of productive development policies.<sup>18</sup>

<sup>18</sup> For more details, see the article “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies” in this special issue. Regarding the value of a cluster approach following experimentalist governance principles, see also, for example, Llinás (2021), Salazar-Xirinachs (2020a and b) and Monge-González and Salazar-Xirinachs (2016).

As a way to promote this great productive transformation, we have proposed a portfolio of 15 growth-driving sectors, as shown in diagram 3. Because of their pull effects (and their impact on innovation and decent job creation), and in many cases because they are aligned with the countries' potential competitive advantages, in addition to their favourable impact on the energy transition and nature- and planet-friendly production, these sectors have major potential in their different ways to spearhead productive transformations that can not only endow growth with greater dynamism and higher productivity, but also give it greater traction in respect of job creation and improved environmental sustainability.

**Diagram 3**  
Great productive transformation for productivity, inclusion  
and sustainability: portfolio of driving sectors



**Source:** Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), *Investment and cooperation opportunities for Latin America and the Caribbean and the European Union (LC/TS.2023/78)*, Santiago, 2023.

An important caveat is that this list of sectors is not necessarily applicable to all countries, but is rather an example of what a set of sectoral choices with high returns for development could look like, it being understood that each country or each territory within a country must set its own priorities, removing some sectors from the list and adding others, to arrive at a balanced set of productive choices consistent with its own competitive advantages and institutional capabilities. The core message is that to boost growth and steer it in the direction of greater productivity, inclusion and sustainability, it is important for productive development policies to set a course in the form of a set of priority sectors and organize processes of collaboration between key stakeholders in each sector. This is something that cannot be left to market forces but must be guided and managed by public policymakers working in close collaboration with the private sector, academia, local actors and other major stakeholders.

Another important message is that, as with financial portfolios, it is unreasonable to expect all sectoral production sector initiatives to be successful; however, the effort will be profitable for development if a majority are successful and result in a transformative boost to productivity and growth in the economy. For this, it is important to have clear monitoring systems so that misguided initiatives and projects are not supported (Rodrik, 2024a).

The identification at national level of a number of priority sectors for productive development policies has a number of advantages: (i) it sends signals to educational and vocational training institutions and young people about the type of professional specializations that will be in demand in the future and offers concrete opportunities to participate in the productive development of the country or region; (ii) it sends signals to investors and the country's trading partners about the areas of public policy where work is being done in support of investment, growth and collaboration and creates concrete opportunities for participation;<sup>19</sup> and (iii) it provides signals about the areas in which the country is making special efforts to take advantage of the trend towards the geographical relocation of production and the reconfiguration of value chains that is occurring in the new stage of globalization.

The arrangement of the sectors into three columns in diagram 3 highlights another very important feature of the proposed new growth and development strategy: that it is no longer limited to industrialization, but must also focus strongly on the service sectors, as well as on the “big push for sustainability”, particularly in areas such as the energy transition, electromobility and the circular economy.<sup>20</sup>

Other suggestions for what should be done to promote the transformations in the decalogue of policy areas are presented by the different articles in this special issue of *CEPAL Review*.

## VI. How should it be done? Capabilities, processes and types of governance needed to manage the transformations

### 1. Types of knowledge needed to transform the world

As Swilling (2020) suggests, it is necessary to distinguish three types of knowledge that are important for acting effectively in an uncertain, complex and changing world: (i) technical systems knowledge, which is knowledge about socioeconomic, ecological and technological systems; (ii) anticipatory or goal-oriented knowledge, which is the formulation and understanding of desirable futures, taking into account in advance (as far as possible) disruptive impacts and trends that may affect paths forward; and (iii) knowledge about processes of transformation, which is knowledge about processes of change and transitions, i.e. about how to get from where we are to where we want to be, including, in particular, governance capacities and processes to guide collective action towards desired scenarios and avoid losing direction.

Technical systems knowledge in each of the 10 areas identified in this vision of the region's development challenges —what I have called the decalogue— is brought to bear in each of the articles in this special edition of *CEPAL Review*, where systems and gaps are analysed with a combination of narratives supported by theory and empirical data on the subject.

The other two types of knowledge go beyond the technical content of policies. Rather, they are socially constructed and thus fundamental to promote collective action, building on the community's understanding of systems. These two types of knowledge and their role in transforming development models are discussed below.

<sup>19</sup> See, for example, ECLAC (2023b).

<sup>20</sup> See Rodrik and Stiglitz (2024) for an analysis that emphasizes these two issues as pillars in a new growth strategy for developing countries.



