



Fortieth session  
of ECLAC

Lima, 9–11 October

**2024**



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# Development Traps in Latin America and the Caribbean

## Vital Transformations and How to Manage Them

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ECLAC proposes rethinking, reimagining and transforming the development models of Latin America and the Caribbean.

This is more than a position document; it is a call for greater pragmatism and effectiveness in charting a course towards a brighter future in a region of peace that is committed to democratic development and to stronger multilateralism and international cooperation.

# Structure of presentation

- I. Globalization redefined
- II. The three development traps and eleven vital transformations
- III. The challenge of managing transformations
- IV. How to achieve stronger, sustained, inclusive and sustainable growth?
- V. How to reduce inequality and promote inclusion and social mobility?
- VI. How to promote sustainability and address climate change?
- VII. How can domestic and international financing for development be mobilized?
- VIII. Final remarks



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# **I. Globalization redefined**

# New scenarios in globalization, geoeconomics and geopolitics are emerging

## Previous scenario

- Near supremacy of **market forces** and **efficiency**.
- **Faith in interdependence**.

- **Geographical configuration** of global supply chains shaped by cost reduction.

- **Global governance based on** broadly applied and accepted **rules** and conflict-resolution mechanisms.



## Current scenario

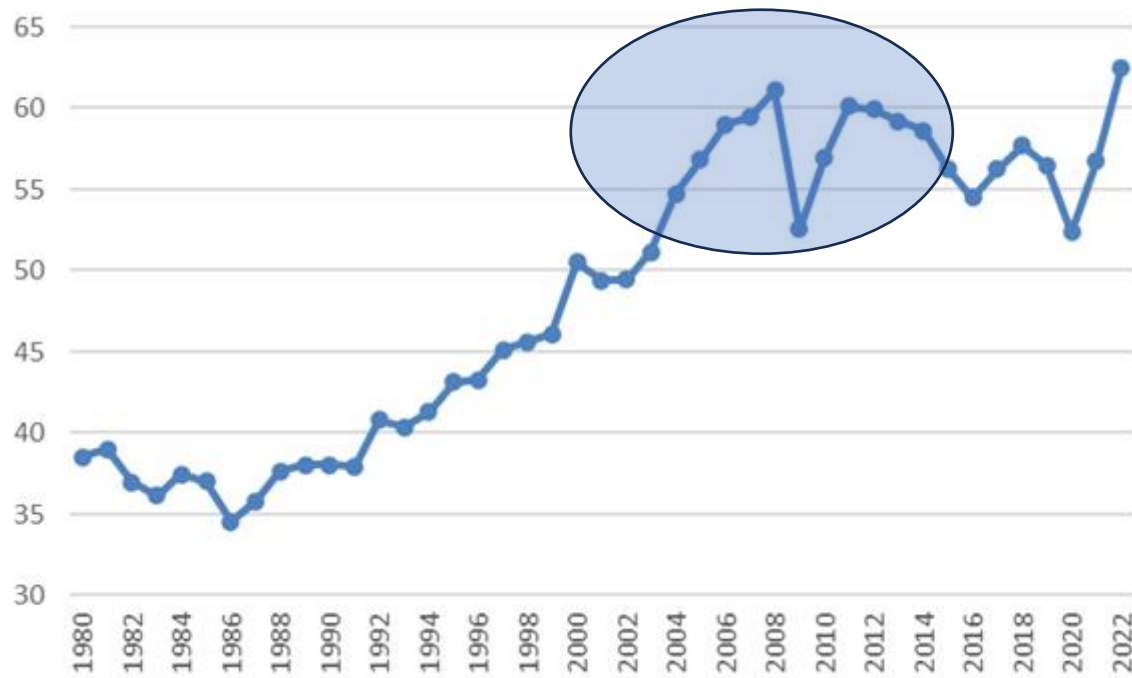
- **Security** dominates conversations around national policy and the global economic system (e.g. energy, food, supply chains).
- Countries prioritize pursuit of technological and industrial leadership (tariffs, subsidies).

- **Interdependence is regarded with scepticism**.
- Major restructuring of supply chains (de-risking, nearshoring, friendshoring).

- Transition towards a **new set of rules** (trade, investment, environment), in which **security concerns** are paramount.
- Prevalence of unilateral measures (e.g. tariffs, subsidies), collapse of rules-based order, and impunity.

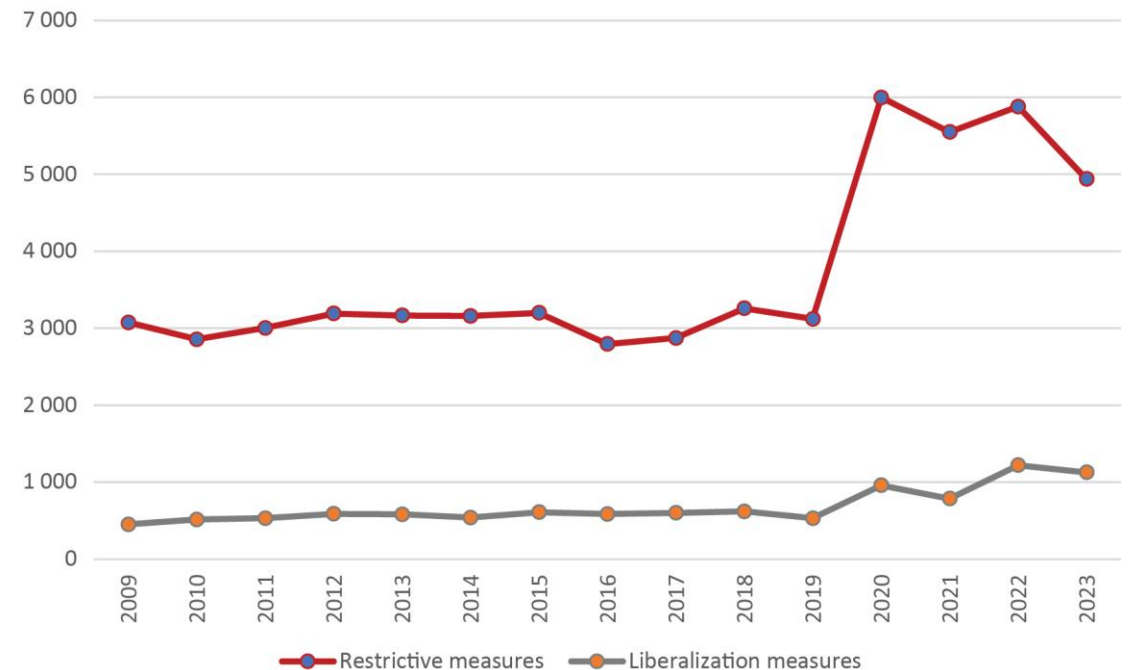
# New scenario: Slower growth in trade and investment flows than before the financial crisis, and increase in restrictive trade measures

**Total trade in goods and services as a share of global GDP,  
1980–2022**  
(Percentages)



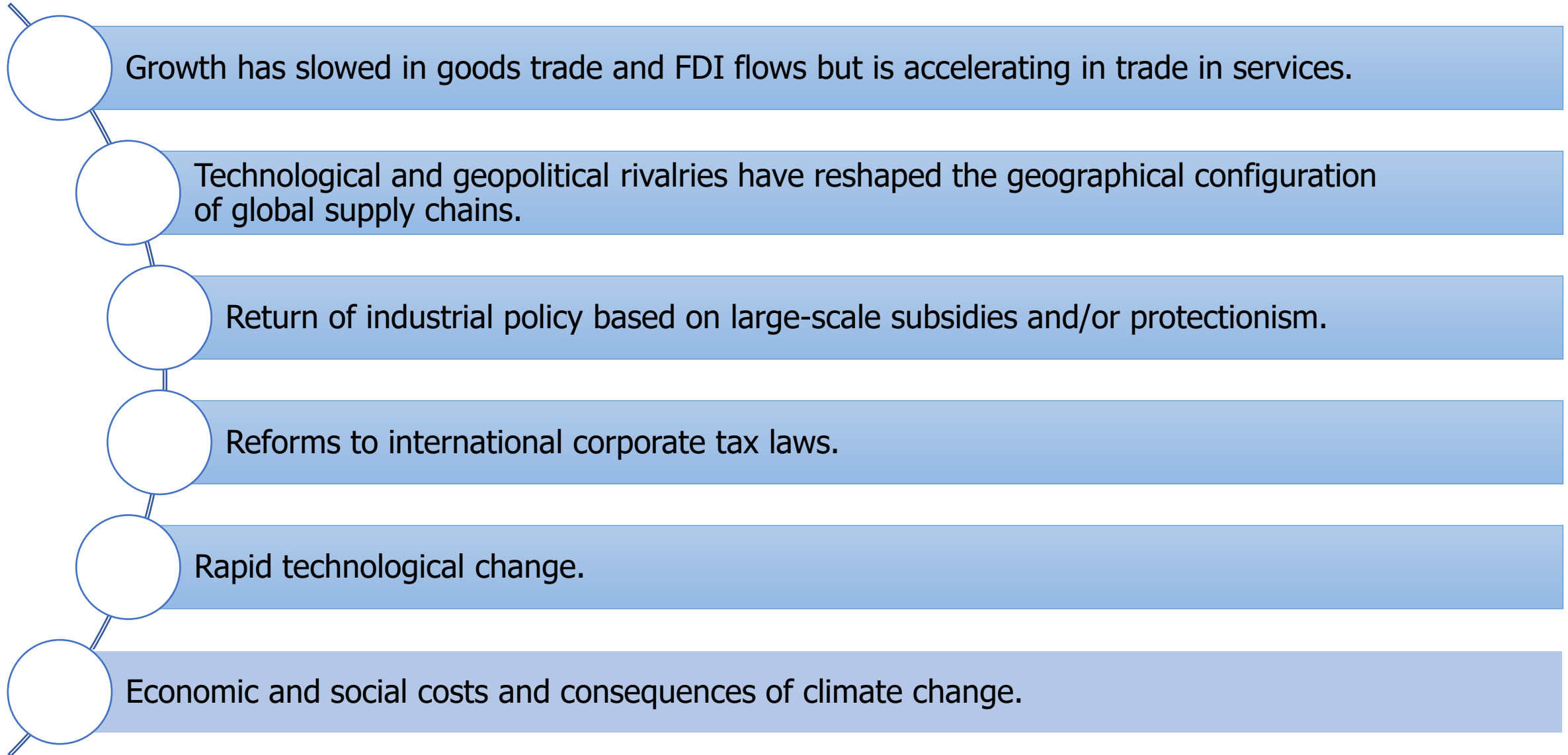
**Source:** World Bank database, “World Development Indicators (WDI)”  
[online] <https://datatopics.worldbank.org/world-development-indicators/>.

