TOWARDS TRANSFORMATION OF THE DEVELOPMENT MODEL IN LATIN AMERICA AND THE CARIBBEAN: PRODUCTION, INCLUSION AND SUSTAINABILITY

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The current juncture and our main message

• The cascading crises we are experiencing are widening historical gaps. The region has seen setbacks in social indicators in the last three years that threaten achievement of the Sustainable Development Goals.

• A development crisis and another lost decade loom ahead.

• Need to act with a sense of urgency and raise the level of ambition and the scale of policy efforts.

• Countries and the region are at a turning point.

• Now is not the time for gradual or timid changes but for bold and transformative policies that can truly move the needles of development.
Outline of this presentation

I. Changes in globalization and in the current context

II. Short-run economic and social management challenges

III. Ten priority areas for transforming the development model in Latin America and the Caribbean

IV. The “how”: governance, institutional capacities, participation, citizen dialogue and compacts to transform the development model
I. Changes in globalization
Changes in globalization:
The globalization of the last 30 years is no more

The multilateral trading system to which we were accustomed:

- Based and reliant on commonly accepted rules
- Highly fragmented production value chains in pursuit of low costs, efficiency and short-term comparative advantages
- Relatively predictable

Has shifted towards regionalism defined and driven by:

- Protectionism
- Reconfiguration and concentration of global value chains owing to technological rivalry and geopolitics
- Migration flows: migrants accounted for 2.8% of the world’s population in 2000 and 3.6% in 2020

Risk: a world fragmented into geopolitical and economic blocs, resulting in a weakened multilateral system
Rivalry for technological supremacy in particular areas (digital standards, artificial intelligence, microprocessors)

Competition among the global factories (United States, Europe and China)

Return to self-sufficiency and security in: defence, energy, food, fertilizers, health care, manufacturing, etc.

These have resulted in an intensification of industrial and friendshoring policies, strengthening the trend towards regionalization in production matrices

Possible global scenarios: open regionalism or closed and fragmented regionalism?
Slowdown in growth of goods trade and decline in share of trade as a percentage of GDP – De-globalization, slowbalization or slowdown?

Growth in global GDP and trade, 1994–2022\(^a\)

*(Five-year moving averages)*

**RISE OF GLOBALIZATION**

**GLOBAL FINANCIAL CRISIS**

**COVID-19 PANDEMIC**

**TENSION OVER TRADE AND TECHNOLOGY WITH CHINA**

**WAR IN UKRAINE**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO) and the International Monetary Fund (IMF).

\(^a\) The figures for 2022 are projections.
But trade in modern or digitally supplied services has soared
A new factor/segment spurring globalization, inexistent in previous phases

Value index of global exports of goods, services and digitally supplied services, 1980–2021
(Index: 1980 = 100)

A new global macroeconomic and financial environment

- Slower growth
- High inflation
- Higher interest rates
- Tighter global liquidity
- Increasing uncertainty
- Reduced monetary and fiscal space for macroeconomic policy
- Heightened debt and balance-of-payments vulnerabilities, particularly for some Caribbean countries
II. Short-run economic and social management challenges for Latin America and the Caribbean
Worst-ever economic contraction, surpassing that of the Great Depression

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from de Groningen Growth and Development Centre, Maddison Project Database [online] https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020 to 1950, and official figures from 1951 to 2021; data for 2022 and 2023 are ECLAC projections.
Region saw lower growth in the 10 years from 2014 to 2023 than during the lost decade of the debt crisis

Latin America: GDP growth rate, 1951–2023
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; data for 2022 and 2023 are ECLAC projections.
Growth

Projections for global economic growth have been revised downward: 2.7% in 2023

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD Economic Outlook, September 2022; International Monetary Fund (IMF), World Economic Outlook, October 2022; European Central Bank (ECB), September 2022; Capital Economics, 10 October 2022, and Federal Reserve Board, “Summary of Economic Projections”, September 2022.