## 2. How should transformations be managed?

Understanding transformation processes is challenging, and the subject has received relatively little analytical attention. Goals and aspirations are often identified, but without a clear idea of how these goals or future scenarios are to be reached. For this reason, the analysis and understanding of processes of structural change or transitions is an extremely important topic to which ECLAC is devoting increasing analytical and practical attention.

The countries of the region have a history of countless reforms designed to transform different aspects of their development patterns, from strongly State-led strategies to strategies relying more on markets, deregulation and economic opening. But the State-market dichotomy is an inadequate and potentially even harmful way of thinking about the conditions and processes of transformation, because it oversimplifies the complexity of these processes and can lead to discussions that are more ideological than practical.

In fact, experience shows that the process whereby policies are designed, adopted and, above all, implemented is as important as their content, since they are formulated and implemented in specific contexts with certain institutional capacities and constraints imposed by sociopolitical, financial and international economic and geopolitical conditions.

Thus, the institutional capacity of the State and the way a variety of State and non-State actors act and interact to formulate and implement an economic, social or institutional policy or reform impact the effectiveness of the latter. Analysing the “how” therefore requires knowledge that goes beyond the specific technical content of policies to take into account the processes (social dialogue, negotiation, target setting, evaluation, course correction), institutional capabilities and strategies for implementing particular policies, all of which determines the capacity of the State to orient, guide and facilitate change. This is a large subject area in which ECLAC is making fresh efforts at research and dialogue with key stakeholders.

## 3. The need to envision the future and the role of foresight as a tool for the leadership of change and for course maintenance or correction

A key ingredient when it comes to implementing major transformations in development models are collective spaces where different groups in society and State institutions can envision the future and then, on the basis of these exercises, influence it by implementing broad agreements that yield long-term policies or State policies. Long-term decisions and strategies should not be at the mercy of short-termism or political vagaries, especially when these are driven by polarizing dynamics. The discipline of foresight provides methods for producing long-term development visions and conducting dialogues to identify future scenarios and agree on the future desired by all. It provides useful tools for generating consensus, creating visions of the future, agreeing on commitments and building State policies. However, foresight capabilities do not arise spontaneously in institutions and society, but need to be created and developed, and this must be seen as one of the transformations required as part of development policies (Máttar and Perroti, 2023; Medina Vásquez, 2023).

Foresight facilitates the exploration and analysis of possible futures and the construction of alternative medium- and long-term scenarios, provides inputs for anticipating unexpected high-impact events and, together with planning and public policy, identifies methods of scenario choice. Its use as a component of public policy serves to develop capacities for resilience and transformative recovery, address global uncertainty and recurrent crises, envision alternative ways out of crises, produce anticipatory and intertemporal governance, and generate a permanent social dialogue that connects institutions with citizens and political and social actors and builds broad consensus on the directions of development.

However, few countries in the region have used foresight as a daily tool in the work of the public sector. There are country visions and desired scenarios that have been constructed with the participation of the governments concerned, but their application in the policy field is very recent and limited. Foresight and strategic planning should really be organic tools for the public and private sectors and civil society alike, and at ECLAC we have made it a high priority to help strengthen foresight processes in the region. For example, foresight committees already exist in three national parliaments in the region, and ECLAC is initiating a project to facilitate the creation of more such spaces in various countries.

## 4. The technical, operational, political and prospective (TOPP) capabilities of institutions

The technical, operational, political and prospective (TOPP) capabilities of institutions in each policy area are essential if public policies are to be effective in transforming the realities in their areas of competence. Table 1 summarizes the characteristics of each of these four categories of capabilities. It provides an analytical framework within which to diagnose and develop strategies for strengthening these capabilities in different policy areas, such as those of the decalogue presented here, something that is essential if a State and society are to have the capacity to manage the major transformations required by development models in the countries of Latin America and the Caribbean.

**Table 1**  
Technical, operational, political and prospective (TOPP) institutional capabilities needed to drive the great transformations in the development model

