Ruptures and opportunities

Proposals for Latin America and the Caribbean to **thrive** in the **new geopolitical era**

ECLAC Commission on Geopolitics, Globalization and Development
for Latin America and the Caribbean

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This document includes the deliberations, analyses, proposals and recommendations of the ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean, convened by José Manuel Salazar-Xirinachs, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). To facilitate the work of the Commission and the preparation of this report, the Executive Secretary of ECLAC established a technical secretariat, serving as its coordinator together with Raquel Chanto, Chief of Staff a.i. in the Office of the Executive Secretary, and with support and advice from Luis F. Yáñez, Secretary of the Commission.

The technical secretariat comprised Andrés Boeninger, Sebastián Herreros, Sergio Rivero and Cecilia Vera, Economic Affairs Officers in the Office of the Executive Secretary of ECLAC. Carlos Ominami and Daniel Zovatto, Consultants, provided external advisory support to the Executive Secretary and the technical secretariat throughout the process. The substantive divisions of ECLAC also prepared input for the document.

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United Nations publication
LC/PUB.2026/10
Distribution: G
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Printed at United Nations, Santiago
S.2600175[E]

This publication should be cited as: ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean. (2026). *Ruptures and opportunities: proposals for Latin America and the Caribbean to thrive in the new geopolitical era* (LC/PUB.2026/10). Economic Commission for Latin America and the Caribbean.

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Meetings of the ECLAC Commission
on Geopolitics, Globalization and Development
for Latin America and the Caribbean



From left to right: Daniel Zovatto, Qian Liu, Aloizio Mercadante, José Manuel Salazar-Xirinachs, Brian Winter, Michelle Bachelet, Harsha Vardhana Singh, Leonardo Lomelí, Luis Yáñez, Raquel Chanto and Carlos Ominami at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago.



From left to right: Raquel Chanto, Brian Winter, Qian Liu, Michelle Bachelet, José Manuel Salazar-Xirinachs, Aloizio Mercadante, Leonardo Lomelí and Harsha Vardhana Singh at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago.



From left to right: Carlos Ominami, members of the technical secretariat (Luis Yáñez, Andrés Boeninger, Sergio Rivero, Cecilia Vera and Sebastián Herreros), and Daniel Zovatto at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago.



From left to right: Harsha Singh, Brian Winter, Lars-Hendrick Röller, Michelle Bachelet, Leonardo Lomelí, José Manuel Salazar-Xirinachs, Qian Liu and Keith Nurse at the National Autonomous University of Mexico (Mexico City).



From left to right: Michelle Bachelet, José Manuel Salazar-Xirinachs and Aloizio Mercadante at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago.



Michelle Bachelet and José Manuel Salazar-Xirinachs at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago.



From left to right: Lars-Hendrick Röller, Harsha Vardhana Singh, Qian Liu, José Manuel Salazar-Xirinachs, Michelle Bachelet and Leonardo Lomelí at the National Autonomous University of Mexico (Mexico City).



José Manuel Salazar-Xirinachs and Michelle Bachelet at the National Autonomous University of Mexico (Mexico City).



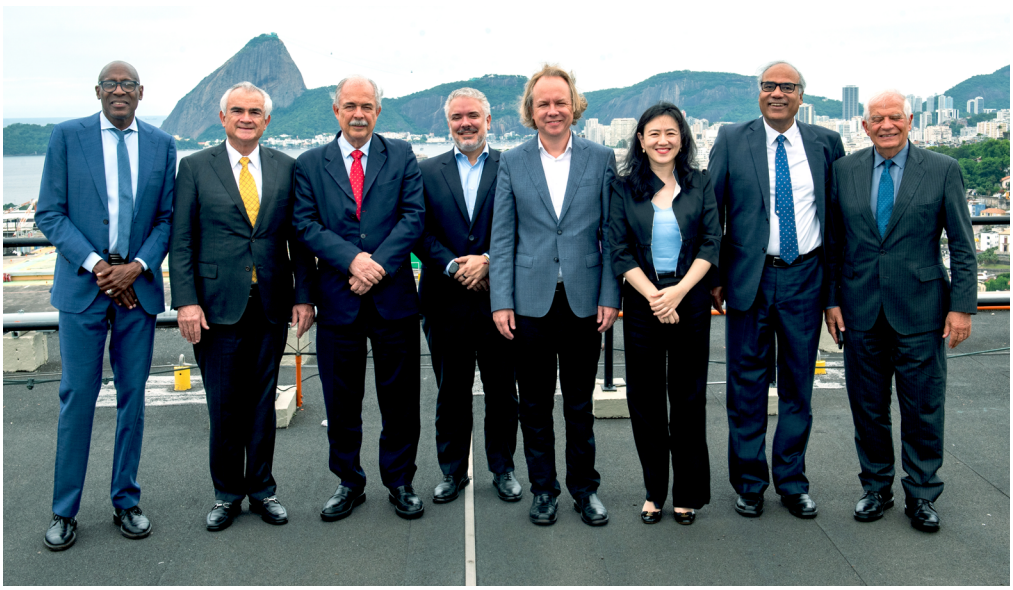
From left to right: Keith Nurse, Harsha Vardhana Singh, Brian Winter, Aloizio Mercadante, Iván Duque, José Manuel Salazar-Xirinachs, Josep Borrell and Qian Liu at the headquarters of the Brazilian Development Bank (BNDES) in Rio de Janeiro, Brazil.



From left to right: Aloizio Mercadante, Iván Duque and José Manuel Salazar-Xirinachs at the headquarters of the Brazilian Development Bank (BNDES) in Rio de Janeiro, Brazil.



From left to right: Brian Winter, José Manuel Salazar-Xirinachs, Iván Duque, Aloizio Mercadante, Qian Liu, Josep Borrell, Harsha Vardhana Singh and Keith Nurse at the headquarters of the Brazilian Development Bank (BNDES) in Rio de Janeiro, Brazil.



From left to right: Keith Nurse, José Manuel Salazar-Xirinachs, Aloizio Mercadante, Iván Duque, Brian Winter, Qian Liu, Harsha Vardhana Singh and Josep Borrell in Rio de Janeiro, Brazil.

Foreword

"The straw that broke the camel's back" is an idiom that exists in some form in several languages and cultures. History is shaped by continuous change as well as ruptures: some processes are slow but steady and gradually transform reality, while others are leaps forward, disruptions and paradigm shifts, even in areas that had already seen incremental change.

The world has been transformed by a combination of gradually unfolding megatrends and fast-moving events, such as the financial and economic crisis of 2008–2009 and the 2020 pandemic shock. Geoeconomics is one of these areas of slow but steady change, with a shift in economic momentum from West to East and from the global North to the global South, at least since the turn of this century. Geopolitics has also been transformed, but those changes accelerated in 2025, which will probably be described in future textbooks as a year of ruptures.

Already in the 2010s, some analysts had begun predicting that no single country or bloc would lead the world, as the United States had done in the post-war era or, even more so, in the "unipolar moment" after the fall of the Berlin Wall and the end of the Cold War. For several years now, the big question has been whether that situation would lead to the emergence of a new international order or, on the contrary, to an absence of order, an imbalance, with the future determined by forces beyond the control of any actor or coalition.

These considerations were on my mind when I took office as Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), an institution whose intellectual leadership role is tied to analysis of the structural challenges of development in the countries of Latin America and the Caribbean, always with a systematic focus on the links between developed economies and the developing economies of the region, which 70 years ago were referred to as the centre and the periphery, respectively. One of my main goals when I arrived at ECLAC, in October 2022, was to deepen and fine-tune the ECLAC tradition of thinking about development as it relates to the world and our place in it.

For that reason, the first chapter of the position document that we presented at the fortieth session of ECLAC, in October 2024, was entitled "Globalization redefined". While preparing that document —especially when analysing major changes in geoeconomics and clearly growing geopolitical, industrial and technological rivalries— we reflected on the importance of understanding the new international landscape and the implications of some of the global events of the time, including the war in Ukraine, the recent hostilities in and around the Islamic Republic of Iran and the electoral process in the United States.

Mindful of the impact of these trends and developments, I began to envision the project that would eventually become the ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean. The idea was to convene and establish an independent high-level commission that would help us to deepen analysis of the new international order (or disorder) and formulate recommendations for the countries of Latin America and the Caribbean on how to navigate it, avoiding the greatest risks and leveraging the opportunities presented.

During the preparatory phase in the second half of 2024, we defined the terms of reference and, using those as a guide, contacted the extraordinary individuals who currently make up the Commission, all participating *ad honorem* and in a personal capacity. I am deeply grateful to each member for their enthusiasm and commitment to the idea, and for their hard work since the beginning of 2025. The Commission's work was supported by the technical secretariat that I established here at ECLAC and enriched by our analytical and empirical corpus of publications, studies and databases, which are renowned in the region. This book, now available to the public, is the result of this joint effort.

I would like to express my sincere gratitude to former President Michelle Bachelet and former President Iván Duque, who served as Co-Chairs of the Commission and who for over a year contributed not only their keen perspective and vast experience, but also their generous and committed leadership.

I also owe very special thanks and recognition to António Guterres, Secretary-General of the United Nations, and to Amina Mohammed, Deputy Secretary-General of the United Nations, for their support and trust, which enabled us to realize this project.

The Commission held three in-person meetings, in Santiago in May 2025, in Mexico City in October 2025 and in Rio de Janeiro in February 2026. I would also like to thank the Commission members Leonardo Lomelí, Rector of the National Autonomous University of Mexico, and Aloizio Mercadante, President of the Brazilian National Bank for Economic and Social Development, for hosting the latter two meetings. We also held several virtual meetings and consultations to fine-tune the draft of the report and adjust analysis and recommendations.

The Commission is made up of a diverse group of distinguished and well-respected public figures of different nationalities and political orientations. Amid considerable fragmentation and polarization in the region, the fact that this group was able to reach a solid consensus on the characteristics of the current geopolitical landscape and on the main messages and recommendations of the report is of great value and lends legitimacy to its findings.

The overview and the summary of recommendations expressed in 10 proposals outlined at the beginning of this book provide an excellent snapshot of the report's contents. I nevertheless strongly recommend reading it in its entirety, as the value of the insights and analysis cannot be adequately conveyed in just a few pages.

The report presents a conceptual framework that identifies eight ruptures which are transforming the global order and describes four forward-looking scenarios for analysing possible trajectories. Based on a taxonomy of the strategic assets of Latin America and the Caribbean, the authors examine the region's opportunities for development and international influence and propose road maps for leveraging them, recognizing the diversity of countries, subregions and production structures. With regard to international affairs, they recommend strengthening the margins of action and negotiating capacity through active non-alignment, reaffirming the importance of multilateralism and a rules-based system. Lastly, they argue that the success of any development strategy depends on robust State capacity, political legitimacy, good governance and respect for the rule of law and human rights.

At ECLAC, we plan to organize national and regional dialogues to ensure that this report is widely disseminated and, above all, discussed, for the benefit of the governments and people of the region. I hope that these proposals will prove useful for the formulation of more effective and resilient policies and strategies, and contribute to the sound development and international integration of Latin America and the Caribbean.

As ECLAC approaches the eightieth anniversary of its founding, I trust that this report will stand as a valuable contribution to our institution's long tradition of helping the countries of the region to achieve more productive, inclusive and sustainable development, amid complex global conditions at present and in the coming decades.

José Manuel Salazar-Xirinachs
Executive Secretary
Economic Commission for Latin America
and the Caribbean (ECLAC)

July 2026

Presentation

Michelle Bachelet
President of Chile (2006–2010 and 2014–2018)

Iván Duque
President of Colombia (2018–2022)

Politics is far from being an exact science. It does not give straightforward answers. It does not provide guarantees. It does not make infallible predictions or reveal universal truths. Rather than telling us what is going to happen, politics is a way to decide what we are going to do. It is an expression of will. It is a patient, purposeful endeavour that relies on the ability to convoke, persuade and encourage others. At its best, politics is the art of collective action, a deployment of agency and imagination that has defined the course of humanity.

It is always important to remember this, but in times like these, it is absolutely essential. We are living through a historic moment fraught with uncertainty, anxiety and bewilderment. The world we once knew has changed dramatically and, in some respects, has become unrecognizable. This breeds confusion. For many, it also breeds fear and paralysis. The problem is that history waits for no one.

The Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean emerged from the commitment made by the Economic Commission for Latin America and the Caribbean (ECLAC) to devise a roadmap for the region in this era of ruptures. From the outset, we were driven to seek alternatives and to move beyond the fatalistic assessments that our region too often makes of itself. On the contrary, we started out with the conviction that Latin America and the Caribbean possess assets whose full potential has yet to be realized, assets that can be used to step up the pace of economic development. But in order to do this, the region needs well-defined strategies. The challenges are real, but so are the opportunities.

That is why this report goes far beyond a simple analysis. Its pages contain concrete recommendations that the governments of the region can put into practice, as can key stakeholders in the private sector, civil society, academia and international agencies. It does not offer an exhaustive list or any magic formula but rather a set of practical ideas and proposals for overcoming paralysis and lighting the way forward.

This report conveys an urgent message. Part of that message is embodied in the Commission itself. Its members come from all over the world. We have very different professional backgrounds. We belong to differing ideological traditions. Yet, despite that diversity —or perhaps because of it— we have been able to reach agreement on what matters most. In a world beset by geopolitical rivalry and fragmentation, where polarization is on the rise and extreme narratives portray those who hold different views as posing an existential threat, the Commission's members have shown that it is possible to engage in dialogue guided by reason and conducted in good faith and to find common ground despite our differences.

That is the promise of pluralism: not an absence of conflict but the possibility of addressing it with respect for others while recognizing their inherent dignity. That is why the defence of democracy is a recurring theme throughout this report. We are deeply concerned by

the threats arising in our region, and throughout the world, to some of the foundations of democracy, such as the separation of powers, the system of checks and balances, freedom of the press and freedom of expression. Above and beyond the recommendations made in this report on economic issues such as energy, critical minerals and production sectors, we want to underscore just how important it is to safeguard and reinforce the institutions that govern life in society. Democracy is not, nor can it be, a separate pursuit from our development because development goes hand in hand with liberty.

As Co-Chairpersons of the Commission, we wish to thank our fellow commissioners for the time they have devoted *ad honorem* to this undertaking for over a year now. We are grateful for the constructive spirit in which they have voiced their views and the generosity they have shown in providing us all with their wealth of individual experiences. We also wish to express our gratitude to ECLAC, and especially its Executive Secretary, for his foresight and the timeliness of this initiative and for inviting us to lead this remarkable group. We are also deeply appreciative of the invaluable support we have received from the Technical Secretariat that he established for this process.

For over 78 years now, ECLAC has worked alongside the countries of Latin America and the Caribbean to search for solutions of their own for the region's development problems. Along the way, it has developed theories and models that have had a far-reaching impact in the region and beyond. By convening this Commission and setting before us some of the most contentious questions of our times, ECLAC has once again demonstrated its intellectual leadership and its readiness to help us navigate global developments and respond to them strategically.

Many of the recommendations made in this report are technical and all of them are grounded in empirical evidence. Yet behind each one, and beyond them all, we offer something far simpler and more powerful: hope.

A hope that is neither naïve nor unfounded but that is grounded in reality and faces that reality head on. A hope that flows from an understanding of this region, of trust in its people, of belief in the value of cooperation and in the power of collective action.

The hope born of knowing that Latin America and the Caribbean cannot only survive but can thrive in the years to come.

Michelle Bachelet
Co-Chairperson of the ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean

Iván Duque
Co-Chairperson of the ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean

Overview

This report and the recommendations it offers are intended primarily for decision makers in government, business and civil society who face the challenge of dealing with the profound transformations taking place in the world order. Its main message is that, while the countries of Latin America and the Caribbean cannot fully control these global transformations, they have assets and options for navigating them to achieve development gains and increase their international agency, although their success will ultimately depend on their ability to craft appropriate and deliberate responses.

A new geoeconomic and geopolitical landscape: ruptures and scenarios

The world order has experienced major transformations in recent decades. In the 35 years from 1990 to 2024, the G7's share of global GDP (measured in purchasing power parity terms) fell from 45% to 30%, while that of the BRICS increased from 23% to 42% and the share of the Global South as a whole rose from 42% to 61%. China alone increased its share of world GDP from 4% to 19% during this period. Similar changes occurred in variables such as foreign trade, gross fixed capital formation, FDI outflows and numbers of scientific and technical journal articles. The rise of Asia has been particularly prominent. China has gone from a peripheral position to becoming the world's second-largest economy and its leading exporter of goods and foremost manufacturing power, with an economy increasingly based on knowledge and innovation. Between 1990 and 2024, the world's three fastest-growing large economies were all in Asia: China (8.7% a year), Viet Nam (7.4% a year) and India (6.1% a year). Clearly, the contours and characteristics of the world economy today are quite different from what they were 50 or even 30 years ago.

While this geoeconomic change has been relatively gradual, it has recently resulted in accelerated geopolitical changes. The post-war system —built around multilateral institutions, shared rules and expanding globalization— has given way to a new phase defined by strategic rivalry, weaponized interdependence, fragmented governance and weakened multilateral cooperation. More than trends, the magnitude and velocity of these changes is such that a more appropriate name for them is "ruptures". The Commission has identified eight interrelated ruptures that are redefining the conditions under which countries compete, cooperate and exercise influence.