Note: The figures for India cover the fiscal year, which begins in April and ends in March the following year.
Investment trends reflect a structural problem

Latin America and the Caribbean: real growth rate of gross fixed capital formation, 1951–2021
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
The region accounts for 26.7% of global deaths caused by COVID-19 but is home to only 8.4% of the global population

Lower life expectancy: globally, the region has seen the steepest pandemic-related decline in life expectancy

Postponement of needs: COVID-19 diverted attention away from other illnesses, leading to a backlog of untreated conditions

This has posed a major challenge for health-care systems as they struggle to provide timely care for needs that have been postponed
Education shutdown has deepened inequalities, threatening to roll back gains. Risk that younger generations will suffer irreversible setbacks in education and career paths.

Duration of full or partial closure of face-to-face education (primary and secondary schools), February 2020–March 2022 (Number of weeks)

<table>
<thead>
<tr>
<th>Region</th>
<th>Full closure</th>
<th>Partial closure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>North America</td>
<td>58</td>
<td>7</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>33</td>
<td>37</td>
</tr>
<tr>
<td>Asia-Pacific region</td>
<td>21</td>
<td>18</td>
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<tr>
<td>Europe</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Middle East</td>
<td>30</td>
<td>28</td>
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</tbody>
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Inflation

Inflation is expected to fall in the developed world

Year-on-year consumer price inflation rates
(Percentages, observed rates to third quarter of 2022 and projection)

The expected fall in inflation is the result of lower commodity prices and a decrease in the pressure on global supply chains
Weaker financial inflows to Latin America

Portfolio flows to Latin America
(Billions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Institute of International Finance (IIF), Capital Flows Tracker.
Short-term macroeconomic policy challenges and priorities

Four significant challenges and priorities, marked by complex dilemmas, amid monetary and fiscal constraints:

• Combating inflation and the cost-of-living crisis
• Spurring growth
• Financing the mitigation of the social effects of the employment and cost-of-living crises
• Boosting investment

**Key points:**

• The tools employed to combat inflation must extend beyond the use of the monetary policy rate
• Fiscal policy should spur growth, mitigate the effects of the employment and cost-of-living crises and boost investment
• Development financing and external resource mobilization must support countries in finding a path towards sustainable growth and development
Fiscal policy

- The fundamental challenge will be to adapt and negotiate strategies that involve a mix of country-specific measures:
  - i. Increase in fiscal revenues: evasion and avoidance, taxation and changes to tax structures
  - ii. Maintenance of support for productive sectors and vulnerable groups as necessary, combined with improved spending efficiency and effectiveness
  - iii. Complementing financing needs through domestic and external debt and concessional lending
  - iv. Creative ways of financing investment infrastructure (thematic bonds, public-private partnerships)

- The political economy of fiscal reform will require efforts to ensure efficiency and prioritization in spending while ensuring the feasibility of income support measures.

- Many of the countries of the region will need to generate higher fiscal revenues to put public finances on a sustainable path and advance towards welfare states with better social indicators and greater social cohesion.
III. Ten priority areas for transforming the development model in Latin America and the Caribbean
Ten priority areas for transforming the development model

Productivity, productive development, employment and inclusive growth

Macroeconomics for development

Inequality

Regional economic integration

Social protection gaps

Migration

Education and vocational training

Digital transformation

Gender equality and the care society

Sustainability and climate change

Governance and institutional capacity-building
Area: productivity, productive development, employment and inclusive growth
The region is lagging behind, with widening productivity gaps

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board, Total Economy Database, Julio 2020.
What can be done?

▪ A comprehensive “new” approach to productive development policies has been developed, but countries are either not implementing it, or not at the required scale.

▪ Governments remain hesitant to implement the new approaches because of views and thinking based on old paradigms and futile discussions on the role of the State and the market, instead of new collaborative approaches.

▪ Institutional frameworks are fragmented and poorly coordinated in terms of productive development policies.

▪ Productive development policies must be scaled up, with a “productivist” and structuralist perspective, with modern approaches to productive development policies.

