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Towards a more productive, inclusive and sustainable development model

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75 years Working for a productive, inclusive and sustainable future

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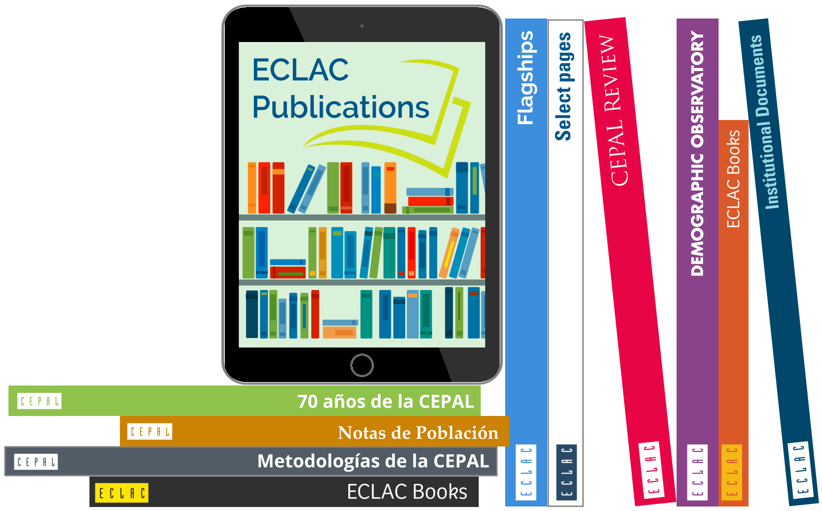

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Explanatory notes

The following symbols have been used in the tables in this publication:

… Three dots indicate that data are not available or are not separately reported.

— A dash indicates that the amount is nil or negligible.

A blank space indicates that the concept under consideration is not applicable or not comparable.

– A minus sign indicates a deficit or decrease, unless otherwise indicated.

. A full stop is used to indicate decimals.

/ A slash between years (e.g. 2022/2023) indicates a 12-month period falling between the two years.

- The use of an en dash between years (e.g. 2022–2023) indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" indicates metric tons and the world "dollars" refers to United States dollars, unless otherwise specified.

Individual figures and percentages in graphs and tables may not always add up to the corresponding total because of rounding.

Introduction

Special issue commemorating the seventy-fifth anniversary of the Economic Commission for Latin America and the Caribbean (ECLAC) and reflecting on the present and the future of the region

José Manuel Salazar-Xirinachs
Executive Secretary of ECLAC
Guest editor

The Economic Commission for Latin America and the Caribbean (ECLAC) celebrated its seventy-fifth anniversary on 25 February 2023. This date is symbolic not only for the institution but also for the region in view of the undeniable influence ECLAC has had in the regional conversation on regional and global development patterns, the challenges of economic and social development and, more recently, sustainable development, over the past three quarters of a century.

To mark this anniversary, and shortly after taking office as Executive Secretary of ECLAC, I convened a series of commemorative events and commissioned a number of editorial products, one of which is this special issue of *CEPAL Review*, which we are pleased to make available to readers today.

These initiatives and this special issue were born of the desire to commemorate these 75 years not only by celebrating the contributions of the past but, more importantly, by looking to the future of the region and the institution, and in particular at the question of how to transform development models to move towards a more productive, inclusive and sustainable future, as reflected in the slogan chosen for the anniversary.

Transforming development models is a matter of urgency, as the region finds itself in a development crisis formed by three mutually reinforcing traps: low growth; high inequality and low social mobility; and weak institutional and governance capacities.

The goal of moving towards a more productive, inclusive and sustainable future requires realistic and flexible strategies for navigating geopolitical rivalry and uncertainty, adapting to and leveraging the new rules and realities of globalization, and harnessing the potential of technological revolutions and innovative resource mobilization and financing opportunities in a world marked by higher borrowing costs in international markets, among other trends.

To ensure that the region's development challenges can be fully understood, we have organized them into a decalogue of structural gaps, as follows: (i) low, volatile, exclusionary and unsustainable economic growth with low formal job creation; (ii) high inequality and low social mobility and cohesion; (iii) significant social protection gaps; (iv) weak education and vocational training systems; (v) high gender inequality; (vi) environmentally unsustainable development and climate change; (vii) the digital divide; (viii) increasing intra-regional migration flows in quantity and diversity; (ix) insufficient regional economic integration; and (x) limited fiscal space and high financing costs.

This decalogue is a valuable diagnostic tool for a disaggregated analysis of the fundamental structural gaps in development patterns, but it is also a useful means of approaching "what" must be done, in other words, the way in which the major transformations required for the region's development models must be conceived.

However, identifying the "what" is not enough if there are no clear strategies on "how" to do it. How can the necessary transformations be managed? This question raises the issues of governance and institutional capacities and social dialogue to manage the transformations.

With these premises and conceptual goals in mind, in collaboration with the editorial team of *CEPAL Review*, we convened a group of distinguished researchers from ECLAC and other institutions to analyse the 10 gaps in regional development and to consider the question of the "how". The decalogue is, therefore, the principle around which this special issue is organized.

The issue begins with my article, "Rethinking, reimagining and transforming: the "whats" and the "hows" for moving towards a more productive, inclusive and sustainable development model", in which I present a comprehensive overview of the problems of development in Latin America and the Caribbean, with a summary characterization of each of the areas of the structural gaps of the decalogue, as well as the guidelines proposed to bring about the major productive transformation needed to move towards the more productive, inclusive and sustainable growth that the region requires.

This article is followed by one based on the Raúl Prebisch Lecture, "Globalization disrupted: Prebisch, trade imbalances and the future of the global economy", delivered by Rebeca Grynspan at ECLAC headquarters in Santiago on 30 October 2023. The paper analyses the course of the global economy since the 2008 crisis, marked by a slowdown in economic growth and export dynamism relative to the hyperglobalization of the 1990s and 2000s, and also discusses —under the concept of "polyglobalization"— geoeconomic and geopolitical changes as well as the new modalities of regionalization of production processes and the resurgence of industrial policies.

The issue continues with the article "Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies", which I co-authored with Marco Llinás, and which proposes the need for a major productive transformation based on the expansion of productive development policies, with six concrete guidelines to that end.

In his article, "Macroeconomic policies for investment and sustained and sustainable development", Daniel Titelman analyses the importance of strengthened capital formation processes in the region, particularly those related to the challenges ahead for the region in the face of climate change and environmental crises. In this context, the author highlights the complexities of these processes given the region's historical investment deficits.

Luz María de la Mora, in her article "The perpetual pursuit of integration in Latin America and the Caribbean", analyses the region's progress and setbacks in economic and trade integration and proposes some measures to take advantage of nearshoring and pave the way for greater integration.

In their article "Environment and sustainable development: contemporary challenges for ECLAC and Latin America and the Caribbean", Carlos de Miguel and Jeannette Sánchez present a set of stylized facts in relation to the state of the environment in the region and policy recommendations aimed at reconciling growth and environmental sustainability.

The article by Verónica Amarante, Nora Lustig and Andrea Vigorito, entitled "The challenge of income inequality in Latin America", is the first of the series of articles in this issue devoted to analysis of the social dimension of development. It presents the stylized facts of distributional inequality in the region and the ECLAC approach to the issue over its 75 years of existence.

This special issue of the *CEPAL Review* also addresses gender equality and care systems in the article "Gender equality and the care society", by Ana Güezmes García, Nicole Bidegain Ponte and Lucía Scuro.

Continuing with the social dimension of development, the title of the article presented by Alberto Arenas de Mesa, "Universal, comprehensive, sustainable and resilient social protection to eradicate poverty, reduce inequality and move towards inclusive social development", gives a clear indication of the region's shortcomings in the area of social protection systems and the policies to ensure their universality and sufficiency.

The issue closes with the articles "Improving education is crucial for inclusive and sustainable economic and social development", by Daniela Trucco, and "International migration in Latin America and the Caribbean: a development and rights perspective" by Simone Cecchini and Jorge Martínez Pizarro.

We hope that the diverse range of works in these pages will provide our readers with a broader and more up-to-date view of the region's challenges and how to overcome them in this new and difficult era of regional development and world history. This is in keeping with our commitment to contribute to reflection and action, consistent with the mission to serve Latin America and the Caribbean that ECLAC has embraced over the past 75 years.

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

José Manuel Salazar-Xirinachs

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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.

Keywords

Economic development, globalization, sustainable developemnt, 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.[1]

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.[2]

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.[3]

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

[1] Some of the decade's most influential texts were Prebisch (1949, 1950 and 1959), Furtado (1952 and 1958) and Sunkel (1958).

[2] 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.

[3] 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.[4]

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.[5]

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.[6] 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.[7]

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

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

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

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

7 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:[8] 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.[9]

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

[8] See, for example, Rodrik (1997) and Stiglitz (2003).

[9] 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.

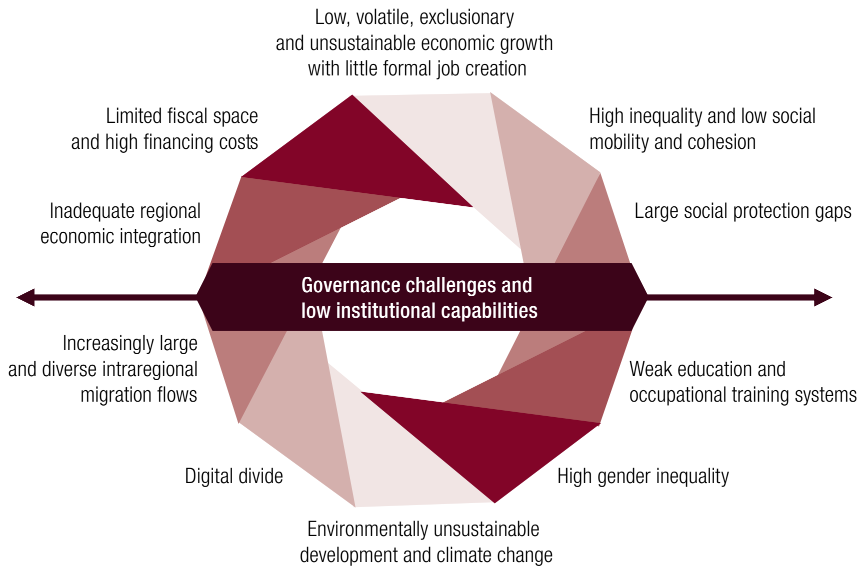
(iii) A low institutional capacity and ineffective governance trap. Here, ECLAC has emphasized that it is not enough to diagnose and describe what needs to be done to address the development challenges characterizing the countries in all their magnitude,[10] but that special attention must be paid to 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.

[10] 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.

Diagram 1
Ten structural gaps or challenges in development models



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.

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.[11] 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

[11] 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 Güezmes 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%.[12]

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

[12] 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.[13]

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.[14] 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

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

[14] 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.[15] 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.[16] 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).

[15] See Sanguinetti and others (2021), Rocha and Ruta (2022) and Mesquita (2018) for different perspectives on these new foundations.

[16] 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.

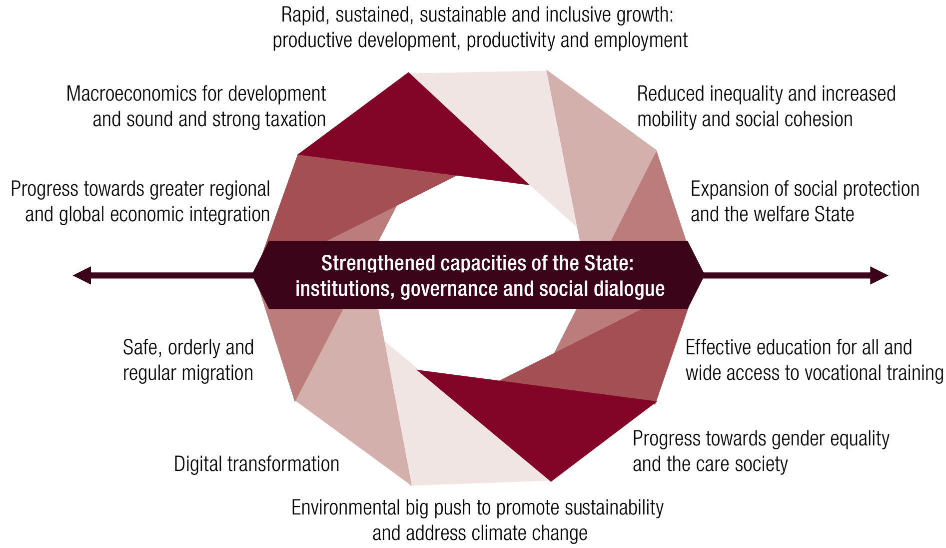
V. What should be done? The 11 great transformations needed to create a more productive, inclusive and sustainable future

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.[17]

[17] 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.

Diagram 2
Eleven great transformations in the development model



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.

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.

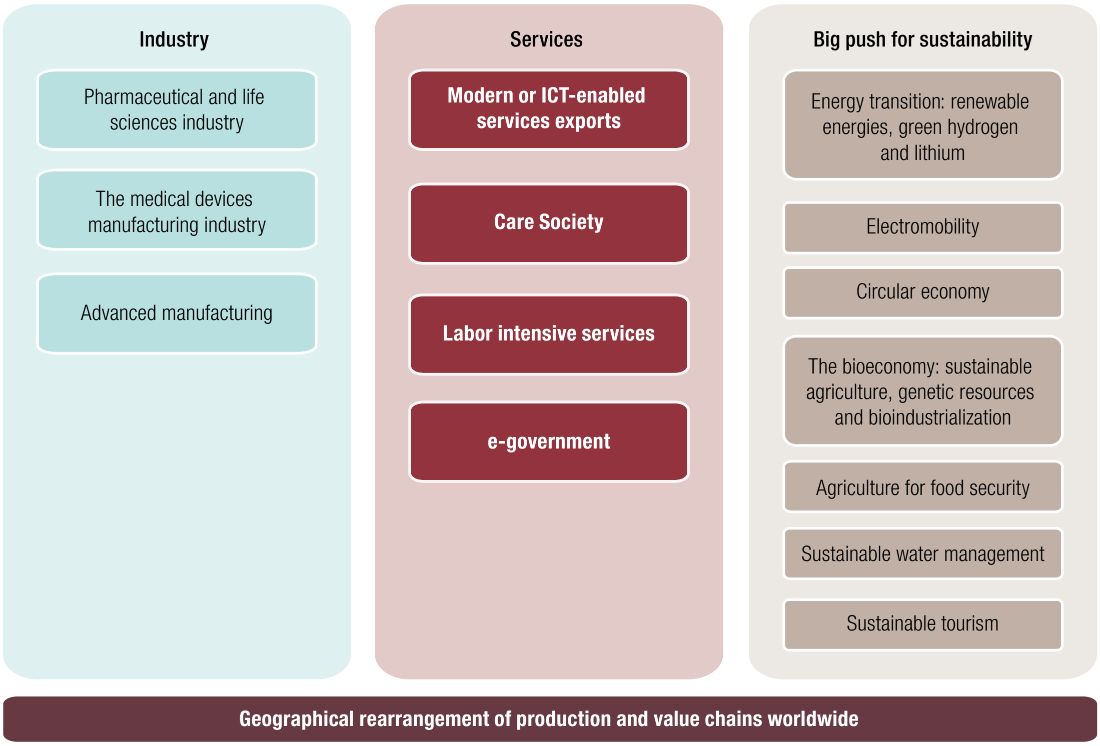
2. The pursuit of higher and more sustained, inclusive and sustainable growth as an example of integration between the "what" and the "how"

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.[18]

[18] 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;[19] 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.[20]

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.

[19] See, for example, ECLAC (2023b).

[20] 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	• Incorporate strategic planning with a medium- and long-term outlook into the policy process or cycle. • Generate comprehensive policies with cross-cutting approaches in key areas of development. • Create and manage comprehensive information systems to support policy management and implementation. • Evaluate policy impact and programme outcomes. • Make policy mandates more consistent with the capacity of public agencies. • Improve accountability to optimize the public service. • Generate a culture of continuous learning.
Operational (operating dimension of public management and administration)	• Use of modern public management tools for budgeting, planning, performance management and evaluation, and accountability procedures. • Mechanisms to assess productivity and ensure efficient and effective delivery of public goods and services. • Strengthened human resource policies to increase professional, technical and administrative capabilities for policy implementation. • Modern interfaces based on digital government for citizen interaction and services. • Effective public-public coordination arrangements. • Optimization of significant participation by the private sector and other stakeholders. • Mechanisms for the transparent and honest execution of public resources. • Measurement and follow-up of citizen satisfaction with public services and institutions.
Political	• Management of spaces for social dialogue between development actors for public policy formulation and implementation. • Public leadership that builds trust and enhances coordination and collaboration with civil society, the private sector and academia. • Collaboration and coordination between different levels of government. • Peer-to-peer collaboration at local, national, regional and international levels. • Consensus-building between and within communities, government, the private sector and civil society, among other stakeholders.
Prospective	• Anticipation and monitoring of global megatrends affecting regional development. • Participatory construction of desirable future development scenarios and their appropriation by development actors. • Support for the design and implementation of State public policies. • Rapid and effective institutional responses to crises, disruptions and unexpected high-impact events that disrupt development. • Culture of dialogue to anticipate and manage conflicts between development actors.

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[21]

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.

[21] 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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Globalization disrupted: Prebisch, trade imbalances and the future of the global economy[1]

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Abstract

This article presents an analysis of globalization since the 2008 global crisis. Amid sluggish growth and weakened global trade in goods relative to the hyperglobalization boom of the 1990s and 2000s, the international economy is undergoing a process not of deglobalization so much as polyglobalization, characterized by the rising decentralization of global economic governance, multipolarity, geoeconomics and the return of industrial policy. Recalling the legacy of Raúl Prebisch with respect to the critical role that industrial policy played in development success stories, exemplified by the Republic of Korea, I argue that successful industrial policy must both boost exports and strike a harmonious balance between autonomy and public-private integration in State-market relationships.

Keywords

Globalization, economic crisis, deindustrialization, international trade, multilateralism, Prebisch, Raúl, industrial policy, terms of trade, economic cooperation among developing countries

JEL classification

F61, F62, F64, F65

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I. Introduction

The United Nations Conference on Trade and Development (UNCTAD) and the Economic Commission for Latin America and the Caribbean (ECLAC) are sister institutions, because they have the same father: Raúl Prebisch. Among other things, ECLAC gives all the economists that spend time at the Commission a healthy and lifelong dose of heterodoxy, and that dose has immunized me against many of the excesses of public policy, which has been dominated by the Washington Consensus, the pursuit of increasingly mathematical economic models and blind faith in the free market.

The truth is that, as Edith Hamilton said, "the heterodoxy of one generation is the orthodoxy of the next" (Hamilton, 1930). Now that the reductionism of the Washington consensus has been recognized, the world has lived through the 2008 crisis, and the enormous setbacks caused by the coronavirus disease (COVID-19) pandemic have been witnessed, we are finally seeing a return of industrial policy in the West: heterodoxy is back in fashion. This is a call to ECLAC and UNCTAD and, of course, it links back to Raúl Prebisch. ECLAC celebrated its seventy-fifth anniversary in 2023 and UNCTAD will celebrate its sixtieth in 2024. It is an auspicious time to reflect on unanswered questions.

This is the main purpose of this article: to examine this generational change in economic thinking, reflecting a tectonic shift in globalization, which I describe as a transition from a period Rodrik has called "hyperglobalization" (Rodrik, 2011), to a period that I call "polyglobalization".

This article is divided into three sections, in addition to the Introduction. The first section addresses the issue of hyperglobalization; the second section presents some ideas on this period of possible emerging polyglobalization; the last section explores the legacy of Raúl Prebisch in the context of the work that ECLAC, UNCTAD and the entire United Nations system are called upon to perform in this new state of affairs.

It is crucial to keep in mind a particularly important piece of information: millions of people are suffering. Cascading economic crises, COVID-19, relentless climate disasters, war, geopolitics and unmanageable debt burdens are testing the very fabric of our global society. The shared agendas drawn up together in 2015, when we were convinced of our collective destiny and humanity, are in jeopardy. At the current rate, just 15% of the Sustainable Development Goals (SDGs) will be met by 2030 and poverty, hunger and gender equality indicators have all shown setbacks (United Nations, 2023a).

Foreign direct investment, which for so long was a driver of growth and development, has stalled since the 2008 crisis in the vast majority of developing countries. There is a US$ 4 billion financing gap for the SDGs in the global South, a gap that has only grown, as in 2015 it was estimated at US$ 2.5 billion (UNCTAD, 2023a). What is more, 3.3 billion people live in countries that spend more on interest payments than they do on health or education (UNCTAD, 2023b). We find ourselves in a situation in which the SDGs and the Paris Agreement appear very difficult to fulfil, and this is tremendously dangerous, because the SDGs are too important to not be achieved. The SDGs are much more than a set of Goals. They are our foundational common agenda in a world that is more polarized than ever, and in desperate need of solidarity, fraternity and multilateralism.

The suffering that surrounds us is a reminder of what happens if we lose sight of the long term, if we leave people behind, if we lose the ability to empathize. What we are seeing is a warning of how the world could look in 2030 if efforts to meet the SDGs fail. Therefore, the changes in the globalization model proposed herein do not represent a mere academic analysis. They are a hopeful endeavour to shape a vision and imagine how we can build a different paradigm before it is too late.

II. Hyperglobalization

There is no unanimous verdict on when hyperglobalization began or when it ended. However, there is no doubt that it reached a pinnacle in the two decades from 1990 to 2010. Those years were marked macroeconomically by three key positive factors: growth in foreign investment, growth in international trade, and growth in the use of information and communication technologies (Subramanian and Kessler, 2013; ITU, 2022). For Latin America, the first decade and a half of the twentieth century was a period of rapid growth, with poverty and inequality in decline thanks to the tailwind of the commodity supercycle. There are those who say that hyperglobalization did not end in 2010 with the financial crisis, but in 2016 with Brexit and the administration of President Donald Trump or even in 2020 with the COVID-19 pandemic (Subramanian, Kessler and Properzi, 2023). I tend to agree with the more recent date, but what is clear is that from 1980 to 2020 we can clearly see a bell curve with two tails, in the first and in the last decade.

So, what happened in those years? What is clear is that there was an abundance of growth and a huge reduction in poverty worldwide, but especially in China. From 1990 to 2010, extreme poverty in the world halved; nearly 800 million people, more than half of them in China, were lifted out of extreme poverty (Olinto and others, 2013). As a result, the Millennium Development Goal related to poverty reduction was achieved five years early. In addition, there was convergence between the global South and the global North.

However, beneath the surface, three negative factors expanded during the period. The first was inequality. According to Oxfam, the world's richest 1% received 54% of all wealth created in the 2010s (Oxfam, 2023).

The second factor was the premature deindustrialization of many countries. According to data from Rodrik (Rodrik, 2015), employment in manufacturing peaked in Brazil in 1986; in India in 2002; in Mexico in 1980; in Indonesia in 2001; in Ghana in 1978, and in Nigeria in 1982. The UNCTAD productive capacities index (PCI) shows the same at the global level: 20-year stagnation and an increase in commodity-dependent countries.[3] Currently, 76% of the least developed countries are commodity dependent (which is to say that they depend on commodities exports for more than 60% of their income) (UNCTAD, 2023c). Fifteen years ago, there were 15 fewer countries that were commodity dependent.

Deindustrialization has been particularly damaging because, as Prebisch rightly argued, there can be no development without industry. Here industry is of course used in the wider sense of the word. In the twenty-first century, given the importance of the digital economy and the growing robotization of "Industry 4.0", we cannot reduce industrial thinking to manufacturing alone. The evidence is overwhelming in this regard. With the exception of a few commodity-rich countries, especially Gulf States, almost no country in the world has escaped the middle-income trap without a strong manufacturing sector or productive diversification that enables a complex economic structure. One of the consequences of this premature deindustrialization was growth of the dual economies or productive heterogeneity that ECLAC and UNCTAD have analysed so frequently, which characterize a good part of the world's middle-income countries.

Such economies have, on one hand, a strong export sector, with large, formal companies that pay good wages. On the other hand, they have a local service economy, marked by informality, self-employment and low value added. In other words, there is more inequality, but this time at the very heart of the economic structure. As found by in-depth expert analysis of this period, the vulnerable middle classes emerged in particular from this second sector of the economy but then fell back into poverty during the COVID-19 pandemic (Messina and Silva, 2017; López-Calva and Lustig, 2011).

[3] See more data at [online] https://unctadstat.unctad.org/EN/Pci.html.

This brings us to the third negative factor of hyperglobalization: a lack of resilience in the international system. All was well with hyperglobalization for the duration of the commodity supercycle boom, which ended in 2015. Once the boom was over, vulnerabilities came into sharp focus. Since 2015, Latin America has been in another lost decade, as ECLAC has documented in detail (ECLAC, 2023a). As a result of the COVID-19 pandemic, the region was stripped of decades of social progress in just months and it became clear that the term “development” was being used for something that was not development at all, since per capita GDP concealed more than it revealed.

The lack of resilience is a consequence of several factors. The first is the lack of diversified economic structures in developing countries. The second is the trade dynamic that some call a “winner-takes-all market”: value chains are concentrated in a few industrial hubs with higher productivity and lower costs, especially in Asia (Gros, 2018). The third factor, which I consider pivotal, is the weakening of public capacities both nationally and internationally, and especially the weakening of the development finance system. Hyperglobalization led to the State’s withdrawal not only from what have traditionally been matters of public policy, but also from the development finance system and the Bretton Woods institutions.

For example, the World Bank’s contribution to development policy is now less than one-fifth of what it was in the 1960s (United Nations, 2023b). Likewise, the liquidity that the International Monetary Fund (IMF) makes available to developing countries in one year is equivalent to what the United States Federal Reserve System can print under a quantitative easing policy in just one month (Cachanosky and others, 2021; Georgieva, 2023). Despite the debt crisis of the 1980s, the world still does not have a multilateral debt restructuring system. Now it is needed urgently. As indicated in the United Nations report *A World of Debt* (UNCTAD, 2023b), 3.3 billion people live in countries that spend more on debt interest payments than on health or education. As argued in the ECLAC report *Public debt and development distress in Latin America and the Caribbean* (ECLAC, 2023b), this is not a debt crisis, it is a development crisis.

A lack of investment by multilateral banks, meagre private investment, rising capital costs and inadequate access to liquidity through IMF on the scale called for by external shocks have meant that, crisis after crisis, countries have only been able to resort to increasingly expensive credit, meaning that debt is taking up more and more fiscal space, resulting in less social investment, less investment in infrastructure and less investment in sustainable development.

Inequality, deindustrialization and fragility had far-sweeping repercussions for the world, first political and then geopolitical. Notably, the areas with the most votes for Trump and Brexit were the ones that suffered most from deindustrialization in the offshoring wave of the 1990s and 2000s (Inglehart and Norris, 2016).

As has been said, with good reason, the countries of the global South have felt acutely abandoned, owing to broken promises of climate finance, the lack of solidarity on vaccines during the COVID-19 pandemic and growing development investment gaps, which has led those countries to adopt more sceptical geopolitical stances. Moreover, given the growing inequality and a glaring lack of climate action during the period of hyperglobalization, the younger generations have become disillusioned. Lastly, increased trade tension has led to something of a deadlock in the multilateral system, above all in terms of trade, meaning that the World Trade Organization (WTO) has been without an Appellate Body since late 2019.

I believe Jake Sullivan, National Security Advisor to President Biden, captured this new zeitgeist well, when in April 2023 he gave a presentation to the Brookings Institution on the United States’ new industrial strategy, in which he began by thanking the audience for indulging a National Security Advisor to discuss economics. In his speech, Sullivan said that the assumption was that trade-enabled growth would be inclusive growth —that the gains of trade would be broadly shared within nations— but that in reality those gains had failed to reach a lot of working people (Sullivan, 2023).

There is no unanimous verdict on when hyperglobalization ended. The speech by Sullivan is worth highlighting, as it was the first time a policymaker had distinguished, at a high-profile event, the key difference between the old globalization and the new globalization: the subordination of trade to geopolitical interests, rather than purely economic interests.

In any case, the question is now what is going to happen to this period. The second part of this analysis, which follows, examines the rise of what I call possible polyglobalization.

III. Polyglobalization

The fact is that the word is in a transition period, and the problem with transitions is that it is easy to lose oneself in them, because, as Gramsci said, the old world is dying, and the new world is struggling to be born.

There appears to be a fork in the road ahead. One way leads to total trade disconnection (or decoupling, as some call it in reference to trade with China), which IMF and WTO estimate would lead to a drop in global GDP of 5% to 7%, equivalent to the impact of two COVID-19 pandemics (Georgieva and Okonjo-Iweala, 2023) and the other way leads to risk reduction strategies (derisking), with diversification of value chains to find new trading partners —in an attempt to remedy the excesses of hyperglobalization— and bring variety in terms of suppliers and markets through reshoring and nearshoring; in this respect, it is important to bear in mind that 85% of battery refining and 50% of lithium, cobalt and graphite processing takes place in China (IEA, 2022). Regionalism is being revived and there is renewed protectionism in some sectors (a small yard and high fence, as Sullivan says in his speech) (Sullivan, 2023).

The pendulum has clearly swung the other way, and the world is facing a different form of globalization; the question is whether, in addition to being different, globalization is also diminished. Some signs suggest the world is deglobalizing, such as international trade growing more slowly than the global economy and the slowdown in trade since the 2008 crisis (Subramanian, Kessler and Properzi, 2023). However, while there have been declines in trade in goods, trade in services has proved to be more resilient, and digital trade is continuing to grow, a process some have called the "dematerialization" of trade.

Three key factors are apparent in this respect.

The first factor is that the world is facing more decentralized globalization. There is a shift from a system dominated by a few global powers to a network of regional hubs, large "continental" economies of the South, and the rise of various plurinational forums. The result is that more policy is shaped in the Group of Seven (G7), the Group of 20 (G20) and BRICS (Brazil, Russian Federation, India, China and South Africa) than in multilateral forums. Consequently, fewer treaties are passing through WTO, and more treaties are being drafted at the regional level, be it the Agreement Establishing the African Continental Free Trade Area (AfCFTA), the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or the efforts of the Southern Common Market (MERCOSUR) to reach a treaty with the European Union. In turn, this means that the World Bank is playing a less prominent role, but also that regional banks such as the Development Bank of Latin America and the Caribbean (CAF), the African Development Bank (AfDB) or the BRICS New Development Bank are looking to fill the newly empty spaces. As will be addressed later, the world is facing multilateralism that is competitive, not universal.

The second factor, which stems from the first, is multipolarity and geoeconomics. At the turn of the millennium, the question was posed of whether multipolarity would make the world more multilateral. It remains unanswered, but what is clear is that major political poles are emerging in Asia, Africa, Europe, the Arab world and, to a lesser extent, Latin America.

Thus far, however, the geopolitics of multipolarity is leaving no free space. For example, the United Nations has for years strived to ensure that humanitarianism does not depend on political or geopolitical interests, but on humanitarian law itself. The same has been said about international cooperation. Multilateralism should include independent spaces, but today it seems that everything (technology, international relations, humanitarian issues, cooperation and trade) is in thrall to geopolitics. Blocs are not only competing economically and militarily, they also have different worldviews. This is another aspect of multipolarity, and one that is central to discussion of ethical issues: the end of the single political and cultural development model, the demise of the idea from the end of history that liberal democracy was a logical continuation of the market economy. As I have been saying for some years now, the market has done much better than democracy has.

Some describe this change as a dichotomy of democracy versus autocracy. This is an overly simplistic reading. The correct word is not "split", but rather "fragmentation". Even in democracies, in this context of polarization, a significant fragmentation of values is occurring. This, in turn, is leading to fluidity and volatility of international alliances.

The consequence for trade of this clash between poles is an intention to move value chains to "allied" or "friendly" countries (friend-shoring). It remains to be seen how much of this intention will become action, as many countries in the global South are not interested in this new perspective. When it comes to choosing poles, what many countries are looking for, after so many broken promises, is results.

This is something the Brookings Institution has called "competitive multilateralism" (Jones, Feltman and Moreland, 2019), whereby poles compete to see who delivers the best results. Examples of this can already be seen, with China's Belt and Road Initiative, the European Union's Global Gateway[4] and President Biden's Build Back Better World (B3W) Partnership,[5] among others. But there is an alternative reality, one of the dualism of good against bad that extends to peoples, that feeds into racism, that punishes the "other", those who are different, and offers no moral alternative.

The third factor of polyglobalization is the return of industrial policy, which is the factor with the strongest link back to Prebisch. In his speech, Sullivan sought to justify two major Biden industrial policies, those stemming from the Inflation Reduction Act[6] and the CHIPS and Science Act.[7] The first is a programme to promote renewable energies, based largely on extremely generous subsidies, which has sparked complaints from some countries, especially in Europe. The second is an industrial policy programme, but of a more protectionist nature, based on sanctions against the semiconductor sectors of some countries, especially targeting China.

Such policies are mirrored by similar programmes in the rest of the world, such as the NextGenerationEU[8] Funds in the European Union and Vision 2030 in Saudi Arabia. China, Japan and the Republic of Korea —which have never shied away from industrial policy— have doubled down on their programmes, focusing on semiconductors and renewable energies. In Africa, political leaders are openly talking about the Agreement Establishing AfCFTA as a vehicle for reindustrialization of the continent. Indonesia, to promote diversification away from commodities, enacted a law to restrict exports of nickel ore in 2019. In Latin America, countries such as Argentina, Chile, Peru and the Plurinational State of Bolivia are seeking to establish similar policies to foster a local lithium industry.

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4 The European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy have set out the Global Gateway, a new European strategy to boost smart, clean and secure links in digital, energy and transport sectors and to strengthen health, education and research systems across the world.

5 A G7 initiative launched in June 2021 for infrastructure development in low- and middle-income countries.

6 Signed into law by President Biden in August 2022, this Act provides for a set of public subsidies to stimulate environmentally sustainable consumption, production and investment.

7 Signed into law by President Biden in August 2022, this Act provides for United States investment in semiconductor manufacturing, research and development and workforces.

8 COVID-19 pandemic recovery plan.

The irony is that very little of this would be possible if WTO had a functioning Appellate Body. This highlights the ambiguity of the new system. The world does not have a trade framework that is suited to a context in which all poles are setting industrial policy; this, in the long term, could be dangerous, especially for small countries, which depend on a rules-based international trading system. Chile or Costa Rica are unlikely to find a successful strategy while the major poles, especially the major industrial powers, are fighting a subsidy war. Nonetheless, industrial policy, if used well, can be very beneficial at the national and international levels when based on multilateral agreements.

At the national level, there is the potential to close the economic gaps opened up by hyperglobalization, reverse deindustrialization and promote diversification and productive transformation in the countries of the South. Africa, for example, has 48% of cobalt and manganese reserves, 80% of rock phosphate and 92% of platinum-group metals (UNCTAD, 2023d). The energy transition can be a great opportunity for diversification.

This was the premise of the General Agreement on Tariffs and Trade (GATT), one of the great legacies of Prebisch's thinking. Devising a different kind of trade —one that is more conducive to productive transformation of the countries of the South, more oriented to energy transition and development— is valuable, but we must not throw the baby out with the bathwater. It must be done in a multilateral, negotiated, transparent and fair way. Unilateral measures, led by polarizing geopolitics, will have a domino effect, making the world worse for everyone.

Another important issue relating to production diversification is what will happen with digitalization. In fact, the key transformation of value chains in recent years has been the increase in their intangibility. Trade in goods fell in 2022 in volume terms; trade in services grew. Within services, what is growing the most is trade in intellectual property and above all data. All this is being driven, of course, by growth in the digital economy. But, as is widely known, the trading system already had a huge regulatory vacuum in the digital area. The question now is how industrial policy will affect all of this. India has shown that industrial policy can promote digitalization-driven development. Those who believe that industrial policy in the twenty-first century is a manufacturing-only issue are mistaken.

This article will not examine this subject in detail, but artificial intelligence will bring major challenges in a polyglobalized world. The main challenge is posing the most fundamental question of all: how do we know what is true or what is real? With the rise of artificial intelligence, "fake news" is less important: now there are "fake photos", "fake videos" and "fake voicemails", which hide falsehoods in almost exact copies of reality. The world is facing this question at a time when information abounds, but truth is elusive. We have witnessed the repercussions: disinformation campaigns that affect democratic processes, fuel wars and conflicts, and undermine public health work. The integrity of institutions, trust in governments and international organizations, and social cohesion of communities are all at stake. The answer to this question is not technological: it is ethical. When we abandon our ethics, we abandon our humanity, and nothing can guide us to a better place.

IV. Prebisch's legacy and the role of the United Nations

The starting point of this section is an incontrovertible truth: Prebisch was right.

Looking at which countries achieved higher levels of development over the last 70 years, there is no doubt that the clear winners were those that were able to implement good industrial strategy policies.

The Republic of Korea is perhaps the quintessential example of a country that conscientiously followed Prebisch and succeeded. However, this must be qualified. The Republic of Korea's policy was one of industrialization with a view to trade. It was an open industrial policy, looking outward to world trade rather than turning its back on it. The Korean case is also a reminder that the fundamental question with regard to industrial policy is how best to implement it. The Republic of Korea —and to a greater extent China— demonstrated that industrial policy is, above all, an exercise in trial and error, a willingness to innovate through different methods. Asia did not draw up economic models on a blackboard and then see if they worked; Asia started on the ground, let what failed come to natural end and replicated what succeeded. That is why good industrial policy must be accompanied by an industrial, strategic and innovative culture. Mariana Mazzucato has written extensively about this and delivered a Prebisch lecture a few years ago (Mazzucato and Rodrik, 2023).

A considerable body of literature has been produced in recent years on how to prevent State capture, something that Latin America has certainly suffered, and which the Republic of Korea was able to solve by disciplining its large business conglomerates (chaebol) —its private sector giants— through what Peter Evans called embedded autonomy (Evans, 1995), which is to say a system in which the private sector and the public sector work together closely, but each with autonomy. Evans' argument is that in the public-private relationship of industrial policy there are two variables: autonomy and embeddedness. These, in turn, lead to four possibilities: low autonomy and low embeddedness (predatory States), low autonomy and high embeddedness (client States), high autonomy and low embeddedness (Weberian regulatory States (European Union)), and high autonomy and high embeddedness (developmental State (Republic of Korea)). It is important to revisit this literature and look at it with fresh eyes. Juhász, Lane, and Rodrik published a study in August 2023, *The New Economics of Industrial Policy*, which contains an anthological review of recent industrial policy literature (Juhász, Lane, and Rodrik, 2023).

In other areas, Prebisch's legacy has proved even more incontrovertible. Dependence on commodities is a clear case in point. Policies such as those implemented by Indonesia with respect to nickel or those that are beginning to be pursued in the Southern Cone with respect to lithium are clearly Prebischian.

However, there are things that Prebisch was not able to foresee.

The main thing, perhaps, is the emergence of "centres" within the periphery. The case of China may be the most obvious. Prebisch believed that the industrialized countries would never want to lose the advantage that their manufacturing power gave them. The main consequence of what has happened is that the theory of asymmetric interdependence now goes both ways. It could be said that there are advanced countries that depend on countries like China more than China depends on them. The German automotive industry is a clear example of this.

In the world of polyglobalization, what we are witnessing is a multiplicity of centres and peripheries. Countries such as China or India do not exactly fit the characteristics of the centre that Prebisch described, and instead possess a singular blend of centre and periphery characteristics, a hybrid that defies the traditional dynamic. This has significant implications, given multilateral negotiations both within the United Nations and outside it, in forums such as G20 and WTO, because these new centres are clearly post-colonial, and their natural affinities are with the global South. India's role in bringing the African Union into G20 is one example.

In any case, there is no doubt that even within the multiple centres, there will also be dynamics typical of the periphery. This has started to appear in economic data. The latest edition of the *Trade and Development Report*, (UNCTAD, 2023e) describes economic growth in 2023 as being marked by double divergence: divergence in the global North —between Europe and the United States, with the former in recession and the latter in a "soft landing"— and divergence in the global South —the BRICS countries are growing rapidly and the other countries are developing, while the frontier economies face major challenges, in particular debt. Frontier economies lie between large emerging markets and least developed countries, which in most cases are small middle-income countries such as Viet Nam, Senegal or Ghana (UNCTAD, 2023e).

Another Prebisch hypothesis that is important to revisit is that of deteriorating terms of trade, the famous Prebisch-Singer hypothesis, and particularly its relevance to the new digital and data economy. Specifically, in the modern economy, data are comparable to a raw natural resource. Data are extracted in vast quantities, often at little or no cost to the companies that collect them. However, like natural resources, data requires processing (through analytics and machine learning, for example) to produce something useful, such as actionable information or artificial intelligence products.

This was explained in the *Digital Economy Report 2021*, the most recent UNCTAD report on the digital economy. Just two countries, China and the United States, account for 50% of the world's hyperscale data centres, 94% of all startup capital for artificial intelligence, 70% of the world's top artificial intelligence researchers, and almost 90% of the market capitalization of the world's largest digital platforms (Amazon, Alphabet, Google, Alibaba and Tencent) (UNCTAD, 2021). This unequal transfer of value can perpetuate a cycle of dependence, a situation that has clear echoes of the deterioration of the terms of trade in the traditional commodity trade.

An important omission by Prebisch that must be taken into account is the absence of a gender perspective in his analysis, something very typical of his time. ECLAC has made an enormous contribution by demonstrating how trade can accentuate inequalities through various channels: the labour market, concentration of production, overrepresentation of women in precarious and low value-added sectors, increasingly unfair distribution of unpaid care work in societies, and the wage gap to the detriment of women. That is why it is crucial to establish and pursue initiatives to analyse and take action on the differential impact of international trade on women. At the Eleventh Ministerial Conference of the World Trade Organization, held in Buenos Aires in December 2017, the Joint Declaration on Trade and Women's Economic Empowerment was adopted, signed by 117 countries.[9] A similar initiative was pursued by Chile and Uruguay in 2016.[10] The Declaration has gained increasing support from countries, in the European Parliament and at the regional level and, over the course of the years, more and more gender provisions are appearing in regional trade agreements. The main proponents in this area have been the European Union, Chile and Canada.

Lastly, from Prebisch's legacy, I would like to call to mind the original idea that led to the creation of the two institutions, UNCTAD and ECLAC: the firm belief in multilateral and regional cooperation as a vital tool for economic development, social justice and reducing tension between developed and developing countries.

Prebisch's vision was not of simply assessing the problems inherent in global economic structures, but also of encouraging collective action to address those inequalities. He understood that peripheral economies faced challenges not only with respect to the terms of trade, but also with respect to their ability to influence policies and decisions that affected their future. Multilateral cooperation, in this regard, entails giving a voice to countries that have historically been marginalized in global decision-making. UNCTAD and ECLAC, over their long histories, have done much to give countries that voice, closing the gap and providing fair solutions for the world.

But the biggest task is just beginning. We are being called to shoulder three major tasks.

The first is to bring order to chaos. UNCTAD and ECLAC are heterodox institutions, but still institutions. It is important that they continue to function as such. Their conferences must bring stakeholders together. The spaces they offer must not vanish. They must not lose people's trust in their research. This is increasingly difficult in polyglobalization. Some poles will want UNCTAD and ECLAC to say one thing, others will want them to be silent. Maintaining fairness, transparency and trust is a growing challenge, but also an increasingly important one.

9 See [online] https://www.wto.org/english/thewto_e/minist_e/mc11_e/mc11_e.htm.

10 See [online] https://conexionintal.iadb.org/2017/09/01/analisis-del-tlc-chile-uruguay/?lang=en.

Another important aspect in this regard is mitigating the collateral damage of value chain disruption, an issue that UNCTAD has specifically addressed. One example is the disruption of the Black Sea grain trade, in response to which work was done on the Black Sea Initiative and the United Nations memorandum with the Russian Federation.

The second task is to research emerging phenomena. Many unprecedented things are happening in the world, and UNCTAD and ECLAC must be in the vanguard. When the war in Ukraine began, for example, a rapid assessment was performed at UNCTAD in just three weeks of the effects of the war on food and energy value chains (UNCTAD, 2022). Similar research is being done on the impact of advanced countries' climate regulation on the least developed countries.

The third task is to actively promote South-South cooperation and regional integration, to better adapt to and take advantage of polyglobalization. As a pole, Latin America is perhaps the least cohesive of all regions. This is partly a reflection of the lack of integration, an undertaking our generation has yet to complete and which it is vital to resume with determination. If Latin America does not unite today, it will not know how to dance with elephants tomorrow.

In short, we are in a transition period, a swing of the pendulum in terms of the extent of globalization. Polyglobalization may promise convergence between diversity and unity, a path to a more uncertain but possibly also more inclusive future. But this transition is not without risk. We face resistance from old structures, inertia of obsolete practices and, most critically, the real risk of not understanding each other. Not only are we witnessing a disheartening increase in human conflict, the spectre of a new world war has also emerged, and the 2030 Agenda for Sustainable Development, the only common agenda we have left, is on the wrong path.

Therefore, I call on all of you to be part of this transition. To contribute from the front line, to build bridges, to listen and learn from the diversity that surrounds us. Polyglobalization with multilateralism is an invitation to expand our horizons and to empathize and collaborate. It is a more complex, but richer version of the global village. As I like to say: in complex times, only complexity can save us.

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Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies

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Abstract

Latin America and the Caribbean have a structural low-growth problem, which is explained largely by the fact that productivity has not increased, and has even declined, in recent decades. Although productivity growth will require continuous development of a medium- and long-term agenda aimed at improving "fundamentals", this article proposes a new complementary strategy for growth, transformation of the production structure and employment for the region, based on a deepening of its productive development policies and improving their implementation. To this end, six guidelines are proposed that include governance, among other elements; and special emphasis is placed on the "how", in other words how to successfully implement policies of this type.

Keywords

Economic growth, economic development, development policy, ECLAC, development strategies, industrialization, employment, productivity, competitiveness, governance, decentralization in government, regional development, Latin America and the Caribbean

JEL classification

O25, L52, N16

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I. Introduction

Latin America and the Caribbean face challenges in multiple dimensions of development. These include high levels of poverty, informality and inequality (including gender inequality), weak capacity to generate quality jobs, the poor quality of education and other deficits in this area, and shortcomings in social protection and health. These are compounded by the region's vulnerability to the effects of climate change, the need to foster a more sustainable pattern of development, and deficiencies in institutional quality and governance.

In addition to the aforementioned challenges, one of the most important pending tasks for countries in the region is to overcome the low, mediocre and volatile growth syndrome that characterizes them. This article argues that it would be easier and more viable to overcome the other challenges if the countries were to achieve higher, sustained, inclusive and sustainable growth, particularly by increasing their productivity —because, as Paul Krugman (1997, p. 9) stated, "Productivity is not everything, but in the long term, it's almost everything." Unfortunately, in the last 15 years, total factor productivity in Latin America has been declining, and this is what largely explains the mediocre economic growth that the region has recorded over the last 10 years.

The article notes specifically that one of the keys (possibly the main one) to fostering higher, sustained, inclusive and sustainable growth lies in productive development policies, and in their deepening and better implementation.

In addition to this brief introduction, the article is organized in four sections. Section II makes a diagnostic assessment of the low rate of economic growth in Latin America and the Caribbean and its causes. Then, after reviewing some of the contributions made by the Economic Commission for Latin America and the Caribbean (ECLAC) in the areas of structural change, technological development and industrial policy, section III presents a new proposal by the Commission on productive development policies to build a more productive, inclusive and sustainable future in the countries of the region. Section IV contains an analysis of how to achieve this, proposing six guidelines for action in the area of productive development policies. Lastly, section V offers final thoughts.

II. The low-growth syndrome or trap in Latin America and the Caribbean

1. The region's growth deficit

For years, the region has maintained low rates of economic growth, both relative to other periods in history and compared to the rest of the world. Beyond the cascade of successive crises that have occurred in recent years, this trend represents the region's true crisis —and its most tragic and far-reaching one.

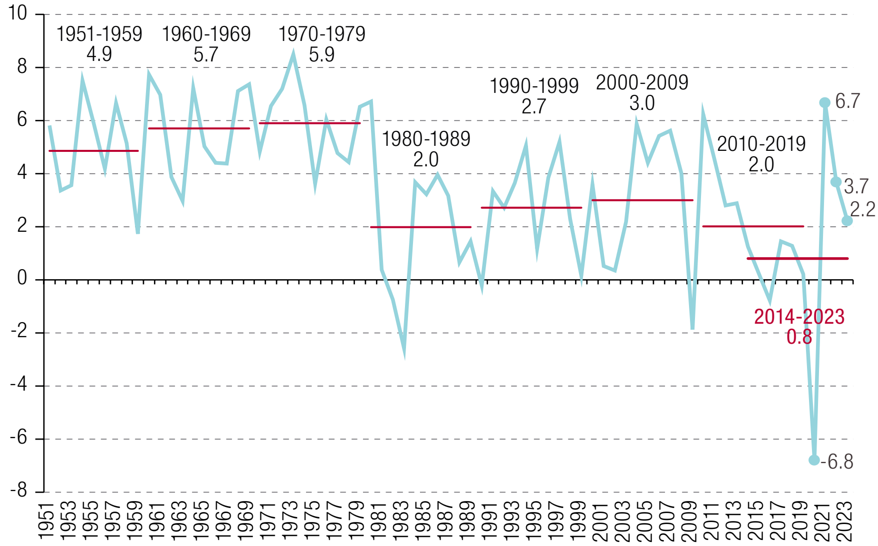
The figures speak for themselves, and the empirical data can be analysed in two different ways. Firstly, between 2014 and 2023 the region grew by an average of just 0.8% per year (see figure 1). This is even below the 2% rate achieved during the infamous lost decade of the 1980s, and is just one-fifth of the average growth rate recorded in the 30 years spanning 1950 and 1979.

Secondly, estimation of the region's economic growth trend over the same period shows that the average for the almost three decades from 1951 to 1979 was 5.5% per year, while in the following three decades, from 1980 to 2009, the average dropped by half to 2.7% per year (see figure 2). In the 15 years since 2010, the regional growth rate declined further to just 1.6% per year.

Figure 1

Latin America and the Caribbean: GDP growth rate, annual and average per decade, 1951–2023

(Percentages)

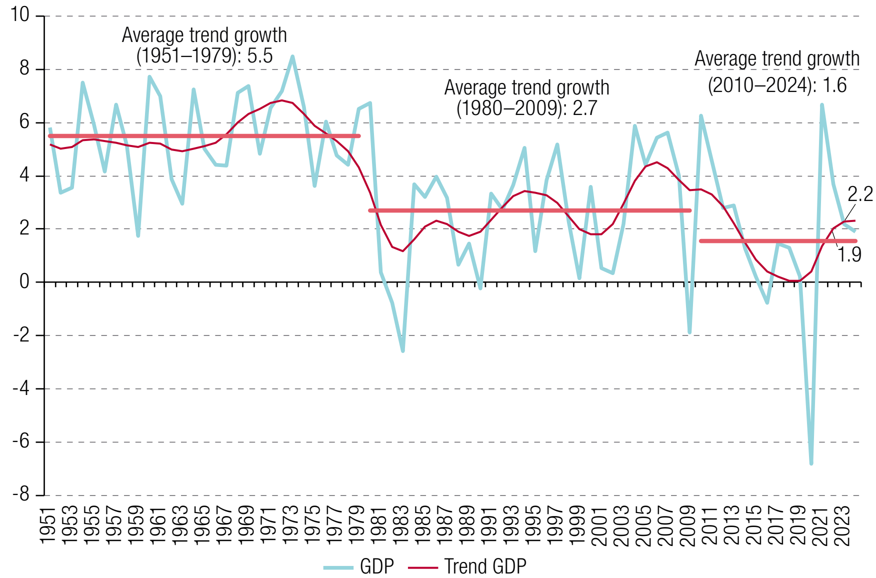


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure 2

Latin America and the Caribbean: growth in GDP and trend GDP, 1951–2024

(Percentages on the basis of constant dollars at 2018 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: The Hodrick-Prescott filter was used to calculate trend GDP.

The annual growth rates displayed in the two figures confirm the well-known fact that growth in the region is highly volatile —even at the aggregate level— and more so when each country is analysed separately. The countries of the region clearly have ever less capacity to grow at high and sustained rates.

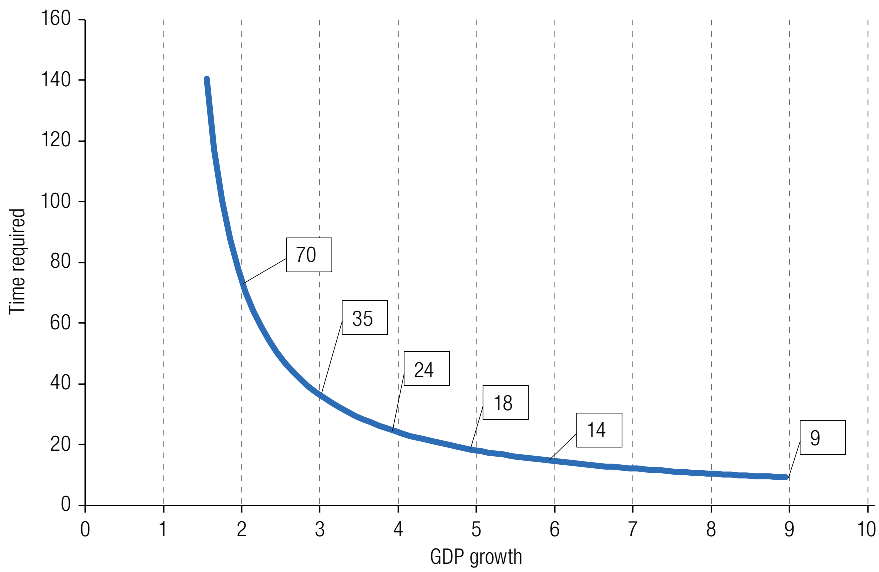
Of course, growth per se is not the ultimate objective. What is needed is inclusive growth, in other words growth that reduces levels of poverty and informality and generates good jobs and an environment that is more conducive to reducing inequality. Growth must also be green and sustainable, respectful of nature and the planet.

An essential condition for the region to adopt a more inclusive and sustainable pattern of development is that it achieves a higher and more sustained growth rate. This is crucial, because the major structural transformations needed to change this pattern of development —the transition to renewable energies, electromobility, the circular economy, the care society and more dynamic growth-driving sectors, among others— require new investments, new and more environmentally friendly technologies, new technological ecosystems, new enterprises (or the growth of existing ones), new workforce skills and new infrastructure. If the region invests sufficiently to have access to all of these elements, the result will necessarily be growth that is not only sustainable and inclusive, but also faster and more sustained, diversified and technologically sophisticated.

The need to attain a high and sustained growth rate to achieve sustainability and inclusion can also be considered from the opposite standpoint: underlying the 0.8% growth rate that the region has recorded over the last decade, from 2014 to 2023, there are no rapid or deep transformation and modernization processes aimed at sustainability and inclusion, aside from exceptions that do not alter the aggregate figures. There are more vicious circles than virtuous ones. The objective of the productive development policies described below in this article is to reverse this equation. The aim is to energize a reality in which transformations occur very slowly —to transform in order to grow and grow in order to change.

Simple arithmetic shows that, assuming a GDP growth rate of 1%, the region would take more than 140 years to double its per capita GDP; with a 2% growth rate it would take 70 years, and with a 4% growth rate its per capita GDP would double every 24 years (see figure 3).

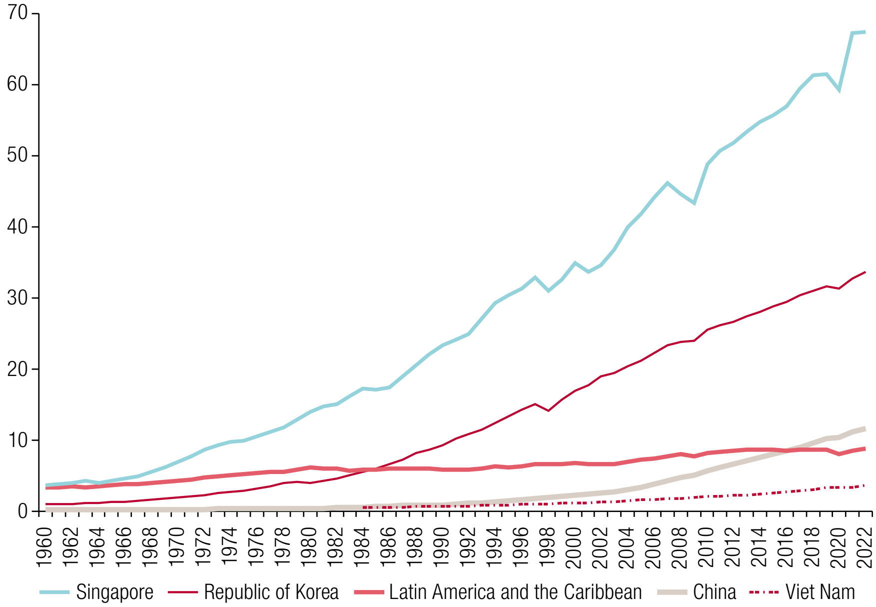
Figure 3
Time required to double per capita gross domestic product as a function of the GDP growth rate
(Years and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
Note: The calculation assumes a population growth rate of 1% per year.

Growing at a rate of 4% or more on a sustained basis is not impossible; other countries have achieved this. For example, the Republic of Korea grew at over 7% per year for 40 years, from 1961 to 2000, increasing its per capita GDP by 17 times, from US$ 1,000 to US$ 17,000. Singapore and Taiwan Province of China report similar figures. China grew at a rate of 8.5% on average in the nearly four decades spanning 1981–2019, and increased its per capita GDP by 22 times, from just US$ 447 to US$ 10,156. More modestly, but equally impressively, Viet Nam grew at a rate of almost 5.0% in those same years, and increased its GDP per capita from US$ 500 to US$ 3,300 (see figure 4).

Figure 4
Latin America and the Caribbean and selected countries: per capita GDP, 1960–2022
(Thousands of constant dollars at 2015 prices)



Source: World Bank, "GDP per capita (constant 2015 US$)" [online] https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.

There is no equivalent of these "Asian tigers" in Latin America and the Caribbean. Although the region's per capita GDP in 1960 was higher than those of the aforementioned countries, by 1990 it had only managed to raise it to US$ 6,000 and, today, 30 years later, it amounts to US$ 8,500.[2] This represents growth of just 1.2% per year; and the reality is that per capita GDP has contracted by 0.1% per year since 2014, reflecting a decade of impoverishment.

2. Reasons for sluggish growth according to economic growth theory

Multiple causes underlie the region's sluggish growth. Although an exhaustive analysis is beyond the scope of this article, it is worth reviewing some of the reasons briefly, starting with the four factors considered by basic growth theory: land, labour, capital and productivity.[3]

Land —particularly its distribution and efficient use— is one of the basic factors driving production and growth. A country's pattern of land use will determine whether its growth rate is sustainable. This first factor was the main driver of growth in the commodity export model. As countries develop, and manufacturing and services grow, the relative importance of land declines; but it remains a key element in a country's development pattern, since it influences the geographical or territorial distribution of economic activities. Moreover, some authors have suggested that reforms related to the ownership and use of land contributed fundamentally to the successful industrialization and development process in some countries.[4]

[2] According to the World Bank, in 1960 per capita GDP in Latin America and the Caribbean was US$3,295 (measured in constant dollars at 2015 prices). This was more than three times the per capita GDP of the Republic of Korea in the same year and about 13 times that of China.

[3] See Solow (1956) and Swan (1956).

[4] See Studwell (2014).

In several of the region's countries, and at different stages of their development, rural populations faced serious problems in gaining access to land, which led to a rapid expulsion of the population from rural areas. Today, many countries have very low productivity in rural zones, except for those that have developed modern commercial export agriculture, such as Argentina and Brazil.[5] Although the agriculture sector only accounted for about 5.6% of total regional GDP in 2021, it still generates more than 14% of total employment in the region. Improving productivity in this sector could therefore have a significant impact on structural change. However, as will be discussed below, increasing productivity goes far beyond improving the distribution of land as a factor of production.

The second factor of production is capital, which represents the accumulated stock of both public and private physical investment. Public investment includes roads, bridges, ports, electricity generation and distribution, drinking and wastewater management and also, in the twenty-first century, broadband Internet connectivity. All of this public-good infrastructure is a key ingredient for economic growth.

By contrast, private investment is the investment made by firms of all sizes in building infrastructure and acquiring machinery and technology for the production process. Maintaining a high level of private investment requires confidence in the country's institutional and legal mechanisms; that the regulatory environment is stable and minimizes bureaucratic procedures related to the incorporation of businesses and investment projects (particularly micro-, small and medium-sized enterprises); that financial capital and human talent are readily available; and that the public system attracts investment and collaborates with investors in the establishment of enterprises, always seeking to uphold the highest labour and environmental standards. The region has ample room for progress on all these issues, and the public sector plays a key role in attracting investment and consolidating dynamic business networks that contribute through innovation and technological development.

It is important to remember that private and public investment are not mutually independent, but complementary. If the level and quality of public investment are insufficient, the level and quality of private investment will not be sufficient either. For example, without logistics facilities, crops cannot be harvested; without good ports, specialized by type of product, it is impossible to import or export efficiently; and without digital connectivity, firms cannot compete in the technological world of the twenty-first century, nor can they export modern services.

For the past 20 years, Latin America and the Caribbean has unfortunately been the region of the world with the lowest rates of investment (see figure 5). This is one of the main reasons for the region's low rates of economic and productivity growth.

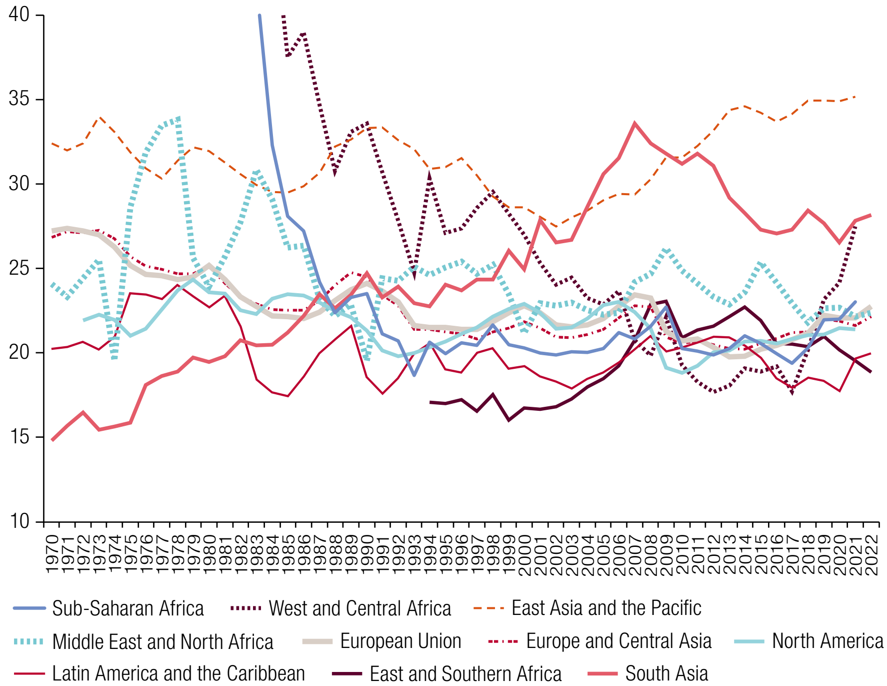
The third factor is labour, or human talent as it tends to be referred to today. In the 1950s, 1960s and 1970s, the accumulation of human talent explained much of the growth achieved by Latin American and Caribbean countries, owing to a high birth rate and a major expansion of primary and secondary education. The quantity and quality of talent increased, resulting in higher levels of economic growth, social mobility and expansion of the middle class.