**New restriction and liberalization measures  
implemented worldwide, 2009–2023**  
(Number of measures)




**Source:** Global Trade Alert (GTA) [online] <https://www.globaltradealert.org/>.

# Main characteristics of redefined globalization



# Implications and challenges for the region



How to navigate geopolitical and trade conflicts as a region: alignment? equidistance? non-alignment?

How to compete in attracting FDI and stimulating domestic investment?

How to reconcile technological and productive development with technological rivalry between blocs (telecommunications and electricity networks, information systems, artificial intelligence)?

Triple funding challenge related to climate change: repairs to damage, adaptation, mitigation.

How to present a more united regional front in global forums?

Opportunities will not come to fruition alone; they will require active policies for productive development, FDI attraction and international cooperation and partnership, starting at the intraregional level.

Growing polarization is testing institutional capacities to channel, manage and regulate social and political conflicts at the national, regional and global levels.





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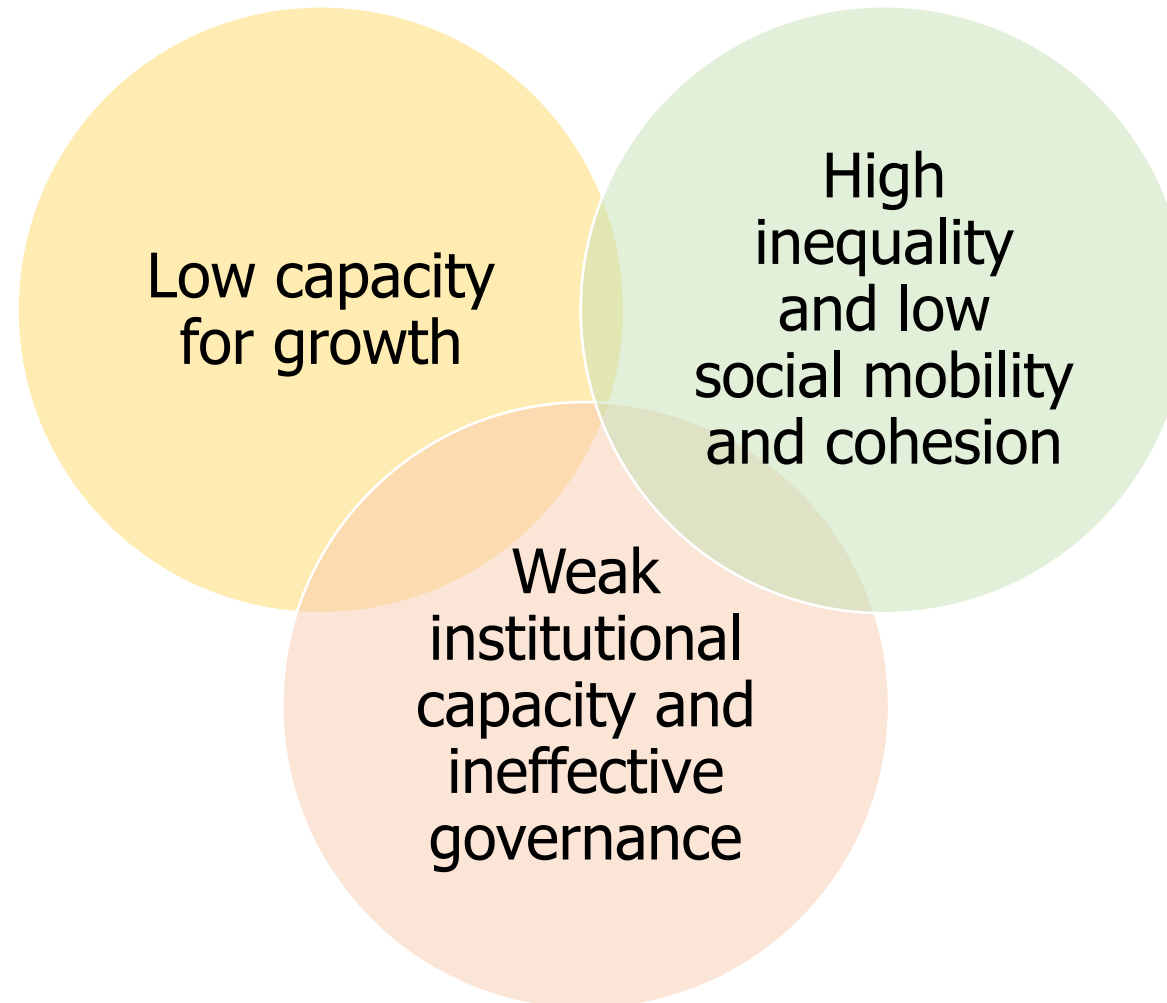


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## **II. The three development traps and eleven vital transformations**

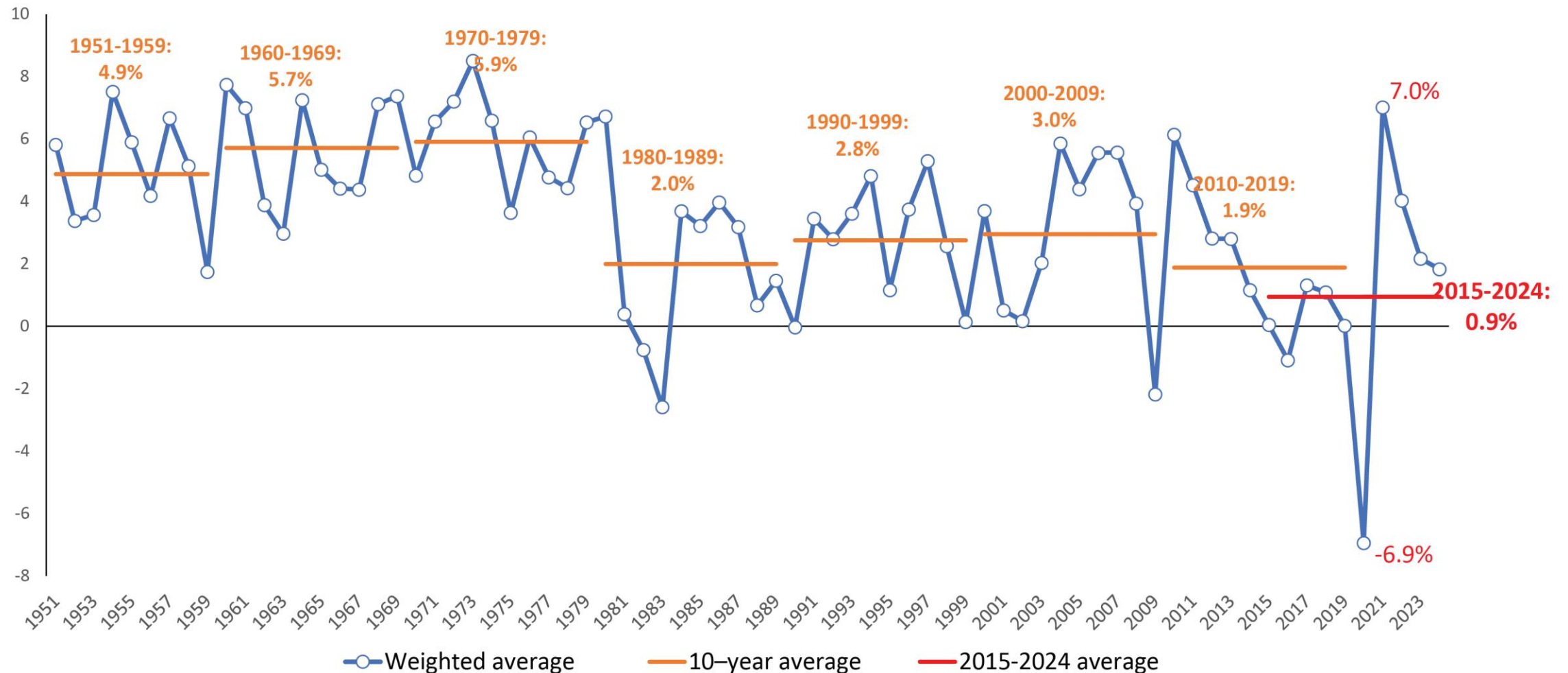
# Three vicious cycles that limit the region's ability to achieve its development goals