The main ruptures in the world order

- **Rupture No. 1: Globalization reconfigured: from economic efficiency to security.** Until recently, economic interdependence was primarily regarded, and even celebrated, as a source of mutual gains. By contrast, it is now viewed with suspicion —even seen as a threat to national security in some cases— and weaponized by the largest players to achieve various strategic objectives. As a result, global value chains are being reconfigured and geographically relocated.
- **Rupture No. 2: Erosion of multilateralism and reconfiguration of global governance.** The multilateral system designed in the post-war period was based on universal institutions and common rules and values such as democracy, human rights and free trade. That system is now undergoing major changes and facing a crisis of legitimacy, effectiveness and sustainability. What is emerging is a more fragmented form of governance, with selective alliances and competing platforms. It is not just a matter of changes within the existing order but of an actual change in the global order, which remains fluid and whose characteristics are not yet fully defined.
- **Rupture No. 3: From unipolar hegemony to multipolar competition.** The world has transitioned from a unipolar hegemonic system dominated by the United States to an asymmetric system of multipolar competition marked by intensifying rivalry between the United States and China and a more diversified geographical distribution of economic, technological and political power.
- **Rupture No. 4: Soft power reconfigured.** Soft power can be viewed as the influence associated with attraction based on trust, admiration, cultural features and other characteristics. This rupture consists of a reconfiguration of attraction-based soft power. Several measures of soft power show the United States trending downward and China on the rise.
- **Rupture No. 5: Global decline of democracy and rising political polarization.** Several studies and metrics point to a sustained erosion of democratic institutions and the rule of law and increasing restrictions on civil and political liberties, accompanied by increasing polarization and declining trust. Globally, there is a falling proportion of countries classified as liberal democracies —i.e. those with free elections, effective separation of powers, judicial independence, freedom of the press and robust protections for individual and minority rights.
- **Rupture No. 6: Disinformation and the crisis of truth in the age of AI.** Disinformation, algorithmic manipulation and the malicious use of AI are eroding trust in institutions, public debate and democratic legitimacy. Information itself has become a strategic battlefield.

- **Rupture No. 7: Backlash against women's rights, gender equality and inclusion.** Advances achieved in these areas over recent decades are facing growing contestation and, in some contexts, reversal. This phenomenon is part of a broader narrative that seeks to reassert countries' cultural and legal sovereignty in the face of what are presented as external impositions.
- **Rupture No. 8: End of the global climate consensus.** Climate action is increasingly being subordinated to national industrial strategies, energy security concerns and geopolitical competition. Advanced economies have repeatedly fallen short of their climate-finance commitments, adversely affecting the ability of the world's most vulnerable countries to accelerate the decarbonization of their economies and their adaptation to the impacts of climate change.

Based on these eight ruptures, the Commission has identified four plausible scenarios for the future evolution of the international order. These scenarios are analytical typologies rather than exclusive alternatives, and they may overlap and coexist unevenly, giving rise to a hybrid, unstable order marked by pronounced asymmetries.

Table 1
Four plausible scenarios for the future of the world order

Scenario	Geoeconomics	Goals and strategies	Rules-based regimes
Stable multipolar reconfiguration	More balanced distribution of economic power, with new centres of gravity integrated into an interdependent and diversified system.	Pragmatic cooperation and shared responsibility in addressing global challenges.	Gradual reforms in multilateral institutions.
Geopolitical fragmentation into spheres of influence	Regionalization of trade, FDI and value chains around security, supply resilience and regulatory affinity in strategic sectors.	Consolidation of spheres of influence through coercion, regulatory competition, selective alliances and decoupling. Middle powers face constrained choices.	Fragmented governance, with rules increasingly shaped within separate spheres of influence.
Extreme decoupling and systemic polarization	Emergence of two rival economic and technological architectures. Value chains are completely restructured for strategic reasons.	Pressure for forced alignments, with coercive strategies and diplomatic ruptures dominating the scenario.	Collapse of multilateral frameworks. Regulatory disputes unmitigated by shared principles or legitimate arbitrators.
Resurgence of multilateralism driven by middle powers	Denser cross-regional linkages. Middle powers as key nodes of growth and productive integration between regions.	Coalition-based brokerage, agenda-setting and defence of global public goods.	Partial renewal of multilateralism through middle-power coalitions.

Source: Prepared by the authors.

Latin America and the Caribbean in the changing world order

The transformations occurring in the international order are redefining the region's margins of action for development and global engagement. Understanding these shifts is essential in order for Latin American and Caribbean countries to respond effectively to the challenges they pose and to take advantage of the opportunities they create.

The current global ruptures intersect with long-standing structural vulnerabilities that constrain the region's ability to respond, adapt and leverage new opportunities. According to the diagnosis presented by ECLAC —with which the members of the Commission concur— the region is caught in three development traps:

(i) A low capacity to grow, with GDP growth averaging just 1.2% a year between 2016 and 2025;

(ii) High inequality, low social mobility and weak social cohesion, which erode trust and weaken social contracts;

(iii) Weak institutional capabilities and ineffective governance, which hamper the implementation of much-needed structural reforms.

These three traps reinforce each other and are compounded by a rapidly ageing population, political polarization, the rise of transnational organized crime and the increasingly severe damage caused by climate change. However, these sources of pressure are unfolding unevenly across a highly heterogeneous region, where countries have differing productive structures, institutional capabilities, revenue-raising capacity, external linkages and strategic assets, among other dimensions.

Activating assets for global engagement and development benefits

Despite facing substantial headwinds both internally and externally, Latin America and the Caribbean has a very significant and varied set of assets whose strategic value is rising precisely because of the global transformations under way. These assets can be grouped into five categories (see table 2).

Table 2
Latin America and the Caribbean: strategic assets for global engagement and development gains

Strategic resource endowments	
Energy (clean and fossil)	The region has large reserves of fossil energy, is a major producer of hydro, solar and wind energy, and is an emerging leader in green hydrogen.
Food security provider	Latin America and the Caribbean is the world's largest net food-exporting region.
Critical minerals	The region possesses large reserves of lithium, copper, nickel, cobalt, rare earths, bauxite and graphite.
Biodiverse ecosystems, freshwater reserves, carbon sinks	Latin America and the Caribbean hosts nearly half of the world's terrestrial biodiversity and is home to more than 20% of the world's forests. The Amazon basin acts as a global carbon sink. Moreover, the region contains one-third of the planet's freshwater resources.
Productive, human and financial capabilities	
World-class productive clusters	Several Latin American and Caribbean countries have developed highly competitive production clusters in sectors such as aerospace, automotives, medical devices, modern services, renewable energy, food production, tourism and others.
Creative industries	The region has strong cultural and creative industries in audiovisual production, music, design, fashion, gaming and digital content with a growing export potential.
Platform for start-ups and deep tech	There is a growing tech start-up ecosystem in the region, an increasing number of Latin American and Caribbean unicorns and emerging deep tech hubs (biotech, agritech, AI, advanced materials) in countries such as Brazil, Mexico, Colombia and Chile.
Development banking capacity	A strong network of regional, subregional and national development banks support strategic sectors and regional integration.
Diaspora networks and external financial linkages	Migrant communities provide stable external income through remittances and facilitate knowledge transfer, entrepreneurship and transnational business connections that strengthen the region's productive and financial capacities.
Human talent	The region has a diverse human capital base characterized by broad educational coverage, expanding tertiary education systems, a sizeable youth population and rising educational attainment among women.
The region as an asset	
Market size	The region is home to over 660 million people and has a combined GDP of US$ 6.8 trillion.
Integration and cooperation mechanisms	A network of regional and subregional integration mechanisms and cooperation frameworks support cross-border cooperation and the provision of regional public goods.

Political influence	
Multilateral diplomacy platform	The region plays an active role in several multilateral forums, influencing the global agenda on topics such as climate change, biodiversity, food and water security, renewable energy, human rights, the oceans, gender equality, diversity, inclusion and the transition towards a care society.
A region free of nuclear weapons and inter-State wars	By projecting an image of peace, stability and commitment to international law, the region enhances its credibility and strengthens its moral authority in debates on disarmament, conflict prevention and global governance.
Soft power	
Intangible assets	The region boasts a combination of cultural diversity, a rich heritage and tourism attractions of global significance, influence and visibility.

Source: Prepared by the authors.

The members of the Commission strongly believe that, by using these assets in a strategic way, Latin American and Caribbean countries can position themselves as reliable providers of goods and services that the world needs. Some of these goods and services are for final consumers, others are key inputs for leading modern industries and technologies, and still others contribute to the provision of global public goods in areas such as energy transition and biodiversity conservation. Building on these assets with the appropriate productive development policies and strategies, Latin American and Caribbean countries can enhance their global engagement and their growth, development and prosperity.

These five categories of assets differ from one another in several ways and are not evenly distributed across countries. What they share is that their development potential depends on how well they are strategically leveraged and managed. Without clear and well-designed strategies, these assets will not spontaneously translate into development gains. For example, activating the region's assets in areas such as food, energy, biodiversity and critical minerals requires sector-specific productive development policies that combine innovation, digital transformation, skills development, targeted public goods provision, development financing and internationalization strategies. The objective is to move up the value chain, increase domestic value added and strengthen long-term resilience and competitiveness. This report presents specific recommendations and strategic approaches regarding a selected number of these asset categories.

In addition to national strategies, Latin American and Caribbean countries should strengthen regional cooperation to harness the full potential of their assets. This is especially important in the case of natural resources, whose strategic value increases significantly

when countries act collectively rather than in isolation. Without cooperation, these assets largely remain a source of national advantages. With coordination, countries can generate more efficient production scales, strengthen their collective bargaining power vis-à-vis foreign governments and firms, improve regional infrastructure and logistics, and create greater opportunities to move up the various value chains from extraction to processing, manufacturing and knowledge-intensive activities.

Similarly, reducing barriers to intraregional trade and investment flows would significantly increase the strategic value of the regional market compared to a situation where it remains fragmented (as is largely the case today). Deeper regional economic integration would support productive diversification, the internationalization of small and medium-sized enterprises (SMEs) and the formation of cross-country value chains. It would also reduce the region's exposure to global trade shocks. Ensuring a stable and predictable environment for trade and investment therefore remains a priority, as this provides the basis for strengthening the region's external position and is conducive to equitable and sustainable growth.

Strengthening governance, democracy and institutions

None of this, however, is achievable without effective governance. In many countries and areas, public institutions and governance arrangements are not up to the task of addressing the combination of shocks and pressures emerging from the changing world order or of overcoming the associated challenges. Transforming strategic assets into development gains and international agency requires the capacity to mobilize and coordinate a broad ecosystem of actors —including the private sector, academia, civil society and subnational governments— and doing so in a context of political fragmentation, polarization and fiscal constraints.

The central question, therefore, is whether States can exercise the political vision and steering capacity needed to align these actors and capabilities around shared development priorities, transforming assets into positive development outcomes at home and sustained influence in the international sphere, rather than allowing them to become sources of vulnerability, contestation or external dependency. The defining challenge is therefore related to governance and institutions.

The Commission has identified four critical governance and institutional improvement pathways: (i) strengthening State capacity for coherent and effective governance and delivery; (ii) restoring trust and institutional legitimacy; (iii) forging common ground in a polarized political landscape; and (iv) confronting the expansion of organized crime.

A common thread in these improvement pathways is the need to strengthen democracy. Solid democratic institutions are essential to restore trust and legitimacy, sustain strategic approaches, maintain strong and inclusive economic growth, and reduce poverty and inequality. Democratic erosion weakens the institutional and governance foundations upon which long-term results are built, as it feeds political discontent and instability. A large part of the region's difficulties stem from a sustained misalignment between rising social expectations, limited State capabilities and eroding democratic legitimacy. Policy quality and continuity depend not only on technical soundness, but also on the ability of political actors to cooperate, make credible commitments over time and learn within stable institutional frameworks. Democratic systems combined with strong State and institutional capacities for governance and delivery are the most solid foundations for sustained growth and development.

Reducing political polarization requires addressing its material underpinnings, not only its discursive or institutional expressions. Governments should deploy credible, progressive redistributive policies centred on universal and high-quality public goods such as education, health, social protection and basic services that reduce economic insecurity and narrow distributive gaps in a visible and sustained manner.

A critical dimension of the governance challenges facing the region concerns the fiscal capacity of the State. The extent to which governments can effectively plan, coordinate and sustain development strategies depends in part on their ability to mobilize and allocate public resources. The Commission recognizes that, with public debt averaging 51% of GDP and interest payments exceeding public investment in several countries, the region's limited fiscal space is a significant challenge. Moving forward will therefore require not only technical reforms, but also the political capacity to build broad and lasting fiscal frameworks capable of sustaining development strategies over time.

Organized crime has become a structuring force in the region. Violence, extortion and territorial control distort and impede development. Criminal organizations exert de facto governance over portions of various countries' territories, economic vulnerability and limited opportunities fuel criminal recruitment, and illicit markets provide criminal organizations with resources. While criminal networks operate transnationally, State responses remain fragmented. Latin American and Caribbean countries need to restore State authority over the whole of their territories, expand economic and social alternatives to block recruitment pathways, target illicit economies and strengthen regional cooperation. Organized crime represents not only a security threat but also a governance challenge of the first order.

The quest for regional agency

For Latin American and Caribbean countries, navigating current global transformations and geopolitics is best approached by distinguishing strategic choices across three distinct domains: security, the economy and values. These domains are interrelated, as decisions in one domain constrain and shape options in the others, but they offer different amounts of room for manoeuvre. Security is the most constrained domain, given the pre-eminence of the United States in the continent and its undisputed hard power. In the economic domain, countries have more freedom to exercise a broader range of options in terms of diversifying trade and investment relations across multiple partners. However, such options vary significantly depending on the geographical structure of each country's current trade, investment and financial relations. In the domain of values, the region's foreign policies have in recent decades broadly reflected a commitment to democracy, human rights and multilateralism. In the new context, this normative stance will often be challenged on some issues, and countries will have to make difficult calls, weighing values against pragmatism to pursue their national interests.

The Commissioners believe that Latin American and Caribbean countries need not adopt uniform alignments across the security, economic and normative domains of foreign policy. The region's own diplomatic practice shows that cooperation partners may differ across issue areas. The Commission endorses the idea that countries should seek variable-geometry, issue-specific coalitions with partners that share enough common ground to act together. Within the region, this vision has been embodied in the concept of active non-alignment.

The most complex challenge across the three domains is —and will remain— managing the tensions arising from the region's deep ties with both the United States and China, the central axis of geopolitical rivalry today. In principle, Latin American and Caribbean countries should seek to avoid being forced to pick sides between the world's two largest economies. The viability of that aspiration varies across countries and issue areas, but countries would benefit from maintaining this strategic direction. Regional coordination around shared interests offers the most effective path for doing so, provided the region avoids two pitfalls: the unrealistic expectation of comprehensive political consensus and the sceptical position that dismisses a priori the possibility of collective action as unattainable.

The Commission proposes four principles to guide the region's external positioning and intraregional cooperation.

- **Principle 1: Avoid rigid alignments in a world of competing powers**. The region's capacity to exercise international agency depends on preserving flexibility to engage with different partners and seek new alliances across different issues.
- **Principle 2: Prioritize viable agreements over unanimity**. Full consensus is unlikely in a context of acute political fragmentation. Regional agency should therefore focus on functional, cumulative and scalable agreements around shared interests that can survive changes in national governments.
- **Principle 3: Translate common ground into concrete commitments**. Shared interests must be reflected in specific objectives, clear timelines, adequate and stable financing, and assigned responsibilities.
- **Principle 4: Prioritize functions over institutional forms**. The key question is not which institution or forum best represents the region, but which functions are required: political coordination; technical capacity to translate decisions into policy frameworks; and financing and implementation mechanisms. The institutional architecture for these three functions already exists. The challenge is to coordinate existing regional institutions around a limited set of strategic priorities.

Seizing the moment

Despite the complexities and ruptures marking the global landscape, and in some cases even because of them, the current moment presents a rare and time-limited opportunity. The world is in flux, and many countries are redefining and diversifying their alliances. Current technological revolutions offer many opportunities to dynamize growth and to improve countries' capabilities in multiple areas, including more effective and transparent governance. Some regions of the world and many industries are growing at impressive rates. Multipolar competition**,** while presenting many challenges, also offers opportunities for cooperation and gains on many fronts.

The ongoing reorganization of the world order will not pause while the region deliberates or is distracted by short-term challenges. The standards, alliances, supply chains, financial architectures and governance rules that are being reconfigured today will shape Latin American and Caribbean development prospects for decades to come. The question is not whether to engage or not, but how: whether the region's countries will do so strategically and with greater collective capacity or rather in a fragmented and reactive manner. Recent developments such as the conclusion of the European Union–MERCOSUR agreement suggest that, despite geopolitical tensions and growing fragmentation, there remains scope for ambitious forms of international cooperation and economic integration when strategic interests align.

This report seeks to show a way forward. The region has a wide range of assets that the world needs— at a time when the terms under which these assets are valued, controlled and transformed are being redefined. This window will not remain open indefinitely. What is not done now —the missing productive development policies, absent coordination mechanisms, unformed negotiating coalitions— will limit the region's ability to capture these opportunities. The countries of the region must act urgently to turn their strategic assets into effective power and influence and into development benefits. This requires clear strategies and collaboration with the private sector, academia and civil society organizations, which, in turn, demands strong institutions and effective governance and delivery: more common visions and less polarization.

Global powers are already acting. The United States, China and the European Union are deploying comprehensive strategies to secure access to the region's resources, shape its digital and physical infrastructure, and anchor its supply chains to their own industrial priorities. In this context, the absence of a deliberate regional strategy does not lead to neutrality but to the acceptance of terms set by others.

This report does not rely on false optimism. The region's three development traps are real, as are its governance challenges and political fragmentation. But the Commission's analysis is equally clear on the other side of the coin: the Latin American and Caribbean region has assets whose strategic value is increasing as a result of current geopolitical transformations. These assets should not be treated merely as negotiating tools but as the foundation of a new development strategy, provided there is sufficient political will to do so.

The five chapters of this report are designed to be read, debated, challenged and used. They are an invitation to decision makers in government, business, academia and civil society to engage with the strategic choices that this moment in history demands. The analysis is offered in the conviction that a more prosperous, equitable and influential Latin America and the Caribbean is not only possible but is the best contribution the region can make to a more stable, just and cooperative world order.

The Commission's recommendations: 10 propositions

The world order has changed. On the geoeconomic front, there are now multiple countries and regions that wield significant industrial, technological and market power. On the geopolitical front, the great powers are weaponizing interdependence with little regard for the ground rules. Great power rivalry, along with the technological revolutions under way and changes in world views and values, have produced a series of ruptures in the world order as we knew it only a few years ago.