By the end of the current decade, however, the demographic dividend is expected to end in all countries of the region, which will mean a decreasing flow of young people into the labour market. Rapid population ageing also contributes to slower growth of the labour force (ECLAC, 2022b, pp. 14–15). This is compounded by the deterioration of education systems. In most Latin American and Caribbean countries, the secondary school dropout rate is very high: on average, only 41.4% of the region's labour

[5] Given that agriculture is the main economic activity in rural areas, rural productivity is largely determined by the productivity of the agriculture sector; and, of the nine major sectors of economic activity, it is specifically this sector that has shown the lowest level of labour productivity in Latin America and the Caribbean since 1980. In 2014, the agriculture sector (including fishing, forestry and floriculture) accounted for 31% of the average labour productivity of the region's economy, followed by commerce (54%) and personal social and community services (79%) (Stumpo and Correa, 2017).

force has completed secondary education.[6] Moreover, in the case of those who do complete this level, the quality of learning is usually poor and has been deteriorating in recent years, as indicated by the tests results achieved in the Programme for International Student Assessment (PISA) (OECD, 2023).

Figure 5
Global fixed capital formation in different regions of the world, 1970–2022
(Percentages of GDP)



Source: World Bank, "Gross fixed capital formation (% of GDP)" [online] https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS.

In the case of higher education, the coverage rate is still far below those of more developed countries: in 2018, the gross coverage rate in Latin America and the Caribbean was 52%, compared to 77% in Europe and North America (Valenzuela and Yáñez, 2022).[7] Moreover, relatively fewer professionals in science, technology, engineering and mathematics (STEM) subjects graduate from universities than in other countries. This is a problem, because this is the professional profile that is most needed in the productive paradigms of the twenty-first century. In short, another of the key elements contributing to the low economic growth syndrome in the region is the labour force, which displays ever slower growth rates and problems in the quality of the education received.

The fourth and main ingredient in the region's low-growth recipe is weak productivity growth. Productivity depends on several factors, including the quality of capital and equipment available to workers for production, the technologies used in the production process, and human talent skills. Perhaps most important of all, however, is the fact that productivity reflects the efficiency with which those factors of production are used.

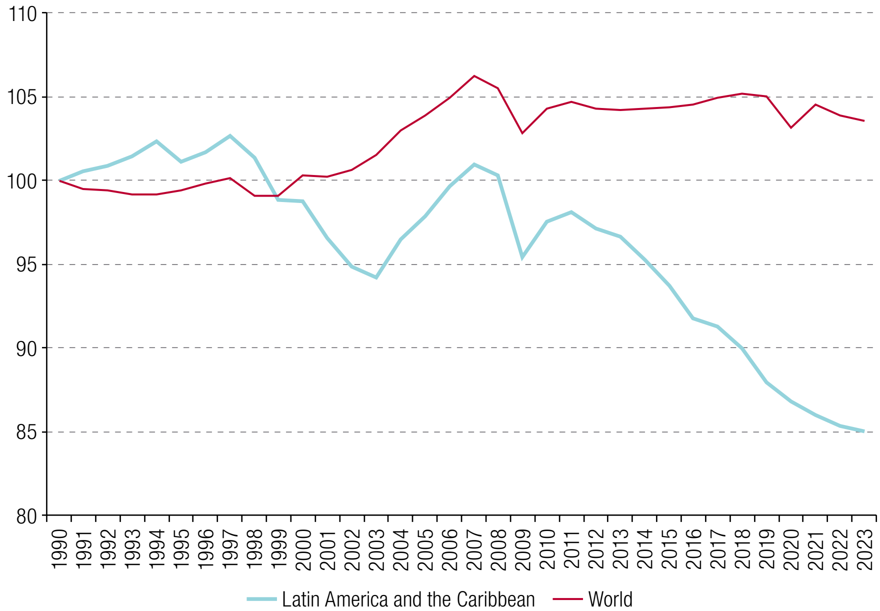
The major problem with development patterns in Latin America and the Caribbean is that there has been virtually no productivity gain in the region over the past 30 years (see figure 6).[8] In fact, since 2011, productivity has done nothing but decline, which has widened the region's productivity gap relative to the rest of the world.

[6] These data refer to 2021 and come from the Household Survey Data Bank (BADEHOG).

[7] The gross coverage rate is measured as total enrolment in higher education relative to the total population between 18 and 24 years of age.

[8] Among other relevant works on regional productivity, see Pagés (2010) and Stumpo and Correa (2017).

Figure 6
Latin America and the Caribbean and the world: cumulative growth of total factor productivity, 1990–2023
(Index: 1990=100)



Source: Prepared by the authors, on the basis of The Conference Board, Total Economy Database [online] https://www.conference-board.org/data/economydatabase.

Underlying the low levels of productivity in the region as a whole, there is great variety between the different sectors of economic activity, between firms in the same sector, and between territories within the same country. In other words, economic sectors coexist with substantial productivity differences, and their productivity is below that of their international peers. A few firms with high levels of productivity coexist with a large mass of firms of low productivity; and regions of high productivity coexist with others where productivity is very inadequate. This situation of the region's economies, in which modern and competitive sectors, firms and territories coexist with backward ones, has traditionally been referred to as "economic dualism" or "structural dualism".[9]

Improving the region's productivity will depend, partly, on reducing this heterogeneity. This can be achieved through three complementary lines of productive development policy: measures to increase the productivity of backward sectors, firms and territories; measures and policies to further improve the productivity of leading sectors, firms and territories; and measures and policies to generate and speed up virtuous structural change through investment and the development of new higher-productivity sectors and activities of that were previously non-existent (Salazar-Xirinachs, Nübler and Kozul-Wright, 2014; Salazar-Xirinachs and Cornick, 2017; Rodrik and Sabel, 2022; Sabel and Ghezzi, 2021; Verhoogen, 2021; OECD, 2022).

In terms of structural change, the countries of the region have been unable to move a sufficient number of workers from low- to high-productivity sectors and firms; and some studies suggest that there has even been a movement in the opposite direction.[10] One of the main tasks of productive development policies is precisely to change this perverse pattern of structural transformation into a virtuous one, in which workers move to higher productivity sectors and firms.

[9] See Furtado (1965, p. 78) and Rodrik and Sabel (2022).

[10] See McMillan and Rodrik (2011).

In short, the countries of the region have been unable to sufficiently foster greater technological sophistication, productive diversification and repositioning of their economies by promoting more productive firms and sectors. This translates into a low degree of sophistication and diversification in their export baskets and a poor performance of the indicators that measure their economic sophistication.[11]

Aside from the factors considered by basic growth theory mentioned above, other elements could help explain the region's low economic growth, which conventional growth theories generally have ignored. Two of these are income inequality and political instability and uncertainty.

In terms of the first of these elements, recent research has made it very clear that a high degree of income inequality and concentration of oligopolistic power hampers productivity and income growth.[12] This is partly because high levels of inequality reduce the potential size of markets, and partly because the concentration of oligopolistic power leads certain influential sectors to be satisfied with living off non-productive rents and extractive institutions, and to oppose reforms and policies that aim to diversify economies, generate new engines of growth and redistribute income. To reverse this situation, in addition to implementing social and other redistributive policies, it is crucial to have a government that disciplines rentier groups and extractive institutions through public policies, including a correct application of competition policy, and one that implements productive development policies that, as discussed below, can generate new sources of wealth and growth.

As regards the second element mentioned, political instability and uncertainty can reduce investment and growth. As Martin Wolf (2023) and Larry Diamond (2019) have argued, and as Raúl Prebisch (1981) himself recognized when speaking of peripheral capitalism, dynamic economic systems capable of creating prosperity are highly complementary with open and stable political systems. When politics become polarized, they generate very high levels of uncertainty, instability and conflict that affect economic growth. Transforming the processes of the production structure is a long-term cumulative endeavour that require State policies that transcend electoral periods and resolve social and economic demands by channelling them through a common development project. In the absence of minimal conditions of continuity in terms of productive development policies and social progress, transitioning towards a more productive, inclusive and sustainable pattern of development becomes more complex and slower, and may even regress, not only owing to lack of investment, but also because of social instability.

III. What should be done? The need for productive development policies and their role

So, what should be done? From the foregoing diagnostic assessment, the answer to this question would seem to be easy, since it provides a list of actions to overcome the obstacles described:

- Improve access to and the use of land.
- Increase investment levels, both public and private.
- Increase the quantity and quality of human talent, through improvements in education and vocational training systems and, in some cases, also through specific migration policies.
- Develop policies that boost productivity growth and, in particular, foster productive development, both in laggard sectors, firms and territories and in leading sectors and, above all, in new sectors and firms that can drive virtuous structural change towards activities of higher productivity.
- Establish redistributive and competition policies.

[11] See, for example, Hausmann, Hwang, and Rodrik (2007); Hausmann and others (2013); Benavente (2016); ECLAC (2022a, chap. II, and 2023c); and Molero Oliva and others (2022).

[12] See Fernández-Arias and Fernández-Arias (2021).

- Strengthen the capacity of the political system and institutions to maintain policy frameworks committed to long-term productive development.

However, while it is easy to list these action fronts, in many of them significant improvements are not that easy to achieve, and could take decades to do so. Nonetheless, developing countries can make progress without having to undertake lengthy structural reform processes or to have an excellent business climate,[13] or strong “fundamentals” in advance, as Rodrik and Stiglitz (2024) argue. Although the countries of the region need to advance on all of these fronts with a long-term vision, the policies aimed at increasing productivity include a subset that would enable progress to be made within a reasonable period of time if implemented on a large scale and with continuity. These are the new-generation productive development policies.

1. What has ECLAC had to say on this subject?

Before describing the new ECLAC vision of productive development policies, it is worth reviewing what the Commission has said on the subject in the past, since productive development and technical progress have been major pillars of the Commission’s analysis and thinking.

In stylized terms, the ideas of ECLAC on the subject can be grouped into two major phases. The first “structuralist” stage focused on the accumulation of fixed capital for industrialization, and prioritized “inward” development. The second, the neo-structuralist phase, which began in the 1990s, highlighted international integration founded on “genuine competitiveness”, based on the systematic incorporation of technical progress. This would make it possible to foster economic growth and social equity, simultaneously rather than sequentially (Fajnzylber, 1991).

Since then, ECLAC has refined its proposal and adapted it to the new global realities. To sustain long-term growth in an open-economy setting, it was necessary to shift towards sectors that are more dynamic, both technologically and in terms of global demand. In a scenario where trade liberalization was gathering pace, ECLAC harnessed integration mechanisms through “open regionalism” (ECLAC, 1994).

The Commission emphasized the idea that transformation of the production structure policies were an essential complement to social policy on a path to inclusive growth. It argued that, without growth that would increase the demand for skilled labour and create opportunities for micro-, small and medium-sized enterprises, it would be difficult to achieve progress in terms of equity and sustained poverty reduction (ECLAC, 2010). Since market forces tend to deepen prevailing structures, ECLAC defended the importance of productive development policies as a fundamental element of a renewed equation between state, market and society (ECLAC, 2012). Transformation of the production structure, as a complement to the 2030 Agenda for Sustainable Development and its Sustainable Development Goals, should lead to the predominance of productive activities and processes that are intensive in learning and innovation, associated with markets and the provision of rapidly expanding goods and services, which would increase production and employment and encourage environmental protection and the decoupling of economic growth from carbon emissions (ECLAC, 2016).

More recently, in its productive development proposal, the Commission addressed the need to adapt to the changing patterns being generated by technological change and the climate crisis. It proposed a model to make external constraints compatible with environmental sustainability and, at the same time, reduce inequality of opportunities and outcomes (ECLAC, 2022a).

Although this brief review does not do justice to all of the intellectual wealth that ECLAC has produced on these issues, it is clear that industrialization, productive development, productivity and innovation policies are topics that the Commission has prioritized in its analysis.

[13] See Lin and Monga (2017).

2. The new generation of productive development policies

The countries of Latin America and the Caribbean clearly continue to display major deficits in terms of productivity and productive development. However, as shown by various experiences in Asia, Europe and other regions, the gap with the more developed economies can be narrowed by speeding up the transformation of processes in the production structure that generate faster economic growth, boosting learning systems and promoting entry into new industries, markets and value chains. This "catch-up growth" enables developing countries to close the gap on more developed countries, which is precisely the immediate objective of modern productive development policies.

The history of economic development has taught that "No country has made the arduous journey from widespread rural poverty to post-industrial wealth without employing targeted and selective government policies to modify its economic structure and boost its economic dynamism" (Salazar-Xirinachs, Nübler and Kozul-Wright, 2014, p. 1). However, the instruments designed to foster these economic transformation processes have changed as a result of lessons learned from various experiences, the new realities of globalization and the multilateral trading system, supported by theoretical and conceptual advances in the development literature.

The need for modern productive development policies is now widely recognized. The debate now focuses not on whether or not it is necessary to implement such policies, but on how to do so.[14] There is also a broad consensus on the need to develop appropriate forms of public-private and public-public collaboration, with all relevant stakeholders, in other words based on a broad definition of collective action.

The theoretical justification for cooperation between economic actors is based on three fundamental ideas. First, no single actor or agent possesses all information on problems or solutions (neither the public sector, nor academia, nor firms, nor workers), which is why it is necessary to garner all available information by creating working groups involving all relevant actors, including firms of all sizes. Secondly, productive development is more than merely a process of aggregating information. It involves collective search or discovery, characterized by "strategic uncertainty": no single economic agent has all the knowledge about what needs to be done. So it is essential to work collectively, implementing continuous processes of detecting and prioritizing problems, and designing solutions which, in turn, allow new problems to be detected and course corrections to be made when necessary. This is a continuous process of interaction between economic agents, which some authors have called a trial-and-error or "experimentalist governance" process, as will be discussed below.[15] Thirdly, the fact that the benefits and outcomes in terms of transformation of the production structure accumulate over time makes it necessary to develop long-term processes and policies —that is policies that are not tied to a specific government administration. Policy swings and volatility do not contribute to long-term change processes.

Also associated with this vision of productive development policies is the concept of "market governance" (Wade, 1990; (Salazar-Xirinachs, Nübler and Kozul-Wright, 2014), based on the idea that productive development is a social construction, resulting from the coordination and alignment of the efforts of all relevant actors. This new vision supersedes the old, sterile and ideologically fuelled debate on State and market, in which the pro-market position relies on the "magic of the market" and the pro-State position relies on the "magic of the State". By contrast, the new generation of productive development policies relies on the "magic of the process"[16] of public-private, private-private and public-public partnerships, encompassing educational and vocational training institutions and civil society. This set of collaborations,

[14] See Chang (2010), Cimoli, Dosi and Stiglitz (2009), Rodrik (2008), Mazzucato (2013), Crespi, Fernández-Arias and Stein (2014), Salazar-Xirinachs, Nübler and Kozul-Wright (2014), OECD (2022) and Llinás (2021).

[15] See Sabel (2012), Sabel and Zeitlin (2012), Sabel and Jordan (2015), Cornick (2017), Salazar-Xirinachs (2020), and Rodrik and Sabel (2022).

[16] To the best of the authors' knowledge, the "magic of the process" concept was coined by Jon Azúa, the father of cluster policies in the Autonomous Community of the Basque Country (see Monge-González, Salazar-Xirinachs and Espejo-Campos, 2018).

also known as the triple or quadruple helix model, focuses on the practical: solving problems, promoting discovery processes and hastening productive learning and productivity growth.

Neoclassical economic theory is based on the conceptualization of a perfectly competitive market that produces optimal outcomes in terms of resource allocation, with intervention only justified when market failures occur. This conceptualization is what has given rise to the binary and abstract debate between state and market; but, in reality, no market exists in the pure theoretical form. All markets are social constructs affected by the behaviour of specific actors, specific institutional arrangements, regulations of one kind or another, specific public goods and specific economic structures. It is this recognition that has elicited perspectives that are more institutionalist and realistic than the abstract and simplified market concepts found in textbooks. Consistently with this line of thinking, Mariana Mazzucato (2013 and 2018) insists that, rather than correcting market failures it is more useful to conceptualize the role of public policies in creating and shaping such markets, and in driving economic transformation processes based on the concept of "missions," defined as collective efforts to address major challenges.

Nonetheless, the neoclassical view can be useful as a first approximation and as a rationale for analysing the types of intervention that are possible in productive development policies. For example, recent studies have emphasized the existence of two types of failure, for which mitigating interventions would be justified in order to foster transformation of the production structure.[17]

Firstly, there are appropriability failures, which result in suboptimal levels of investment because the investor cannot fully appropriate the corresponding returns. This positive externality problem explains, for example, why there are not more exporters in new economic activities ("pioneer" exporters),[18] why an employer does not invest more in training for its employees, or why there are not higher levels of investment in innovation and entrepreneurship. This situation justifies the deployment of instruments and interventions to raise these investment figures closer to their social optimum level.

Secondly, there are coordination failures that prevent an economic activity from developing or achieving its maximum productivity potential, since another series of parallel investments or actions would be needed for this to happen. For example, a shortage of workers with specific profiles and skills can prevent a given sector from developing; weaknesses in a country's system of sanitary and phytosanitary measures can reduce its capacity to export to certain markets;[19] or the absence of individuals with the knowledge and skills needed to provide technological extension services can hinder the development of a robust extension market. In all of these cases, intervention would be required to shift the productive apparatus out of its existing disequilibrium state, which prevents certain economic activities from developing to the full.

In view of the above, and although precise definitions are not always necessary, a definition of what ECLAC understands by "productive development policies" can be attempted. These are interventions, whether by nature cross-cutting throughout the economy (horizontal policies) or else targeted to specific sectors, clusters or strategic areas (vertical policies). The latter aim to increase degrees of sophistication or diversification, accelerate learning processes and the creation of productive capacities, and foster virtuous structural change in the economies in question. They thus serve as a vehicle for increasing productivity, entering new industries or new markets, strengthening participation in value chains, creating decent jobs and, in general, achieving higher levels of prosperity and more productive, inclusive and sustainable patterns of growth.

Governance and collaboration are important, because these policies can only be implemented effectively through the coordinated joint efforts of key actors in the public sector (at both national and local level), the private sector, academia, research centres and civil society. The aim is to work on strategic agendas to speed up transformation of the production structure processes in their economies.

[17] See Juhász, Lane and Rodrik (2023), Cherif and Hasanov (2019), Rodriguez-Clare (2005) and Hausmann and Rodrik (2002).

[18] See Sabel and others (2012).

[19] See Sabel and Ghezzi (2021).

3. Industrial policies or productive development policies?

Another important aspect of modern productive development policies that needs clarification is their relationship with what has traditionally been referred to as industrial policy, and whether their scope should be confined to the manufacturing sector or could be broader. New technologies have given rise to a new production paradigm and have blurred, if not eliminated, the boundaries between the agriculture, industrial and service sectors. Moreover, this trend has intensified as various technologies have converged in production processes.

Traditionally, development economics has rightly focused on the industrial sector, on the grounds that it has at least four unique characteristics that neither agriculture nor the service sector have to the same extent: (i) economies of scale; (ii) access to international markets; (iii) capacity to enhance labour with capital and technology, in other words innovation capacity; and (iv) strong linkages and spillovers in its relation with other sectors.

However, the technological and digital revolution has changed this reality substantially. The idea that services had little potential for generating economies of scale and accessing international markets was based partly on the observation —correct before the digital revolution— that the production and consumption of services required physical proximity; so production and consumption had to occur simultaneously, thereby making it a non-tradable sector. The advent of the Internet and the digital revolution radically changed this.

There are now categories of services that have huge economies of scale and are highly tradable, especially modern services that use information and communication technologies (ICTs) platforms to sell across borders. This includes subsectors such as call centres, shared services, technology and digital services, back office services, engineering or design and, of course, financial services, where a genuine revolution is unfolding in relation to fintech.

The Internet and the digital revolution also radically changed the idea that technological progress and innovation did not apply to the services sector in the same way as it did to industry. Today, many services are undergoing a revolution in terms of products, modes of delivery and business models. Some of the world's most innovative firms are in the service sector; and the interlinkages between many service subsectors have also grown, increasing the value that services add to final industrial goods. All this helps explain why, since 2000, trade in services has outpaced that of manufactured goods (ECLAC, 2017).

If this new vision of the service sector is set alongside the emergence of China as a manufacturing export power and the automation and robotization generated by the technological revolution, two ideas clearly emerge. Firstly, the viability of relying exclusively on industrialization as a development strategy has diminished; and, even if this were feasible, the potential benefits in terms of job creation would be smaller.[20] The road to industrialization is now much harder than it was in the 1950s, 1960s and 1970s. Secondly, there seems to be much more potential for development and the creation of good jobs in the services sector than traditionally thought.[21] Some countries are starting to derive major success and large profits from the production and export of modern services. The new trends and available data clearly reveal great opportunities in several service subsectors with potential to contribute to a growth and development strategy.

A similar story can be told of modern agribusiness activities. Today, the new Industry 4.0 production paradigm, or the fourth technological revolution, includes not only manufacturing industry itself, but also many segments of the heterogeneous service sector, as well as modern agricultural activities.

[20] See Rodrik (2015).

[21] For example, Rodrik and Sabel (2022) argue correctly that services are a strategic sector for the implementation of productive development initiatives, since they have a great capacity to create good jobs.

For all of these reasons, it is more appropriate to think in terms of productive development policies rather than the more limited term “industrial policies”, which is more common in the literature. As explained above, these productive development policies aim to foster sophistication, diversification and virtuous structural change across whole economies, regardless of sector. They could therefore cover agriculture, services and mining, among other sectors, in addition to manufacturing.

Another reason to prefer the term productive development policies instead of industrial policy is the confusion that the latter can cause in the public debate. Industrial policies lost prestige, both worldwide and in the region, owing to criticisms of the import substitution industrialization model in the 1980s and 1990s. This was attributed to problems of exhaustion, rent-seeking and State capture, and led to the adoption of liberalization and hyper-globalization policies. Nonetheless, the recent deployment by some developed economies of industrial policies based largely on subsidies is also starting to generate a heated debate on the risks of falling into a “subsidy war” and potential threats to the multilateral trading system. These are not the kind of policies that ECLAC advocates.

In other words, in addition to being more precise, the term “productive development policies” avoids much of the confusion generated in the public debate by the term “industrial policies”.[22] Having clarified why productive development policies should not be confined to the industrial sector, in this context of new technological conditions and production paradigms, their scope of action needs to be defined to provide clearer guidance for their design and implementation.

One way to start defining this scope is to bear in mind that, although the factors included in conventional growth theory (land, labour, capital and productivity) are all important for economic growth, a definition of productive development policies that included investment in infrastructure generally, for example, would be too broad. However, it is appropriate, and even essential, to include specific infrastructure and other public goods specific to the activities prioritized in the context of these policies. Similarly, despite the importance of human talent for growth and productive development, it would be superfluous to include all education challenges, such as those related to early childhood. As in the case of infrastructure, it is more appropriate to include the training of specific human talent for the productive choices that must be made in the framework of productive development policies; for example, training for work and higher education in the STEM fields.[23] In fact, developing the human talent needed by certain driving or energizing sectors is essential for implementing successful productive development policies, and for creating specific infrastructure for these sectors.

Two policy areas have a major influence on productive development: macroeconomics and competition. However, for reasons similar to those discussed above —although it is extremely important to be clear about the respective linkages— it does not seem appropriate to include these areas in the scope of productive development policies.

In view of the need to delineate the scope of productive development policies, as well as the numerous studies that have considered the different issues that should be covered by this type of policy,[24] diagram 1 presents a non-exhaustive overview of the areas that, from a practical perspective, should be included in the framework of such policies. It groups together different types of interventions and initiatives aimed directly at boosting sophistication, diversification and virtuous structural change in the respective economies.[25] These areas are: science, technology and innovation; technological

[22] The Inter-American Development Bank made an early and important attempt to position the term “productive development policies” in its foundational volume titled *Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation* (Crespi, Fernández-Arias and Stein, 2014).

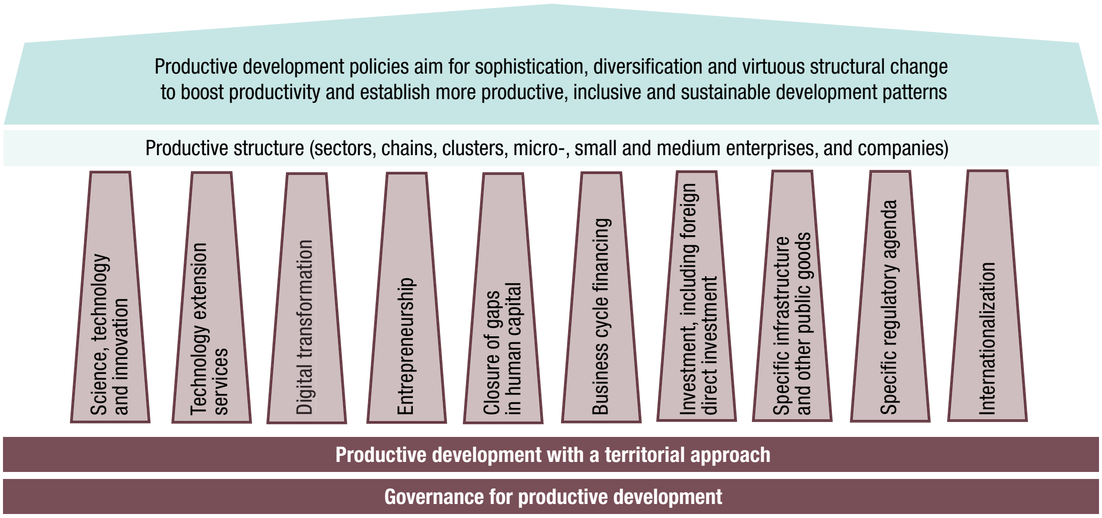
[23] In the two examples given —specific infrastructure and human talent— the absence or weakness of these factors represents a potential coordination failure that could inhibit the emergence of the prioritized economic activities, or improvement of their productivity.

[24] See Crespi, Fernández-Arias and Stein (2014), Cimoli and others (2017), Denzin and Cabrera (2017), ILO (2016) and Salazar-Xirinachs and Cornick (2017).

[25] Many of the interventions and measures to be implemented in the different areas are related to market and government failures that inhibit the productive transformation process.

outreach; digital transformation; entrepreneurship; detection and closing of the human talent gap; financing throughout the enterprise life cycle (including the role of development banks);[26] investment (including foreign direct investment); specific infrastructure; specific policy and regulatory agendas (including quality issues); and internationalization.[27]

Diagram 1
Definition and scope of productive development policies



Source: Prepared by the authors.

However, as when preparing a culinary recipe, more important than the individual ingredients is how they are combined. Applying this metaphor to productive development, more important than each of the areas identified in diagram 1 is the way in which the initiatives, actors and resources associated with the different areas are harnessed around strategic productive development policies and agendas.

For this reason, ECLAC emphasizes two cross-cutting issues related to the way in which these "ingredients" are combined. First, it is important to apply a territorial approach to productive development, since, as explained in detail below, productive development efforts have to be combined in a specific geographical context, in line with the strategies and capacities of each territory, bearing in mind that it is at the local level that much of the action in this area must be carried out. Second, governance is relevant for productive development, since, as noted above, a central aspect of the new generation of productive development policies is collaboration and coordination between multiple actors, including the public and private sectors, the academic sector and civil society. Governance mechanisms and institutional arrangements are therefore needed to facilitate collaboration among key actors in each sector (described above as the "magic of the process"), and to coordinate endeavours and resources at the territorial and national levels, as discussed below.

In short, the current proposal of ECLAC differs from the approaches adopted a few decades ago in two key ways: firstly, it involves applying a new generation of productive development policies, with very different instruments than those of the past; and, secondly, there are compelling reasons to broaden the scope of the production choices beyond the industrial sector.

[26] See Griffith-Jones and Ocampo (2018), Ocampo and Torres (2021) and Fernandez-Arias, Hausmann and Panizza (2019).

[27] A description of the strategies, programmes, instruments and governance challenges in each of these areas is beyond the scope of this article. However, they will be analysed in detail in future ECLAC work.

4. Focus on the "how"

All countries in the world implement productive development policies in one way or another, and the countries of Latin America and the Caribbean are no exception. While the use of such policies may have declined during the heyday of the Washington Consensus, the region never ceased applying a variety of them and still does so today.[28] However, neither the academic nor the public debate has focused sufficiently on the "how" of implementing these policies successfully.

The application of productive development policies in Latin America and the Caribbean has a number of specific characteristics. A variety of approaches coexist and often compete with each other, while the new vision of productive development policies described in the previous section is not yet fully integrated into policies or in analytical and academic work. Thus, it is unsurprising that actions undertaken in this regard are extremely heterogeneous and display major differences in terms of quality and depth both between and within the different countries. There has been insufficient comparison of experiences at the regional level or for peer learning. Moreover, the evaluation of these actions has been marginal, making it difficult to determine which have been fruitful and should therefore be applied on a larger scale, and which have not been useful and should therefore be adjusted or discarded.

Endeavours in this direction thus far have been somewhat tentative and too small-scale, considering the magnitude of the productivity challenge facing the region, and also compared to the amount of resources that other countries are allocating to it.[29] Efforts have also been intermittent and have not become State policies.

A centralized, top-down approach has often prevailed in the region, without sufficient drive and governance from the local level, nor empowerment of local actors (a decentralized or bottom-up approach). There has also been insufficient coordination of endeavours between the different ministries, national agencies and other relevant actors, as well as between actions implemented at the national and subnational levels.

The region has much room for improvement in all of these dimensions for the implementation of productive development policies. There is a variety of opportunities for learning in this domain, given the existence of ample and well-documented international experience on the subject. On clusters alone, for example, the European Observatory for Clusters and Industrial Change has catalogued 2,950 cluster initiatives, accounting for almost one in four jobs (62 million) and half of the employment in export sectors in Europe (Hollanders and Merkelbach, 2020). In Japan, the Government supports numerous clusters, especially in the high-tech area. In Spain, the Autonomous Communities of the Basque Country and Catalonia have both developed highly successful productive development policies, one of the main ingredients of which has been cluster development. The Platform for Cluster and Other Territorial Productive Articulation Initiatives in Latin America and the Caribbean, launched by ECLAC in December 2023, has an initial inventory of 259 initiatives involving more than 40,000 firms from nine countries in the region.[30]

This discussion on the "how" has become more urgent and relevant in view of the new reality described above, in which developed countries have started to implement robust industrial policies, using substantial subsidies as one of their main instruments. This is exemplified by the United States, through the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act (the CHIPS and Science Act) and the Inflation Reduction Act, and also in the European Union, through the European Green Pact. This new industrial policy activism in developed countries should lead Latin American and Caribbean countries to be much more pragmatic, strategic and effective in terms of their own productive development policies.

[28] See Salazar-Xirinachs, Nübler, and Kozul-Wright (2014).

[29] For example, between 2016 and 2021, Argentina invested about 0.5% of GDP in productive development policies (without considering the Plan for the Promotion of Argentine Natural Gas Production (*Plan Gas*), the emergency funding for the coronavirus disease (COVID-19) pandemic and the capitalization of guarantee funds), which represented about 2% of total public spending (Cassini, 2022). The Government of Colombia, for its part, invested 2.0% and 2.6% of the nation's general budget in 2019 and 2020, respectively (Gómez, 2021). Lastly, in 2019, the Government of Chile invested about 1.88% of total public expenditure in productive development policies, to which was added the investment of 0.12% made by regional governments, amounting to 2.0% of total public spending (Correa, Dini and Letelier, 2022; Yáñez and Fuentes, 2022).

[30] See [online] https://www.cepal.org/es/proyectos/plataforma-iniciativas-cluster-otras-iniciativas-articulacion-productiva-territorial.

IV. How can this be done? Guidelines for applying productive development policies

To achieve higher, sustained, inclusive and sustainable economic growth, the region's countries need to deepen their productive development policies and improve their interconnection and management; give them continuity through a long-term vision; implement them with a greater role for the territories; improve their monitoring and evaluation and, in general, increase their effectiveness and impact. How can all of this be achieved? Six guidelines are proposed below to guide action on productive development policies. These are:

(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.

1. Raise the level of ambition and improve the implementation of new-generation productive development policies

As noted above, the countries of Latin America and the Caribbean have always implemented a productive development policy of some kind. As a result of the change in the economic model from import substitution industrialization to the pursuit of integration into global value chains, efforts focused on policies to promote exports and attract investment.

However, outside of these areas, productive development policy initiatives have been relatively modest, and their impact on productivity and growth has been marginal. For this reason, the first proposal is to urgently raise the level of ambition in productive development policies, and to do so in keeping with the vision of the new generation of policies of this type.

Unlike the huge amounts of subsidies and tax credits deployed by developed countries, the type of productive development policies proposed by ECLAC do not require large sums of money for their implementation. This new generation of productive development policies draws on the work of multiple actors articulated through governance mechanisms —such as those underpinning cluster initiatives— which aim to identify projects and actions to raise the productivity of the prioritized areas. It is these projects and actions that will require a large amount of public and private investment resources to be mobilized.

Many of these projects will aim to provide specific public goods as necessary for growth, and increase the technological sophistication of the sectors targeted by the productive development policies, and also for the training of human talent and innovation. The projects may be financed from multiple sources: the regular State budget; the budget of specific public, private and academic institutions; the budget of local governments, loans from national or international development banks or international cooperation.

In this regard, there are at least two major differences with respect to the subsidy and fiscal incentive policies applied in other parts of the world: first, most of the financing does not come from the national budget, which is highly relevant in an era of tight fiscal space; and, second, the projects requiring financing are closely aligned with the strategic agendas of their respective sectors. In other words, this type of productive development policy makes cost-efficient use of the scarce resources available to implement such policies.

2. Target specific sectors and activities: the role of selectivity

A second fundamental guideline consists of targeting and prioritizing areas or sectors that drive or stimulate growth. This is one of the issues that has generated most controversy among economists in the past, because those who have traditionally opposed a proactive role for public policy in this area have argued that it is not the Government's job to "pick winners". There are several ways to respond to this argument. Firstly, history has shown that, in all cases where rapid and convergent growth has been achieved, the State has played a proactive role —for example, by creating markets, supporting firms, encouraging technological modernization, supporting learning processes, eliminating bottlenecks, helping to provide financing or promoting missions to facilitate change.

Secondly, as noted in Chang (2010), Stiglitz, Lin and Monga (2013), Salazar-Xirinachs, Nübler and Kozul-Wright (2014) and elsewhere, the distinction between "horizontal" measures (which are considered neutral since they affect all sectors) and "vertical" measures (which support specific economic activities or sectors) is a false dilemma, as even supposedly cross-cutting policies favour some sectors more than others. For example, the development of basic infrastructure cannot be neutral: a road or a bridge benefits some regions or communities but not others. Moreover, infrastructures such as these benefit certain sectors more than others. Vocational training programmes focus on resolving bottlenecks and skills mismatches in particular sectors. Even a specific exchange rate policy favours some industries, regions or sectors more than others (for example, exporters over importers). Therefore, as Hausmann and Rodrik (2006) have long argued, governments are "doomed to choose" —even if believe they are advocating neutral policies.

Thirdly, approaches to industrial or productive development policies have undergone changes that have diluted the meaning of "picking winners". As explained above, modern approaches are based more on organizing collective action in specific sectors through cooperation between the public, private and academic sectors, than on adopting protectionist measures or paying outright subsidies to certain sectors. Today, therefore, prioritization in production is less about choosing sectors to subsidize or protect, and more about supporting the self-managed efforts of key actors in sectors or clusters with great potential for momentum and development. This selectivity has shifted from being based on top-down, vertical planning mechanisms and selective tariffs or subsidies, to a more decentralized, bottom-up approach that makes use of a broader range of measures and instruments to support and address the collaborative dynamics and needs of firms in sectors, clusters or strategic areas. Under these conditions, incentive capture and rent seeking cease to be a problem, at least partly; and the allocation of resources becomes an exercise in productive and development choices.

Fourthly, this debate, which was always more theoretical than pragmatic —since it was based on an idealized market model that always gave optimal results except when it failed— was put into perspective by progress in the field of institutional economics and the recognition that no market operates in a vacuum, but in an institutional context, with rules and norms established by society.[31]

Lastly, the idea that the developed economies did not have industrial policies and that this was the model to be followed —an idea that never matched reality[32]— has recently ceased to make sense, since, as explained above, developed countries are implementing industrial policies with a clear focus on sectoral and technological priorities.

[31] See North (1991) and Chang (2011).

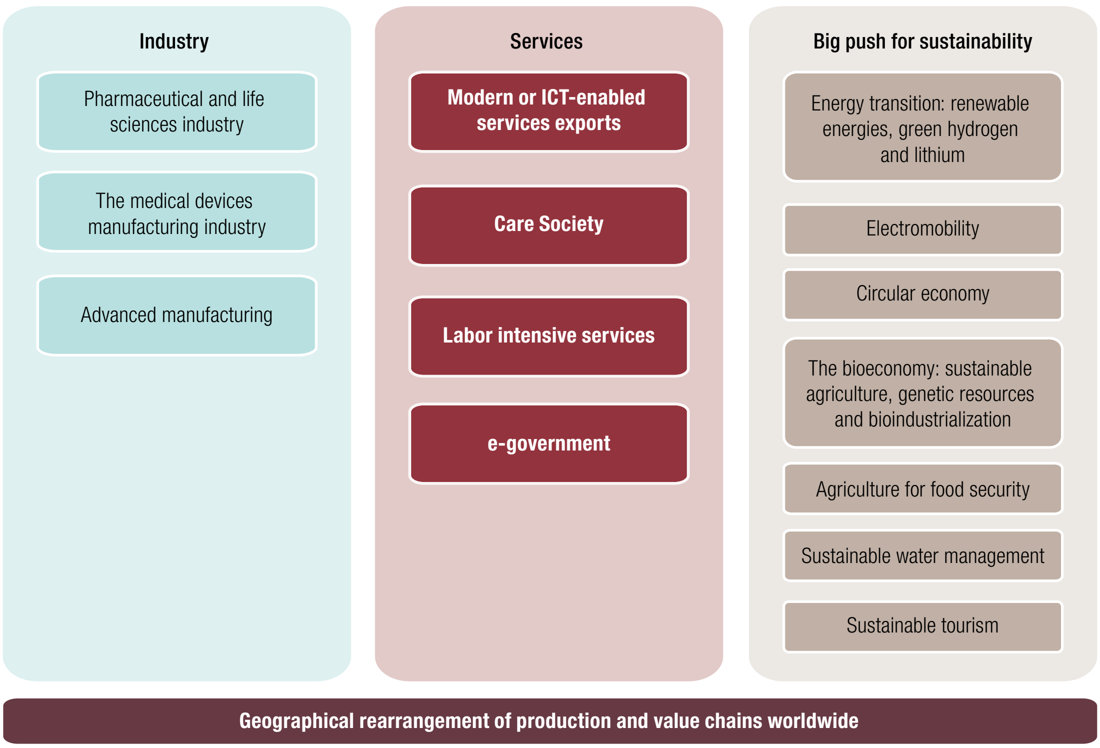
[32] See Cohen and Delong (2016) and Wade (2014).

Despite all of this debate, the fact is that the bottlenecks and challenges are very numerous, while resources, institutional capacities and political capital are limited. As a result, societies are forced to prioritize the areas on which to focus their work, addressing certain challenges first and devoting effort and resources to them, while leaving open the possibility of addressing other challenges at a later date. However, this does not prevent Governments from doing their utmost to broaden their scope of action, in order to meet the needs of as many economic activities as possible.

Since its inception, ECLAC has proposed setting priorities in production. From 1950 to 1980, the Commission advocated a focus on industrialization, given the unique characteristics of manufacturing industry as described in section III.3. However, the approach of import substitution industrialization was very different from what has been called the new generation of productive development policies. Firstly, it was associated with a very specific method or instrument of intervention: tariff protection; and secondly, as also explained in section III.3, it is not advisable to restrict these policies to the industrial sector alone, in the context of new technological conditions and production paradigms.

In keeping with this new approach, an illustrative, though not exhaustive, list is proposed of 15 sectors or areas that are growth drivers and energizers. Given their characteristics, these would have the capacity to foster a transformation of the production structure in the desired direction of greater inclusiveness and environmental sustainability. These sectors or areas could be used as benchmarks by countries and their territories when setting production priorities within their productive development policies. They are also sectors or areas with a great capacity to generate synergies and feedback effects to move towards greater and more sustained growth (see diagram 2).[33]

Diagram 2
Major productive transformation for productivity, inclusion and sustainability: portfolio of driving sectors



Source: Prepared by the authors, 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.

[33] See ECLAC (2023a) for further details.

The sectors or areas listed in diagram 2 are grouped in three categories. The industry category includes pharmaceuticals and life sciences, medical devices and advanced manufacturing. The services category includes the export of modern or ICT-enabled services, the care society, labour-intensive services and e-government. The big push for sustainability category includes energy transition (solar and wind energy, green hydrogen and lithium), bioeconomy (sustainable agriculture, genetic resources and bio-industrialization), electromobility, the circular economy, agriculture for food security, sustainable water management and sustainable tourism. Cutting across all categories are the opportunities opened up by the geographical relocation of production and global value chains, as this is a key trend present in several of the other sectors listed.

The message is not that all countries should prioritize these 15 sectors, nor that these are the only sectors that should be prioritized. The sectors and priorities must be defined in light of the specific conditions prevailing in each country; other sectors and activities could be added according to the characteristics and priorities of each country or territory. All of them are productive activities that open up new opportunities not only for investment and growth, but also for collaboration and strategic alliances at the international level.[34]

As can be seen in diagram 2 and in section III.3, this is a new strategy for growth, transformation of the production structure and employment that embraces a wider range of sectors, rather than emphasizing industrialization exclusively. It also adopts a very different approach to the "how" mentioned above, which will be considered in greater detail below.

There are several ways to define productive priorities in the framework of productive development policies. For example, for over a decade the European Union has been implementing the research and innovation strategies for smart specialization (RIS3), in which regions prioritize strategic areas or technologies, at the subnational level, based on their productive or research capacities.[35] Mazzucato (2018 and 2019), meanwhile, proposes establishing priorities on the basis of the major challenges or missions to be addressed, and she argues that the sectors to be involved in these efforts will prove self-selecting.

Regardless of the method used to establish priorities, productive choices need to be made from the standpoint of managing a portfolio of risks, on the understanding that some of these choices may fail, for various reasons. Some failures are inevitable, but these should not lead to the rejection of this type of policy. In addition to learning from these experiences, it is important that the successes provide benefits that more than compensate for the losses caused by the failures.[36]

One way to put this selectivity into practice and to develop strategic agendas based on these priorities is through cluster initiatives. As noted above, the operational or running costs of cluster initiatives are not high. They include funding for the cluster manager and his or her team, which in a small cluster may consist of only one or two other people, and the costs of executive committee and working group meetings. One of the great advantages of cluster initiatives is that the working groups and the executive committee quickly produce ideas for infrastructure projects, talent development, and regulatory or other issues, to develop the cluster and increase its competitiveness. It is this portfolio of investment projects that may require a much larger mobilization of financial resources. In other words, while the financial requirements for implementing a cluster-based productive development policy are not high, larger sums are needed to finance the projects generated by these initiatives.

It is important that efforts (including support for cluster initiatives), instruments and any other type of intervention relative to production priorities, in the framework of productive development policies, be conditional on the achievement of results and targets.[37] It was through this "carrot and stick" system —that is, through threats and incentives— that the successful industrial policies that gave rise to the Asian

[34] See ECLAC (2023a).

[35] See Foray, David and Hall (2009) and Aranguren and others (2019).

[36] In fact, according to Rodrik (2004), the absence of failures among these policies means that they are not being implemented correctly.

[37] See Rodrik and Stiglitz (2024) and Mazzucato and Rodrik (2023).

economic miracle were implemented,[38] unlike the border protections granted in several Latin American and Caribbean countries, which were not conditional on achieving higher export or productivity levels. As Rodrik (2004) notes, during the boom period of the import substitution model in the region, the carrot prevailed over the stick when it came to developing industrial policies.

This conditionality should be even stricter when, if there is fiscal space, instruments such as tax credits and subsidies are used. In this case, for example, the instruments in question should be designed with sunset clauses, in order to confine them to a specific period, after which they should expire. This would generate the right incentives and minimize the fiscal cost. As Rodrik (2004) argues, a modern industrial policy does not consist of governments "picking winners", but of ceasing to prop up losers.

It is also essential that the productive choices made in the framework of productive development policies aim at the internationalization of the prioritized sectors, in the sense not only of exporting, but also of producing efficiently to be able to face competition from imports and to tap into international knowledge and technology flows.[39] Achieving this requires work on productive development agendas that focus explicitly on this internationalization, which, in turn, entails addressing the specific bottlenecks affecting this objective.[40]

In short, the new generation of productive development policies gives greater weight to the structuring of collaborative processes among key actors in the prioritized productive activities than to incentive and subsidy mechanisms. The financing requirements of these policies focus mainly on the inventory of projects generated by collaborative work systems, such as cluster initiatives. If it is considered appropriate to offer incentives, the cost of these should be added; but this is not an indispensable element, but optional in some cases. Lastly, according to the comprehensive vision of productive development policies represented in diagram 1, there are other categories that also require financing and investment, mainly in areas such as science, technology and innovation, technological outreach and entrepreneurship.

3. Achieve a better balance between a centralized (top-down) and decentralized (bottom-up) approach by working with stakeholders in the territories

As noted above, the countries of the region initially preferred centralized approaches in which productive development policies emanated from the central or federal government. More recently, the territorial and local approach has been developed to a greater extent in some countries. ECLAC argues that productivity is generated at the local level, with local actors; and this partly explains the heterogeneity of subnational productivity levels and growth rates in the countries. Accordingly, the third proposed guideline entails deepening work on productive development policies at the territorial level.

There are many reasons to support the strategy of adopting a territorial approach to productive development, in other words a bottom-up rather than a top-down approach. To start with, there are technical arguments. Firstly, it is clear that working on productive development agendas from the territories substantially increases efforts and resources that are devoted to productive development compared to those that would be deployed if the work were confined to the national level. In general, in many countries of Latin America and the Caribbean, the territories and local governments and stakeholders have resources and capacities that can be added to those of the national level to work on productive development agendas in greater depth.

[38] See Rodrik (1995).

[39] The export target is important, however. As Hausmann (2023) points out, the few countries that have succeeded in maintaining high growth rates over time have done so because their exports have outpaced GDP and because they have diversified their exports into more complex goods.

[40] For further details on the subject, see Hallak and López (2022).

Secondly, adopting a territorial approach to productive development makes it possible to take account of particular features of the productive structures of the territories in question, and thus find solutions that respond to the specific needs of their entrepreneurs. Territories have comparative advantages in production in certain sectors and economic activities, and also in terms of research capacities, which must be taken into account when developing policies. Moreover, the same sector may have different needs depending on the region of the country in which it is located,[41] making a territorial approach essential.

Thirdly, a bottom-up approach makes it possible to take into account the specifics of the institutional capacities of the different territories. Not all of a country's territories have the same capacities to work on agendas and instruments with the same level of depth and complexity. It is therefore important to strengthen these capacities, particularly in territories where they are less developed.

Fourthly, many of the bottlenecks that hold back the sophistication and diversification of the region's economies can only be detected and addressed at the local level, with local actors (local entrepreneurs, governments or universities). For example, the detection and closing of human talent gaps is, in general, an agenda that should be developed with local entrepreneurs and local education and training institutions, or with the local branches of national institutions. This is particularly necessary when the strategic focus established at the local level for a given productive choice ultimately defines the necessary profiles and skills to be developed.

Then there are political arguments. In general, local territories and actors want to take control of their productive development. Consequently, the territories often do not welcome solutions that come from central governments, as these are often generic and far removed from local realities and priorities. As a result, not only are they ineffective, but the fact that they are imposed generates political tensions between the national and local levels. In addition, a local approach to productive development would make it possible to focus part of the efforts on laggard sectors, to ensure that they are not left behind, and thus avoid tensions and political extremism that can arise in these contexts.[42]

For this reason, working on productive development agendas from the local level is not only good economics, but also good politics. This position has been gaining strength in both the theory and practice of economic development, through the implementation of policies formulated specifically for the place in which they are to be applied (place-based policies).[43]

4. Use cluster initiatives as a concrete and effective way to organize management and collaboration processes for productive development

The fourth guideline involves the development of cluster initiatives, since these constitute one of the most practical and effective ways to materialize, combine and focus the productive development initiatives referred to in diagram 1, at both the national and local levels (depending on the sector in question).

Here it is important to distinguish clearly between the concepts of natural cluster and cluster initiative.[44] A natural cluster or agglomeration of firms is an economic phenomenon whereby firms in the same sector, or in related and supporting sectors, tend to agglomerate geographically. This is a strategy to improve efficiency, by taking advantage of what in economic theory is referred to as "Marshallian agglomeration economies". In this case, agglomeration occurs as a result of "the invisible hand of the market".

[41] See Llinás (2021).

[42] See Rodríguez-Pose (2018).

[43] See Bartik (2019), Rodríguez-Pose and Wilkie (2017) and McCann and Rodríguez-Pose (2011).

[44] In-depth analyses of the concept, economic rationale and practice of cluster initiatives can be found in Salazar-Xirinachs (2020) and Llinás (2021) and the works cited therein.

By contrast, cluster initiatives introduce a dimension of intentionality or “visible hand” to this process, which not only enhances the advantages of natural clusters, but also generates more value, by accelerating learning and innovation and improving productivity through collaboration and coordination processes. In *The Cluster Initiative Greenbook 2.0*, cluster initiatives are defined as “organized efforts to increase the growth and competitiveness of clusters within a region, involving cluster firms, government and/or the research community” (Lindqvist, Ketels and Sölvell, 2013, p. 1).

Cluster initiatives therefore foster the development of strategic agendas through organized participation by multiple actors from the public, private, academic and civil-society sectors, which work together on projects and actions aimed at improving the productivity of the firms in the cluster underlying the initiative. This coordination generally takes place in the framework of relatively simple institutional arrangements —for example, the cluster’s general assembly, the executive committee and various working groups— in which all the stakeholders are represented, particularly the firms that form the various links in the value chains of the economic agglomeration.

In general, cluster initiatives define a strategic vision, along with a list of the key projects and actions required to achieve it. Thus, given the need to use resources in the most strategic way possible, cluster initiatives combine productive prioritization, a local approach, interaction among multiple actors and a strategic focus —all of which make them a very powerful instrument to materialize the productive development efforts of Latin American and Caribbean countries. Cluster initiatives have also proven an effective way to coordinate local with national productive development efforts, in other words to ensure that bottom-up initiatives are harmonized and reinforced with top-down initiatives.

Although cluster initiatives are becoming increasingly common in Latin America and the Caribbean,[45] there is significant room for improvement. It is possible to expand their use to all countries in the region, increase the allocation of resources, reduce heterogeneity in terms of the quality and ambition of their agendas, strengthen the professional capacities of the personnel who participate in them and improve the quality of their management, align their work with the concept of experimentalist governance (a topic analysed in the next section), and harmonize them more effectively with the rest of the productive development actions undertaken in the countries and territories.

Accordingly, a broader, more ambitious and articulated use of this approach is seen as a powerful way to strengthen productive development policies in the region. The platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean, mentioned above, will facilitate the work of ECLAC in this area.

5. Improve the governance of productive development policies in line with the experimentalist governance approach

Governance for productive development is understood as encompassing all of the rules, arrangements, mechanisms and institutional dynamics for collaboration and collective action that make it possible to organize efforts, actors and resources around strategic agendas for productive development, together with the incentive systems that can be put in place for these purposes. As explained in this section, experimentalist governance is the appropriate approach to productive development policies, so the fifth guideline consists of improving the governance of such policies in accordance with this approach.

[45] See Llinás (2021), Monge-González, Salazar-Xirinachs and Espejo-Campos (2018), O’Neil and García (2015) and Aboal, Perera and Rovira (2020).

Articulation is a particularly important element in productive development policies and agendas.[46] In general, their implementation involves at least four types of interaction. Public-private articulation is essential, since it is the private sector that knows which bottlenecks prevent it from achieving higher levels of productivity, while governments generally have the solution to overcome these obstacles (or can serve as intermediaries to find it).

Public-public articulation, that is coordination between different ministries and government agencies, is necessary because the bottlenecks that could be hampering the productivity of a given economic activity generally fall within the remit of different ministries and agencies. This means that good coordination is needed to avoid duplication of efforts, along with simultaneity and speed in providing solutions.[47]

Private-private articulation, by contrast, occurs among entrepreneurs themselves and also between entrepreneurs, the academic sector and the research community, the latter being very difficult to achieve in practice. Although there is much talk of the triple (or quadruple) helix model for innovation, alluding to the joint efforts of the public, private and academic sectors, few regions in the world actually achieve synergy between these parties.

The fourth type is nation-region articulation, in other words coordination between policies, endeavours and resources at the national and local levels. In an optimal scenario, these two levels act in a synchronized manner; but this is seldom achieved in practice.

Given the need for interaction on multiple levels, it is essential to deepen the discussion on multi-level governance, in other words on the governance mechanisms that can adapt best to the different conditions and initial capacities of each country in the region and its territories. This is not only a matter of covering governance mechanisms —such as commissions, committees or round tables— where the different public, private and civil society actors jointly formulate and coordinate policies, agendas and projects, but also the financing mechanisms that define the practical support that these strategic agendas can receive and serve as an incentive for the work of the governance system.[48]

The theory underpinning the operation and governance of productive articulation mechanisms and, in particular, cluster initiatives, has recently been developed around the concept of "experimentalist governance".[49] Until very recently, the conventional economic theory of clusters had focused on natural clusters or agglomerations and the reasons for their formation, on the type of externalities that supported public policy intervention, and also on the evaluation of empirical data on their benefits. The economic theory of clusters had not progressed much from the initial analyses that originated with Alfred Marshall himself, although it did move forward in terms of empirical measurements of Marshallian externalities. In contrast to this scant conceptual development, productive development policies and practice based on the cluster approach experienced a real boom in the last 20 years, a period in which several handbooks were produced to systemize these experiences.[50]

Although many lessons and good practices have been compiled in the abundant literature on the "how", until very recently these have lacked a supporting theory. This shortcoming has been remedied and the theory on collaboration, articulation and collective action for productive development policies is now known as "experimentalist governance". The term is associated with the work of Charles Sabel

[46] See Llinas (2021).

[47] See Hausmann (2016).

[48] A good example of this is the incentive mechanisms of the research and innovation strategies for smart specialization mentioned above, which aimed to align actions at the supranational (European Union) level with those at the subnational level (certain regions of European countries). This was based on the condition that local actors could only apply for European Union science, technology and innovation structural funds if the projects submitted were aligned with the research and innovation strategies for smart specialization defined by the territories.

[49] For a comprehensive analysis of this concept and how it relates to productive development policies and the cluster approach, see Salazar-Xirinachs (2020), on which the following paragraphs of this section are based.

[50] See Karlsson (2008), Monge-González, Salazar-Xirinachs and Espejo-Campos (2018), Institute for Competitiveness & Prosperity (2019), and Oqubay and Lin (2020).

and his co-authors at Columbia University. However, Andrews, Pritchett and Woolcock (2017), from Harvard University, also developed a similar approach referred to as “problem driven iterative adaptation”.

The specific conditions under which the “governance architecture” of experimentalism works and is particularly suitable for productive development policies are as follows: (i) there is a widely shared perception of the problem; (ii) there is a common framework for objectives and metrics, subject to revision, in which “central” and “local” entities participate; (iii) the local units (in this case, the cluster initiatives) have complete freedom to use whatever means they deem suitable for achieving their objectives, within the common framework (in other words they are self-governing); (iv) in exchange for this autonomy, the local units are required to report to the central units on their progress in achieving the objectives, and also to participate regularly in peer review processes to learn about the achievements, progress and lessons of other local units; and (v) the objectives, metrics and decision-making procedures are regularly reviewed based on the results of the peer review process.

This form of governance is particularly suitable in “polyarchic” situations —where effective power is distributed among the various self-governing units— and of strategic uncertainty, that is in rapidly changing environments —such as the competitive environments in which cluster companies find themselves. This means that effective solutions can only be defined on the basis of a collective process undertaken by the key players, and not *a priori*, even if done by experts.

Although there are many more aspects of interest in the concept of experimentalist governance,[51] it is essential to understand policy management as consisting of collaborative and iterative processes. Problems are both detected and resolved through collaboration by multiple actors from the public, private and academic sectors and civil society, and through permanent iterations of implementation and learning. These lead to the collective identification of solutions and, more importantly, to their sustained application over time. In other words, it is a model where recursion reigns: it is implemented, evaluated, adjusted and implemented again, in a continuous iterative process.

Although this is a novel approach to public policies, in Latin America and the Caribbean there are already several examples of this approach being applied to implement productive development policies. Examples include the Querétaro Aerocluster (Mexico) (Moreno-Brid and Dutrénit, 2018), the wind energy cluster in Uruguay (Bértola, 2018), the agricultural machinery cluster in Argentina (Arza and others, 2018), Costa Rica’s medical devices cluster (Salazar-Xirinachs, 2020), the high-tech clusters (electronics, biotechnology and automotive industry) of the State of Jalisco (Mexico) (Ferraro and Rojo, 2018), and the cluster initiatives of the Bogotá region (Llinás, 2021). These and other cluster initiatives that have been successfully implemented for years in several of the region’s countries have used the experimentalist governance approach in one way or another, in practice although not always explicitly. Another example of the use of this approach outside of cluster initiatives is the executive round-table model implemented in Peru by the then Minister of Production, Piero Ghezzi. This sought to overcome the main obstacles to the growth of certain sectors, based on the development of specific institutional mechanisms and dynamics (Ghezzi, 2019).

6. Conduct continuous evaluations, to be able to correct policy direction in a timely manner under changing conditions of strategic uncertainty

One of the best opportunities for enhancing productive development in the region concerns evaluation, since many of the actions being undertaken at both the national and the subnational levels are not being evaluated.

[51] For further details and related bibliography, see Salazar-Xirinachs (2020).

Evaluating these endeavours is even more important from the standpoint of experimentalist governance —which, as explained above, should govern productive development policies. It is evaluation that determines whether or not a measure yields the expected results; and, therefore, whether or not the collaborative processes and interventions in question need to be adjusted, discarded or expanded in subsequent iterations. Evaluation also indicates whether or not progress is being made in meeting the indicators and targets defined in productive development policies, in order to determine whether the interventions and instruments applied to the prioritized productive activities should be persevered with.

Compounding the lack of evaluation that exists in the region's public sector, universities and research centres have very low research capacity, relative to the productive development actions implemented by the countries and their territories, when they could be a major source of feedback to improve the actions in question.

In addition to evaluation capacities, it is essential to strengthen the knowledge management capacity of the countries and their territories, to ensure the dissemination of what works and what does not, avoid past mistakes and build on what has been achieved in this area. This is essential to avoid abrupt course changes and interruptions in the region's productive development efforts.

V. What should be done in a new context in which other regions are increasingly deploying industrial policy?

In a general context in which many countries are expanding their industrial policy efforts, particularly the developed countries and other powers with vast resources, and where a major reorganization of global supply chains is unfolding, two strategic lines of action are becoming essential: first, to raise the level of ambition and improve the implementation of productive development policies in line with the guidelines set out at the start of this section; and, second, to create links with industrial policies in other countries and take advantage of the opportunities of the ongoing reorganization process. One way to achieve the latter is by attracting investment and collaboration.

The countries of the region should explore ways to ensure that at least part of the incentives that other countries provide to firms in their territories to encourage relocation and investment, can also be applied to the investments that those countries' firms make in Latin America and the Caribbean. The possibility of extending these benefits to firms in the region that participate in value chains that include firms from elsewhere, should also be explored. The region should seek to reach agreements with these countries in order to extend the respective benefits. The European Green Deal or the Inflation Reduction Act and the Science and Creating Helpful Incentives to Produce Semiconductors Act of the United States, along with the agendas set by China in this domain, are a good starting point for exploring this possibility.[52]

It is also important to try to align investment and collaboration opportunities between Latin America and the Caribbean and the rest of the world with the production priorities defined by the region's countries in the framework of their industrial or productive development policies, at both the national and subnational levels. It is essential to generate complementarities between the interests of international investors and the public-private productive development agendas of the region's countries and their territories. Thus, financing through foreign direct investment would be complemented by agendas aimed at resolving other bottlenecks, which would allow investment and collaboration opportunities to become a reality.[53]

[52] For an example of this type of exploration in the case of industrial policies in the United States, see Artecona, Velloso and Vo (2023).
[53] For further details, see ECLAC (2023b).

VI. Other areas of work to improve productivity Latin America and the Caribbean

The productivity of Latin American and Caribbean countries will depend not only on the productive development policies —as defined in this article— that can be implemented, but also on work done in other areas. Examples include public sector productivity in the provision of public goods (for example, health and education), the efficiency problems generated by high transportation costs in cities, infrastructure agendas, institutional strengthening, the deepening of financial markets, regulatory frameworks for the labour market or competition policies. The countries of the region should continue to work on these other fronts, while simultaneously broadening and deepening their actions in the productive development domain.

VII. Concluding remarks

To overcome the challenges they face, the countries of Latin America and the Caribbean need to make substantial changes to their development models. One of these involves breaking out of the trap of sluggish growth and slow transformation of the production structure. This article has made a diagnostic assessment of the situation and proposed a new strategy for growth, transformation of the production structure and employment based on productive development policies. This encompasses a wider range of sectors than earlier models that focused exclusively on industrialization; and it adopts a very different approach to developing these policies effectively in the region.

Six guidelines are proposed to steer action on productive development policies: (i) raise the level of ambition and improve the implementation of these policies; (ii) target specific sectors and activities; (iii) balance the centralized and decentralized or territorial approach; (iv) use the cluster approach as an effective solution, integrating productive prioritization, territorial proximity, strategic focus and experimentalist governance; (v) improve the governance of productive development policies in line with the experimentalist governance approach; and (vi) strengthen capacities for evaluating productive development policies with appropriate metrics and peer review processes. While the scale of productive development policy endeavours is important, the nature of the productive development policies implemented is equally or more so, as argued in this article.

Achieving higher, sustained, inclusive and sustainable growth does not depend on productive development policies alone; it will also require higher levels of investment, better trained human talent, reduced levels of inequality and exclusion, and improved and consolidated political and governance systems. However, the broadening, deepening and improvement of productive development policies, along the lines proposed in this article, is a measure that could boost growth in the short term and on which endeavours should largely be concentrated.

Moving in this direction will require a comprehensive approach to find real solutions to the low growth and productivity trap. To this end, the first step is to recognize that frequent prescriptive soundbites, such as “informality must be reduced”, “the export basket must be made more sophisticated and diversified”, “more must be invested in science and technology” or “the investment climate must be improved” will not elicit higher, sustained, inclusive and sustainable growth. These are all important factors, but they are not enough on their own. It is necessary to examine in greater depth how to fulfil these prescriptions, based on an integrated approach to productive development policies such as that presented in this article.

ECLAC will continue to deepen these lines of work, putting forward a renewed and comprehensive vision of how to meet the challenges involved in achieving higher, sustained, inclusive and sustainable growth and changing the trend of productivity in the region, while also providing platforms and mechanisms to work on these issues and foster mutual learning.

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Macroeconomic policies for investment and sustained and sustainable development

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Abstract

Climate crises will adversely impact the already weak and volatile growth of Latin American and Caribbean countries and significant public and private investment in adaptation and mitigation will be needed to address the effects of climate change. This is no easy proposition in a region that underinvests and has a complex macroeconomic scenario. Macroeconomic and financing policies have great potential to boost investment, but fiscal policy must safeguard public investment during fiscal consolidation processes and find ways to enhance it during recovery phases in order to crowd in private investment. Monetary policy, in coordination with macroprudential regulation, must not only help to manage domestic demand over the economic cycle, but also embed climate-related risk in financing.