# Low-growth trap: the looming threat of a third lost decade

## Latin America and the Caribbean: growth in GDP, 1950–2024

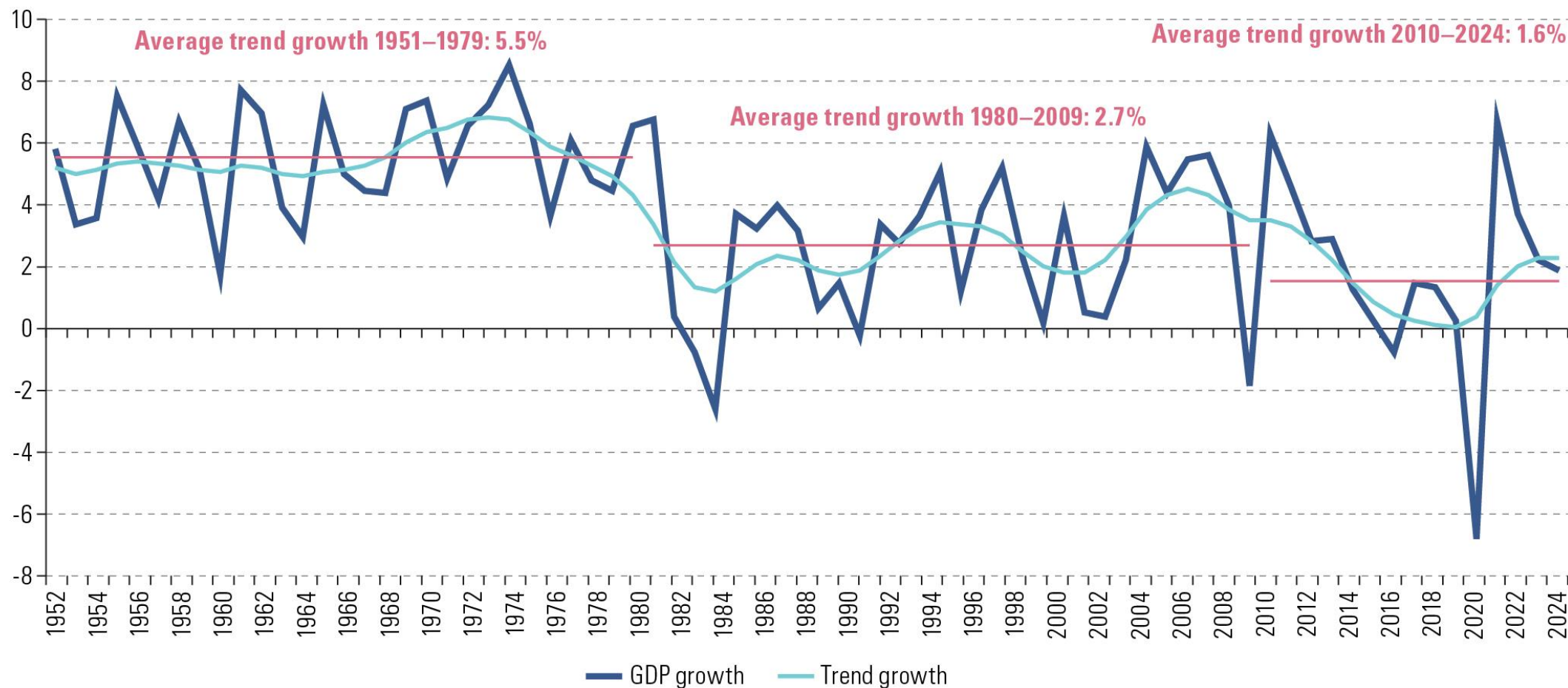
(Percentages, on the basis of dollars at constant 2018 prices)



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

# Low growth: a structural issue with a decades-long downtrend

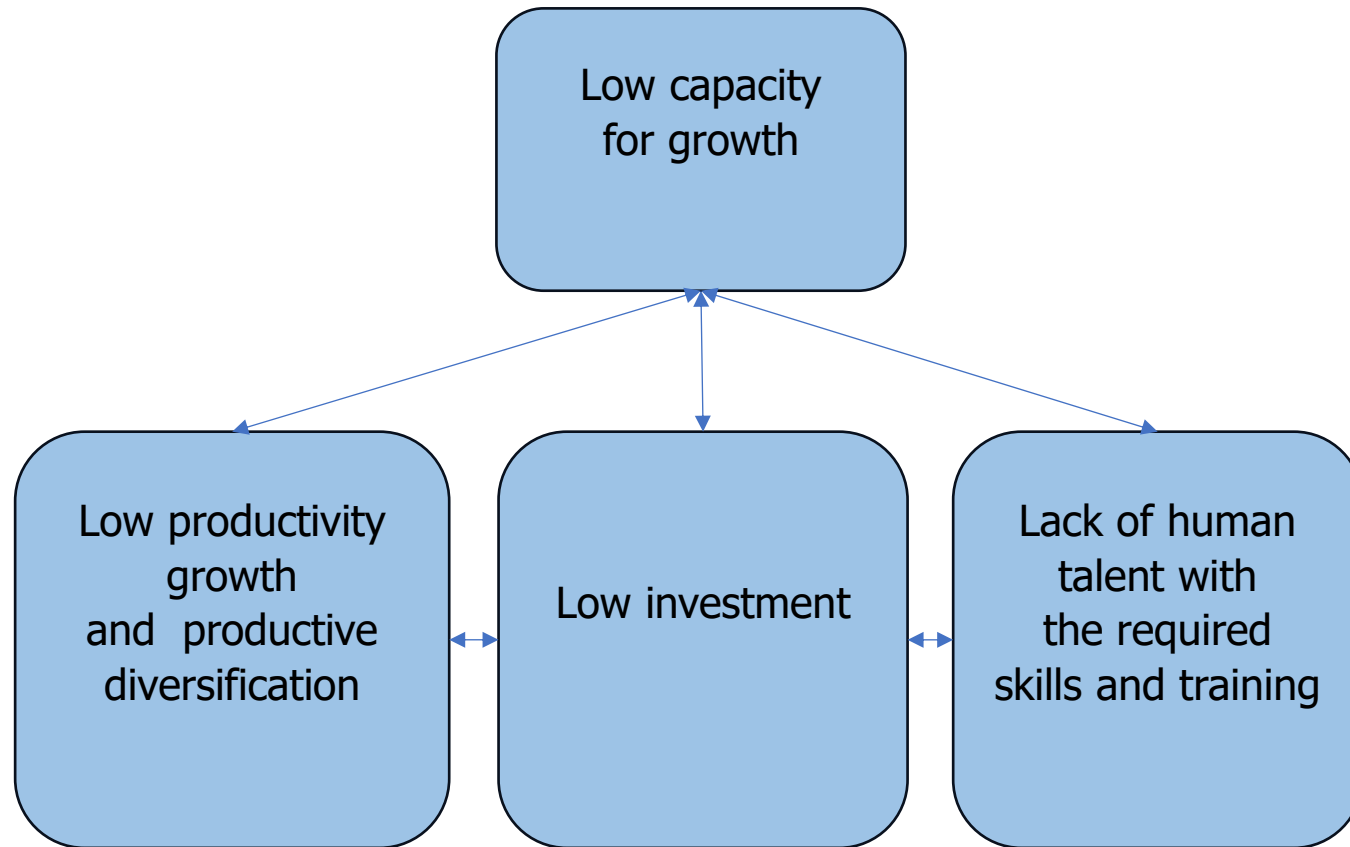
## Latin America and the Caribbean: growth in GDP and in trend GDP, 1951–2024



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

**Note:** A Hodrick-Prescott filter was used to calculate trend GDP.

# Three main factors are behind the trap of low capacity for growth

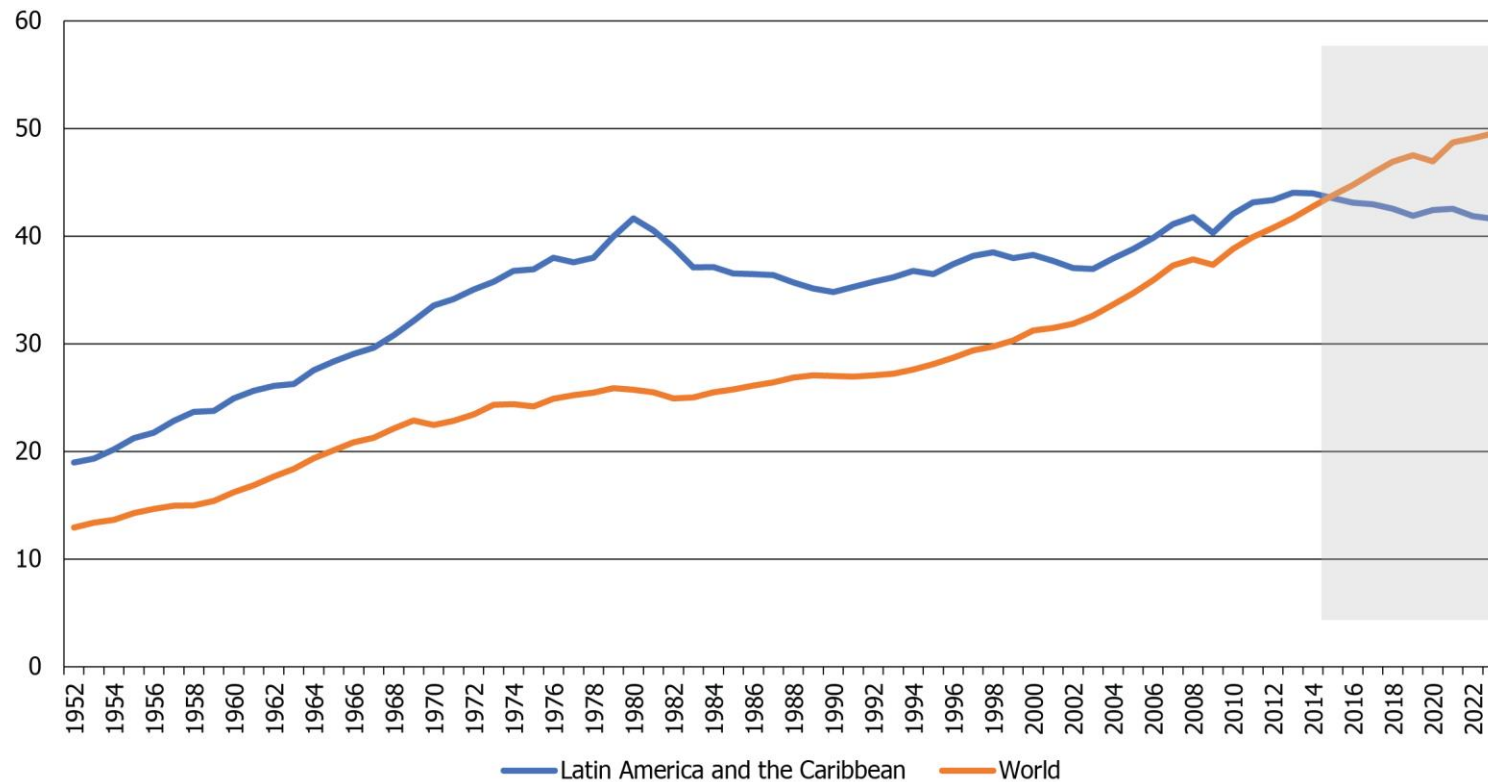


- Average labour productivity, in dollars at constant prices, was 4% lower in 2023 than in 1980.
- Investment in the region is the lowest of all world regions.
- The number of years of schooling has been rising but the quality of learning is low and has been deteriorating, as measured by OECD PISA tests.
- The lowest average annual rate of job creation in the last 70 years (1.5%) was registered in the period 2011–2019.