▪ This was important even before the pandemic, but now it is urgent and imperative.
Sectoral policies matter

Sectors that drive production, inclusion and sustainability

- The energy transition: green, sustainable energy
- E-mobility
- The circular economy: a cross-sector strategy
- The bioeconomy: sustainable agriculture, genetic resources and bio-industrialization
- Health-care manufacturing industry
- Digital transformation: data, platforms and Industry 4.0
- The care economy
- Sustainable tourism
- Micro-, small and medium-sized enterprises (MSMEs)
- The social and solidarity economy
Area: the challenges of inequality
Means of addressing inequality

- Transformation of the production structure and of employment
  - Greater economic complexity and technological sophistication
  - Structural change
  - Productive diversification
  - Investment in human talent
  - Promotion of formal work

- Labour market

- A fiscal framework with a net redistributive impact

- Promotion of gender equality and the care economy

- Promotion of inclusion of indigenous peoples and the Afrodescendent population

- Progress towards a welfare state based on principles of solidarity and universality
Area: social protection gaps
A long-standing weakness in welfare states

This weakness is reflected in:

- Limited social investment
- Gaps and inequality in access to education, health and care services
- Low levels of coverage and sufficiency of social protection
- A labour market characterized by informality
- Vulnerability to natural disasters

It is crucial to collectively commit to universal social protection systems that leave no one behind, with comprehensive coverage of risks, sustainable financing and resilience to social and natural disasters.
Area: education and vocational training
Lines of action to improve education

- Guarantee an educational environment that supports students’ development
  - Schools must become safer, healthier, more inclusive places that stimulate learning. At present, this is far from being a reality.

- Enable and encourage teachers to become agents of change
  - Teaching staff must become producers of knowledge, facilitators and guides for understanding complex realities. They must be properly trained and empowered.

- Leverage the digital revolution in the area of education
  - The three Cs of digital learning: connectivity, capacities, content

- Invest more in education, more equitably and more efficiently
  - Spending on high-quality education is the most important investment a country can make in its future and in its population
  - The cost of not financing education is much higher than the cost of financing it
Area: gender equality and the care society
Gender gap in labour force participation

Women spend almost triple the amount of time that men do on unpaid work

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

Countries: Argentina, Bahamas, Barbados, Belize, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela (Bolivarian Republic of)}
Designing and implementing care systems requires affirmative actions in taxation, employment and productive, economic and social policies in the short, medium and long terms.

- **Encouraging women’s employment in strategic sectors**
- **Investing** in the care economy as a galvanizing sector
- **Ensuring** the closure of the digital divide and consolidating an inclusive digital transformation
- **Budget allocations** in national and local budgets
Area: sustainability and climate change
Sustainability and climate change
Key challenges and transformative sectors

- The energy transition (hydro, solar, wind, green hydrogen)
- E-mobility
- Decarbonization
- The circular economy
- The bioeconomy
  - Abundant biological resources and significant capacities in terms of biological science
  - Biotechnology, biopharmaceuticals, biofertilizers
- Investment in mitigation and adaptation
- Protection of biodiversity
- Sustainable tourism

A future with a smaller environmental footprint and more employment is possible if the “transformative sectors” are strengthened. This is a major investment challenge.
Area: digital transformation
Lines of action for digital transformation

▪ A digital society is not only more dynamic and productive but also more resilient
  • Greater capacities and flexibility in the face of various shocks and crises

▪ It is essential to build the digital infrastructure needed for the twenty-first century, to reduce inequalities in access and to level the playing field

▪ Factors driving digital transformation include, among others:
  • Infrastructure and universal broadband connectivity
  • Digital skills and abilities
  • Governance, security and enabling environment including regulatory frameworks (cybersecurity, data protection, public procurement rules, teleworking rules, e-commerce regulations, pro-competition rules…)
  • Leadership and governance of digital transformation policy
  • Open government as a vehicle for access to information, transparency and accountability
  • Regional digital cooperation and integration
Area: migration
Latin America and the Caribbean recorded the largest increase in intraregional migration in the world between 2000 and 2020.