Keywords

Climate change mitigation, economic growth, macroeconomics, Latin America and the Caribbean

JEL classification

E6, O4, H54

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I. Introduction

The Latin American and Caribbean countries suffer from a chronic low-growth problem. For three decades, growth rates have been low and volatile, at an annual average rate of 2.5% for the period 1990–2023. This translates into real per capita yearly growth in gross domestic product (GDP) of 1.2%. Even worse was the period 2014–2023, when real GDP growth averaged just 0.8% and the per capita figure dropped to 0.1%. The Economic Commission for Latin America and the Caribbean (ECLAC) has described this time as a new lost decade.

The growing adverse impact of climate change represents a new constraint on the region's growth and threatens to sink future growth trends below even the performance thus far, unless the requisite investments are made in adaptation and mitigation of the related shocks.

In the past few decades, the region's macroeconomic trajectory has been unequal to the challenges of productive transformation and adaptation to climate change. The fall in inflation to one-digit rates in almost all the countries from 2000 onward was not accompanied by improvements in other macroeconomic variables. To lacklustre economic growth has been added underinvestment, as real growth in investment averaged 2.1% in the period 1990–2023 and it languished at around 19% of GDP. Labour productivity has been practically stagnant since 1980, total factor productivity has contributed negatively to growth and employment gains have slowed over the last four decades.

This article argues that the increase in investment needed to tackle climate change and boost growth poses major macroeconomic challenges —especially in a region that has the lowest investment rate in the world— and thus will require massive efforts on both the public and the private fronts. Consequently, macroeconomic and financial policies will have to be crafted to stimulate the investment needed to pull the region free of its low-growth and stagnant productivity trap and tackle the urgent need to act on climate change.

ECLAC has long advocated for active use of fiscal, monetary, macroprudential, exchange-rate and financial policies. The policies and instruments that are used to manage the economic cycle affect the path and composition of growth over the medium and long terms, mainly through their effects on investment (Ffrench-Davis, 2006, 2010 and 2015; Ocampo, 2011; Titelman and Pérez, 2015). This article complements the literature on the subject by identifying the new challenges that climate change poses for macroeconomic policy and investment.

The stronger investment needed in the region must not only drive profound changes in countries' productive structure, but also strengthen climate shock adaptation and mitigation. The region's hallmark heterogeneity has acted as a brake on economic growth, which has translated into sharp differences in productivity between firms and sectors, uneven macroeconomic policy capacities to respond to the vagaries of the economic cycle, deep disparities in access to productive financing and high levels of labour market informality.

This article has five sections. Following this introduction, section II examines the main stylized facts of the macroeconomic trajectory of the region's economies over the past four decades and describes the adverse impacts of climate change on their growth and productivity. Next, section III analyses the investment needs to boost growth and address climate change. Section IV discusses the slant of the fiscal, monetary and financing policies needed in the region to meet the investment challenges of gaining a sustained and sustainable growth path. Lastly, section V offers concluding remarks.

II. Effects of climate change on growth in the region

Compared to other world regions, the Latin American and Caribbean countries registered low per capita GDP growth over the period 1950–2019, at 1.8% on average. Only Sub-Saharan Africa showed lower growth (see table 1).

Table 1
Real per capita GDP growth, annual average 1950–2019
(Percentages)

	1950–2019
East Asia and the Pacific	3.9
Central Europe	2.5
Latin America and the Caribbean	1.8
Middle East and North Africa	2.0
Southern Asia	2.9
Sub-Saharan Africa	1.2
Organisation for Economic Co-operation and Development (OECD)	2.9

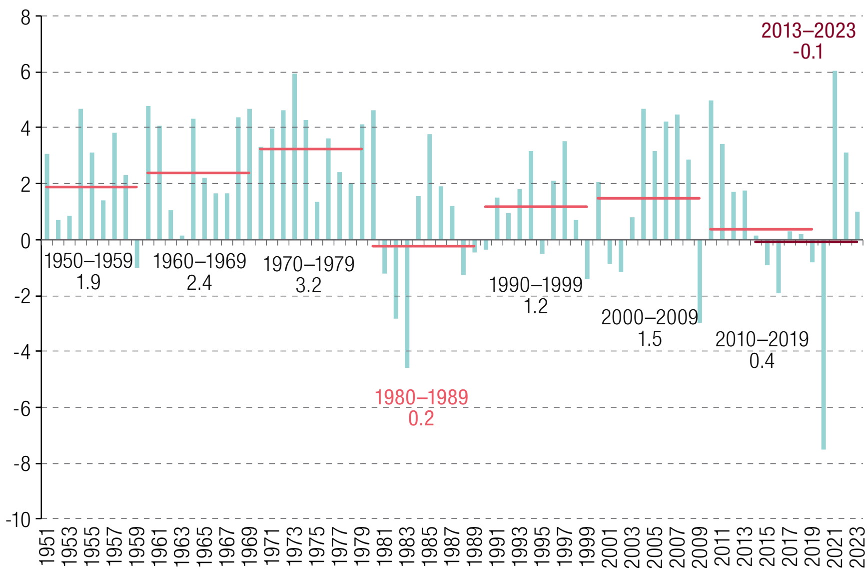
Source: Prepared by the author, on the basis of R. Feenstra, R. Inklaar and M. Timmer, "The next generation of the Penn World Table", *American Economic Review*, vol. 105, No. 10, Nashville, American Economic Association (AEA), 2015.
Note: At 2017 prices.

The external debt crisis of the 1980s marked a before and after in the region's per capita GDP growth pattern. Between 1950 and 1970, per capita GDP growth averaged 2.5%, rising to 3.2% in the 1970s. By contrast, in 1990–2023, average per capita GDP growth was just 1.2% (see figure 1).

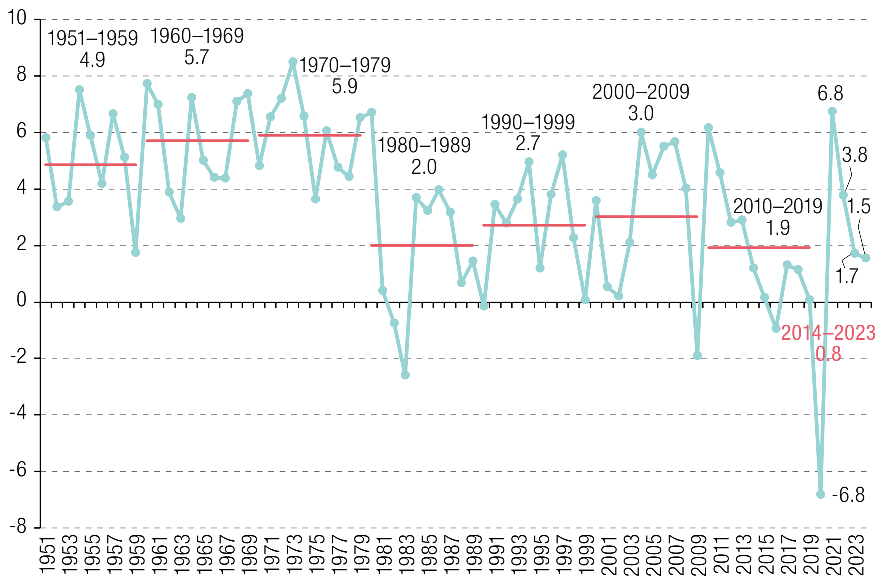
The region's real per capita GDP growth slowed heavily from 2010 onward and averaged 0.4% in the decade 2010–2019 —the lowest figure since the 1950s, apart from the lost decade of 1980s. Between 2014 and 2023, a period that ECLAC has described as a new lost decade, per capita GDP will have contracted by 0.1% in the region (see figure 1).

Figure 1
Latin America (18 countries):[a] real growth in per capita GDP and GDP, 1951–2023
(Percentages)

A. Per capita GDP



B. GDP



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: At 2018 prices. Data for 2023 are ECLAC projections.
[a] Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Regional growth has not only been chronically low; it has also been highly volatile (see figure 1B). Macroeconomic fluctuations in the region closely track external shocks through variations in the terms of trade or in capital and financial account flows, which have sharpened in line with the countries' greater openness and integration into the international financial system.[2] The region's output volatility has been extensively documented (ECLAC, 2002; Ffrench-Davis, 2006; Ocampo, 2011 and 2015; Restuccia and Rogerson, 2017).

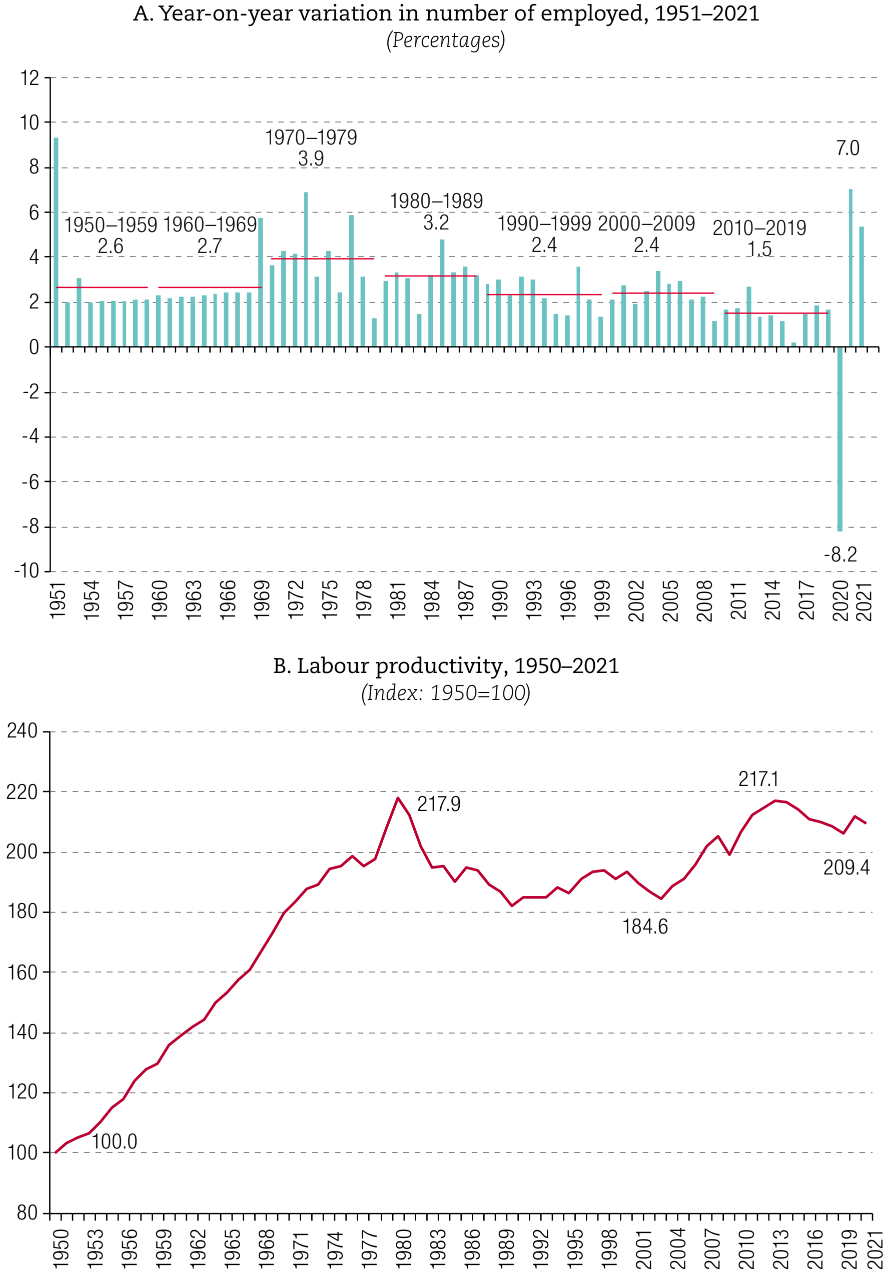
Their vulnerability to external shocks imprints certain unique characteristics on the economic cycles of developing economies, particularly those of the region, which are manifested in greater short-term macroeconomic (real and monetary) volatility (Titelman and Pérez, 2015; Pérez and Pineda, 2010). These authors find that, although downswings are similar in magnitude and duration to those in other developing regions, upswings tend to be smaller and shorter. This tendency towards weak recovery may be attributed to slow credit growth during the expansionary phase and the fact that little of it goes into productive activities, which holds back growth in variables such as productivity and investment. This means that, on the one hand, short-term fluctuations impact long-term performance and, on the other, the relationship between the short and long terms is determined by the interaction between real and financial variables, among which investment is crucial.

The region's poor performance over recent decades is not limited to its GDP. Labour market dynamics have also shown worrying trends in the past four decades, with weak labour productivity gains, falling growth in the number of employed and extensive labour informality.

As figure 2 shows, growth in the number of employed in the region has trended downward since the 1980s debt crisis, from an average of 3.9% between 1970 and 1979 to 3.2% between 1980 and 1989 and 2.4% between 1990 and 2009. Thereafter, the weaker growth period in the region between 2010 and 2019 was also associated with slacker employment growth, which fell to the lowest rate since 1950 (1.5%).

[2] Ocampo (2011) described this as "balance of payments dominance".

Figure 2
Latin America (18 countries):[a] number of employed and labour productivity, 1950–2021
(Percentages and index)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

At the same time, labour productivity has tended to stagnate since 1980 (see figure 2B). After average yearly growth of 2.6% between 1950 and 1979 —when it outperformed the United States' average of 2.0%— it contracted at an average rate of 0.1% year-on-year between 1980 and 2021. Its performance between 2004 and 2013 on the back of the commodities boom brought labour productivity close to its 1980 level, but the end of the commodity price supercycle broke that trend and labour productivity has been slipping ever since.

The behaviour of labour productivity has widened the productivity gap between the countries of the region and the United States and other emerging economies. Latin America's labour productivity went from representing 32.1% of the United States figure between 1991 and 2003, to 26.6% between 2014 and 2021. By contrast, the Korean economy's labour productivity went from 44.9% of the United States figure in 1991–2023 to 61.3% in 2014–2021. Singapore's labour productivity rose from 104.3% of United States labour productivity in 1991–2023 to 126.3% in 2014–2021 (see table 2).

Table 2

Developed economies, Latin America and other emerging economies: labour productivity in relation to United States labour productivity, 1991–2021

(Percentages)

	1991–2003	2004–2013	2014–2021
Organisation for Economic Co-operation and Development (OECD)	79.9	76.0	73.9
European Union	82.1	77.8	75.2
Japan	73.7	67.1	62.5
China	5.3	12.1	21.2
Singapore	104.3	116.8	126.3
Republic of Korea	44.9	56.2	61.3
Sub-Saharan Africa	7.5	9.6	13.7
Latin America	32.1	28.0	26.6

Source: Prepared by the author, on the basis of R. Feenstra, R. Inklaar and M. Timmer, "The next generation of the Penn World Table", *American Economic Review*, vol. 105, No. 10, Nashville, American Economic Association (AEA), 2015.

Note: At 2017 prices.

A breakdown of the contribution of the factors of production shows that regional growth has been driven by the accumulation of these rather than by productivity. Labour accounts for 55.1% of the variation in the region's GDP growth rate between 1990 and 2023, while capital accounts for 54.6%. In that period, total factor productivity made a negative contribution to growth. It is worth noting that total factor productivity contributed positively to GDP growth only in the 1990s (see table 3). These findings are in line with those reported in the literature on growth in the region (Loayza, Fajnzylber and Calderón, 2004; Aravena, Hofman and Escobar, 2018).

Table 3

Latin America (18 countries):[a] contribution of capital, labour and total factor productivity to GDP growth, 1990–2023

(Percentages)

	Capital	Labour	Total factor productivity
1990–1999	43.0	43.6	13.4
2000–2009	45.6	55.4	-1.0
2010–2019	79.6	64.8	-44.3
2020–2023	74.1	73.1	-47.2
1990–2023	54.6	55.1	-9.7

Source: Prepared by the author, on the basis of official figures.

Note: At 2018 prices.

[a] Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Added to growth-constraining issues in the region are obstacles to growth deriving from climate change. The persistent and increasing impact of rising temperatures and more frequent extreme weather events threatens to undermine the region's already low medium-term growth, principally through rapid capital depreciation and lower labour productivity. Environmental degradation will reduce labour productivity in sectors that are important for many countries in the region, such as agriculture and tourism. At the same time, the stock of public capital —infrastructure— is highly exposed to these shocks, with adverse impacts on the provision of the public economic services needed to underpin the creation of dynamic economies (Dasgupta and others, 2021).

The impact of climate change on the growth trajectory is far from insignificant. A recent study on six countries that are highly vulnerable to climate change in Central America and the Caribbean (Titelman and others, 2023) found that worsening climate shocks could reduce GDP (the size of the economies) by between 9% and 12% by 2050, compared to a trend growth scenario. These countries are especially vulnerable owing to their heavy dependence on economic sectors —such as agriculture and tourism— that will suffer significant dislocation as a result of the growing impact of climate change.

III. Investment needs in a region that underinvests

It will take a powerful investment push to boost growth and address the deleterious effects of climate change on the region's economies and societies. For the region's economies as a whole, Bhattacharya and others (2022) estimate that 6.8% of GDP would have to be invested annually in human capital, sustainable infrastructure, agriculture, adaptation and resilience, among other things, in order to achieve the Sustainable Development Goals (SDG). Rozenberg and Fay (2019) arrive at similar figures —7.2% of GDP annually— to close gaps in electricity, transport, water sanitation, flood protection and irrigation. Other estimates for the region converge with these values. Rozenberg and Fay (2019) estimate an additional investment effort in infrastructure of between 2.6% and 8.8% of annual GDP. These values rise even more if the efforts needed to meet social demands are computed. For six countries in the region thar are highly vulnerable to climate change, Titelman and others (2023) estimate that the additional investment needed to offset the adverse effects of worsening climate shocks on growth ranges between 5.3% and 10.9% of annual GDP, depending on the country.

Achieving this level of investment is made all the more difficult by the pattern of investment in the region over the past three decades. Latin America and the Caribbean posts lower investment rates than other emerging economies, and its growth has been very low, especially since the 1990s (ECLAC, 2022b). Like the pattern of GDP growth, investment behaviour is very dissimilar before and after the external debt crisis. Between 1951 and 1979, regional investment growth averaged 5.9% per decade and its highest average growth by decade occurred in the 1970s (6.3%) (see figure 3). Between 1990 and 2021 the average growth rate per decade was just 2.9%.

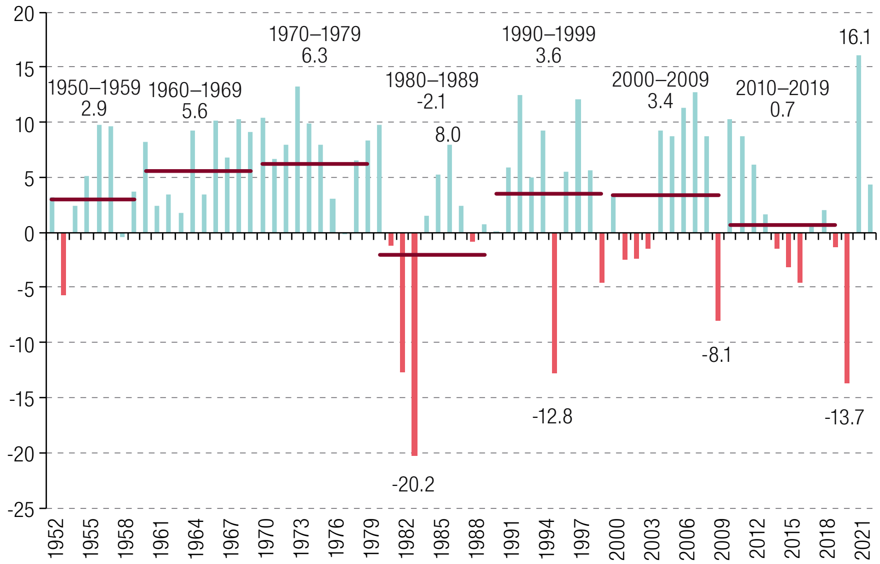
Investment patterns have closely tracked commodity prices, rising steadily for five years during the supercycle, with growth rates above 9%. Thereafter, investment was slow to recover in the wake of the 2008 financial crisis, then stagnated in the 2010s with average annual growth of just 0.8%. But investment growth has not only been sluggish in recent decades, it has also become more volatile, with more frequent contractionary cycles. In fact, starting in the 1990s, upswings in public and private investment became both shorter and weaker, while downswings became more frequent (ECLAC, 2022b).

Since 2011, public and private investment have trended in different directions. Between 2010 and 2019, public investment contracted 2.8% on average per year, while private investment grew by 3.1%. This contrasted notably with the period 2000–2009, when yearly public investment growth averaged 7.4% (ECLAC, 2022b). As a result, public investment has fallen to low levels not only in absolute terms but also relatively speaking. General government public investment in the region is well below the levels seen in advanced economies and even in other developing regions. As a result of limited public investment, the stock of public capital —economic infrastructure— is insufficient to underpin growing economies and support productive transformation and productivity (see figure 4).

Figure 3

Latin America (18 countries):[a] growth rate of real gross fixed capital formation, 1952–2021

(Percentages)



Source: Prepared by the author, on the basis of official figures.
Note: At 2018 prices.
[a] Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

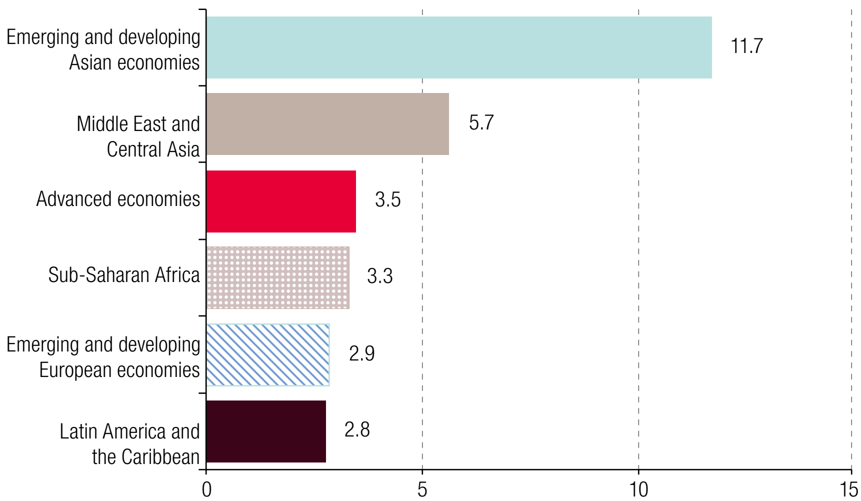
Figure 4

Selected regions: gross fixed capital formation and general government capital stock, 2015 and 2019

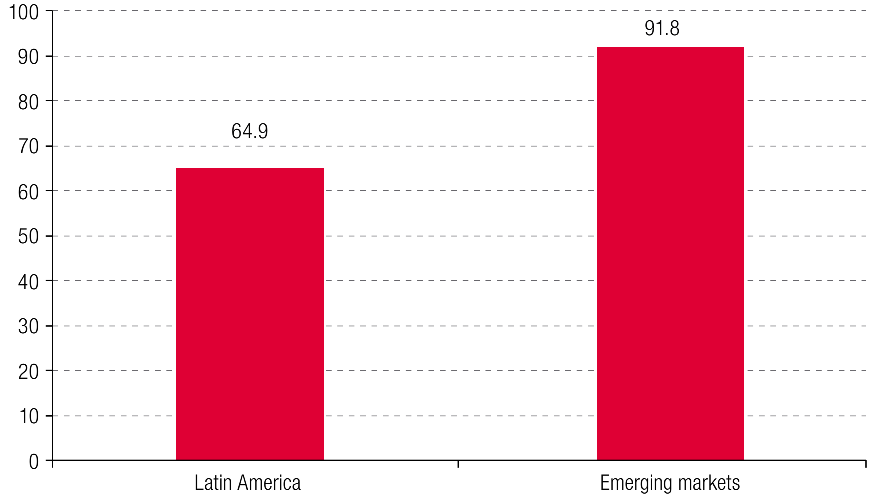
(Percentages of GDP)

A. Gross fixed capital formation, 2019

(Percentages of GDP at constant prices)



B. Capital stock, 2015
(Percentages of GDP)



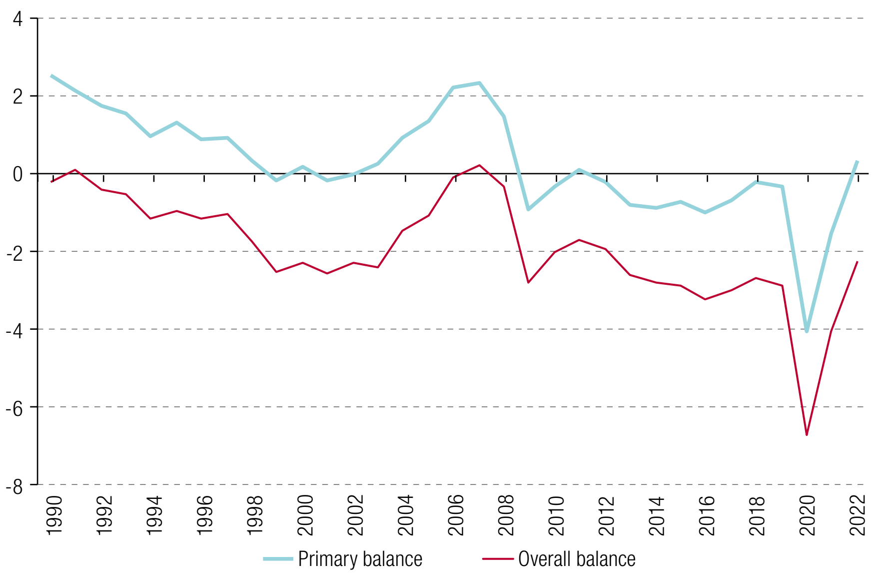
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Investment and Capital Stock Dataset (ICSD)" [online database] https://data.imf.org/?sk=1CE8A55F-CFA7-4BC0-BCE2-256EE65AC0E4.

Note: Weighted averages calculated on the basis of gross domestic product (GDP) at purchasing power parity (PPP), in international dollars at current prices.

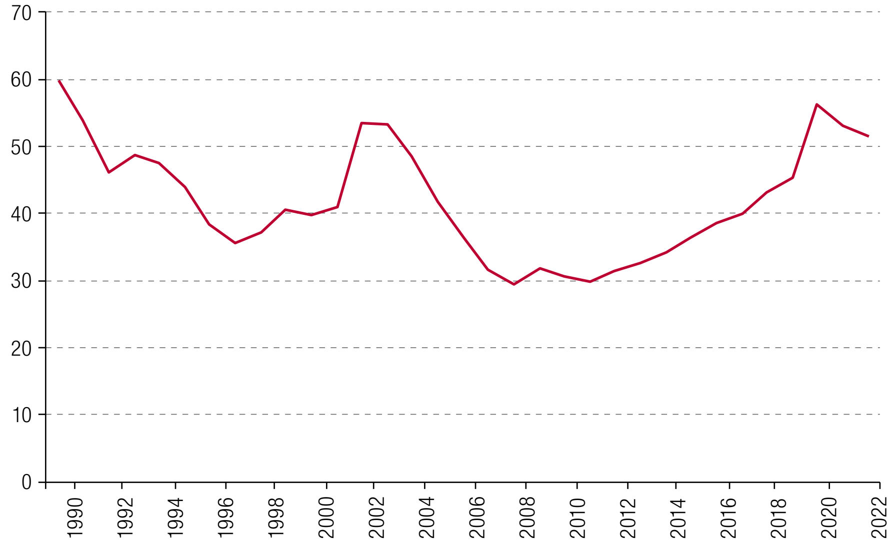
Public investment performance reflects the narrowing of the fiscal space in the countries of the region. As figure 5 shows, the public deficit and sovereign debt have fluctuated over the past 30 years with the impacts of various economic crises and (positive and negative) external shocks. The crisis caused by the coronavirus disease (COVID-19) pandemic and the fiscal efforts made to deal with it have left the region with debt levels similar on average to those of 1990.

Figure 5
Latin America (16 countries):[a] fiscal balances and central government gross public debt, 1990–2022
(Percentages of GDP)

A. Fiscal balances



B. Gross public debt



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

In a context of ever rising financing costs, public debt service limits the fiscal policy response capacity. Figure 6 shows that Latin American central governments' interest payments climbed significantly over the past decade, to reach 2.6% of GDP in 2022. The picture is also highly uneven, with these payments representing almost 5% of GDP in Brazil, compared to around 1% in Chile. As a result, countries are devoting a growing proportion of tax revenues to debt service. In 2022, interest payments exceeded 20% of GDP in Brazil, the Dominican Republic, El Salvador, Mexico and Panama, and reached 30% in Colombia and Costa Rica.

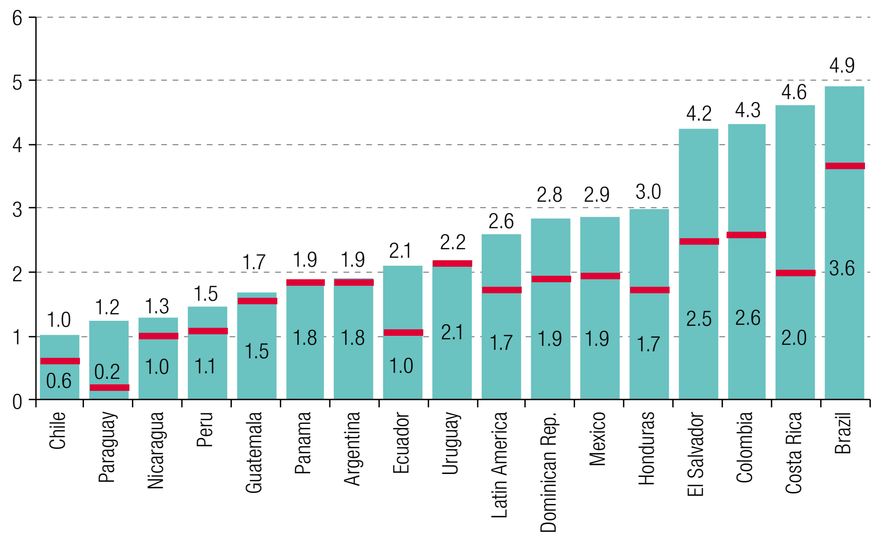
Figure 6

Latin America (16 countries): central government interest payments, 2012 and 2022

(Percentages of GDP and of tax revenues)

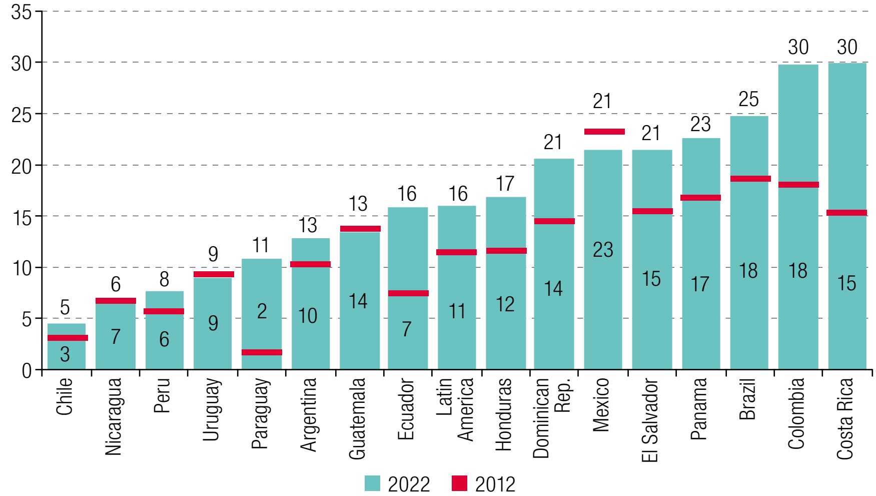
A. Interest payments

(Percentages of GDP)



B. Ratio of interest payments to tax revenues

(Percentages of tax revenues)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

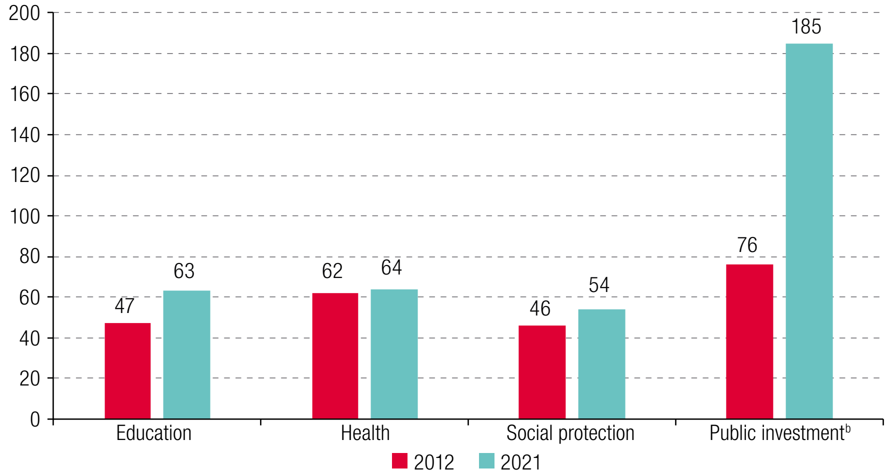
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

The growing debt service burden and its impact on the fiscal space impose heavy constraints on growth (ECLAC, 2023b). In several of the region's countries, debt service matches or exceeds expenditure on education, health and social protection. There is also a worrying imbalance between interest payments and public investment, which has tended to be used as the main fiscal adjustment variable over the past decade. Most countries devote more resources to interest payment than to public investment, which undermines economic growth, productive development and investment in climate change adaptation and mitigation (see figure 7).

Figure 7

Latin America and the Caribbean (21 countries):[a] ratio of central government interest payments to expenditure on education, health care, social protection and public investment, 2012 and 2021

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

[a] Argentina, Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay. Figures for Brazil, Colombia, Costa Rica, Guatemala, Paraguay and Peru refer to the general government. Figures for Argentina, El Salvador, and Mexico refer to the non-financial public sector. Figures for acquisitions of fixed assets as a share of interest payments refer to the central government in all cases.

[b] Refers to acquisitions of fixed assets. Excludes capital transfers and financial investment.

IV. Macroeconomic policy, investment and sustained and sustainable growth

1. A sustainable fiscal path to boost investment and social spending

Fiscal policy design must reconcile its role in the management and stability of the economic cycle with its function in catalysing dynamic, sustained and sustainable growth through public investment and efficient and effective public spending. This necessarily means tackling inadequacies in fiscal policy management in the region and progressively crafting a new fiscal covenant to underpin a sustainability framework for public finances based on increasing recurrent revenues and improving expenditure allocation.

The historically limited fiscal space in the countries of the region has constrained the countercyclical response capacity of fiscal policy. It has also acted as a heavy drag on policymakers' ability to pursue and sustain public investment and social spending.

As various studies have documented (Alesina, Tabelini and Campante, 2008; Talvi and Végh, 2005), fiscal policy in Latin America and the Caribbean tends to be volatile and procyclical, lacking automatic stabilizers to aid the management of the economic cycle. Because the region has historically run fiscal deficits —as public revenues are insufficient to cover public spending demands— fiscal adjustments during contractionary periods tend to be hefty, which exacerbates the downward phase of the cycle. At the same time, with low levels of public investment, the public sector plays a limited role in supporting medium- and long-run growth.

In this context, in order to manage the economic cycle, the fiscal space must be expanded to generate the buffers to finance countercyclical spending and protect public investment, without undermining public debt sustainability. Public spending adjustments in the region's countries usually take the form of sharp falls in public investment, one of the main lines of discretionary spending (Ardanaz and Izquierdo, 2017).

An aggravating factor in this pattern is that the public investment expansion during upswings is usually too small to make up for its contraction during downswings. Given the importance of public investment as a driver of growth in the short and medium terms, it is essential to institute financing mechanisms —including stabilization funds— to limit harmful cuts. It would also be worthwhile to review fiscal rules, considering the public investment implications of their design and implementation (ECLAC, 2022a).

Fiscal policy procyclicality also reflects the weakness of automatic stabilizers in the region. These instruments, like personal income tax and unemployment insurance, respond to cyclical movements and help stabilize aggregate demand without the need for changes in public spending or tax codes. Personal income tax collection and coverage are limited in the region, which constrains its potential as an automatic stabilizer in contractionary phases. Unemployment insurance is also limited in coverage. In 2018, only 10 countries or territories in the region —Anguilla, Argentina, Bahamas, Barbados, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador and Uruguay— had this type of insurance (ILO, 2020). Furthermore, usually only workers in the formal sector are covered by unemployment insurance, which makes it even less effective as an automatic stabilizer.

Both personal income tax and unemployment insurance, as well as other social entitlements for unemployed workers, impact on fiscal revenues and expenditures. In the case of personal income tax, the impact is reflected in reduced tax collection, in line with the decline in gross national income, while the use of unemployment insurance pushes up public spending through increased cash transfers. So, in addition to improving the design of automatic stabilizers, the fiscal space needs to be widened so that they can operate freely. This means creating or strengthening stabilization funds to accommodate movements in automatic stabilizers and mitigate cyclical impacts on tax revenues and public spending.

Public spending policy also needs to develop a strategic perspective to be more effective in reducing social gaps and boosting the economy's growth potential, prioritizing measures that will yield high economic, social and environmental returns. Public spending should aim not only to meet current needs, but also to foster sustainable and inclusive development in the medium and long terms.

In this context, public investment could represent a significant boost to economic growth in Latin America and the Caribbean. Izquierdo and others (2019) argue that public investment produces greater fiscal multipliers in countries with low capital stock —such as those in the region— than in countries with high capital stock. They also draw attention to the crowding-in effects of public investment, given its positive secondary effects on the marginal product of private capital. Safeguarding public investment in the contractionary part of the cycle is also crucial to raise medium-term growth potential.

Expanding fiscal space to accommodate higher levels of investment means raising public revenues, not only by increasing tax collection, but also by making it more progressive. It is essential, in the short run, to take steps to address high levels of tax evasion.Tax non-compliance in Latin America has represented US$ 325 billion, or 6.1% of regional GDP (ECLAC, 2020). Reviewing tax expenditures would also offer a key opportunity to strengthen public revenues quickly. In 2021, tax expenditures in Latin America averaged 3.7% of GDP, which represents 19% of the central government's budgetary spending (ECLAC, 2023a). Another important step is to bring tax codes into line with new good practices for taxation of the digital economy.

Over the medium term, fiscal compacts must be built to strengthen personal income tax, the main gap in taxation between the region and the Organisation for Economic Co-operation and Development (OECD). The scope of wealth and property taxes should also be expanded. Countries could consider adopting environmental and public health taxes and producers of non-renewable natural resources could review and update the fiscal frameworks applicable to the extractive sector (ECLAC, 2022a and 2023a)

There are ample opportunities to raise additional financing in financial markets by means of innovative financial instruments (Titelman and others, 2023). Issuances of thematic bonds (green, blue, social, sustainable and environmental, social and governance (ESG)) have increased markedly in the region since 2020. However, only a limited number of countries engage in these markets, which speaks to the need to establish the necessary institutional framework, including the adoption of internationally recognized thematic bond frameworks. Countries could also consider measures to attract private investments from global sustainable investment funds into projects with high economic and social returns.

2. Monetary and macroprudential policies to preserve stability and boost investment in climate change adaptation and mitigation

Monetary policy has played a key role in managing the economic cycle in the region (Cantú and others, 2021) and in significantly reducing inflation over the past three decades. Now, adding to the traditional challenges they face, the region's monetary and financial authorities must foster investment, not only to boost growth and the provision of public goods, but also to address the challenges (and seize the opportunities) posed by adaptation to climate change and decarbonization of the economies.

In addition to expanding the spectrum of macrofinancial policies, monetary and regulatory authorities should neither overestimate the effectiveness of interest rates in preserving nominal stability, nor underestimate the adverse impacts of generalized credit contraction on crucial growth determinants (such as investment) and thus on medium- and long-term growth prospects. It is therefore imperative for the region's monetary and financial authorities to expand the set of tools at their disposal and —as they did during the COVID-19 pandemic (ECLAC, 2020)— seek beneficial complementarity between all available conventional and non-conventional tools.

The region's macrofinancial stability would benefit from more active use of macroprudential policy, coordinated with other policies that touch on financial intermediation, with capital controls (including of cross-border capital flows) and with active management of international reserves (Ocampo, 2011; Ffrench-Davis, 2006). In this context, it is essential to take into account the impact of interest rate spreads on financial flows and related exchange-rate volatility.

Today, the region's monetary and financial authorities also need to expand their tools to preserve macrofinancial stability amid the financial risks posed by climate change, which may become sources of systemic risk, as acknowledged in the Basel III framework. The materialization of climate risks can cause demand and supply shocks and affect price levels and variability (with impacts on the conduct of monetary policy) (Batten, Sowerbutts and Tanaka, 2020). Overuse of interest rates to control persistent inflationary pressures could delay the "green" transition process by dampening investment and, therefore, further increase climate risk.

Various central banks and financial oversight bodies in the region have incorporated climate into their analyses and tracking of financial stability risks (ECLAC, 2023b). In this regard, the region's monetary authorities have put a great deal of effort into the dissemination of climate-related information in line with international standards and best practices (Torinelli and Martínez-Jaramillo, 2022). There is also growing interest in developing and adopting green or sustainable taxonomies so that financial institutions can distinguish different types of portfolio assets by their potential to aid the transition towards low-emissions economies. There are also growing numbers of initiatives to monitor and measure climate risks, with the use of climate risk stress tests, and to assess the exposure of the banking system and the private sector to climate-related systemic risks.

Given the significant investment needs to address the climate emergency, the monetary and financial authorities of the region must take steps to develop sustainable financing mechanisms, especially types of structured financing, mixed financing and results-based debt instruments.

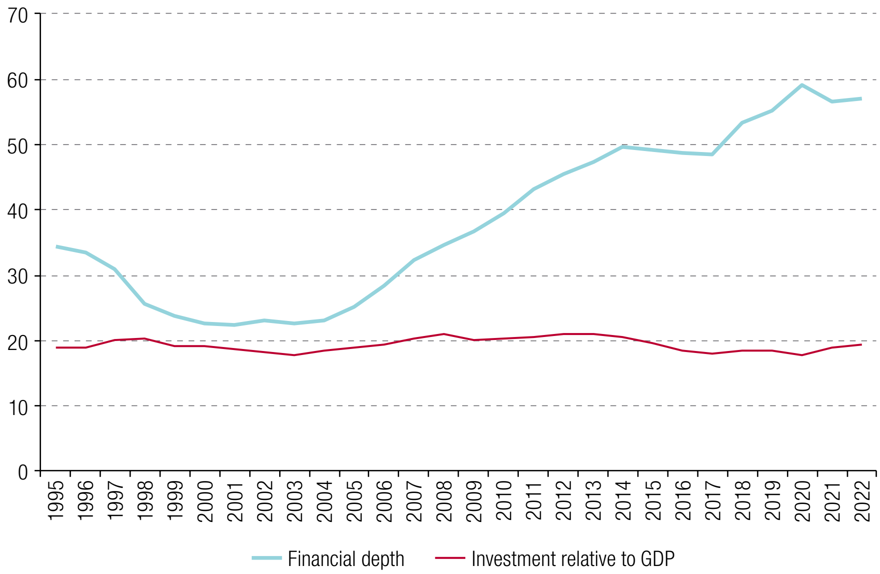
3. Financing for investment and the effort to combat climate change

Having financing available and making productive use of it are both crucial to increase productivity and boost economic growth strategically to pursue productive diversification and meet the needs for investment in climate change adaptation and mitigation. Financial development requires designing and building an inclusive financial system geared towards financing the productive sector.

However, the deepening of the region's financial systems —measured by domestic credit relative to GDP— has taken a different path from investment relative to GDP, as seen in figure 8. While financial depth increased from around 30% of GDP in 2006 to almost 60% in 2022, investment hovered at around 20% throughout that period. In a region that underinvests and is being buffeted by the adverse effects of climate change, it is essential to step up the capacity to mobilize financing towards investment and the productive sectors.

The financial sector is key to managing climate change mitigation and adaptation efforts, by channelling resources towards achieving climate commitments and the SDGs. The development of sustainable finance markets depends on an array of factors, including the national framework in which financial institutions operate, the sensitivity of institutions to investor demands, and the challenges posed by the particular conditions in each country. According to Volz and others (2022), there are at least three policies that can help to align finance markets with sustainability objectives: (i) the use of facilities available to financial intermediaries; (ii) management of the central bank asset portfolio; and (iii) support for initiatives to develop sustainable finance markets. Lastly, developing sustainable finance markets requires the preparation of road maps and guidance on sustainable financing for financial intermediaries and the creation of arenas for dialogue with government bodies. Likewise, progress is needed in carrying out stress tests and developing methodologies for identifying and evaluating climate-related risks in order to facilitate the calibration of policy options.

Figure 8
Latin America and the Caribbean: financial depth and investment, 1995–2022
(Percentages of GDP)



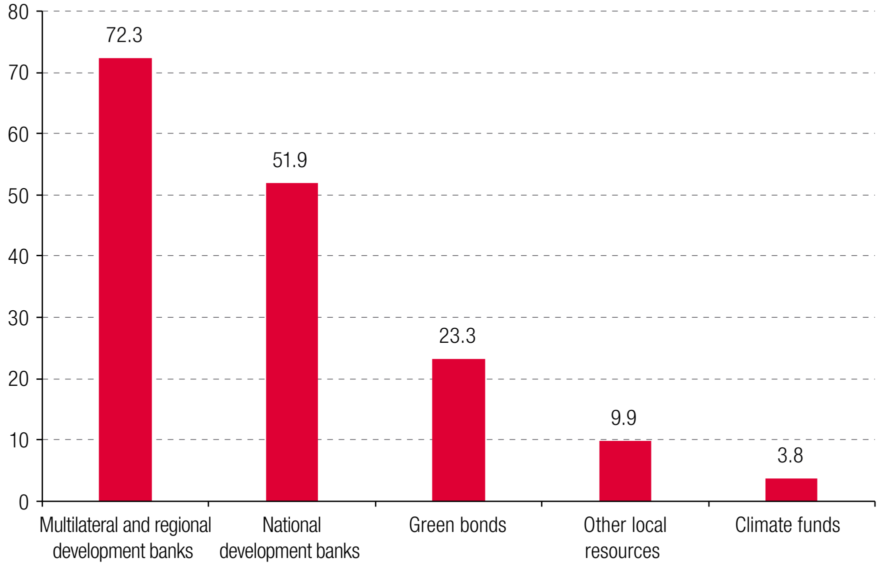
Source: Prepared by the author, on the basis of World Bank, World Development Indicators [online database] https://databank.bancomundial.org/reports.aspx?source=world-development-indicators.

In Latin America and the Caribbean, commercial banks are the largest providers of productive credit to the private sector. Regionwide, the banking system's assets represent on average 73.2% of the assets in the financial system. Credit penetration in productive sectors is much lower in Latin America and the Caribbean than in the developed countries (World Bank, 2023).

Development banking must complement the role of commercial banks in financing productive sectors. Since the mid-2000s, development banks have played an important role in financing economic infrastructure and investment to address climate change in the region, which are typically projects with high capital costs and steep initial investments, often exceeding government budgets and even the capacity of private investors. This means that environmental criteria —not only economic considerations— have become integral to the guiding principles of productive financing. Financing projects of this sort requires financial vehicles capable of crowding in financial capital and strengthening linkages to combine different instruments and sources (public, private and external). Development banks have a great deal to contribute in this regard.

The rise in green financing has been accompanied by changes in the composition of development banks' loan portfolios. The Inter-American Development Bank (IDB) has set a target of 30% of its portfolio for environment-linked investments; the Central American Bank for Economic Integration (CABEI) and the Development Bank of Latin America and the Caribbean (CAF) have set targets of 35% and 30%, respectively. CAF further projects that, by 2025, 40% of its portfolios will be devoted to climate investments, rising to 50% by 2050. Between 2013 and 2020, climate change financing amounted to US$ 161 billion. Multilateral and regional development banks represented 45% of all climate financing flowing to the region (see figure 9).

Figure 9
Latin America and the Caribbean: climate finance, 2013–2020
(Billions of current dollars)



Source: Prepared by the author, on the basis of International Development Finance Club (IDFC), African Development Bank (AfDB), Caribbean Development Bank (CDB) and Climate Bonds Initiative (CBI).

V. Concluding remarks

The Latin American and Caribbean countries have experienced weak and volatile growth ever since the lost decade of the 1980s. Their volatility largely reflects their vulnerability to external financial and real shocks, while their weak growth is a consequence of poor investment performance, stagnation of productivity, limited export diversification and the extensive labour informality that goes with a highly uneven productive structure.

The adverse effects of climate change will further erode growth in the region's economies unless they are counteracted by hefty investment in adaptation and mitigation measures. According to various studies, this effort represents an additional increase in investment of between 5% and 10% of GDP per year.

This is no easy proposition for the countries of the region, which invest little, have limited macroeconomic policy space (making it hard to mobilize domestic resources) and face rising costs for external financing, be it public or private.

Macroeconomic and financing policies can play a crucial role in incentivizing and facilitating greater investment to support sustained and sustainable growth. Fiscal policy must safeguard public investment during times of fiscal consolidation, since it has typically taken heavy cuts in the downward phase of the economic cycle that tend not to be fully made up during the recovery phase. Public investment could significantly boost growth and efforts to combat climate change. Its impact on both these is positive insofar as it crowds in private investment and yields very significant fiscal multipliers in low capital stock countries such as those of the region.

The fiscal space has to be expanded in order to increase public investment in a framework of public finance sustainability together with a sustainable debt trajectory. In the short term, it is crucial to address the high level of tax evasion and review tax expenditures. In the medium term, personal income tax, wealth tax and property tax need to be made more robust and environmental and public health taxes put in place.

On the monetary policy front, the policy rate should be combined with other macroprudential policy tools to offset the adverse impacts on investment of generalized credit contractions.

Macroprudential regulation not only improves the management of domestic demand over the economic cycle, but is also a key tool in embedding the challenges of climate change into financing and financial stability. Part of this is expanding analysis and oversight capacity by developing and adopting green or sustainable taxonomies, so that financial institutions can distinguish the various types of assets in their portfolios by their potential to contribute to a transition towards low-emissions economies. Another factor is the increasing number of initiatives to track and measure climate risks through climate stress tests and to assess the exposure of the banking system and the private sector to sources of climate-related systemic risks.

Finally, productive sector financing plays a crucial role in supporting the expansion of private investment, in general, and in climate change adaptation and mitigation, in particular. Financial development requires the design and construction of an inclusive financial system geared towards productive financing. Development banks have much to contribute to this process, by creating financing vehicles capable of crowding in financial capital and strengthening links that combine different instruments and sources (public, private and external).

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The perpetual pursuit of integration in Latin America and the Caribbean[1]

Luz María de la Mora

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Abstract

Latin America and the Caribbean set out to achieve regional integration. However, sixty years on from the launch of the first major regional project —the Latin American Free Trade Association (LAFTA)— the modest results have fallen well short of the original aspirations. Latin America and the Caribbean is a fragmented region. Institutions for integration have achieved little, and integration has largely appeared in discourse, rather than among national policy priorities. Politicization of integration has hampered progress on the pragmatic and long-term vision offered by this regional project. As supply chains are nearshored, integration is once again becoming an important issue. In view of the national circumstances that must be taken into account to move forward with this major regional project, a number of measures are proposed in this article, to take advantage of nearshoring and pave the way for greater integration, to drive growth, development and well-being.

Keywords

Economic integration, international trade, economic development, regional organizations, regionalism, exports, imports, trade statistics, political aspects, industrial location, trade facilitation, Latin America and the Caribbean

JEL classification

B27, F15, N16

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I. Introduction

Latin America and the Caribbean has been in continual pursuit of regional integration since the very beginning of its independent existence. The notion of an integrated region has formed part of the political ideology of different leaders throughout its history, with a multitude of different approaches and visions. In the nineteenth century, Simón Bolívar's vision of regional integration sought to unite the newly independent countries as the confederation of Gran Colombia. José Martí, meanwhile, proposed a united America. In the twentieth century, Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America (ECLA), was a key figure behind economic integration in the region. His thinking and proposals sought to influence economic and development policies in the region. One of his proposals was to foster growth in the countries of the region by pursuing a move to a single market facilitated by trade flows (Prebisch, 1969). In his vision, growth through the industrialization of all Latin American countries by means of import substitution could be supported by the creation of a single Latin American market that would enable consolidation of a strong internal market (Sotelsek, 2008).

More than six decades have been spent in the pursuit of economic integration in Latin America and the Caribbean by creating a free trade area or common market, but the results are modest and fall far from the declared aim of promoting trade by eliminating barriers to exchanges of goods and services among the countries of Latin America and the Caribbean. Considering trade flows, intraregional trade has accounted for around 15% of all trade between the countries of Latin America and the Caribbean and the world. The region is fragmented between the countries of South America, Central America and the Caribbean and Mexico; moreover, the latter seems a very distant Latin American neighbour given the trade and investment dynamics in the region. Turning to investment, Latin American and Caribbean countries account for a small share of the foreign direct investment (FDI) flows received by the region. Although a record share of 14% was recorded in 2022, this was still less than the 17% of FDI from the European Union or the 38% of FDI from the United States (ECLAC, 2023a).[2] These figures reflect the limited economic, trade and investment integration among Latin American and Caribbean countries.

The integration project in Latin America and the Caribbean has been supported by creation of regional institutions, but they have made little progress. There may be various reasons for this, but what is clear is that there is still much to be done in the area of the institutional framework for integration. The limited advances are an indication of how low a priority regional integration has been for the countries and their different governments.

In the current context of nearshoring and regionalization of supply chains, aiming to diversify China's supply to other countries and regions, regional integration is once again becoming a more important tool for the future of Latin America and the Caribbean to be one of "more productive, inclusive and sustainable development", as stated by ECLAC (2023b). Although modest progress has been made on regional integration, in this article it is argued the time is right to rethink the way forward and reexamine public policies, to return to a course that will enable, through deeper regional integration, opportunities for growth, development, inclusion and prosperity for the citizens of Latin America and the Caribbean.

This article analyses why limited advances have been made with respect to integration of Latin America and the Caribbean and offers proposals that could help build a framework for greater levels of integration. The current state of the integration process in the region is reviewed briefly, focusing on the institutional framework for integration and trade and investment flows. Section II outlines how integration has not been a priority in the agendas of the countries of the region, as there has been a lack of pragmatism and leadership to foster meaningful integration. Greater importance has been attached to nationalism and sovereignty than to the benefits of integration, diverting the region away from this goal. Institutional frameworks for integration are examined, along with the two types of regional initiatives: trade integration and those with

2 Over the 2015–2019 period, FDI from Latin American and Caribbean countries in the region was 10%.

political and ideological motives to develop cooperation agendas. Although these institutional frameworks have been in place for decades, they have produced meagre results. However, at this time there does not seem to be a willingness to reexamine these institutions, so the best approach would be to make use of those that already exist and, adopting a pragmatic approach, further developing the technical areas that can boost the share of Latin America and the Caribbean in supply chain relocation.

Section III analyses the integration situation by examining figures for intraregional trade and investment. The numbers show that integration still has huge potential as, although bilateral and subregional preferential trade agreements do exist, the resulting trade and investment flows are limited, especially among the countries of the Latin American Integration Association (LAIA). This contrasts with the buoyant growth in trade between Latin America and the Caribbean and its extraregional trade partners, such as the United States, China and the European Union.

Section IV reviews the politicization of integration, which is hampering progress on a pragmatic and long-term regional project. Issues relating to nationalism and sovereignty have hindered a number of countries from fully committing to integration projects at different points in the region's history.

Section V outlines how the current context of nearshoring and decoupling of Chinese supply chains from the United States and the European Union may offer an opportunity to boost integration of Latin America and the Caribbean. Interest from countries and companies in implementing a "China Plus One" (C+1) supply diversification strategy, with Latin America and the Caribbean potentially being that "plus one", could drive construction or strengthening of supply chains in sectors such as apparel, footwear, furniture or medical devices. In this respect, productive integration can improve the positioning of Latin America and the Caribbean to participate in regional and global supply chains in an integrated manner.

Lastly, section VI explores the future of integration and the question of whether integration has a future in Latin America and the Caribbean. Given the specific circumstances of the region and the difficulties in making progress on integration, some paths forward are proposed, to build blocs gradually and pragmatically, paving the way for future regional integration. Some proposals are made with respect to how the region can take advantage of nearshoring, which appears to be a long-term trend that Latin America and the Caribbean can participate in, and above all how it can increase integration to boost growth, development and well-being, to build a better future for the people of the region.

II. The institutional framework for integration in Latin America and the Caribbean

Integration in Latin America and the Caribbean is limited, but as an issue it remains on the foreign policy and trade agendas of the region's countries. The term "integration" appears repeatedly in political discourse, but it is not a priority in national public policy agendas. None of the countries of Latin America and the Caribbean have demonstrated a willingness to take the lead on the integration project. Brazil and Mexico, the major economies of the region, have shown no interest in leading a bona fide Latin American integration project, nor have they demonstrated the vision to do so. Moreover, integration has been politicized, depending on the political positions and ideologies of the governments of the region. When the political agendas of different governments have aligned, agreements have moved forward, but when agendas have been at odds, differences have triumphed over the pragmatism that is needed to guide integration. The region has forgotten that, as Prebisch stated in 1969, economic cooperation can be a solid foundation for political unity, but the concept of a Latin American market is separate from any concept of political unification, because a common market does not have a political design, and integration should therefore not be politicized (Prebisch, 1969). But the issue has indeed become politicized, making it difficult to focus on the ultimate goal: achieving an integrated region that can catalyse growth, development, job creation and well-being.

The staunch defence of national sovereignty by countries of the region has also hindered integration, because it has prevented a proper balance being struck between reaping the benefits of integration and subjecting national sovereignty to certain regional rules. Each country is prioritizing its national agenda, and regional cooperation is not seen as a source of strength (Hakim, 2015). In Latin America and the Caribbean, it has not been possible to isolate discussions on sovereignty from integration, so the countries of the region have been unable to "temper their demands of absolute sovereignty … and turn to collective regional action when valued regional norms and interests are at stake." (Hakim, 2015).

The region does not have a body that is equivalent to the European Commission within the European Union or the Coordinating Council within the Association of Southeast Asian Nations (ASEAN), which could oversee progress on a Latin American and Caribbean integration process, and at this time it is difficult to imagine such a body even existing.[3] The only regional organization that could play this role is LAIA, which has demonstrated limited convening power as a forum to discuss and promote integration issues, and even weaker capacity to decisively champion an integration process.

There are two types of regional integration initiatives in Latin America and the Caribbean: those that are economic or trade-related, and those that originated from political and ideological visions, aiming to build a policy cooperation agenda for the participating countries.

ECLAC has actively promoted trade integration in the region. In 1960, it supported the creation of the Latin American Free Trade Association (LAFTA) and in 1980 the establishment of LAIA[4] through the Montevideo Treaties of 1960 and 1980. LAIA was established through different instruments and in substantially different global and regional circumstances than those that enabled the creation of LAFTA (LAIA/ECLAC, 2012).

LAFTA sought to create a free trade area within 12 years (later extended to 18 years) through negotiations among member countries to gradually eliminate tariffs and non-tariff restrictions (LAFTA, 1960). Later, in 1980, LAFTA was transformed into LAIA when the goal of creating a free trade area could not be achieved within the established period, with the proposal to "establish a Latin-American common market, without predetermined chronograms, within a flexible framework in order to allow the establishment of bilateral and sub-regional relations" (LAIA, 1980).

LAIA is currently encountering challenges in taking action to move forward with a regional integration project to eliminate barriers to intraregional trade. In recent years, the Association's ministerial meetings have not been attended by ministers, possibly reflecting the lack of priority given to the issue by its member States and the great challenges LAIA and the regional integration project both face. Although more than six decades have passed since the creation of LAFTA (1960), and in spite of the later establishment of LAIA (1980) and countless initiatives put forward to promote economic, trade and productive integration of the region, the reality is far from the proposed aim.

In addition to LAIA existing as a Latin American integration organization, bilateral and subregional integration agreements have been negotiated since the 1990s to promote economic, trade, political and social cooperation among some countries in the region.[5] Prior to 2000, the average country in Latin America and the Caribbean "held a preferential trade agreement with about 4 regional partners; by 2013 this number rose to close to 10". However, the countries did not always demonstrate great openness to genuine regional integration (World Bank, 2017).

[3] ASEAN comprises 10 countries (Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) pursuing an economic, political and sociocultural community (see [online] https://asean.org/our-communities/economic-community/).

[4] LAIA comprises 13 member countries and a further 2 countries are in the process of joining. It was created in 1980 from LAFTA (which existed between 1960 and 1980), as a regional integration organization to promote the economic and social development of its members.

[5] See the texts of the various trade agreements of Latin American and Caribbean countries on the Organization of American States (OAS) Foreign Trade Information System website (see [online] http://www.sice.oas.org/defaults.asp) and the LAIA website (see [online] https://www.aladi.org/sitioaladi/acuerdosactuales/).

Signing subregional trade agreements has allowed the region to have some presence in the world economy. Such agreements not only contribute to regional integration, they have also created a network of disciplines with differing levels of coverage and aims, as well as different degrees of liberalization of trade in goods and services, when the latter are included. These differences lead to costs for businesses, which must comply with various regulations to obtain preferential tariff treatment (when it is available) in the 33 Latin American and Caribbean markets in the absence of a common market.

From a perspective of economic integration, we identify some subregional agreements that have been in place for decades and have undergone adjustments and deepening, but also setbacks, so that "Latin America's integration schemes so far seem mostly toothless and ineffectual" (Hakim, 2015). They are: the Andean Community (CAN),[6] the Caribbean Community (CARICOM),[7] the Southern Common Market (MERCOSUR),[8] the Central American Integration System (SICA),[9] the Secretariat for Central American Economic Integration (SIECA)[10] and the Pacific Alliance.[11] These agreements include, among other measures, reducing or eliminating tariffs on imports of goods, as well as disciplines for trade in goods and services. However, within the subregional mechanisms, progress has been limited. For example, in the case of MERCOSUR, which was established in 1991, tariffs are still applied to trade among member countries and in some circumstances they have applied tariffs to imports from third parties that deviate from the Market's own principles, which entail applying the same common external tariff in the four countries for imports from outside the region, as the agreement is a customs union.[12] The best examples are perhaps two agreements signed in 2002 between Mexico and MERCOSUR: Economic Complementarity Agreement No. 54, which gave rise to four bilateral agreements with Mexico, with different levels of tariff preferences in each, and Economic Complementarity Agreement No. 55, which governs trade in the automotive sector between Mexico and each of the MERCOSUR member States. The two agreements, and the bilateral agreements, are intended to be the building blocks that will eventually lead to the establishment of a free trade agreement between Mexico and MERCOSUR.

Political cooperation initiatives include the Community of Latin American and Caribbean States (CELAC),[13] the Bolivarian Alliance for the Peoples of Our America-People's Trade Agreement (ALBA-TCP)[14] and the Union of South American Nations (UNASUR).[15] These organizations were created to promote political agendas, as the participation of the different member countries of ALBA-TCP and UNASUR has reflected, on occasions, ideological alignment of governments in power. This explains the pro-activity or indifference seen in these organizations, which are not good points of reference for building a productive integration project or an expanded common market.

[6] Established in 1969, comprising Colombia, Ecuador, Peru and the Plurinational State of Bolivia. Seeks to promote balanced and sustainable development of member countries through economic integration and regional cooperation.

[7] Established in 1973 to support economic, social and cultural cooperation among Caribbean countries. Comprises 15 countries (Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago) and 5 associate members.

[8] MERCOSUR originated in 1991 as a customs union between Argentina, Brazil, Paraguay and Uruguay to promote trade and economic cooperation, and to establish a common trade policy with respect to third parties, by establishing a common external tariff. The Plurinational State of Bolivia has requested to join the bloc.

[9] Established in 1991 to integrate the Central American countries of Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

[10] It is the body of SICA in charge of promoting economic integration and development in Central America.

[11] It was created in 2011 as an economic and trade integration mechanism to allow free movement of goods, services, capital and people among its members: Chile, Colombia, Mexico and Peru.