# Labour productivity in the region grew significantly from 1952 to 1980, but has been weak since then

## Latin America and the Caribbean (13 countries) and world (133 countries): labour productivity, 1952–2023

*(Thousands of international dollars at 2022 prices and at purchasing power parity)*

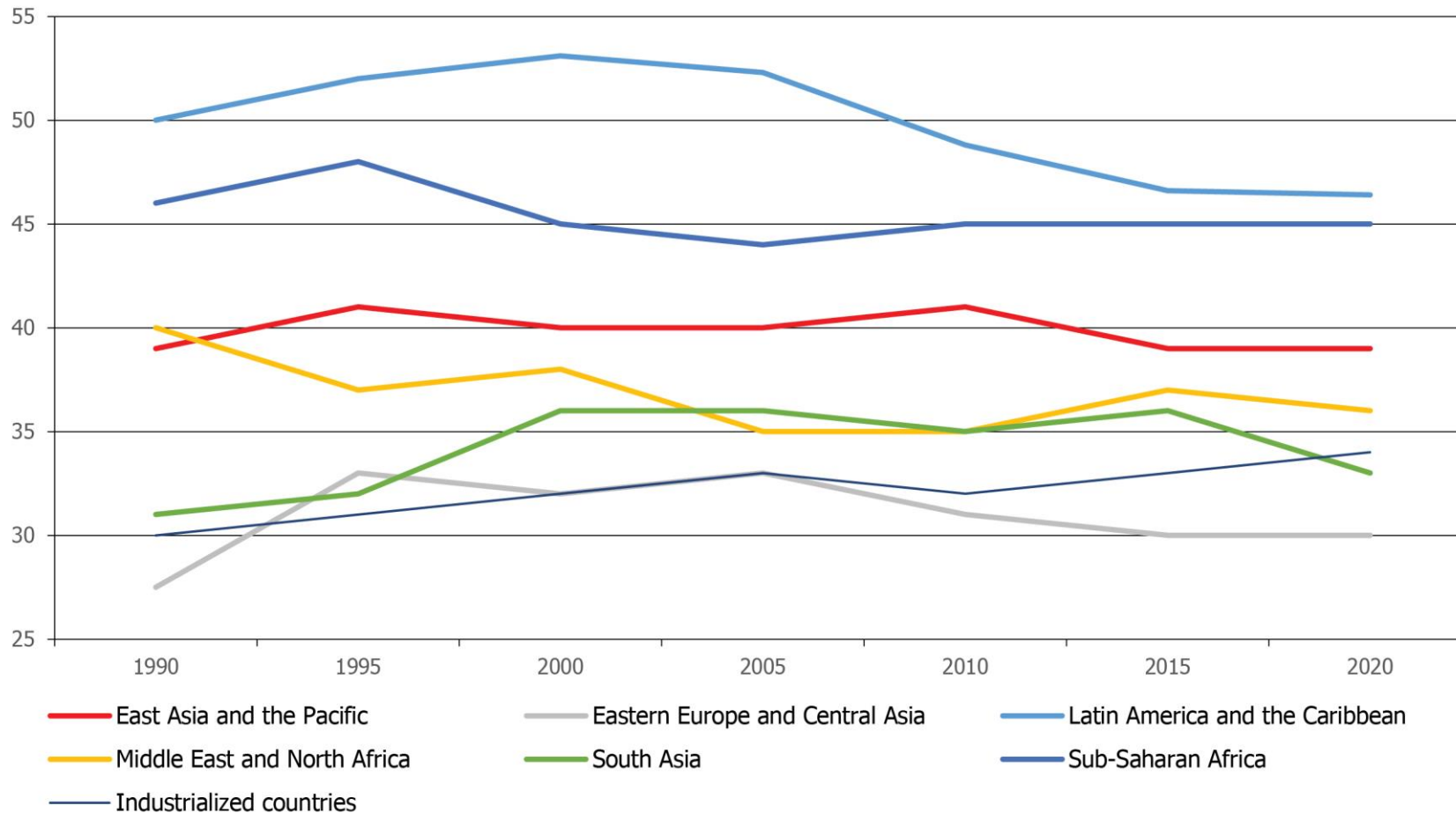


The region reached a turning point in 2015 when productivity fell below the global average, a gap that continues to widen.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board, “Trusted Insights for What's Ahead™” [online] <https://www.conference-board.org/us/>.

# The trap of high inequality, low social mobility and weak social cohesion

Latin America and the Caribbean and other world regions: inequality levels and trends, Gini index, 1990–2020



Latin America and the Caribbean remains the world's most unequal region.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and F. Alvaredo and others, "Seventy-five years of measuring income inequality in Latin America", IDB Working Paper Series, No. IDB-WP-01521, Washington, D.C., Inter-American Development Bank (IDB), 2023.



# Main factors behind inequality, low mobility and poor social cohesion in region

Low growth, weak labour market momentum, uneven productivity

Regressive tax systems

Weak social and social protection policies that fail to reduce deep-rooted production-based inequality

Education systems with serious deficiencies

Structural gender inequality and inadequate care systems

High levels of inequality and spatial segregation in urban areas

Discrimination and violation of human rights suffered by some population groups.

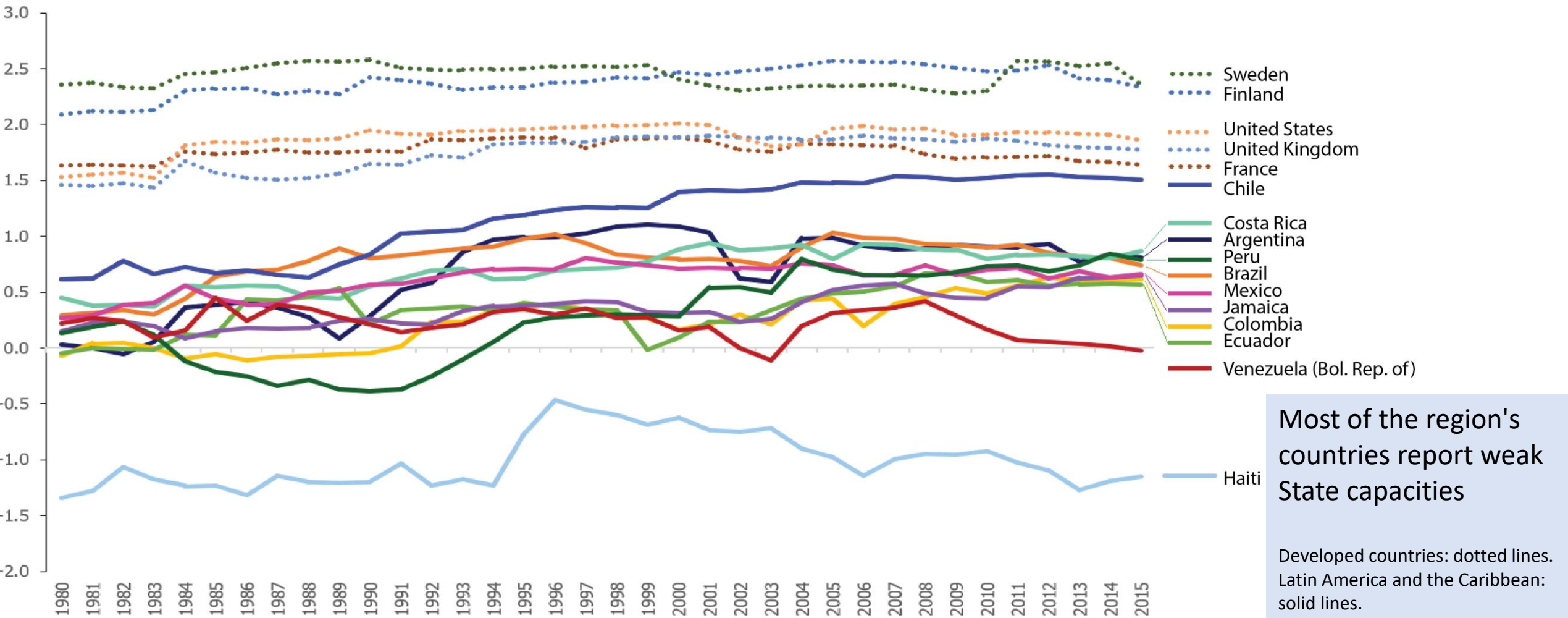


# Low institutional capacities and ineffective governance: a development trap

- Weak institutional capacities limit the ability of governments to implement effective policies and respond efficiently to the needs of society.
- Robust institutions are needed to manage transformations and provide continuity through changes of government (State policies).
- Ineffective governance leads to:
  - Weak capacity to guide the economy and society
  - Low private sector, civil society and citizen participation
  - Inadequate accountability on the part of authorities