There is a great deal in the current state of the world that is cause for concern. Nevertheless, the Commission's view is that some of the ruptures and changes identified in this report, along with the new multipolar competition unfolding across the economic, technological, security and ideological domains, present significant opportunities for Latin America and the Caribbean, a region with many assets that the world needs.

Based on an extensive analysis of changes in the world economy, geopolitical developments and the countries' own structural gaps, this report provides a series of recommendations for Latin American and Caribbean countries to further their development and increase their international influence. This section sums up those recommendations in 10 propositions.

Seize the moment by activating strategic assets

1. **Seize this moment of opportunity by leveraging the region's strategic assets to make development gains**. The report identifies five categories of assets: (i) resource endowments (energy, food, critical minerals, biodiverse ecosystems and water); (ii) productive, human and financial capabilities (world-class productive clusters, creative industries, platforms for start-ups and deep tech, development banking, diaspora networks, human talent); (iii) market size; (iv) political assets associated with the region's status as a zone of peace and its multilateral engagement; and (v) a distinctive base of soft power derived from cultural, creative and symbolic capital. However, leveraging the region's assets requires well-defined strategies with a long-term perspective and a willingness to prioritize areas and sectors where transformation is both feasible and impactful. The region has solid foundations. The challenge is to use those foundations as a platform for building coherent strategies for enhancing resilience, improving competitiveness and enabling Latin American and Caribbean countries to position themselves —and the region as a whole— as providers of solutions in the emerging global landscape.
2. **Use the region's abundant natural resources as a strategic negotiating tool**. The Latin American and Caribbean region holds 46% of the world's lithium reserves, 35% of its copper, 28% of its graphite and 23% of its rare earths. It is the world's leading net

food-exporting region. It hosts nearly half of the planet's total terrestrial biodiversity and one third of its freshwater resources. It has the world's cleanest electricity matrix. Scaling up productive development policies in the agrifood sector, engaging in a proactive food diplomacy and promoting regional manufacturing of critical inputs such as fertilizers are some of the recommended actions that the region could take in the food export and food security dimension, while moving away from bio-extractivism, scaling bio-inspired innovation and developing blue economy opportunities are some of the recommended ways in which the region can leverage its biodiversity assets. In the area of critical minerals, the region should work to establish more integrated institutional frameworks, compile complete, up-to-date and freely accessible geological information, promote value aggregation and develop supplier ecosystems, and focus on strengthening local processing capacity and industrialization.

3. **Scale up productive development policies**. Latin American and Caribbean countries have developed a number of highly competitive economic sectors, clusters and other productive assets over recent decades. In most cases, this has not happened spontaneously but has instead been based on organized collaboration between the private sector, public institutions and knowledge organizations around shared productive development agendas. Experience shows that building productive capabilities requires sector-specific productive development agendas that combine science, technology and innovation with digital transformation, skills development, development finance, targeted public goods provision and internationalization strategies. Just as developed countries are deploying industrial policies on a massive scale, the Commission recommends that the region focus on scaling up cluster initiatives in specific dynamizing sectors, using diaspora networks, harnessing the benefits of technological revolutions and of the green transition and, in general, strengthening productive development policies and the institutions in charge of them in order to accelerate its economic and productive transformation and its growth and to spur employment.
4. **Strengthen regional integration and cooperation**. The regional market of over 660 million people can be an engine for productive diversification, the internationalization of small and medium-sized enterprises, and cross-regional investment flows, all of which help to reduce the region's exposure to global trade shocks. However, at present, intraregional trade represents just 14% of the region's total goods exports —one of the lowest rates globally. Efforts should be undertaken in the areas of joint infrastructure development, trade facilitation, regulatory convergence, digitalization

of trade procedures, promotion of trade in modern services and better governance of intraregional migration in order to promote greater regional integration. Ensuring a stable and predictable environment for trade and investment, remains a priority.

5. **Make the most of the region's human talent**. Latin America and the Caribbean possesses an important asset in its increasingly educated workforce, its growing STEM base and its population's improved linguistic capabilities. However, major obstacles persist in the form of shortcomings in its education systems and structural gaps in access and in the distribution of skills and capabilities. Some of the recommended strategies and actions for overcoming those obstacles are: improving the coverage and quality of early childhood education, building more inclusive pathways to universal secondary education, furthering the development of students' cognitive, digital and socioeconomic skills, strengthening care systems as a means of increasing women's participation in the labour force and advancing towards a care society, forging a closer connection between youth education programmes and labour-market demands, modernizing technical and vocational systems, strengthening tertiary education and research and development ecosystems to support innovation, scaling reskilling initiatives for displaced workers and strengthening channels for engaging with diaspora populations as a source of knowledge, networks and innovation.

Strengthen governance, institutions and democracy

6. **Strengthen governance and institutions**. None of the above recommendations can be acted upon without effective governance and strong institutions. The Commission has identified four critical governance and institutional improvement pathways: (i) strengthening State capacity for coherent and effective governance and delivery; (ii) restoring trust and institutional legitimacy; (iii) forging common ground in a polarized political landscape; and (iv) confronting the expansion of organized crime. Specific recommendations are made around each one of these pathways. In addition, the Commission is convinced that solid democratic institutions are essential to restore trust and legitimacy, sustain strategic approaches, maintain high rates of inclusive economic growth and reduce poverty and inequalities across wealth, gender and access to resources and opportunities within the region. The erosion of democracy weakens the institutional and governance foundations that are needed to underpin long-term results because it fuels political discontent and instability.

7. **Reinforce the fiscal capacity of the State**. The extent to which governments can effectively plan, coordinate and sustain development strategies depends in large part on their ability to mobilize and allocate public resources. This requires the ability to raise revenues in a progressive and sustainable way, reduce tax evasion and avoidance and improve the quality and development impact of public spending. Moving forward will therefore require not only technical reforms, but also the political capacity to build broad and lasting fiscal frameworks capable of sustaining development strategies over time.
8. **Treat organized crime as a regional governance priority, not just a security issue**. Criminal organizations exercise de facto territorial governance over parts of many different countries —regulating markets, adjudicating disputes, taxing residents through extortion and displacing State authority. Confronting this problem requires integrated strategies for restoring State authority through a coordinated territorial presence, expanding economic and social alternatives that block criminal recruitment pathways, targeting the financial circuits that sustain criminal power and building regional and international coalitions that match the transnational scale of illicit networks.

Energize international and regional agency

9. **Avoid rigid alignments, strengthen geopolitical muscle and diversify alliances**. The most complex challenge in terms of regional agency is and will continue to be managing the tensions and frictions inherent in the region's strong links with the United States and China. Latin American and Caribbean countries should avoid "picking sides" as much as possible, while recognizing that the feasibility of doing so will vary across individual countries and issue areas. Instead, they should seek to form variable-geometry and issue-specific coalitions with partners, especially middle powers and emerging economies, that share enough common ground for joint action. The strategic challenge is to choose selectively —diversifying where feasible and aligning where necessary— while preserving room for manoeuvre. In addition, in a world of weaponized interdependence, Latin American and Caribbean countries need to understand where their own chokepoints lie and manage the associated vulnerabilities with strategic intelligence. This will require developing new capabilities for geopolitical analysis ("geopolitical muscle") across government, business and academia.

10. **Prioritize functional cooperation over the creation of new institutions**. The region's experience has shown that institutional arrangements that require full consensus have often led to blocked initiatives and even the obstruction of entire organizations or forums. In the current context of acute political fragmentation among countries in the region, broad-based agreement on many issues is not realistic. The most constructive alternative is to identify specific areas of shared interest and then make headway on those issues through coalitions of the willing based on clear objectives, timelines, responsibilities and financing mechanisms. Three functions are essential: political coordination to articulate common positions on strategic issues; technical coordination and analytical capacity to translate political intentions into operational policy frameworks; and financing and implementation mechanisms to convert decisions into action. The institutional architecture for all three functions already exists in the region. What is required is a renewed focus on coordinating and strengthening existing institutions around a limited set of strategic priorities, combined with the political will to sustain that coordination across electoral cycles and ideological differences.

Chapter I

A world in transition: ruptures and scenarios

Chapter summary

This chapter examines the ongoing transition of the post-war global order from a "world of rules" to a "world of power" and great power competition. This phase is characterized by competitive multipolarity, weakened multilateralism, economic and regulatory fragmentation and the prioritization of security considerations over economic efficiency. The chapter aims to provide the countries of Latin America and the Caribbean with analytical tools to interpret these transformations with a view to better managing the next stages of their economic and social development.

The chapter's analytical framework rests on three interrelated dimensions. The first is system structure, understood as the distribution of material, technological and socioenvironmental capabilities among global actors. The second is the governance regime, meaning the rules underpinning the international order and the degree to which they are upheld. The third is the dimension of actor agency and strategies, encompassing the ways in which State and non-State actors seek to shape outcomes.

Within this framework, the chapter identifies eight major, interrelated ruptures that characterize the current state of the global economy, governance and politics: (i) the reshaping of globalization as economic interdependence becomes a source of strategic vulnerability; (ii) the erosion of multilateralism, reflected in the declining legitimacy of universal institutions and the rise of fragmented minilateral arrangements; (iii) the transition from unipolar hegemony to asymmetric multipolar competition, marked by strategic rivalry between the United States and China and by the growing weight of the Global South; (iv) the reconfiguration of soft power, reflected in shifting patterns of global influence and attractiveness; (v) the global decline of democracy and rising political polarization, including democratic backsliding and a widening disconnect between elites and social demands; (vi) disinformation and the crisis of truth, fuelled by malicious use of generative AI; (vii) a backlash against women's rights, gender equality and inclusion of minority groups; and (viii) the end of the global climate consensus.

Through consideration of geoeconomic and strategic variables, the chapter outlines four prospective scenarios for the evolution of the international order: a stable multipolar reconfiguration with pragmatic cooperation under adapted rules; geopolitical fragmentation into spheres of influence, characterized by the emergence of blocs shaped by coercion, regulatory competition and selective alliances; extreme decoupling and systemic polarization, resulting in rival United States- and China-centred architectures; and a partial resurgence of multilateralism driven by middle powers.

The chapter concludes that the world is experiencing not a mere rearrangement but a change of order, marked by heightened uncertainty and asymmetries. For Latin America and the Caribbean, the analysis points towards a strategy centred on preserving strategic autonomy to the extent possible, diversifying international partnerships, avoiding automatic alignment with competing powers, strengthening regional integration and defending global public goods.

Introduction

This chapter provides a historical overview of the transformations in the international order from 1945 to 2025 and an analytical framework for better understanding the changes in that order. It identifies a number of key ruptures in the world order and outlines four future scenarios that can serve to distinguish and analyse its potential trajectories.

Understanding the current dynamics as a transition from a "world of rules" to a "world of power" reveals the nature of the moment: the weakening of traditional multilateralism is apparent, but it is unclear whether the world is heading towards a new global order or towards a long interregnum of hegemonic vacuum (a G-Zero world),[1] conflict and fragmentation in the absence of clear global leadership and order. The question posed by Henry Kissinger in his 2014 book *World Order* applies to this moment: "Are we facing a period in which forces beyond the restraints of any order determine the future?" (Kissinger, 2014, p. 2).

In these circumstances, the region cannot be a mere spectator. Latin America and the Caribbean must act with historical vision, collective intelligence and transformative foresight both in its external relations, to influence the reconfiguration of the international system in positive directions, and internally, to improve the management of the necessary transformations in the next stages of its economic and social development.

[1] Although the contours of these changes only recently came into full public view, they have been clearly visible to expert analysts for more than a decade. For instance, Ian Bremmer, in his 2012 book *Every Nation for Itself: Winners and Losers in a G-Zero World*, described a world order in which no single country or durable alliance was able to meet the challenges of global leadership. He called this situation a G-Zero World, as opposed to the G1, G7 or G20 periods or scenarios.

A. Analytical framework

This report is based on the recognition that globalization has gone through different phases since 1945, each marked by specific configurations of productive and technological capacities, power, institutions, rules and development models. The starting point is a long-term reading that makes it possible to identify both the critical ruptures and the elements of continuity that have structured the evolution of the international system.

An analytical framework based on that historical overview and composed of three interrelated dimensions is proposed. The first dimension is the system structure, which is the way material capacities —economic, productive, technological and military— are distributed among the different actors. The second is the governance regime, which refers to the rules of the international order and the extent to which actors respect those rules. And the third is actor agency and strategies, meaning the strategies of key players for advancing their objectives within the international system. This approach provides an integrated understanding of the relationships between globalization, geopolitics and development, and of the scope for action in the changing global context.

Historical overview

The post-war international order was marked by the beginning of an unprecedented process of multilateral institution-building with the creation of the United Nations, including its Security Council. It can be understood as a historical sequence in which elements of continuity and change coexisted.

Since 1945, while retaining its founding principles, this architecture has evolved to respond to new geopolitical and economic realities. Under a regime of shared governance, wherein the power of the State is exercised in accordance with multilateral rules and arrangements, the system has gone through three major stages (see table I.1).

Table I.1
Transformations in the international order, 1945–2025

Stage	Characteristics	Structure	Key events
1945–1989 **Contained globalization**	**Bipolar order** – Ideological competition between capitalism and socialism – Arms race – Contrasting values – Coexistence of two narratives	Two economic models in tension: market economy versus centralized planning	1945: End of the Second World War 1947: Start of the cold war (Truman doctrine)
1990–2007 **Hyperglobalization**	**Unipolar order** – Hegemony of the United States – Global spread of liberal capitalism – "The end of history" – Washington Consensus as the dominant paradigm	Single narrative based on open markets and economic liberalization	1989: Fall of the Berlin Wall 2001: Accession of China to the World Trade Organization (WTO)
2008–present **Globalization reconfigured**	**Multipolar transition** – Market fundamentalism questioned – Recognition of the role of a capable State – Reconfiguration of economic and power balances	Competitive multipolarity Fragmentation of rules Rise of China New global geoeconomic structure	2008: Global financial crisis 2011: Consolidation of BRICS 2016: First Trump administration and Brexit 2020: Coronavirus disease (COVID-19) pandemic Second Trump administration

Source: Prepared by the authors.

Contained globalization (1945–1989)

During this stage, economic integration and international cooperation unfolded in a context of geopolitical rivalry. Although the post-1945 period laid the foundations of the modern international economic order, with the creation of the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT), its global expansion was contained by the tensions of the cold war.

A bipolar system emerged, defined by ideological and economic confrontation between the United States and the Soviet Union. International politics was organized around two blocs, each with its own alliances, institutions and spheres of influence. The system's stability was largely sustained by the logic of nuclear deterrence and an international governance model centred on the United Nations, albeit constrained by mutual vetoing and systemic competition.

In the global economy, finance and trade remained fragmented. The Western bloc moved towards partial trade liberalization and the consolidation of the capitalist model with varying degrees of State intervention, including the welfare State, while the Socialist bloc operated under centrally planned schemes. Capital mobility was low, currency controls were in place and countries maintained relatively high tariff barriers. Import substitution industrialization emerged as the productive development strategy of choice in Latin America and other regions, the aim being to break away from trade specialization in primary commodities and promote industrialization with a view to raising incomes and living standards.

Hyperglobalization (1990–2007)

Mounting evidence of the inefficiencies associated with tariff-based protectionism and excessive market distortions, together with the success of certain export-led growth models in Asia, resulted in the emergence of a broad consensus on the desirability of policies to promote economic openness and international trade (Little et al., 1970; Balassa, 1977). This was reinforced by the dissolution of the Soviet Union and the end of the cold war, which prompted a degree of triumphalism about the success of market democracies. Opening-up policies and increased free trade led to a phase in which globalization underwent rapid expansion. The term "hyperglobalization" (Rodrik, 2011) was used to describe this period when market opening and the liberalization of cross-border economic flows reached unprecedented levels, driven by a dominant consensus on the advantages of the free market.

This stage saw the consolidation of a unipolar order under the hegemony of the United States, in which an international architecture based on universal rules, strengthened multilateral institutions and a dominant regulatory narrative came to the fore. The vision of the "end of history" (Fukuyama, 1992), whereby liberal democracy and market capitalism represented the final stage of political and economic development, was widely embraced. That vision served as the basis for the global spread of economic policies geared towards liberalization, deregulation and privatization.

The Washington Consensus, adopted enthusiastically by the Bretton Woods institutions, became the dominant economic policy paradigm and guided the structural reforms implemented in many developing countries. Global value chains expanded rapidly, particularly after the accession of China to the World Trade Organization (WTO) in 2001, which accelerated its emergence as a central player in the world economy. This process gave rise to a model of deep economic interdependence, with high levels

of mobility for goods, capital and technologies, but also with rising global imbalances and exposure to systemic crises and tensions that manifested themselves with greater intensity in the next stage.

Globalization reconfigured (2008 to present)

Dissatisfaction with hyperglobalization began to emerge at the end of the 1990s on account of its impact on unemployment and inequality in developed countries, its disregard for the environment and the planet and the perception that its rules asymmetrically benefited capital to the detriment of labour (Rodrik, 1997; Stiglitz, 2002).

While there is no agreed date for the end of hyperglobalization, the 2008–2009 global financial crisis marked a turning point by shattering the belief that deregulated markets were the "best of all possible worlds". It became clear that market deregulation could lead to "irrational exuberance", forcing governments to intervene and come to the rescue —a humbling lesson for the proponents of certain economic doctrines, as it challenged so-called "market fundamentalism", exposed the fragility of the global financial system and underscored the need for stronger regulation and supervision. The "heart attack" thus suffered by the global financial system (Wolf, 2009), coupled with the gradual accumulation of discontent over its social and environmental impact, marked the end of hyperglobalization and its faith in the power of deregulated markets.

While the most powerful Western economies were dealing with this major crisis, China continued its ascent, with annual growth rates of between 9% and 10% and a burgeoning of its industrial and technological strengths. All this fuelled geopolitical rivalries, deepened fears of dependence on Chinese supply chains for strategic products and triggered a far-reaching reconfiguration of globalization.