[12] In May 2022, Brazil unilaterally reduced its MERCOSUR common external tariff, while Uruguay sought to negotiate a bilateral FTA with China; both decisions are contrary to construction of a customs union between the members (see [online] https://www.reuters.com/markets/us/brazil-set-make-another-10-cut-import-tax-rates-2022-05-23/).

[13] Established in 2011 as a regional forum, bringing together the 33 countries of Latin America and the Caribbean to promote political, economic and social cooperation.

[14] Established in 2004 to combat poverty and social exclusion. It comprises Antigua and Barbuda, the Bolivarian Republic of Venezuela, Cuba, Dominica, Grenada, Nicaragua, Saint Lucia, Saint Vincent and the Grenadines and the Plurinational State of Bolivia Honduras joined in 2008, but withdrew in 2010. Ecuador joined in 2009 and withdrew in 2018.

[15] Established in 2008 and entered into force in 2011. Comprises Argentina, the Bolivarian Republic of Venezuela, Brazil, Guyana, the Plurinational State of Bolivia and Suriname following the withdrawal of Colombia, Paraguay, Peru and Uruguay.

In the 1990s, the integration process in Latin America and the Caribbean was characterized by "open regionalism", which, per the proposal from ECLAC, entails interaction of policy-driven integration and de facto integration supported by non-discriminatory policies, in order to facilitate greater competitiveness for Latin American countries and, at the same time, build the foundation for a more open international economic system (Fuentes, 1994). The countries of Latin America and the Caribbean have established a network of trade and investment treaties and agreements with countries within and outside the region that could support integration efforts. For example, within the framework of the 1980 Montevideo Treaty, there are 70 partial scope agreements in force (in which only some LAIA member countries participate), of which 37 are economic complementarity agreements (LAIA, n/d). Of those agreements, 25 are free trade agreements and include 12 of the 13 member countries (Leroux, 2018). Although the countries of Latin America and the Caribbean have built an institutional framework with agreements that include tariff preferences for many products with trade potential, their coverage is only partial, meaning that they are unlikely to lead to formation of a free trade area. From the establishment of LAIA onward, as a result of renegotiation of its predecessor LAFTA in the 1980s, trade agreements had limited product coverage and consisted of tariff preferences, but not elimination of tariffs (LAIA/ECLAC, 2012). Since the 1990s, the trade agreements negotiated among the countries of Latin America and the Caribbean have become free trade agreements, whose purpose has been to liberalize trade in goods, including elimination of tariffs on almost the entire universe of products and opening up trade in services by deregulating the activity of the sectors covered. The agreements have also included disciplines for trade in goods and services, investment, government procurement and intellectual property, among other disciplines. They also provide for mechanisms for settlement of disputes between States.

In short, since the 1960s, Latin America and the Caribbean has been building an institutional framework of trade and investment agreements that should be the foundation for pursuing integration among the countries of the region. However, this web of trade agreements among various Latin American and Caribbean countries, which has led to bilateral and subregional liberalization, is not enough to build a Latin American common market.

III. The state of integration

Intraregional trade and investment have not taken off. Integration in Latin America and the Caribbean, measured in terms of trade flows among the countries of the region, has remained at around 15% on average, with slightly higher levels in some years (over 20% from 2005 to 2010) and slightly lower levels in others (for example, 13% in 2020). The Inter-American Development Bank (IDB) concluded that "economic integration in LAC largely stagnated" over several decades (Giordano, 2021).

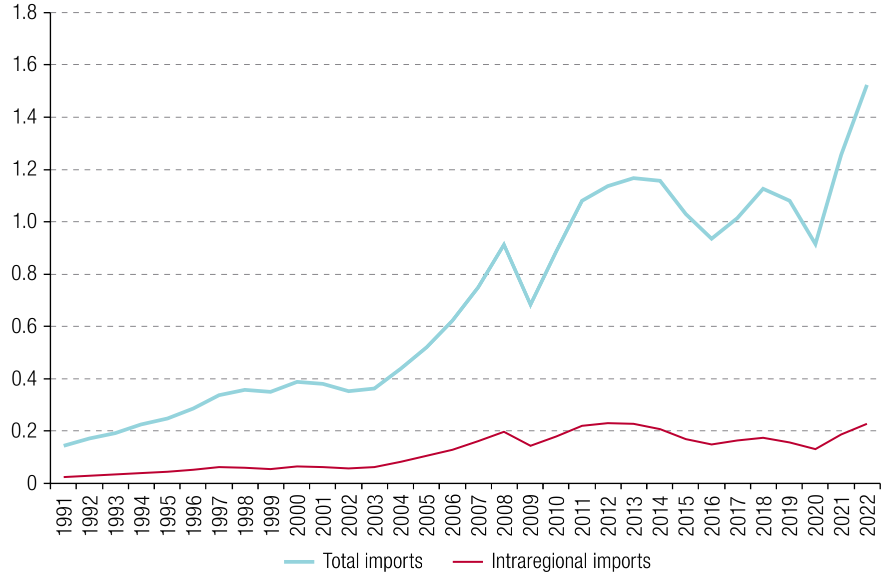
In 2022, intraregional trade showed one of the lowest levels of integration in recent decades. Of the total imports into Latin America and the Caribbean in 2022 (US$ 1.524 trillion), just 14.95% came from the region (US$ 227 billion) (see figure 1) (IMF, n/d). Exports from Latin America and the Caribbean in 2022 totalled US$ 1.394 trillion, of which US$ 214 billion were intraregional, accounting for only 14.78% of total exports (see figure 2).[16]

[16] In 2022, the top five intraregional export sectors were oil, vehicles, machinery, plastics and machinery, appliances and electrical equipment. Trade statistics for international business development (Trade Map), Intraregional trade, Exports. See [online] Bilateral trade between Latin America and the Caribbean and Latin America and the Caribbean. Product: Total All products https://www.trademap.org/Bilateral_TS.aspx?nvpm=3%7c%7c15%7c%7c15%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1.

Figure 1

Latin America and the Caribbean: total imports from the region and from the world, 1991–2022

(Billions of dollars)

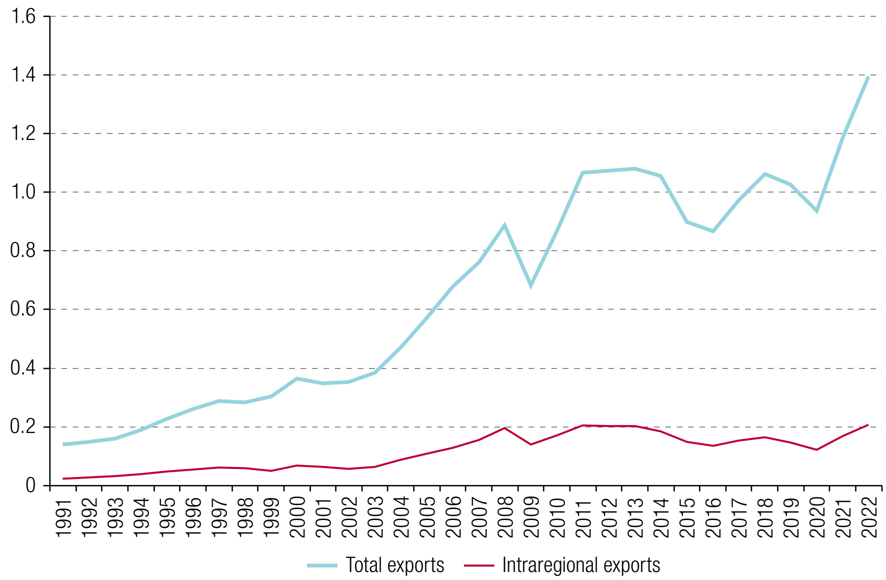


Source: International Monetary Fund (IMF), "IMF Data" [online] https://data.imf.org/regular.aspx?key=61013712.

Figure 2

Latin America and the Caribbean: total exports to the region and to the world, 1991–2022

(Billions of dollars)

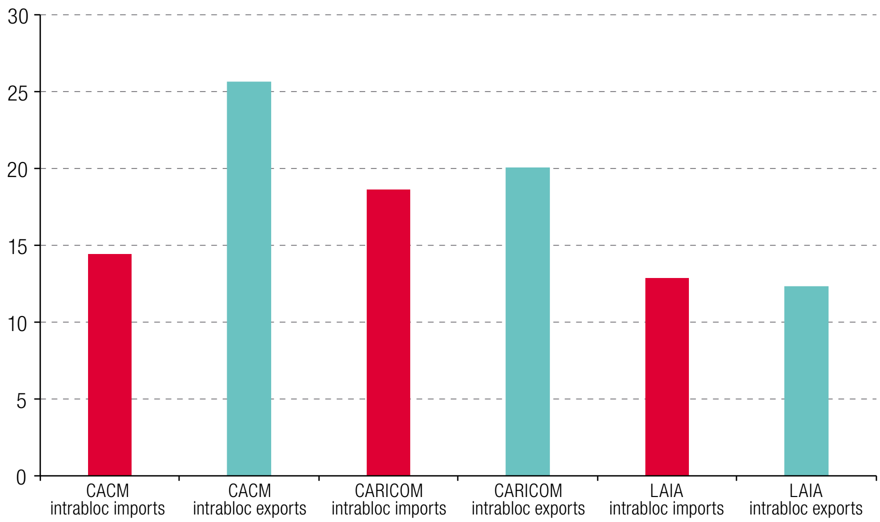


Source: International Monetary Fund (IMF), "IMF Data" [online] https://data.imf.org/regular.aspx?key=61013712.

Although trade among Latin American and Caribbean countries has grown since the 1990s in terms of value, the region's countries still account for a similar share of total exports and imports. Intraregional trade totalled US$ 47 billion in 1991, US$ 131 billion in 2000, US$ 350 billion in 2010 and US$ 433 billion in 2022. While in 1991 this trade represented 16.7% of the total trade of Latin America and the Caribbean with the world, by 2022 the share had dropped to around 14.8% (IMF, n.d.).

Looking at trade levels by subregional blocs (Central American Common Market (CACM), CARICOM and LAIA), trade among LAIA member countries is the lowest among Latin American and Caribbean countries (see figure 3).

Figure 3
Central American Common Market (CACM), Caribbean Community (CARICOM) and Latin American Integration Association (LAIA): imports and exports within the blocs, 2022
(Percentages)



Source: International Trade Centre (ITC), Trade statistics for international business development (Trade Map).

In 2022, imports among LAIA member countries accounted for 12.84% of imports into LAIA countries from the world, while exports within LAIA accounted for 12.31% of total exports from LAIA countries to the world.

In the case of CARICOM, in 2022 imports within the bloc accounted for 18.62% of total imports into CARICOM countries from the world, while exports within the bloc accounted for 20.06% of total exports from the Community to the world.

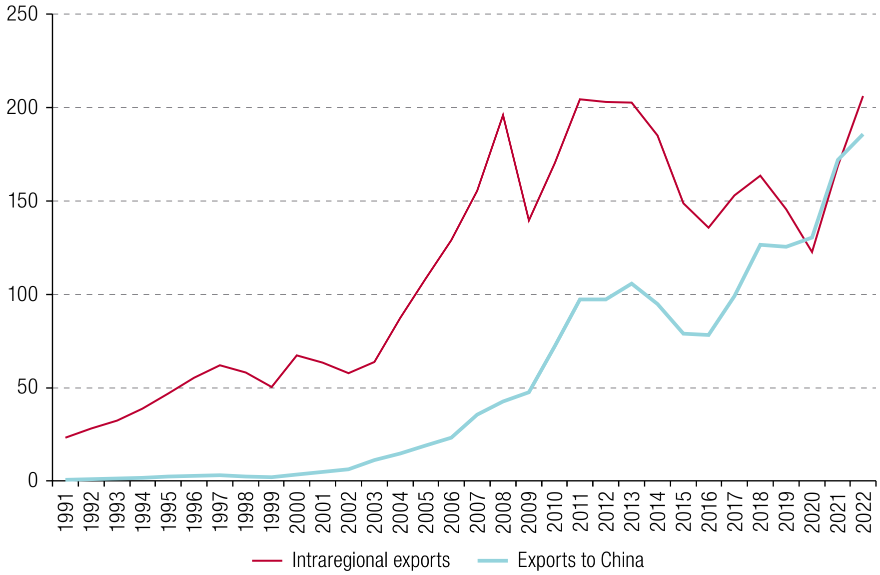
In 2022 in CACM, imports within the bloc accounted for 14.41% of the countries' imports from the world, while exports within the bloc accounted for 25.62% of the countries' total exports to the world.

One of the reasons for the increase in trade among the countries of the region may be the reduction in tariffs that Latin American and Caribbean countries have applied as part of their efforts to open up their economies. According to ECLAC data, the average regional tariff applied among Latin American countries had decreased significantly to around 5% in 2019. In addition, as a result of the various agreements negotiated between the countries of the region, 82% of the trade between LAIA countries in 2019 was carried out without payment of tariffs (Leroux, 2018). However, these reductions in tariffs have not led to intraregional trade flows accounting for a larger proportion of total trade. Possible reasons for this, in addition to the lack of a wide-ranging agreement between the two largest economies in Latin America and the Caribbean (Mexico and Brazil), include a lack of exportable supply, the impact of non-tariff barriers on effective market access, competition between countries exporting the same products, and poor infrastructure and connectivity, which has limited the development of regional value chains (LAIA/ECLAC, 2012).

Furthermore, Latin American and Caribbean countries have focused their trade on markets outside the region, such as the United States, China and the European Union, which has limited the regional economic integration that could be achieved through production linkages, which are scarce. This has also greatly limited production complementarity and intraregional cooperation.

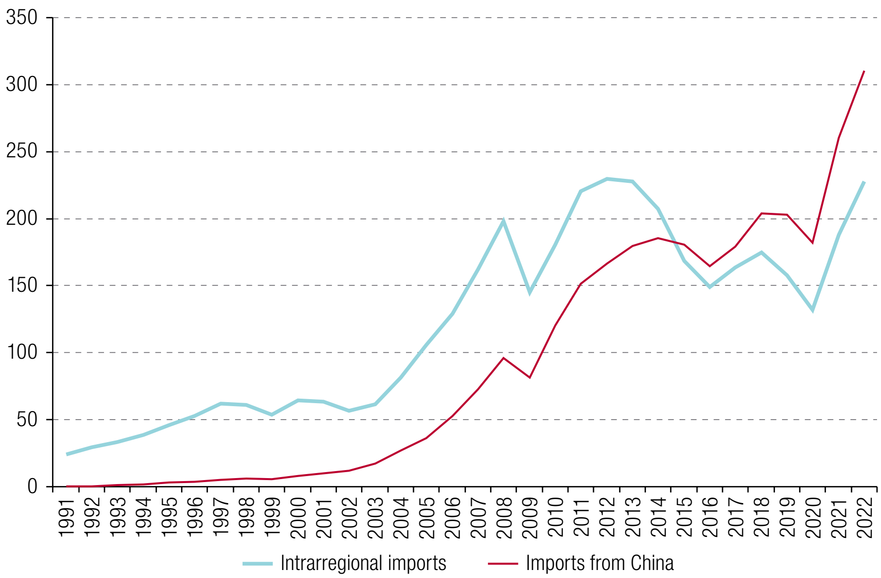
Compared to the limited growth in intraregional trade, exponential growth can be seen in the region's trade with China. In 2001, when China joined the World Trade Organization (WTO), Latin American and Caribbean exports to the country represented 1.43% of the region's total exports to the world (see figure 4) and the region's imports from the country accounted for 2.68% of its imports from the world (see figure 5). In 2010, exports from Latin America and the Caribbean to China represented 8.3% of total exports, and imports 13.59% of total imports, while in 2022 China bought 13.3% of exports from Latin America and the Caribbean and supplied 20.36% of its imports (IMF, n/d).

Figure 4
Latin America and the Caribbean: total exports to China and intraregional exports, 1991–2022
(Billions of dollars)



Source: International Monetary Fund (IMF), "IMF Data" [online] https://data.imf.org/regular.aspx?key=61013712.

Figure 5
Latin America and the Caribbean: total imports from China and intraregional imports, 1991–2022
(Billions of dollars)



Source: International Monetary Fund (IMF), "IMF Data" [online] https://data.imf.org/regular.aspx?key=61013712.

In 2022, the integration of Latin America and the Caribbean with China was much more dynamic than intraregional integration, which was only 1 percentage point above the region's exports to China. Meanwhile, China's imports were 5 percentage points higher than those within the region. Consequently, China has become one of the most important trading partners for the region; it is a key supplier, and also as an export market where a significant portion of Latin American and Caribbean sales to the world is directed.

Latin American and Caribbean trade with the United States is more than double intraregional trade, although its share in the region's total trade is declining. In 2000, 58.3% of Latin American and Caribbean exports went to the United States, but by 2022 the share had fallen to 43.3% (US$ 603 billion), even though in value terms they almost tripled intraregional exports. In 2000, the United States supplied almost 50% of the region's total imports, while by 2022 this share had dropped to 31.5%. This decline in the United States' share of the total trade of Latin America and the Caribbean is a result of China's growing presence in the region's trade, while some of the countries already have free trade agreements with China (Chile, Costa Rica, Ecuador and Peru) (see table 1).

Table 1

Latin America and the Caribbean: value and share of intraregional exports and imports, with the United States and China, 1991, 2000, 2010 and 2022

(Billions of dollars and percentages)

Exports	1991		2000		2010		2022	
	Value	Share	Value	Share	Value	Share	Value	Share
Latin America and the Caribbean	23.3	16.58	67.5	18.5	170.3	19.6	206.2	14.8
United States	62.2	44.19	221.3	58.0	353.3	40.6	603.8	43.3
China	0.8	0.59	3.7	1.0	72.1	8.3	185.6	13.3
Other	54.5	38.64	71.6	22.5	274.2	31.5	399.7	28.6
Total	140.8	100.00	364.1	100.0	869.9	100.0	1 395.3	100.0
Imports	**1991**		**2000**		**2010**		**2022**	
	Value	Share	Value	Share	Value	Share	Value	Share
Latin America and the Caribbean	24.2	16.85	64.6	16.6	180.4	20.3	227.9	14.9
United States	67.4	46.80	193.8	49.8	271.3	30.6	480.4	31.5
China	0.5	0.34	8.3	2.1	120.5	13.6	310.4	20.4
Other	52.0	36.01	122.0	31.5	314.8	35.5	505.8	33.2
Total	144.1	100.00	388.7	100.0	887.0	100.0	1 524.5	100.0

Source: International Monetary Fund (IMF), "IMF Data" [online] https://data.imf.org/regular.aspx?key=61013712.

In short, trade among the countries of Latin America and the Caribbean and countries outside the region has grown more (China) and has accounted for a larger proportion of total trade (United States) than trade solely among the countries of the region, even when the countries have implemented preferential trade agreements that have eliminated tariffs among intraregional partners.

IV. Politicization of integration in Latin America and the Caribbean

Probably the biggest challenge relating to the integration of Latin America and the Caribbean is that it has become politicized, especially in the last two decades. This has hindered the consolidation of a Latin American integration project that would allow progress in the economy without being dependent on politics. The countries of the region have not been able to forge a common agenda that reflects even the most basic interests and that would make it possible to set out a workplan with clear goals, to move forward with a regional integration project. Not only have the subregional blocs failed to coordinate positions among themselves, they have also undergone internal crises for various political reasons. Agreements such as MERCOSUR and the Pacific Alliance have sought to establish agendas with minimum common denominators between the two blocs on issues such as technical standards but have been unable to make progress beyond statements from leaders or ministers.

The economic integration of Latin America and the Caribbean has been approached from vastly different angles, which, on many occasions, have prioritized political and ideological preferences. This has slowed or sidetracked progress toward integration. Changes in governments and national policies have affected Latin American and Caribbean countries' direction with respect to regional integration and the priority they have given to the issue. Governments with different ideologies have had contrasting approaches to integration and regional cooperation, which has affected the dynamics of integration agreements and mechanisms.

Over the decades, Latin America and the Caribbean has experimented with different stances on the contribution of international integration to growth and well-being (LAIA/ECLAC, 2012). At different times, countries in the region have seen political trends emerge that questioned economic openness and regional cooperation. Some countries have permanently withdrawn from trade agreements. For example, in 2005, the Bolivarian Republic of Venezuela withdrew from the Group of Three free trade agreement, of which it had been a member with Colombia and Mexico since 1995, and in 2006 it left the Andean Community. Conversely, the accession of the Bolivarian Republic of Venezuela to MERCOSUR followed an arduous path; although the Accession Protocol was signed in 2006, it did not join until 2012, when Paraguay could not veto its approval because its rights were suspended owing to issues related to the Ushuaia Protocol on the Democratic Commitment in the Southern Common Market, the Republic of Bolivia and the Republic of Chile. Subsequently, following changes of government in Argentina and Brazil, the Bolivarian Republic of Venezuela's participation in the bloc was suspended in 2017. This has led to tensions over integration efforts and has affected the integrity and continuity of regional projects.

In contrast, there have been cases of highly successful integration processes when political leadership at the highest level has driven them forward. One such case is the Pacific Alliance which, when it was established in 2011, had four participant countries (Chile, Colombia, Mexico and Peru) that shared a vision of economic integration, but also political affinities. The twice-yearly summits of leaders gave significant momentum to the mechanism and made it possible to build spaces for dialogue, promote private sector participation and attract the world's attention, as reflected by the Alliance now having over 60 observer States that follow its work. However, trade within the Pacific Alliance has been limited; for example, in 2022, intragroup imports accounted for 2.7% of the four members' imports from the world and exports from Alliance countries to other group members accounted for 2.18% of total exports (ITC, 2022).

In addition, the instability and political and social conflicts that various countries in the region have experienced at different times have also made it difficult to foster economic integration and attract investment.

V. Can nearshoring promote regional integration in Latin America and the Caribbean?

Faced with such a bleak outlook for integration in Latin America and the Caribbean, the question is: why keep trying to achieve greater integration and ultimately create a wide-ranging Latin American market, when the reality does not seem to support this aspiration?

The challenges posed by globalization open up new opportunities for Latin America and the Caribbean, to integrate into supply chains seeking to relocate from China to countries closer to North America or Europe for geopolitical reasons. In fact, IDB has identified that Latin America and the Caribbean has the potential to be part of this wave of supply chain relocation and increase its exports of goods and services by more than US$ 78 billion (US$ 64 billion in trade in goods and US$ 14 billion in trade in services) (IDB, 2022). It is apparent that, as part of this strategy, countries such as Mexico and those of Central America and the Caribbean are already well-positioned to attract investments seeking to relocate to the region to take advantage of the The Dominican Republic–Central America–United States Free Trade Agreement and the Agreement between the United States of America, the United Mexican States, and Canada (USMCA). However, this may also be an opportunity for the region to offer a more integrated market, like the one built in ASEAN, which seeks to shape a single market through regional economic integration and thus be better positioned to participate in supply chain building.

The integration of Latin America and the Caribbean is also being brought into the spotlight by the geopolitical rivalries between China and the United States and the effects of the coronavirus disease (COVID-19) pandemic, which are leading to further regionalization of supply chains. This is already being discussed in hemispheric forums. This is the case of the Americas Partnership for Economic Prosperity and the third Summit of Heads of State and Government of the Community of Latin American and Caribbean States and the European Union. During the meeting of the Summit of the Americas in June 2022, the Biden administration launched the Americas Partnership for Economic Prosperity, with the aim of strengthening "supply chains to be more resilient against unexpected shocks" and working to "foster regional economic development" (The White House, 2022). Likewise, in January 2023, in the United States Congress, Senator Bill Cassidy (Republican, Louisiana) and Congresswoman Maria Elvira Salazar (Republican, Florida's 27th congressional district) released a draft bill called the Americas Trade and Investment Act (Americas Act) with the objective of deepening the United States trade relationship with countries in the Western Hemisphere and counteracting China's dominant presence in global geopolitics and production (Cassidy, 2023). In July 2023, as part of the biregional meeting between CELAC and the European Union, the two parties recognized "the importance of open and fair trade based on internationally agreed rules, productive supply chains" and stated that they would "continue to further strengthen and develop trade and investment relations between the EU and CELAC countries and regions" (Council of the European Union, 2023).

Given the current context, now may be a good time to set a new course, with a view to deepening the integration of Latin America and the Caribbean. In the absence of a clearly defined integration project or the political leadership that the region needs, it is important to seek to develop, put forward and pursue specific proposals that will enable the countries of Latin America and the Caribbean to make headway in different areas to pave the way for cooperation and economic integration in the region.

VI. Is there a future for integration of Latin America and the Caribbean?

In 2017, the World Bank published a document in which it highlighted five reasons to strengthen regional integration: (i) to drive faster economic growth; (ii) to improve the quality of infrastructure and connectivity; (iii) to add complementarities; (iv) to reduce barriers to trade; and (v) to improve the region's competitiveness (Bown and others, 2017). An IDB study also considered integration and trade to be positive for the region and found that trade and integration policies were "instrumental in overcoming the stagnation of the 1980s, accelerating annual per-capita income growth by an estimated 0.6 percentage points" (Mesquita Moreira and others, 2022). In addition, from a political perspective, an integrated region is desirable because "a divided and squabbling Latin America will remain a weak participant in an increasingly competitive global economy" (Hakim, 2015).

The global economy is heading towards increasing regionalized supply chains, testing the effectiveness of the multilateral trading system rules on which the region depends in its trade relations with the world. In the restructuring of supply chains, the countries that are best positioned to benefit are those that already have integration networks with the United States, such as the countries of Central America, Mexico and the Dominican Republic. In this regard, because of rising operating costs in countries such as China, more and more companies are opting to nearshore in Latin America to be closer to their target markets (Pineda, 2023).

Deglobalization of the economy and regionalization of production processes is opening a window for Latin America and the Caribbean to attempt to deepen its integration under a new model based on the commitments made by the countries of the region in the different agreements in force. Although there is a lack of leadership and of a robust project, there are some areas in which building blocks can be put in place for an integration project that would enable the countries of the region to obtain the potential benefits of stronger linkages with each other and with the world economy.

There are clearly compelling economic reasons why it is worthwhile to continue the search for an effective way to build an expanded market or a free trade area in the region. For example, integration among neighbouring countries can create opportunities to expand domestic markets, which are small in the region (except for Brazil and Mexico), take advantage of economies of scale to attract investment, build regional value chains, diversify export baskets and markets, integrate small and medium-sized enterprises (SMEs), create jobs, adopt sustainable and innovative technologies, and ultimately create more opportunities for growth and development for the countries of Latin America and the Caribbean.

Integration has not had the reliable support of a supranational entity or strong leadership to give it the necessary momentum. Instead, this leadership has come from outside, particularly from the United States in the 1990s, when an attempt was made to negotiate the Free Trade Area of the Americas (FTAA). The failure of that initiative in 2005 was a result of the growing hesitancy of some governments and the inability of the countries of Latin America and the Caribbean to agree on a common position to move forward with an integration project that would have been unprecedented in the region (Serbin, 2010). Integration requires joint leadership from the region's large economies, which seems unlikely to materialize. Neither Brazil nor Mexico has been able to assemble an agenda for economic integration and cooperation that would enable a unified Latin American market to be created. Mexico's production chains are integrated with the United States market, while Brazil has focused on developing its domestic market, and its relations with its South American neighbours have been more focused on trade in goods than on integration of service markets, investments or regulatory harmonization, all of which underpin the development of global value chains.

More than six decades have passed since the signing of the 1960 Treaty of Montevideo and the General Treaty on Central American Economic Integration, and in that time the international landscape has changed. The countries of Latin America and the Caribbean have opted for open regionalism, whereby they maintain a series of trade agreements with third countries whose commitments are stronger than those among peers within Latin America and the Caribbean.

In the absence of strong political leadership in the region to champion an integration process and in light of the current context and open regionalism, it would be beneficial to revisit the thinking of Raúl Prebisch. It would also be useful to once again propose alternative means of promoting the integration of Latin America and the Caribbean based on experience and lessons learned, but, above all, considering the opportunities offered by the restructuring of the region's supply chains within the framework of regional, subregional and bilateral commitments.

Nearshoring goes hand in hand with an industrial policy that aims to transform economies to reduce carbon emissions and transition to production using renewable energy. It is also oriented towards high value-added activities, Industry 4.0 manufacturing and automation, where talent is key to participating in e and triggering the benefits of this new wave of relocation.

So, the question is: how can Latin America and the Caribbean participate in these supply chains which have new requirements but also present opportunities?

The region has several subregional organizations, such as CACM, CARICOM, the Pacific Alliance and MERCOSUR. All of these mechanisms have designed and implemented agendas on certain issues that have enabled greater progress than that seen at the regional level. For example, the Pacific Alliance, in addition to building a free trade area among its members, has also established sector-level agreements to ensure that technical standards are not a barrier to trade (such as the sectoral annex for trade in cosmetics). In MERCOSUR, an agreement has been negotiated on good regulatory practices and regulatory coherence. One possible path forward would be to seek areas of common interest among the various subregional mechanisms, to deepen integration among those well-established blocs.

In short, it is imperative to have a strategic agenda to promote development of suppliers in the region, and this must be a priority in order to make the participation of Latin America and the Caribbean in supply chains viable. The work carried out for this purpose must be take into account the levels of economic complexity of the countries, in order to scale up to outputs of greater complexity and value added. Such a strategic agenda could also encompass the following areas:

- **Talent development**. Human capital will be essential in successfully relocating production processes. The region can drive development of the talent that Industry 4.0 will need and design regional programmes to encourage specialization of human capital in highly skilled professions (Pineda, 2023). Facilitating knowledge transfer and student and academic exchanges in sectors related to sustainability and automation can help strengthen the region's human capital and its ability to participate in supply chains. One way to deepen integration would therefore be to strengthen student and academic exchange networks in disciplines that can support productive transformation in the region.
- **Networks of researchers in science and technology**. The region has the opportunity to join supply chains and take advantage of this possibility to participate in the development of scientific and technological research networks. One way to promote integration is by building networks of scientists that can be linked to productive activities. Currently, there is, for example, the IDB Latin American and Caribbean Research Network, which offers grants to research centres for economic and social studies in the region. The European Union is a benchmark, with its Horizon Europe Framework Programme for Research and Innovation and its Treaty on the Functioning of the European Union that seek to strengthen "its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely" (European Parliament, 2023).
- **Critical minerals**. New technologies require critical minerals, such as lithium, which can be found in the region. Developing integration mechanisms for exchanging sustainability experiences in production processes, and proposals to add value, can position the region as a reliable partner in development of supply chains for the industries of the future (digital and energy) that are integrating these critical materials into their production processes. Integration can also strengthen exchanges of best practices.
- **The pharmaceutical and medical device industries**. Latin America and the Caribbean has productive capacity in these sectors and potential for greater development. Integration of production chains for pharmaceuticals and medical devices could be fostered by reaching sectoral agreements to facilitate recognition of technical regulations among the countries of the region. This would open up opportunities for production specialization and enable the countries of the region to expand their presence in the supply chain by making them more attractive to investment through potential for market expansion.

- **Trade facilitation**. All of the countries of Latin America and the Caribbean are members of the WTO Agreement on Trade Facilitation and have undertaken to implement measures to expedite trade and reduce associated costs. The region can draw on this Agreement to identify obstacles that countries can address and thus remove unnecessary barriers to trade. For example, use and acceptance of electronic certificates of origin might be a good way to promote intraregional trade.
- **Technical regulations**. Many tariffs no longer apply to trade between several countries in the region, but national regulations prevent effective market access. While it may seem challenging to expect mutual recognition of technical standards, the region could propose a framework agreement among interested countries. This agreement would facilitate negotiations for mutual recognition agreements in sectors of interest, recognizing regulations in different markets as equivalent to national standards. A regional mutual recognition agreement among national accreditation bodies would allow these bodies, based on peer evaluation, to accept the results of each other's accredited conformity assessment bodies or between conformity assessment bodies in countries that recognize the results of conformity assessment. This would substantially reduce the compliance costs (USTR, 2020). A regional agreement on the subject could propose mechanisms to facilitate acceptance of conformity assessment results or work towards developing common standards and conformity assessment procedures in sectors of mutual interest (USTR, 2020).
- **The digital economy**. The countries of Latin America and the Caribbean could increase their integration through the digital economy and e-commerce. For example, a regulatory framework could be proposed that would foster regional integration through improved connectivity, accessibility and development of infrastructure. A regional framework could be established encompassing regulatory measures that facilitate exchanges, relating to issues such as data protection, e-commerce, Internet governance and artificial intelligence. Consideration could also be given to creating an e-commerce platform that would allow the productive sector, especially SMEs, women and vulnerable communities, to access markets outside their local areas. In the case of the Pacific Alliance, for example, IDB has supported construction of a regional digital marketplace to enable companies in the region to digitally access the Alliance partners' markets. This could be a very valuable tool for SMEs in the region, enabling them to take advantage of an expanded market that could give rise to more opportunities for growth and innovation.
- **Physical infrastructure**. For there to be integration, infrastructure must be built. Public and private investment in development of physical infrastructure for land, sea and air transportation, as well as for connectivity, is essential to build the metaphorical bridges needed for integration. With the support of development banks and the domestic and foreign private sectors, regional and subregional projects can be developed to create infrastructure to enable the region's productive sector to turn integration into an opportunity for growth.

Integration in Latin America and the Caribbean has been slow and has progressed at different speeds in different sectors. In view of the challenges that tabling an integration project for all of the countries of the region entails, one possible means of moving forward may be to pursue more modest initiatives but ensuring that they are specific. Such efforts would contribute to forging the long-sought integration that remains an aspiration in discourse, but on which little progress has been made to date.

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Environment and sustainable development: contemporary challenges for ECLAC and Latin America and the Caribbean

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Abstract

Environmental sustainability is a key determinant of the viability of development. Latin America and the Caribbean is imitating a global pattern of unsustainable consumption and production, whose consequences, including environmental degradation, biodiversity and ecosystem loss, and climate disruption, affect the population's standard of living and limit its potential for growth. This paper presents stylized facts concerning the region's development model and the way in which sustainability has been addressed in ECLAC thinking, also briefly examining other economic schools of thought. It concludes with policy recommendations aimed at reconciling economic growth and environmental sustainability, taking into consideration the region's wealth of ecological and natural resources, its position in the global economy, and the need for a commitment to productivity that can foster a big push for sustainability and just transitions in relation to the challenge of climate change.

Keywords

Economic development, environment, sustainable development, development models, environmental protection, environmental policy, natural resources, development policy, ECLAC, Latin America and the Caribbean

JEL classification

Q28, Q38, Q51, Q54

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I. Introduction: Latin America and the Caribbean and the environmental challenges of the twenty-first century[1]

Various publications have been warning, in recent months, about the unprecedented environmental pressure being imposed on the planet, environmental degradation, and their potential consequences for the sustainability of development if structural changes are not made to the development model. The northern hemisphere meteorological summer of 2023 was the hottest on Earth since temperatures began to be recorded in 1880. August 2023 was 1.2°C warmer than the average for the period 1951–1980, and in the last five years, the months of July have been the hottest since 1880 (NASA, 2023a and b). The temperature in the region has risen by between 0.7°C and 1.0°C compared with the 1961–1980 average (WMO, 2023; IPCC, 2023). If the trendline for greenhouse gas (GHG) emissions is maintained, the Intergovernmental Panel on Climate Change (IPCC) has warned that the global average temperature rise will soon be greater than 1.5°C above pre-industrial levels. Under the remaining carbon budget, that level will be reached in 9 years and the limit of 2°C will be reached in approximately 26 years (ECLAC, 2023a).

This is not the only planetary threshold for the safe continuance of human activities that has been exceeded precisely because of anthropogenic pressures. According to Richardson and others (2023), six of the other nine critical thresholds for the Earth's stability and resilience have been breached: biosphere integrity, in particular genetic diversity; land-use change; freshwater use; biochemical flows of both phosphorus and nitrogen; pollution from synthetic chemicals; and climate change (Rockström and others, 2009; Steffen and others, 2020).

In Latin America and the Caribbean, these trends have translated into a 94% decline in species abundance since 1970 (WWF, 2022), a 50% rise in deforestation in the Legal Amazon and Cerrado regions of Brazil since 2016, the loss of at least 30% of glacier cover in the tropical Andes since 1980, and soil erosion across much of the continent (soil degradation affects 33% of the territory of Mexico; around 60% in Peru, Paraguay and the Dominican Republic; and 79% in Chile (University of Chile, 2023)). The transfer of moisture through atmospheric rivers from the Amazon to the Río de la Plata region, on which the latter depends for 70% of its precipitation, is also increasingly affected (Lovejoy and Nobre, 2018; Ellison and others, 2017; Van der Ent and others, 2010).

In the region, temperature rise alone will trigger an average decline of 3.3% in per capita GDP by 2030, which could push a further 3.2 million people into poverty compared to a scenario with no increase in temperature (ECLAC, 2022a). To this must be added the effects of extreme climate events such as droughts, storms and hurricanes, which are rising in intensity and frequency, with the worst impacts in the Caribbean and Central America —for example, in 2017, Hurricane María generated losses equivalent to 215.4% of the GDP of Dominica— and the impact of changes to the trends for coastal variables (ECLAC, 2012a). Without drastic global mitigation measures, those impacts will rise exponentially in in the region.

In Latin America and the Caribbean, 82% of the population lives in cities. The region's urban environment typically consists of large, expanding and densely populated cities that suffer air pollution. The region's capitals and other major cities do meet the fine particulate matter recommendations of the World Health Organization (WHO), and levels in cities like Santiago and Lima are up to five times higher than the recommended limit. Private vehicle ownership is increasing in lockstep with income,

[1] Thanks are owed to the staff of the Sustainable Development and Human Settlements Division and the Natural Resources Division of the Economic Commission for Latin America and the Caribbean (ECLAC) for their contributions, which served as the basis for this article.

worsening traffic congestion and competition with public transport services for limited urban infrastructure. Urban waste is steadily increasing and is expected to rise by 25% in the next few years; little waste is safely treated and disposed of (less than half goes into sanitary landfills) and recycling rates are approximately 5% (World Bank, 2021). Some Caribbean countries generate a higher per capita volume of waste than the Organisation for Economic Co-operation and Development (OECD) average because of the tourism industry. The external costs of the increasing degradation of the urban environment and of diseconomies resulting from disorganized land use have a significant impact on people's health and quality of life and on economic productivity.

This backdrop appears to inspire little optimism. Yet, the region is in fact well positioned to begin the transformations needed to achieve sustainable development. Latin America and the Caribbean has a wealth of non-renewable and renewable natural resources, ecosystems, and biodiversity; is home to six megabiodiverse countries and the Amazon, the lungs of the planet; it holds one third of the world's fresh water and 15% of its farmland; it has the cleanest electricity mix on the planet, despite holding one fifth of all oil reserves, since nearly half of its electricity generation is from hydropower (44%) and more than 60% of energy is from renewables; it holds half of the world's lithium reserves and more than a third of its silver and copper reserves, among other minerals needed for the energy transition and electromobility; its per capita material footprint is moderate, albeit exceeding the level considered sustainable; and it has contributed little to creating the great global ills described above (for example, it produces just 10% of global GHG emissions). Clearly, the region's natural wealth gives it a comparative advantage as a supplier of global public goods and services that contribute to maintaining planetary stability and resilience and support life, and as a key stakeholder in the new productive chains needed to achieve the transition to sustainable development.

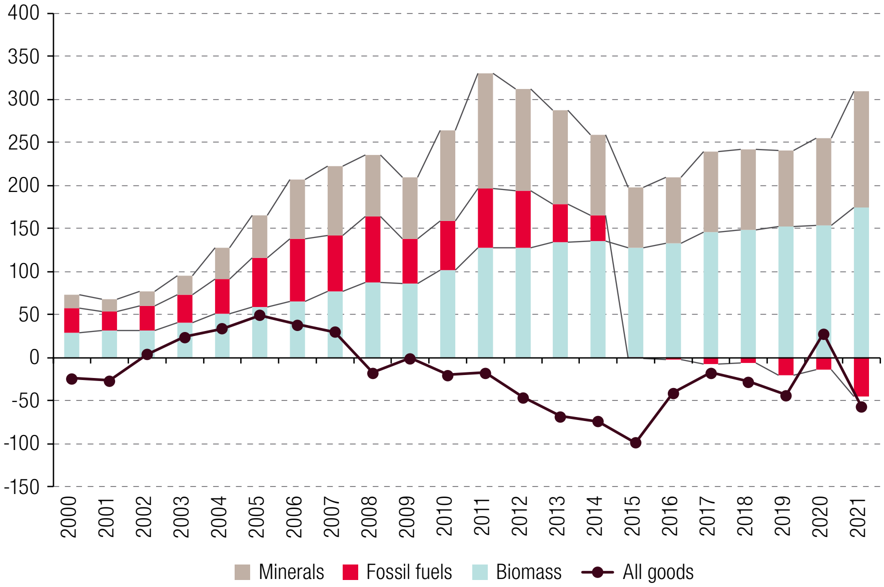
This article briefly reviews some of the stylized facts concerning the Latin American and Caribbean development model and looks at historical ECLAC thinking regarding the region's situation, major trends, and policies, as well as the economic theory approach to sustainable development. Lastly, recommendations are made for seizing the opportunities to be found in the challenges the region will face in achieving sustainable development.

II. Stylized facts concerning the Latin American and Caribbean development model

Latin America and the Caribbean is a structurally heterogeneous region, yet it shares the common features of inequality —of income, asset ownership, access to services and opportunities, and by territory— and concentrated economic and political power. The region participates in the international economy largely through the provision of raw materials (and cheap labour, in some cases and at certain times in history), where it has comparative advantages. The region is positioned in the early stages of global value chains (see figure 1) and has undergone a process of export reprimarization over the past two decades, increasing its dependence on natural resources, which accounted for an average of 50.7% of all exports between 2019 and 2021 (ECLAC, 2023b).

These exports encompass not just minerals —including some, such as copper and lithium, that are vital for the shift towards carbon neutrality (several of the region's countries are major global producers, as illustrated in figure 2)— but also biomass. Latin America and the Caribbean accounts for approximately one quarter of worldwide agricultural exports and its agricultural trade balance is the highest in the world, having more than doubled over the past decade.

Figure 1
Latin America and the Caribbean: trade balance, by natural resource group, 2000–2021
(Billions of dollars at current prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, UN Comtrade Database [online] https://comtradeplus.un.org/.

Figure 2
Latin America and the Caribbean (5 countries):[a] copper and lithium production, 1998–2022
(Thousands and millions of metric tons)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Geological Survey (USGS), Mineral Commodity Summaries, 2020 [online] https://www.usgs.gov/centers/national-minerals-information-center/mineral-commodity-summaries.

[a] Copper production data refer to Chile, Mexico and Peru, and lithium production data refer to Argentina, Brazil and Chile.

The aspiration to achieve development (through higher production and consumption of goods and services and the use of fossil fuels as an energy source), along with the position of the region in the global economy described above and weak incentives for innovation, have maintained the bias of investment, innovation, incentives, relative prices and returns towards mainly extractivist sectors.

Although this pattern has produced foreign exchange and rents — accounting for nearly half of total export revenue and some 9 points of regional GDP over the past two decades in countries specializing in natural resources— that have helped finance import growth and modernization and development, they have not resolved the countries' great structural problems, such as external constraints, structural heterogeneity, poverty and inequality, underinvestment and low productivity. Between 1980 and 2023, labour productivity, which is closely linked to the commodity price cycle, contracted at an average year-on-year rate of 0.1% (ECLAC, 2023a). Although there is conclusive evidence internationally that natural capital contributes positively to total factor productivity (TFP) (Hamilton, Naikal and Lange, 2019), TFP is relatively low in Latin America, and rent appropriation from the use of natural capital is either insufficient or has failed to boost the development of other types of capital sufficiently to achieve weak sustainability.[2] In addition, poor macroeconomic management and inadequate allocation of rents and revenues from resource exports have led to signs of Dutch disease, and many countries are vulnerable to external shocks triggered by commodity market volatility (Ocampo, 2017).

Moreover, the region is pursuing a production and consumption pattern akin to the linear and unsustainable models that exert ever greater pressure on the environment. Income, consumption and GHG emissions are all coupled along the path established by developed countries that the region is now following. This is evident from just two examples: GHG emissions, which produce an "empty box" in terms of climate responsibility (see figure 3); and the growth of the vehicle fleet, a symbol of the modern consumer society (see figure 4).

Figure 3

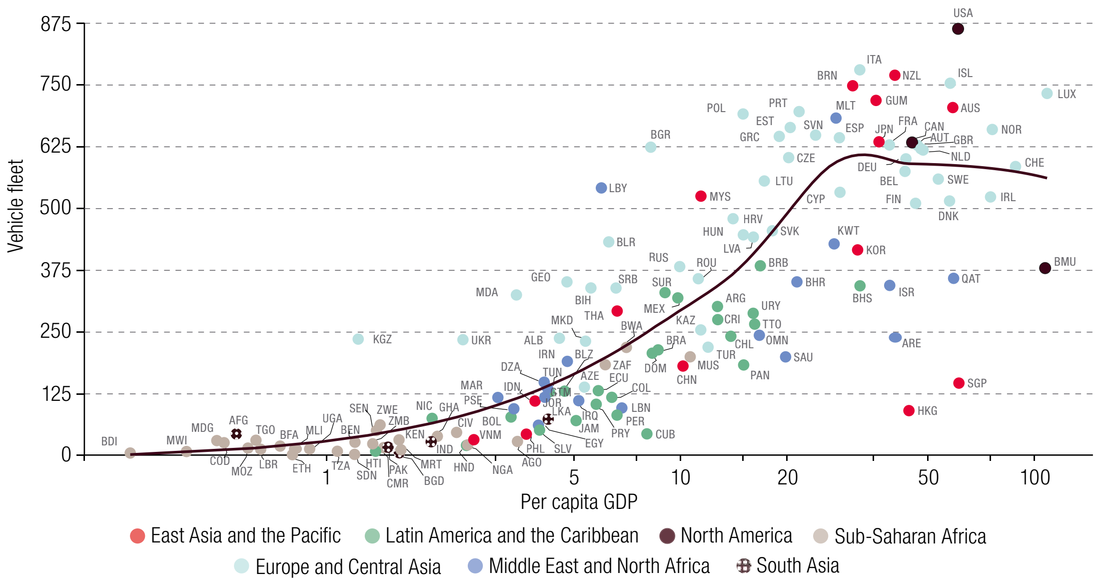
World: per capita GDP and per capita greenhouse gas emissions, by income level, 2019

(Thousands of dollars at 2015 prices and tons)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Bank, World Development Indicators (WDI) and J. C. Minx and others, "A comprehensive and synthetic dataset for global, regional, and national greenhouse gas emissions by sector 1970–2018 with an extension to 2019", *Earth System Science Data*, vol. 13, No. 11, Copernicus GmbH, 10 November 2021.

[2] The concept of "weak sustainability" focuses on the importance of preserving the total capital stock, which implies that one type of capital (including natural capital) can substitute another as long as total capital does not decline.

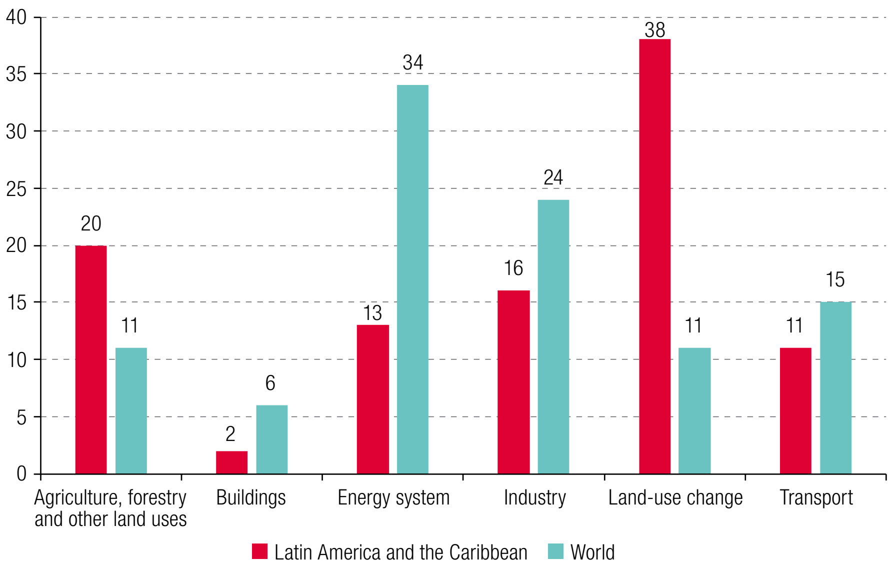
Figure 4
World: per capita GDP and vehicle fleet, by country, 2019
(Thousands of dollars at 2015 prices and vehicles per 1,000 inhabitants)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Organization of Motor Vehicle Manufacturers (OICA).

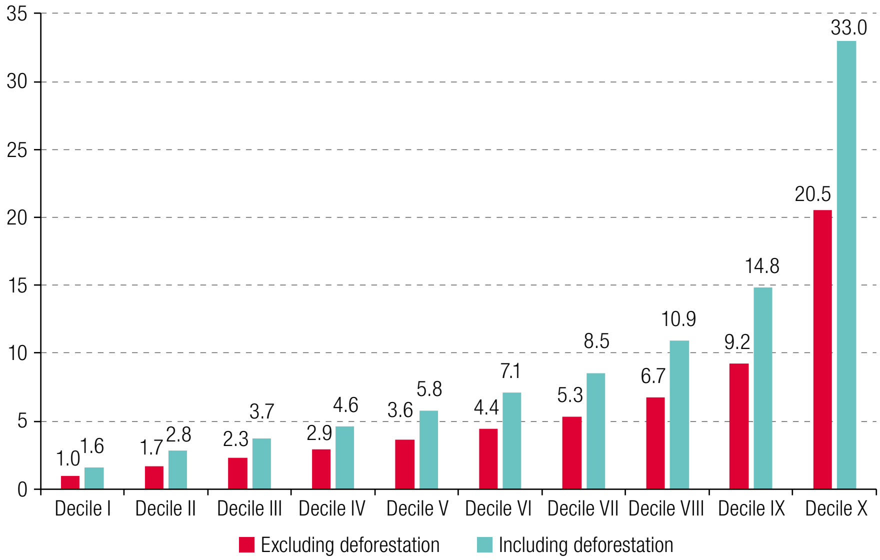
The GHG emissions profile in Latin America and the Caribbean differs from that of the rest of the world, reflecting to some degree the region's pattern of productive specialization, in which deforestation and land-use change are comparatively significant (ECLAC, 2023e) (see figure 5). The pattern of GHG emissions also reflects inequality: the emissions of the wealthiest decile are 20 times those of the poorest decile (see figure 6).

Figure 5
Latin America and the Caribbean and the world: distribution of greenhouse gas emissions, by sector, 2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators (WDI) and J. C. Minx and others, "A comprehensive and synthetic dataset for global, regional, and national greenhouse gas emissions by sector 1970–2018 with an extension to 2019", Earth System Science Data, vol. 13, No. 11, Copernicus GmbH, 10 November 2021.

Figure 6
Latin America: per capita greenhouse gas emissions, by income decile, 2019
(Tons)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Towards transformation of the development model in Latin America and the Caribbean: production, inclusion and sustainability* (LC/SES.39/3-P), Santiago, 2022.

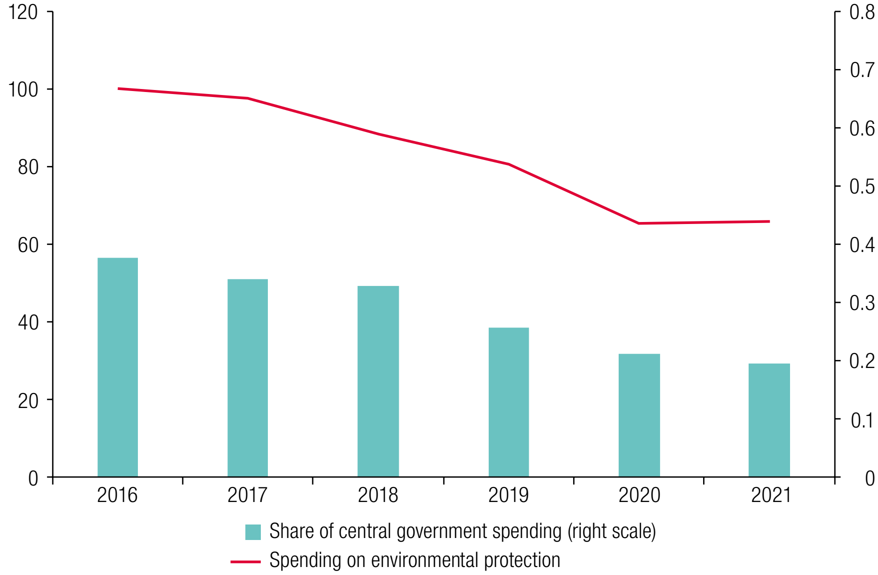
This model, regardless of variations between countries and over time, is incapable of producing the sufficient and sustained economic growth needed to close social gaps without destroying the natural foundation that sustains it. Crises occur cyclically because of the macroeconomic imbalances (worsening terms of trade, balance of payments, financing conditions and indebtedness) that are inherent to a dependency model. The deterioration —or absence of improvement— in economic and social conditions and the urgent need to remedy needs drives up discount rates, reduces the leeway for the implementation of medium- and long-term policies, and concentrates investment in traditional sectors, placing greater pressure on natural resources and the environment. The "tragedy of the commons" and short political cycles exacerbate this problem, in particular as regards freely accessible resources.

The degradation of nature and the environment translates into a loss of productivity (agricultural, urban and labour) and of quality of life (in terms of morbidity and mortality). The effort to offset those effects through active productive development and social services delivery strains budgets and worsens the bias towards traditional comparative advantages. To these regional patterns is added the increasing impact of climate change and other global environmental ills. All of this further adds to the burden and directly affects water, food and energy security, among others (ECLAC, 2020). The burdens of the various countries and income groups are also asymmetrical. Those that cause the least degradation have less capacity to adapt to its effects. In a context of increasing vulnerability, the region urgently needs to advance in implementing its climate change adaptation and resilience-building agenda.

With some exceptions, the countries of the region include the right to a healthy environment in their constitutions, have ratified multilateral environmental agreements, afforded ministerial rank to environmental authorities and passed general environmental legislation. Eleven countries have climate change laws in their legal corpus and four others are in the process of adopting them. Of the region's 33 countries, 29 have updated their nationally determined contributions (NDCs) for climate change. Environmental information systems have also been developed, except in some Caribbean countries, although only two countries (Chile and Mexico) have pollutant release and transfer registers, and environmental data are relatively scarce compared to socioeconomic data.

The institutional frameworks for environmental matters are relatively weak in Latin America and the Caribbean and funding for environmental protection is limited and declining (see figure 7). Monitoring of regulatory compliance and due process is deficient and environmental impact assessment systems continue to be seen as a hindrance for investment, all against a backdrop of fragile rule of law (for which the indicators worsened during the coronavirus disease (COVID-19) pandemic, in particular in Latin America). These factors all contribute to the extractivist model driving a rise in pressure on the environment and in socioenvironmental conflicts (globally, more than 25% of such conflicts occur in this region); the expansion of environmentally harmful illegal activities (mining, logging, traffic in species and drug trafficking); and making the region the most dangerous place on Earth for environmental defenders. In 2022, 88% of killings of environmental and land defenders occurred in Latin America and the Caribbean, a tragic indicator headed by Colombia (Global Witness, 2023).

Figure 7
Latin America and the Caribbean (11 countries):[a] change in spending on environmental protection, 2016–2021
(Index: base 2016=100 and percentages of central government spending)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official budget statistics.
Note: Figures for 2021 are provisional.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Honduras, Mexico, Peru and Uruguay.

In short, the region is on a path of inertia, propelled by entrenched traditional comparative advantages and a consumer society model. This path is unsustainable, producing a feedback loop that significantly constrains the region's ability to progress and narrow the standard-of-living disparity with developed nations. However, it is precisely the region's traditional comparative advantages and its natural and cultural wealth that underpin its great potential to undertake the transformations that would foster progress towards sustainable development and carbon neutrality in order to achieve a good standard of living for its citizens, using its own development model for a global context that is increasingly conditioned by planetary limits —meaning that the environmental constraints of the three-gap model (ECLAC, 2020) are ever greater— and globalization has ceased to be the prevailing paradigm.

III. The evolution of ECLAC thinking on the environment and natural resources as a pillar of sustainable development

Mainstream economics (and the industrialized world) have historically viewed well-being as being underpinned by the production of material goods, hence the efforts expended on increasing production and fostering growth. The United Nations Conference on the Human Environment (held in Stockholm in 1972) was a milestone in international relations, expressing concern over the growing evidence that post-war industrialization had severely damaged the environment and human health. Years later, the World Commission on Environment and Development of the United Nations coined the term “sustainable development” in the report entitled *Our Common Future*, defining it as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987). Not only did the definition include the environmental dimension in the concept of development, it also referred to dynamic and intergenerational effects.

In the framework of its analysis of the Latin American and Caribbean development model, the Economic Commission for Latin America and the Caribbean (ECLAC) has always been engaged in the discussion on environmental degradation as a limitation on economic growth. It has also viewed natural resource endowments as an underpinning of the stock accumulation required to support the region’s industrialization and development.

Prebisch, Furtado, Iglesias, and in particular Sunkel, among others, addressed the issue of the environment and natural resources in terms of the contradictions inherent to the prevailing model, technological bias, and centre-periphery relations, as forerunners in emphasizing the importance of addressing this in the region and internationally. Structural analyses sought to safeguard natural resource sovereignty and rent capture vis-à-vis transnational mining and drilling corporations and to prevent the deterioration of terms of trade and of the external gap associated with the productive specialization trap.

As early as 1963, Prebisch warned that natural heritage was being destroyed by private interests. He signalled the need to take an inventory of natural resources and incorporate it into plans for State development and into actions taken to conserve and properly use resources and distribute surpluses (Prebisch, 1963). However, these recommendations were made in a context in which Latin American States had little capacity for negotiation and regulation. Prebisch also studied the contradictions within the prevailing development model, noting that many problems of environmental degradation were exogenous to prices and resulted from unrestricted market dynamics (Prebisch, 1970). In analysing Latin American dependency, Furtado continued to underscore the predatory nature of the capitalist system, asserting that it was impossible for it to become universal and going so far as to broach the notion of planning consumption and debunking the myth of attaining the living standards of developed countries (Furtado, 1975).

Early on, ECLAC warned that the technological bias towards hydrocarbons precluded changing the development model and achieving convergence processes. In the context of the oil crisis, Prebish (1980) reflected on the extraordinary economic growth of the previous decades, which he attributed not only to prodigious technological progress but also to the irrational exploitation of natural resources, in particular energy resources, which in turn had altered the course of technological progress itself. He cautioned that little attention was being paid to technological research on the environment and that the development model was triggering grave repercussions for the biosphere. The view that the biosphere was exogenous to the economic system, and often, that natural resources were inexhaustible, generated contradictions that could not be resolved through the self-regulating mechanisms that purportedly governed market dynamics, meaning that purposeful intervention was needed. He also warned that "that there are no cordons sanitaires to isolate the groups that have benefited by development from those that have been left behind", underscoring the interdependence of the globalized world and its vulnerability to global environmental problems (Prebisch, 1980).

The economic value of the environment's capacity for assimilation and its degradation as a constraint for development, including in crisis contexts, were a foretaste of the situation today, in which the thresholds for planetary security are beginning to be breached. That assimilation capacity and the economic consequences of mounting entropy, described by Georgescu-Roegen (1971) in his landmark study entitled *The Entropy Law and the Economic Process*, were recognized and studied by ECLAC. Iglesias (1972) delved more deeply into the discussion on environmental degradation as a consequence of centre-periphery relations and wealth accumulation processes, calling for the establishment of new forms of international cooperation that could facilitate the provision of regional public goods and encourage conservation of the environmental conditions of the biosphere.

Sunkel (1980) brought the environmental dimension fully into the structural concerns of ECLAC. *Estilos de desarrollo y medio ambiente en la América Latina* (Sunkel and Gligo, 1980) argues that growth and the biophysical environment are intertwined and casts doubt on the theories of neoliberal ideology. In concrete terms, the work questions the belief in limitless economic growth, the long-term sustainability of a development model based on natural resource exports with the goal of imitating the contemporary urban-industrial lifestyle, behaviour aimed at accumulating consumer goods, the advantages of urban concentration, blind faith in scientific and technological progress, and the possibility that everyone could achieve consumption levels akin to those of high-income groups or developed countries. Accordingly, Sunkel argued for the urgent need to change the development paradigm.

Sunkel emphasized the role of planning and showed how excluding environmental concerns from the mechanisms that guide decision-making was a perverse feature of the development model, and treated prevention as part of structural change (Sunkel, 1987). It was already being suggested that the region's development was imitative and dependent, and that little was being done in the way of innovation to use its resources in an optimal manner.

ECLAC also warned early on that preserving the environment was an economic win: "contrary to the tendency to view the ecological problem as something negative, as a cost to be absorbed, it is increasingly clear that there are modes of economic development that derive obvious benefit from appropriate environmental management", and, for that reason, "environmental management is not only of interest for ecological preservation, but is also a positive economic factor that can be added to others" (Iglesias, 1983). Later, in the context of the debt crisis, it was proposed that crises presented an opportunity for change: in response to the recessionary adjustments of the Washington Consensus, the Commission proposed an expansionary adjustment (selectively restricting demand and selectively expanding supply, with efficient planning and State intervention). These concepts —the environment as an economic factor and selective expansion as an alternative to recessionary adjustment— would later serve as the basis for the new recommendations of ECLAC on sustainable structural change and the environmental big push (Bárcena, Samaniego and De Miguel, 2019).

From the perspective of production, Fajnzylber (1988, 1990 and 1992) made recommendations for the region on industrialization, technological development and competitiveness, including one of his key contributions, the idea of genuine competitiveness, which was meant to take environmental sustainability into consideration, unlike spurious competitiveness, which was based on social and environmental degradation. These ideas would later complete the triad of efficiencies proposed by ECLAC (2018a and 2020): Schumpeterian efficiency (innovation and productivity), Keynesian efficiency (employment) and environmental efficiency.

The Earth Summit, held in Rio de Janeiro in 1992, marked a turning point by establishing sustainability as a universal goal and defining development as a holistic concept. The Summit marked the beginnings of global environmental governance and saw the adoption of Agenda 21 and its 27 principles. It also culminated in the signing of three global environmental agreements (the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change and the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa), all of which influenced the agenda of the region. Concern was also expressed over the misvaluation of natural resources, whose prices often failed to reflect their intrinsic value and the environmental costs of exploitation (Azqueta, 1994).

Despite the strengthening of regulatory frameworks for environmental protection and institutions for environmental management, Ocampo (1999) warned that environmental policies were relegated to a marginal role and that the power granted to environmental authorities was limited and had to be negotiated with economic authorities from a position of disadvantage; he therefore called for stronger environmental institutions and policies. His descriptions remain entirely valid today, including with regard to the economic undervaluation of environmental goods and services (or functions), reflecting a belief in abundant natural resources leading to their overexploitation; limited availability of technologies and effective means of transferring appropriate technologies; lack of suitable public policies; and failures in institutional frameworks (property rights, rent capture, clientelism and representation issues, such as the principal-agent problem), markets (externalities) and lack of markets, transaction costs and information asymmetries, and policies (distorting subsidies, prices that fail to reflect opportunity cost, and perverse incentives). In the late 1990s, ECLAC initiated efforts to develop management strategies for medium-sized cities, aiming to tackle challenges related to spatial utilization, urban productivity, decentralization and local governments, among other issues (ECLAC, 1998).

ECLAC (2000) highlights a series of points that are critical for discussions on sustainability: the ethical framework of human rights and equality, democracy and the role of the citizenry. Ocampo also called for the principles of sustainable development to be spread through the education system and the media; for the preparation of effective spokespersons for environmental interests; for the active participation of non-governmental institutions in implementing and monitoring environmental management; and for the establishment of participation mechanisms to enable citizens to clearly express their interests. Above all, he defended the need for effective legal instruments to ensure meaningful respect for public interests.