# Hanson and Sigman's State capacities index (2021)

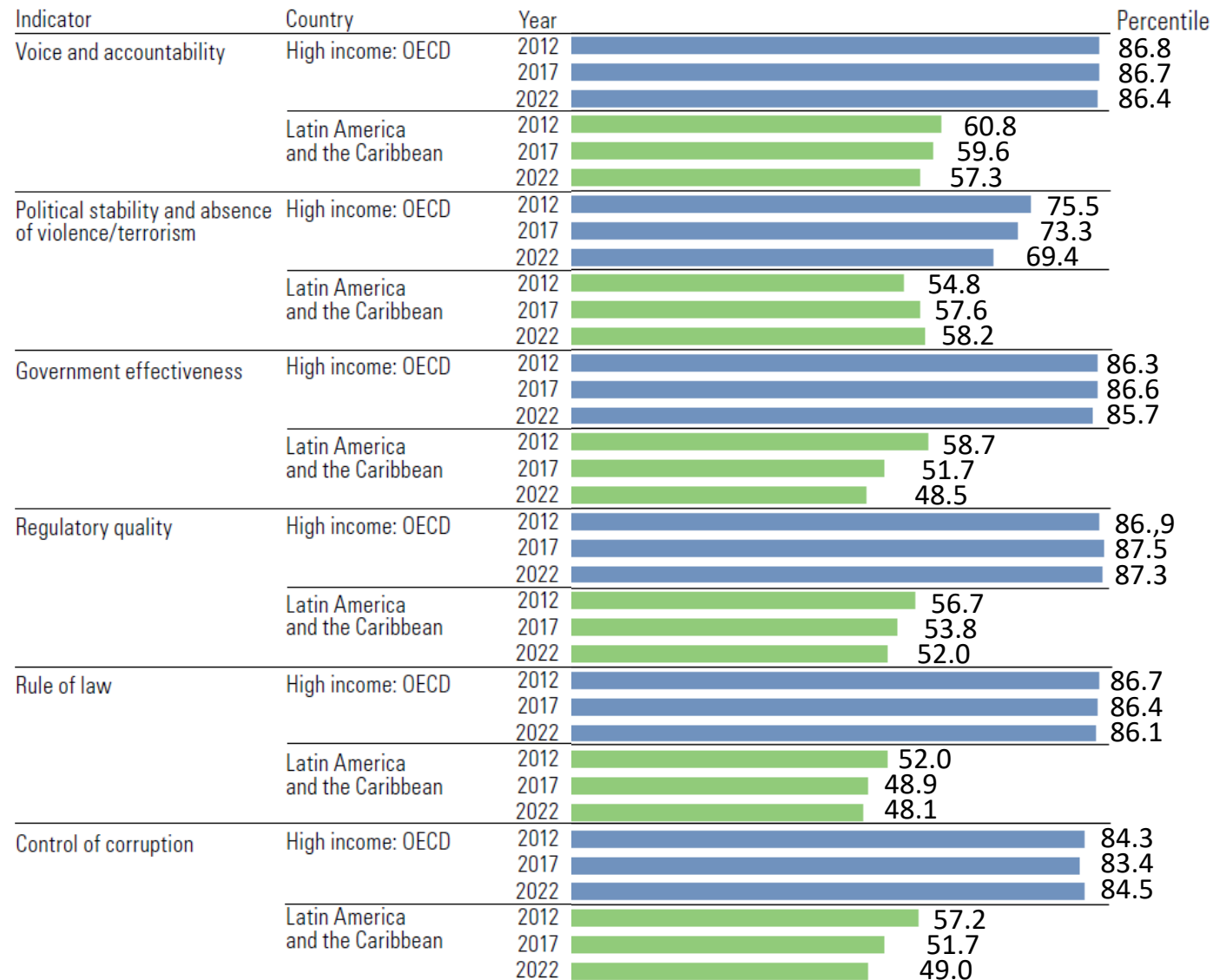
Selected countries: State capacity index, 1980–2015



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Hanson and R. Sigman, "Leviathan's latent dimensions: measuring state capacity for comparative political research", *The Journal of Politics*, vol. 83, No. 4, 2021, and Our World in Data, "State capacity index" [online database] <https://ourworldindata.org/grapher/state-capacity-index>.

# World Bank's Worldwide Governance Indicators

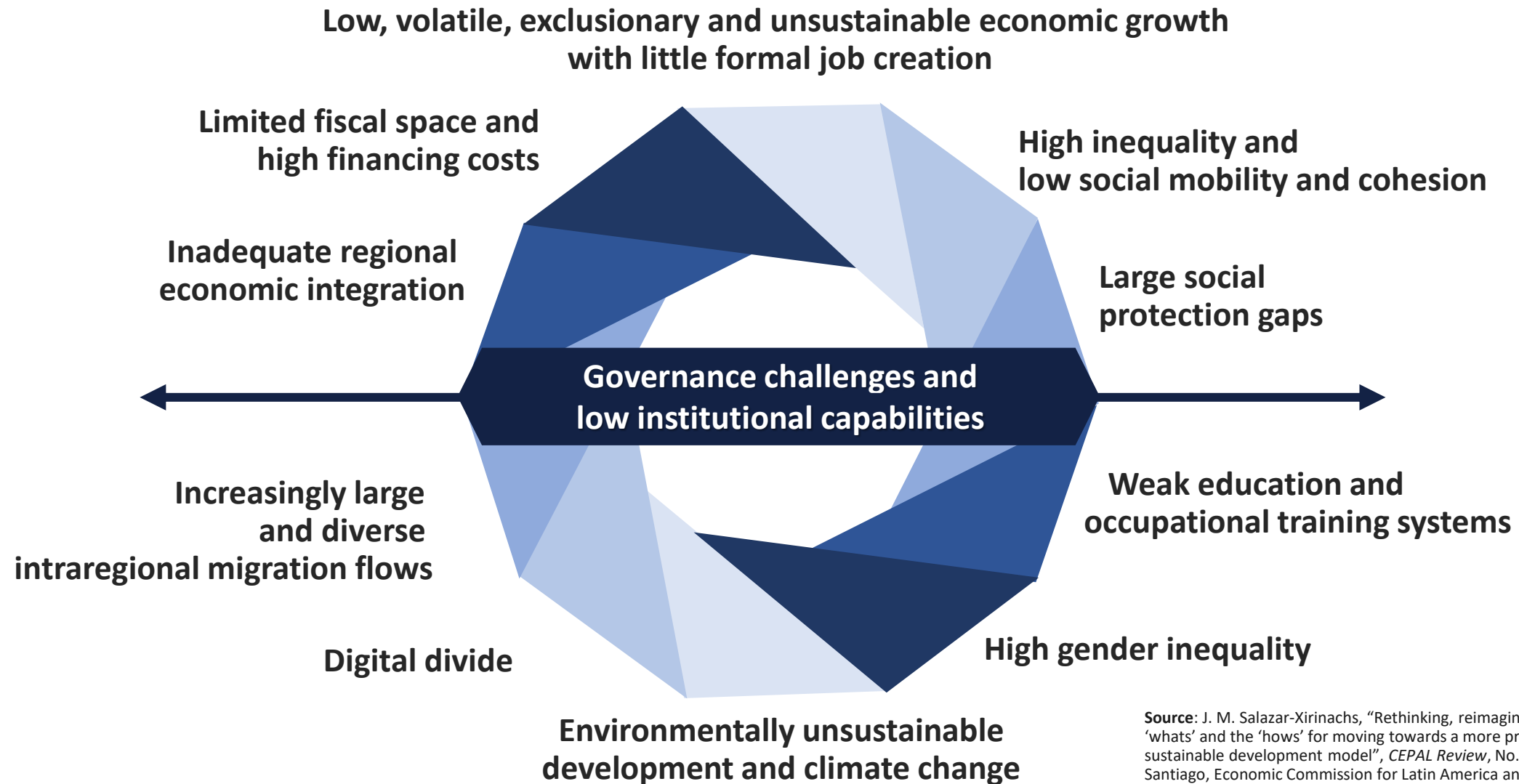
## Latin America and the Caribbean and high-income countries of the Organisation for Economic Co-operation and Development: Worldwide Governance Indicators



- High-income OECD countries are above the 85th percentile in all indicators, while Latin American countries are concentrated around the 60th percentile.
- Over time, with the exception of political stability, all indicators declined between 2012 and 2017 and again by 2022.

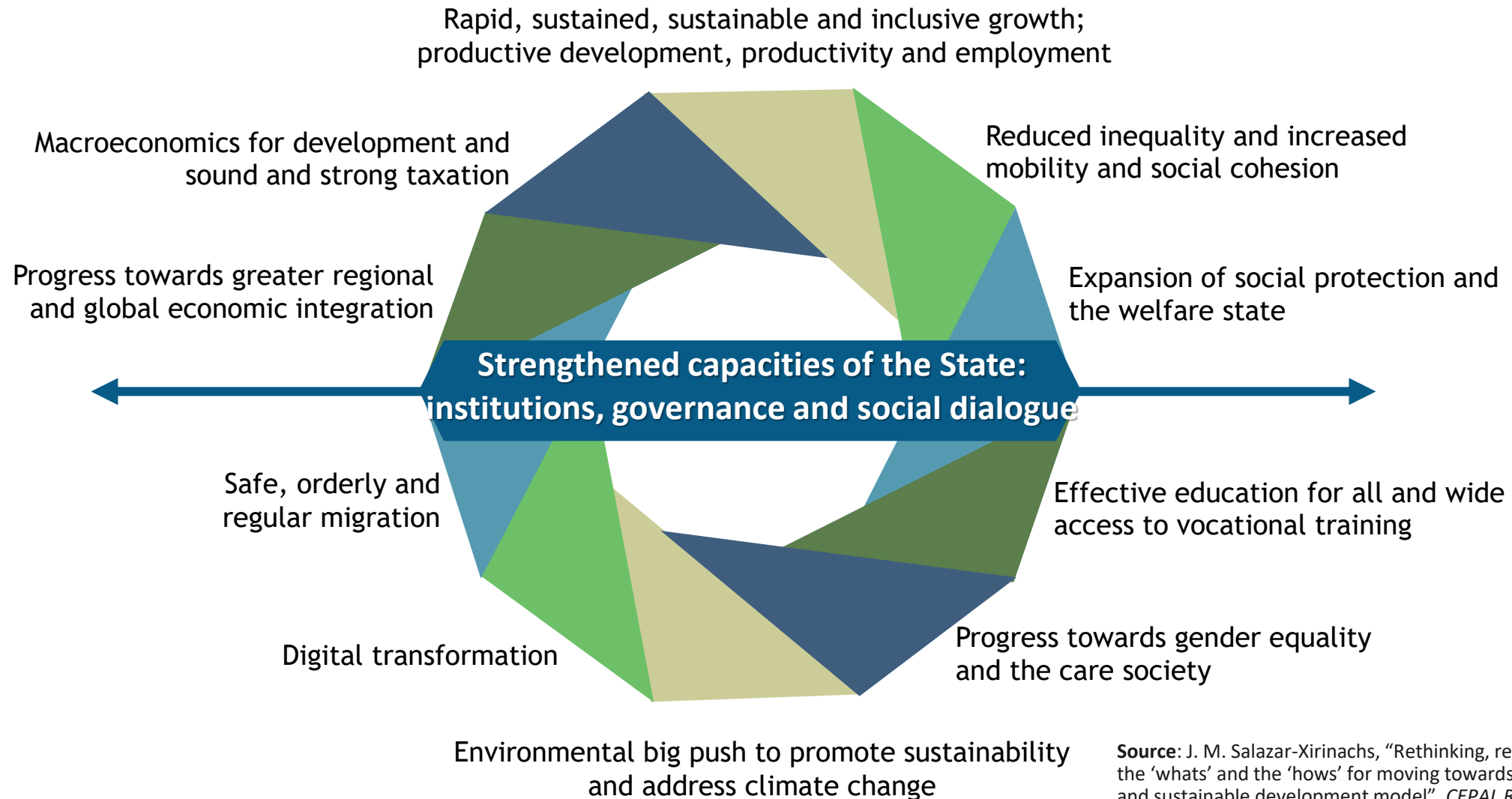
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of D. Kaufmann and A. Kraay "Worldwide Governance Indicators, 2023", 2023 [online database] [www.govindicators.org](http://www.govindicators.org) [accessed in July 2024].

