

Executive summary

Renewed international co-operation can support countries in Latin America and the Caribbean (LAC) to achieve greater inclusive and sustainable development for all. Domestic and global challenges are coalescing in significant ways, while linkages between national policies and the global scenario continue to grow. In the face of this evolving context, the *Latin American Economic Outlook 2019* (LEO 2019) calls for improving domestic capacities and upgrading the international co-operation system for development to better fit new realities. This reflection is necessary to successfully support national development objectives and international efforts to advance regional and global public goods, as well as to pursue the universal goals of the 2030 Agenda for Sustainable Development.

Progress highlights the multi-dimensional nature of development

Greater national incomes are not automatically leading to higher levels of well-being for all in LAC. In the last two decades, some well-being outcomes increased more rapidly than implied by the region's gross domestic product (GDP) growth alone. Conversely, other outcomes increased at a slower pace. The region outperforms expectations for its level of per capita GDP in terms of life expectancy, primary education coverage, social connection and air quality. Yet violence and income inequality remain relatively high, and informality is still a persistent problem. Real wages have also increased at a slower pace than in other countries in the world with similar GDP per capita since the 1950s.

In fact, well-being outcomes gradually delink from income as countries move up along the income ladder. A deeper look at the relationship between multi-dimensional indicators of development and income growth is revealing. It shows that several development dimensions other than GDP per capita become more important in improving people's lives as countries become wealthier. This is the case for most LAC countries. At the same time, LAC has glaring cross-country and within-country regional disparities in well-being outcomes at a given level of GDP per capita. Income thresholds ignore this complex aspect of development, and the diversity and heterogeneity of countries in transition.

Progress in LAC comes with new development challenges

After the remarkable progress experienced at the turn of the 21st century, economic growth and socio-economic advancement in LAC have weakened since 2011. Lower than expected potential GDP growth, at around 3% annually, reflects low labour productivity. Indeed, in recent decades, labour productivity has dropped to about 40% of the European Union rate. In turn, insufficient growth and productivity are holding back further reductions in income poverty and inequality. Alongside these trends, the middle class has expanded to represent one-third of the population. This growing middle class has larger aspirations and demands for better quality public services and institutions; often unmet. For instance, the share of the population satisfied with the education system fell from 63% to 56% from 2006 to 2017, below the OECD levels of 65%. All these trends occur in a region where the impact of environmental challenges, mainly climate change, is already visible.

These symptoms suggest that as LAC countries move towards higher levels of development they face “new” development traps – development challenges that act as vicious circles. These development traps can be transformed into virtuous circles with policy actions to help countries move towards further inclusive and sustainable development. The traps result from the combination of longstanding weaknesses with new problems that emerge as countries advance in their respective development pathways. They are

called traps as they involve circular, self-reinforcing dynamics that limit the capacity of transitioning towards greater development. These four main “new” development traps are:

- **Productivity trap:** LAC has significantly opened up to international trade since the turn of the century. Yet, persistently low productivity seems to be associated precisely with an export structure concentrated in primary and extractive sectors with low levels of sophistication. This undermines the participation of LAC in global value chains and affects further productivity growth.
- **Social vulnerability trap:** Many have escaped poverty in LAC since the early 2000s, though most are now part of a growing vulnerable middle class (40% of the population). This group faces a vicious cycle of low-quality jobs, poor social protection and volatile income that leaves them at risk of falling back into poverty.
- **Institutional trap:** The expansion of the middle class has come with rising social aspirations. Despite improvements in past years, institutions are failing to respond to citizens’ increasing demands. Distrust and low satisfaction are deepening. Citizens see less value in fulfilling their social obligations, such as paying taxes. This, in turn, makes raising tax revenues to finance better public services and respond to social demands difficult.
- **Environmental trap:** Many LAC economies are material and natural resource-intensive. The concentration on a high-carbon growth path is difficult – and costly – to abandon. Moreover, natural resources upon which the model is based are depleting, rendering it unsustainable.

Countries need to expand their domestic capacities to respond to these traps. Improving policy making, including building technical capacity to design, implement and monitor National Development Plans (NDPs) as well as to spend better and to create a consensus to overcome the complexities of the political economy of reforms, is key to uncapping LAC’s potential. Likewise, better financing for development is needed to mobilise both public and private resources to invest in structural policies.

International co-operation for development needs to continue evolving

This more complex socio-economic landscape calls for wide-ranging efforts, which include a new approach to international co-operation for development. Such an approach comprises international co-operation adopting a facilitator role to respond to the needs of economies and societies in transition in several ways.

First, it would allow countries at all income levels to build and participate equally in policy partnerships. This is not only legitimate, but also beneficial for addressing common concerns more effectively and ensuring that the global multi-dimensional nature of many development challenges receives the necessary global multi-dimensional responses.

Second, it would place national strategies front and centre and strengthen countries’ domestic capacities. It could help LAC countries set policy priorities, implement and evaluate development plans, and increase alignment between domestic and international priorities. It could also help them play an active role in the global agenda.

Third, it would include an expanded box of tools for international co-operation that brings in expertise from a wide range of actors. It would pay special attention to assembling public actors of different ministries in a “whole of government” approach. The toolbox would comprise instruments for greater technical co-operation, such as knowledge sharing, multilateral policy dialogues, capacity building, access to technology and co-operation on science, technology and innovation. The international co-operation system for development offers many positive examples, successes and valuable lessons upon which to build.



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