The year 2002 marked a milestone in the work of ECLAC, which focused on a detailed analysis of economic globalization but also on the globalization of values (ECLAC, 2002a). The region's objective at the time was to contribute to a new international order that would reduce global asymmetries and level the playing field, ensure an adequate supply of global public goods and promote a rights-based agenda. The main stumbling blocks for the sustainability agenda were institutional and financial, as well as the perception that sustainability was a cost rather than an opportunity. That year, ECLAC also addressed financing for sustainable development, at both the International Conference on Financing for Development (held in Monterey, Mexico) and the World Summit on Sustainable Development (held in Johannesburg, South Africa), and strengthened its support for assistance and training programmes on economic instruments for environmental management (ECLAC, 2002b).

With an approach focused on productive transformation, competitiveness and open regionalism, ECLAC (2004 and 2008) pointed to the external context as a determinant for national policy outcomes. It also signalled the lack of markets for the region's environmental goods and services. In 2005, a series of inter-agency reports began to be prepared under the aegis of ECLAC to analyse the achievement of the Millennium Development Goals (United Nations, 2005), in particular Goal 7, on ensuring environmental sustainability (United Nations, 2010), finding that environmental information on key issues was lacking in the region and pointing to the urgent need to control the decline in forest cover and the steady increase in greenhouse gas emissions. The Rio+20 Conference enabled ECLAC to mainstream its ideas across the United Nations system, as the Commission spearheaded the preparation of two inter-agency documents, one in the lead-up to the Conference (United Nations, 2012) and the other analysing its outcomes (United Nations, 2013).

The publication *Sustainable development in Latin America and the Caribbean. Follow-up to the United Nations Development Agenda beyond 2015 and to Rio+20* emphasizes the need for structural change to achieve equality and environmental sustainability; underscores the role of policy and institutions and the co-responsibility of the private sector; acknowledges the need to go "beyond GDP" in measuring development; and calls for the establishment of global sustainable development governance. It also identifies gaps (including productivity and environmental sustainability) that represent barriers for sustainable development and defines enabling goals for the establishment of compacts and a new global governance. It sounds the alarm regarding the deterioration of natural productive systems and rising environmental and economic costs, which are overlooked by conventional macroeconomic statistics because they are not reflected in the market. It also notes the need to think not only about short-term flows associated with transformation processes but also about long-term effects on natural heritage; the importance of striking the right balance between the market, the State and social forces; and the role of policy and good governance (De Miguel and Sunkel, 2011).

During this period, the Commission's lines of work expanded to important new spheres, such as evaluating environmental performance, distinguishing between intentions, actions and outcomes, and analysing in detail the effects of climate change and mitigation and adaptation measures, which supported the countries of the region in acquiring solid, evidence-based knowledge to prepare for climate negotiations and strengthen their technical staffs. Studies were then conducted on the effects of climate change on the coasts of Latin America and the Caribbean, and a database was set up that was unique in terms of the breadth of variables and the amount of data it contained; it was also the first to cover the entire region (ECLAC, 2011, 2012a, 2012b, 2012c and 2015; Government of Spain/ECLAC, n/d). The impact of climate change in the region was found to be considerable, increasing over time and affecting numerous variables that were not usually taken into account, and that the costs of inaction exceeded those of mitigation, meaning that urgent adaptation measures were needed.

In the 2010s, the work of the Commission focused on equality, and the trilogy of equality was published: *Time for Equality: Closing Gaps, Opening Trails*; *Structural Change for Equality: an Integrated Approach to Development*; and *Compacts for Equality: Towards a Sustainable Future*, and environmental issues were also analysed from that perspective. The rights-based approach was also developed (ECLAC, 2014). From this perspective, sustainable development, far from being manifested exclusively through greater economic growth, should be reflected in improved quality of life (expressed through the full exercise of human rights) capable of ensuring resilient economic, social and environmental systems. The first issue of the *ECLAC Select Pages* collection showcased the increasing integration of environmental sustainability as a key concept for the equitable development sought in the region, particularly in the context of shaping an international development agenda post-2015 (De Miguel and Tavares, 2015).

The Latin American and Caribbean countries mostly enshrine the right to a healthy environment in the constitution (ECLAC, 2018b). The first Latin American and Caribbean environmental treaty, the Regional Agreement on Access to Information, Public Participation and Access to Justice in Environmental Matters in Latin America and the Caribbean (Escazú Agreement) (ECLAC, 2022b) —for which negotiations had begun at the Rio+20 Conference— was adopted in 2018. The Agreement guarantees the right of access to information, public participation and justice in environmental matters, as well as the right to a healthy environment and sustainable development. ECLAC thus contributed to the perpetual quest for compacts and consensuses to address the challenges of sustainable development.

Concern over commodity export specialization remained eminently relevant, and with regard to good natural resource governance (Altomonte and Sánchez, 2016), Sunkel's original concept of the inappropriate use of such resources and of natural heritage was further developed. It was warned that signs of Dutch disease were beginning to appear in countries that lacked the instruments to manage commodity cycles and external shocks, which prevented them from properly strengthening their national productive and technological capacities (Ocampo, 2017). León, Lewinsohn and Sánchez (2020) also noted an ecological trade imbalance between the region and the rest of the world, as it exports more materials than it imports, generating a larger environmental footprint compared with developed countries that specialize in high-tech goods and services. Gligo and others (2020) warned of the environmental tragedy of Latin America and the Caribbean and the crossroads that the region has reached today, and their work offers high-impact environmental management policy recommendations.

ECLAC (2020 and 2022a) fully mainstream environmental sustainability, in keeping with the three-gap model for sustainable development, and development alternatives are presented in the context of the "big push for sustainability". These publications recognize the significant limitations on the region's growth: it is insufficient to close the social gap (eradicate poverty), and incompatible with the external gap (achieving external balance) and the environmental sustainability gap (taking as a proxy the greenhouse gas emissions reductions that countries agreed to achieve by 2030 in their NDCs) (ECLAC, 2020). It is currently estimated that growth of at least 4% per year is required to meet social needs; maintaining external equilibrium, given global growth of 3% (the rate recorded in 2023, for example), would require potential growth of around 3%; and meeting the targets of the Paris Agreement, given the current economic structure, would require degrowth of between 1.5% and 2.2% (ECLAC, 2023e). Solutions are put forward that could be implemented through public policies to boost the strategic sectors capable of contributing to the transformation of the region's development model and the achievement of a transformative reactivation in the context of a new lost decade. The studies note that for countries to meet their emissions reduction commitments, economic growth must be decoupled from emissions at a rate that is four to five times faster than previously seen, meaning that small changes will not serve. Lastly, although the annual additional investment required to meet climate commitments by 2030 would be the equivalent of between 3.7% and 4.9% of regional GDP, the climate financing currently flowing to the region comes to barely 0.5% of GDP (ECLAC, 2023e).

Proposals concerning the circular economy, the bioeconomy, nature-based solutions, renewable energies, and sustainable public transport (including electromobility and retrofits) have the potential to close the three gaps and generate dynamic competitive advantages for the region (Borba, 2020; De Miguel and others, 2021; Van Hoof, Núñez and De Miguel, 2022; ECLAC, 2023b). There are obvious challenges when it comes to changing the development model to address climate change: narrow fiscal space, historically low rates of investment, and limited concessional financing and technology transfer from outside the region. Enablers of change include analysing climate-related financing and investment opportunities, establishing taxonomies to align the financial system with sustainability, promoting carbon pricing policies, incorporating climate change indicators into licensing systems, and sustainable management of the mining sector and mining liabilities (which is needed to supply transformative sectors).

The traditional thinking of ECLAC has thus been progressively updated in light of the most recent global events —including shifts in globalization and overlapping financial, social, geopolitical, environmental and climate crises— establishing priorities for the transformation and focusing on the "how" —the ways in which the challenges could be met— on the basis of good governance, institutional capacities, improved information and analyses, participation, citizen dialogue and partnerships. A more ecological neostructuralism is thus emerging (Sánchez, 2019), shaped by grave global and regional environmental issues and the need to adopt urgent measures, but also aimed at achieving just transformations and incorporating the social dimension.

IV. Reconciling growth and environmental sustainability: the economic thinking

The most recent proposals by ECLAC on transforming the development model hold that it is crucial to maintain strong, steady, sustainable and inclusive growth. Among other aspects, this entails reconciling growth with environmental sustainability.

Panayotou (2000) classified the factors that trigger environmental impacts (both negative and positive) into six major groups. First is the scale of economic activity, which exerts greater pressure the greater the economic and population growth, all other things being equal. However, a structural change, a reduction in the intensity of resource use or a technological advance could theoretically reduce such pressure or emissions more than proportionally. This is not yet happening. Second is higher income, which makes greater consumption possible, but also, once certain income levels are exceeded, increases the willingness to pay for improvements in environmental quality, both individually and collectively. The behaviour of certain pollutants sometimes reflects an environmental Kuznets curve (an inverted U), but the trends shown in figures 3 and 4 suggest that it would not be possible to reach the level of income needed to trigger the necessary transformations. The third factor Panayotou mentions is changes in the structure of economic activity and productive specialization, which, based on the country's comparative advantages resulting from factor endowment or generated through innovation and investment, offer a unique opportunity to align with the structural change proposed by ECLAC. Targeting sectors capable of driving the transformation and the big push for sustainability could support the development of new, less polluting productive structures. The fourth factor is the composition of output. Opening up markets for environmentally friendly goods and services (solar panels, organic food or recyclable products) will support exports and growth, closing sustainable development gaps. However, the region is a net importer of environmental goods and services, and neither its patents nor the export trends for these products suggest a change in this direction over the medium term. Fifth, technological solutions and their dissemination have been central to several economic strands of theory, as will be discussed below. The expectation that technology —and financing— will be transferred to developing countries remains. More efficient machinery and equipment, clean technologies, new technological solutions, digitalization and good business practices would undoubtedly contribute to solving environmental problems, but public policies and proper regulation are also essential, as with other areas mentioned earlier. The final factor is regulatory change. Growing concern over climate and environmental issues around the world has spurred the strengthening of environment-related institutional frameworks and regulations. The mainstreaming of environmental factors into economic and social decision-making has also improved as the evidence has grown of increased risks associated with environmental degradation. Despite regulatory change moving in the right direction, albeit with some lag, explicitly environmental policies are limited in their effectiveness by policies implicit in different economic sectors. They also suffer from a lack of consistency and coordination, which makes it difficult to comprehensively assess them and for them to have the desired impact.

The idea that the environmentally unsustainable development model can be remedied by technology is probably the greatest source of conflicting opinions among economic schools of thought. On one side is the technologically optimistic neo-Schumpeterian vision (for example, see Mazzucato, 2023; Marín and Perez, 2015 and 2024; and Katz, 2024) regarding the role of innovation and technological development in the quest for options to achieve sustainable development. From that perspective, innovation and green technologies can be used, in a context of inclusive industrial strategies, to find solutions based on the valuable natural heritage of Latin America and the Caribbean, without squandering or degrading it, by improving productivity sustainably and boosting the sectors that can generate positive synergies between productive, social and environmental objectives. These authors redeem the role of the State and its capacity to catalyse positive synergistic processes to drive a different kind of development, taking into account environmental and social problems but also the need to strengthen growth and close the external gap. This means boosting technology development to drive changes in the structure and composition of production, guided by active policies and regulations.

On the other side is technological pessimism (for example, see Martínez-Alier and Roca, 2014; Daly, 2014; and Pérez, 2024), which derives from the school of thought of ecological economics, based on limitarianism. Authors who subscribe to this viewpoint acknowledge that the economy is primarily entropic, generates an ever-growing ecological footprint, and is threatening the air, water, soil, biodiversity and ecosystem services that support life. For this reason, they are sceptical and cautious regarding technology wins. They propose that a recognition of the biophysical limits of economic activity is essential and advocate strong sustainability.[3] From the ecological economics perspective, natural heritage and ecosystem services are critical and cannot be substituted. The integration of the environmental dimension is not subordinate to the economy; instead, the reverse is true, and there is no technology that can change this fact, although it can support an increase in environmental efficiency. The economy is merely a subsystem that is part of a larger system, the social system, and both are part of an even larger system, the ecological system that is the source of life on the planet. This idea was also espoused by the United Nations when the 2030 Agenda for Sustainable Development was broached. The difference lies in the fact that proponents of ecological economics support the imposition of limits on growth, with internal differences in the scope of those limits, ranging from achieving a steady-state economy (Daly, 2014) to promoting economic degrowth, at least in the countries of the global North (Martínez-Alier, 2009). These authors are sceptical that a relative decoupling of well-being from the material conditions for production is sufficient, and contend instead that absolute decoupling is needed.

Like ECLAC, ecological economics also contributes to the discussion on distribution, incorporating the dimensions of intergenerational and international justice into the economic and environmental spheres (Pérez, 2024). In the international dimension, it connects with ECLAC thinking on structural issues of dependency and productive specialization, as the Commission argues that the region is relinquishing its natural heritage and generating a perpetually increasing ecological footprint in its territory in order to satisfy the developed countries' demand for growth, without receiving just recompense, since environmental costs are not properly quantified.

There are also attempts, from a more institutionalist and post-Keynesian perspective, to incorporate the environmental dimension into economic growth models, questioning approaches that defend economic degrowth in the belief that only a certain level of economic growth can support the development of cleaner technologies. According to this approach, what matters is the type of expenditure and growth in demand, which should be more supportive of technological progress aimed at achieving ecological sustainability (see, for example, Fontana and Sawyer, 2016; Althouse, Guarini and Porcile, 2020; and Vernengo, 2024). This school of thought is more closely linked with the ideas of the Green New Deal, which focuses on promoting investment in the greenest infrastructure and technologies and adopting regulations to incentivize economic agents to adopt cleaner technologies. Although these ideas have gradually permeated the programming and legislative proposals of some countries, such as the United States or the countries of the European Union, they have not been implemented in any significant way.

Moreover, the ecological economics perspective, like institutionalist and post-Keynesian economics, is critical of the neoclassical notion of the rational, omniscient economic agent that maximizes profits and of the idea that economic or material welfare, linked to consumption, should be the goal of the economic system (Vernengo, 2024). From the neoclassical perspective, environmental issues are seen as negative externalities and market failures (for example, because of lack of information, incomplete markets or poorly defined property rights), for which some degree of regulation is admitted, to make adjustments.

[3] The concept of weak sustainability made it possible to view social and natural assets as capital, but from that perspective, the world was still seen as limitless, devoid of thresholds or irreversibility, in which all types of capital could be monetized or substituted. Pearce and Turner (1989) defended the preservation of a critical store of each of the different types of capital and treating them as complementary, thus incorporating the concept of strong sustainability into the search for optimal growth.

However, there is no recognition of any basic or structural problems related to modes of production and consumption that cannot be solved by simply putting a price on environmental costs or internalizing environmental externalities but instead require the structural transformation of the development model.

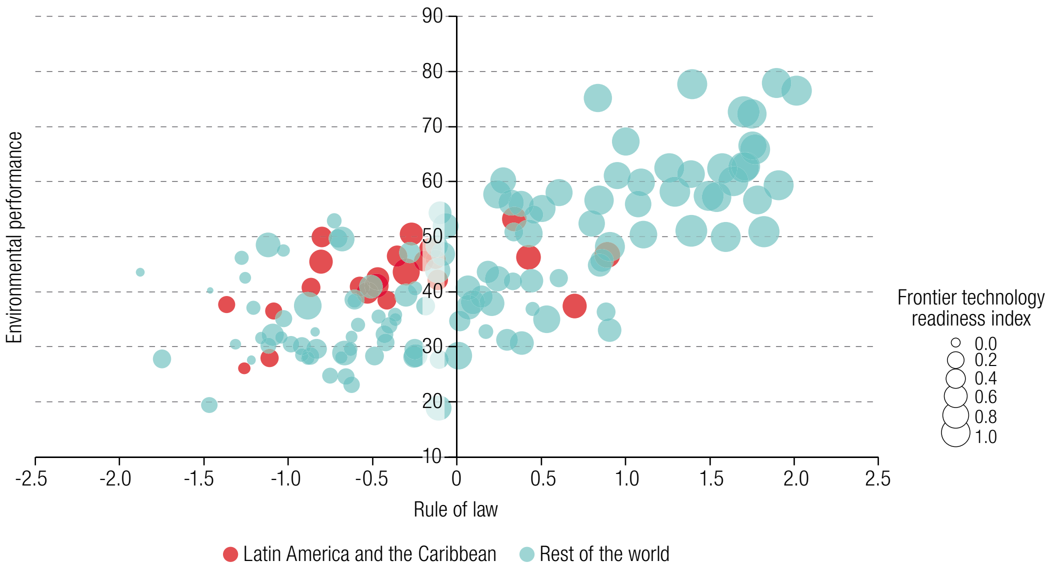
ECLAC could be said to have developed its own neostructuralist school of thought, embracing aspects of the three perspectives described (ECLAC, 2020, 2022, 2023b, 2023c and 2023d; León, Lewinsohn and Sánchez, 2020; Sánchez and León, 2024). Its recommendation for a big push for sustainability and defence of the conjoining of industrial, technological, environmental and social policies to achieve social, economic and environmental sustainability are similar to the optimistic neo-Schumpeterian theses on technology solutions. However, its proposal to promote the environmental big push and a transformative recovery following the coronavirus disease (COVID-19) pandemic, identifying driving sectors, promoting active public policies that foster sustainable structural change to close external, social and environmental divides, and underscoring the important role of policies in bringing about change, is closer to post-Keynesianism.

The transformations needed to achieve the type of growth sought also require institutional capacities, rule of law, governance and social dialogue. This holistic approach of ECLAC, which recognizes the points of connection between the generation and absorption of technological solutions, environmental performance, and institutional and social surroundings (see figure 8), adopts an institutional perspective of cautious technological optimism.

Figure 8

Latin America and the Caribbean and the rest of the world: environmental performance, rule of law and technological readiness, 2021 and 2022

(Indices for environmental performance, rule of law, and frontier technology readiness)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on Observatory on Principle 10 in Latin America and the Caribbean, on the basis of World Bank, Worldwide Governance Indicators [online] https://databank.worldbank.org/source/worldwide-governance-indicators; United Nations Conference on Trade and Development (UNCTAD), "Frontier technology readiness index, annual" [online] https://unctadstat.unctad.org/datacentre/dataviewer/US.FTRI and M. Wolf and others, 2022 Environmental Performance Index, New Haven, Yale Center for Environmental Law & Policy.

Note: The World Bank rule of law indicator is measured in standard deviations (minimum=-2.5, maximum=2.5); the range of the environmental performance index (EPI), established by the Yale Center for Environmental Law and Policy, is from 0 to 100; and the range of the frontier technology readiness index (FTRI), developed by the United Nations Conference on Trade and Development (UNCTAD), is from 0 to 1.

The historic proposal of ECLAC for structural change will undoubtedly contribute to environmental sustainability and the responsible use of natural resources. It must therefore be capable of producing significant innovations and technological advances to improve productivity sustainably and generate authentic and robust competition. It must also incorporate environmental innovations to incentivize production with a smaller environmental footprint, which does not threaten natural heritage and the ecosystem services that are essential for life.

V. Challenges and opportunities in a new context: recommendations for Latin America and the Caribbean

As noted throughout this article, the economy is currently facing a new scenario in which inequality and environmental degradation have become absolute determinants of the viability of development as we know it. Environmental sustainability —as both an opportunity and a problem— is already playing a significant role in areas such as competitiveness, innovation, investment, market decisions and policy options.

In a context in which the repercussions that have already been triggered by environmental degradation and climate change in both the region and the rest of the world continue to worsen, and faced with the fragility of international governance and multilateralism, the race to control the industries of the future and their related technologies and the growing scarcity of natural resources have contributed to polarization across the planet and are altering the foundations of the economic and trade relations of decades past. There has been a shift from a green new deal, with a positive focus, towards increasingly protectionist practices, tariffs and subsidies for strategic sectors, technological control and trade wars. This “destructive innovation”, along with geopolitical resource conflicts, growing inequality, climate impacts, and ever-increasing migratory flows triggered by environmental factors, are threating democracies and global peace and security. The region also runs the risk of remaining on the “periphery”, with a pattern of international integration that falls short of improving its citizens’ quality of life while simultaneously protecting its diminishing natural heritage.

Nonetheless, many opportunities arise in response to this scenario in terms of fostering the region’s development and boosting its political influence in international discussions, which could contribute not only to overcoming the cascading crises it currently faces and the low growth it has suffered for over a decade but also to achieving a just climate transition. To achieve this, it will be necessary to implement a wide-ranging mix of policies, investments, technological transformations, and changes in behaviour and international cooperation, to enable: (i) a change in the material basis and energy mix of the region in line with commitments to combat climate change, the Sustainable Development Goals (SDGs) of the 2030 Agenda, and its own environmental challenges, in particular deforestation, biodiversity loss and urban pollution; (ii) redefining the region’s role and position in response to the growing demand for natural resources from developed and emerging countries so that they can advance with their own transitions, making responsible use of the rich natural heritage of the region; and (iii) productive development initiatives that align with the big push for sustainability, meaning that they generate a flywheel effect in the economic, social and environmental dimensions, contribute to overcoming the three gaps mentioned, and foster just transitions. In that regard, several lines of action are proposed and set forth below.

1. Reference metrics: the gap approach

Progress towards sustainability must begin with changing the baseline metrics. ECLAC has proposed that a stronger focus on closing sustainable development gaps and on the related metrics should guide the narrative aimed at driving structural changes, based on need and opportunity. This recently developed innovative approach, which is grounded in the thinking of the Commission, offers insights into the main contradictions with regard to growth in the region. At the same time, the United Nations and OECD, among others, had already warned of the need to go beyond GDP in benchmarking development (CEB, 2022), which means that analyses would be improved by information on the status of assets (and depletion indicators), as well as intensity and productivity indicators.

2. Responsible use of natural heritage

Having a rich natural heritage is not a curse, but the benefits and costs associated with its use depend on governance, responsible management, and appropriate use of the rents and revenues it generates, which must contribute to the welfare of present and future generations. Based on the specific circumstances of each country, it is critical both to ensure that natural resources are not squandered through imitation of unsustainable patterns of production and consumption and to refrain from responding automatically to the demands arising from the productive, energy and ecological transitions of developed and emerging countries by perpetually supplying raw materials. There are significant needs for some materials for the transitions under way (see figure 9), and a new multilevel, multi-stakeholder, transparent, democratic and effective governance model is needed to anticipate the repercussions of that demand (ECLAC, 2023b).

With regard to extractive resource rent capture, there is a need to employ a progressive approach, prevent countries or regions from engaging in a race to the bottom in terms of taxation, social and environmental standards, and eliminate tax evasion and avoidance stemming from underinvoicing of exports, transfer prices and misinvoicing or false customs declarations. Combating illegal natural resource exploitation is another area with room for improvement.

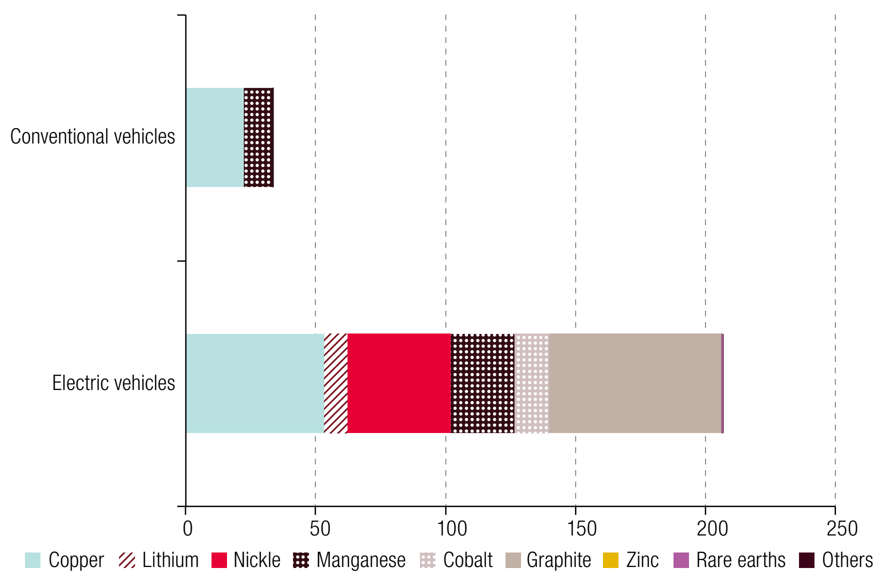
With regard to the use of natural resource rents, management mechanisms to ensure stable macroeconomic conditions and guard against commodity price volatility and cycles are essential, as is financing the strengthening of countries' human, technological and productive capacity in order to ensure that capital will be available over the long term for current and future generations.

Figure 9

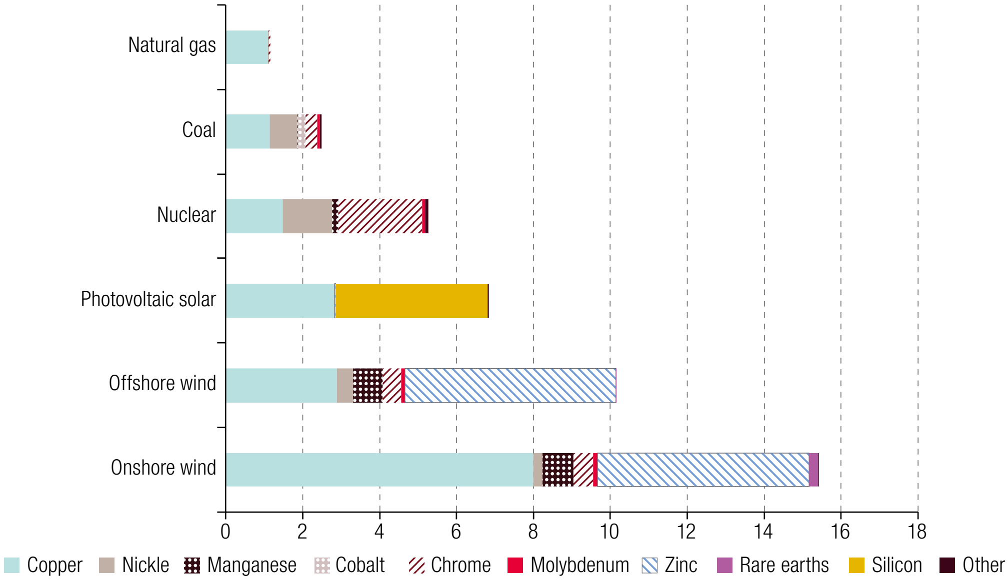
Mineral use in selected clean energy technologies, 2021

A. Transport

(Kg per vehicle)



B. Electricity generation
(Thousands of kg/MWh)



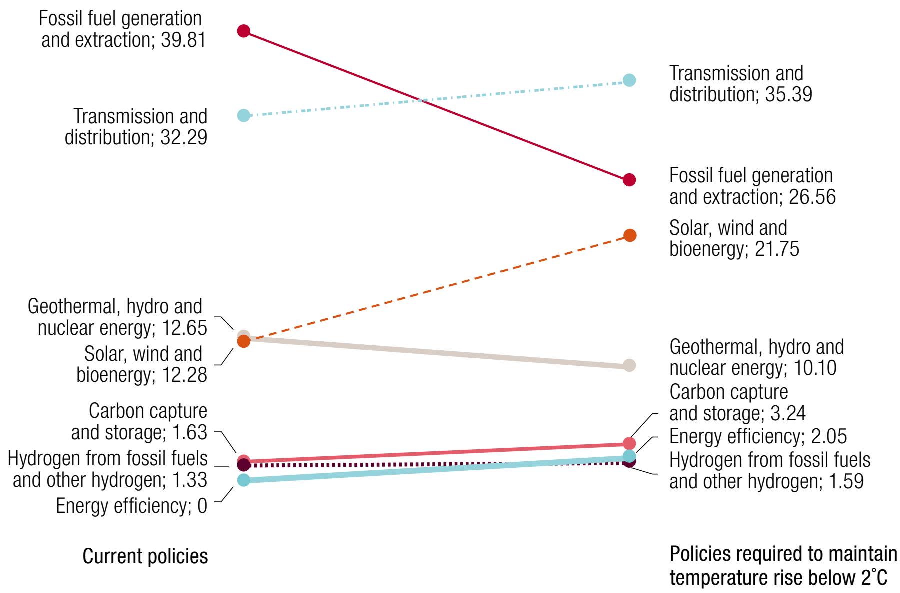
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Energy Agency (IEA), *The Role of Critical Minerals in Clean Energy Transitions*, Paris, 2021.

3. The climate transition and investment strategies to drive sustainability

The responsibilities that relate to climate action are shifting from ministries of the environment to ministries of finance, planning, economy, energy, infrastructure and transportation, among others. Coordinated action it needed to confront climate change, guided by long-term planning frameworks and strategic supply initiatives to develop clusters with greater domestic content. Decision-makers must take simultaneous action on supply and demand (Hausmann, 2023). Updating NDCs enables mitigation and adaptation priorities to be examined and aligned, which in turn affects investment priorities. Figure 10 contains a comparison of the current scenario and the NDC-consistent scenario. However, monitoring must be enhanced to determine which industrial, fiscal, trade, and other initiatives and policies can foster the necessary transformations.

The big push for sustainability approach proposed by ECLAC implies the use of supply policies in some sectors that can contribute to closing sustainability gaps, as well as fostering a smooth and just transition, including in sectors such as the bioeconomy, sustainable transport and electromobility, renewable energies, sustainable construction and care. Given the scale of the investment needed, it will not be enough to align incentives (economic and regulatory) and establish productive development policies. The private sector must be encouraged to engage actively, by promoting dialogue with stakeholders at the forefront of the transformation. Moreover, productive development policies (in industry and technology, for example) need to be broad, and must foster synergies to broaden the economic and social fabric and achieve the highest possible degree of inclusivity. Supporting applied research and public and private technology centres will be foundational for the achievement of patentable local innovations and to adapt and imitate foreign technologies, including for batteries, green hydrogen, tidal energy, construction materials and improved seed stocks.

Figure 10
Latin America and the Caribbean: share of total average annual investment, 2021–2030
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *The economics of climate change in Latin America and the Caribbean, 2023: financing needs and policy tools for the transition to low-carbon and climate-resilient economies* (LC/TS.2023/154), Santiago, 2023.

4. Reducing systemic risks and supporting the economic transition

Climate change and the breaching of environmental thresholds entail a range of risks, because of both their effects and the transition towards low-carbon economies that countries must make, which has a knock-on effect on the economy and finance. In addition to analysing the economic implications of climate change, it is essential to focus on systemic risk analysis, translating resilience thresholds into forward-looking macroeconomic scenarios. To achieve this, it is vital to work with central banks and other financial regulators and to support financial sector initiatives for creating a "greener" system, from both development banks and the private sector. The main lines of work in that regard are to conduct prospective analysis and apply the results in the financial and fiscal system; harmonize and consolidate regional green finance taxonomies as a policy instrument to strengthen public-private collaboration on transformative investments; generate policy frameworks for regulating financial systems on the basis of risks related to climate and the degradation of nature; and develop model standards for innovations in futures markets, such as green hydrogen emissions certifications, carbon markets, and options for water rights.

5. Adaptation and the provision of public goods

Given the high degree of vulnerability in Latin America and the Caribbean and insufficient international action to combat climate change, adaptation is a priority for the region. Data indicate that the total rate of return on investments in adaptation is high: the cost-benefit ratio ranges between 2:1 and 10:1. Having multidisciplinary teams estimate the cost of the impacts of climate change, using upstream and downstream approaches and integrated models and also determining the cost of inaction, enables the definition of policy priorities for national and subnational adaptation. However, assessments of public investments or environmental impact do not tend to include the effects associated with climate change or the benefits of ecosystem services and enhanced resilience. Progress is therefore needed in the development of methodologies, and in capacity-building for national public investment systems and environmental impact assessment services, among other key actors.

In addition, the region's biodiversity and ecosystem wealth, in particular in the Amazon but also in the Mesoamerican Biological Corridor, mean that nature-based solutions are available. Potential areas of work include the promotion of territorial policies to combat coastal degradation or desertification, conserve water resources, and promote regenerative agriculture and pastoralism (leveraging projects that have proven to be restorative), and the development of economic opportunities for sustainable ecosystem management (including productive chains, payment for environmental services, the sale of carbon credits, and fair and equitable sharing of the benefits arising from the utilization of genetic resources).

6. Changing the way things are done: the circular economy

The circular economy approach is grounded in a quest to optimize material and energy efficiency and generate the least possible material waste. It therefore implies a societal transformation based on changing product designs and production methods to promote the elimination of waste and pollution, extend the useful life of products or use them more intensely and efficiently, supply maintenance for products and materials in use, and regenerate natural systems. There is ample room for improvement in the region in that regard. National and local strategies originating in inter-agency agreements are needed, led by ministries of industry or economy if possible, in order to boost productive activities that are circular in nature. Regulatory frameworks for transforming internal combustion vehicles into electric vehicles and for batteries discarded after use in electromobility are aimed at establishing enabling conditions for the development of sustainable businesses in the context of circular economy strategies. Regulatory transformations —for example, legislation on extended producer responsibility, standards and certifications— and cooperation with business associations such as Compromiso Empresarial para el Reciclaje (CEMPRE) and certification bodies, among others, must continue to be supported and monitored.

7. Cities: spaces for transformation

Many of the effects of environmental degradation and climate change occur in cities, which are also the site of many of the transformations needed to address issues such as mobility, construction and energy efficiency. The establishment of a low-carbon or smart, sustainable and inclusive urban development model requires the strengthening of local government capacities and efficiency and stronger coordination with other levels of government. It must be recalled that the participation of local governments is essential for achieving two thirds of the 169 targets of the SDGs. A change is therefore needed that shifts the dominant narrative regarding cities, which privileges the physical and spatial dimensions, towards strengthening their role as a factor of production, focusing on new opportunities for creating value and boosting productivity, and emphasizing their value as a destination for transformative investments.

8. Standards and instruments: mandatory common minimum

As noted earlier, it is undeniable that the transition to a low-carbon economy will give renewed impetus to traditional sectors in the region, such as mining, that generate significant socioenvironmental externalities, which add to traditional environmental and urban issues, such as indoor and air pollution, traffic congestion and overconsumption of environmental goods and services. Appropriate regulatory frameworks and standards are needed in order to ensure that the opportunities presented by the transition do not worsen local environmental problems. Strengthening licensing systems, ensuring due diligence, avoiding the generation of environmental liabilities and applying the polluter pays principle are some of the priorities for obtaining social licence. In a context of fiscal constraint, it is also urgent to enforce environmental taxes and eliminate perverse subsidies, through fiscal reforms that engage with the transition and its potential impact on vulnerable groups. It is also worth emphasizing the extremely high cost for the countries of the region of illegal activities that harm the environment.

9. Governance system and political economies of change: towards intra- and intergenerational distributive justice

Socioenvironmental conflicts continue to mount in the absence of criteria for distributive justice. It is essential to improve environmental governance and institutional capacities and strengthen the rule of law, justice systems and environmental democracy, not only to resolve these complex situations but also to develop collaborative institutional mechanisms that are stable over the long term. In other words, it is urgent to forge compacts to drive the transition. Progress by countries in the implementation of the Escazú Agreement, fostering joint work between the executive branch, the legislative branch (and its regional parliaments and parliamentary networks working on the environment and climate action) and the judicial branch (through the Montevideo Programme for the Development and Periodic Review of Environmental Law or the Ibero-American Judicial Summit) and the inclusion of as many stakeholders as possible in regional discussions will enable the broader consensus required to achieve transitions.

Also needed are greater integration and collaborative regional frameworks that support the development of economies of scale, stronger resilience in the face of external shocks in an increasingly uncertain world, and stronger international bargaining power. One example of a practice that limits the region's impact in the area of climate change is dividing its countries into different negotiating groups. In that context, the Community of Latin American and Caribbean States (CELAC) plays an important role by providing opportunities for more influential regional positions.

Lastly, at a time when globalization is in crisis, coordination strategies and international agreements are essential. However, global environmental governance is fragile, multilateral environmental agreements agreed upon by consensus make it difficult to raise the level of ambition, and such agreements lack mechanisms for penalizing non-compliance. In addition, nearly all participants in the United Nations Environment Assembly of the United Nations Environment Programme are environmental authorities, meaning that it is disconnected from the forums in which economic decisions are made. Global decision-making processes are slow, which contrasts with the urgency of the problems raised, meaning that unilateral measures that affect trade and investment (such as border tariffs or subsidies to green sectors) are likely to proliferate, and the region will need to be capable of anticipating this. The cases and recommendations of the Committee on Trade and Environment of the World Trade Organization, proposals such as the Global Pact for the Environment (as a binding legal instrument on international environmental law), and petitions to establish an international environmental court are clear indications that a unified regulatory framework and global responses to the current environmental challenges are needed, and that scientific and technological advances must go hand in hand with commitments and values. In the absence of global environmental governance under the aegis of the United Nations, it will be difficult to safeguard the interests of a divided periphery. The principle of common but differentiated responsibilities must also be expressed in economic terms.

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The challenge of income inequality in Latin America

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Abstract

Seventy-five years after the Economic Commission for Latin America and the Caribbean (ECLAC) was founded, reducing the concentration of income and wealth remains one of the key challenges in Latin America. This article firstly reviews the contributions made by ECLAC and Latin American structuralism to the analysis and measurement of the income distribution. It then describes the main trends of inequality in the region from 1990 to the present, and suggests items to be included on the agenda of inequality reduction in the coming years.

Keywords

Wealth, income, income distribution, equality, measurement, development models, ECLAC, thinking, economic structure, economic history, Latin America

JEL classification

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I am disturbed by the arguments that free competition leads to general equilibrium and to the most appropriate distribution of resources and income within society. I see no correspondence between these abstract propositions and the reality of the economic world

(Prebisch, 1946, p. 28).

I. Introduction[1]

The seventy-fifth anniversary of the Economic Commission for Latin America and the Caribbean (ECLAC) occurs as Latin America and the Caribbean emerges from the worst crisis in its history —that caused by the coronavirus disease (COVID-19) pandemic. The 6.9% drop in economic activity in 2020 was steeper than that recorded during the Great Depression (ECLAC, 2021); and it exacerbated both poverty and income inequality. Between 2019 and 2020, the extreme poverty rate rose from 11.4% to 13.1%, and overall poverty increased from 30.4% to 32.8%, while the median Gini coefficient for the region rose from 0.456 to 0.464 in the same period (ECLAC, 2022a). Although these increases were reversed in most countries, it is not yet possible to gauge the full magnitude of this deterioration in the population's living conditions.

This raises a number of questions about the future of the region and, in particular, concerning the population's living conditions and the potential worsening of structural inequalities. In keeping with its tradition of thought, ECLAC considers inequality as one of the priority areas for changing the region's current development model (ECLAC, 2022b); and this dimension encompasses issues related to the distribution of resources (employment and taxation) and recognition (gender, ethnic and care disparities).

This is a good time to revisit the challenges involved in improving levels of distributional and social justice in the region. It also seems timely to consider how ECLAC has framed the issue of distribution and its interaction with the region's future. Among the many aspects of distribution that the analysis of inequality could encompass (Sen, 1995; Fraser and Honneth, 2004; Lamont, 2018; Pereira, 2014), which are expressed in Amartya Sen's famous question, "Equality of what?", this article focuses mainly on the distribution of income.

In general, distributional issues have been present in the economics discipline almost since its origin as an independent field of knowledge. In the writings of Adam Smith, David Ricardo and Karl Marx the product of the economies and its distribution among the different social classes was at the heart of the discipline's focus of study. The subsequent predominance of marginalism and the relative constancy of the labour and capital shares of GDP in the early decades of the twentieth century led the thinkers of the time to set aside concerns about the functional distribution of income (Glyn, 2009). Later, the successive oil crises in the 1970s, compounded by the external debt crisis in Latin America, the economic and social consequences of the rise of Thatcherism-Reaganism and the spread of neoliberal policies in various regions of the world (Fajardo, 2022; Mirowski and Plehwe, 2015), put the issue of distribution back under the spotlight.

The explanatory models that were available were shown to be inadequate, while a clear trend towards a reduction in the wage share of GDP and a worsening of the personal distribution of income was observed in several regions of the world. At the same time, changes in the availability of statistical information (linked to the development of household surveys and new measurement methodologies), heterogeneity within social classes and households, and the centrality of methodological individualism revived interest in the personal income distribution (Atkinson, 1997; Glyn, 2009). Although sufficiently comprehensive theoretical approaches are not yet available, the recent emphasis on the role of capital

[1] The authors would like to thank Mauricio de Rosa for his valuable contributions and comments.

and high income in the international debate (Atkinson and Piketty, 2007; Piketty, 2014), together with the availability of new data sources and estimations, are enabling promising developments in lines of research that combine the personal and functional distributions of income.

Looking to the future, uncertainty surrounds various aspects of distributional processes. The recent economic crisis associated with COVID-19 and the subsequent recovery may have distributional consequences that are still uncertain in the medium and long terms, through their effects on educational and employment paths. Moreover, the international trend towards the declining share of wages in GDP (Autor and others, 2020), together with potential changes in labour markets resulting from automation processes and differences in the possibility of teleworking (Acemoglu and Autor, 2011; Stantcheva, 2022), raise questions as to the modalities and new dimensions in which inequality will be manifested in the future.

The preoccupation, approaches and emphasis placed on distributional issues by ECLAC over the years have not been detached from the evolution of the subject internationally, as described in the preceding paragraphs. However, the institution's viewpoint clearly has its own identity, marked by the thinking of the structuralist economists who nurtured the debates on development in the region, particularly between 1950 and 1975. This vision has been characterized by work to achieve a global conception but with a regional perspective, which seeks to integrate the different aspects derived from the international engagement of the region's countries, employment, consumption patterns, fiscal systems, inflation and the role of institutions (Lustig, 1988; Bielschowsky, 2009; Fajardo, 2022). Another distinctive feature is that many aspects of these approaches —including, in particular, those related to development styles, social stratification and social cohesion— were developed through robust interdisciplinary dialogue.

On the occasion of the seventy-fifth anniversary of ECLAC, this article aims to review the institution's contributions to the analysis of inequality in the region (section II), analyse the path of inequality over the last three decades (section III), and identify the main challenges involved in reducing it (section IV).

II. The contributions of ECLAC and Latin American structuralist thinking to distributional studies

The numerous studies that report on the contributions of structuralist thought and its influence in the region reflect the fact that distributional issues have been one of the central themes of ECLAC thinking since the institution's origin (Rodríguez, 1980 and 2006; Lustig, 1988; Bielschowsky, 1998 and 2009; Grondona, 2014; Bértola and Ocampo, 2013; Fajardo, 2022). Subsections II.1 and II.2 present a brief summary of ECLAC thinking on income distribution and inequality. In doing so, they adopt the distinction made by Bielschowsky (2009) and reiterated in Bielschowsky and Torres (2018), between the structuralist stage (1950–1989) and the neo-structuralist phase (from 1990 onwards). Lastly, in subsection II.3 the article reviews the contributions of ECLAC to the measurement of income inequality.

1. Income distribution in structuralist thinking

Structuralist thinking stems from the political economy tradition and is influenced by the Marxist, Keynesian and institutionalist schools (Lustig, 1988), with emphases that differ between authors. The founding texts of Latin American structuralism (Prebisch, 1950; ECLAC, 1951a, 1951b and 1951c) characterize the regional socioeconomic structure in terms of three elements: (i) specialization on primary goods and lack of productive diversity; (ii) highly varied levels of sectoral productivity and an unlimited supply of labour with incomes close to subsistence level; and (iii) an institutional structure that was poorly oriented towards investment and technical progress (Bielschowsky, 2009).

From the structuralist perspective, the sluggish growth of world demand for the commodities produced at the periphery and burgeoning peripheral demand for industrial products made at the centre generate structural deficits in the balance of payments, with repercussions for inflation and the continuity of growth. The features of the production structure in the periphery tend to be perpetuated and reinforced as capitalism continues to develop in the central countries. Industrialization was the structuralist route to breaking this cycle. In this first stage of the development of structuralist thinking, distributional problems as such were not analysed in depth.

However, in the 1960s the industrialization process was found to have engendered income concentration and increased urban poverty in many of the region's countries (see, for example, Tavares and Serra, 1971). Import substitution encouraged a production structure biased towards capital-intensive consumer durable sectors with major import requirements. Since the countries lacked savings and foreign exchange, this type of industrialization led to structural stagnation (Hirschman, 1968). Furthermore, these sectors' meagre demand for labour was seen as exacerbating processes of exclusion, which led to a call for greater equality based on policies of redistribution to boost the GDP growth rate (Lustig, 1982).

Thus, the issue of distribution gained relevance and triggered a debate that elicited different views of the possibilities for development with redistribution in Latin American and Caribbean countries. Studies on the profile of demand and structural underemployment by Furtado (1969) and, later, Vuskovic (1974), and the development-styles approach by Graciarena (1976), Pinto (1976) and Varsavsky (1971), saw redistribution as a necessary condition for capitalist development, and for satisfying the consumption needs of the majority. At that time, the dependency approach also emerged, which projected a more pessimistic view than that of ECLAC and provided a clearly differentiated perspective on the limits of capitalist development (Cardoso and Faletto, 1969).

In the 1960s and 1970s, structuralists started to emphasize the notion that the pattern of distribution in Latin America, derived from the peripheral international engagement of the region's countries, generated a heterogeneous production structure, in which modern sectors incorporating advanced technologies from the central countries coexisted with vast backward sectors with very low productivity levels.[2] What is important, however, is not coexistence as such, but the fact that economic growth failed to eliminate the differences. On the contrary, structural heterogeneity is a permanent outcome of the development model. The wage differences between the traditional and modern sectors of the economy, based on differentiated sectoral productivity, are at the root of the region's distributional problem.

It is argued that the levels of income concentration in the peripheral economies do not generate greater capital accumulation through productive investment; instead, the surplus is used to finance superfluous consumption that is imitative of the elites of the developed world. This view seems to be influenced by the thinking of Thorstein Veblen (1899/1994) and early institutionalism, since it analyses the way in which consumption patterns are adopted and propagated, considering the link with the elites of the central countries. The region's prevailing development model does not gradually incorporate new strata into consumption patterns or foster increasing integration; instead, it marginalizes certain groups and reinforces the trend of increasing inequality.

It is well known that, in the formulations of the structuralist period, the distributional problem originates in employment and structural heterogeneity. References to households and other factors only become noticeable with the rise of the personal income inequality approach.

Structuralism understands that economic policy measures affect the behaviour of social actors, who, far from functioning as isolated individuals, tend to unite and generate pressure groups (Lustig, 1988). This view of distribution seems far removed from the methodological individualism that might be associated with the approach to personal income distribution that started to emerge in the

[2] In 1970, Aníbal Pinto coined the expression "structural heterogeneity" to refer to this differentiation, which was later incorporated into structuralist writings (Pinto, 1970/2016).

Anglo-Saxon world at the same time (Atkinson, 1975; Sen, 1973). Nor does it seem consistent with other views of distributional justice that gained traction through the work of John Rawls, or with the more recent reconceptualization of the individual which arose from the analytical Marxist perspective.

The following decade, dominated by the foreign debt crisis and the preponderance of macroeconomic issues, would remove distributional issues from the core of ECLAC thinking until the 1990s.

2. Neo-structuralist thought: from equity to equality

Coups d'état in the Southern Cone, together with the effects of the foreign debt crisis (the "lost decade" of the 1980s) and the vigorous growth of certain Southeast Asian countries, produced a period of less proactive proposals and the subsequent reformulation of ECLAC thinking from the 1990s onwards, giving rise to "neo-structuralism". Considering this post-crisis economic context, in conjunction with economic reforms aligned with the Washington Consensus that prevailed in the region in the 1990s, neo-structuralism can be understood as a reformulation of structuralist thinking to make it compatible with the new reality of trade openness, capital mobility, privatization, deregulation and globalization worldwide (Bielschowsky, 2009; Bielschowsky and Torres, 2018). The emblematic publication that synthesizes neo-structuralist thinking in the institution, *Changing production patterns with social equity: the prime task of Latin American and Caribbean development in the 1990s* (ECLAC, 1990), was presented at the twenty-third session of ECLAC, where the concept of equity started to be used to refer to the issue of distribution.[3]

This stage of ECLAC thinking emphasized that sustained growth based on genuine competitiveness was incompatible with the persistence of equity disparities. Changing production patterns are linked to equity in two ways, both of which are instrumental in nature. One of them refers to the need for a higher-skilled labour force, which would make it possible to increase productivity and be in a position to exploit new technologies. The other is presented in greater detail in the work of Fajnzylber (1990), which, based on the experience of the Asian countries, argues that growth is enhanced by equity, since a more uniform income distribution leads to a moderate consumption pattern that allows for higher levels of savings, thus to some extent reviving the development-styles concept of earlier decades.

In general, lack of equity continues to be linked to the peripheral international participation of the region's countries, which is reflected in a poor distribution of resources, including education, technology and credit. Emphasis is also placed on the adaptation of social services to the needs of the poorest sectors of the population. However, there is greater optimism about the region's prospects for capitalist development.

In the 1990s (and, to a lesser extent, in the decade of 2000), the debate revolved essentially around equity or inequity, rather than equality or inequality. Although the need for an economic model that guaranteed greater social equity was mentioned repeatedly, there was no in-depth diagnosis or characterization of the inequities or analysis of their origins, beyond the general link with production structures. These, along with the functioning of the economy, are analysed much more exhaustively and in greater detail than inequities and their reproduction.

At this point, two elements of context are appropriate. Firstly, the region was dominated by reforms supporting opening up, liberalization and globalization. As a regional commission of the United Nations, the work of ECLAC adheres to a mandate defined by the countries of the region; and this undeniably influences or conditions the positions adopted by the institution. Secondly, the issue of inequity or inequality was basically absent from public and academic debates, particularly in the 1990s, both in the region and around the world. In Latin America and the Caribbean, academic publications prioritized the study of poverty over inequality; but this changed significantly in the second half of the 2000 decade (Amarante, Brun and Rossel, 2020). In the Anglo-Saxon world, an influential article by Atkinson (1997)

[3] This document was coordinated by Gert Rosenthal, Executive Secretary of ECLAC at the time, together with Fernando Fajnzylber, and was published in Spanish (Bielschowsky, 2009).

welcomed signs that the income distribution was, at that time, once again starting to receive the attention it deserved from economists, following its absence from mainstream economic theorizing and debates.

In the 2000s, equity remained a central element of ECLAC analysis, although the concepts of citizenship and social cohesion also gained relevance in the debate in the social domain (Bielschowsky, 2009). Although this agenda was not consolidated, the scope and appropriateness of the Durkheimian concept of social cohesion for understanding the social reality of the region was explored in various ECLAC studies (ECLAC, 2007 and 2010a, among others). Nonetheless, the concept of citizenship, linked to the exercise of civil and political rights, and also economic, social and cultural rights, was given continuity and greater prominence in more recent ECLAC work. In this framework, and in line with the rights-based approach adopted by the United Nations, the concept of citizenship leveraged the equal rights of individuals and gave rise to a new emphasis at ECLAC on equality in the ensuing years. Starting in the 2010 decade, these ideas would mature, as equality became consolidated as an objective along with productive transformation as the way to achieve it (see Bielschowsky and Torres, 2018).[4] The discourse shifts from changing production patterns "with equity" to changing production patterns or structural change "for equality", although this does not seem to entail substantial conceptual changes. Although various ECLAC studies would continue to associate income inequality with the region's production structure, they would also make a detailed analysis of inequality in other dimensions related to capacities, including educational attainment, access to housing, assets and nutritional status, among others. The analysis of horizontal inequalities was deepened to consider gender, race, ethnicity, territory and other structural axes of the region's inequality matrix (ECLAC, 2016). Another distinctive feature was the relevance of gender gaps, in line with both public policy and academic debate (Bielschowsky and Torres, 2018). The central role of autonomy as a concept for analysing gender inequalities even elicited a proposal for indicators of its different dimensions.[5]

The document of the thirty-ninth session of ECLAC (2022), *Towards transformation of the development model in Latin America and the Caribbean: production, inclusion and sustainability*, seems to signal a change of emphasis regarding the role played by inequality in the development process. The document focuses on the production structure as a barrier to the creation of better-quality jobs of higher productivity. Distributional problems are addressed in relation to their potential political consequences, as it is argued that the hollowing out of the middle-income sectors in the region's economies, coupled with greater economic uncertainty and anxiety and growing discontent among this group, provides fertile ground for populist and xenophobic narratives, which endanger the sustainability of democratic regimes.

3. ECLAC and the measurement of inequality

The progress made by the countries of the region in periodically gathering socioeconomic data through continuous household surveys has underpinned ECLAC contributions to the measurement of inequality. In 1996, the Programme for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI) —a joint initiative of ECLAC, the Inter-American Development Bank (IDB) and the World Bank— also helped the countries to establish common criteria for producing information on living conditions in the region.

In addition to supporting national statistical offices in collecting this information, ECLAC —through its Statistics Division— has built a repository of household surveys in the region.[6] The survey variables,

4 At the thirty-third session of ECLAC, in 2010, the document *Time for equality: closing gaps, opening trails* (ECLAC, 2010b) was presented, which reflected the prevailing policy orientation in the region. The documents of the next four sessions would also identify equality as the main goal of economic development.

5 ECLAC's Gender Equality Observatory for Latin America and the Caribbean, which was set up in response to the agreement of Governments at the tenth session of the Regional Conference on Women in Latin America and the Caribbean (Quito Consensus, 2007), proposes indicators in the areas of economic autonomy, autonomy in decision-making and physical autonomy (see [online] https://oig.cepal.org/es).

6 ECLAC has also played a very important role in the periodic measurement of income poverty in the countries of the region.

especially those related to income, are standardized to make them comparable between countries, and income inequality statistics are calculated.[7] In 1991, *Social Panorama of Latin America* began to be published annually; and its first edition included income distribution indicators (the income shares of the different quartiles, the ratios of incomes of the richest 25% to the poorest 25%, and between the richest 10% and the poorest 40%). Since 1996, this publication has periodically incorporated the Gini inequality index, which is now supplemented by a series of distribution indicators.[8] Thus, as noted above, the vision of inequality adopted has shifted to the personal and household approach.

Since the first calculations of income inequality made by ECLAC, there has been a concern to ensure consistency between household income data obtained from surveys and those obtained from the countries' national accounts, which are also compiled by the Statistics Division of ECLAC. From the 1990s and until a few years ago, ECLAC elected to publish inequality and poverty indicators for the region based on an adjusted income vector, following Altimir (1987). Firstly, imputations were made to correct missing income data between employed and retired persons. Secondly, a source-of-income adjustment was made, which involved a proportional change for all households, so that the source-of-income aggregate was consistent with that reported in the country's national accounts. Property income received differential treatment, with only the property income of the top twentieth of households being adjusted.[9] This adjustment was premised on the following assumptions: that the information in the household income and expenditure accounts of the system of national accounts is more complete and reliable than data obtained from surveys; (ii) that the gap between the income aggregates in the survey and in the national accounts reflects the failure of the survey to capture income adequately; and (iii) that underreporting is associated more with type than with level of income and has a constant income elasticity, except in the case of property income (ECLAC, 2019).

The recent update to the methodology used by ECLAC to measure poverty made changes in the construction of the household income aggregate (ECLAC, 2019). While the first imputation step was maintained for cases in which no household income is declared, the adjustment procedure for the underreporting of income that incorporated information from the national accounts was abandoned. The arguments justifying this methodological change include the fact that less than half of the region's countries construct the institutional household account on a regular basis, in some cases with a lag, and they are heterogeneous in their treatment of certain income items (ECLAC, 2019). The decision is appropriate, insofar as the correction did not contribute to improving the quality or feasibility of household income measurement in the region. However, as indicated in the next section, the compatibility of household surveys and national accounts is an unresolved challenge with great potential for distributional analysis in the region. The valuable experience of ECLAC makes it possible to draw some lessons concerning its potential risks.

III. Income inequality in Latin America between 1990 and 2021

The following paragraphs provide an overview of the evolution of the income distribution in Latin America in the last few decades and discuss recent lessons on estimating inequality using innovative methodologies or data sources.

[7] The wide range of social and demographic indicators for the countries of the region published by ECLAC on the basis of these surveys, including various inequality indicators, can be consulted in the CEPALSTAT database [online].https://statistics.cepal.org/portal/cepalstat/index.html?lang=es.

[8] ECLAC's *Statistical Yearbook for Latin America and the Caribbean* has also published statistics on income inequality in the region since 1996.

[9] In the case of Chile, this practice was extended to the official microdata of the National Socioeconomic Survey (CASEN). The fact that these were published having already been adjusted drew criticism from the academic sector (Pizzolitto, 2005; Bravo and Valderrama Torres, 2011).

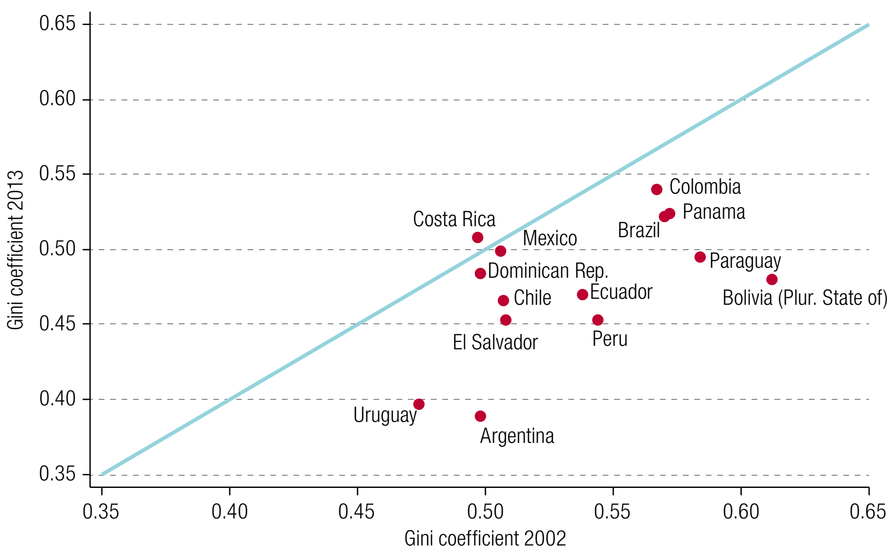
1. The evolution of income distribution in Latin America since 1990

Ever since reliable statistics have been available to compare inequality levels globally, the countries of the region have been ranked among the most unequal in the world (see, for example, Alvaredo and Gasparini, 2015).[10] As is the case internationally, the relation between economic growth and the level of inequality is not uniform across the countries or over time.

A review of the last three decades shows clear and differentiated temporal trends of personal income inequality in the region. According to Alvaredo and others (2023), since around 1990 and until 2012, inequality trended in the shape of an inverted "U". In most countries, inequality increased during the 1990s, starting in different years depending on the country, before decreasing sharply. Between 2002 and 2013, inequality fell by more than 10 percentage points in Argentina and the Plurinational State of Bolivia, and by between 7 and 9 points in Ecuador, Peru, Paraguay and Uruguay. Meanwhile, Brazil, Chile, Colombia, El Salvador and Panama all saw reductions of 3–6 percentage points (see figure 1). It should also be noted that, in general, the earnings share of GDP has not increased in the region over the last three decades (Abeles, Amarante and Vega, 2014).

Figure 1
Latin America (14 countries): Gini inequality index, 2002–2021

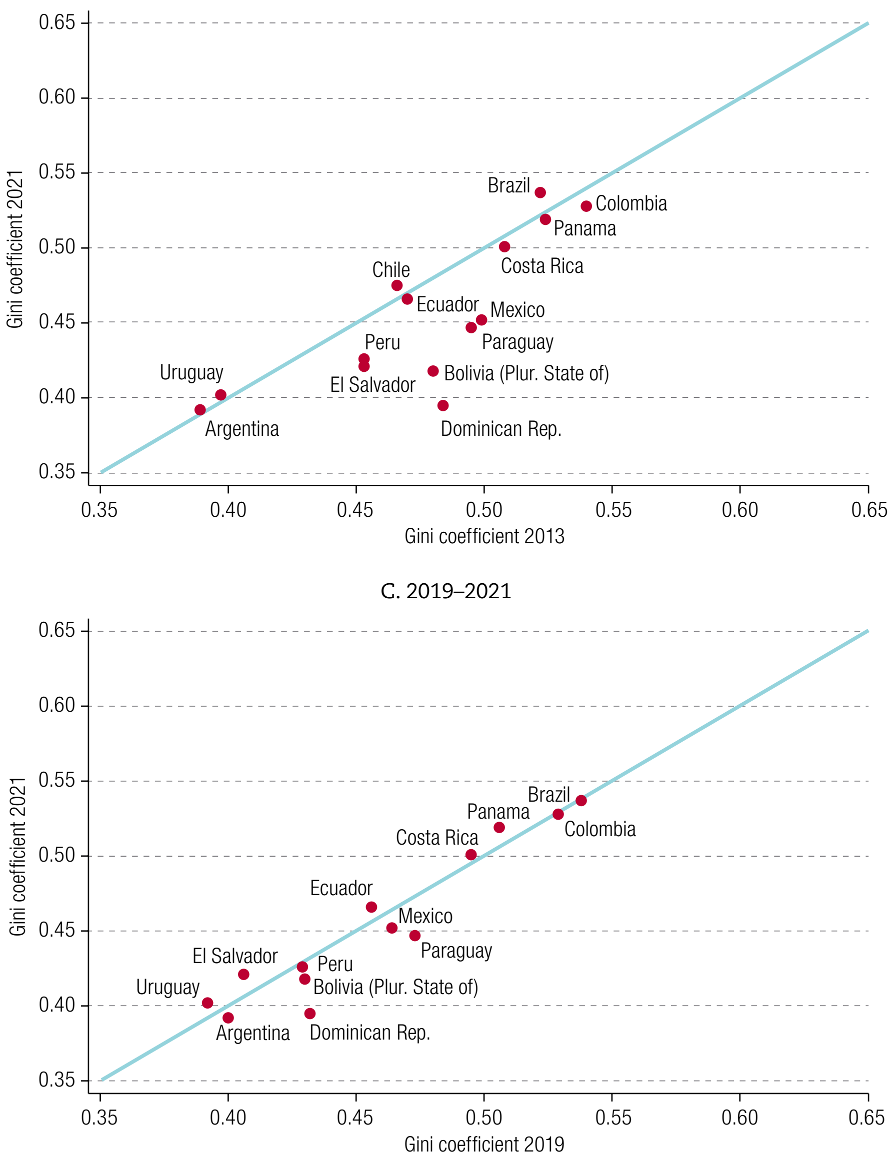
A. 2002–2013



[10] The quest for the origin of this inequality has elicited interesting debates among economic historians. While some emphasize the colonial roots of the phenomenon (Acemoglu, Johnson and Robinson, 2002; Acemoglu and Robinson, 2008; Engerman and Sokoloff, 2012), others question that hypothesis (Williamson, 2010 and 2015).

B. 2013–2021

C. 2019–2021



Source: Prepared by the authors, on the basis of CEPALSTAT [online] https://statistics.cepal.org/portal/cepalstat/index.html?lang=en

Note: No data was available for Chile for 2019–2021.

Between 2013 and 2021, the trends are heterogeneous. In the Dominican Republic, Mexico, Paraguay and the Plurinational State of Bolivia, inequality declined sharply (by more than 5 percentage points), whereas most countries experienced relative stability or even a slight increase (Brazil and Chile). Although the impact of the COVID-19 pandemic exacerbated inequality in most countries of the region (Brazil being a notable exception), the increases detected in 2020 were reversed in nearly all countries in 2021 (ECLAC, 2022b).