# Deeper analysis points to 10 structural gaps in the development model (a decalogue), some overlapping with the three traps



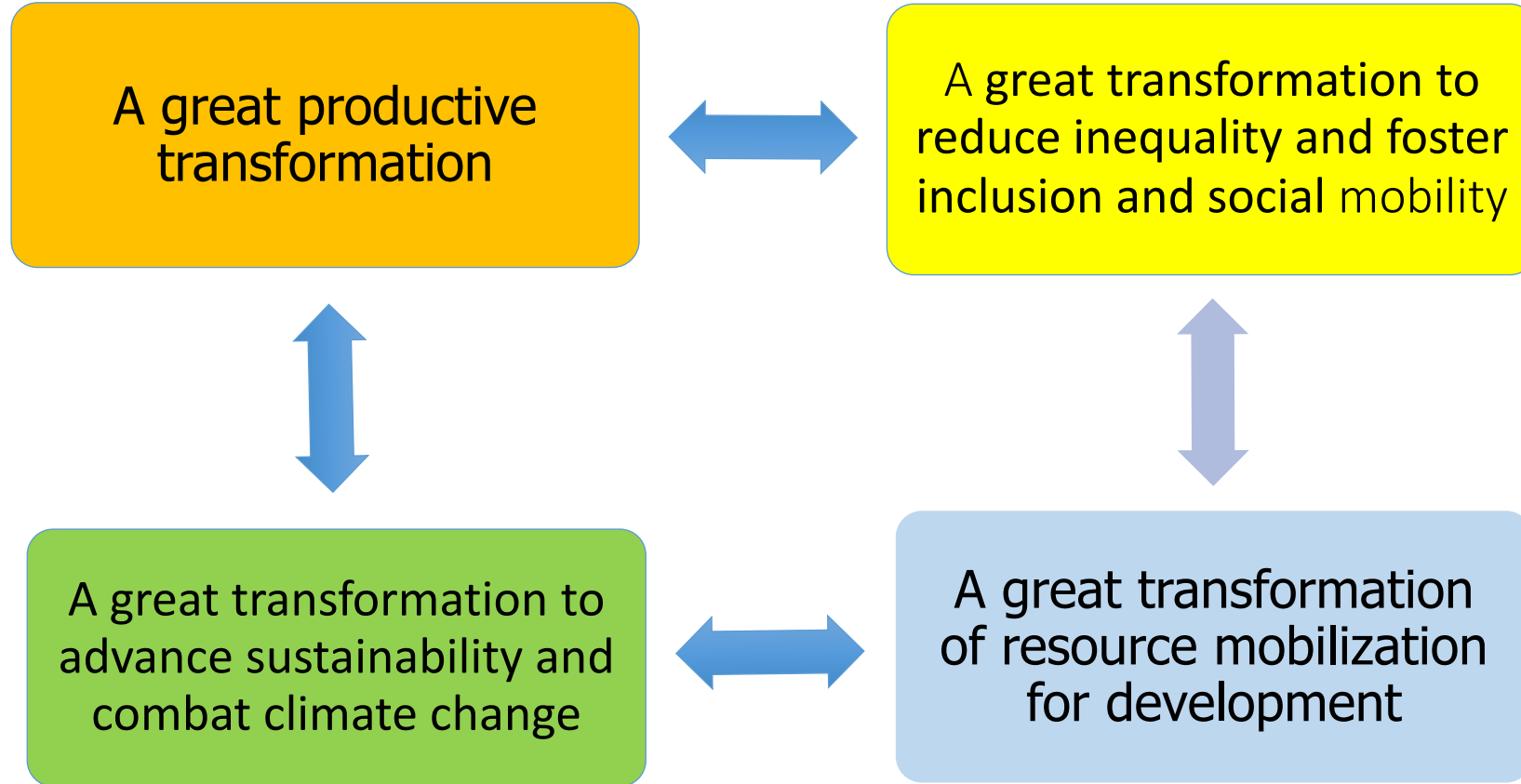
Source: J. M. Salazar-Xirinachs, "Rethinking, reimagining and transforming: the 'whats' and the 'hows' for moving towards a more productive, inclusive and sustainable development model", *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

# To close the gaps and break from the traps, work on at least 11 vital transformations is needed



Source: J. M. Salazar-Xirinachs, "Rethinking, reimagining and transforming: the 'whats' and the 'hows' for moving towards a more productive, inclusive and sustainable development model", *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

# Of the 11 great transformations, 4 interrelated transformations have been selected for in-depth analysis in the position document presented for this session





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## **III. The challenge of managing transformations**

# Managing transformations will entail not only the technical dimensions of policy but also the capacity to lead and coordinate collective action

## **Governance**

What is it and how can it be improved?

## **Institutional capacities**

What are they?

## **Social dialogue**

What types of social dialogue can be developed and which are most suitable for what purposes?

## **Political economy**

How can coalitions that overcome resistance to change be built?

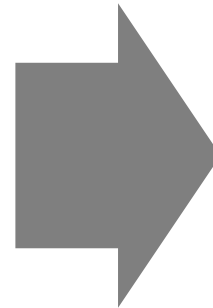


# Governance and governability for transformational change

**Governance:**  
Capacity to define  
a trajectory and  
to steer society  
towards it



**Governability:**  
Capacity to enforce the  
law, maintain stability  
and ensure  
the legitimacy  
of institutions



**Transformational  
change**

# TOPP capabilities of institutions to manage transformations

Capability	Characteristics (examples)
<b>Technical</b>	<ul style="list-style-type: none"><li>• Information systems to support policy implementation.</li><li>• Culture of evaluation of impact.</li></ul>
<b>Operational</b>	<ul style="list-style-type: none"><li>• Modern public management tools.</li><li>• Mechanisms for the transparent and honest execution of public resources.</li><li>• Timely access to financial resources.</li></ul>
<b>Political</b>	<ul style="list-style-type: none"><li>• Spaces for social dialogue for public policy formulation and implementation.</li><li>• Public-private coordination.</li><li>• Development of public leadership.</li></ul>
<b>Prospective</b>	<ul style="list-style-type: none"><li>• Monitoring of global megatrends.</li><li>• Participatory approach to building future scenarios.</li><li>• Agile and effective responses to unexpected events.</li></ul>

# Types of social dialogue: a key tool for managing and steering transformations

## **Tax reforms**

Negotiate fiscal pacts (equitable distribution of costs of adjustment).

## **Labour**

Negotiate wages, working conditions and labour rights.

## **Productive development**

Increase exports, investment, innovation, productivity.

Development of competencies.

Long-term governance processes.

## **Territorial development**

Definition of local and territorial development strategies.

Decentralization.

Multilevel governance.

**Based on this conceptual framework, the four chapters that follow ask the question:**

**How to manage the corresponding transformation?**



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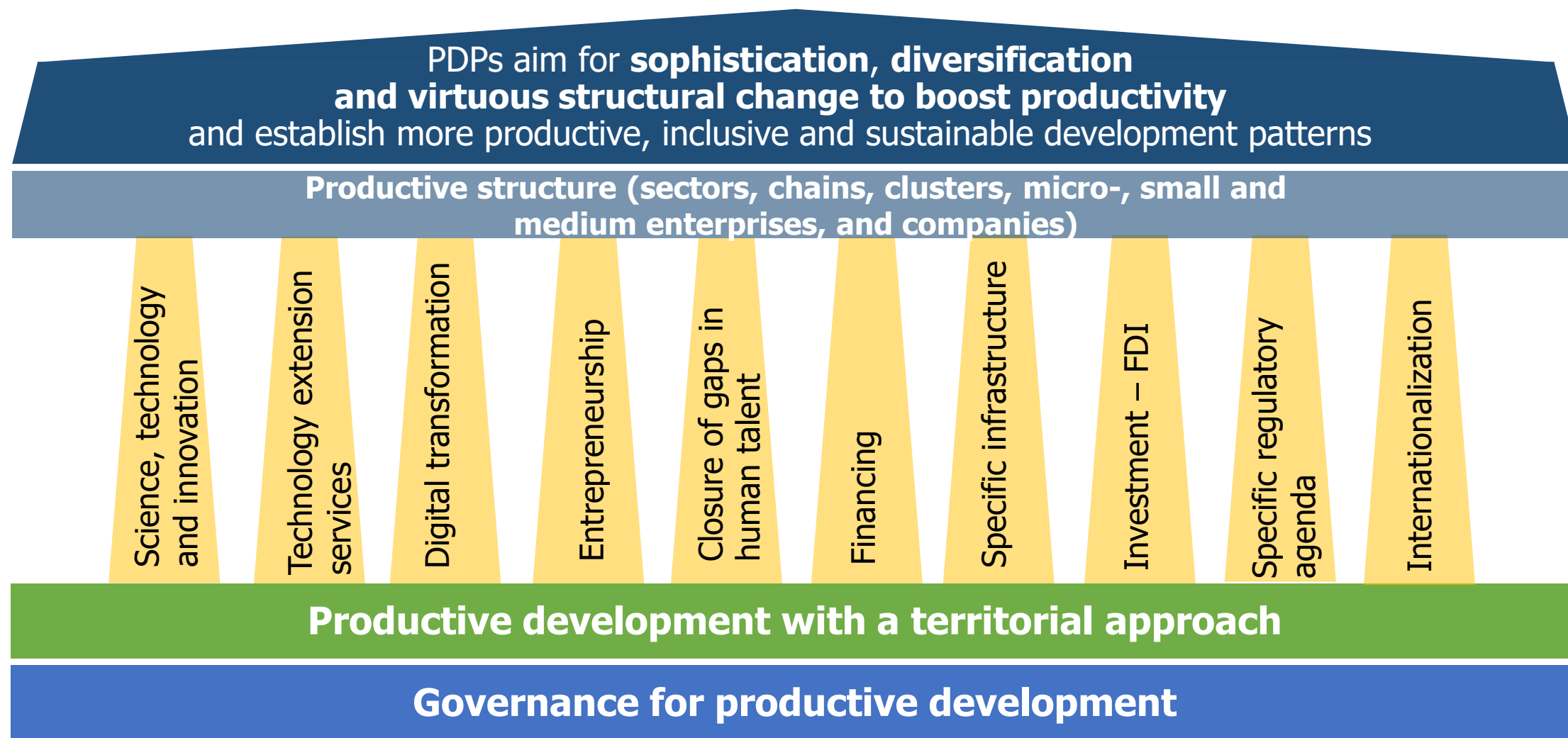
# **IV. How to achieve stronger, sustained, inclusive and sustainable growth?**