In these new circumstances, a multipolar world gradually emerged with the progressive erosion of the hegemony of the United States, the sustained rise of China as an economic powerhouse and strategic actor in the global system, and the relative strengthening of other middle-ranking powers. The logic of liberal convergence and cooperation was replaced by a competitive multipolarity characterized by regulatory fragmentation, the weaponization of trade and investment, the rise of industrial policies focused on national security and strategic autonomy, and the weakening of multilateral cooperation.

A central element of the new great power competition has been the resurgence of industrial policy in the Global North, employing not only subsidies but also tariffs and inducing a reorganization of supply chains along geopolitical lines. China, with a development model centred on an active role for the State, demonstrated that it could go from exporting

light manufactures to achieving leadership in sophisticated industries and technologies, and the country sustained its growth during and after the global crisis, in contrast to the advanced economies of the West. The COVID-19 pandemic, the rising trade tensions between China and the United States, the war in Ukraine and the rise of BRICS (the grouping consisting of Brazil, the Russian Federation, India, China and South Africa) favoured a more fragmented and uncertain kind of globalization that was a significant departure from the liberal consensus of the previous stage (Gerstle, 2022).

Analytical components

Understanding the current transformations in the international order requires a conceptual framework that can capture their key dimensions. The approach adopted is based on the notion that no geopolitical or economic phenomenon can be explained in isolation: power is exercised and reconfigured through rules, capacities and strategies that interact dynamically. Thus, the proposed analytical framework comprises three interdependent components to explain the shifting nature of power in the international arena: system structure, the governance regime and actor agency and strategies. The interactions between these components enable trends, tensions and turning points in global processes of change to be identified.

System structure: what capabilities determine power

The first component is the composition and distribution of the sources of power within the international system. Paul Kennedy's classic book *The Rise and Fall of the Great Powers* (Kennedy, 1987), based on an analysis of 500 years of history, identified the central influence of production structures, technologies and capabilities in the shifting patterns of great power dominance. Part of the reason is that these productive capabilities are strongly associated with military capabilities, and the latter are not sustainable without the former.

In the modern world, the capabilities that influence the power of nations in the world system can be broken down into three dimensions:

(i) Material: GDP, military spending, trade and FDI flows.

(ii) Technological: digital infrastructure, capacity for innovation and levels of investment in R&D.

(iii) Socioenvironmental: access to strategic natural resources, energy resilience, climate vulnerability and population size and age.

For instance, the "rise of the rest", and particularly of China as the largest economy in the world by GDP in purchasing power parity (PPP) terms, has been linked to high rates of growth and transformation and the development of productive and technological capabilities that have changed the balance between the great powers. The resurgence of industrial policy, the rivalry for technological supremacy, the quest for supply chain security, the use of trade and financial interventions to obtain industrial and technological advantage and the rise of economic nationalism are all symptoms of a new structural phase in which States compete for leadership and control of strategic industries and products such as semiconductors, critical minerals and AI (Rodrik, 2024; Farrell and Newman, 2019).

Governance regime: who sets the rules and who obeys them

The second component is the regime of governance and rules around which cooperation and competition among the international system's actors are organized. The multilateral architecture that emerged during the post-war period was designed to limit the excesses of State power through a system of shared rules and institutionalized dispute resolution mechanisms. With the unipolarity that followed the end of the cold war, this regime went through a period of regulatory expansion dominated by the tenets of the Washington Consensus.

In the last 10 to 15 years, however, there has been a progressive erosion of this regime's legitimacy and effectiveness, together with a shift towards more flexible and fragmented governance models: informal coalitions, minilateral agreements and the increasing use of geoeconomic tools as mechanisms of influence or coercion (Hopewell, 2015; Hale et al., 2013). The rise of China altered the global distribution of productive capabilities and triggered defensive responses from other actors such as the United States and the European Union, illustrating the causal relationship between the different components of the analytical framework.

Actor agency and strategies

The third component are the strategies adopted by the major players to achieve their objectives and to influence their relations with other States. Agency was conditioned during the cold war by the logic of competition between the divergent economic systems of capitalism and centrally planned socialism and during hyperglobalization by convergence towards the capitalist system and the rules set by the hegemonic leader. Today's economic systems are less diametrically opposed, with a variety of "capitalisms" operating, although political systems are rather more so. Geopolitical conditions have

changed very significantly, however: there has been a transition from a period in which interdependence was trusted and even celebrated as a source of economic efficiency and a guarantee of stability to a situation in which it is mistrusted and seen through the lens of national security. This has led to the phenomenon of "weaponized interdependence", in which major powers use a variety of trade and financial interventions to try to coerce others into aligning with certain objectives or to pursue certain courses of action.

The economic weight of China, the strategic response of the United States, the repositioning of the European Union and the growing reach of emerging powers in the Global South such as India, Brazil, Nigeria and Saudi Arabia have given rise to new patterns of international power politics and negotiations on economic, political and other objectives, including strategies for access to resources, markets and technology.

A good example of the difference the strategies of key players make is the latest National Security Strategy of the United States, released in November 2025. On the key question of the balance of power, this document asserts: "The United States cannot allow any nation to become so dominant that it could threaten our interests. We will work with allies and partners to maintain global and regional balances of power to prevent the emergence of dominant adversaries" (The White House, 2025, p. 10). For the so-called Western Hemisphere, the strategy states: "We want a Hemisphere that remains free of hostile foreign incursion or ownership of key assets, and that supports critical supply chains; and we want to ensure our continued access to key strategic locations. In other words, we will assert and enforce a 'Trump Corollary' to the Monroe Doctrine" (The White House, 2025, p. 5).

At the same time, agency can no longer be understood exclusively in terms of States. Non-State actors such as global technology corporations, digital platforms, transnational NGOs and networks of cities are exerting increasing influence on economic flows, the setting of rules and the provision of global public goods. Examples include the regulatory impact of companies such as Google and Alibaba and the role of alliances such as the C40 Cities Climate Leadership Group in the climate agenda. These cases illustrate the emergence of distributed and decentralized forms of strategic power. In parallel, intergovernmental platforms such as the Group of Seven (G7), BRICS and the Group of Twenty (G20) are reconfiguring global governance, operating as flexible venues for coordination between countries and extending the exercise of power beyond classic institutional multilateralism.

Taken together, these three components provide an analytical basis for understanding the ongoing transformations in the international order. Studying their interaction makes it possible to identify both the factors shaping systemic change and the room for manoeuvre available to the different actors in an increasingly fluid, uncertain and competitive global context.

B. Global reordering: from a rules-based to a power-based world order

The world order is undergoing a transition in which the logics that defined the globalization of recent decades are being displaced by new configurations of power. This transition is neither provisional nor linear: it represents a structural break with the regulatory, institutional and strategic frameworks that have underpinned the international order since the post-war period, and it reflects new actions and strategies by key players. Unlike previous turning points, the current transformation simultaneously combines new geopolitical, geoeconomic and technological elements, creating complex challenges for both global governance and countries' development prospects (Rodrik, 2024; Mazzucato, 2021). Examples such as the war in Ukraine, the paralysis of the WTO and the technological competition between powers illustrate the profound nature of this change.

From a geopolitical perspective, the end of the unipolar era has given way to a transition towards a still-emerging multipolar order (Zakaria, 2008; Ikenberry, 2018) or even a G-Zero world in which no single country or durable alliance of countries is able or willing to meet the challenges of global leadership (Bremmer, 2012). The United States and China are pursuing a strategic competition that is altering the global equilibrium, with the European Union and middle powers like Canada seeking to maintain or gain influence amid growing tensions. These dynamics are leading to reshaped alliances and disputes over spheres of influence that are wearing down the existing institutional frameworks. At the same time, emerging regional powers such as India, Brazil, Nigeria and Saudi Arabia are gaining prominence in a system characterized by fluid coalitions, fragmented rules and the absence of stable coordination mechanisms (Acharya, 2017). This multipolar or G-Zero interregnum does not guarantee greater stability; on the contrary, it is intensifying competition and raising the costs of collective inaction.

For globalization, the current reordering points to a progressive disconnection between the principles of openness and economic integration and the decisions that guide the main players' actions. Global value chains, investment flows and international trade are increasingly determined by considerations of security, national resilience and strategic autonomy (Farrell and Newman, 2019). This geoeconomic shift, which entails trade protection measures, subsidies and technological restrictions, is contributing to the fragmentation of the global economic system. As a result, the map of interdependence is being redrawn: it is no longer a neutral space of efficiency, but a realm of dispute (Baldwin, 2016; Antràs, 2020a).

The implications for development are far-reaching. The global system no longer offers guarantees of predictability or stable conditions for participation in the world economy. Productive and technological opportunities are increasingly conditioned by logics of exclusion, rivalry and power rather than by notions of convergence or competitiveness on level playing fields. Latin American and Caribbean countries face the risk of a new strategic marginalization if they do not adapt their strategies to the emerging context. However, the region has major assets that could be catalysts for a new development agenda, provided they are matched by vision, regional coordination and strategies for international agency.

In these circumstances, multilateralism is under stress. On the one hand, nationalist, unilateralist and isolationist agendas are forcing a retreat from global engagement and so weakening collective mechanisms for action (Bremmer, 2012). On the other hand, proposals for reform are emerging, driven by actors from the Global South calling for more equitable, effective and representative international governance. Defending multilateralism in this new context requires both institutional and political renewal based on the inclusion of new voices, democratization of decision-making and reconstruction of the cooperation principle.

C. The main ruptures in the world order

The international order is undergoing a historic and far-reaching reconfiguration: not a linear transition, but a number of simultaneous and interconnected structural ruptures. These ruptures are altering the regulatory, institutional, political, economic and cultural foundations that sustained globalization and interdependence during their period of greatest expansion and are eroding the consensuses that guided international cooperation over past decades.

What is under way is a systemic transformation of the global order, with a convergence of geopolitical rivalry, democratic backsliding, technological disruptions and changes in the global cultural climate. These transformations are affecting the very possibility of sustainable development, collective action and democratic coexistence.

One salient feature of the new context is the existence of simultaneous and intersecting shocks of a systemic and cumulative nature. Geoeconomic tensions, regulatory ruptures, armed conflicts, climate and technology risks and the erosion of multilateral governance are not isolated occurrences but interconnected and mutually reinforcing phenomena. The result is what has been called a "global polycrisis": an accumulation of interdependent crises that are challenging traditional institutional capacities and eroding the room for manoeuvre of States and international organizations. This rapid accrual of shocks is unprecedented in recent times and poses analytical and strategic dilemmas.

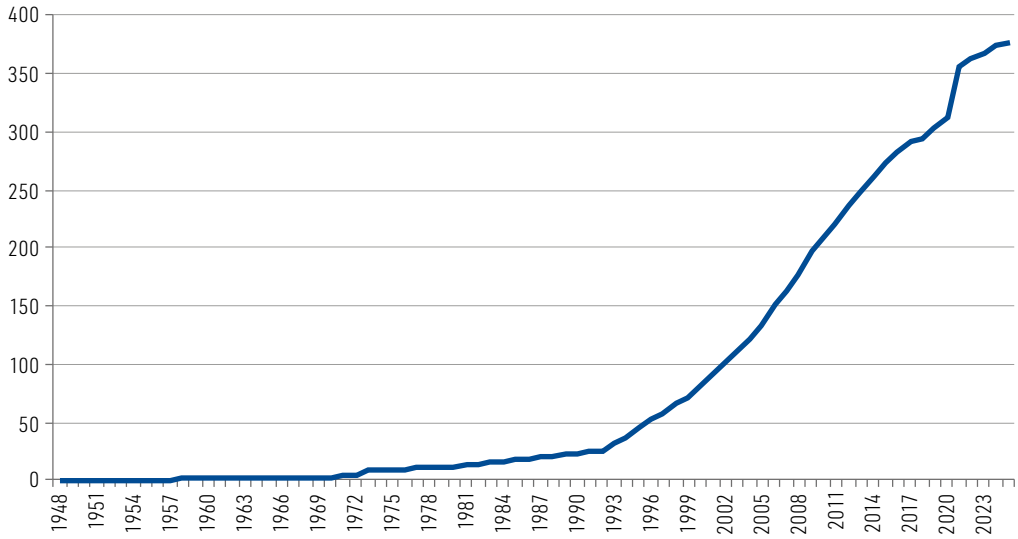
Identifying and understanding the critical ruptures shaping this new global situation is therefore an essential step. To that end, the paragraphs below identify and analyse eight ruptures with a view to providing a better understanding of the present moment's complexity and helping identify key strategic challenges for the world's regions and multilateral organizations as they seek solutions for a better common future.

Rupture 1: Globalization reconfigured: from economic efficiency to security

Since the 1990s, the global economy has been characterized by a rapid process of trade and financial globalization, referred to as "hyperglobalization" by Dani Rodrik on account of its intensity and scope (Rodrik, 2011). The end of the cold war, the adoption of the Washington Consensus in much of the developing world and the rise of China in the world economy, all combined with technological advances such as the Internet, constituted milestones in the development of a global market with high levels of cross-border mobility for goods, services and capital.

That model was consolidated over the next 30 years, with far-reaching repercussions for worldwide production and methods of industrial organization. In the sphere of production, hyperglobalization led to the proliferation of global value chains. Transnational corporations, usually headquartered in advanced countries, relocated segments of their production processes to developing countries in order to benefit from lower labour costs, tax breaks, access to natural resources and various other advantages. The prevailing logic in the organization of value chains was the minimization of costs, which led to a rising concentration of manufacturing output in three great "factories": East and South-East Asia, Europe and North America (Baldwin, 2016). The creation of the WTO in 1995 and the subsequent accession of China in 2001, together with the negotiation of numerous free trade agreements (see figure I.1), provided hyperglobalization with an institutional and regulatory underpinning.

Figure I.1
World: preferential trade agreements in force, 1948 to July 2025
(Cumulative number)

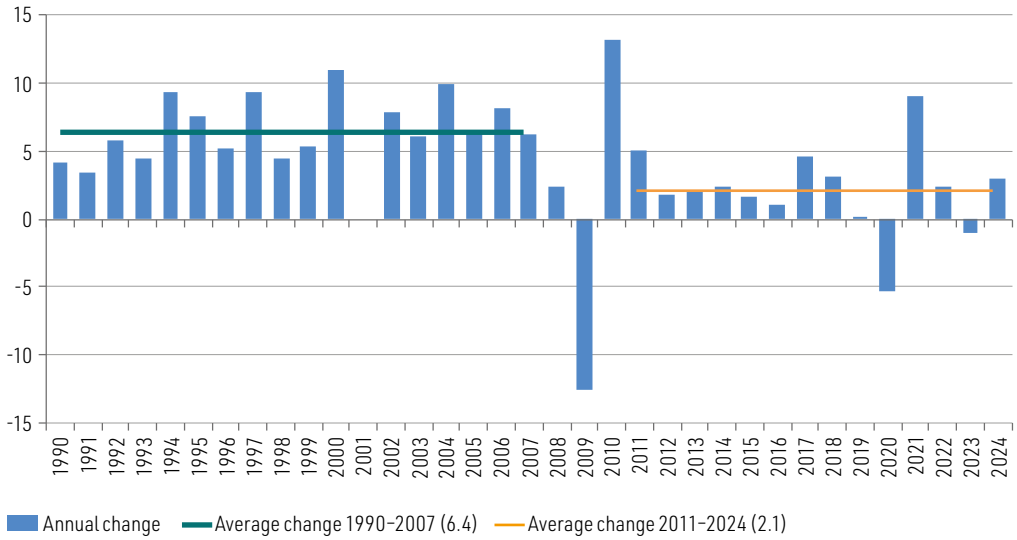


Source: World Trade Organization. (2025). *Regional Trade Agreements Database*. https://rtais.wto.org/.

At the height of globalization (1990–2007), both trade and FDI flows were extremely dynamic: between 1990 and 2007, the volume of global trade in goods grew at an average annual rate of 6.4% (see figure I.2), well above global output (3.6% per annum). Trade in goods and services as a share of global GDP rose from less than 40% in the early 1980s to more than 60% in 2007 (see figure I.3). At the same time, the growing international fragmentation of production processes in global value chains gave a major boost to FDI: whereas in the early 1980s annual FDI flows represented less than 1% of global GDP, in 2007 they amounted to more than 5%, albeit with high levels of volatility (see figure I.4).

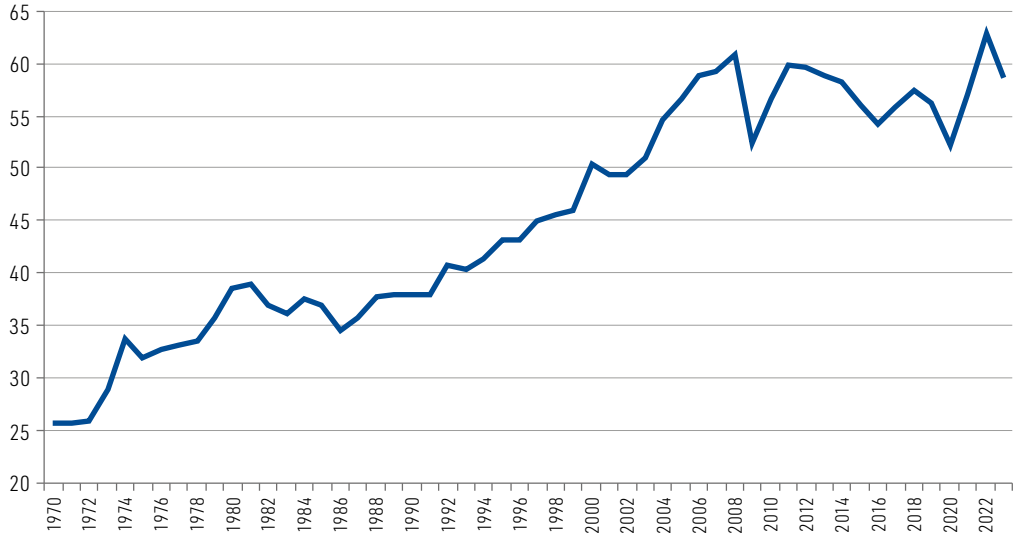
In parallel, the globalization of finance increased in a context of sustained liberalization of capital movements. Positions in cross-border financial assets and liabilities as a share of global GDP rose significantly, reflecting a growing interdependence between international financial markets (see figure I.5). While this financial globalization enabled debt and equity markets to expand and international banking systems to integrate more closely, it also increased exposure to systemic risks.