The causes of the rise in inequality in Latin America in the 1990s are disputed; and research on the impact that stabilization programmes and market-oriented reforms have had on inequality have produced conflicting results (see, for example, Lustig, 2000; Stallings and Peres, 2000; Morley, 2001; Székely and Mendoza, 2015). The effects of adjustment programmes seem to have depended on initial country conditions and programme characteristics. It has also been argued that pro-market reforms (trade openness and capital account liberalization, deregulation and privatization) could have had opposing or offsetting effects that complicate the overall evaluation of the process. Nonetheless, in contexts of weak social and labour institutions, while the role of policies may be controversial, the regionwide trend of inequality in the 1990s is clearly rising.

In the late twentieth or early twenty-first century, depending on the country being analysed, household income inequality started to decline across the region, and the trend continued until around 2013. The numerous studies of the causes of this development concur in identifying the reduction in the education premium in the region's labour markets, although specific experiences in each country also appear to be influenced by social policies (in particular, the increase in cash transfer programmes) and institutional factors (such as minimum wage hikes). Some authors argue that the reduction of labour income inequality was driven by an increase in the supply of skilled workers (López-Calva and Lustig, 2010; Azevedo, Inchauste and Sanfelice, 2013).[11] Others focus on a weakening of the relative demand for skilled labour (Acosta and others, 2019; De la Torre, Messina and Pienknagura, 2012). This change in the relative demand for tertiary-educated workers is often associated with the rise in commodity prices, which boosted the demand for unskilled labour, and a reduction in the wage premium for education. Real wage growth at the bottom of the distribution in several Latin American countries is also documented in Messina and Silva (2018). The contribution of income transfers is also mentioned in various studies (López-Calva and Lustig, 2010; ECLAC, 2012; Azevedo, Inchauste and Sanfelice, 2013), but their potential equalizing impact is less than that of the decreasing inequality in labour incomes.

Beyond attempts to provide general explanations, country-specific features were also noted. In some cases, labour market institutions seem to have played a key role, although the literature on the subject tends to analyse these issues less frequently. In Argentina, Brazil and Uruguay, various studies suggest that the rise in the minimum wage has had a significant equalizing effect on the labour market (see ECLAC, 2014; Borraz and González Pampillón, 2011; Maurizio and Vázquez, 2016; Engbom and Moser, 2022; Sotomayor, 2021; Ferreira, Firpo and Messina, 2022). In Costa Rica also, there is evidence of the equalizing effect of the increase in the minimum wage (Gindling and Terrell, 2004). In Argentina, Brazil and Uruguay, inequality declined simultaneously with significant formalization processes in the labour market; and the association between these two phenomena is explored in various studies (Maurizio, Beccaria and Monsalvo, 2022; Amarante, Arim and Yapor, 2016; Alejo and Parada, 2017). A narrowing of wage differentials based on work experience was also detected in the case of Brazil (Ferreira, Firpo and Messina, 2022).

In addition to the decreased return to education, other authors who analysed the regional trend of inequality based on macro-panels identify factors such as a terms of trade improvement (Székely and Mendoza, 2015 and 2017), a reduction of informality in the labour market (Amarante and Arim, 2023), or the orientation of political regimes. Among authors who emphasize factors related to political cycles, Cornia (2010) cites the adoption of a development model that stresses fiscal prudence with more equitable macroeconomic, tax, social and labour policies by centre-left and left-wing governments as one of the causes of the reduction in inequality. Feierherd and others, (2023) analyse political regimes and the income distribution in Latin American countries between 1992 and 2017 and find that left-wing governments have the effect of increasing the share of the bottom and middle deciles of the income distribution. Even when controlling for economic factors, their results suggest that countries experienced a more pronounced reduction in income inequality after left-wing governments took office. This is explained in terms of the latter's greater propensity to implement policies such as raising the minimum wage and establishing progressive taxes and more generous social pensions, which redistributed income towards the lower deciles. Political science has also highlighted the relationship between the reduced inequality in the region and political factors such as democratization, the rise of the left and electoral competition

[11] This was clearly evident in the case of Brazil, where the reduction of labour and personal income inequality lasted a long time and coexisted with an effective increase in the population's schooling, from very low starting levels (Barros and others, 2007).

(see, for example, Huber and others, 2006; Huber and Stephens, 2012; Roberts, 2014). It has also been argued that the political cycle and the role of (re)distributional policies reinforced the impact of labour market outcomes. This suggests that political pressures forced governments to manage the commodity boom more effectively than in the past (Sanchez-Ancochea, 2021).

Beyond country-specific factors explaining the reduction in inequality, individual authors were already expressing scepticism as to the sustainability of these achievements in less benign settings. As noted above, the third stage, which began around 2013 and seems to have lasted through to the time of writing (including the exceptional events of recent years associated with the COVID-19 pandemic), reflects the fact that inequality remains constant or is even worsening in some countries, whereas in others it continues to decline.

2. High-income sectors, property income and the distribution of wealth

The foregoing analysis is based on household surveys which, as is well known, do not cover income at the top of the distribution adequately, particularly in the case of property income. This is a serious shortcoming, as the distribution of property income and wealth has been included in many of the structuralist and dependency analyses. The inequality of property income and wealth has been analysed less often in contemporary distributional studies, partly because the data are less readily available. Exceptions include the work of Torche and Spilerman (2006), who analysed the concentration of different sources of wealth in 16 of the region's countries and drew attention to the very high concentration of land and property ownership that has persisted since colonial times.

Fortunately, the situation is changing. Since the initial work done by the late British economist Anthony Atkinson, a research agenda is being developed that stresses the importance of property income, the distribution of wealth and the inadequacy of household surveys to capture these phenomena (Alvaredo and others, 2013). In the Latin American case, this shortcoming had already been noted early on in the work of Altimir (1987), which resulted in the series of inequality indicators adjusted to the national accounts published by ECLAC. This agenda gave rise to the recovery and expansion of the tradition of distributional analysis "a la Kuznets", based on administrative data. In this line of research, methodologies were developed for combining surveys with records of income and wealth taxation and new methods for correcting income underreporting and non-response in household surveys (Alvaredo, 2011; Jenkins, 2017; Piketty, Yang and Zucman, 2019; Blanchet, Flores and Morgan, 2022). Moreover, in the framework of the distributional national accounts methodology, steps were also taken to scale income distribution to the national accounts, including the household account and total output (Piketty, Saez, and Zucman, 2018). Lustig (2020) presents a summary of the different approaches; and Flachaire, Lustig and Vigorito (2022) discuss their limitations.

The recent trend of inequality in Latin America is analysed in various studies that use data from administrative records (in particular, tax returns) and call into question the generalized reduction that emerges from measurements based on household surveys, as discussed in the foregoing paragraphs. For example, Alvaredo and Londoño Vélez (2014) and Burdín and others (2022) note that, in the period in which the Gini coefficient calculated from household surveys declined (2006–2010), the share of the top 1% of incomes in both Colombia and Uruguay remained stable (around 20% and 14%, respectively). In the Uruguayan case, redistribution occurred in the lower 99% of incomes, mainly in labour income, while property income became more concentrated. Flores and others (2020) detected opposing trends in Chile, with an increase in the share of higher incomes since 2000 according to tax records, and a decrease according to household surveys. For Brazil, Souza and Medeiros (2015) concluded that inequality indices remained stable between 2006 and 2012, with the top 1% receiving around 25% of total income.

Also in the case of Brazil, Morgan (2017) performs an exercise that includes correction with fiscal data and scaling to distributional national accounts. The author finds a rising trend in the level of income concentration in Brazil in the top 1% of incomes, and a marked stability in the Gini coefficient. These findings contradict earlier results based on household surveys that indicated a prolonged period of declining inequality (López-Calva and Lustig, 2010; Barros, Foguel and Ulyssea, 2006). This study also reported a reduction in the inequality of labour income, consistent with previous literature.

Using a similar methodology, De Rosa, Flores and Morgan (2022) estimate inequality for 10 Latin American countries and distinguish series with information obtained from household surveys corrected with fiscal data and extensions to national income components (distributional national accounts). In nearly all of the countries analysed, the Gini coefficients derived from surveys and corrected with fiscal data display the same trend as the survey-based indicators. The exceptions are Brazil and Mexico, for which the surveys report a reduction, but the corrected data indicate no change. When estimating the share of the highest income percentile of the population, and also when scaling to distributional national accounts, the discrepancies are accentuated, and the trend of inequality reduction detected IN household surveys is reversed in more countries. As De Rosa and Vilá (2023) note, beyond the complexity, scaling to the national accounts level reveals changes in the patterns of profit withdrawal by business owners, which are not detected in the analysis based on surveys and tax records and may affect the evolution of the inequality measures.

Although this new line of research is undoubtedly promising in terms of enhancing understanding of distributional phenomena, tax records are a limited source of information. This is particularly true in Latin America, owing to the prevailing high levels of informality and rates of tax evasion and avoidance. At the same time, they have few covariates, which makes it difficult to go beyond purely descriptive analyses. In order to enhance understanding of income inequality in the region, it is necessary to continue working on the complementarity of administrative records, national accounts and household surveys, without ignoring the fact that the latter are essential, and without neglecting their quality.

IV. Challenges of the new context

The previous sections have illustrated the different challenges that arise when reviewing inequality in the region. Some involve the need to continue developing economic thinking on the origin of inequality; others are related to the methodologies and information needed to measure it; and a third group corresponds to the area of public policies. These aspects are considered below.

The evolution of inequality described in the previous section highlights the fact that, 75 years after the founding of ECLAC, Prebisch's concern about the distribution of income in the region (see epigraph) remains totally valid. The brief recapitulation of structuralist thought underscores the relationship between the general functioning of the economic system and social inequalities, focusing on the differentiation of remunerations, consumption patterns and, above all, on the variety of styles and main purposes of development. These aspects should guide a comprehensive research agenda, taking into account the intrinsic and instrumental relevance of inequality and its relationship with macroeconomic and productive processes. Neo-structuralism could form one of the pillars of this agenda.

From this standpoint, research that focuses on the higher-income sectors of the population could benefit by going beyond the analysis of income divisions to incorporate a broader approach. This would distinguish between economic and social groups and other increasingly important categories, such as the jobs that could be lost to digitalization. An approach of this type would also help to integrate the analysis of the personal and functional income distributions. It would also consider the economic dynamic and, in particular, the appropriation and use made of economic surplus, profits and corporate earnings which, because they are not transferred to the household domain, are seldom considered in analyses of the personal income distribution or of high incomes.

Based on recent experience in the region, a question arises as to the dimensions that should be emphasized in the public policy agenda, in order to continue reducing inequality. Far from making an exhaustive proposal, which would mean considering the functioning of the entire economic system and attacking recognition gaps (such as those based on gender and ethnicity and those affecting population groups that face stigmatization or discrimination) and access to economic resources, this article focuses on a number of short- and medium-term measures. The analysis identified the expansion of education as one of the key factors underlying a generalized reduction in inequality. This is one of the reasons for the reduction in the ratio between the wages of skilled and low-skilled workers, which explains much of the reduction in income inequality. The COVID-19 pandemic jeopardized progress in expanding access to education, further fostering inequality in learning levels (Neidhöfer, Lustig, and Tommasi, 2021). Accordingly, a fundamental component of the agenda is to continue expanding access to education for the poor and vulnerable strata of the population, while reducing quality differences. The supply of education must adapt to changing demand for labour, which will be influenced increasingly by automation processes and the spread of artificial intelligence. The transmission of these new skills and knowledge must be supported by the development of capacities and attitudes that strengthen the exercise of citizenship in the region.

Another factor that contributed to the reduction of inequality is the expansion of cash transfer programmes to families whose members include school-age children and older persons. Countries spend a relatively small share of GDP on these benefits, especially in the case of children. Additional resources need to be allocated to programmes aimed at reducing household vulnerability and stabilizing household incomes. More generally, the region needs to rethink its social protection systems in response to new labour market risks and crises of various kinds, as evidenced by the recent pandemic.

Two additional factors that contributed to reducing inequality in some countries were the rise in the minimum wage and, in general, the strengthening of labour institutions (formalization and wage bargaining mechanisms). Appropriate management of wage and employment policies must be an intrinsic part of the agenda to improve the personal (Messina and Silva, 2018) and functional income distributions.

The measures adopted during the period of declining inequality aimed to boost the incomes of low- and middle-income population groups more rapidly. The share of the richest group (the emblematic "1%") in the control of wealth and income still needs to be reduced, with the consequent problems of political economy and power that this entails. Clearly, one mechanism for achieving this is fiscal policy. According to available analyses, fiscal (tax and transfer) policy reduces inequality in Latin American countries, but to a lesser extent than in other middle-income countries outside the region, and very heterogeneously between the countries analysed. More worryingly, the burden of indirect taxes in some countries means that the tax system can cause post-tax poverty to increase (Lustig, 2017; Lustig, Martínez Pabon and Pessino, 2023). In other words, the tax system has not been fully exploited to achieve an effective redistribution of income and wealth. Although raising taxes is not the best solution in all countries, in some cases it is: the important thing is to achieve effective progressiveness. In an analysis of the tax policies adopted in the region with respect to high-income sectors, Bérgolo, Londoño Vélez and Tortarolo (2023) suggest that effective taxation of these sectors requires broadening the tax base and, in particular, rethinking the rules on property income, foreign income and income obtained from sole proprietorships and partnerships.

Nonetheless, to fully implement the agenda of a tax system that genuinely taxes extremely high incomes, the citizenry must be able to monitor it. It is therefore essential to generalize systematic access to administrative data on taxes, social security and national accounts, and to resolve the problems of information quality and the contradictions between sources that have been revealed when trying to reconcile the data. Inequality cannot be rectified without knowing how much inequality there is, both before and after the effects of fiscal policy. Given its long tradition of collaborating with statistical offices and other administrative institutions in the region, ECLAC is well placed to take the lead in this process.

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Gender equality and the care society

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Abstract

This article reviews the conceptual contributions of the Economic Commission for Latin America and the Caribbean (ECLAC) to the understanding of gender inequalities in Latin America and the Caribbean over recent decades. Having examined the information available, it analyses the persistence of the sexual division of labour as a structural challenge of gender inequality and then presents the ECLAC proposal for a move towards a new model of development and social organization, namely the care society, and its implications for public policy design in the region.

Keywords

Women, gender equality, ECLAC, women's advancement, care economy, households, unpaid work, caregivers, women's employment, social policy, labour policy, fiscal policy, Latin America and the Caribbean

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I. Introduction

Lack of diversification, vulnerability to external shocks and underutilization of human capacities, among other characteristics, mean that the production structure of Latin America and the Caribbean is not conducive to the removal of gender inequalities or ensuring labour market access for women in a way that contributes to their economic autonomy. Moreover, the persistence of discrimination and violence against women and the excessive burden of unpaid work act as barriers to their full participation in the economy and hold back innovation and the creation of more diverse work environments and societies that could foster greater levels of equality (ECLAC, 2019 and 2022a).

The world and the region are in a situation of cascading crises: the unprecedented effects of the coronavirus disease (COVID-19) pandemic have been compounded by a worsening economic, social and environmental predicament because of the international crises in the health, care, energy, food and finance sectors. In addition, the growing challenges posed by climate change, high levels of public debt and rising demand for care have led to massive losses of female employment, even as the importance of care for the sustainability of life has been highlighted. The cascade of shocks affecting the countries has created a veritable crisis of development in the region (ECLAC, 2023a and 2023b).

Latin America and the Caribbean thus faces multiple challenges in the effort to achieve the Sustainable Development Goals (SDGs) and move towards a more productive, inclusive and sustainable future. The Economic Commission for Latin America and the Caribbean (ECLAC) argues that a transformative recovery depends on advantage being taken of a set of opportunities for growth, job creation and access for women to sectors that are strategic for recovery and sustainability. These areas of opportunity for enhanced growth and transformation include the energy transition, electromobility, the circular economy, sustainable tourism, food security and e-government, among others (ECLAC, 2022d). Of course, gender equality and women's full participation are central to all these priorities.

Accordingly, ECLAC has proposed a profoundly civilizing paradigm shift: the care society, which requires a significant transformation whereby the links between the economy, society and the environment are recognized (ECLAC, 2022a). The care society involves a new development model that gives the central place to equality and the sustainability of life and the planet and treats eco-dependence (human dependence on nature) and the interdependence of people and care as a necessity, a work in progress and a right.

This proposal is already part of the Regional Gender Agenda, the body of commitments and agreements entered into by the governments of Latin America and the Caribbean within the framework of the Regional Conference on Women in Latin America and the Caribbean over the last 45 years, which chart a clear direction for gender equality and care. The concept of the care society draws on the contributions of feminist movements and economics and the good living paradigm advanced by the region's Indigenous Peoples and Afrodescendent populations, as well as on constructive multilateral dialogue with governments. The Buenos Aires Commitment (ECLAC, 2023b), adopted at the fifteenth session of the Regional Conference on Women in Latin America and the Caribbean and forming part of the Regional Gender Agenda, is an instrument that summarizes the commitment and the road map of a region seeking to respond to the growing care needs of people and the planet and achieve autonomy for women in all their diversity and gender equality with State policies, adequate financing, a renewed multilateralism and a change in the organization of society as a whole.

The present article, "Gender equality and the care society", is part of the *CEPAL Review* special edition commemorating the Commission's seventy-fifth anniversary. After this introduction, the second section reviews the conceptual contributions of ECLAC to the understanding of gender inequalities in

Latin America and the Caribbean; the third addresses the persistence of the sexual division of labour as a structural challenge of gender inequality; and the fourth presents public policy recommendations for the transition to a new model of development and social organization, namely the care society.

II. Conceptual contributions by ECLAC to the understanding of gender inequalities in Latin America and the Caribbean

The analysis of inequality in its multiple dimensions is one of the central pillars of ECLAC thinking. The conceptual proposals developed by ECLAC draw on discussions with ministries and machineries for the advancement of women, on contributions from feminist economics and gender and human rights specialists and on the work of the United Nations, in the framework of dialogues held between governments within the United Nations and with feminist movements and women's organizations in the region.

In the 2000s, ECLAC advanced the concept of "women's autonomy" as a key analytical category for public policy in the region. With the creation of the Gender Equality Observatory for Latin America and the Caribbean at the request of the governments meeting at the tenth session of the Regional Conference on Women in Latin America and the Caribbean, held in Quito in 2007, ECLAC focused on constructing strategic indicators to measure women's economic, physical and decision-making autonomy. Women are understood to be autonomous when they have the capacity to make decisions affecting their lives freely and on equal terms. Some of the conditions for autonomy are a life free of violence, the exercise of sexual and reproductive rights, full participation in decision-making in the different spheres of public and political life and access to income, property and time on the basis of a culture without patriarchal norms or discrimination (ECLAC, 2023c).

Over the last 20 years, ECLAC has worked to build up the countries' capacity to produce statistical information on gender inequality and women's autonomy. One of the key indicators constructed by ECLAC through the Gender Equality Observatory concerns total working time, i.e. the sum of time spent on paid work and unpaid domestic and care work. This indicator has helped to cast light on time as a crucial dimension for understanding gender inequality in the region and to broaden the assumptions used in conceptualizing work, as it encompasses not only work for the market but also the unpaid work done mainly by women in the home for the maintenance of life and social reproduction.

Other United Nations agencies have contributed to this expanded conceptualization of work. Particularly noteworthy is the International Labour Organization resolution concerning statistics of work, employment and labour underutilization, which enlarged the scope of labour statistics by recognizing the need to collect data on different forms of work, both paid and unpaid (ILO, 2013).

Following the adoption of the 2030 Agenda for Sustainable Development in 2015, ECLAC supported the countries of the region, which played a decisive role in the proposal on gender equality, in their reflections on two main aspects, analysing, firstly, how the 2030 Agenda tied in with the commitments made in the Regional Gender Agenda and, secondly, why gender gaps still persisted in many areas despite legislative progress.

On the first point, the 2030 Agenda was found to have gone further than the Millennium Development Goals and have more ambitious goals, such as reducing inequality within and among countries (Goal 10) and strengthening the means of implementation and revitalizing the Global Partnership for Sustainable Development (Goal 17). The commitment to gender equality and women's rights and empowerment cuts across the entire 2030 Agenda. It is present in the declaration, in the SDGs and their targets, in implementation methods, in follow-up and review and in the indicators proposed for their measurement. The 2030 Agenda includes the specific goal of achieving gender equality and empowering all women and girls (Goal 5), and explicit commitments are established in several of the other goals. From the perspective of Latin America and the Caribbean, the agreements that make up the Regional Gender Agenda complement those of the 2030 Agenda and are synergistic with it, speeding up progress towards equality and the guarantee of women's rights (Bidegain, 2017).[1]

On the second point, it was concluded that four structural challenges of gender inequality in Latin America and the Caribbean had to be overcome if implementation gaps were to be closed and sustainable development achieved by 2030. These barriers were: (i) socioeconomic inequality and the persistence of poverty, (ii) discriminatory and violent patriarchal cultural patterns and the predominance of a culture of privilege, (iii) the sexual division of labour and the unjust social organization of care and (iv) the concentration of power and hierarchical relations in the public sphere. Accordingly, the Montevideo Strategy for Implementation of the Regional Gender Agenda within the Sustainable Development Framework by 2030 (adopted in 2016) set out to overcome these structural challenges by means of comprehensive policies in 10 areas of implementation: (i) the normative framework, (ii) the institutional architecture, (iii) participation, (iv) capacity-building and strengthening, (v) financing, (vi) communication, (vii) technology, (viii) cooperation, (ix) information systems and (x) monitoring, evaluation and accountability (ECLAC, 2017).

In the run-up to the fourteenth session of the Regional Conference on Women in Latin America and the Caribbean, held in January 2020, the focus was on analysing the trends and processes of economic and financial globalization, the digital revolution and demographic changes and their connection to the care economy and climate change, and the main effects of these on women's lives in a changing economic context. The question was whether these changing economic conditions enhanced or created opportunities to overcome the constraints of inequality.

Although the care economy has been analysed in various publications and position papers presented by ECLAC at the sessions of the Regional Conference on Women in Latin America and the Caribbean (ECLAC, 2010 and 2016; Bidegain and Calderón, 2018), the proposal presented at the fourteenth session of the Regional Conference combines the economic approach to care with the challenges of the demographic transition (ECLAC, 2019). It takes up contributions from feminist economics that serve to analyse the different dimensions affected by care work (Daly and Lewis, 2000; Carrasco, Borderías and Torns, 2011). The document *Women's autonomy in changing economic scenarios* (ECLAC, 2019) explicitly conceptualizes the care economy in order to examine care in the context of markets and to analyse the segregation of care-related occupations, the provision of public services, infrastructure endowments and public policymaking.

[1] One of the targets of Sustainable Development Goal 5 is to recognize and value care (target 5.4). The Regional Gender Agenda goes further and proposes commitments to overcome the sexual division of labour and advance care as a right. In addition to the goal of ensuring women's full and effective participation and equal opportunities (target 5.5 of the 2030 Agenda), the Regional Gender Agenda proposes the creation of parity democracies in the region. The agreements adopted within the framework of the Regional Conference on Women in Latin America and the Caribbean not only recognize reproductive rights (target 5.6 of the 2030 Agenda) but also establish measures to foster and guarantee the full exercise of sexual and reproductive rights for all without discrimination (Bidegain, 2017).

The care economy comprises all unpaid work performed within households, as well as paid care work performed in the labour market. By relating the way societies organize the care of their members to the economic system, the concept of care is linked to the economic value it generates (Montaño and Calderón, 2010). Care is thus rendered visible with a view to enabling better decisions to be made about the way resources are organized and the way benefits generated both in the market and within households are redistributed (ECLAC, 2019). The care economy encompasses the relationships between paid care work in the labour market and unpaid care work within households. The sexual division of labour means that the sectors making up the care economy are highly feminized, so that this is an area where most work is done by women.

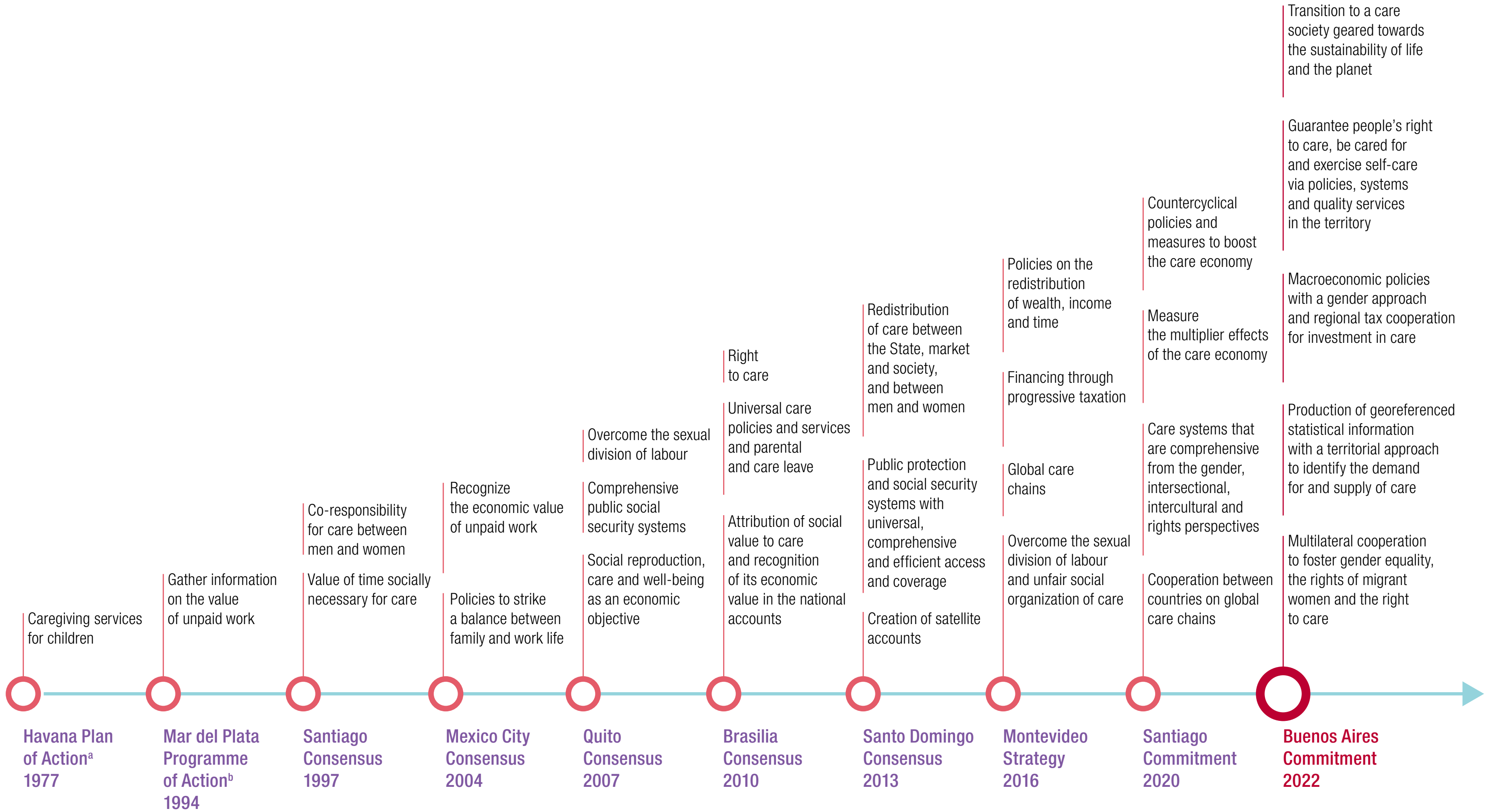
The COVID-19 pandemic led to an unprecedented retrogression in indicators of women's autonomy. It also highlighted the centrality of care for the functioning of economies and the sustainability of life. Since 2020, ECLAC has advocated a new development paradigm entailing a transition towards a care society as an aspiration and a pathway for a transformative, sustainable and equitable recovery. The care society gives a central place to the feminist principle of the sustainability of life and takes up the contributions of Indigenous Peoples in relation to "good living". It recognizes the interdependence of people and the crucial importance of pursuing gender equality in the environmental, economic and social dimensions of sustainable development. It includes self-care, care for people, care for carers and care for the planet.

In view of the cascading crises affecting the region, ECLAC has highlighted the urgent need for a change of development model. The care society narrative framed the discussions during the fifteenth session of the Regional Conference on Women in Latin America and the Caribbean, held in November 2022, and is particularly concerned with analysing how the structural challenges of inequality in the region can be dismantled and how positive synergies between equality, sustainability and women's autonomy can be developed.

It should be noted that the conceptual proposals developed by ECLAC in this area are presented in the framework of the Regional Conference on Women in Latin America and the Caribbean, which is one of the oldest subsidiary bodies of the Commission, having been meeting continuously since 1977. This is the main United Nations regional intergovernmental forum for dialogue and deliberations on women's rights, gender equality and autonomy in the region (ECLAC, 2022b).

The delegations representing the member States contribute to the discussion by reflecting on the practice of public policy, the challenges of institutionalizing gender issues and the mainstreaming of the gender perspective in the State. The governments of the region have progressively approved a series of agreements on the measurement and recognition of the economic value of unpaid work and on the design and implementation of comprehensive care policies, while advancing with the consideration of care as a right and of the importance of tax cooperation and macroeconomic policies to expand investment in care, among other elements (see diagram 1).

Diagram 1
The central role of care in the Regional Gender Agenda



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), *Towards a care society: the contributions of the Regional Gender Agenda to sustainable development* (LC/MDM.61/3), Santiago, 2021.

[a] The Regional Plan of Action for the Integration of Women into Latin American Economic and Social Development.

[b] The Regional Programme of Action for the Women of Latin America and the Caribbean, 1995–2001.

The discussions during the fifteenth session of the Regional Conference on Women in Latin America and the Caribbean and the agreements in the Buenos Aires Commitment propose a transition to a care society geared towards the sustainability of life and the planet. The care society proposal engages with the organization of society, production and the relationship with the environment. It combines short- and medium-term actions on different scales. This implies change in multiple areas. For example, the conceptualization of the right to care includes three dimensions: people's right to care, to be cared for and to exercise self-care. In relation to care policies and systems, the emphasis is placed not only on comprehensiveness but also on the quality of services and their accessibility in the different territories. Likewise, governments are focusing on the need to implement macroeconomic policies, particularly fiscal policies, with a gender perspective and to pursue regional cooperation on taxation in order to have sufficient resources to invest in care policies and infrastructure.

III. The persistence of the sexual division of labour as a structural challenges of gender inequality in an uncertain context

Because of the sexual division of labour, the time spent by women on unpaid domestic and care work is almost treble that spent on it by men. This situation is exacerbated when it intersects with other dimensions such as age, adolescent pregnancy or forced child marriage, ethnicity or race and discrimination against Afrodescendent individuals and Indigenous Peoples, migration status, or income level. Regular measurement of time use and of variables that bring these intersectionalities to light is crucial for recognizing and analysing gender inequalities in terms of total workload (paid and unpaid).

So far, 23 countries in the region have conducted at least one measurement of time spent on domestic and care work. In at least 10 countries that have managed to assess the economic contribution of unpaid work in households, the value ranges from 15.9% to 27.6% of GDP, and 74% of this contribution is made by women. Despite its economic importance and its contribution to the economy in general, domestic and care work is socially undervalued and does not form part of GDP (ECLAC, 2022a). Analysis of the time spent on unpaid domestic and care work reveals a clear pattern in the countries of the region whereby women devote up to a quarter of their time (25%) to such work each day or week, while in no case do men spend more than 12.5% of their time on it (see figure 1).

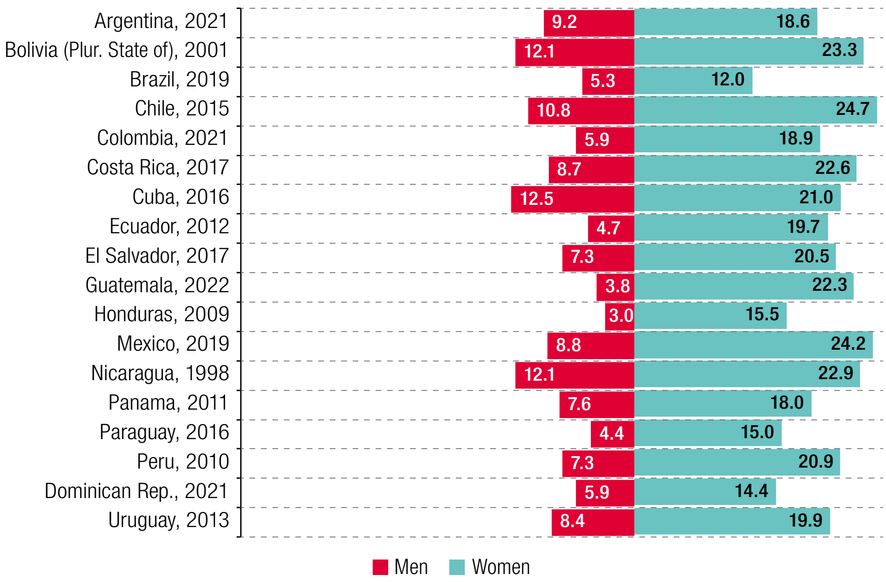
Moreover, the ongoing recovery in the region's economies is uneven, and this has entrenched the employment gap between men and women, so that the difference between their economic participation rates is still 23.7 percentage points, according to data from 2021. While women's participation rate increased by 5.5 percentage points between 2001 and 2019, there was a massive loss of jobs in 2020, in the wake of the COVID-19 pandemic crisis, setting back women's economic participation rates by 18 years (see figure 2).

Indicators of women's economic autonomy have deteriorated. Between 2019 and 2021, the proportion of women with no income of their own rose from 26.0% to 27.8%. In the case of men, the proportion with no income of their own increased from 11.2% to 12.8%. This indicates that 1 in 3 women have no income of their own, while the proportion for men is 1 in 10. In 2020, during the worst phase of the COVID-19 crisis, 10.9% of women in the region received a non-contributory State transfer as their sole source of income. Without transfers, almost 4 in 10 women would have had no income of their own (ECLAC, 2022c).

Figure 1

Latin America (18 countries): proportion of time spent on unpaid domestic and care work, by sex, latest year with information available

(Percentages)



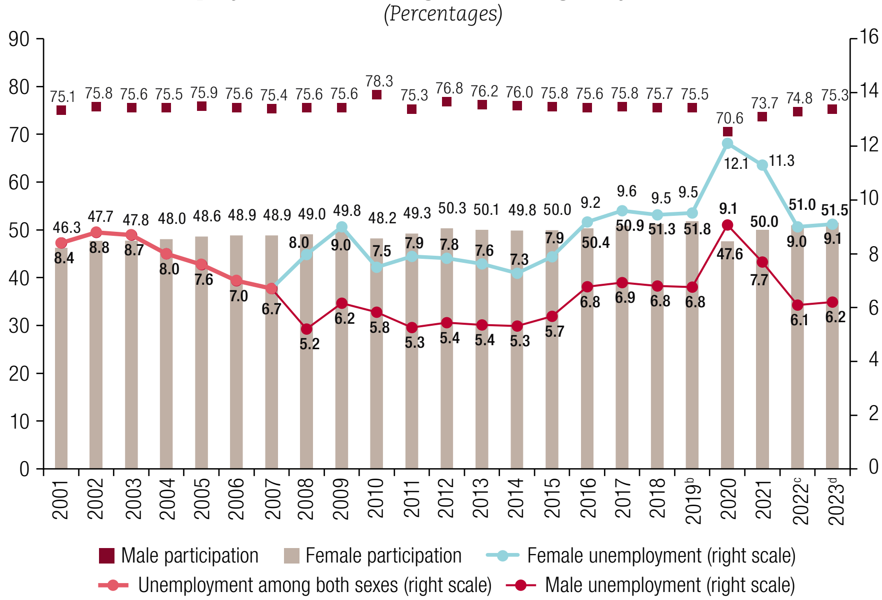
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of time-use surveys conducted in the respective countries.

Note: Corresponds to indicator 5.4.1 of the Sustainable Development Goals.

Figure 2

Latin America and the Caribbean (24 countries):[a] participation and unemployment rates, weighted averages, by sex, 2001–2023

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries and projections.

[a] Argentina, the Bahamas, Barbados, Belize, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago, and Uruguay.

[b] The Bolivarian Republic of Venezuela is not included in the 2019 figures.

[c] The 2022 figures are estimates taken from ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2022* (LC/PUB.2022/18-P/Rev.1), Santiago, 2023.

[d] The 2023 figures are projections.

1. Care as a need

Latin America and the Caribbean is undergoing a demographic transition that is affecting the demand for and provision of care, making it a matter of indisputable urgency for the countries to treat care for people and the sustainability of life as an unavoidably necessary component of social and economic policy.

Changes in employment, the movement of people in territories, rising life expectancy, the incidence of chronic diseases and population ageing are resulting in an increase in the demand for care and a reduction in the time and number of people available to provide it. This is creating what has been termed a “crisis of care” (Fraser, 2016; ECLAC, 2019) to which solutions increasingly have to be found in the current context. ECLAC has highlighted the fact that all countries of the region are in a transition, with a growing proportion of older persons, as a result of which the demand for care will intensify. Within a few years, there will be countries where the demand for older persons’ care will exceed the demand for children’s care (ECLAC, 2022a).

Given structures of inequality and labour market segmentation, the balancing of care responsibilities, income provision and employment becomes a major challenge for people of working age. Without a change in the current social organization of care, these challenges will be made more acute in the future by the demographic transition.

2. Employment in the care sector

The sexual division of labour and the unfair social organization of care mean that women are mainly responsible for unpaid work in households, and this is reflected in the health, education and paid domestic work sectors of the labour market. In all three sectors, segregation is accompanied by a large pay gap, which is even greater if an intersectional approach is adopted. Moreover, women face insecure working conditions, especially in paid domestic work, and are underrepresented in management and decision-making positions in the education and health sectors (ECLAC, 2022a).

In the health sector, 72.6% of those employed are women, but both pay gaps and vertical segregation persist. In the case of education, women make up 69.6% of the workforce, but only 3.9% are in managerial positions, compared to 5.7% for men. There is a gender pay gap at all levels of the sector, even if the calculation is per hour worked (ECLAC, 2022a).

Another sector linked to the provision of care, mainly in the home, is paid domestic work, a highly feminized sector (90.7% of those working in it are women) where the rate of informal and insecure employment exceeds 70%. On average, only 24.6% of women employed in paid domestic work in Latin America pay contributions or are affiliated to a social security system.

It is essential for the regulation of the working hours of both men and women to take account of their care burden, including not only childcare but also care for older persons and non-family members. At the same time, while the increased demand for care will generate new jobs, foresight and investment are needed to ensure that these are protected and are not created in a context of deteriorating employment standards (Baron and Scuro, 2023).

IV. The care society: challenges and opportunities for public policy in the region

States have a key role to play in driving the changes needed to move towards a care society in the short and long term. This requires the establishment of new political, social, fiscal and environmental covenants involving a wide range of actors.[2] As part of this effort, it is necessary to implement comprehensive care policies and systems that strengthen and complement current social protection systems, and changes must also be made in the labour sphere so that there can be greater co-responsibility for care (ECLAC, 2022a).

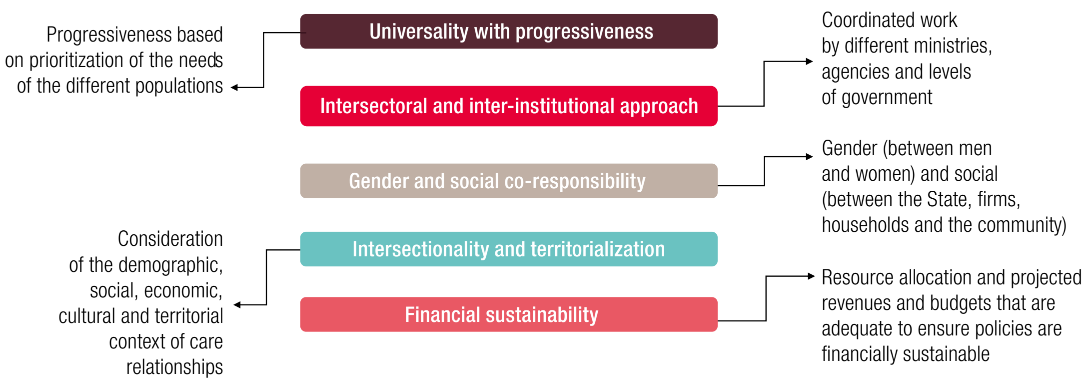
1. Comprehensive care policies and systems

Care policy interventions can be categorized into three broad areas: resource policies, service policies and time policies. Whatever form these interventions take, they should seek to reduce, recognize, redistribute and revalue care work (ILO, 2018) and necessarily require an active central role for States as well as strengthened management, leadership, oversight and implementation capacities.

As ECLAC has noted, "the complex but innovative nature of care policies from a gender perspective requires an intersectoral approach and coordinated efforts by different ministries and sectors if the objectives laid down are to be fully achieved. It is essential for care policy to accommodate the involvement of different sectors of the State in both the provision and regulation of services and benefits. In addition, the design and implementation of care policies will be enhanced by the participation of paid and unpaid caregivers and of people needing care themselves, either individually or through representative organizations" (ECLAC, 2022c, p. 218). A collaborative approach is therefore essential, as these policies can involve different areas, such as public infrastructure, education, health, labour legislation and pension systems. According to ECLAC, "care policy requires both concerted actions geared towards decision-making on specific day-to-day issues and permanent arrangements for political and technical coordination aimed at combining intersectoral efforts to achieve shared objectives" (ECLAC, 2022c, p. 218).

For the design and implementation of public care policies, it is proposed that very particular attention should be paid to five guiding criteria (see diagram 2).

Diagram 2
Guiding criteria for the design and implementation of public care policies



Source: Prepared by the authors.

[2] The idea of fostering covenants or compacts is central to the output of ECLAC. See, for example, the document prepared for its thirty-fifth session (ECLAC, 2014).

The implementation of care policies must go together with the criterion of progressiveness if universality is to be achieved. At the same time, the complexity and comprehensiveness characterizing the care approach require an intersectoral and inter-institutional vision for efficient and coordinated management. The cross-cutting aspect of care policies means there is an indispensable need for institutional coordination with a clear division of competencies and responsibilities between the different levels (national and local) and agencies of the State.

Encouraging social and gender co-responsibility is another key aspect of care policies, as it is essential to influence the distribution of care work between men and women (gender co-responsibility) and between the State, the market, households and the community (social co-responsibility).

It is also necessary to reaffirm the importance of an intersectional outlook that considers characteristics and needs from the perspective of territories. This means taking account of the demographic, social, economic and cultural characteristics in which care relationships are embedded. Territorial criteria, socioeconomic and demographic characteristics, the coverage of the social protection system and the solidity of public sector provision provide the framework for care policy.

Lastly, the financial sustainability of care policies needs to be addressed. This can be linked to different instruments or varying combinations of instruments: contributory social security models, general or special taxes for care, co-payment systems, special contributions or care funds, private sector contributions, dedicated care funds run by companies or trade unions, financing from national or federal budget resources, and individual insurance against the risk of being in a situation of dependency (requiring care), among others.

2. Labour policies for the care society

Changes to labour policies are essential to prevent the market from reproducing or widening gender inequality gaps. Regulation of maximum paid working hours, protection of the jobs of those with dependents, the introduction of specific regulatory policies in sectors of the care economy, advancement of female employment in historically male-dominated sectors and incentives for male employment in female-dominated sectors are some of the aspects that need to be brought into the design of labour policy in the region from a gender perspective.

Broadly based unemployment insurance extending to own-account workers and the self-employed, among whom women are overrepresented, is essential to avoid casualization. Having instruments that provide timely and adequate benefits to those who lose their jobs makes it possible to implement strategies for seeking productive employment, while at the same time limiting the expansion of informal employment (Velásquez, 2010). When lockdown measures were implemented during the pandemic, income transfers for self-employed and informal workers played a critical role in preventing even more ground being lost as regards women's economic autonomy.

With regard to the regulation of working conditions, there is still some way to go with the design and implementation of time policies, which incorporate measures such as maternity, paternity and parental leave and paid time off to meet family responsibilities, and of care-related flexible and part-time working strategies.

Demographic and epidemiological transformations and changes in the care requirements of the population as a whole make it urgent to address the conditions in which carers work and the type of care they are able to provide. The increase in care work, in a context where it is feminized and undervalued, points to the impact it will have on the labour market as a whole.

3. Inclusive digitalization to create the care society

Technological change has been very rapid, and its effects were further accelerated by the pandemic. However, the intersection between poverty, the digital divide and gender inequality is undermining opportunities and increasing the inequalities that derive from the fruits of progress (Vaca Trigo and Valenzuela, 2022). It is therefore essential to spur an inclusive digital transformation and the creation of a basic digital basket that enhances access to these technologies and the skills needed to use them, especially in the case of women (Bércovich and Muñoz, 2022). In expanding access to digital goods and services, priority should be given to those who are still excluded from connectivity and do not have the income to afford access to the Internet and the necessary devices, among whom women are overrepresented. At the same time, digital technologies and devices can help improve the quality of and access to care, reduce workloads and boost the independence of those in need of care.

4. Care for the planet in the care society

The care society entails recognition of the principle of eco-dependence and reconsideration of the production and consumption patterns that are at the root of the environmental and climate crisis facing the region and the world, with a view to moving towards low-emission pathways (ECLAC, 2022a).

It is essential to forge an environmental compact with a gender perspective that takes account of the differential impacts of disasters and climate change on people, territories, countries and regions. Reforms to the international financial architecture are also needed, with special emphasis on middle-income and highly indebted countries, such as those in the Caribbean, which are extremely vulnerable to climate change and have accumulated high levels of debt to cope not only with extreme weather events but also with the effects of land degradation. These should be complemented by strategies to provide access to basic services such as water, improved access to housing, access to clean transport and incentives for re-entry into the labour market and the expansion or creation of new lines of financing, especially for those populations that are most economically vulnerable to climate shocks, among which women are heavily represented.

5. Fiscal covenants for the care society

Moving towards a care society means addressing the main tax challenges facing the region: low levels of tax collection, high levels of evasion and avoidance, and regressive tax structures. More than half of all tax revenue in the region comes from indirect taxes, so the burden falls on people with a lower capacity to pay, and thus on women, who are overrepresented among the low-income and poor population. These are also factors in the lack of funding to address gender inequalities and the growing demand for care.

There is thus a vital need for new redistributive and gender-oriented fiscal covenants incorporating innovative forms of tax collection to fund investment in care infrastructure and policies that open up access to quality services and care provision.

In the Buenos Aires Commitment, the governments of the region agreed to "strengthen regional cooperation to combat tax evasion and avoidance and illicit financial flows, and improve tax collection from the wealthiest and highest-income groups … in order to have greater resources for gender equality policies, including care policies and systems" (ECLAC, 2023b, para. 29). Implementation of this commitment would be a great opportunity to move towards a care society, as it combines three main elements. First, it recognizes the international dimension of resource mobilization by emphasizing the need to strengthen multilateralism and to move from tax competition to tax cooperation between countries. Second, it pays special attention to the use of progressive means to broaden the tax base, something that also contributes to gender equality, since women are overrepresented in the low-income quintiles and in microenterprises and small enterprises and are underrepresented in the high quintiles of the income distribution in the region's countries. Third, it calls for these resources to be used to narrow the financing gap for gender policies and for care policies and systems in particular. It should be added that transparent information on all fiscal instruments and incentives and preferential tax treatments is essential so that they can be evaluated and their distributional impact and contribution to gender equality analysed.

Fiscal covenants are needed for progress towards a care society to contribute, first, to the financing of quality public services and, second, to the financial sustainability of policies. A fiscal covenant should provide for progressive taxation to sustain investment that gives practical effect to women's rights and gender equality. Thus, gender policy implementation and sustainability are interdependent requirements for reducing inequalities in the region, in terms both of income and of the distribution between men and women of time spent on work and on domestic and care tasks.

The care society proposal therefore provides an opportunity to reconsider the structural challenges of development and gender inequality in the region in a forward-looking way. It approaches care not only as a sector that can boost the economy, but as a pillar around which societies can be reorganized in accordance with the principles of gender equality and sustainability. This conceptual innovation, which was welcomed by different actors in the framework of the Regional Conference on Women in Latin America and the Caribbean, is helping to position ECLAC, 75 years on from its creation, as a centre of thought and debate oriented towards public policies for accelerating the transition to substantive equality and sustainable development in the region. In the face of the challenging scenarios and uncertainty of the future, the care society is a civilizing proposal for good living for all people in their territories, with solidarity and global, regional, national and local partnerships organized around shared objectives, focusing first and foremost on the care of people and the protection of the planet.

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Universal, comprehensive, sustainable and resilient social protection to eradicate poverty, reduce inequality and move towards inclusive social development

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Abstract

Social protection was extensively discussed at the 1995 World Summit for Social Development. Over 75 years, the Economic Commission for Latin America and the Caribbean (ECLAC) has developed an agenda that prioritizes the construction of a rights-based society in order to move towards sustainable development. ECLAC argues that social protection is essential to eradicate poverty, reduce inequalities and successfully pursue a strategy of inclusive social development, and advocates universal, comprehensive, sustainable and resilient social protection systems. These form the basis of welfare States, which will have to cope with new risks and trends such as the digital transformation, the demographic and epidemiological transition, the climate crisis and the rapid changes shaping the future of the labour market. New social and fiscal covenants are needed to ensure the financial sustainability of social protection and to progress towards inclusive social development.

Keywords

Social security, equality, social policy, ECLAC, social welfare, poverty mitigation, income distribution, education, employment, pensions, health, social development, Latin America and the Caribbean

JEL classification

I31, I38, H55

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I. Introduction

The Economic Commission for Latin America and the Caribbean (ECLAC) has identified inequality as a structural obstacle to growth, development and sustainability in the region. From the perspective of sustainable development, the work carried out by ECLAC over its 75 years of existence has helped construct an agenda centred on a rights-based society and institutions equipped to deal with inequalities and foster social protection systems as a basis for inclusive social development. The current socioeconomic dynamics of the region are connected to the roots of inequality, while universal, comprehensive, sustainable and resilient social protection systems are the basis for the construction of true welfare States (Arenas de Mesa and Cecchini, 2022).

Social protection was extensively discussed at the World Summit for Social Development held by the United Nations in Copenhagen in 1995 and was incorporated as a new concept for the first time into the final report of the Summit (Cecchini and Martínez, 2012; Arenas de Mesa, 2019). In this context, social protection is still very much a developing concept, and its initial formulations can be found in reports by the United Nations (2000) and ECLAC (2000 and 2006). The debate on the issue has continued and intensified over the last two decades (ECLAC, 2022a and 2023b; ILO, 2012, 2018 and 2021).

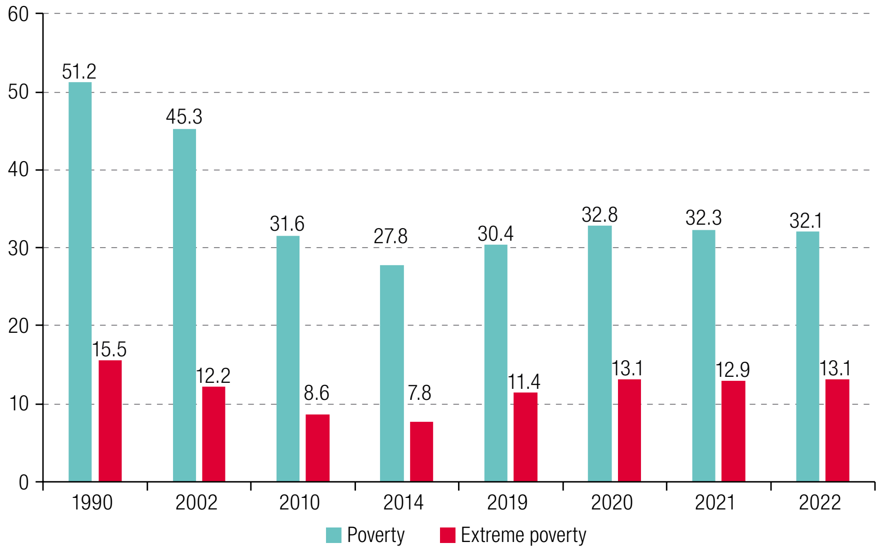
As ECLAC argues, social protection systems are the fundamental basis for progress towards true welfare States. Developing universal, comprehensive, sustainable and resilient social protection systems is essential for eradicating poverty, reducing inequality and, in particular, progressively implementing public policies that lead to inclusive social development. These social policies must be underpinned by robust social institutions and financial sustainability (ECLAC, 2006, 2020, 2022a, 2022b and 2023b).

Universal, comprehensive, sustainable, resilient and people-centred social protection systems are in the spirit of the 2030 Agenda for Sustainable Development. The social dimension of the 2030 Agenda connects in multiple ways with ECLAC proposals and with the idea of social protection as a key policy for inclusive social development. In fact, fulfilment of Sustainable Development Goals (SDGs) 1 (End poverty), 2 (Zero hunger), 3 (Good health and well-being), 4 (Quality education), 5 (Gender equality), 6 (Clean water and sanitation), 8 (Decent work and economic growth), 10 (Reduced inequalities), 11 (Sustainable cities and communities) and 16 (Peace, justice and strong institutions) is very much bound up with efforts to strengthen social protection systems (ECLAC, 2015).

Social protection systems are strategically important for progress towards inclusive social development. Against this background, social policy proposals take on greater importance and their focus expands from the eradication of poverty and extreme poverty, which is still a distant goal in the region (see figure 1), to the reduction of inequality in its multiple dimensions and the need to provide social protection to broad sectors of the Latin American and Caribbean population living in vulnerable conditions, especially the middle- and lower-middle-income classes. The context for all this is one where social protection policies have to cope with different risks and new trends, such as digital transformation, the demographic and epidemiological transition, the rapid changes shaping the future of the labour market, the climate crisis and the increased frequency of disasters related to natural phenomena (ECLAC, 2019; Robles and Holz, 2023).

The present article comprises four sections besides this introduction. The first section presents a brief reflection on the contributions of ECLAC to the advance of social protection systems in the region. The second section describes the main debates that have arisen in the region on the issue of social protection. The third section discusses the main challenges and opportunities arising from social protection proposals aimed at overcoming inequality. The last section offers some brief final reflections.

Figure 1
Latin America (18 countries):[a] poverty and extreme poverty rates, 1990–2021 and projections for 2022
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America and the Caribbean, 2022* (LC/PUB.2022/15-P), Santiago, 2022, on the basis of the Household Survey Data Bank (BADEHOG).

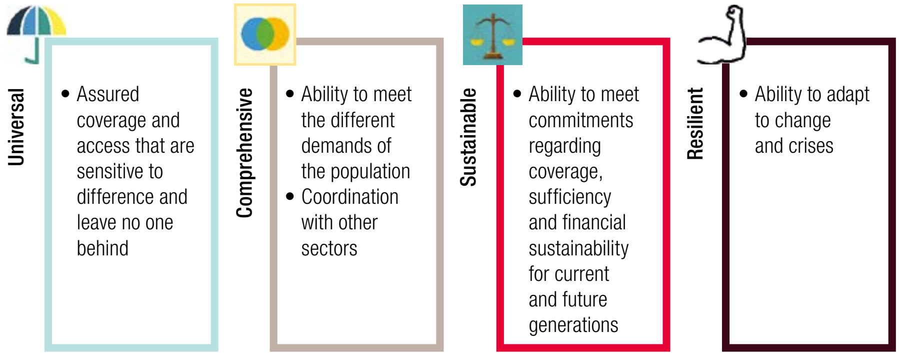
[a] Weighted average of the following countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

II. ECLAC contributions to the advance of social protection systems

1. Universal, comprehensive, sustainable and resilient social protection systems

For progress to be made in closing the multiple economic and social gaps that characterize the region, ECLAC has argued that a new development model is needed, implying profound transformations in which equal importance is given to the economic, social and environmental dimensions of sustainable development. As part of the broad set of institutions and policies needed to achieve this goal, the creation of universal, comprehensive, sustainable and resilient social protection systems (see diagram 1) is a key element, given their direct contribution to eradicating poverty and reducing inequalities (ECLAC, 2022a, 2022b and 2023b).

Diagram 1
Universal, comprehensive, sustainable and resilient social protection systems



Source: M. L. Marinho, "Inequality and health in Latin America and the Caribbean: the centrality of health for an inclusive and sustainable development", paper presented at the international seminar Inequalities in Access to Health: the Centrality of Primary Health Care to Advance towards Universal Health, Santiago, 19 July 2023.

(a) Universal social protection

Social protection systems are universal when they include everyone, and especially people belonging to the following three groups: (i) those who are poor and require income guarantees; (ii) those who, while not poor, are vulnerable and need continuous protection policies; and (iii) those who have a greater autonomous capacity to generate income but recognize the guarantee of a minimum level of protection as a common basis for social citizenship. When guaranteed for all, universal social protection establishes a framework in which people are not only consumers and requesters of services, but also rights holders and subjects of rights (ECLAC, 2006; Cecchini and Martínez, 2012).

As ECLAC (2000, p. 13) argues, "universality does not do away with the need to apply particular degrees of selectivity, and it cannot provide a basis for levels of protection for which financing is simply not available; the degree of solidarity must be compatible with the demands of social integration and with the structure of income distribution; and efficiency cannot be viewed solely in microeconomic terms, but must ultimately be understood as the capacity for maximizing social objectives within a context marked by the scarcity of resources". Differentiated provision does not contravene the principle of universality of rights; on the contrary, it can enhance their exercise and reduce inequality. However, it is essential for social protection policies to aim at universality and for prioritization to be treated as an instrument only, in order to avoid entrenching a reductionist vision of social policy as being aimed only at the poor or extremely poor (Arenas de Mesa and Cecchini, 2022).

(b) Comprehensive social protection

Comprehensiveness means the capacity of social protection systems to deliver a set of social protection policies, plans and programmes that meet the multiple social development demands and needs of the population. Where supply is concerned, comprehensiveness is the product of coordination both between different social policy sectors (e.g., social development, employment, pensions, health and education) and between the different administrative levels of government (central, regional and local). Where demand is concerned, comprehensiveness arises from the coordination of differentiated benefits and services throughout the life cycle to meet the different social protection needs of various population groups, identified by their area of residence, income level, activity, employment status, race or ethnicity, or other factors (Cecchini and Martínez, 2012; ECLAC, 2020; Arenas de Mesa and Cecchini, 2022).

(c) Sustainable social protection

Sustainability is a concept linked to solvency and thus to the ability to fulfil social protection mandates and their commitments to current and future generations. It includes three dimensions that need to be addressed simultaneously: coverage, sufficiency of provision and financial sustainability. Striking a balance between these three dimensions in such a way that success in any one of them does not compromise the others will be essential for social protection systems to be sustainable (ECLAC, 2018c; Arenas de Mesa, 2019).

It is not enough for social protection just to be financially sustainable, therefore, because the system will not be truly sustainable if there are deficits in the other two dimensions. An example of this is the Chilean pension system, whose individually funded mechanism is financially sustainable but has a substantial deficit as regards the sufficiency of benefits in old age. This has prompted several structural reforms and kept alive the debate on the final design of the Chilean pension system (Arenas de Mesa, 2020; ECLAC, 2018c and 2022b; Arenas de Mesa, Robles and Vila, 2023).

(d) Resilient social protection

Resilience means “the capacity of a system, community or society potentially exposed to hazards to adapt, by resisting or changing in order to reach and maintain an acceptable level of functioning and structure” (UNISDR, 2004, cited by United Nations, 2005, p. 9). A universal, comprehensive and sustainable social protection system whose functions include dealing with people’s vulnerability to disasters and crises such as the coronavirus disease (COVID-19) pandemic is considered resilient and therefore successful in terms of responsiveness and adaptability to situations of change and crisis (ECLAC, 2021 and 2022b).

The health, economic and social crisis generated by the COVID-19 pandemic yielded numerous and varied reflections and lessons. One is that global crises must be addressed collaboratively, which implies that collective problems need collective solutions. In this context, the capacity of social protection systems to adapt and respond at times of crisis became central to the debate and to the response to future crises. Resilience is therefore a characteristic that is not only desirable but essential for social protection systems in the region and the world (ECLAC, 2021).

2. Milestones in ECLAC social protection proposals

The social protection proposals developed by ECLAC have been presented in its session position documents, in the different editions of the *Social Panorama of Latin America and the Caribbean*, in the documents of the Regional Conference on Social Development in Latin America and the Caribbean and in various institutional publications (Cecchini, 2019).

In 2000, ECLAC argued in the position paper of its twenty-eighth session, among other things, that social policies should be universal, solidary and efficient (ECLAC, 2000). In 2006, in the document *Shaping the Future of Social Protection: Access, Financing and Solidarity*, ECLAC (2006) placed social protection at the centre of the regional debate, urging States to adopt social protection policies in the areas of pensions, health and the fight against poverty.

In 2010, in *Time for Equality: Closing Gaps, Opening Trails*, ECLAC (2010) called for the pursuit of equal rights, advising the countries of the region to redistribute income by implementing or expanding a non-contributory social protection system with cash transfers for children, older persons and the unemployed. In 2018, *The Inefficiency of Inequality* (ECLAC, 2018b) called for stronger social protection systems, since these not only contribute to the fulfilment of people’s rights but also have a significant impact on growth and employment.

In 2018, at the second meeting of the Presiding Officers of the Regional Conference on Social Development in Latin America and the Caribbean, inclusive social development was an essential part of the debate. In this framework, ECLAC argued that "inclusive social development may be understood as the capacity of States to ensure the full exercise of their citizens' social, economic and cultural rights, providing forums for participation and recognition, targeting gaps in access to key areas of well-being and addressing social inequalities and the axes around which they are structured from the perspective of a universalism sensitive to differences" (ECLAC, 2018a, p. 7).

In 2019, the member States of ECLAC, meeting at the third session of the Regional Conference on Social Development in Latin America and the Caribbean, approved the Regional Agenda for Inclusive Social Development. Universal and comprehensive social protection systems are the first strategic pillar of this Agenda for eradicating poverty and reducing inequalities (ECLAC, 2020).

In 2021 and 2022, during the COVID-19 pandemic, ECLAC expanded on the characteristics of social protection systems in the *Social Panorama of Latin America and the Caribbean* (ECLAC, 2022a and 2022b) and the position paper of the fourth meeting of the Regional Conference (ECLAC, 2021), adding sustainability and resilience to universality and comprehensiveness with a view to addressing the structural problems of poverty and inequality and supporting inclusive social development strategies.

3. Developments in non-contributory social protection

The construction of universal, comprehensive, sustainable and resilient social protection systems is an elusive goal in the region. The pandemic exposed the weaknesses of social protection systems, and the countries had to implement a large number of non-contributory emergency social protection measures to provide a basic protection floor in the face of the health, economic and social crisis caused by COVID-19[2] (Robles and Rossel, 2022; Atuesta and Van Hemelryck, 2023; ECLAC, 2022b).

At the first meeting of the Regional Conference on Social Development in Latin America and the Caribbean, held in Lima in 2015, the countries of the region adopted resolution 1(I) in which they asked ECLAC to organize, maintain and systematically update the Non-contributory Social Protection Programmes Database - Latin America and the Caribbean, using official data provided by the countries. The database, which ECLAC has maintained for more than a decade, includes quantitative and qualitative information on conditional transfer programmes, non-contributory pension systems and labour inclusion programmes.[3]

From the data compiled there, it can be seen that coverage has increased in the region, mainly through the expansion of the non-contributory mechanisms of conditional transfer programmes (CTPs) and non-contributory pension systems (the latter will be discussed in more detail in section III.5). In the case of CTPs, this expansion occurred from the mid-1990s to 2010, when coverage reached 22.9% of the regional population. In 2021, in the context of the pandemic, the coverage of CTPs peaked at 25.9% of the population, with expenditure of 0.26% of GDP (see figure 2).