# Overcoming the low-growth trap requires productive development policies to foster stronger, sustained, inclusive and sustainable growth

## Elements of the new vision for productive development policies

- 1 Defines a broad range of growth-driving sectors, not only industry.
- 2 Understands these policies as multi-stakeholder and multilevel collaborative efforts. Design of governance is a central issue.
- 3 Combines horizontal and vertical measures (cluster initiatives considered highly effective tools).
- 4 Balance between top-down and bottom-up policies.
- 5 Adopts an approach of experimentalist governance.
- 6 Adopts an internationalization approach.

# Definition and scope of productive development policies (PDPs)



**Source:** J. M. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

# Great productive transformation: portfolio of driving sectors

## Industry

- Pharmaceutical and life sciences industry
- Medical devices manufacturing industry
- Advanced manufacturing

## Services

- Modern or ICT-enabled services exports
- The care society
- Labour-intensive services
- E-government

## Big push for sustainability

- Energy transition: renewable energies, green hydrogen and lithium
- Electromobility
- The circular economy
- The bioeconomy: sustainable agriculture, genetic resources and bioindustrialization
- Agriculture for food security
- Sustainable water management
- Sustainable tourism

Geographical rearrangement of production and value chains worldwide



# Examples of TOPP capabilities for productive development policies

Capability	Characteristics (examples)
<b>Technical</b>	<ul style="list-style-type: none"> <li>• Development of locally, regionally and nationally representative information systems.</li> </ul>
<b>Operational</b>	<ul style="list-style-type: none"> <li>• Creation and advancement of cluster and other productive coordination initiatives.</li> </ul>
<b>Political</b>	<ul style="list-style-type: none"> <li>• Development of collective and adaptive leadership skills to create productive development agendas.</li> </ul>
<b>Prospective</b>	<ul style="list-style-type: none"> <li>• Analysis of trends in technology, the market, trade and geographical rearrangement of production.</li> </ul>



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# **V. How to reduce inequality and promote inclusion and social mobility?**

# Main factors behind inequality, low mobility and poor social cohesion in region

Low growth, weak labour market momentum, uneven productivity

Regressive tax systems

Weak social and social protection policies that fail to reduce deep-rooted production-based inequality

Education systems with serious deficiencies

Structural gender inequality and inadequate care systems

High levels of inequality and spatial segregation in urban areas

Discrimination and violation of human rights suffered by some population groups.

# How to overcome this trap?

## An integrated and coordinated approach that addresses its causes

### Integrated policy framework

- Productive development policies and stronger, more sustained growth
- Strengthening of tax system progressivity
- Active labour policies and labour inclusion
- Strengthening of social protection and well-being
- Enhancement of education as a driver of upward social mobility
- Transition towards a care society
- Advancement towards more inclusive, safe, resilient and sustainable cities

**Addressing only one or two of these fundamental causes will not be enough to achieve the great transformation needed to overcome this trap**

# Examples of TOPP capabilities, governance and social dialogue to overcome the high inequality trap

TOPP capabilities of institutions	Governance and social dialogue
<ul style="list-style-type: none"><li>• Strengthening of the institutional ecosystem to manage this great transformation.</li><li>• Bolstering of social institutions, with comprehensive information systems and social registers of beneficiaries.</li><li>• In education, focus not only on schooling rates, but also on learning outcomes.</li><li>• Broadening of urban planning capacities.</li></ul>	<ul style="list-style-type: none"><li>• Leadership at the highest levels of government and mechanisms for coordination among all responsible institutions.</li><li>• Social dialogue to strengthen direct taxes on income, property and wealth is needed to ensure more progressive tax systems.</li><li>• Greater leadership, dialogue and negotiation on the financing of care policies and systems and on fostering social and gender co-responsibility for care is needed to ensure a care society.</li></ul>



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# **VI. How to promote sustainability and address climate change?**

# How to promote this third great transformation?

- The impacts of climate change and need for human activity that is kind to nature and the planet are shaping the global economy and productive systems.
- Managing this transformation calls for cross-cutting approaches as well as strategies for transformation in specific sectors.
- There will be need both of the creation of new sectors and modi operandi, and of the elimination of others (creative destruction).
- Like the two previous transformations, this one also poses challenges linked to governance, TOPP capabilities of institutions, social dialogue and political economy.
- This document analyses seven specific sectors.

## **Big push for sustainability: portfolio of driving sectors**

- Energy transition
- Electromobility
- Critical minerals
- Sustainable water management
- Sustainable tourism
- The bioeconomy
- The circular economy

# Competitive advantages and opportunities in green growth



The region has the largest share of renewable energy in electricity generation in the world.



Potential of mining to contribute to the global supply of several critical minerals for the energy transition and electromobility worldwide.



Major opportunity in universal access to clean water and sanitation.



The implementation of circular economy strategies would be of great benefit to the region.



Major opportunity for growth in sustainable tourism, the bioeconomy and food security.



# Examples of TOPP capabilities, governance and social dialogue for the big push for sustainability

## TOPP capabilities of institutions

- Electromobility requires:
  - Prospective capabilities to foresee the availability and penetration of different energy sources (ethanol biogas, electricity and hydrogen) and demand trends.
- The bioeconomy requires:
  - Strengthening of capabilities to foster synergies with other sectors and to coordinate among stakeholder institutions.
- Water management requires:
  - Adjustment of regulatory frameworks to attract new investors.
  - Innovative financing systems.

## Governance and social dialogue

- Strategic minerals require:
  - Multilevel, transparent, democratic, effective governance with a long-term vision.
  - Implementation of productive development policies to add value and move beyond the extractive stage.
- Promotion of sustainable tourism requires:
  - Spaces for planning and making decisions on the future of tourism activities that include communities.
  - Communication strategies and information of relevance to communities and businesses.