Capabilities	Goals
Technical	<ul style="list-style-type: none"> <li>• Incorporate strategic planning with a medium- and long-term outlook into the policy process or cycle.</li> <li>• Generate comprehensive policies with cross-cutting approaches in key areas of development.</li> <li>• Create and manage comprehensive information systems to support policy management and implementation.</li> <li>• Evaluate policy impact and programme outcomes.</li> <li>• Make policy mandates more consistent with the capacity of public agencies.</li> <li>• Improve accountability to optimize the public service.</li> <li>• Generate a culture of continuous learning.</li> </ul>
Operational (operating dimension of public management and administration)	<ul style="list-style-type: none"> <li>• Use of modern public management tools for budgeting, planning, performance management and evaluation, and accountability procedures.</li> <li>• Mechanisms to assess productivity and ensure efficient and effective delivery of public goods and services.</li> <li>• Strengthened human resource policies to increase professional, technical and administrative capabilities for policy implementation.</li> <li>• Modern interfaces based on digital government for citizen interaction and services.</li> <li>• Effective public-public coordination arrangements.</li> <li>• Optimization of significant participation by the private sector and other stakeholders.</li> <li>• Mechanisms for the transparent and honest execution of public resources.</li> <li>• Measurement and follow-up of citizen satisfaction with public services and institutions.</li> </ul>
Political	<ul style="list-style-type: none"> <li>• Management of spaces for social dialogue between development actors for public policy formulation and implementation.</li> <li>• Public leadership that builds trust and enhances coordination and collaboration with civil society, the private sector and academia.</li> <li>• Collaboration and coordination between different levels of government.</li> <li>• Peer-to-peer collaboration at local, national, regional and international levels.</li> <li>• Consensus-building between and within communities, government, the private sector and civil society, among other stakeholders.</li> </ul>
Prospective	<ul style="list-style-type: none"> <li>• Anticipation and monitoring of global megatrends affecting regional development.</li> <li>• Participatory construction of desirable future development scenarios and their appropriation by development actors.</li> <li>• Support for the design and implementation of State public policies.</li> <li>• Rapid and effective institutional responses to crises, disruptions and unexpected high-impact events that disrupt development.</li> <li>• Culture of dialogue to anticipate and manage conflicts between development actors.</li> </ul>

**Source:** Prepared by the author.

Institutions must also, of course, have the funding they need to establish these capabilities and make them sustainable, although it should be pointed out that adequate funding is by no means enough to ensure that an institution will have TOPP capabilities, this being a challenge in itself quite apart from the financing. The financial challenge requires conditions such as sufficient fiscal space to support the institutions responsible for priority transformations, good budget management so that the resources available are commensurate with the scale of the institutional challenge, effective processes for budget negotiations with the fiscal authority, alignment of national development plans with the major priority transformations and the respective budget processes, and transparency and accountability.

## 5. Methods of social dialogue<sup>21</sup>

As has been argued, economic and social transformation processes are the outcome of multiple forces and are embedded in very specific institutional, economic and ideological contexts in each country, as is any social dialogue effort aimed at constructing widely shared visions to guide collective action in accordance with them and avoid paralysis, or the achievement of agreements on reforms in specific areas. Social dialogue is thus a key instrument for managing and guiding transformations.

Without seeking to encompass what is an extremely broad and intricate subject, it is possible to narrow down the field by distinguishing four areas or modalities of dialogue: (i) social dialogue for macroeconomic stabilization; (ii) social dialogue on labour policies; (iii) social dialogue for productive development; and (iv) dialogues for territorial development.

### (a) Social dialogue for macroeconomic stabilization

This type of dialogue is usually initiated at times of crisis, be it inflationary, financial, recessionary or employment-related. The objective of these processes is to negotiate a package of macroeconomic (fiscal, monetary, wage, etc.) measures in which distributional aspects related to the share-out of the costs of adjustment between different groups in society are a major consideration. It is often a matter of negotiating programmes that strike an economic and political balance between measures to cut or restrain a variety of fiscal expenditures (with one consideration being the protection of social transfers, particularly for the most vulnerable groups), tax increases, agreements on wage levels and the trajectory of pay in both the public and private sectors, and a commitment by trade unions to call off strikes and mobilizations in the streets or public places. Ireland, for example, successfully negotiated such an agreement at a time of serious economic crisis, helping to resolve this. Some countries have gone through long processes of consultation to reach broad and comprehensive agreements, with varying degrees of success, and also failure, in subsequent implementation.

### (b) Social dialogue on labour policies

The objectives of this type of social dialogue are the negotiation of wages, working conditions and various types of labour legislation. This is the traditional International Labour Organization (ILO) tripartite process involving ministries of labour and representatives of employers' and workers' organizations. Most such negotiations take place in the context of institutions specifically set up for these purposes, such as work councils, minimum wage councils or ad hoc dialogue groups.

<sup>21</sup> This section is based on Salazar-Xirinachs (2022a).

### (c) Social dialogue for productive development

There is a wealth of international and regional experience with social dialogue on vocational training issues to resolve needs and identify policies and programmes in the area of occupational skills. In Latin America and the Caribbean, the vocational training centres model was established from the outset with a tripartite governance style involving government, employers and workers (Salazar-Xirinachs and Vargas-Zúñiga, 2017).