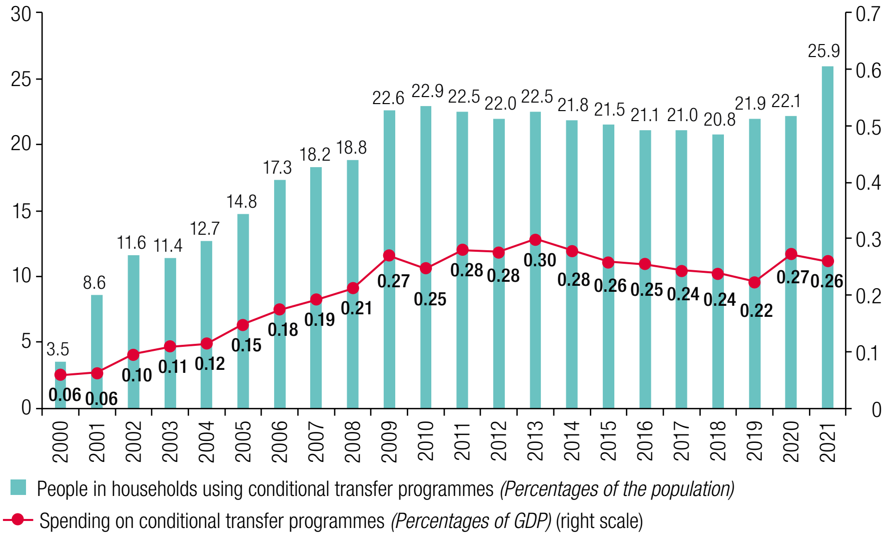
[2] With the aim of systematizing and monitoring the efforts made by the countries of the region, ECLAC developed the COVID-19 in Latin America and the Caribbean Observatory (see [online] https://dds.cepal.org/observatorio/socialcovid19/en/).

[3] The Non-contributory Social Protection Programmes Database - Latin America and the Caribbean provides information on 56 conditional transfer programmes in 21 countries, 42 non-contributory pension programmes in 25 countries and 92 labour inclusion programmes in 22 countries (see [online] https://dds.cepal.org/bpsnc/home).

Figure 2

Latin America and the Caribbean (21 countries):[a] coverage and expenditure of conditional and other continuous transfer programmes,[b] 2000–2021

(Percentages of the population and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database - Latin America and the Caribbean [online] https://dds.cepal.org/bpsnc/home.

[a] Argentina, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

[b] Weighted average of coverage and simple average of expenditure, based on information from the countries' conditional transfer and other continuous cash transfer programmes.

III. The main social protection debates in the region

1. Social income protection for poverty reduction: focusing on children

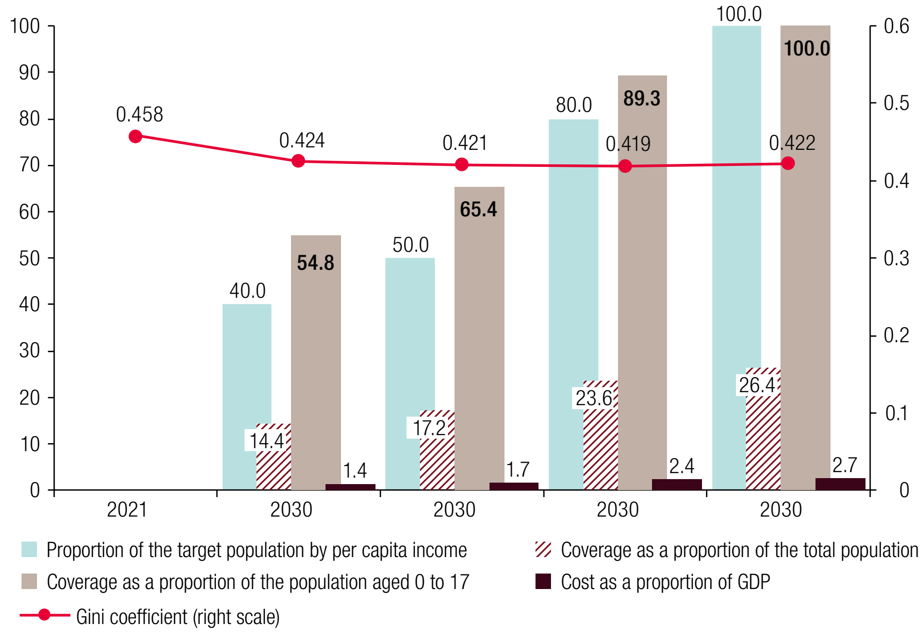
Income protection is a priority component of social protection systems, especially in a context of high levels of poverty and inequality. Different public policy options have been put forward in the region to guarantee people's income, including: (i) the creation and expansion of conditional cash transfer programmes; (ii) the emergency income protection measures adopted to deal with the COVID-19 crisis; (iii) a proposed guaranteed minimum income; and (iv) a universal basic income. Besides these options, there are those focused on enhancing targeted cash transfers for children, in consideration, among other factors, of the disproportionate poverty figures for the population aged 0 to 17 (45.5% in 2021), the low coverage of non-contributory benefits for households with children and adolescents, and the opportunity to reduce inequalities from the earliest stages of the life cycle (Santos Garcia, Farías and Robles, 2023).

Figure 3 presents an estimate of what a monthly transfer to children and adolescents equivalent to the value of the extreme poverty line would cost in 2030, based on projected coverage. A transfer to children and adolescents belonging to the poorest 40% of the population (54.8% of the child and adolescent population) would require resources equivalent to 1.4% of GDP in 2030. If coverage of the poorest 80% of the population (89.3% of the child and adolescent population) is projected, the expenditure rises to 2.4% of GDP in 2030. In the latter case, the Gini coefficient would fall by about 4 percentage points between 2021 and 2030.

Figure 3

Latin America and the Caribbean (15 countries):[a] estimates of the cost and redistributive impact of a transfer targeting children and adolescents, by coverage, 2030

(Percentages)



Source: Prepared by the author, on the basis of E. Espíndola, "Estimating the cost of cash transfers associated with the implementation of options to protect income levels in Latin America", *Income support and social protection in Latin America and the Caribbean: debates on policy options*, Project Documents (LC/TS.2023/27/Rev.1), R. Santos Garcia, C. Farías and C. Robles (coords.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Note: Based on a monthly transfer per person equivalent to one extreme poverty line.

[a] Simple average of the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

2. Social protection and the inefficiency of inequality

One of the main objectives of social protection is to reduce inequality, which is a historical and structural characteristic of Latin America and the Caribbean. Inequality reflects the structural heterogeneity of the region's production systems, characterized as they are by the concentration of employment in informal, low-quality jobs, with low incomes and limited or little access to social protection (Arenas de Mesa and Cecchini, 2022).

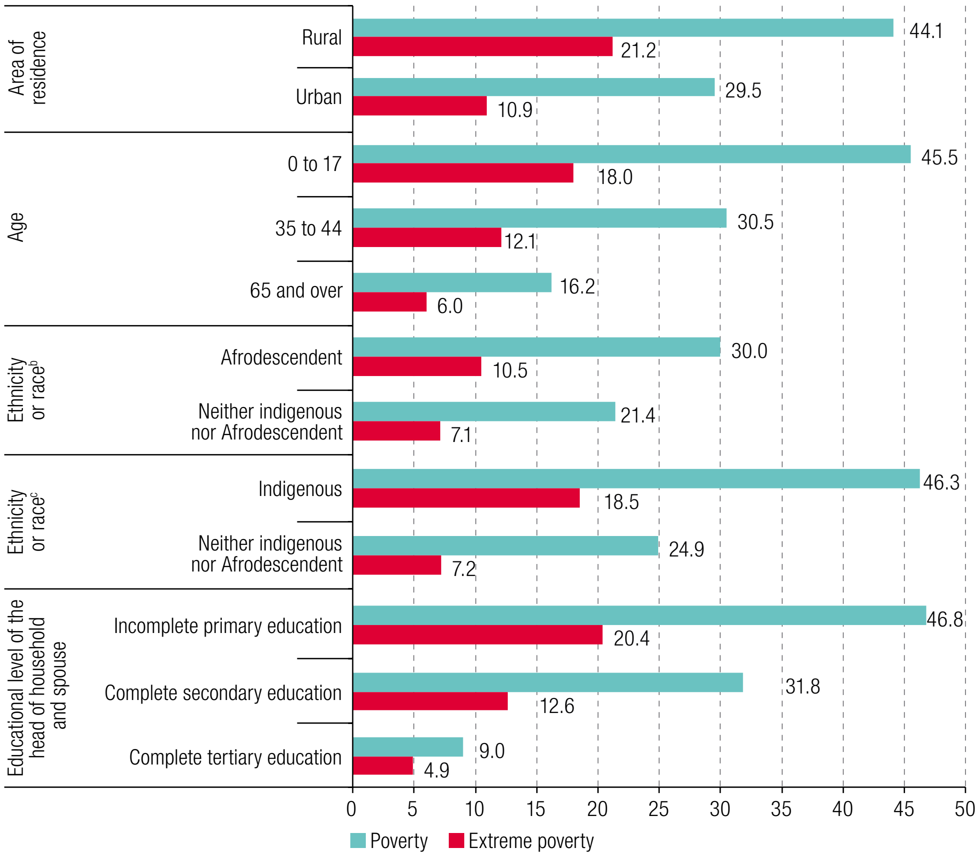
The region has one of the highest levels of inequality in the world. ECLAC argues that inequality hinders sustainable development and is inefficient, as it creates social gaps and disadvantage that affect productivity, State finances and environmental sustainability (ECLAC, 2018b). In this context, the concept of the "social inequality matrix" provides a way of looking beyond income inequality by including the following axes in the analysis: inequalities of gender, ethnicity or race, the life cycle (especially childhood, youth and old age) and territory. It thus contributes to analysis and consideration of this multidimensional and multi-causal phenomenon with the aim of progressively developing comprehensive social protection policies that address and reduce inequalities (ECLAC, 2016).

One way to represent the social inequality matrix in Latin America is by the incidence of poverty and extreme poverty in relation to their different axes. For example, poverty is higher among working-age women: in 2021, the poverty rate was 16% greater for these than for men in the same age group. In addition, the incidence of poverty and extreme poverty is higher in rural areas, among indigenous people and Afrodescendants, among children and adolescents (aged 0 to 17) and among people with incomplete primary education (see figure 4) (ECLAC, 2022a).

Figure 4

Latin America (18 countries):[a] people living in poverty and extreme poverty by area of residence, age, ethnicity or race and educational level of the head of household and spouse, 2021

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America and the Caribbean, 2022* (LC/PUB.2022/15-P), Santiago, 2022, on the basis of the Household Survey Data Bank (BADEHOG).

[a] Weighted average of the following countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

[b] Covers 8 countries: Brazil, Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru and Uruguay.

[c] Covers 11 countries: Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, the Plurinational State of Bolivia and Uruguay.

Among the multiple dimensions of the social inequality matrix, income is particularly important because it largely determines access to the different goods and services and people's opportunities to achieve the life they aspire to. For this reason, the various editions of the ECLAC *Social Panorama of Latin America and the Caribbean* have paid special attention to the analysis of income inequality. Analyses are generally carried out using a set of indicators calculated on the basis of household surveys; however, alternative and complementary sources of data are also increasingly used (ECLAC, 2023b).

When discussing social protection, inequality and social inclusion, it is essential to mention, among other groups, persons with disabilities. According to ECLAC (2014), more than 70 million people in Latin America and the Caribbean, or more than 12% of the total population, have some form of disability. These people face various types of inequalities in the exercise of their rights and high levels of exclusion, making it urgent to address the problem. Access to social protection for people with disabilities is still limited by a number of barriers. One example are the obstacles to successful labour market inclusion with decent working conditions and access to social protection (Bietti, 2023). In addition to higher rates of inactivity and unemployment, persons with disabilities are more likely to be in low-paid, informal and unstable jobs, with little protection of their employment rights and limited access to social protection. Although the region has made progress in the different dimensions of social inclusion over recent decades, the significant segmentation that continues to exist in the coverage and sufficiency of benefits, which is also reflected by large differences in the quality of the services available to different population groups and in their opportunities for labour inclusion, is a cause for concern (ECLAC, 2023b).

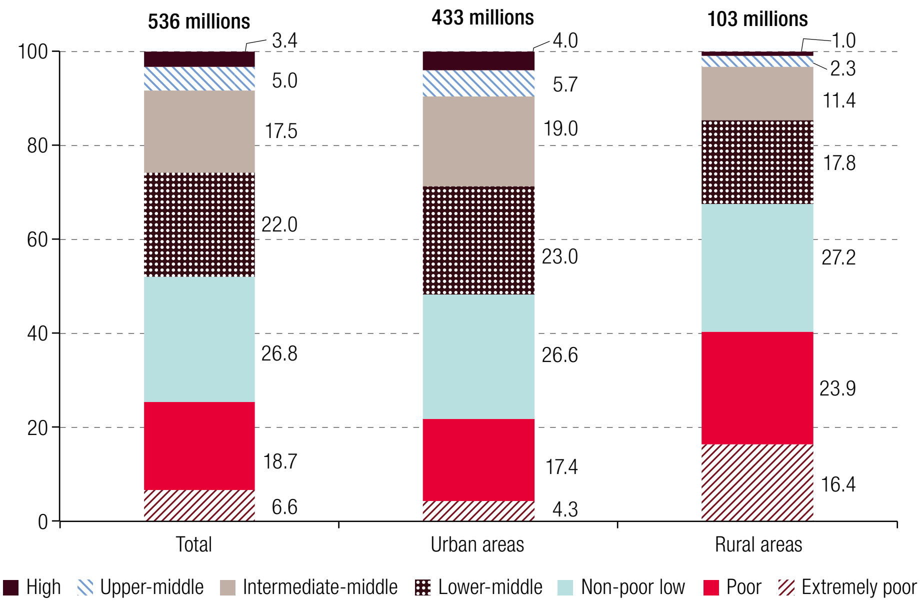
A complementary way of examining inequality and unequal access to social protection is to stratify the population by a specific variable of interest, such as income, occupation, consumption or self-identification. ECLAC has a long tradition in the field of social stratification studies (see Martínez and others, 2022 for the most recent) and in recent years has once again emphasized income stratification to highlight the vulnerability of the middle-income strata and the large percentage of the Latin American population that is at high risk of falling into poverty as a result of economic shocks or crises (ECLAC, 2022a and 2022b).

Economic vulnerability in Latin America is significant. Even before the pandemic, in 2019, more than half the people in the subregion (52.1%) lived in households belonging to the low-income strata (less than 1.8 poverty lines per person). If households in lower-middle income strata (22%) are added in, the result is that 74.1% of people in Latin America lived in vulnerable households. Before the pandemic, in other words, approximately three out of every four people required assistance from social protection programmes. The figure was 71.3% in urban areas and 85.3% in rural areas (see figure 5).

Figure 5

Latin America (15 countries):[a] population distribution by income stratum, around 2019

(Percentages and millions of people)



Source: R. Martínez and others, “Estratificación y clases sociales en América Latina: dinámicas y características en las dos primeras décadas del siglo XXI”, *Project Documents* (LC/TS.2022/214), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022, on the basis of the Household Survey Data Bank (BADEHOG).

[a] Simple averages of the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay. The estimates for rural areas do not include Argentina or Uruguay.

3. Social protection and education: investing in people

Social protection systems designed with a rights-based and life-cycle approach help to protect and secure income throughout the life cycle, thus reducing the likelihood of people being unable to cope with unforeseen risks, while also supporting the implementation of strategies aimed at empowering those most vulnerable to risks, fostering social and labour inclusion, eradicating poverty and reducing inequality.

The most important asset countries have are people. Investing in education is investing in people, and this investment can have results in at least two dimensions: personal growth, linked to inclusive social development, and productivity growth, linked to economic development. Investment in education is therefore the foundation of any successful development strategy, especially when it comes to inclusive social development.

The pandemic had a catastrophic social and economic impact in the region. It resulted in a silent crisis in education, particularly affecting children's and adolescents' learning. Among other things, educational institutions were partially or totally closed for 72 weeks between February 2020 and March 2022, longer than in any other region of the world (ECLAC, 2022a; Huepe, Palma and Trucco, 2022).

The Commission has worked in the area of education in Latin America and the Caribbean from the perspective of inequality, considering it critical for inclusive social development. It has paid special attention to school education and occupational training among the youth population. Furthermore, to foster the development of the conditions necessary for education, it has recommended strengthening the coordination of this area with other public policy sectors, especially social protection systems. For example, household income protection and care policies are crucial to support educational careers (see Trucco, 2023 in this same issue).

To achieve inclusive social development, it is necessary to invest more financial resources in the region's education systems, ensuring that these public resources are used efficiently and seeking to formulate strategies that endow education and social protection systems with financial sustainability and that together help provide comprehensive solutions to the problems that are part of the legacy of the pandemic, such as situations in which children disengage from education, drop out of school, experience learning difficulties and fall behind their age group.

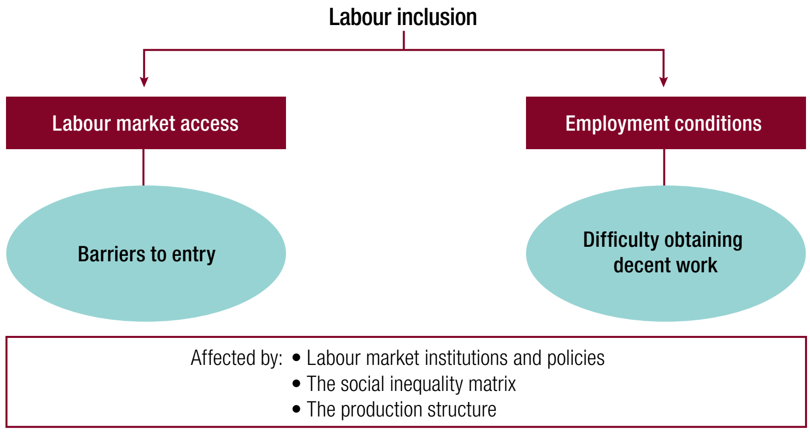
4. Social protection, labour inclusion and the future of work

The link between employment and social protection has a long history. This connection is based on the fundamental idea that paid work plays a central role as a means of social inclusion and access to well-being, insofar as a minimum quality of life is maintained, access to social services is made possible and decent work is universalized (ECLAC, 2007; Cecchini and Martínez, 2012). Despite this, the labour market in Latin America and the Caribbean is characterized by low productive job creation, high unemployment and pronounced market segmentation, reflected in the fact that almost half of all employment is informal and therefore does not provide contributory access to social security (Espejo, 2022; ECLAC, 2023b; Espejo and Cortínez, 2023).

For ECLAC, labour inclusion is an inclusive social development objective, the idea being that all members of the labour force should have access to decent jobs which provide them with adequate levels of remuneration and social protection coverage. In practice, labour inclusion has two components: labour market access and employment conditions in the jobs obtained (see diagram 2). Women, youth, persons with disabilities, persons living in poverty, Afrodescendants, indigenous peoples and other populations at the intersection of the axes of the social inequality matrix face particular obstacles and barriers to labour inclusion (ECLAC, 2023b; Huepe, 2023).

Labour markets in Latin America and the Caribbean are undergoing major changes that are shaping what is known as the future of work. Key transformations include the current technological revolution and its processes of automation and digitalization. Unless adequate policies are implemented on social protection, among other things, these processes may exacerbate inequality and labour inclusion problems in the region. Automation technologies can result in the replacement and transformation of certain occupations, even as they lead to the creation of new jobs (Espíndola and Suárez, 2023). While the experience of the most technologically advanced countries suggests that previous technological revolutions, and particularly the rise of information and communications technologies (ICTs) during the 1980s and 1990s, were not associated with a significant increase in unemployment rates, the fact is that the workers displaced by new technologies are not necessarily those who will subsequently participate in their development and application. At the same time, the rise of new forms of work such as teleworking and platform jobs threatens to contribute to the casualization of the world of work and to result in certain population groups beginning to regard insecure and informal conditions as a normal feature of labour markets (Huepe, 2023; Martínez, 2023; Robles, Tenenbaum and Jacas, 2023).

Diagram 2
Labour inclusion: labour market participation and employment conditions in the jobs obtained



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America and the Caribbean, 2023*, Santiago, forthcoming.

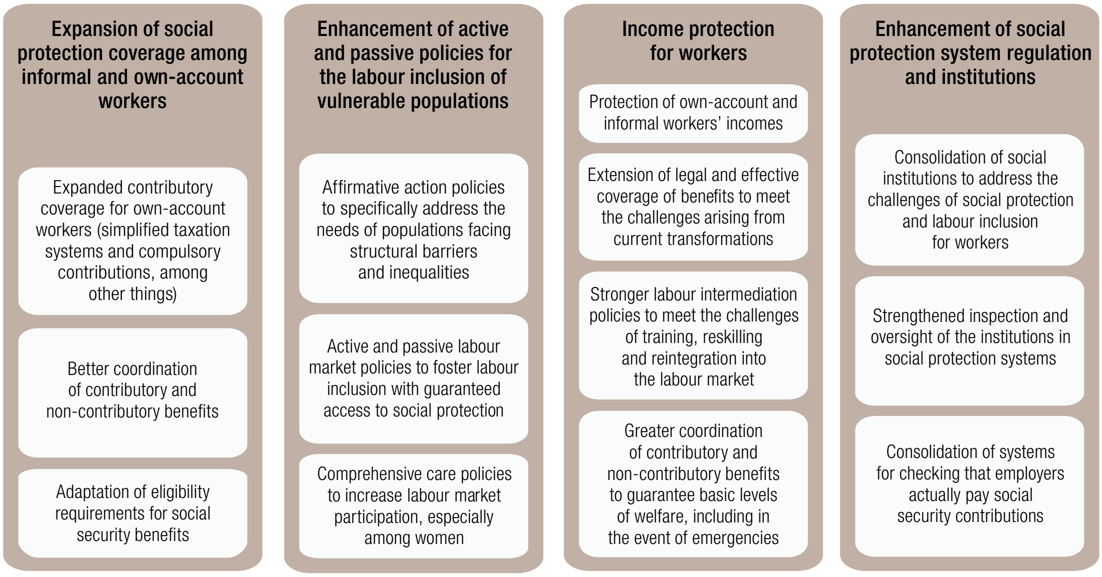
In view of the obstacles that working people face in accessing social protection, diagram 3, which is adapted from Robles and others (2003), provides a set of public policy recommendations aimed at strengthening social protection in the face of labour inclusion challenges. Coordination between social protection systems and labour inclusion policies should be a priority objective for the countries, so that they can reduce levels of inequality and move towards inclusive social development.

5. Social protection and pension systems: solidarity in old age

Pension systems have been at the centre of the social protection debate. Ageing, among other factors, will increase the demands of the older population and have far-reaching social and fiscal effects. The population aged 65 and over accounted for 8.9% of the total regional population in 2021, and the figure will reach 24.7% in 2065. In this context, the sustainability of social protection systems and pension systems in particular in terms of effective coverage, sufficiency of benefits and financial sustainability are key regional challenges for both social policy and the public finances (ECLAC, 2018c; Arenas de Mesa, 2019).

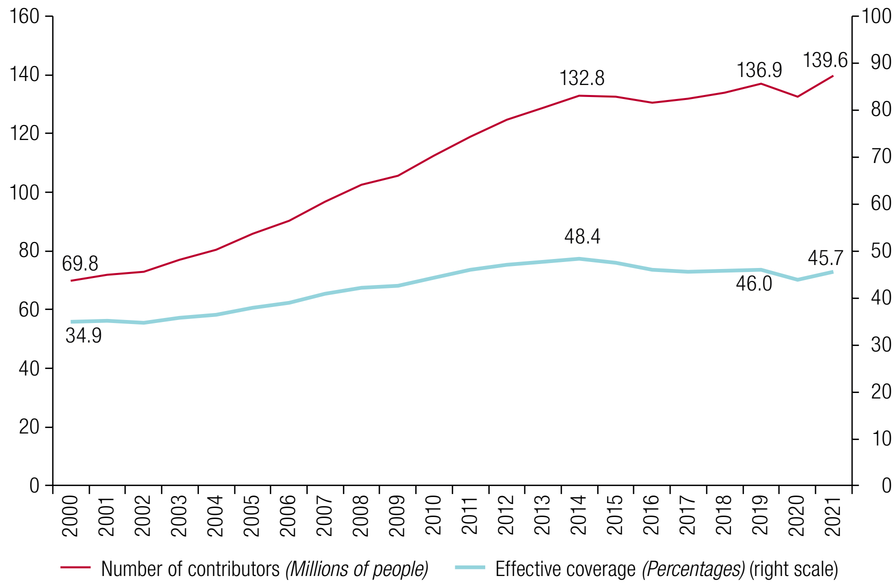
Where the effective coverage of contributory pension systems is concerned, in 2021 only 45.7% of the economically active population (EAP) was contributing to a pension system, implying that about 166 million people did not have access to contributory social protection in Latin America (see figure 6). Despite efforts in some countries to extend coverage to self-employed and informal workers and to domestic workers, this figure largely reflects the prevalence of labour informality and the weakness of mechanisms to control evasion and avoidance of pension contributions (Arenas de Mesa, Robles and Vila, 2023).

Diagram 3
Policy proposals to strengthen social protection in the face of labour inclusion challenges



Source: Prepared by the author, on the basis of C. Robles and others, "Apuestas estratégicas hacia el futuro de la protección social: avanzar hacia sistemas universales, integrales, resilientes y sostenibles", *El futuro de la protección social ante la crisis prologada en América Latina: claves para avanzar hacia sistemas universales, integrales, resilientes y sostenibles*, Social Policy series, C. Robles and R. Holz (coords.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023, forthcoming.

Figure 6
Latin America (17 countries):[a] economically active population contributing to pension systems (coverage of assets), 2000–2021
(Millions of people and percentages)

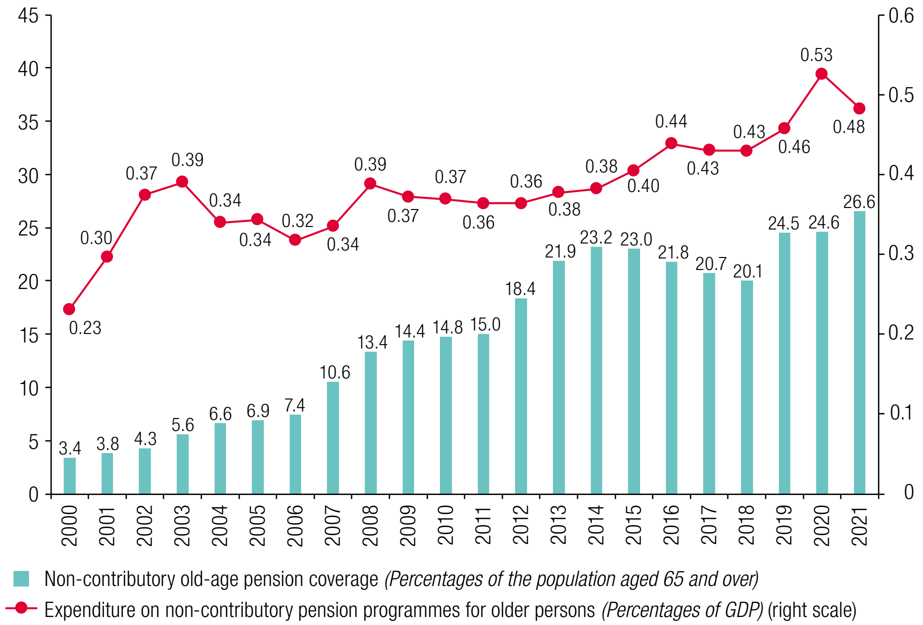


Source: A. Arenas de Mesa, C. Robles and J. Vila, "El desafío de avanzar hacia la sostenibilidad de los sistemas de pensiones en América Latina", *Social Policy series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023, forthcoming.

[a] Weighted average of the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

In this century, one of the most important changes affecting pension systems and driving the increase in the coverage of social protection programmes in the region has been the creation of non-contributory pension systems and the expansion of their coverage. Whereas only 11 of the 33 countries in Latin America and the Caribbean had a non-contributory pension system in 2000, 28 did by 2021. As a result, the coverage of non-contributory pension systems among the population aged 65 and over grew from 3.4% to 26.6% between 2000 and 2021, which was reflected in an increase in public spending from 0.23% of GDP in 2000 to 0.48% of GDP in 2021 (see figure 7). In two decades, public spending on such systems increased by 0.25 percentage points of GDP, and coverage expanded by more than 15 million people, lifting many out of extreme poverty or poverty (Arenas de Mesa and Robles, 2023).

Figure 7
Latin America and the Caribbean (24 countries):[a] public spending on non-contributory pension systems and coverage, 2000–2021
(Percentages)



Source: A. Arenas de Mesa, C. Robles and J. Vila, "El desafío de avanzar hacia la sostenibilidad de los sistemas de pensiones en América Latina", *Social Policy series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023, forthcoming, on the basis of ECLAC, Non-contributory Social Protection Programmes Database - Latin America and the Caribbean [online] https://dds.cepal.org/bpsnc/home.

[a] Expenditure: simple averages based on information from Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay. Coverage: weighted averages based on information from the same countries, excluding Saint Vincent and the Grenadines.

6. Social protection and health care: health at the heart of inclusive social development strategies

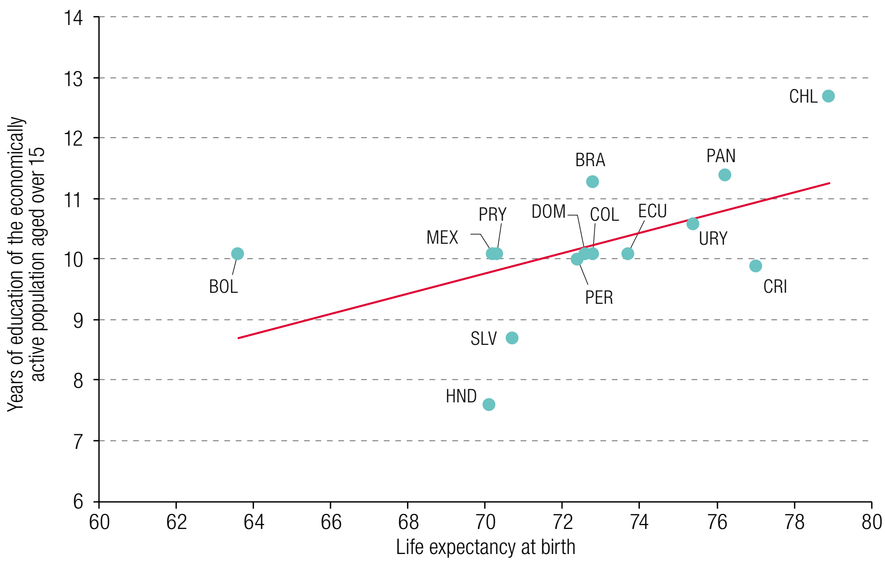
Health care is essential for achieving inclusive social development and reducing inequality, which makes it essential to carry out the set of transformations required to move towards universal, comprehensive, sustainable and resilient health systems that give special priority to primary health care (PHC). The social conditions that influence how people are born, grow up, live, work and age are called social determinants of health. These are unevenly distributed, which leads to health inequalities. The direct relationship between the axes of the social inequality matrix and the unequal distribution of the social determinants of health means there is a need to coordinate health systems with the other components of social protection in order to maximize the synergy that exists between these areas and thereby guarantee the right to health and help to overcome poverty and inequalities (Marinho, Dahuabe and Arenas de Mesa, 2023).

Even before the pandemic, health systems in Latin America and the Caribbean were underfunded and struggled with resource availability and the organization of care services. Inadequate coverage and unequal access to it are consequences, among other factors, of underfunded, segmented and fragmented health systems that have problems when it comes to the organization of services, sectoral supervision and management, and the capacity to address the social determinants of health (ECLAC/PAHO, 2021).

The structural weaknesses of health systems in Latin America and the Caribbean are part of a context characterized by the social inequality matrix and an unequal distribution of the social determinants of health. The COVID-19 pandemic provided a historic opportunity to restructure health systems and move towards universal coverage with timely, high-quality care for the entire population via the implementation of broadly based shared solidarity mechanisms that produce quality services more efficiently and sustainably. This should go together with greater investment in health entailing a sustainable increase in financing and a more efficient organization of health services, with special emphasis on strengthening the first level of care, in line with a strategy where PHC incorporates the social determinants of health in its actions (Cid and Marinho, 2022; ECLAC, 2022b).

Figure 8 presents information on health inequalities between the countries of the region. There are large differences in social indicators and also as regards the positive relationship between health indicators (life expectancy at birth) and one of the social determinants of health (years of education of the population). This confirms that investing in the other components of social protection, which are social determinants of health, can lead to better outcomes in population health indicators.

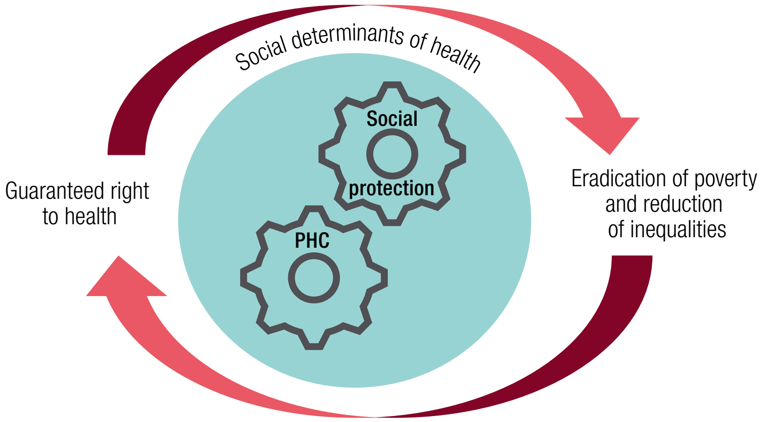
Figure 8
Latin America and the Caribbean (14 countries): average life expectancy at birth and years of education, around 2020
(Years)



Source: M. L. Marinho, A. Dahuabe and A. Arenas de Mesa, "Salud y desigualdad en América Latina y el Caribe: la centralidad de la salud para el desarrollo social inclusivo y sostenible", *Social Policy series*, No. 244 (LC/TS.2023/115), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023, forthcoming.

PHC is a strategic dimension of health systems. In particular, it ties in closely with and complements social protection, which can contribute to progress towards guaranteeing people's rights, including the right to health (Abramo, Cecchini and Ullmann, 2020). An essential part of PHC relates to the social determinants of health, so that it has a direct effect in reducing levels of poverty and inequality, in both the health domain and others (see diagram 4), thereby contributing to inclusive social development and a number of the Goals of the 2030 Agenda for Sustainable Development.

Diagram 4
Synergy between primary health care (PHC) and social protection



Source: M. L. Marinho, A. Dahuabe and A. Arenas de Mesa, "Salud y desigualdad en América Latina y el Caribe: la centralidad de la salud para el desarrollo social inclusivo y sostenible", *Social Policy series*, No. 244 (LC/TS.2023/115), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023, forthcoming.

Likewise, the synergy between PHC and social protection is essential to the well-being of the population at times of crisis, as was demonstrated during the COVID-19 pandemic and the various crises that accompanied it. Comprehensive action coordinated between PHC and social protection and recognizing the interdependence between the health, social, economic and environmental dimensions is essential in crisis situations for implementing coordinated joint responses that protect people's well-being and the exercise of their rights, especially the vulnerable population's (Marinho, Dahuabe and Arenas de Mesa, 2023).

IV. Key challenges and opportunities for social protection policies

1. The challenge of sustainability: meeting commitments to current and future generations

The challenge of sustainability is often connected to the challenge of environmental sustainability in sustainable development strategies or to the challenge of fiscal sustainability in the public finances. In the area of inclusive social development, the sustainability of social protection is essential if public policies aimed at reducing both poverty and inequality in the region are to be successfully designed and implemented (ECLAC, 2022b).

The sustainability of social protection is based on the fulfilment of mandates and commitments to current and future generations in respect of coverage, sufficiency and financial sustainability. Sustainable social protection is one of the region's main challenges. The universality, comprehensiveness and resilience of social protection are not characteristics of any particular moment in time. The quantity and quality of coverage and the sufficiency of social protection must be maintained if the commitments made to different generations are to be met. Accordingly, social protection generates permanent public commitments and thus ties in with debates both about inclusive social development and about the public finances and fiscal space. Ensuring the sustainability of social protection systems will create a greater capacity to eradicate poverty and reduce inequalities in the region (ECLAC, 2023b).

2. The challenge of institutional framework for social policy: limitations and capabilities in bringing about social change

The slow-motion crisis that has been unfolding in the region for several years has further underscored the need for an institutional framework for social policy commensurate with the social challenges. Shortcomings in social institutions constrain the policies, programmes, transformations and reforms needed to eradicate poverty and reduce inequalities. The COVID-19 pandemic brought out the strengths and weaknesses of social institutions, as well as their resilience and capacity to adapt to the demands arising from the social and economic effects of the pandemic in the region's countries. This veritable stress test was made yet more demanding by the intensification of phenomena such as migration, disasters associated with climate change and different types of violence, the global economic and social repercussions of the war in Ukraine and the acceleration of technological change, with its effects on the labour market and the future of work. All these factors are exacerbating the challenges associated with social protection institutions in the region (ECLAC, 2023a).

The fifth meeting of the Regional Conference on Social Development in Latin America and the Caribbean, held in Santiago in October 2023, debated the role of social institutions as a pillar of the effort to achieve inclusive social development. The main public policy proposals for strengthening social institutions were: (i) make policy objectives and mandates more consistent with the organizational capacity of the institutional framework for social policy; (ii) invest in human resources, capabilities and technology to ensure positive results and consolidate and create social policy monitoring and evaluation systems; (iii) invest in information systems for decision-making, anticipating the changes that will result from rapid digital transformation; and (iv) enhance financial sustainability to secure the financial resources for a minimum level of benefits that guarantees well-being consistent with social rights and helps to reduce poverty and inequality (ECLAC, 2023a).

3. The challenge of the social and fiscal covenant: a fine balance between political economy and governance

ECLAC has argued that a regional commitment to inclusive social development is a precondition for sustainable development. Sound social policies are required to achieve these goals; in particular, a drive to strengthen universal, comprehensive, sustainable and resilient social protection systems is urgently needed. It is essential to focus on the sustainability of the measures adopted in order to build broad support and move towards social and fiscal covenants that ensure the financial sustainability of social protection, among other things (ECLAC, 2022a and 2022b; Arenas de Mesa, 2019).

A feature shared by all countries in the region is the aversion of most of the population to the high levels of inequality there and the widely shared expectation that the State must act to reduce it by strengthening social protection (Maldonado Valera and others, 2021). This is an important starting point for progress with broad consensus-building and the establishment of cross-cutting agreements on both social and fiscal issues (ECLAC, 2022b).

A fiscal covenant is primarily a debate about political economy, about the kind of society that should be built. The chances of a fiscal agreement being implemented rise if it is accompanied by a social covenant that regulates and determines the way public resources are used both to enhance social protection and to strengthen inclusive social development strategies (Arenas de Mesa, 2016).

Economic management and the administration of the different interests of the various actors will be crucial in the effort to forge political covenants that underpin social and fiscal agreements in the region. These covenants will not only strengthen social protection systems but will be critical for the governance of sustainable development, making them one of the main social protection challenges for the region.

4. The challenge of digital transformation: the speed of change is shaping the future of social protection

Social protection systems should grasp the opportunities and address the challenges of the rapid digital transformation that is currently taking place and that may shape the future of social protection. The speed at which this digital transformation is occurring far exceeds the capacity of social protection systems to react and may thus condition both the design of future changes and the relationship of social protection to social inclusion (Martínez, Palma and Velásquez, 2020). Besides the digitalization of information, the digital transformation of the economy will entail a transformation of social protection as automation gives rise to new vulnerabilities in employment and other areas.

New technologies, including artificial intelligence, have the potential to improve the efficiency and effectiveness of social benefits and services. However, they can also become a source of exclusion, contributing to a new form of digital poverty, especially if access to the digital world is limited, as was observed during the pandemic, or if there are risks associated with the functioning of its mechanisms, as in the case of the algorithms used to target social policies. To illustrate this challenge, ECLAC has pointed out that, as of 2020, 26.3% of Latin America's population did not have access to the Internet and 79.3% of these people lived in rural areas (ECLAC, 2022a). Similarly, digital innovations were introduced during the pandemic to identify potential users and allocate social protection benefits, highlighting access gaps (Atuesta and Van Hemelryck, 2023). Older persons were undoubtedly among those experiencing this exclusion, as the available data show that they are the least engaged in the digital society and were the least likely to use the Internet before the pandemic.

A strategic area for social protection is investment in connectivity, technology and information systems, in order, for example, to develop a culture of evidence-based decision-making. There are a number of actions that can contribute to this goal, and many of them are already under way in the countries of the region; however, others require more of a push to materialize (ECLAC, 2023a).

5. The challenge of social protection to eradicate poverty and reduce inequalities

Non-contributory social protection policies can have a significant impact in reducing poverty and inequalities. One option that has sometimes been explored is to target social income protection on the beginning and end of the life cycle: children and older persons. The poverty rate in the population aged between 0 and 17 was 45.5% in 2021, which was much higher than the average for the overall population (32.3%). For their part, older persons (aged 65 and over) who have retired from the labour market depend mostly on the income and transfers they receive from contributory and non-contributory pension systems (ECLAC, 2022b; Robles and others, 2023).

A non-contributory cash transfer equivalent to one extreme poverty line targeted at children and adolescents (aged 0 to 17) belonging to households in the poorest 40% of the population could help reduce extreme poverty among children and adolescents by 10 percentage points, at an estimated cost of 1.4% of GDP in 2030 (Espíndola, 2023).

In the case of the population aged 65 and over, the most effective policy for reducing poverty and inequality is the creation and strengthening of non-contributory pension systems. Increasing the coverage of such systems to 40% of the population aged 65 and over by guaranteeing a combined benefit equivalent to one extreme poverty or poverty line are goals that are achievable this decade from the perspective of both the institutional framework for social policy and the financial sustainability of the region. It is estimated that achieving a target like the one proposed by means of such transfers by 2030 would add 0.5% of GDP to what is currently invested in non-contributory pension systems if the benefit were one extreme poverty line and 0.9% of GDP if it were one poverty line (Arenas de Mesa, 2019; Arenas de Mesa, Robles and Vila, 2023).

When the whole population is considered, an estimate for 2021 puts the income gap separating households from the extreme poverty line at an average of 0.24% of GDP and the gap separating them from the poverty line at 1.53% of GDP in the region. An average annual increase equivalent to 0.1% of GDP in public spending on non-contributory social protection transfers could increase the income of recipient households to a level equal to one extreme poverty line or more by 2030 (ECLAC, 2023a).

All these exercises (for children, older persons and the whole population) have a common denominator: they are feasible to implement, both institutionally and in terms of financial sustainability. The estimated public expenditure averages a few tenths of a percentage point of GDP in all these cases, and this figure could be reached over a number of years. Thus, the countries' annual incremental budget flow would enable them to achieve these goals while safeguarding financial sustainability, with potentially significant results for regional poverty reduction.

V. Final remarks

Social protection in the region needs to adopt a universal approach, covering people regardless of employment status or ability to pay. Moreover, it must be sensitive to differences and leave no one behind, as established in the 2030 Agenda for Sustainable Development. ECLAC has proposed the development of social protection systems with a rights-based and life-cycle approach for the youngest children, older children, adolescents, youth, workers (paid and unpaid) and older persons, with the aim of eradicating poverty, reducing inequality and advancing towards inclusive social development (ECLAC, 2023b).

The pandemic taught important lessons. One of the main ones is that regional collaboration, and therefore collective projects, are essential to address crises and inequalities. During this period, the countries were obliged to coordinate the short-term social protection measures needed to tackle the emergency with medium-term ones requiring gradual implementation and the development of mechanisms to ensure they would be financially sustainable.

The region faces a challenging economic, social and employment outlook, as well as the twin traps of low growth and high levels of poverty and inequality. It is therefore essential to focus on the sustainability of the measures needed to consolidate universal, comprehensive, sustainable and resilient social protection systems with a view to securing the broadest possible support and establishing social and fiscal covenants. The social covenant must be accompanied by new fiscal contracts that guarantee the financial sustainability of social protection and foster the stability needed to achieve inclusive social development (ECLAC, 2023b).

The 2025 World Social Summit which the United Nations plans to hold 30 years on from the Copenhagen World Summit for Social Development (1995) is likely to discuss some of the challenges and opportunities involved in the effort to move towards universal, comprehensive, sustainable and resilient social protection, as discussed in this article. One of the main topics for discussion at the Summit will be the implications of rethinking the transition from the social development and social protection of the 1995 Copenhagen Summit to the inclusive social development and social protection of the future at the 2025 World Social Summit.

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Improving education is crucial for inclusive and sustainable economic and social development

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Abstract

Education is fundamental to the achievement of inclusive and sustainable economic and social development and more just and cohesive societies. Despite having made considerable strides in terms of education access, progression and completion, the countries of Latin America and the Caribbean face a dual challenge: accelerating progress and reducing gaps in education coverage and completion rates while improving the quality and relevance of education. Gains in access to education and to technical and vocational training have failed to translate into the skills that students need to adapt to lifelong learning and retraining processes and find their place in a changing world pervaded by technology. Prolonged school closures during the coronavirus disease (COVID-19) pandemic exacerbated these challenges. For education to recover, a profound transformation is required, one that ensures financial sustainability and strengthens the region's institutional frameworks.

Keywords

Education, social development, economic development, basic education, secondary education, educational policy, equality, educational development, ECLAC, recommendations, Latin America and the Caribbean

JEL classification

I24, I21, I28

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I. Introduction

Education is a human right and a key asset, both for economic and social development at the country level and for building more equitable, inclusive and cohesive societies. From a macroeconomic perspective, to invest in education is to invest in the greatest asset that countries have in their pursuit of inclusive and sustainable economic and social development. From a microeconomic perspective, a more educated populace is key in increasing innovation and productivity among workers and firms alike. In terms of social development, education is a right and a central pillar of social and labour inclusion. It facilitates social mobility, improves income generation, contributes to the reduction of poverty and inequality, and supports the exercise of citizenship.

Education was recognized as a human right in the Universal Declaration of Human Rights, proclaimed by the General Assembly of the United Nations in 1948 (article 26), and has since been ratified as such in several international treaties. In 2015, the States Members of the United Nations committed to achieving the Sustainable Development Goals (SDGs) by 2030, including Goal 4 on ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all. Education is a key factor in countries' economic and social development and a driver of progress towards the achievement of the SDGs by 2030 (ECLAC, 2022).

Indeed, education has a direct bearing on opportunities to gain access to better social, economic, labour and cultural conditions. Progress in this field is associated with reduced poverty and inequality, access to decent work and improved health indicators, as well as upward social mobility and the full exercise of citizenship. Meanwhile, a population that has not acquired the right set of skills has implications for productivity and social and labour inclusion, significantly hindering countries' development, among other things. Given the direct relationship between a person's education and their present and future opportunities to improve their social, economic, labour and cultural conditions, the Economic Commission for Latin America and the Caribbean (ECLAC) has highlighted education as one of the most critical areas to be addressed to reduce inequality and advance towards inclusive and sustainable economic and social development.

ECLAC has long studied education in Latin America and the Caribbean from the perspective of inequality, considering it a critical component of inclusive social development in the region. The studies have focused on school education (primary and secondary) and vocational training for young people transitioning from school to work. In the early 1990s, ECLAC and UNESCO published a book on education and knowledge as basic pillars for changing production patterns with social equity (ECLAC/UNESCO, 1992), containing policy guidelines and institutional proposals to encourage systemic connections among education, knowledge and development. Throughout that decade and into the next, ECLAC continued to analyse the challenges related to equity and reducing education gaps (Cohen, 1995) and the contribution of education as a critical link in reconciling growth with equity and participation in the societies of the future (Hopenhayn and Ottone, 2000). In the early 2000s, ECLAC was already highlighting the emerging importance of new information and communications technology, both in knowledge transmission and in countries' productivity and competitiveness, and the challenges that such technology posed for education systems (Hopenhayn, 2003; Sunkel, 2006; Sunkel and Trucco, 2010; Sunkel, Trucco and Espejo, 2014).

ECLAC has been an advocate for statistical monitoring of education gaps in relation to international goals and agreements in the region, namely the Millennium Development Goals (ECLAC/UNICEF, 2006), the Education for All movement, the Educational Goals for 2021 (ECLAC/OEI, 2010a and 2010b) and the SDGs (UNESCO/ECLAC/UNICEF, 2022), and has furthered its analysis of the structural inequalities that affect different populations (e.g. gender-diverse communities, Indigenous Peoples, people of African descent, persons with disabilities and migrants) (Rico and Trucco, 2014; Trucco, 2014; ECLAC, 2016).

Education was the thematic focus of the *Social Panorama of Latin America, 2010*, and the *Social Panorama of Latin America and the Caribbean, 2022* (ECLAC, 2011 and 2022). It was also a central analytical focus of a document presented at the thirty-seventh session of ECLAC, entitled *The Inefficiency of Inequality* (ECLAC, 2018), which concluded that unequal access to education reduces skills and opportunities, thereby compromising innovation and stifling productivity.

ECLAC has repeatedly emphasized the need to strengthen education, ensure access to quality services and view territorial inequalities and needs as central challenges to be addressed throughout the life cycle, beginning in early childhood. In that regard, ECLAC has proposed the mainstreaming of a gender perspective and of an intercultural and diversity perspective in education. This would support education systems that foster inclusion, highlight the valuable contribution of the knowledge and cultural development of diverse groups and populations, and strengthen opportunities for decent work and countries' productive development.

The next section of this article contains a brief regional overview of education in recent decades. It also presents the main indicators for school access and completion and for learning outcomes, including inequality gaps. The article concludes with a review of the main educational policy opportunities to address the challenges of educational transformation in the region.

II. State of education in Latin America and the Caribbean

Over the past two decades, the countries of Latin America and the Caribbean have made considerable strides in school education in terms of access, progression and completion, for example by broadening compulsory education to include the pre-primary and secondary levels, and by implementing active policies to further expand it and to include groups that have historically been excluded. The majority of countries in the region achieved near-universal completion rates (93.3%) in primary education in 2020. However, progress in the completion of secondary education has been more mixed, with completion rates of 79.1% in lower secondary school and 63.7% in upper secondary school (UNESCO/ECLAC/UNICEF, 2022).[2] Access remains a significant challenge from the upper secondary level, in particular in the Latin American countries (less so in the Caribbean countries) (see figure 1). Access has improved in recent years in pre-primary education and higher education, but mostly to the benefit of students in the middle and higher income strata and those in urban environments.

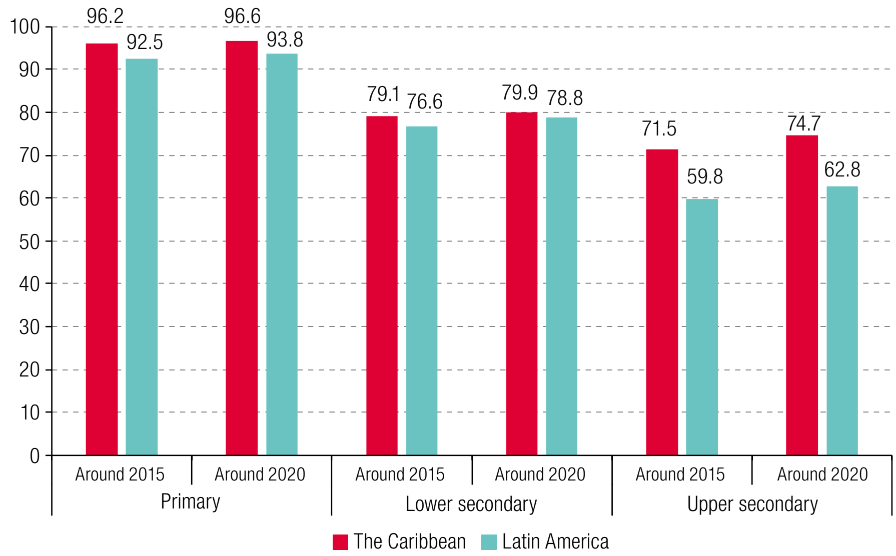
However, progress has slowed in recent years. Inclusion and the reduction of inequality were major challenges for the region prior to the pandemic. Intractable exclusionary obstacles persist, and education trajectories continue to vary significantly according to income level, gender, territory and ethnicity or race, among other variables that form the region's structural social inequality matrix (ECLAC, 2016). Figure 2, which shows progress between 2000 and 2021 in the percentage of the population completing each education level, by top and bottom income quintiles, illustrates the increase in the percentage of the population completing compulsory education. Although the gap between the top and bottom quintiles has shrunk over time, it remains expansive at the upper secondary level and, owing to the crisis that struck the education system during the pandemic years, is at risk of increasing.

[2] Access rates for primary, lower secondary and upper secondary education refer to simple averages for 25 countries in Latin America and the Caribbean.

Figure 1

Latin America (18 countries)[a] and the Caribbean (7 countries):[b] completion rates in primary, lower secondary and upper secondary education, around 2015 and 2020

(Percentages)



Source: Prepared by the author on the basis of United Nations Educational, Scientific and Cultural Organization/United Nations Children's Fund/Economic Commission for Latin America and the Caribbean (UNESCO/ UNICEF/ECLAC) (2022), *Education in Latin America at a crossroads. Regional monitoring report SDG4 – Education 2030*, Paris, 2022.

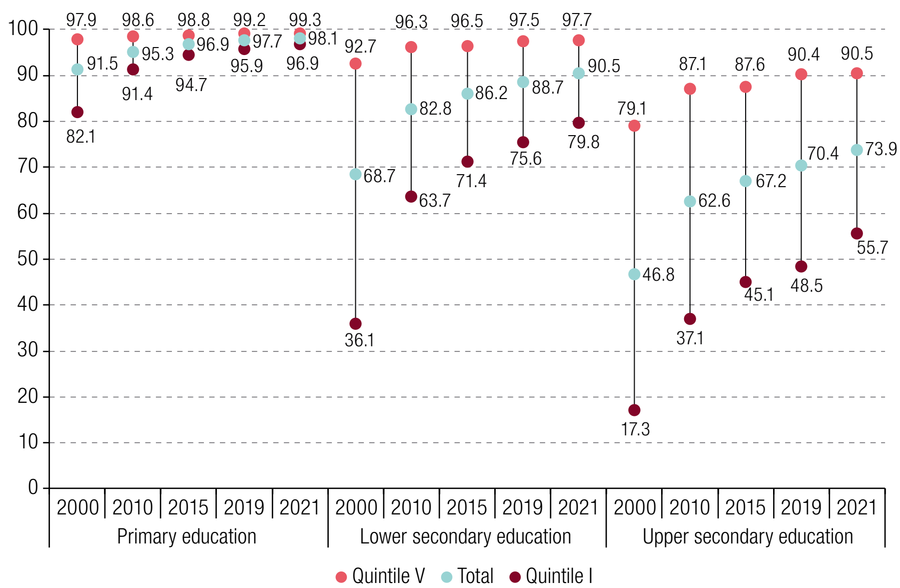
[a] Simple average for: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[b] Simple average for: Barbados, Guyana, Haiti (excluding primary), Jamaica, Saint Lucia, Suriname, and Trinidad and Tobago.

Figure 2

Latin America (14 countries):[a] completion rates in primary, lower secondary and upper secondary[b] education, by top and bottom income quintiles, 2000, 2010, 2015, 2019 and 2021

(Percentages)



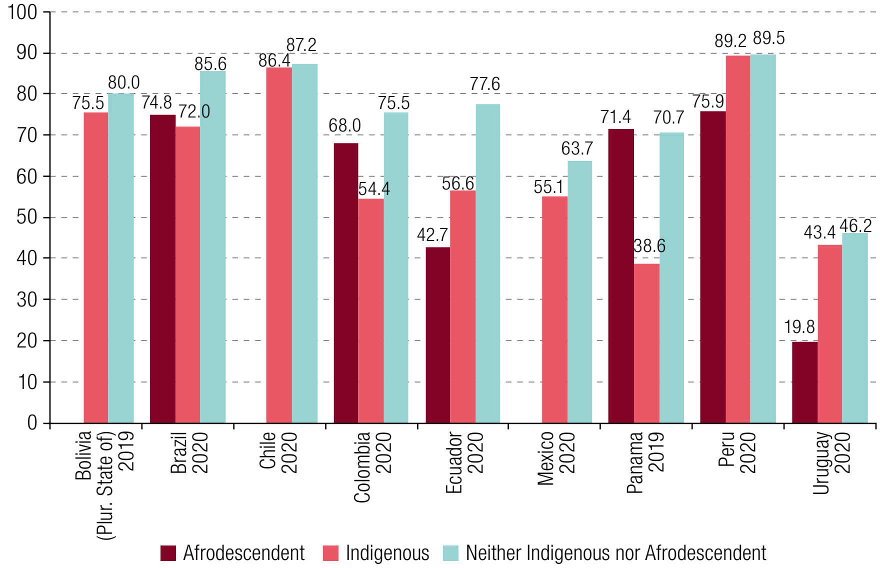
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

[a] Weighted average for: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[b] Takes into account completion of primary education among young people aged 15–19 and lower and upper secondary education among young people aged 20–24.

In upper secondary education, access, progression and, in particular, completion have continued to improve, but progress has been insufficient and uneven. Broadening regulatory frameworks is a necessary step in achieving universal secondary education —as many countries have done in recent decades— but it is not sufficient in and of itself (Acosta, 2022). The gaps in upper secondary completion rates expose and perpetuate inequalities related to gender, area of residence, ethnic or racial background and migration status, all of which are considered axes of the region's social inequality matrix. These dimensions combine and intersect to create critical bottlenecks, which block educational pathways and hinder progress in social and labour inclusion and in the reduction of poverty and inequalities (ECLAC, 2022 and 2016). Figure 3 shows ethnicity and race gaps in completion rates among young people aged 20–24. Upper secondary completion rates constitute a major challenge for Ecuador and Uruguay, in particular, where Afrodescendent young people are most disadvantaged by inequality, and for Panama, where the same is true for Indigenous young people.

Figure 3
Latin America (9 countries): young people aged 20–24 who completed upper secondary education, by ethnicity and race, around 2020
(Percentages)



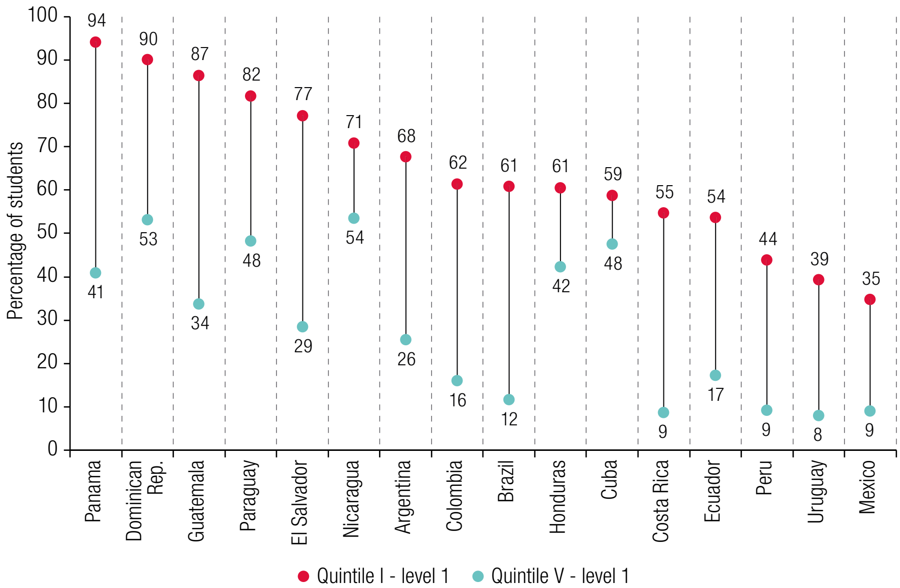
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2022* (LC/PUB.2022/15-P), Santiago, 2022 and on the basis of Household Survey Data Bank (BADEHOG).

Sustainable Development Goal target 4.2 is to ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education by 2030. In that regard, children should have access to at least one year of compulsory pre-primary education. Mexico has prescribed the earliest age of compulsory education in the region (age 3), compared to age 4 or 5 in other countries. Compulsory education in early childhood is less common in the Caribbean countries. Despite progress in recent years, more than half of children under the age of 5 have never been enrolled in educational development programmes or pre-primary education (UNESCO/ECLAC/UNICEF, 2022). Pre-primary education attendance varies greatly according to age, with higher rates observed in the older groups. Higher attendance rates are also seen in the top socioeconomic bracket of the urban population.

This inequality is reflected and reproduced in education systems partly because the expansion in access has been based on diversifying the education supply, which has led to greater segmentation among students in terms of academic achievement and education quality (Acosta, 2022). Thus, the region faces an education quality deficit, with standardized tests showing that learning outcomes have been stuck at concerningly low levels since before the COVID-19 pandemic. The protracted disruption of in-person learning could leave a lasting scar on current generations of students (Huepe, Palma and Trucco, 2022; ECLAC, 2022).

In 2019, the Fourth Regional Comparative and Explanatory Study (ERCE) was conducted by the Latin American Laboratory for Assessment of the Quality of Education (LLECE).[3] The results showed that, on average, approximately half of students in the third grade in participating countries achieved minimum levels of proficiency in reading and mathematics (54.6% and 50.9%, respectively), while the percentages for sixth grade students were even lower (31.3% and 17.2%, respectively). However, those averages belied considerable variation both among and within countries. In 13 of the 16 countries that participated in the study, over 50% of low-income students performed at the lowest level, and in many cases that percentage was significantly higher. Among the participating countries, the proportion of low-income students (first quintile) at the lowest proficiency level was up to six times greater than the proportion of high-income students (fifth quintile) at the same proficiency level (see figure 4).

Figure 4
Latin America (16 countries): proportion of students at the lowest proficiency level (1), by income level (first and fifth quintiles), according to ERCE 2019
(Percentages)



Source: UNESCO (United Nations Educational, Scientific and Cultural Organization) (2021), *Los aprendizajes fundamentales en América Latina y el Caribe: evaluación de logros de los estudiantes. Estudio Regional Comparativo y Explicativo (ERCE 2019). Resumen ejecutivo*, Paris.

Note: The countries are ordered from the highest to the lowest percentage of students in the first quintile at the lowest proficiency level.

According to a UNESCO analysis (2021) of the factors that explain the differences in learning outcomes reflected in ERCE 2019, the socioeconomic level of schools had the greatest impact, even after controlling for students' socioeconomic level. This demonstrates the effect of the region's high levels of social segregation on learning outcomes. Whether a school is in a rural or urban environment and whether it is publicly or privately administered are also factors that correlate with both the school's socioeconomic level and that of its students. In that regard, there is a significant results gap that places urban schools ahead of rural and peri-urban schools. Learning outcomes and adaptation

[3] The Latin American Laboratory for Assessment of the Quality of Education comprises a network of education quality assessment systems in the countries of Latin America and the Caribbean. It is coordinated by the UNESCO Office in Santiago de Chile (OREALC).

to the pandemic also differ between private and public schools (Acosta, 2022). There is significant room for the region to improve by implementing educational policies that create more opportunities for students at disadvantaged schools.

With regard to secondary school, the results of the 2018 Programme for International Student Assessment, conducted by the Organisation for Economic Co-operation and Development (OECD), showed that on average half of students aged 15 in the participating countries in the region performed at the minimum level in reading. That proportion was slightly less than half in sciences, and one third in mathematics.[4] According to the results of the same assessment in 2022, three out of four students in the region did not achieve basic skills in mathematics, compared to 31% of students in OECD countries. The percentage of students who performed poorly in mathematics increased in almost all countries in the region between 2018 and 2022. These results have remained relatively consistent since the mid-2010s, with only minor variations. In addition to differences in learning outcomes for basic cognitive skills between the region's students and those in OECD countries, there are significant differences within countries, in particular between the most and least advantaged students (ECLAC, 2022; Huepe, Palma and Trucco, 2022).