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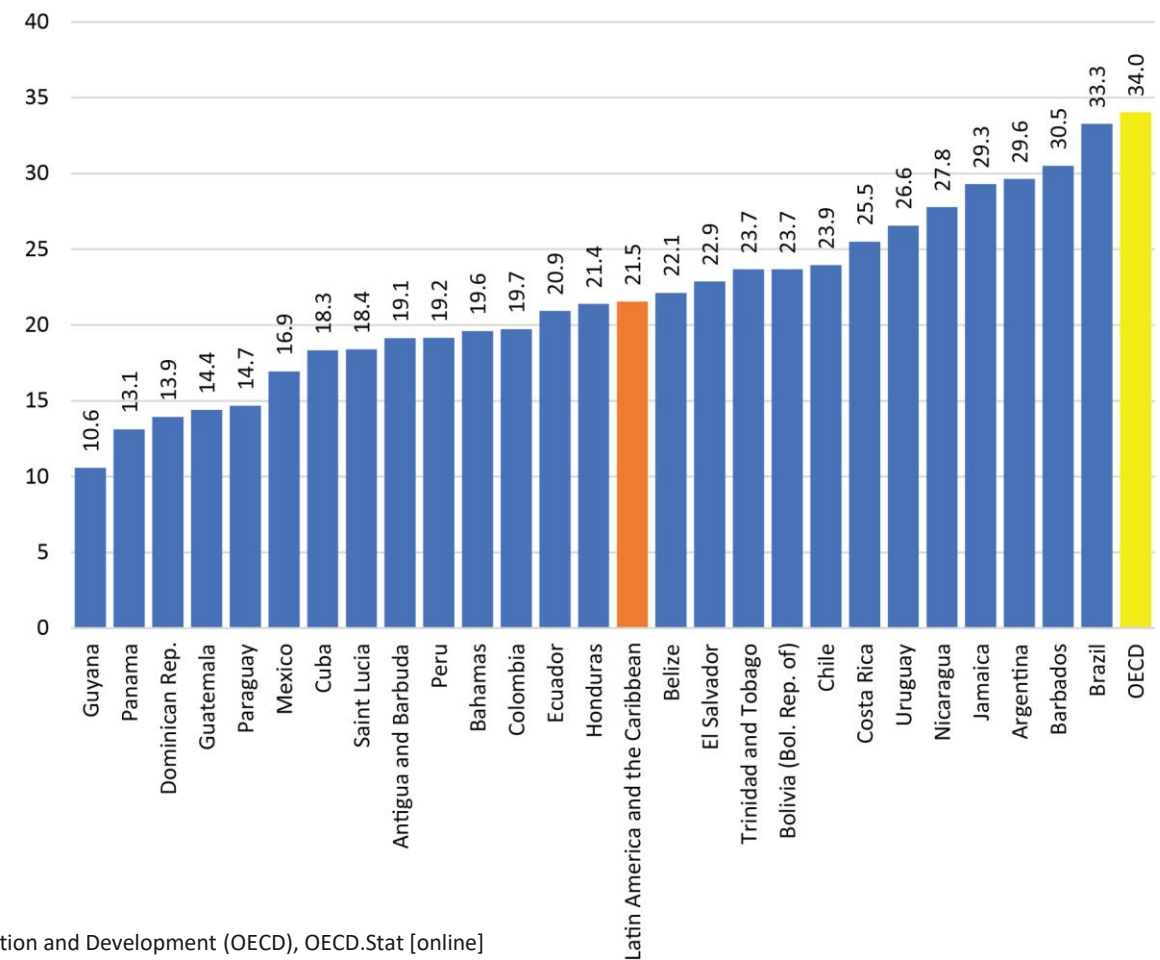
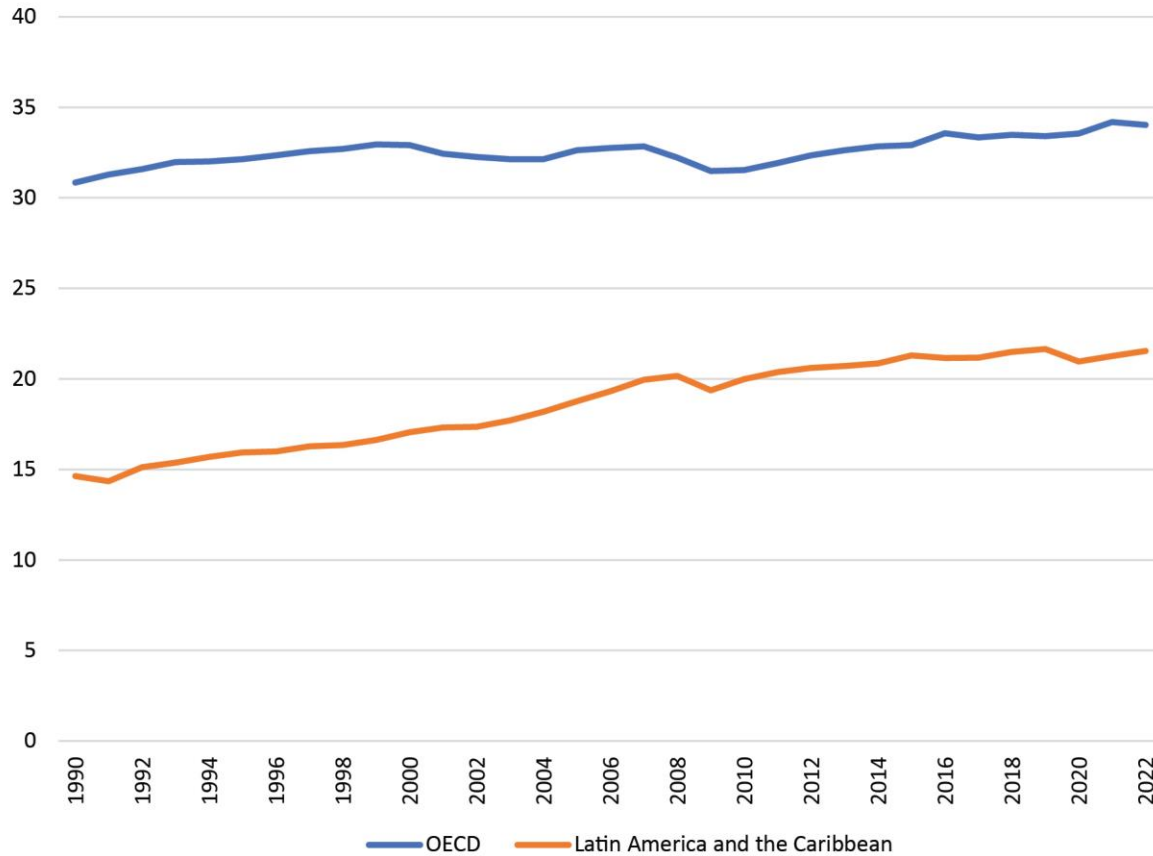
# **VII. How can financing for development be mobilized?**

# The capacity to mobilize resources for development and the SDGs hindered by several factors

1. Tax take slow economic growth limits the tax take
2. High rates of tax evasion and avoidance and regressive tax structure
3. High debt levels
4. High financing costs
5. Shortfalls in international financial architecture

# Insufficient tax revenues

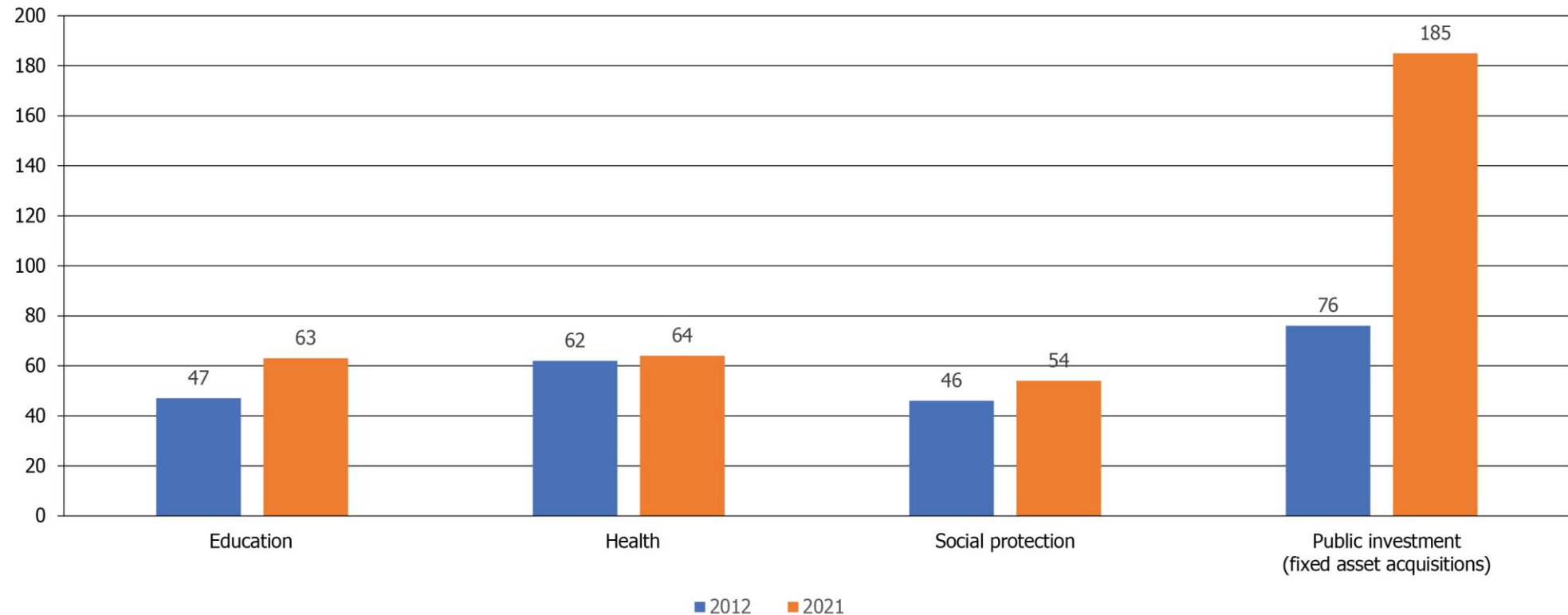
**Latin America and the Caribbean and Organisation for Economic Co-operation and Development:  
general government tax revenues, 1990–2022 and 2022**  
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online]  
<https://stats.oecd.org>.

# Domestic resource mobilization is limited by increased interest payments

**Latin America and the Caribbean (21 countries):<sup>a</sup> central government interest payments relative to spending on education, health, 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 range of strategies are needed to mobilize resources for development financing

## Strengthening public finance

- Improve tax collection.
- Enhance capacities for management and administration of public debt.
- Use of innovative financial instruments (thematic bonds).

## Macroprudential policies

- Increase financial sector resilience to shocks (legal reserves, financial institution capital requirements, capital account regulation and mitigation of exchange-rate risk, among others).
- Strengthen credit cycle monitoring.

## Support reform of the International financial architecture

- Transform the governance of international financial institutions, boosting the representation of developing countries.
- Improve sovereign debt resolution mechanisms (G20 Common Framework for Debt Treatments, new mechanism).
- De-risking (improve analysis of debt sustainability, contingency clauses etc.).
- Increased lending capacity of multilateral development banks (capitalization, efficiency, flexibility).
- Reforms in credit rating methods (rating agencies).
- Recycling of special drawing rights.

# Strengthening of governance and TOPP capabilities of institutions is also required

Improve governance of fiscal sustainability frameworks

Strengthen coordination mechanisms and coherence among fiscal, monetary, exchange-rate and prudential policies

Strengthen annual national budget preparation, procurement and public investment procedures.

Adopt a common regional position on the reform of the international financial architecture, at critical junctures

- Summit of the Future
- Preparatory meetings for the fourth International Conference on Financing for Development, G20
- Example: Regional Platform for Tax Cooperation in Latin America and the Caribbean.
- Better coordination and cooperation among ministries of finance and ministries of foreign affairs



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## **VIII. Final remarks**



# Final remarks

- Latin America and the Caribbean must **undertake profound transformations** to overcome the development crisis.
- ECLAC is calling on the region to **rethink and reimagine how to manage development so as to transform it more effectively.**
- We have set out **11 major transformations** deemed vital for moving towards more productive, inclusive and sustainable development (analysing 4 of them in depth).
- The focus is on **how to manage these transformations.**
- This involves looking at issues of **governance, TOPP capabilities, spaces for social dialogue and the political economy of the transformations.**
  - This is because policy design, adoption and implementation (the “hows”) are as important as content.

# Final remarks

- A country's development is a complex process that happens over the long term. Development is not preordained; the level of development attained is the result of the decisions and efforts made by countries.
  - Development is not automatically driven by market forces, which nevertheless can play a major role.
  - The region has significant assets and competitive advantages for development.
  - **If we can build the collective capacity to chart and sustain a course** for development that transcends government terms, we can nourish the hope for a better future.
  - If we fail, we open the door to dystopian scenarios of stagnation, inequality, fear, frustration, polarization and conflict.

# Contribution of ECLAC

ECLAC is supporting the vital transformations needed to break from development traps and move towards a more productive, inclusive and sustainable development model.

If we are to close gaps and avoid more “lost decades”, the time to think, act, and build hope for the future is now.

ECLAC stands ready to support the countries of the region in this mission.



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