Figure I.2
World: annual change in goods trade by volume, 1990–2024
(Percentages)



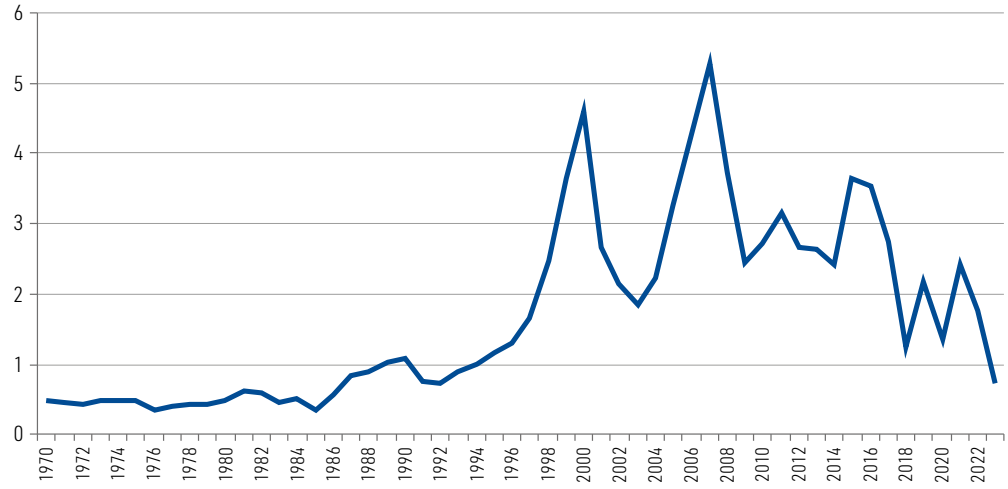
Source: World Trade Organization. (2025). *WTO Stats*. https://stats.wto.org/.

Figure I.3
World: total trade in goods and services as a share of GDP, 1970–2023
(Percentages)



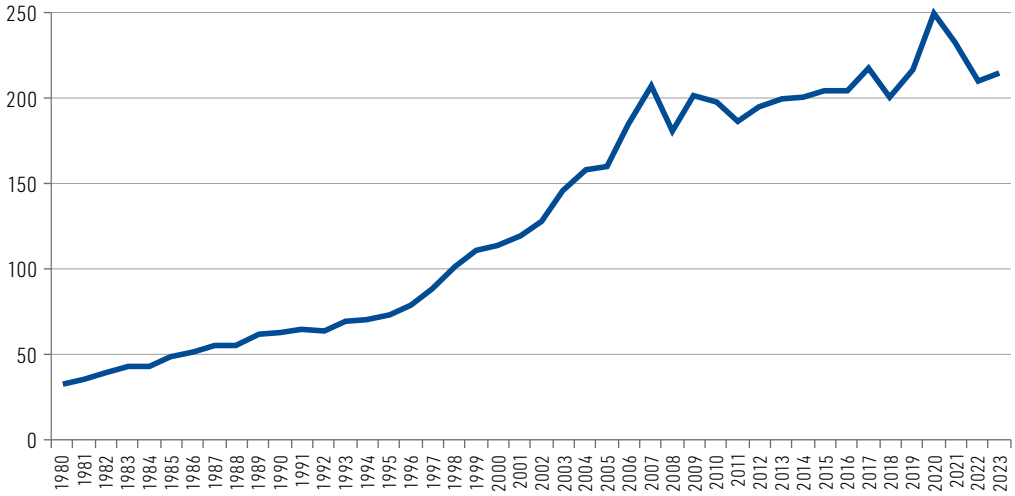
Source: World Bank. (2025). *World Development Indicators*. https://databank.worldbank.org/source/world-development-indicators.

Figure I.4
World: annual flow of FDI as a share of GDP, 1970–2023
(Percentages)



Source: World Bank. (2025). *World Development Indicators*. https://databank.worldbank.org/source/world-development-indicators.

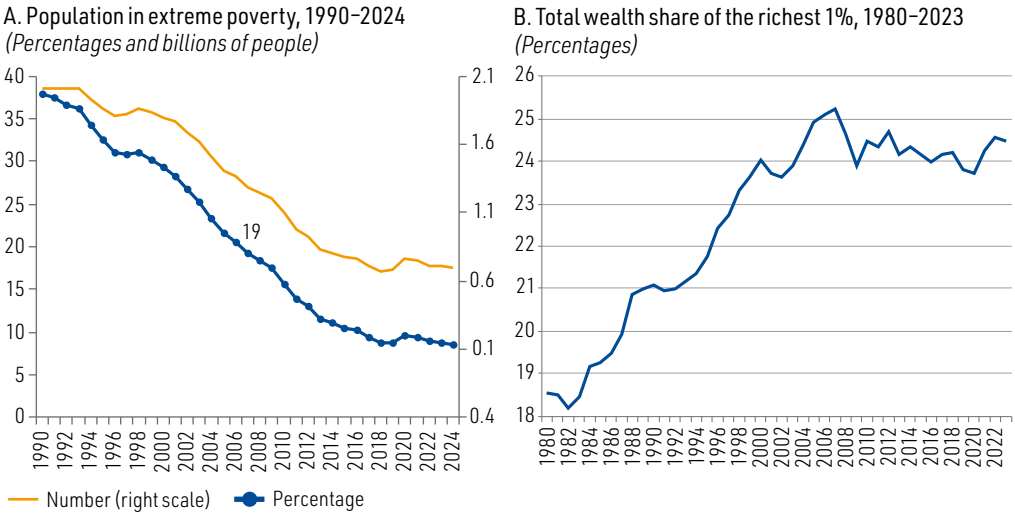
Figure I.5
Financial globalization: positions in cross-border financial liabilities, 1980–2023
(World totals as a percentage of global GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Milesi-Ferretti, G. M. (2025, 13 January). *The External Wealth of Nations Database*. https://www.brookings.edu/articles/the-external-wealth-of-nations-database/; Lane, P. R. and Milesi-Ferretti, G. M. (2018). The external wealth of nations revisited: International financial integration in the aftermath of the global financial crisis. *IMF Economic Review, 66*. https://doi.org/10.1057/s41308-017-0048-y.

Hyperglobalization produced mixed results in the world's societies. On the positive side, there was a significant reduction in global poverty, mainly in some large developing countries. On the negative side, it contributed to a growing concentration of global wealth and to deindustrialization and unemployment in certain regions of both developed and developing countries. The proportion of the world's population living in extreme poverty fell by half between 1990 and 2007, from 37.9% to 19.2%, and has continued falling since, to 8.5% in 2024 (see figure I.6A).[2] At the same time, the richest 1% of the world's population increased its share of global wealth, from 21% in 1990 to 25% in 2007. Although the share has dropped slightly since then, it remains well above the levels recorded in the 1990s (see figure I.6B).

Figure I.6
World: extreme poverty and concentration of wealth



Source: Economic Commission for Latin America and the Caribbean, on the basis of Hasell, J., Rohenkohl, B., Arriagada, P, Ortiz-Ospina, E. and Roser, M. (2022). *Poverty*. https://ourworldindata.org/poverty; and World Inequality Lab. (2025). *World Inequality Database*. https://wid.world/.
Note: Extreme poverty is defined as living below the international poverty line of US$ 2.15 a day. The data have been adjusted for inflation and for cost-of-living differences between countries.

In the developed world, the offshoring of industrial activities to China and other developing countries, together with increasing automation, contributed to a rise in inequality and a fall in the share of manufacturing within total employment (United Nations, 2020;

[2] The decline was particularly pronounced in Asia, a region that accounts for 60% of the world population and that participates vigorously in the globalization process.

Antràs, 2020b; Rodrik, 2019; Nager, 2017). In the United States, this phenomenon was described by Autor, Dorn and Hanson as the "China shock" (Autor et al., 2016). As a result, both in that country and in Europe, political forces critical of globalization gained influence. For example, Autor et al. (2020) find evidence of correlation between rising import competition and polarization in United States politics. Eriksson et al. (2020) find that the risk of unemployment and detachment from the labour force in the United States rises most when a trade shock hits in areas where an industry has already begun phasing out, wages are high or education levels are low.

For their part, Colantone and Stanig (2018) find that a stronger Chinese import shock leads to increased support for nationalist and radical right parties in Western Europe. They argue that globalization can only be sustainable with appropriate redistribution policies aimed at compensating the domestic losers from it. In the absence of such policies, resistance to globalization can be expected to increase in developed countries over the coming years (Antràs, 2020b). Indeed, Baldwin (2025a) argues that the shift towards protectionism in the United States since the first Trump administration has been an attempt to take political advantage of the working-class and middle-class malaise caused by the stagnation of living standards at the height of globalization.

As noted by Rebeca Grynspan (2023, p. 43), "there is no unanimous verdict on when hyperglobalization began or when it ended". Significant discontent already existed in the late 1990s. However, the global financial crisis of 2008–2009 was clearly a turning point, in part because of its impact in the field of economic ideas, with some identifying it as the end of the "neoliberal order", and in part because it demonstrably marked the end of globalization's most expansive phase and ushered in a period of stagnation or at least, to use the term coined by *The Economist* (2019), of "slowbalisation".

In contrast to the strong momentum between 1990 and 2007, later years were characterized by a sustained slowdown in trade and FDI. Between 2011 and 2024, the volume of global goods trade grew at an average of 2.1% per year, and annual FDI flows —which at their peak exceeded 5% of global GDP— never rose above 3% from 2017 and dropped to 0.7% in 2023.

The slowdown in globalization was the result of numerous factors operating in different arenas. From a structural perspective, an eventual turning point was foreseeable: the phase of rapid integration could not be sustained indefinitely. There were no large economies left to be incorporated into the multilateral system with a transformational impact

comparable to that of China, India or the countries of the Soviet bloc in previous decades. By 2010, 97% of world goods exports already came from WTO member countries, and average global tariffs were at historic lows (Capital Economics, 2022).

In the realm of ideas, the global financial crisis was a major blow to the supremacy of the Washington Consensus as an economic policy paradigm (Rodrik, 2011; Gerstle, 2022), and one that also weakened the central position of the WTO in the governance of international trade. This was compounded by technological transformations such as increasing automation, which reduced the incentives to relocate production to countries with low labour costs, and by a growing geopolitical awareness of the vulnerabilities of the global interdependence model. Those vulnerabilities became apparent following extreme weather events such as the tsunami that devastated Japan and the floods that hit Thailand in 2011, as these caused significant disruptions in supply chains. It was, however, the COVID-19 pandemic that raised the alarm about the risks of excessive geographical concentration in the production of strategic goods such as personal protective equipment, medical devices and active pharmaceutical ingredients.

The reconfiguration of global value chains emerged as a strategy ("de-risking") to reduce the risks both from dependence on geopolitical rivals and from disruptions of various kinds, thereby strengthening the resilience of production systems. The need to shorten supply chains and decouple them from geopolitically distant or risky actors gained momentum. National, energy and food security objectives began to be given precedence over cost efficiency through strategies such as reshoring, nearshoring and friendshoring.[3]

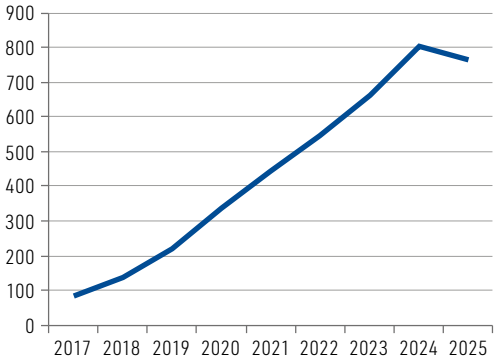
During the globalization boom, the sectors that the major industrialized economies excluded from the free market to protect national interests were mainly agriculture and the defence industry ("farms and arms"). However, in the current context of increased geopolitical rivalry and vulnerabilities in value chains, that list has expanded considerably (Baldwin, 2025b).

The resurgence of industrial policy, particularly in developed countries (see figure I.7A), is a concrete expression of this reorientation (Economic Commission for Latin America and the Caribbean [ECLAC], 2024). In the developed world, more than half (54%) of industrial policy actions between January and June 2025 were driven by national security and geopolitical concerns, up from 22% in the previous two years (see figure I.7B).

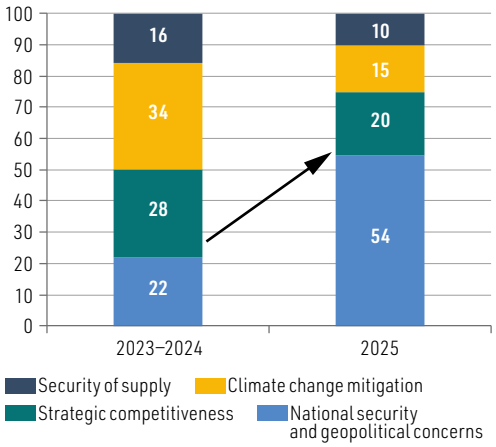
[3] Reshoring involves the relocation of production to the home country, while friendshoring and nearshoring refer respectively to the establishment of supply chains with strategic partners and with neighbouring countries.

Figure I.7
Industrial policy actions, 2017–2025

A. Total industrial policy actions globally, first half of each year
(Numbers)



B. Stated motivations for industrial policy actions by developed countries[a]
(Percentages)

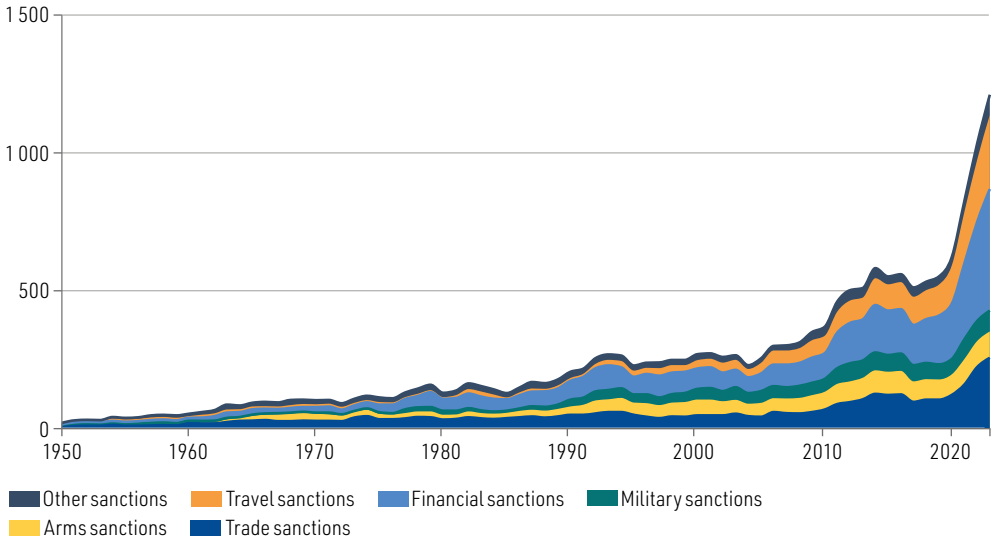


Source: Economic Commission for Latin America and the Caribbean, on the basis of Martín, F. (2025, 18 June). Losing the green edge: industrial policy shifts amid geopolitical priorities. *Zeitgeist Series Briefing* (67). New Industrial Policy Observatory.

[a] Australia, the Republic of Korea and the members of the European Union and the G7.

Another defining change in the current international situation is the growing use of economic ties as mechanisms for applying geopolitical pressure. Trade, investment, data flows and access to strategic technologies, historically considered channels for integration and cooperation, are increasingly being used as tools to exert influence or impose costs on other States. This phenomenon, called the "weaponization of interdependence" in the specialized literature (Farrell and Newman, 2019), highlights the shift from a vision of interdependence as a factor of stability to its use as an instrument of power. Asymmetric interdependence, in which certain actors have control over critical nodes of value chains, digital platforms or financial infrastructures, has become a geopolitical lever, with the leverage exercised through a range of tools such as trade, financial and other sanctions, export controls, restrictions on foreign investment and limitations on access to strategic resources. According to data from the Global Sanctions Database, governments now impose trade sanctions more than four times as often as in the 1990s. The Russian invasion of Ukraine marked a turning point: Western countries imposed a variety of sanctions on the Russian Federation, including the exclusion of its banks from the SWIFT payments system and embargoes on Russian oil imports (see figure I.8).

Figure I.8
World: number of sanctions imposed, by category, 1950–2023



Source: Centre for Global Policy Analysis. (2025). *Global Sanctions Database (GSDB)*. https://www.globalsanctionsdatabase.com/data/.

Other recent examples of the use of economic interdependence as a tool for pressure or control include the restrictions imposed by the United States on the export of advanced microprocessors to China and the latter's response, with limitations on exports of rare earth elements. Another instance was the blocking by the Russian Federation of natural gas exports to Germany and other European countries, deployed to exert pressure in the context of the Ukraine conflict, even before the embargo on Russian oil was imposed. The clearest case is the recent intensive use (and threatened use) of unilateral tariff measures by the United States, even against allied countries, to achieve various objectives. This new configuration undermines the foundations of the multilateral order that for decades worked to reduce barriers, curtailed the use of unilateral measures and valued predictability in international economic relations.

The background to this dynamic is a shift in how costs and benefits are interpreted and in how global interdependence is managed. Whereas in the post-cold war period it was assumed that deepening economic ties between countries would create incentives for cooperation and discourage conflict, the situation at present is more ambiguous. In the new context, some countries with larger domestic markets and the ability to control

strategic inputs, industries or technologies are willing to use those advantages as levers of influence. This reconfiguration introduces high levels of uncertainty and adds complexity to international economic governance. Its impact is proving particularly severe for developing economies, which face new challenges in securing stable and equitable access to essential markets, goods, services and technologies.