In recent decades, emphasis has been placed on expanding access to education for girls, young women and women in Latin America and the Caribbean. Progress in secondary and higher education has been extensive; indeed, the completion rate for women in secondary and higher education has surpassed the rate for men. However, gender gaps persist in learning outcomes for basic cognitive skills, and education bias and career bias remain. In general, girls significantly outperform boys in reading and writing, while boys outperform girls in mathematics. In the field of science, technology, engineering and mathematics (STEM), which are increasingly sought-after disciplines in the labour market, girls and young women are underrepresented. Fewer women than men are choosing to pursue STEM disciplines, and retention rates among those women who do, are lower than the rates of their male counterparts, and lower still at higher levels (ECLAC, 2022).

Standardized test results show that the region's learning crisis, which predates the pandemic, will likely be exacerbated by the two years or more of interrupted in-person learning due to COVID-19. Fewer than half of workers in the region have the level of education required by their occupation as defined by the International Standard Classification of Occupations, although there is significant variation among countries, according to the analysis of Gontero and Novella (2021). In Honduras, Nicaragua and Guatemala, the majority of workers do not meet the minimum education requirement of their occupation, while in Uruguay and El Salvador, that proportion is nearly half (48.4% and 44.8%, respectively). In Chile, meanwhile, one in five workers has a level of education that either overqualifies or underqualifies them for their position (see figure 5). This illustrates the relevance problem facing the region's education systems: the skills taught in schools and the skills that are valued and sought after in the labour market are out of sync, and there is a disconnect between the interests and expectations of new generations.

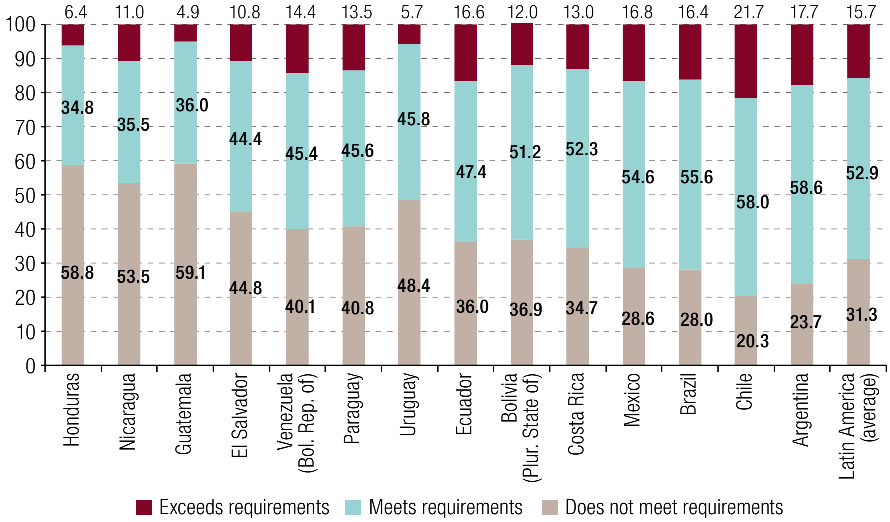
Improved access to education has not translated into a population equipped with the necessary skills to reap the benefits of development and propel the region forward in the transformation of its productive structure to achieve sustainable development. The quality and relevance of education must be examined, with a focus on the skills and capacities that will equip students to take advantage of lifelong learning and retraining opportunities and find their place in an evolving and technologically dependent world (ECLAC/OEI, 2020). Because access to educational opportunities is unequal, the linking of education and work perpetuates and amplifies social inequality. Moreover, it ensures the continuation of intergenerational inequality throughout the life cycle. Education that is segmented according to socioeconomic status and level of education of students' households maintains existing gaps in access to decent work and well-being.

[4] For Latin America, this figure refers to simple averages from the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Peru and Uruguay.

Figure 5

Latin America (14 countries): proportion of workers whose level of education does not meet, meets or exceeds required qualifications, around 2019

(Percentages)



Source: S. Gontero and R. Novella (2021), "El futuro del trabajo y los desajustes de habilidades en América Latina", *Project Documents* (LC/TS.2021/206), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021.

Short technical and vocational education and training programmes (TVET) fulfil a fundamental role in reinforcing coordination between the education sector and countries' labour market and productive development opportunities. They also strengthen inclusion and the school-to-work transition. TVET is an essential part of the education supply at the secondary and higher levels in Latin America and the Caribbean, but its structure is far from uniform. In the countries of Latin America, the prevailing structure is segmented, with parallel academic and general education pipelines. In the English-speaking Caribbean countries, TVET tends to take the form of electives open to all secondary school students, which creates a system better suited to the current need for education trajectories that can accommodate multiple lifelong learning opportunities. Although the cross-cutting intention of secondary-level TVET in the region is to prepare students for all manner of higher education opportunities, it is generally recognized that students from such programmes have general education deficiencies that cannot be corrected at the higher learning stage. If this situation is not rectified, efforts to create TVET bridges between secondary and higher education will be fruitless (Sevilla, 2017).

Aligning TVET programmes with the needs of productive sectors presents considerable challenges. The majority of such programmes in the region have not built solid relationships with firms and employers, which limits students' access to on-the-job training opportunities; nor do TVET programmes encourage employers to systematically participate in designing their curriculum. Only a small fraction of students complement the education that they receive in school or other institutions with practical experience in firms, which constitutes a significant shortcoming in efforts to strengthen the transition from education to decent work (Sevilla, 2017). In addition, skills certification processes are not well developed, despite their critical role in creating training pathways to accommodate the multiple routes that new generations are taking to learn throughout the life cycle (which can include self-directed learning and does not necessarily include training in formal institutions or jobs).

In the wake of the COVID-19 pandemic, gaps in learning outcomes and educational attainment (i.e. access, progression and completion) are at risk of widening. Of all the regions, Latin America and the Caribbean experienced the longest period of partial and total school closures (70 school weeks between February 2020 and March 2022). Owing to a lack of material and non-material resources, many students became disengaged from teaching and learning processes during school closures, and the lack of socialization opportunities led to diminished development of cognitive, social and emotional skills. The impacts of the pandemic, which are already in evidence, include greater risk of school dropout, learning delays, social conflicts, and problems related to the social and emotional well-being and mental health of children and adolescents (ECLAC, 2022; Huepe, Palma and Trucco, 2022).

During the pandemic, the region's education systems implemented innovative remote education methods through the use of analog and digital technology. Nevertheless, there were significant challenges in ensuring the continuity of education, in particular the lack of effective connectivity in households and other necessary material and non-material learning resources (e.g. suitable spaces for study and for active caregiver support, respectively), as well as the lack of digital skills among the various stakeholders of the education community (teachers, caregivers and students).

Lastly, even in the countries of the region that have prioritized public spending on education in recent decades, this effort has been insufficient to achieve the targets of Goal 4 by 2030, and the pandemic has only made matters worse in that regard. On average, Latin America and the Caribbean meets the minimum benchmarks of allocating at least 4%–6% of GDP and at least 15%–20% of total public expenditure to education, in accordance with the Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4 on ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all. However, at the country level, performance is mixed. For example, of the 16 countries for which data are available up to 2019, 7 have not met either benchmark. Moreover, analysis shows that public expenditure on education per student in the region is much lower than in more advanced economies. In 2019, the OECD countries spent on average four times more than Latin America on pre-primary, primary and secondary education and over five times more on tertiary education (with gaps ranging from US$ 5,000 per student enrolled in pre-primary education and nearly US$ 9,000 per student in tertiary education).[5] These spending gaps are even more significant when taking into account the fact that the education challenges facing Latin America and the Caribbean are greater and more profound than in the other group. Moreover, the region's education systems face considerable difficulties regarding efficiency and equity, indicating that there is an opportunity to improve education outcomes by reallocating inputs (Huepe, Palma and Trucco, 2022).

III. Opportunities to strengthen the region's educational policy agenda

As stated in the *Social Panorama of Latin America and the Caribbean, 2022* (ECLAC, 2022), the educational attainments of previous decades in Latin America and the Caribbean had already begun to erode in the years prior to the pandemic, and the region was facing a learning crisis and intractable exclusionary barriers that were difficult to overcome and that hampered the achievement of the Goal 4 targets by 2030. The pandemic intensified these challenges but also created an opportunity to innovate and to transform education in the region. This transformative impetus must be harnessed, and education and technical training need to be prioritized in regional agendas and policies to make progress on the SDGs. To invest in education is to invest in the most valuable asset that countries and their citizens have, and in the prosperity of society itself. It constitutes an essential contribution to inclusive, sustainable and equitable social development (ECLAC, 2022).

Efforts to reduce inequality and foster inclusive access to training and education are more important than ever. Groups who are in the most vulnerable and marginalized positions, such as Indigenous Peoples, Afrodescendants, refugees and migrants, socioeconomically disadvantaged communities,

[5] Simple average for 7 Latin American countries, 7 Caribbean countries and 32 OECD countries.

persons with disabilities and sexually and gender-diverse communities, must be prioritized. Early warning systems should be developed or strengthened, leveraging digital technology to prevent school dropout and monitor the most at-risk student populations. To that end, it is imperative that resources and services for school, psychopedagogical and psychosocial support be equitably distributed among schools, classes and students at risk (Huepe, Palma and Trucco, 2022).

With regard to school education, the recommendations of ECLAC are principally focused on universal education access and completion. This can be achieved through institutional arrangements that include historically excluded groups and that ease the transition from one education level to the next and, ultimately, to the labour market. For example, ECLAC recommends the elimination of barriers to access (such as exams and financial costs borne by families, including the costs of uniforms, materials and transport); the improvement of communication among institutions; the postponement or elimination of specialization; the availability of supportive figures (such as tutors, vocational counsellors or teachers focused on academic reinforcement); and the implementation of information systems that enable the monitoring of individual student trajectories. In addition, ECLAC recommends the reduction of gender inequality by implementing gender-differentiated strategies for preventing school dropout and fostering learning opportunities in all areas. It is important to reform institutional and cultural practices that promote traditional gender stereotypes and limit opportunities and alternatives for student development from early childhood, not least because such practices affect countries' economic and social development potential. It is equally important that such reforms originate from within school systems.

Likewise, with a view to addressing deficiencies in the necessary conditions for schooling while taking a holistic approach to well-being and the protection of rights, ECLAC recommends strengthening coordination with other public policy sectors, in particular social protection systems. In that regard, attention should be focused on household income support and the design of care policy measures that strengthen the education trajectories of girls and women, as well as policy measures on health, labour and transport, among others. For example, while cash transfer programmes with education components vary in their design and mode of operation, their overall expansion in the region positions them as one of the main social protection tools for childhood, adolescence and youth. Impact assessments of these programmes show positive results in enrolment, attendance, years in education, graduation and student retention. With regard to the latter, educational grants and meal programmes have proved to be valuable tools. They help to strengthen the link between students and schools while alleviating household income needs and countering the incentives for adolescents and young people to choose employment over school (Rossel and others, 2022; ECLAC, 2022).

One key measure in continuing to improve coverage and quality is to encourage investment in education from early childhood. Learning foundations are laid in the early stages of childhood, the period in which the main drivers of inequality are activated. Early childhood education enhances the effectiveness and efficiency of education systems and the return on investment at subsequent education levels, and it plays a central role in supporting economic growth. It includes structural aspects, such as the existence of adequate infrastructure and group dynamics (e.g. the ratio of adults to children), as well as qualified teachers; and process-related aspects, such as the establishment of a curricular framework and pedagogical proposals built in an inclusive manner and led by governments. The professional development of teachers working in early childhood education is also a crucial component of ensuring quality education, as their training and pay remain low and their work receives little social recognition (ECLAC, 2022).

In view of the evolving and uncertain present, ECLAC recommends policies that ensure education and training throughout the life cycle and that are coordinated with the labour market and productive sectors. In that regard, ECLAC highlights the strategic role and importance of strengthening TVET programmes. These can form a bridge between secondary-level TVET programmes and more advanced programmes in order to provide continuing education with direct paths to the labour market. From an economic perspective, it is essential to improve the identification, anticipation and closing of gaps in the professional pipeline for countries' productive development in strategic sectors. The disconnect between skill supply and demand highlights the problem of educational relevance, failures to coordinate between the productive and business sectors and the education sector, and a lack of capacity on the part of local businesses to define the skill sets that they require. Qualifications frameworks are one important tool being developed in the region in this regard. A fundamental purpose of these frameworks is to bridge the disconnect between education, professional training and qualification. They encourage the recognition of professional and educational experience with a view to developing education trajectories that avoid dead ends that block access to higher or more specialized levels of education. Meanwhile, skills certification mechanisms should be developed at the regional level to facilitate education and labour inclusion, taking into account the growing migratory flows between the countries of Latin America and the Caribbean.

Learning recommendations have been focused on strengthening the development of cognitive, social and emotional, and digital skills in education systems. Students should receive the necessary preparation to be able to meet the constantly evolving demand for labour, learn to think for themselves and develop the skills that are needed to recognize and develop creative solutions to problems. The strong emphasis on skills development in education systems requires a paradigm shift in order to shed the conception of students as passive actors in teaching and learning processes. Instead, they should be recognized as stakeholders with agency who are capable of resolving complex problems, both individually and collectively. Countries must resume and strengthen the implementation of diagnostic and training assessments to support the measures needed for learning recovery in the wake of the pandemic.

ECLAC also continues to recommend the use of digital tools to support, complement and improve teaching and learning processes. Hybrid education models are particularly useful in the current context, as they provide tools with which to recover from learning losses and address the increased risk of school dropout, as well as expand education coverage, in particular in rural and remote areas. In addition to ensuring effective connectivity, the digital transformation of education requires investment in digital skills development for the education community. This recommendation goes hand in hand with other priorities, such as achieving universal effective connectivity (access to quality Internet service and devices with which to connect); strengthening the role of teachers so that they are empowered to implement a more flexible approach to learning that is dictated by student needs; developing the digital skills of the various stakeholders of the education community (teachers, administrators, caregivers and students); and creating accessible and user-friendly platforms and content. Education management information systems can also be improved with new technological tools.

ECLAC recommends ensuring the financial stability of education systems with strengthened learning institutions to achieve a more efficient and equitable use of resources. In particular, greater investment is required to finance post-pandemic learning recovery measures and strategies to mitigate the potential rise in dropout rates, offer educational alternatives to students who will not return to school, and cover new expenditures on improvements to school infrastructure and equipment to comply with health protocols. In addition, the economic crisis caused by the pandemic, together with decreased household income, could lead to an influx of students from the private sector to the public sector; this too would call for increased investment in infrastructure and equipment. In addition to efforts to secure more resources, countries should take targeted measures to ensure these resources are used more efficiently and equitably.

Lastly, ECLAC recommends that countries advance towards a new social, political and fiscal compact that recognizes and strengthens the role of education in achieving inclusive and sustainable economic and social development to decisively confront the structural causes of inequality in the region. In 2022, the Secretary-General of the United Nations called for transforming education to meet higher purposes in the context of the twenty-first century, which can be grouped into the following four areas: (i) learning to learn; (ii) learning to live together; (iii) learning to do; and (iv) learning to be. Latin America and the Caribbean is the most unequal region in the world, and its education systems, in general, have failed to effectively contribute to social mobility and equal opportunities for all. Therefore, measures must urgently be implemented to narrow gaps, resume learning processes and shift focus towards the pursuit of the objectives laid out in the 2030 Agenda for Sustainable Development, with a view to achieving inclusive and sustainable social development for all (ECLAC, 2022).

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International migration in Latin America and the Caribbean: a development and rights perspective

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Abstract

In Latin America and the Caribbean, where every country is a country of origin, destination, return or transit, international migration is becoming ever more complex and intensive. Migratory flows are increasingly characterized by irregularity; and migrants represent one of the most vulnerable population groups, as victims of stigmatization, discrimination, xenophobia and racism. However, migrants contribute to sustainable development through work, entrepreneurship, remittances and tax payments, in addition to their culture. To enhance these contributions, public policies and migration governance are needed at the multilateral, national and local levels, based on the interaction between migration and development and fulfilment of the countries' human rights obligations.

Keywords

International migration, emigration, migrants, economic conditions, social conditions, employment, social security, human rights, remittances, sustainable development, Latin America and the Caribbean

JEL classification

F22, F24, F53

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I. Introduction

Latin America and the Caribbean is a land of migrations. Migration has accompanied the history and development of the region's countries and is a central dynamic of societies, both current and future. One of the goals of the 2030 Agenda for Sustainable Development (Sustainable Development Goal 10.7) is to facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies. Migrants contribute to development and to economies, because they augment the local labour supply, pay taxes, and send remittances to their families in their countries of origin even in times of crisis, as occurred during the coronavirus disease (COVID-19) pandemic. Migrants also contribute to cultural diversity in their countries of destination; and, to varying degrees in countries with ageing populations, they mitigate intergenerational demographic imbalances, as well as labour shortages in sectors such as agriculture, care and services.

The United States remains the leading destination for regional migratory flows, which are often irregular, as exemplified by the hundreds of thousands of people who venture across the Darién Gap and then continue their journey through Central America and Mexico to that country's northern border. Migration within the region has also increased, as evidenced by the substantial emigration from the Bolivarian Republic of Venezuela. Several South American countries, which until a few years ago were characterized mainly by emigration or did not receive migration, are now important destinations and transit points for migrants, which poses challenges from a humanitarian and public policy standpoint.

International economic asymmetries and inequalities within countries are at the root of migratory movements. These are explained partly by push factors, such as the structural lack of opportunities for decent work, compounded by economic crises, environmental disasters and the effects of climate change, the vicissitudes of democracies, humanitarian crises and violence of all kinds; but also by pull factors, such as greater opportunities for employment and study, along with higher wages, migratory networks and possibilities for family reunification. As noted by Maldonado, Martínez and Martínez (2018, p. 26), individuals who decide to migrate are often exposed to risks in their context of origin that put their safety, quality of life and livelihoods at stake, thereby diminishing their life chances irretrievably. Social and economic inequality thus shapes the framework in which the decision to migrate tends to be made, in pursuit of better living conditions and job opportunities.

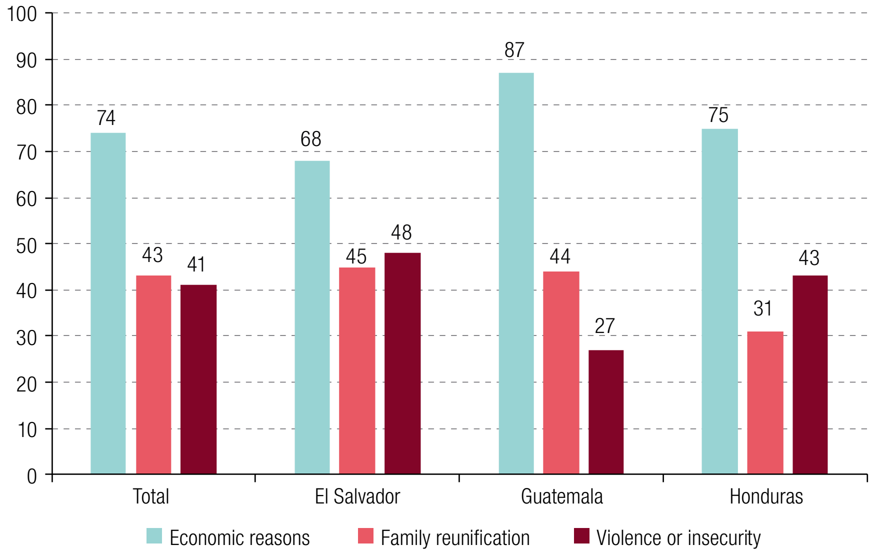
Emigration from northern Central America (El Salvador, Guatemala and Honduras) to the United States, along with flows from Mexico, represents one of the largest migrations in the world and exemplifies the multiple factors that drive the phenomenon (Canales, Fuentes and de León Escribano, 2019; ECLAC, 2019). Migrants often cite economic difficulties, related to insufficient productive capacity and the scarcity of employment and income, among the chief motives for migration, along with family reunification, violence and insecurity (Abuelafia, Del Carmen and Ruiz-Arranz, 2019) (see figure 1).[1]

The vast majority of countries in the region maintain their commitments with respect to the key migration agreement, the Global Compact for Safe, Orderly and Regular Migration. This was adopted in 2018; and, in the same year, it was complemented by the Global Compact on Refugees.[2] In addition, the region's countries exchange ideas and good practices on migration issues in intergovernmental mechanisms —those of South America in the South American Conference on Migration, and those of Central and North America in the Regional Conference on Migration. In 2013, the Montevideo Consensus on Population and Development in Latin America and the Caribbean was approved, which includes a chapter on international migration and protection of the human rights of all migrants.

[1] Economic motives seem to have become even more important during the COVID-19 pandemic (Ruiz and others, 2021; IOM/WFP, 2022).

[2] In 2018, Chile and the Dominican Republic did not adopt the Global Compact for Safe, Orderly and Regular Migration.

Figure 1
El Salvador, Guatemala, and Honduras: main motives cited for migrating to the United States between 2007 and 2017
(Percentages)



Source: Prepared by the authors, on the basis of E. Abuelafia, M. Ruiz-Arranz and G. Del Carmen, *In the footprints of migrants: Perspectives and experiences of migrants from El Salvador, Guatemala and Honduras in the United States*, Washington, D.C., Inter-American Development Bank/United States Agency for International Development (IDB/USAID), 2019.

Note: Data were obtained from a survey of 1,859 migrants over the age of 18 from El Salvador, Guatemala and Honduras who migrated to the United States for the first time between 1 January 2007 and 31 December 2017. The survey asked: what were the two main reasons why you left your country and migrated to the United States for the first time?

Notwithstanding these signs, the panorama is discontinuous, replete with paradoxes and influenced by a political context that reflects tensions and contradictions. Progress has been made in terms of rights-respecting management of migration, through intense dialogue between countries, new institutions, regulatory reforms and public policies that promote access to social protection and combat discrimination, xenophobia and racism. Nonetheless, backlogs or setbacks persist, agreements are ignored, and there are difficulties in fulfilling the obligations assumed, which results in the persistence of vulnerabilities in the migratory process that affect many migrants.

Thus, policies that promote integration, respect for human rights and safe, orderly and regular migration coexist with the hardening of borders, restrictive policies and the anti-migration discourse of certain sectors. This complex scenario, which is aggravated further by the immediate and extended effects of the pandemic, brings with it challenges and opportunities for the design of public policies that put people at the centre and create the conditions for migrants to contribute to sustainable development with all of their capabilities and potential, so as to ensure their safety and dignity and respect for their rights throughout the migration process.

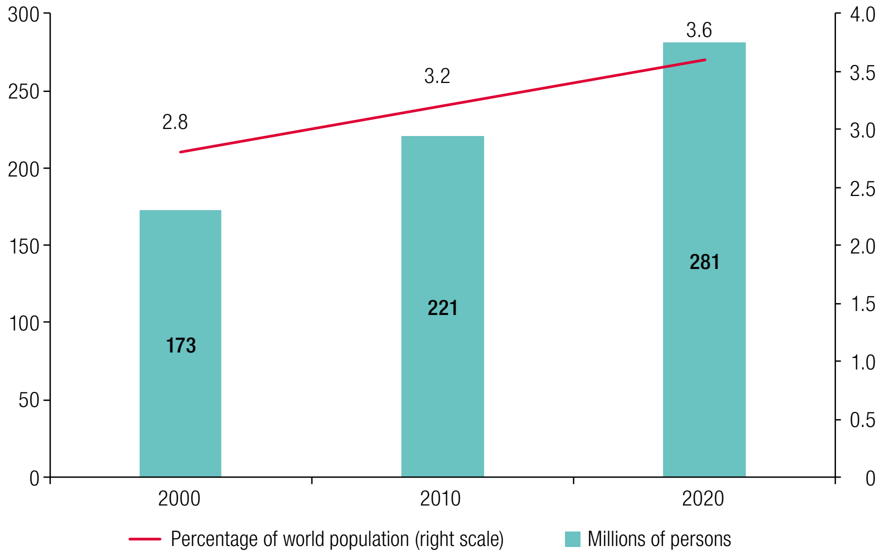
This rest of this article reviews the regional migration panorama and the opportunities and challenges of international migration. First, it analyses the major trends in international migration flows and the growing importance of the intraregional pattern. Then, it highlights the fact that migrants represent one of the most vulnerable population groups in the region's countries, which calls for inclusion policies; and it presents evidence on the contributions that migrants make to sustainable development, both in the receiving countries and in their countries of origin. Lastly, the article concludes with reflections and policy recommendations, from a developmental and rights-based perspective, to implement and enhance these contributions, and thus enable migration to become a matter of free and informed choice, rather than a necessity imposed by deprivation and suffering.

II. Growth of international migratory flows and intraregional migration

International migration is a growing phenomenon in the world, with major economic, social, cultural and political impacts on the countries of origin, transit, destination and return. Although information on migratory flows is relatively scarce, United Nations (2020a) estimates that the volume of international migration has grown persistently worldwide over the past 20 years.

In 2020, the number of people living outside their country of origin reached an all-time high of 281 million (3.6% of the world's total population), compared to 173 million in 2000 (2.8%) and 221 million in 2010 (3.2%) (see figure 2) (United Nations, 2020a).[3] Of the 281 million migrants worldwide in 2020, Latin America and the Caribbean accounted for 43 million, or about 15% of the total (see table 1).[4]

Figure 2
International migrants in the world, 2000, 2010 and 2020
(Millions of persons and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *International Migration 2020 Highlights* (ST/ESA/SER.A/452), New York, 2020.

In 2020, 25.5 million (59.5%) emigrants from the region were living in North America; and almost 5.4 million (13%) were living in Europe, mainly in Spain (3.3 million). In addition, an estimated 11.3 million emigrants from Latin American and Caribbean countries were living elsewhere in the region (26% of the total), of whom 9.1 million were in South America (United Nations, 2020b).[5]

Between 2000 and 2020, Latin America and the Caribbean experienced the highest relative growth of intraregional migration worldwide (+72%) (see figure 3). During this period, several countries went from being net emitters to net receivers of population, including people in transit, with migrant

[3] Global estimates of the international migrant population are based mainly on data obtained from population and housing censuses on the respondents' country of birth. In this sense, an international migrant is defined as anyone who changes his or her country of usual residence for a period of at least one year; but countries use different criteria to identify international migrants for statistical purposes, which affects comparability. Some countries define a migrant by country of birth (as is often the case in the region), while others use nationality (as in Europe).

[4] Persons who were born in a Latin American or Caribbean country but live in another country, whether in the same region or elsewhere.

[5] A total of 14.8 million migrants were living in Latin American and Caribbean countries in 2020; 11.3 million were migrants from other countries within the region, and 2.7 million were individuals born in Europe or North America (United Nations, 2020b).

numbers growing to unprecedented levels relative to national and some subnational populations. Moreover, migrant populations within the region have outpaced extra-regional movements. This has been particularly noticeable during the last 10 years and, especially, in the last five, when the migrant population within the region almost doubled (see figure 4). However, the greater growth of intraregional migration has not significantly altered the main structural feature of the region's migratory process, in which the largest volume of migration outside the region takes place from Mexico and Central America to the United States.

Table 1

Estimated number of migrants by destination and origin in each region, 2020

Region	Destination				Origin	
	Number of migrants	Percentage of the population	Number of refugees and asylum seekers	Percentage of migrants who are women	Number of migrants	Percentage of the total
Sub-Saharan Africa	22 221 538	2.0	5 893 738	47.6	28 284 538	10.1
North Africa and West Asia	49 767 746	9.5	13 481 636	35.8	37 563 820	13.4
Central and South Asia	19 427 576	1.0	3 569 787	49.9	51 229 549	18.3
East and Southeast Asia	19 591 106	0.8	656 437	49.4	38 400 740	13.7
Latin America and the Caribbean	14 794 623	2.3	4 797 904	49.5	42 890 481	15.3
Oceania[a]	313 069	2.5	11 042	47.1	565 281	0.2
Australia and New Zealand	9 067 584	29.9	157 455	50.6	1 404 924	0.5
Europe and North America	145 414 863	13.0	5 239 796	51.7	67 601 621	24.1
World totals	280 598 105	3.6	33 807 795	48.1	280 598 105	100.0

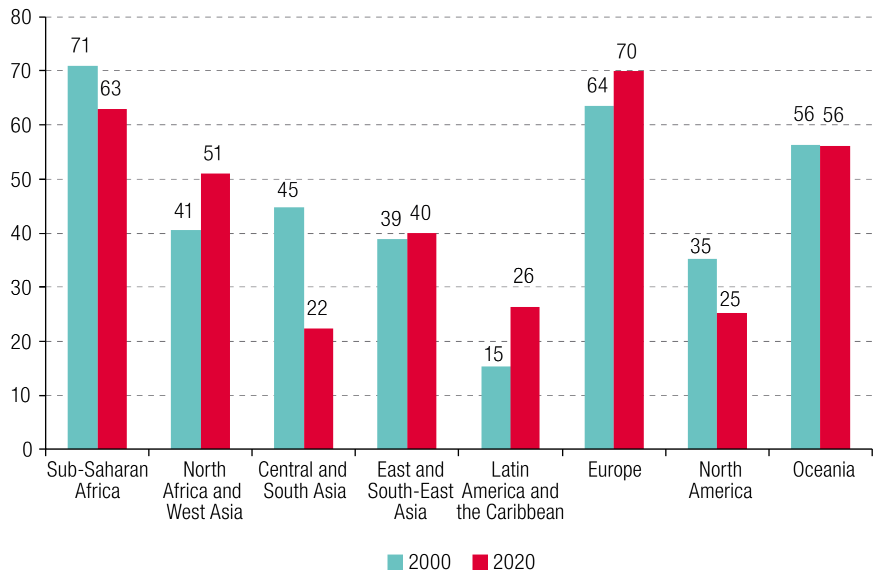
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, "International Migrant Stock 2020" [online] https://www.un.org/development/desa/pd/es/content/international-migrant-stock.

[a] Excludes Australia and New Zealand.

Figure 3

Intraregional migrants as a proportion of total migrants, by region of origin, 2000 and 2020

(Percentages)

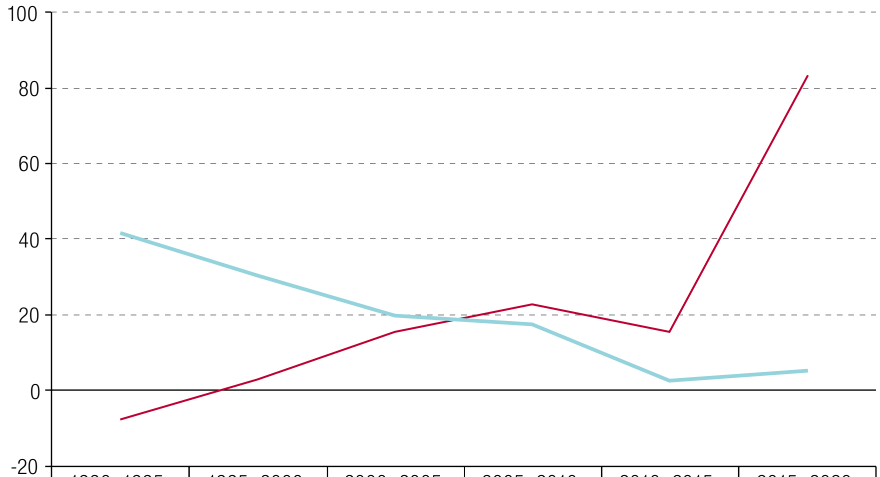


Source: United Nations, "International Migrant Stock 2020" [online] https://www.un.org/development/desa/pd/es/content/international-migrant-stock.

Figure 4

Latin America and the Caribbean: five-year variation in the region's migrant populations, by settlement within or outside the region, 1990–2020

(Percentages)



	1990–1995	1995–2000	2000–2005	2005–2010	2010–2015	2015–2020
Intraregional	-7.8	2.9	15.4	22.6	15.4	83.2
Extraregional	41.7	30.3	19.8	17.3	2.5	5.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, "International Migrant Stock 2020" [online] https://www.un.org/development/desa/pd/es/content/international-migrant-stock.

The growth of intraregional migration is being driven largely by emigration from the Bolivarian Republic of Venezuela. The Interagency Coordination Platform for Refugees and Migrants from Venezuela (R4V, 2023) estimated that there were 6.1 million Venezuelan migrants and refugees in the region in June 2023, living mainly in Brazil, Colombia, Chile, Ecuador and Peru.[6] Traditional cross-border migration also continues, the most numerous cases of which have been migrants from Haiti to the Dominican Republic, from Nicaragua to Costa Rica, from the Plurinational State of Bolivia and Paraguay to Argentina and, until a few years ago, from Colombia to the Bolivarian Republic of Venezuela.

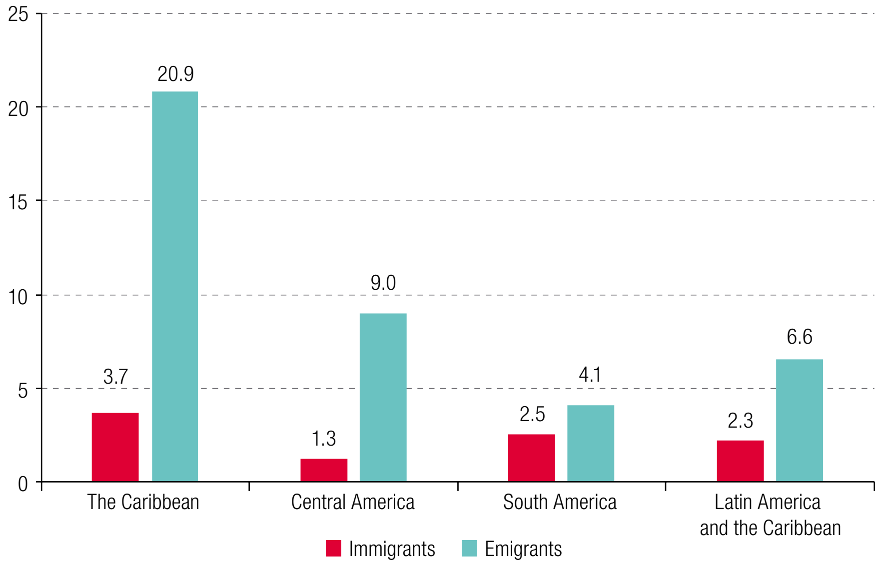
The Caribbean subregion has one of the largest diasporas in the world relative to its population, estimated at more than 9 million emigrants in 2020, representing more than 20% of the total population (see figure 5 below).[7] The largest diasporas in absolute terms are, in decreasing order, those of Puerto Rico, Haiti, Cuba, the Dominican Republic and Jamaica. While most of the migrant population from this subregion are in the United States and Canada; the flow from Haiti to South America, mainly Brazil and Chile, has also been substantial.

In Latin America and the Caribbean, international migration in the twenty-first century has been characterized by an increase in flows, and by their diversity and complexity. Current flows, defined by some agencies of the United Nations system as mixed movements, include economic migrants, environmental migrants, forced or involuntary migrants, asylum seekers, refugees, undocumented migrants, victims of smuggling or trafficking and stranded migrants, unaccompanied children and adolescents, among others (ECLAC, 2019; IOM, 2019). The chief characteristic of mixed movements is the irregular and vulnerable status of many of the individuals affected.

[6] R4V (2023) indicates that the total number of Venezuelan refugees, migrants and asylum seekers reported abroad by the host-country governments —many of which probably do not include irregular migrants— amount to more than 7.3 million.

[7] The Caribbean countries have the largest numbers of emigrants relative to their national populations. For example, the number of emigrants from Montserrat is five times that of its national population, from Dominica it is double, and from other countries (Antigua and Barbuda, Guyana, Puerto Rico, Saint Kitts and Nevis, Saint Vincent and the Grenadines) it is 50% or more.

Figure 5
Latin America and the Caribbean: immigrants and emigrants as a percentage of the population, by subregion, 2020



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, "International Migrant Stock 2020" [online] https://www.un.org/development/desa/pd/es/content/international-migrant-stock.

Migratory flows were not halted by the COVID-19 pandemic, as many migrants continued to head to their destinations, despite the restrictions that were imposed. However, the imposition of border closures in several countries and changes in the migration policy of the United States increased involuntary return flows and contributed to trafficking, smuggling and irregularity (ECLAC, 2022b).[8]

In transit to the United States, migration has involved caravan-type movements and unaccompanied children and adolescents in Central America and Mexico. There has also been a marked increase in the flow of migrants through the Darién Gap, one of the most dangerous migration routes in the world (in 2022 there were around 250,000 irregular entries, almost double the number in 2021). In the first four months of 2023 alone, there have been around 128,000 irregular entries through the Darién Gap (National Migration Service of Panama, 2023). In South America, there are also other irregular routes, such as the Colchane border crossing on the Chilean-Bolivian altiplano, which has claimed lives (ECLAC, 2022b). These routes have generated profitable business for human traffickers, often linked to organized crime (Armijo and Benítez, 2016; Badillo and Bravo, 2020).

III. The vulnerability of migrants

Migrants, particularly recent arrivals, are one of the most vulnerable population groups in the region's countries, facing difficulties in obtaining decent work, social protection, health, education and housing. The vulnerability of migrants in the destination countries involves barriers to regularizing their status, the main gateway to the recognition of their rights, as well as sociodemographic characteristics that act as markers, such as age, sex, educational level, ethno-racial affiliation or family status. Irregular migrants, in particular, are highly vulnerable to criminal organizations that take advantage of them for sexual or labour exploitation (Maldonado, Martínez and Martínez, 2018). This is compounded by the

[8] Nonetheless, according to United Nations estimates (2020a), the pandemic could have reduced the number of international migrants by about 2 million people globally by mid-2020.

lack of recognition of these individuals as agents who contribute to societies, cultures and economies, in addition to the persistent stigmatization, discrimination, xenophobia, racism and aporophobia to which this population is subjected.[9]

One area in which there are clear gaps between the native population and migrants (particularly those in an irregular situation) is access to formal employment and, consequently, to social protection. In Latin America and the Caribbean, the shortage of decent jobs is an exacerbated feature of migrant employment, and is related to the difficulties of regularization and the lack of institutions that facilitate labour market inclusion. Carrasco and Suárez (2019) study seven countries in the region (Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Mexico, and Uruguay) and find that, although in some cases the employment rate among migrants may be higher than among the native population, migrant workers, both male and female, are less likely to have skilled jobs (using control variables such as sex, age and education in the analysis).

High levels of informality and lack of social protection undermine social cohesion and impact migrants' access to rights and better living conditions. In Peru, eight out of 10 employed migrants were working in the informal sector in 2019 (Vásquez and Aguilar, 2022); and, in Costa Rica, 58.7% of employed migrants carried on their activities in that sector, compared to 45.6% of non-migrants (see figure 6). The areas of activity with the highest proportions of informally employed migrants in Costa Rica are construction (78.7%), other service activities (79.4%) and paid domestic work (74%) (Oviedo, 2022). Another issue is skill-based underemployment among migrants, which occurs when migrants with high levels of education are unable to obtain high-skilled jobs (Carrasco and Suárez, 2019), because they face obstacles in validating their studies. In Peru, only 8.3% of the refugee and migrant population coming from the Bolivarian Republic of Venezuela with higher education degrees have validated them (INEI, 2022). Similarly, in Chile in 2022, only 12% of migrants had validated their higher education studies, because the revalidation process has complex requirements, is costly and subject to long delays (54% of those who validated their degree took more than six months to do so) (World Bank and others, 2022).

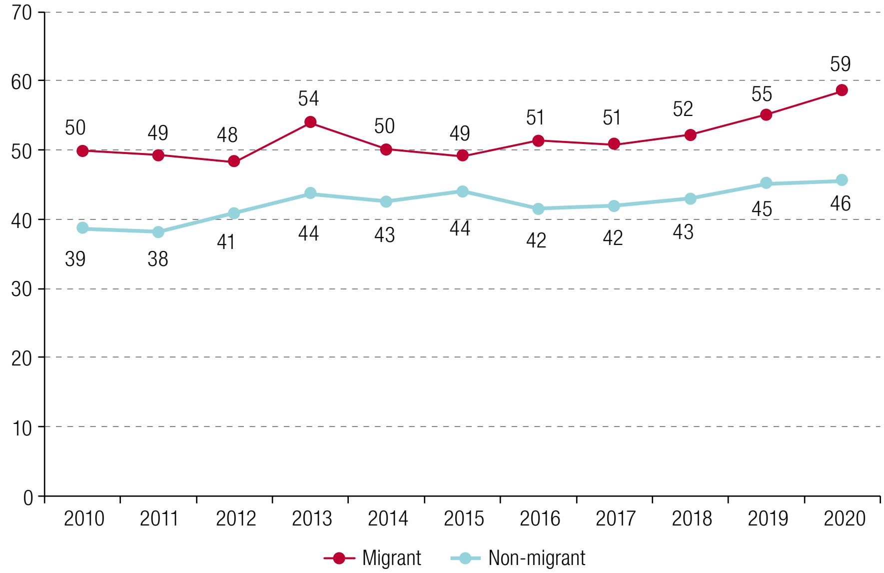
The shortage of decent jobs for migrants is a persistent problem that worsened during the COVID-19 pandemic, even though the work of migrants on the front line was critical during lockdown periods and highly useful in the health emergency. Many migrants were employed in occupations with the highest risk of contagion, as they supported health centres, morgues and cleaning services, as well as working in areas related to home delivery services and paid domestic work (ECLAC, 2022a). In addition, while the pandemic led to significant job losses, it revealed how certain sectors of production rely on migrant labour. For example, in Costa Rica, mobility restrictions harmed the agriculture sector significantly, which led to the decision to relax the conditions on migrant workers entering the country to contribute to harvesting work, through the Binational Agreement to Regulate the Temporary Hiring of Nicaraguan Workers in Costa Rica (ECLAC, 2022a).

The worsening of access to decent work is reflected in higher poverty rates among migrants. Although indicators calculated from household surveys, which are subject to sampling error, are not always representative of the migrant population (Gutiérrez and others, 2020), ECLAC (2019) was able to compare income poverty rates between migrants —defined as persons who live in a country other than that of their birth, regardless of their year of arrival— and non-migrants in nine countries in the region. Controlling for a set of sociodemographic factors, such as age, sex, education, activity, area of residence, household structure and basic deprivations associated with housing and employment, a probit regression model found a heterogeneous relationship across countries. In Chile, Colombia, Costa Rica, the Dominican Republic and Ecuador, poverty was between 3.9 and 5.9 percentage points higher among migrants than among non-migrants; in Brazil and Guatemala it was higher among non-migrants; and

9 In Chile, in 2022, 30% of migrants reported having suffered discrimination on the basis of their nationality (World Bank and others, 2022). Moreover, a growing number of studies on Venezuelan migration report manifestations of racism and xenophobia in border and urban areas (Acosta, Blouin and Freier, 2019).

in Argentina and Panama no statistically significant differences were found (ECLAC, 2019). However, it would be useful to be able to differentiate poverty levels not only between migrants and non-migrants, but also between recent and longer-term migrants, since it can be assumed that recent arrivals are those who face the highest levels of poverty and vulnerability.[10]

Figure 6
Costa Rica: informal employment by migratory status, 2010–2020
(Percentages)



Source: L. Oviedo, "Contribuciones de la migración reciente al desarrollo sostenible: el caso de Costa Rica", *Sobre las contribuciones de la migración al desarrollo sostenible: estudios en países seleccionados*, Project Documents (LC/TS.2021/195), J. Martínez and M. Cano (eds.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022; on the basis of National Institute of Statistics and Censuses, Continuous Employment Survey.

IV. Contributions made by migrants to the receiving countries

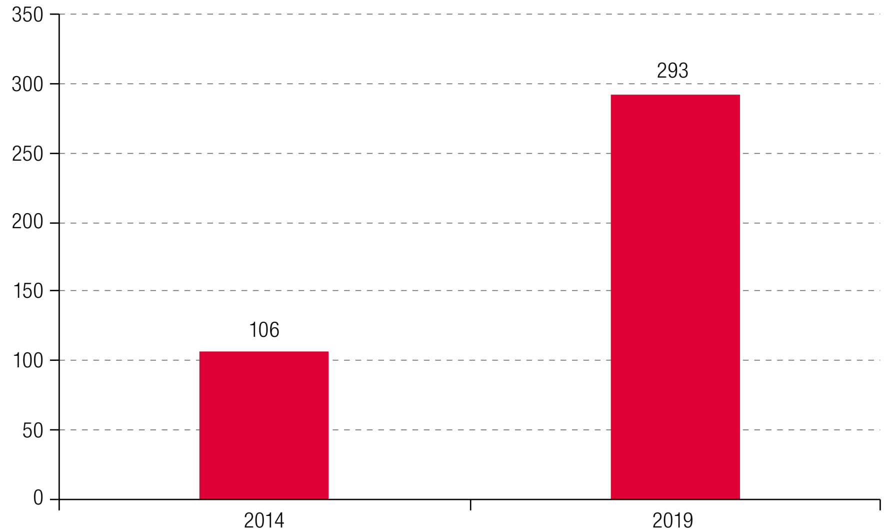
International migration makes significant contributions to sustainable development, through economic growth for example, and in other dimensions including demographics and culture. Migrants contribute to GDP growth in the destination countries through their work, entrepreneurship, innovation and tax payments. Moreover, as several of the region's countries are at an advanced stage of population ageing, exchanges of working-age population are likely to be necessary to make up for labour shortages that are emerging in crucial sectors of their economies (Martínez and Cano, 2022). This is an affirmative and comprehensive perspective, going beyond the evaluations of costs and negative impacts that were common among some authors in the field of migration and development relations and tend to be used in public debate (Delgado-Wise, 2014).

A study by the Economic Commission for Latin America and the Caribbean (ECLAC) on the contributions of migration to sustainable development (Martínez and Cano, 2022) revealed several examples in the economic domain. In Chile, it is estimated that Latin American and Caribbean migrants contributed 11.5% to economic growth between 2009 and 2017, despite representing only 6.5% of the employed labour force in the latter year (Canales, 2022). In the case of Costa Rica, the total contribution

[10] Gutiérrez and others (2020) find that, around 2017, household surveys in 16 out of 18 countries in Latin America make it possible to identify migrants, and 15 of them distinguish recent migrants. However, the sample sizes of the vast majority of surveys to small to measure poverty in a way that distinguishes between recent and longer-term migrants.

of migrant labour to economic growth increased in the last decade, from 8.7% between 1999 and 2008 to 9.3% between 2010 and 2019 (Oviedo, 2022). Similarly, in Peru, a country that has historically had negative net migration, the arrival of Haitians, Venezuelans and Colombians in recent years has fuelled economic growth and boosted the public finances. The share of revenue from general sales tax (IGV) paid by immigrants through their purchases of taxed consumer goods, almost tripled between 2014 and 2019, rising from 106 to 293 million soles (see figure 7) (Vásquez and Aguilar, 2022).

Figure 7
Peru: contribution of the migrant population to revenue from General Sales Tax (IGV), 2014–2019
(Millions of soles)

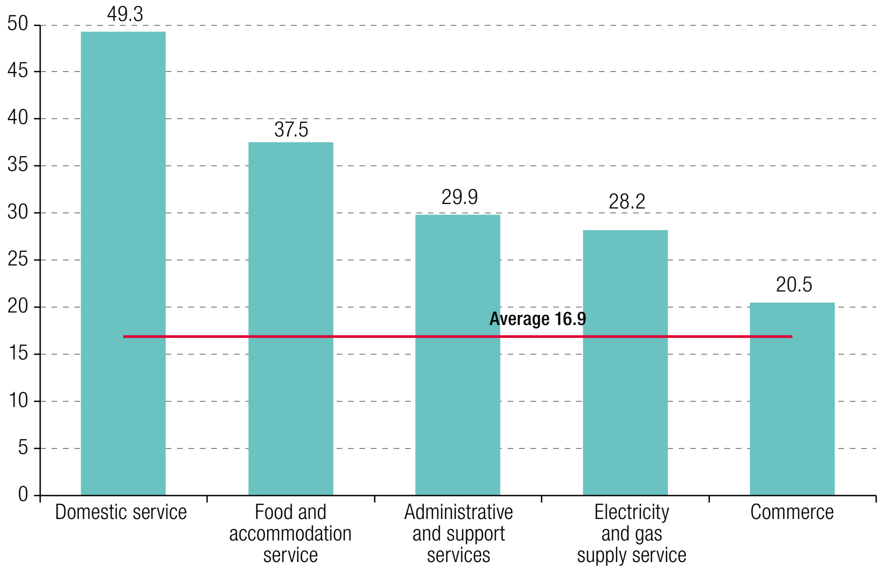


Source: Prepared by the authors, on the basis of T. Vásquez and D. Aguilar, "Contribuciones de las migraciones recientes al desarrollo sostenible: el caso de Perú", *Sobre las contribuciones de la migración al desarrollo sostenible: estudios en países seleccionados*, Project Documents (LC/TS.2021/195), J. Martínez and M. Cano (eds.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022; National Institute of Statistics and Informatics, National Household Survey.

Migrants have also played indispensable front-line roles in response to the COVID-19 pandemic, in key sectors such as health or care services (ECLAC, 2022b). In June–August 2020, in the Santiago Metropolitan Area, migrant workers (17% of the total labour force) contributed almost 50% of persons employed in paid domestic work, an essential occupation for the care of children and older persons in lockdown and mandatory quarantine situations. Migrants also contributed more than proportionately to the employed labour force supporting the population's subsistence in the face of mobility restrictions —in activities such as food preparation and distribution services, the supply and distribution of essential gas and electricity services, and commerce (see figure 8) (Canales, 2022).

Lastly, in the case of Venezuelan migration, the immediate interpretation is that the size of this group exerts significant short-term pressure on social protection systems, the delivery of services, the labour market and social dynamics in the receiving areas. However, the World Bank (2018) notes that migrant inclusion policies aimed at reducing their vulnerability can stimulate economic growth in the destination countries in the medium and long terms. The International Monetary Fund (IMF) also points out that the receiving countries have benefited macroeconomically from the boost to domestic demand and the increased labour force resulting from the inflow of Venezuelan migrants. The Fund estimates that these migration flows have raised annual GDP growth in the main receiving economies (Chile, Colombia, Ecuador and Peru) by between 0.10 and 0.25 percentage points on average since 2017 (Álvarez and others, 2022).

Figure 8
Chile (Santiago Metropolitan Area): occupations with the largest share of migrant workers, June–August 2020 quarter
(Percentages)



Source: A. Canales, "Estudio de las contribuciones de las migraciones recientes al desarrollo sostenible: el caso de Chile", *Sobre las contribuciones de la migración al desarrollo sostenible: estudios en países seleccionados*, Project Documents (LC/TS.2021/195), J. Martínez and M. Cano (eds.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022; on the basis of National Institute of Statistics, New National Employment Survey, June–August 2020.

V. Contributions made by migrants to their countries of origin: remittances

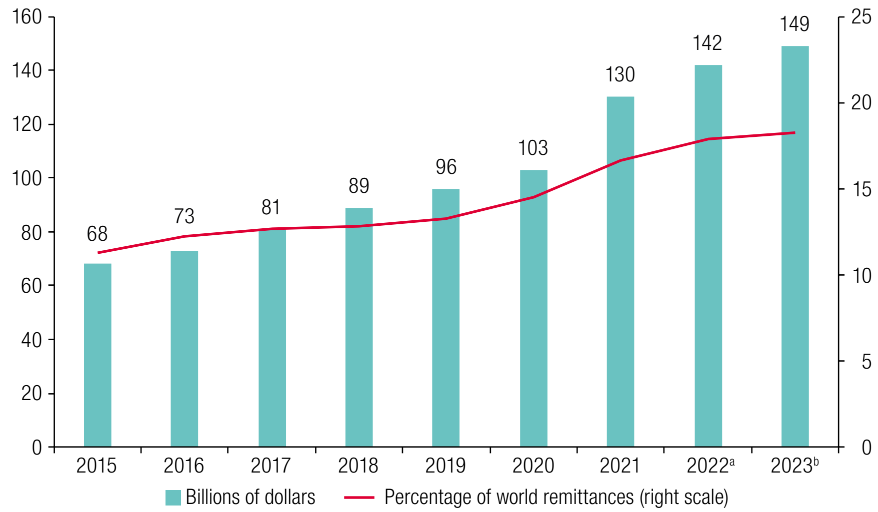
Migrants also contribute to their countries of origin in several ways, for example by sharing their experiences in areas such as entrepreneurship and private investment projects, or research networks with study and technology centres. In this context, communities abroad can be an important resource for the country of origin; and this is made highly visible through remittances, which are income transfers from abroad that contribute to financing the basic needs of the recipient households.

In 2022, the World Bank estimated remittances received in Latin America and the Caribbean at US$ 142 billion. Mexico continues to be the main recipient, accounting for about 42% of remittances received in the region. In this country, however, remittances account for a much smaller share of GDP (4.2% in 2022) than in other countries, where they represent about one-fifth or more: El Salvador (23.8% of GDP), Guatemala (19.8%), Haiti (22.5%), Jamaica (21.2%) and Nicaragua (19.9%) (World Bank, 2022).

World Bank data (2022) show that both the total amount of remittances received by Latin American and Caribbean countries and their share of the world total have increased consistently over the last decade. During the COVID-19 pandemic, remittances displayed considerable resilience, with flows to Latin America and the Caribbean growing by 26% between 2020 and 2021 and by 9.3% between 2021 and 2022. In 2023, the region is projected to receive 18% of total global remittances (see figure 9).

In the region, remittances are decisive for alleviating poverty among the persons receiving them, and they have a differentiated impact on the overall poverty rate. The information available from household surveys makes it possible to analyse the extent to which the income received from remittances contributes to poverty reduction, both relative to the national total population (see figure 10A) and in the households that actually receive this type of transfer (see figure 10B). The aggregate contribution of remittances to poverty reduction is up to 2 percentage points higher in countries in which a relatively large proportion of households report having received remittances, such as the Dominican Republic where this is close to 9%, and El Salvador and Honduras, where over 15% of households receive income of this type. The effect on recipient household poverty is greatest in the Dominican Republic, where the poverty rate in this group would be almost double in the absence of remittances (ECLAC, 2019).[11]

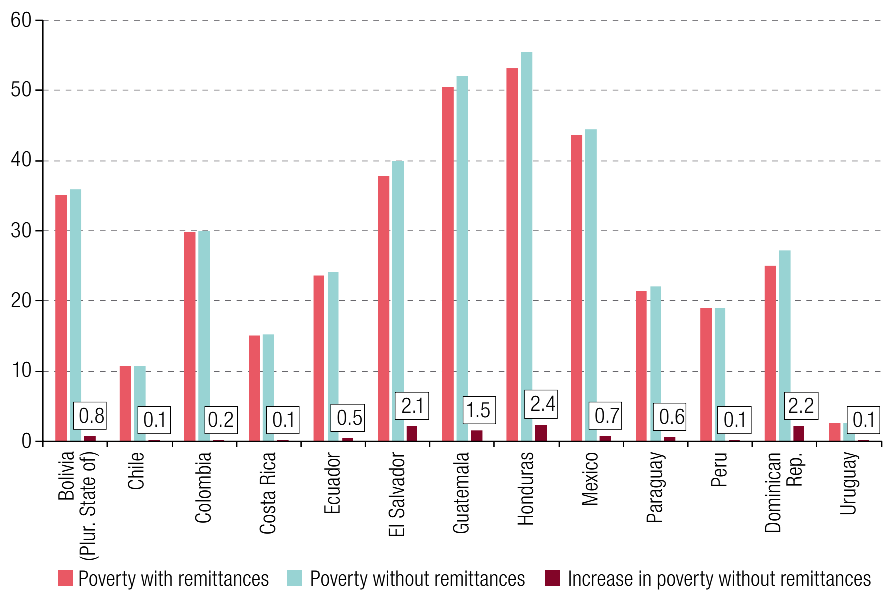
Figure 9
Remittance flows to Latin America and the Caribbean
(Billions of dollars and percentages of total world remittance flows)



Source: Prepared by the authors, on the basis of World Bank, "Remittances brave global headwinds. Special focus: climate migration", *Migration and Development Brief*, No. 37, Washington, D.C., 2022.
[a] Estimate.
[b] Projection.

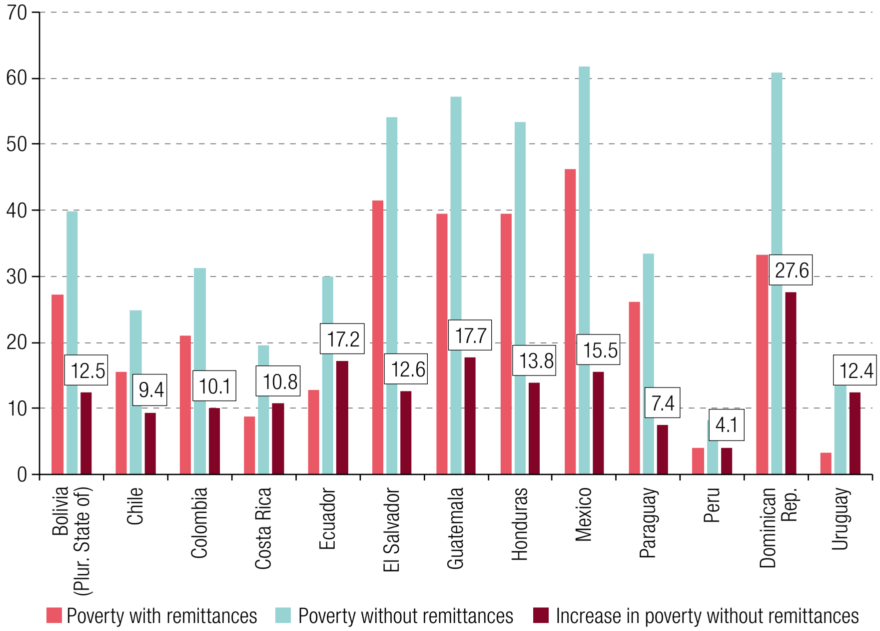
Figure 10
Latin America (13 countries): poverty rate with and without remittances, total population and remittance-receiving households, national totals, around 2017
(Percentages)

A. Total population



[11] It is also important to note that households receiving remittances are distributed across the five per capita income quintiles. In seven of the 13 countries analysed, the proportion of households receiving remittances tends to be higher in the middle- and high-income groups (ECLAC, 2019, p. 205).

B. Remittance receiving population



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

VI. Final thoughts

This article has reviewed the broad outlines of the very complex panorama of regional migration, highlighting its main characteristics, and some of the many challenges and opportunities it poses for public policies and the international agreements and instruments that underpin the migration architecture. The latter include the Global Compact for Safe, Orderly and Regular Migration, the 2030 Agenda for Sustainable Development and the Montevideo Consensus on Population and Development in Latin America and the Caribbean. As ECLAC has noted, the challenges of international migration clearly must be addressed multilaterally, and that “managing international migration requires a regional approach, establishing shared responsibilities among States and taking into account the entire migration cycle and conditions and processes for the departure, transit and destination of migrants” (ECLAC, 2022a, p. 31).

It cannot be denied that migration has left —and will continue to leave— a deep social imprint, as a force for structural change that has marked the future of nations and the lives of those who migrate. This essentially multidimensional process is accompanying demographic, economic, political and cultural transformations in the countries of the region, and will continue to do so in the future. In the context of public attacks that highlight the negative externalities of the migratory processes, fuelling racism and xenophobia, ECLAC has for decades promoted the triad of migration, development and human rights. This triad needs to be reinforced, defended and promoted, as a basis for free and informed decisions by migrants to contribute to their host societies, and for supporting countries in the multilateral sphere of migration governance. Protecting the rights of migrants makes it possible to address vulnerabilities in the migration cycle; it also helps create conditions for the process to be genuinely safe, orderly and regular; and it benefits societies by preventing the undesired effects of immigration.

The contributions made by migrants to sustainable development in the countries of the region range from the expansion of labour markets and economic growth to the creation of more rejuvenated and culturally diverse societies (ECLAC, 2019; Martínez and Cano, 2022). These contributions can be extended in two ways. Firstly, migrants should be integrated into their territories of residence and into public social services, to guarantee their access to social protection, basic health coverage, suitable housing conditions and opportunities to maintain schooling for children and adolescents. Secondly, it is important to recognize, encourage and increase the contribution made by migrants to sustainable development, especially by promoting labour inclusion, with policies that permanently address the regularization of migration status, and measures to address labour informality and make it easier for them to validate their studies and have their skills recognized. When migrants join the local labour supply, it is also important to prevent their greater vulnerability from giving rise to abuses that weaken or segment the labour market and foster inequality (ECLAC, 2022a).

The need to integrate migrants socially and economically at the local level is increasingly important, because direct entry into the territories is what largely determines the experience of migrants and how the receiving populations perceive them. Territories and local communities will benefit by managing migration with a development and rights-based approach, through comprehensive policy solutions based on dialogue between multiple actors —governments, employer associations, migrant organizations and civil society organizations— that work to combat discrimination and foster the inclusion of migrants.

The countries of the region have examples of regularization policies that need to be extended and adopted on an ongoing basis, as a necessary but not sufficient, nor the only, condition to promote the full inclusion of migrants (Cerrutti and Penchaszadeh, 2023). A clear example of the efforts made by some countries to regularize migrants and thus enable them to access decent work, protection and social services, is the Temporary Protection Statute for Venezuelan Migrants, which was established in Colombia in 2021. This mechanism, which complements the international refugee protection regime, includes a Single Registry of Venezuelan Migrants (which by late 2022 included about 2.5 million people) and a Temporary Protection Permit; and it offers the Venezuelan migrant population the possibility of moving from a temporary protection regime to an ordinary migration regime (R4V, 2022).

The pandemic elicited examples of good practices in terms of respect for the rights of migrants, exceptions to border closures for workers in agricultural activities considered a basic necessity, or the possibility of humanitarian transit for migrants and asylum seekers.

In conclusion, in the face of a migration narrative that emphasizes issues of security and irregularity, and which often criminalizes all migrants, public policy needs to promote an affirmative approach. This should demonstrate the benefits of migration for local populations, address discrimination and prejudice, and recognize, facilitate and promote the realization of the contributions made by migration to sustainable development, fostering both the design of more migrant-inclusive public policies and better migration management.

Thus, to empirically demonstrate the contribution made by migrants to sustainable development and to fulfil the first of the 23 objectives of the Global Compact for Safe, Orderly and Regular Migration ("to collect and utilize accurate and disaggregated data as a basis for evidence-based policies"), national capacities for producing appropriately disaggregated data on international migration need to be strengthened. This could be achieved through traditional data sources —such as population and housing censuses, household surveys and administrative records— or through non-traditional ones, and through better coordination among the institutions responsible for producing such data (ECLAC, 2023). At the same time, it is essential to apply qualitative methodologies to complement, make visible and deepen the elements that quantitative data fail to elucidate. This will improve the knowledge base and give rise to recommendations that will nurture public policies on inclusion, in the framework of an affirmative vision of migration that recognizes its contribution to sustainable development.

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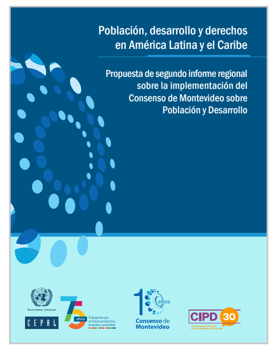

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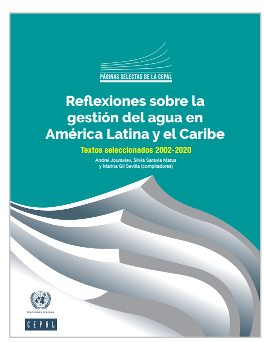

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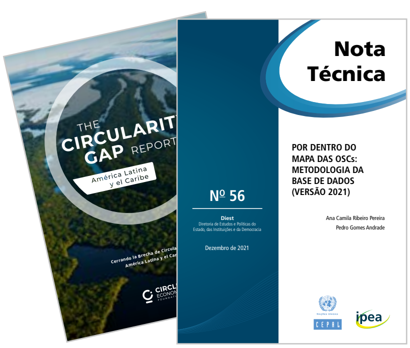

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