Moreover, councils promoting productivity and competitiveness have been popular in several countries for two decades or so. With few exceptions, however, these councils were set up with bipartite representation and governance, i.e. as public-private partnerships, where the private side consisted only of business leaders or representatives. This is a type of dialogue that differs from labour and wage dialogues because these aim at “positive sum” shared constructions in which all actors gain, rather than being games that, accurately or not, are generally perceived as “zero sum”, with one party’s gain tending to be seen as the other party’s loss.

One type of interaction, which is less about dialogue and more about joint construction through multiple interactions and collaboration, are cluster-based policies, which have spread in Latin America over the past 20 years. Cluster initiatives provide governance and coordination (with a triple helix approach involving the public sector, the private sector and academia) at the sector or value chain level, where these are weak or non-existent. The objective is to solve very specific problems relating to public goods, human talent and innovation and to promote the competitiveness, productivity and internationalization of firms in the clusters.

### (d) Dialogue for territorial development

Lastly, not all social dialogue processes take place at the national level; dialogue at the local level relating to infrastructure projects or in a variety of local and territorial development policy areas, involving a variety of stakeholders, is very important. Such dialogues involving local actors are important to determine regional strategies and to break the very centralized decision-making tradition that is characteristic of many countries. It is important to strike the right balance between top-down and bottom-up policies.

There are, of course, various other types of dialogue and consultation, such as those involving local communities and dealing with the social or environmental impacts of large infrastructure or mining projects.

In conclusion, these distinctions regarding areas and formats of social dialogue are important but are only part of the much broader political and collective action challenge of how to reach agreements, pursue continuous processes of policy reform in a number of areas and use a variety of mechanisms to promote broad citizen participation in reform and transformation projects, particularly in the current situation of development crisis that characterizes most countries of the region. In this framework, the role of leadership, not only at the national level but in all sectors, is crucial.

The institutional framework of the Latin American and Caribbean countries needs to incorporate new forms of participation, dialogue and consultation at the national, subnational and local levels. These spaces are crucial for improving governance processes and facilitating the necessary transformations.

In sum, the capabilities, processes and governance types needed to drive transformations, what have been called here the “hows” of economic development, constitute an area of knowledge relating to the transformation of development models that I believe has been underestimated and is not systematically addressed, let alone widely shared among the leaders of all sectors concerned with economic and social change and reform.

## VII. Final remarks

Latin America and the Caribbean is mired in three development traps: low growth, not only in the short term but also in the long term; high inequality and low social mobility; and low institutional capacity and ineffective governance when it comes to addressing development challenges. It is therefore no exaggeration to say that the region is in a development crisis.

Moreover, conditions in the world economy are not the most favourable. The characteristics of globalization and interdependence are shifting towards a new era dominated by geopolitics, a globalization decentralized into several poles of influence (polyglobalization) and a new set of rules for trade and investment. The challenge for the region is to successfully navigate this recast globalization process, understand it well in order to identify its risks and threats, seize the opportunities it opens up, and also develop regional positions to influence multilateral negotiations and thereby avoid unfavourable scenarios and strengthen the multilateral system.

This article has offered a reading of development challenges in the countries of the region centred around 10 areas of major gaps that to a greater or lesser extent are common to all the countries, adding up to a list of priority areas of action for public policy and collective transformation efforts.

However, saying what needs to be done in terms of pointing out gaps and setting targets and goals does not get us very far if there is no systematic conversation about how to get from the present situation to the desired scenarios. The question of “how” leads on to an analysis of the challenges of governance, institutional capabilities and spaces for social dialogue, not only as a way of envisioning the future, but also as change management tools, which are essential for each society to set its own course and develop effective collective action strategies for moving forward. These issues constitute an area of great importance in itself in the conversation about the challenges of regional development and the management of change. All the above adds up to an agenda of 11 great transformations that we present as a minimum list of priority issues for the region to address.

These themes provide the organizing principle for the contributions to this special issue of *CEPAL Review* on the occasion of the seventy-fifth anniversary of the institution.

Aspiring to create a new development consensus in the region may be an overly ambitious goal, but it is undoubtedly a desirable one, and it is in that spirit that we offer this special issue of *CEPAL Review*. With a long-term vision and strategy, with the real participation of all stakeholders and a competent State and institutions with the capacity to guide, mobilize and provide quality services, it is possible to move towards a more productive, inclusive and sustainable future in the region.

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