In sum, the global economy is undergoing a transition: from the neoliberal order established after the end of the cold war, in which unilateral measures were limited in various ways by broad agreement among States, to a new geoeconomic order, or absence thereof, characterized not only by a new reading of the risks of economic interdependence (Roberts et al., 2019), but also by an increasing use of economic ties as a tool of geopolitical pressure.

Rupture 2: The erosion of multilateralism and the reconfiguration of global governance

The crisis of multilateralism and disputes over global legitimacy

After decades of transformations that were far-reaching but constrained within relatively stable institutional frameworks, the current situation involves a systemic rupture of the international order whose characteristics, scope and reversibility are still a matter of dispute. It is not that changes are occurring within the existing order: the order itself is changing as the regulatory, institutional and symbolic underpinnings of almost eight decades of liberal multilateralism are disrupted.

The multilateral system designed in the post-war period and founded on universal institutions, common rules and values such as democracy, human rights and free trade is undergoing a simultaneous crisis of legitimacy, effectiveness and sustainability. Its original architecture reflected the power balances and regulatory aspirations of the Western world, with the United States serving as the main guarantor of its design, financing and dissemination. However, that leadership has been eroded by a combination of structural and contingent factors: the rise of internal political tensions within democracies, the growth of nationalist movements sceptical of the liberal order, public disaffection with globalization and a growing tendency to prioritize domestic objectives to the detriment of multilateral commitments such as development financing, climate governance and the provision of global public goods.

In this context, the progressive shift of the United States towards bilateral, ad hoc or transactional solutions has weakened its traditional role as a pillar of the multilateral system. This trend can be seen in actions that include its withdrawal from key organizations

such as the World Health Organization (WHO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO), its absence from important multilateral processes,[4] its blocking of the WTO dispute settlement system and sustained shortfalls in its mandatory financial contributions to the United Nations system.

This pattern does not appear to be driven by isolated or short-term policy decisions, but rather points to a more structural reassessment of the role and value of multilateral cooperation. Through executive-level directives and administrative reviews, the United States has increasingly subjected its participation in international organizations and treaty-based bodies to stricter national interest criteria. The effects of this approach have been felt most clearly within the United Nations system, and particularly its economic and social governance pillar, affecting bodies connected with the Economic and Social Council (ECOSOC) and the regional commissions responsible for development policy coordination, trade and development analysis, climate and environmental governance, human rights and democracy-related mandates, and multilateral platforms for policy analysis, technical cooperation and capacity-building. At the same time, a more selective disengagement has extended to non-United Nations multilateral arrangements in areas such as climate action, development cooperation and sectoral policy coordination (see The White House, 2026).

This strategic retreat, while not a total withdrawal, has contributed to a growing fragmentation and asymmetry in global governance. In the absence of a central player with the capacity and will to sustain the multilateral scaffolding, various countries and groups of States are working on parallel institutional arrangements, regional platforms or theme-based coalitions built to reflect ideological, economic or geostrategic affinities. The result is an international system that is less universal and coherent and more dispersed and competitive, with contrasting visions of power, development, legitimacy and the role of international organizations and forums.

The current international situation poses one of the most urgent questions of our time: how can a peaceful international order, based on shared rules and common principles, be guaranteed when the system's key actors appear to be moving away from these foundations, pushing the world towards unilateral dynamics, zero-sum logics and increasingly unstable equilibria?

International politics has, of course, always been influenced by power relationships. But it is crucial that power not be the only determinant. Preserving a minimum set of common rules, procedures and principles that guarantee peaceful coexistence between

[4] In June 2025, for example, the United States withdrew from negotiations at the Fourth International Conference on Financing for Development in Seville (Spain) and refused to endorse the outcome document.

States and cooperation to provide and protect global public goods remains an essential task. This is what the Charter of the United Nations embodies and what the multilateral system, with all its imperfections, has striven to uphold over the past eight decades.

In the face of this situation, the choice for developing countries does not seem to be automatic alignment with one or another competing centre of political and economic power, but rather, to the extent possible, a diversification of alliances. Current circumstances call for a strategic reading of the international situation that is informed by principles and accompanied by a sustained strengthening of national and regional capacities to influence global decision-making. The ongoing fragmentation of the international order is not inevitable, but there is the real risk of a drift towards increasingly arbitrary, asymmetric and unstable forms of governance. Reversing this trend will require renewed political will, a shared vision and a cooperation architecture capable of adapting to the new context without renouncing the universal values that gave rise to multilateralism.

Emerging multipolarity and variable geometries of global governance

In response to the growing limitations of multilateral institutions, whether due to decision-making paralysis, a lack of representativeness or a failure to adapt to the new balances of power, the development of alternative governance mechanisms has been stepped up. This dynamic has given rise to an increasing fragmentation of institutions, with various groups of countries pursuing more limited, flexible or parallel arrangements, often outside of, or even in competition with, multilateral organizations.

The world is evolving from universal multilateralism, based on the aspiration that all States should cooperate in a common set of global institutions, to a more fluid configuration of blocs, zones of influence and selective alliances. Instead of seeking the consensus of 193 countries (which usually leads to the lowest common denominator), many States favour smaller formats, based on regional, ideological or thematic affinities, in order to take joint action. This trend has been referred to as the rise of "minilateralism" (Gramer, 2024): the formation of "coalitions of the willing" or ad hoc groups that pursue collective action outside the universal framework.

A number of middle powers and emerging economies have been taking on enhanced regional and global roles, reconfiguring traditional alliances. Countries such as India, Brazil, Nigeria and Saudi Arabia are taking advantage of multipolarity to diversify their alignments and secure room for manoeuvre. Instead of being rigidly constrained in a bloc, many of them practice flexible diplomacy: they may cooperate with developed countries on certain issues

and with China or the Russian Federation on others, or pursue autonomous South-South initiatives. This plurality of links is generating a world of "multiple alignments" that breaks with the binary logic inherited from the cold war (Vinjamuri, 2025).

A prime example is the emergence of the BRICS group and its recent expansion into a BRICS+ format with new members. This platform, initially conceived as a geoeconomic counterweight to the G7 group of major industrialized countries, has sought to position itself as an alternative to the international order's dominant structures. In its founding narrative, BRICS questioned the asymmetries inherent in the current multilateral system, in particular the political,[5] economic[6] and monetary prerogatives enjoyed by the advanced economies. Consequently, the group has worked to create its own institutional mechanisms —such as the New Development Bank, financial and trade cooperation agreements and a payment system based on the use of national currencies— intended to widen the countries' margin of economic and financial autonomy while reducing their vulnerability to a system perceived as designed mainly by and for the industrialized world (Patrick, 2024).

This proliferation of platforms represents a growing competition for legitimacy between different venues for global governance. The G7, on the one hand, seeks to preserve its centrality by coordinating responses among advanced economies and reaffirming the values of the traditional liberal order. BRICS, on the other, positions itself as the standard-bearer for the demands of the Global South, questioning the structural asymmetries of the current system and promoting an agenda aimed at a more representative, inclusive and multipolar order. Both blocs organize high-level summits and articulate different, and in some cases conflicting, narratives about the architecture of global power.

The progressive shift in the world's economic centre of gravity can be seen in the way the relative weight of the different blocs has evolved. In 1990, the G7 accounted for 45% of global GDP, compared to 23% for BRICS and 42% for the Global South. By 2024, that ratio had flipped: the G7 share had fallen to 30%, while BRICS and the Global South had increased their relative weights to 42% and 61%, respectively. Similar trends exist for other key variables, such as foreign trade, gross fixed capital formation, scientific output and FDI flows, where the emerging economies have steadily gained ground (see table I.2).

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5 For example, the architecture of power enshrined after the Second World War, especially in the United Nations Security Council, reflects an anachronistic geopolitical balance. The Permanent Five (P5) veto-wielding members exclude Africa, Latin America, the Caribbean and much of the Global South. Demands for reform to broaden representation have been stalled for decades, undermining the system's legitimacy in the eyes of countries that feel underrepresented in key peace and security decisions.

6 Within the IMF and the World Bank, voting and quota mechanisms continue to favour the advanced economies, giving them a disproportionate influence despite the growing economic weight of the Global South. Although BRICS now accounts for more than 40% of global GDP, its representation does not reflect that, and the United States and Europe retain veto power over key reforms. This asymmetry constrains developing countries' ability to influence the international financial agenda.

Table I.2
Shares of the G7, BRICS and Global South in selected global variables, 1990, 2000, 2010 and 2024
(Percentages of total)

	GDP at PPP in constant 2021 international dollars			
	1990	**2000**	**2010**	**2024**
G7	45	44	36	30
BRICS	23	24	32	42
Global South	42	43	54	61
Population				
G7	12	11	11	10
BRICS	51	51	50	49
Global South	83	84	85	87
Exports of goods and services				
G7	53	48	35	31
BRICS	8	9	20	23
Global South	24	31	43	42
Imports of goods and services				
G7	58	55	39	37
BRICS	7	8	17	20
Global South	22	28	39	42
Gross fixed capital formation				
G7	68	66	43	38
BRICS	9	11	30	38
Global South	18	22	45	51
Net FDI outflows				
G7	77	61	44	80
BRICS	0	1	9	27
Global South	3	11	29	51
Scientific and technical journal articles				
G7		64	47	30
BRICS		12	26	43
Global South		19	36	56

Source: Economic Commission for Latin America and the Caribbean, on the basis of World Bank. (2025). *World Development Indicators*. https://databank.worldbank.org/source/world-development-indicators; and Olivié, I., Esteban, M., Picardo, C. E. and Fernández Rodríguez, L. (2025, 3 July). Hacia una reconfiguración de las relaciones con el sur global. *Elcano Policy Paper*. https://www.realinstitutoelcano.org/policy-paper/hacia-una-reconfiguracion-de-las-relaciones-con-el-sur-global/.

Note: Following Olivié et al. (2025), the Global South is considered to include: (i) all countries in the Americas except for Canada and the United States; (ii) all Asian countries except Japan; (iii) all countries in Oceania except Australia and New Zealand; (iv) the African continent in its entirety; and (v) in Europe, Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, North Macedonia, the Republic of Moldova, the Russian Federation, Serbia, Türkiye and Ukraine.

As for the G20, a forum that includes both Western and emerging powers, its future role in global governance remains uncertain. The G20 emerged after the 2008 financial crisis as a forum for global economic coordination with broad representation (around two thirds of the world's population and 85% of its GDP) (Group of 20, n.d.). In its early years, it successfully conducted concerted actions, facilitating responses such as coordinated liquidity injections and the strengthening of international financial institutions. Worsening geopolitical fractures have, however, made it difficult for it to function. The war in Ukraine, the deterioration of relations between the United States and China and the growing polarization between blocs with divergent visions have turned the G20 into a condensed reflection of the international order's fractures, hampering the adoption of substantive collective positions. In that context, it faces a dilemma: will it succeed in reconfiguring itself as a venue for plural dialogue and the construction of common minimums, or will it gradually be displaced by more ideologically aligned platforms, such as the G7 and BRICS, in the fight for leadership of the global governance architecture?

In the meantime, venues for coordination and cooperation that operate beyond the confines of institutionalized multilateralism are proliferating. In addition to BRICS, several regional initiatives by emerging powers are gaining importance. These include the Belt and Road Initiative, through which China is developing its own network of infrastructure and economic influence, and a number of large-scale preferential trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) in Asia and the African Continental Free Trade Area (AfCFTA) that are forging new economic geographies.

In parallel, thematic and interregional mechanisms to strengthen South-South cooperation are emerging in areas such as food security and the energy transition. For example, Brazil under President Lula da Silva has sought to position itself as a global player by chairing the G20, taking a leading role in the Summit of the States Parties of the Amazon Cooperation Treaty Organization and participating actively in climate negotiations at the thirtieth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 30), among other measures. At the same time, it is promoting an agenda of South-South dialogue to arrive at common positions for the developing world and explore formulas for global conflict mediation. These dynamics indicate a more diffuse distribution of power, so that this is no longer concentrated in Washington and Beijing alone but is shared with variable coalitions of middle powers that can influence strategic issues.

Nevertheless, this greater flexibility has its downside. A more fluid system involves risks of duplicated efforts, regulatory competition and exclusion. Its lack of universality could complicate efforts to respond coherently to global challenges affecting many developing countries, such as climate change, pandemics and debt crises. While "coalitions of the

willing" allow progress to be made with certain agendas when major forums become paralysed, their decisions tend to be limited in scope and, in some cases, may overlap or conflict with existing multilateral frameworks.

In short, the world is undergoing a historic transition: from the universal multilateralism of the second half of the twentieth century to a more fragmented and dispute-prone multipolar governance model based on blocs, networks and flexible alliances. This shift reflects both the growing dispersion of international power and disenchantment with the paralysis of attempts to reform traditional multilateral institutions. International governance will be less uniform, and multiple levels (global, regional, thematic) and overlapping institutions will coexist. Countries, and especially emerging powers, will have to navigate that context by building pragmatic alliances according to their interests in each area. The challenge will be to prevent this diversification from leading to a regulatory vacuum and to channel it instead towards more adaptive, effective and inclusive cooperation.

Rupture 3: From unipolar hegemony to multipolar competition

Hegemonic stability theory (Kindleberger, 1973) argues that the international order requires a power willing to assume the cost of supplying global public goods such as financial stability, open trade, shared rules and institutional coordination. The absence of such leadership leads to the possibility of a dynamic of fragmentation and uncertainty known as the Kindleberger trap. Although this theory is helpful in interpreting the risks of a fragmenting international order, the current situation is not one of a hegemonic vacuum but of a progressive redistribution of power, in which different actors and coalitions are assuming different coordination and supply roles. Consolidated powers such as the United States and the European Union coexist alongside rapidly expanding emerging players such as China, India and other countries of the Global South.

The United States is a superpower that retains military and financial leadership globally, in addition to its technological strengths, large domestic market and extensive stock of natural resources. Far from depending solely on military capabilities, its influence is supported by a corporate infrastructure whose reach extends into the digital economy and flows of information. For example, Washington wields part of its global power through the synergy between the State and the country's huge technological and financial multinationals. The federal government establishes regulatory frameworks —sanctions, export controls and legislative incentives such as the Creating Helpful Incentives to Produce Semiconductors

for America (CHIPS) Act— that strengthen the position of companies such as NVIDIA, Microsoft, Apple, Amazon, Alphabet and Meta, while those companies in turn influence the political agenda by demanding access to markets, cloud infrastructure and support for innovation in semiconductors and cutting-edge technologies.

These multinationals function as private sector extensions of the ability of the United States to project itself globally: they control standards, data clouds, algorithms and payment networks that can be activated or restricted in accordance with diplomatic and security decisions. The list of the world's 15 largest global companies by market value (table I.3), which is dominated by firms based in the United States, shows how these corporate networks, aligned with the State's policies, constitute a hybrid bloc that sustains and expands the hegemony of the United States in the global digital economy.

Table I.3
World: top 15 companies by economic sector, country of origin and market capitalization, July 2025

Company name	Sector	Country of origin	Market capitalization *(Trillions of dollars)*
NVIDIA Corporation	Technology	United States	4.2
Microsoft Corporation	Technology	United States	3.8
Apple Inc.	Technology	United States	3.2
Amazon.com Inc.	Discretionary consumption	United States	2.5
Alphabet Inc.	Communications	United States	2.3
Meta Platforms Inc.	Communications	United States	1.8
Saudi Arabian Oil Company	Energy	Saudi Arabia	1.6
Broadcom Inc.	Technology	United States	1.4
Berkshire Hathaway Inc.	Finance	United States	1.0
TSMC	Technology	Taiwan Province of China	1.0
Tesla Inc.	Discretionary consumption	United States	1.0
JPMorgan Chase	Finance	United States	0.8
Walmart Inc.	Basic consumer goods	United States	0.8
Eli Lilly & Company	Health	United States	0.8
Vanguard S&P 500 ETF	Other	United States	0.7

Source: Economic Commission for Latin America and the Caribbean, on the basis of Bloomberg.
Note: Market capitalization data as of 24 July 2025.

However, the rise of China and the regulatory weight of the European Union nuance United States leadership, the result being an increasingly decentralized international architecture. China dominates the production of and trade in manufactured goods, is rapidly approaching the technological frontier and is strengthening its military and soft power. Likewise, the European Union has major strengths in the field of services and in several aspects of soft power, but because of its internal fragmentation, it faces difficulties in converting its global presence into an effective capacity for influence.

These trends can be seen in systematic metrics such as the Elcano Global Presence Index, developed by the Elcano Royal Institute, which quantifies countries' international presence and can be used to track the shift of power towards new geographies. It is a synthetic index that measures countries' global reach, combining in a single metric a number of variables that determine their presence on the global stage in three main arenas: economic presence (exports of energy, primary goods, manufactured goods and services and FDI), military presence (deployment abroad of troops and equipment for strategic mobility) and soft presence (migration, tourism, culture, sports, information, technology, science, education, development cooperation and climate change).[7]

Although the United States has maintained its global presence leadership since 1990, several countries from the Global South have climbed up the rankings (see figure I.9). In particular, China has improved its score rapidly since the early 2000s and currently stands in second place. Countries such as Germany, the United Kingdom and France, which held top positions until the global financial crisis, have since fallen below China, and the latter two now also rank below Japan and, in the case of France, the Russian Federation.