Proportion of intraregional migrants among total migrants, by region of origin, 2000 and 2020

(Percentages)

Regional cooperation is needed for safe, orderly and regular migration. Advance in regularizing migrants’ situations to foster their contribution to sustainable development

- **Strengthen coordination among States**
  - Bring national migration control policies into line with international agreements, based on respect for the human rights of migrants.

- **Save lives in border areas**
  - Combat trafficking in persons and restrict the use of detention and arbitrary expulsion.

- **Leverage the contributions of migrants to sustainable development**
  - Include migrants in the coverage of countries’ health and social services.
  - Regularize migratory flows.
Area: economic integration
Actions to deepen economic integration

- Economic integration remains a priority in the region to achieve economic growth, common infrastructure, employment and collaboration between countries, among other objectives.
  - Regional integration and participation in the global economy are not mutually exclusive, but complementary and mutually reinforcing.

- A renewed integration agenda includes, among other themes:
  - Cost reduction and trade facilitation (customs).
  - Road infrastructure, electrical interconnection and energy integration, for example.
  - Convergence and cumulation of rules of origin.
  - Regulatory harmonization in areas such as: e-commerce, competition, government procurement, services and technical regulations.
  - Promotion of trade in digital and knowledge-based services.

- Regional economic integration and convergence of integration schemes are fundamental to the transformation of development strategies.
Area: macroeconomics for development

The foregoing requires macroeconomics for development that can create nominal and real stability in a context of fiscal sustainability.
IV. The “how”

Governance, institutional capacities, citizen dialogue and compacts to transform the development model
Priority areas

- Productivity, productive development, employment and inclusive growth
- Inequality
- Social policies and social protection to advance towards welfare states
- Education and vocational training
- Gender equality and the care society
- Sustainability and climate change
- Digital transformation
- Migration
- Economic integration
- Macroeconomics for development

Driving sectors

- Energy transition: green hydrogen and lithium
- E-mobility
- The circular economy: a cross-sector strategy
- The bioeconomy: sustainable agriculture, genetic resources and bio-industrialization
- The health-care manufacturing industry
- Digitalization: data, platforms and Industry 4.0
- The care economy
- Sustainable tourism
- MSMEs
- Social and solidarity economy

Governance, technical capacities and institutional policies
Technical, operational and political capacities of institutions

- Foresight capacities:
  - Participatory structuring of desirable development scenarios for the future and ownership by development stakeholders

- Strategic planning capacities
  - To formulate comprehensive policies with cross-cutting citizen participation in key areas

- Negotiation capacities
  - To reach consensuses that boost citizen participation

- Evaluation and accountability capacities
  - To foster a culture of continuous learning

- Public leadership that inspires confidence, improving coordination and collaboration

- Cooperation between different levels of government
Need to strengthen areas of social dialogue, for example:

<table>
<thead>
<tr>
<th>Macroeconomic and fiscal sphere</th>
<th>Employment</th>
<th>Productive development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals: negotiate productive, fiscal and distributive macroeconomic compacts (adjustment costs)</td>
<td>Goals: negotiate wages, working conditions, labour rights</td>
<td>Goals: increase exports, investment, innovation, and productivity, develop skills</td>
</tr>
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<td></td>
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<td>These processes involve not only negotiation but also long-term governance to achieve common goals.</td>
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</tbody>
</table>
Summary

- We are in the midst of a development crisis and a lost decade, and we cannot transform development models through business as usual or measures that work on but on a small scale. Transformative actions involving all development actors — government, private sector, civil society and academia — are required.

- Public policy is fundamental. New approaches and innovations exist in development planning, policy governance, and cycles of formulation, implementation, measurement and evaluation of results, and accountability.

- Now is not the time for gradual or timid changes, but for bold transformative policies that truly move the needles of development.

- ECLAC is a partner for navigating this time of turmoil and transform the development and growth model into one that is more inclusive and sustainable.