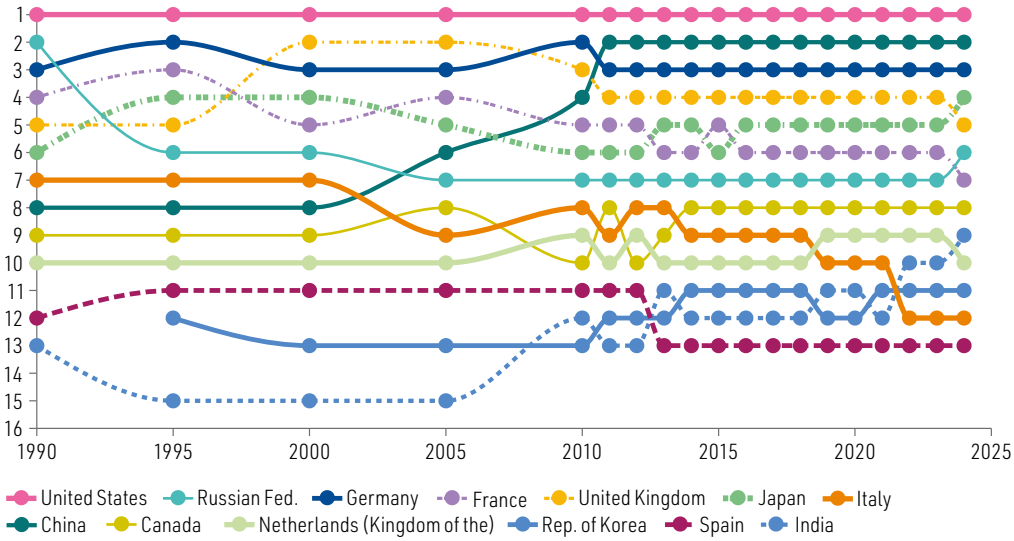
Alongside the changes in the global presence ranking, a concentration analysis by the Elcano Royal Institute based on the Herfindahl-Hirschman index (HHI) shows that concentration levels are lower now than in the 1990s. This finding reinforces the idea that a strictly bipolar situation no longer exists and that, instead, global power is now more distributed, with a wider range of actors commanding international influence.

The Global South's momentum, in particular, reinforces the idea of a more dispersed and competitive international system, in which both traditional powers and developing countries must adapt to the emergence of new poles of influence. Several countries from the Global South improved their Elcano rankings significantly between 2010 and 2024, with Viet Nam rising from sixty-second to thirty-fourth place (+28), the Philippines from fifty-seventh to forty-second (+15) and Kenya from eighty-fourth to sixty-sixth (+18). The Gulf economies also reported significant gains, examples being the United Arab Emirates,

[7] Each variable is normalized and weighted in accordance with criteria defined by experts from more than 100 international research centres; they are then aggregated to obtain a score by which the global presence of up to 150 countries since 1990 can be compared (see Olivié and Gracia Santos, 2023).

which advanced from thirtieth to nineteenth place (+11), and Qatar, which rose from fifty-sixth to forty-fifth (+11). In Latin America and the Caribbean, several countries have successfully consolidated a greater global presence, among them Chile (up 7 places from forty-seventh to fortieth), the Dominican Republic (up 8 places from eighty-sixth to seventy-eighth), Uruguay (up 5 places from ninety-first to eighty-sixth) and Costa Rica (up 9 places from ninety-eighth to eighty-ninth).

Figure I.9
Global presence ranking, 1990–2025



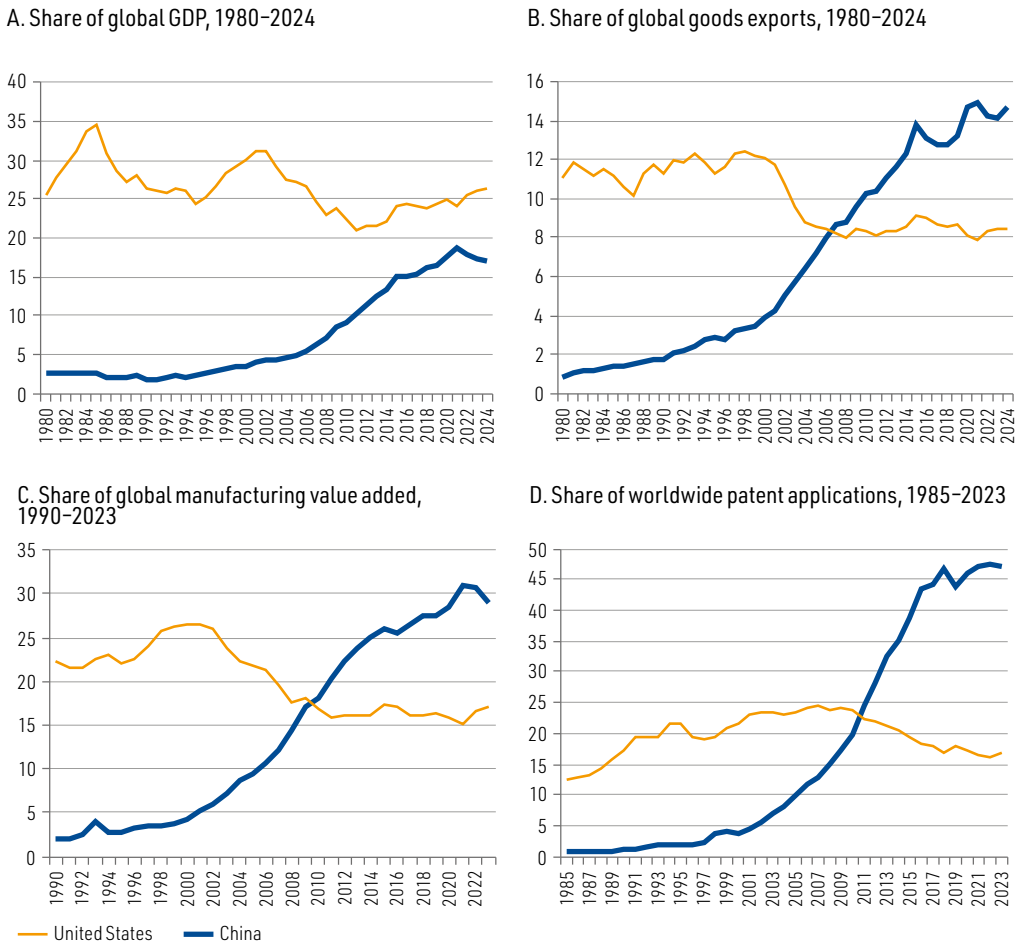
Source: Economic Commission for Latin America and the Caribbean, on the basis of Elcano Royal Institute. (2024). *Elcano Global Presence Index*. https://www.globalpresence.realinstitutoelcano.org/en?years=2024.

A review of the global presence ranking over the past 35 years reveals a clear narrative: the leadership of the United States remains undisputed, but the advance of China has been a game-changer. The emergence of rising powers such as India and the Republic of Korea contrasts with the slow decline of the European economies, which are losing prominence as power becomes more dispersed. Taken together, these data confirm that the current global dynamics are those not of a unipolar hegemony or a rigid bipolarity, but of an asymmetric multipolarity characterized by technological competition, regulatory conflict and the geographical diversification of productive capabilities and power.

Undeniably, competition between the United States and China is currently the structuring axis of the emerging order. In less than five decades since the launch of its reform and opening-up process in 1978, China has risen from a peripheral global position to become

the world's second-largest economy, leading exporter of goods and leading manufacturing power, with strengths increasingly based on knowledge and innovation. Over that period, it has closed or significantly reduced the gap between it and the United States on all those variables (see figure I.10) and has also emerged as a leading technological power.

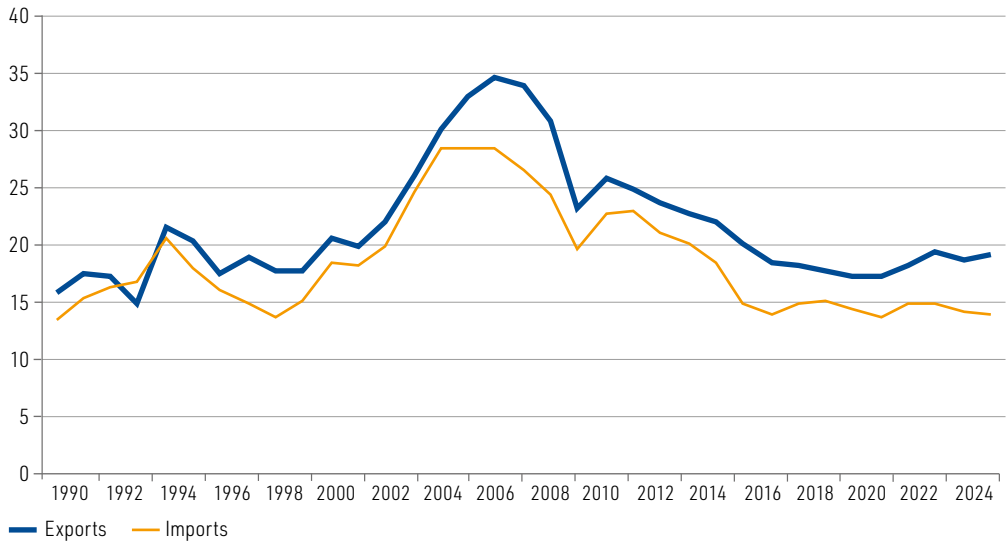
Figure I.10
China and the United States: shares of global GDP, goods exports, manufacturing value added and patent applications
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of International Monetary Fund. (2025). *World Economic Outlook Database*. https://www.imf.org/en/Publications/WEO/weo-database/2025/april; and data from World Trade Organization, United Nations Industrial Development Organization and World Intellectual Property Organization.

In addition, over the past two decades, the significant economic transformations that have taken place in China since the opening of its economy have reduced the country's dependence on foreign trade. The share of total goods exports and imports in Chinese GDP peaked at 63% in 2006 but had almost halved to 33% by 2024 (see figure I.11). Thus, China is now able to produce a wide range of inputs and final goods that it previously had to import, while the increased purchasing power of its population has led to a growing proportion of its output being channelled into the domestic market. This reduced external dependence is in itself a source of geopolitical power, especially when, in contrast, the rest of the world's trade dependence on China has been rising constantly over the last twenty years.

Figure I.11
China: goods exports and imports as shares of GDP, 1990–2024
(Percentages)



Source: World Trade Organization and International Monetary Fund.

China has been one of the main beneficiaries of the recent globalization cycle, particularly because of its strategic role in global value chains and its ability to scale up technologically through access to foreign markets, investment and knowledge. That has enabled it not only to become an industrial powerhouse, but also to lay the foundations for global leadership in a wide range of critical technologies, understood as those current and emerging technologies

with the capacity to significantly enhance —or jeopardize— a country's national interests, including its economic prosperity, social cohesion and national security.[8] In this way, China is challenging the historical primacy of the developed economies, particularly the United States.

China now leads in 57 of the 64 critical technologies monitored by the Critical Technology Tracker of the Australian Strategic Policy Institute (ASPI), compared to only three between 2003 and 2007. The technologies considered by ASPI cover a broad array of key areas, including defence, space, robotics, energy, environment, biotechnology, AI, advanced materials and quantum computing. In addition, of the 57 technologies for which China ranks first, a high risk of technological monopoly is reported for 24 and a moderate risk for 18 (see table I.4).[9]

In contrast, the United States leads in only 7 of the 64 categories analysed, and in none of them is there a high risk of technological monopoly. This indicates a substantial loss of dominance at the technological frontier, given that the United States led in 60 of those technologies between 2003 and 2007. The areas in which it retains leadership include high-performance computing, AI for natural language processing, quantum computing, genetic engineering, nuclear medicine and vaccine development. The risks posed to the United States by China's growing technological leadership have been characterized by Autor and Hanson (2025) as "China shock 2.0": a shock that could have even greater consequences than the first, by shifting competition into fields that will define global influence for decades to come.

Table I.4
Lead country and technology monopoly risk in 64 critical technologies, as of August 2024

Technology category (number of technologies within category)	China			United States		
	High	Medium	Low	High	Medium	Low
Advanced information and communication technologies (7)	2/7	2/7	3/7	0	0	0
Advanced materials and manufacturing (13)	7/13	5/13	0	0	0	0
AI technologies (6)	0	3/6	2/6	0	0	1/6
Biotechnology, gene technologies and vaccines (7)	1/7	2/7	1/7	0	0	3/7

[8] This is the definition adopted by the Government of Australia and used by the Australian Strategic Policy Institute (ASPI) for its Critical Technology Tracker.

[9] See https://techtracker.aspi.org.au/. ASPI deems that a high risk of technological monopoly exists when a country accounts for at least eight of the ten leading research institutions worldwide in a given technology and has at least a three-fold lead in scientific publications compared to the second-ranking country.

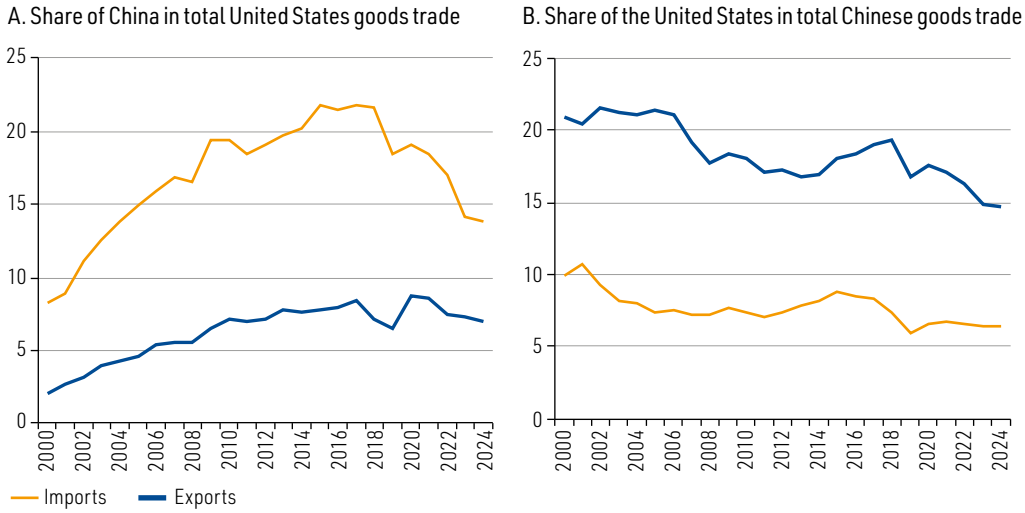
Technology category (number of technologies within category)	China			United States		
	High	Medium	Low	High	Medium	Low
Defence, space, robotics and transportation (7)	3/7	0	3/7	0	0	1/7
Energy and environment (8)	3/8	3/8	2/8	0	0	0
Quantum (4)	0	1/4	2/4	0	1/4	0
Sensing, timing and navigation (9)	6/9	1/9	1/9	0	0	1/9
Unique AUKUS[a] technologies (3)	2/3	1/3	0	0	0	0
Total technology categories (64)	**24/64**	**18/64**	**15/64**	**0/64**	**1/64**	**6/64**

Source: Gaida, J., Wong Leung, J., Robin, S. and Cave, D. (2023). ASPI's Critical Technology Tracker: the global race for future power. *Policy Brief*. (69). Australian Strategic Policy Institute.

[a] AUKUS is a trilateral security partnership between Australia, the United Kingdom and the United States intended to establish a stronger presence in the Indo-Pacific region through enhanced technology sharing and the acquisition of nuclear-powered submarines by Australia.

The perception that the rise of China threatens the economic and technological leadership of the United States, and with it the country's military pre-eminence, has spread widely in the latter during the present century, to the point of becoming a bipartisan consensus. Thus, in 2017, China was identified as a strategic competitor in the United States National Security Strategy (The White House, 2017). During President Trump's first administration, the United States also significantly raised tariffs on trade with China, leading to the first "tariff war" between the two countries. In essence, that situation continues to the present day. In addition to tariffs, both countries have resorted to other tools such as restrictions on exports of strategic products and on reciprocal investments. As a result, direct trade interdependence between the two countries has fallen significantly. For example, the Chinese share of total imports into the United States fell from an all-time high of 22% in 2017 to 14% in 2024 (see figure I.12) and just 9% in 2025. However, the two economies remain deeply interlinked. A clear example are the disruptions caused by United States restrictions on exports of advanced chips to China and by China's restrictions on exports of rare earth magnets to the United States. This situation, with both countries trying to leverage their control of certain chokepoints, has been termed by *The Economist* (2025) "mutually assured disruption".

Figure I.12
China and the United States: trade interdependence, 2000–2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations. (2025). *UN Comtrade Database*. https://comtradeplus.un.org/.

Instead of evolving towards a Western-style market economy, as many expected at the time of its WTO accession, China has maintained a heterodox model characterized by an active presence for the State in the strategic orientation of key sectors, conjoining market mechanisms with planning instruments and State support. These elements, combined with massive economies of scale, rising labour productivity and a thirst for development, fuelled Chinese economic growth for decades. However, certain aspects of this model have been frequently questioned in Europe and the United States. They include requirements for foreign companies to transfer their technologies to local partners, insufficient protection of foreign industrial property, subsidies granted to various industries (steel, solar panels and electric vehicles, among others) in which China has secured a globally dominant position, and privileges extended to State-owned and private enterprises. These characteristics of the Chinese economic system have been described in developed countries as forms of unfair competition and, accordingly, as factors contributing to the country's dominant position in global output and trade.

In addition to those concerns, new tensions have arisen in recent years over China's industrial "overcapacity", which has led to significant Chinese production spilling over into international markets. At the same time, as mentioned previously, the rapid expansion

of China's technology sector has given rise to what some observers describe as a "China shock 2.0", as the country's growing presence in advanced industries reshapes global competition. While this reflects China's comprehensive supply chains, breakthroughs in research and technology and ability to offer products that are competitive on price and quality, numerous countries' perceptions of unfair competition are accentuated by China's growing share of world exports.

In parallel with the intensification of economic competition between China and the United States, other global players have expanded their reach and influence, generating new geopolitical tensions. One such is the Russian Federation, whose actions in Ukraine and Eastern Europe have reshaped the European continent's security priorities. In that context, the European Union has promoted the concept of strategic autonomy as a central part of its foreign and security policy (Borrell, 2020), the aim being to reduce European dependence in critical areas: on Russia in matters relating to energy, on China and the United States in the economic and technological arenas and on the United States in the field of defence. This is a non-exclusive form of autonomy, one that does not necessarily imply disengagement, but rather the ability to act with greater sovereignty and resilience in an increasingly volatile international environment, combining openness to the world with a greater capacity for strategic decision-making.

As geopolitical tensions intensify, global military expenditure has increased, even in the absence of direct large-scale conflicts. North Atlantic Treaty Organization (NATO) members agreed in June 2025 to raise defence spending to 5% of GDP by 2035, allocating at least 3.5% to core defence capabilities and 1.5% to related investments. Germany, historically constrained by its "debt brake", has amended its fiscal rule to exclude defence spending above 1% of GDP from constitutional borrowing limits. Similar measures are proliferating in other advanced economies, signalling a structural rearmament cycle and a shift in fiscal priorities towards security and deterrence.

This redirection of resources towards defence has coincided with a contraction of official development assistance (ODA) and international cooperation budgets. European countries, including Germany, Belgium, France, the Kingdom of the Netherlands, the United Kingdom and Switzerland, announced substantial cuts to their development cooperation allocations in 2025, citing fiscal pressures and security imperatives. The United States went further, suspending most of its development aid programmes and repurposing cooperation as a tool of geopolitical competition (Olivié, 2025). These changes reveal a broader trend: the subordination of development finance to strategic objectives and the diminishing political legitimacy of cooperation as a public good.

In short, the geopolitical "great game" in the past was mostly about military might and control over territory and resources. While this continues to be partly the case, today it is also about technological leadership, control over data flows, digital platforms, Internet rules, AI systems and the critical minerals and energy infrastructure needed to power them. Taking all these dimensions into account, the current world system is best characterized as one of competing and asymmetric multipolarity, with leaderships differentiated by dimension, fragmented provision of global public goods and an increasingly contested regulatory framework. Within this multipolarity, the United States-China competition is, of course, the central axis.

Rupture 4: Soft power reconfigured

Joseph Nye introduced the concept of soft power as a dimension of analysis in international relations. As he explained in a posthumously published article cowritten with Robert Keohane: "Power is the ability to get others to do what you want. This goal can be accomplished by coercion, payment, or attraction. The first two are hard power; the third is soft power. In the short term, hard power usually trumps soft power, but over the long term, soft power often prevails. Joseph Stalin is thought to have once mockingly asked, 'How many divisions does the Pope have?' But the Soviet Union is long gone, and the papacy lives on" (Keohane and Nye, 2025). If a country is attractive, it will not have to rely so heavily on incentives or threats of force to influence the behaviour of others. A power perceived as benign and trustworthy will be able to maintain more allies and followers.

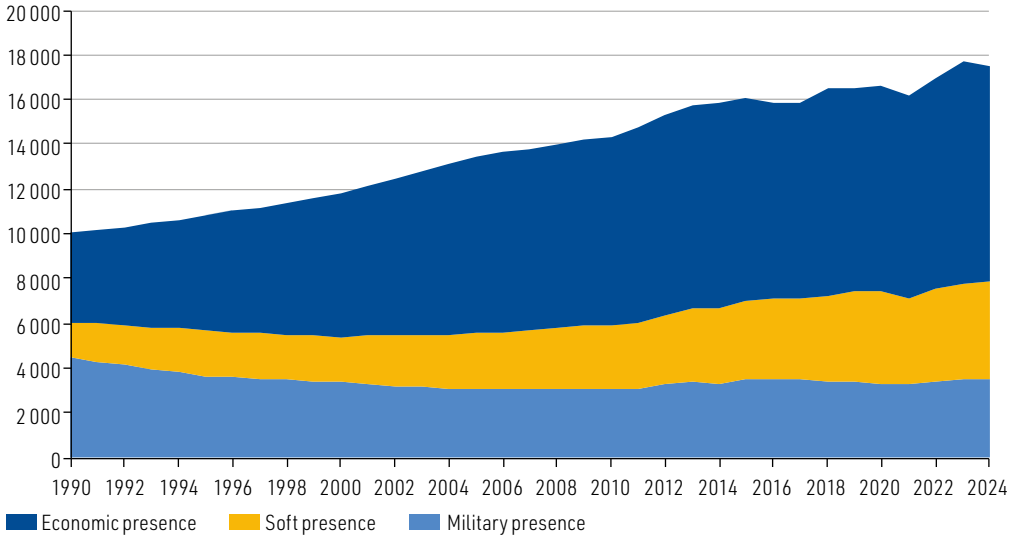
Soft power can be measured empirically, and various indices that use complementary approaches to quantify it are currently available. The Elcano Royal Institute's Global Presence Index, which measures the external reach of 150 countries, contains a specific soft power dimension informed by quantitative data on migration, tourism, sports, culture, information, technology, science, education, development cooperation and climate change.

Over the past two decades, the soft power dimension has gained importance in the aggregate level of the Global Presence Index, outstripping even military presence (see figure I.13). In the 2025 report, moderate growth can be seen in this dimension, driven by the recovery of international tourism (+27%) and cultural exports (+5.6%), particularly audiovisual services. Taken together, these components reveal countries' symbolic reach, providing a synthetic indicator of soft power based on objective and quantifiable criteria.

Several recent articles have argued that ignoring attraction-based soft power equates to denying one of the major sources of influence in the international arena. The argument is that the commitment of the United States to democratic values, human rights, international solidarity and a world governed by rules and in cooperation with allied

countries, albeit always imperfect and inconsistently applied, was an important part of the country's influence, attraction and international power during both the cold war period and the hyperglobalization period. It is therefore argued that the abandonment of some of those values and alliances, coupled with the breaking of historical partnerships and agreements, is counterproductive to the maintenance of its global leadership.

Figure I.13
Aggregate level of the Elcano Global Presence Index, 1990–2024

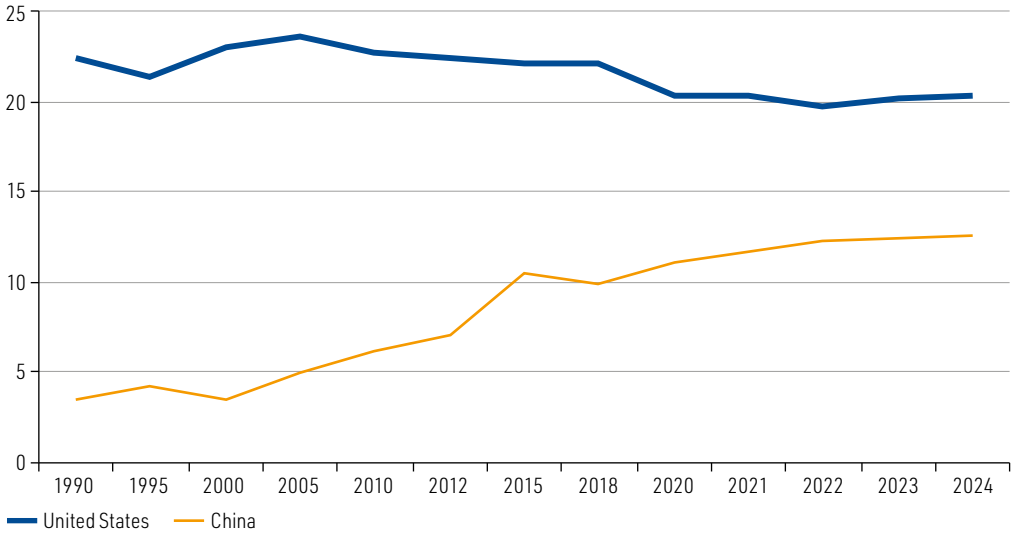


Source: Elcano Royal Institute. (2024). *Elcano Global Presence Index*. https://www.globalpresence.realinstitutoelcano.org/en?years=2024.

At the same time, while China has been increasing its hard power through military investments and a heightened economic and financial presence in many countries, it has also been cultivating its soft power. In 2013, it launched the Belt and Road Initiative to boost partnerships for infrastructure development, economic integration and cooperation on green development and on digital and advanced technologies. More recently, Beijing launched the Global Development Initiative, the Global Security Initiative and the Global Civilization Initiative. Through these and other mechanisms, China has been increasing its attractiveness as a partner to other countries in economic, social, financial, technological, cultural and other areas of cooperation. This can be seen in the steady rise of China's soft presence score in the Elcano Global Presence Index, from 3.4 points in 1990 to 12.5 in 2024. Although the United States retained a quite stable leadership of

the index throughout, it suffered a slight drop from 22.5 to 20.3 points over the period (see figure I.14). The gap between the two countries, which was over 19 points at the start of the period, had been reduced to less than 8 points by 2024. This change reflects the gradual strengthening of Chinese symbolic, cultural and diplomatic assets, which have gained greater international protagonism over the past two decades.

Figure I.14
China and the United States: global soft presence, 1990–2024



Source: Prepared by the authors, on the basis of Elcano Royal Institute. (2024). *Elcano Global Presence Index*. https://www.globalpresence.realinstitutoelcano.org/en?years=2024.

In addition to the Elcano Global Presence Index, there are other metrics that track the comparative evolution of countries' soft power. Notable among them is the index proposed by Cevik and Padilha (2024), which is constructed using quantitative composite indicators covering six dimensions: commercial, culture, digital, education, global reach and institutions. Its standardized scale (z-score) reveals wide disparities between countries, with values that in 2021 ranged from -0.59 (Dominican Republic) to 1.68 (Republic of Korea), indicating a clear hierarchy of global soft power. The upward trajectory of China is particularly notable: between 2004 and 2021, its score rose from 0.70 to 1.17, surpassing the United Kingdom's for the first time.

Using a cluster analysis, the authors identify four groups: countries with low, medium and high levels of soft power, and an exclusive subgroup consisting of Japan and the Republic of Korea, which have an exceptional commercial profile. This classification shows that the accumulation of soft power does not follow a single pattern but can entail different configurations of symbolic, commercial and institutional assets, depending on each country's comparative advantages and strategies.

Like Cevik and Padilha's findings, the results of the 2025 edition of Brand Finance's Global Soft Power Index show a significant evolution in China's international position. This index, built from perception surveys conducted in more than 100 countries, focuses on a comparative analysis of "country brands" and evaluates dimensions linked to reputation, influence and familiarity. In 2025, China placed second for the first time, overtaking the United Kingdom and obtaining a score of 72.8 out of 100 (see table I.5). Its rise was on account of improvements in six of the eight pillars analysed and progress on 24 of the 35 attributes evaluated. Particularly salient is the "people and values" pillar, where China climbed 18 positions; it also posted notable improvements in attributes where it had historically displayed weaknesses, such as "generous", "friendly" and "good relations with other countries", with gains of between 20 and 27 positions. This performance suggests a progressive change in external perceptions of China and a more effective strategy of symbolic and institutional outreach.

Table I.5
World: top 20 countries on the 2025 Global Soft Power Index

Position	Country	Change 2024–2025	Score 2025
1	United States	+0.7	79.5
2	China	+1.6	72.8
3	United Kingdom	+0.6	72.4
4	Japan	+0.9	71.5
5	Germany	+0.3	70.1
6	France	+1.2	68.5
7	Canada	+0.8	65.2
8	Switzerland	+2.0	64.9
9	Italy	+0.4	62.4
10	United Arab Emirates	+0.7	60.4
11	Sweden	+1.3	60.3
12	Republic of Korea	+2.2	60.2
13	Spain	+0.5	59.7

Position	Country	Change 2024–2025	Score 2025
14	Australia	+1.0	59.6
15	Netherlands (Kingdom of the)	+0.5	58.7
16	Russian Federation	+0.4	58.1
17	Norway	0.0	56.8
18	Denmark	+1.0	56.5
19	Belgium	+0.8	56.0
20	Saudi Arabia	–0.4	55.6

Source: Prepared by the authors, on the basis of Brand Finance. (2025). *Global Soft Power Index 2025*.
Nota: The highest score is 100.

The case of China shows that rather than being exclusive to developed countries, soft power can be accumulated and projected by emerging actors through material and symbolic tools integrated into long-term policies. This dynamic demands a rethinking of the contemporary sources of global power and their links to development, governance and international legitimacy.

Rupture 5: The global decline of democracy and rising political polarization

According to the *United Nations Global Risk Report 2024*,[10] the erosion of social cohesion and of the democratic compact is one of the critical vulnerabilities of the current international situation. Growing concerns over the collapse of the rule of law, the fragmentation of the social fabric and the proliferation of violent non-State actors reveal an internal crisis within States that transcends the realm of political legitimacy and affects their effective capacity for control and governance. These closely interrelated phenomena are creating an environment of marked institutional instability that is weaking the resilience of States in the face of complex and interdependent global risks (United Nations, 2024).

The report emphasizes that these risks —the collapse of social cohesion, the weakening of the rule of law and the proliferation of non-State actors— are not only perceived as highly probable and as entailing severe consequences, but are also regarded as areas where multilateral institutions face serious limitations in terms of readiness and response. Their central position

[10] Prepared by the Executive Office of the Secretary-General, the report summarizes the results of a global risk perceptions survey conducted among more than 1,100 stakeholders from 136 countries, including representatives of governments, the private sector, civil society and academia. The study identifies 28 global risks of a social, technological, economic, environmental and political character and assesses both their perceived importance and how prepared the multilateral system is to confront them.

in the interconnected web of global risks indicates that they are not isolated challenges, but structural factors that are fuelling other threats, including disinformation, transnational insecurity and the erosion of democratic governance, both nationally and internationally (United Nations, 2024). In that context, strengthening institutional capacities and pursuing renewed forms of multilateral cooperation is essential to preserve the system's stability.

According to the *Democracy Report 2025* (Nord et al., 2025), in 2024 only 28% of the world's population lived in democratic regimes while 72% lived under autocratic forms of government, the highest figure since 1978. The report also found that, for the first time in more than 20 years, the world had fewer democracies (88) than autocracies (91).

Since the early 2010s, a number of studies have put forward the hypothesis that democratic backsliding has been occurring in various regions of the world, calling into question the centrality of liberal democracy as a political model.[11] This phenomenon is characterized by a progressive weakening of democratic institutions from within the regimes themselves and manifests itself in the erosion of the rule of law, increasing restrictions on civil and political liberties, a loss of judicial independence and the manipulation of electoral processes. The trend can be seen in the falling proportion of countries classified as liberal democracies, i.e. those with free elections, effective separation of powers, judicial independence, freedom of the press, robust protection of individual and minority rights and so on (see figure I.15).

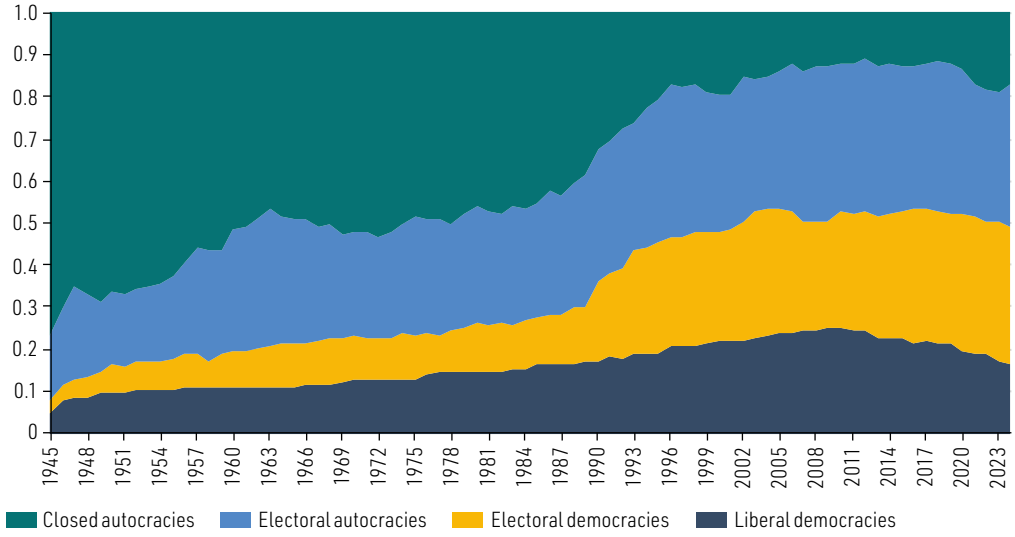
Explanations for this phenomenon are usually grouped into two main analytical approaches: "supply" and "demand". Demand-side theories focus on citizen dissatisfaction with democracy's outcomes. When broad sectors of the population perceive that democracy is not delivering concrete results in terms of security, employment, quality of life or the fight against corruption, for example, their commitment to democratic values diminishes and they become more open to authoritarian or populist alternatives that promise efficiency, order or better standards of living (Fukuyama et al., 2025).

In contrast, supply-side theories emphasize the responsibility of political elites and leaders who, from their positions of power, erode democracy by deliberately weakening institutional checks and balances. The supply-side approach posits that democratic backsliding is a response not so much to authoritarian social demands as to the inability of institutions to restrain leaders with predatory ambitions.

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[11] There is still a substantive debate in the specialized literature about the existence of democratic backsliding at the global level. Little and Meng (2024) argue that this dominant narrative is largely based on subjective indicators built from expert judgments but affected by significant levels of intercoder variability, with standard deviations ranging from between 20% to 25% of the scale used. They contend that claims of worldwide democratic backsliding are not adequately supported by the currently available data. See Little, A. T. and Meng, A. (2024).

Figure I.15
World: countries with regimes classified as democracies and autocracies,[a] 1945–2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Herre, B., Rodés-Guirao, L. and Ortiz-Ospina, E. (2013). Democracy. https://ourworldindata.org/democracy; Lührmann, A., Tannenberg, M. and Lindberg, S. (2018). Regimes of the World (RoW): Opening new avenues for the comparative study of political regimes. *Politics and Governance, 6*(1). https://doi.org/10.17645/pag.v6i1.1214.

[a] Classification by Lührmann, Tannenberg and Lindberg (2018) based on Varieties of Democracy (V-Dem) estimations. In a closed autocracy, citizens do not have the right to choose either the chief executive or the members of the legislature through multiparty elections. In an electoral autocracy, citizens have the right to choose the chief executive and the legislature through multiparty elections but lack some of the freedoms, such as the freedoms of association or expression, needed to make elections meaningful, free and fair. In an electoral democracy, citizens have the right to choose the chief executive and the legislature in meaningful, free and fair multi-party elections. A liberal democracy is an electoral democracy in which citizens enjoy individual and minority rights and are equal before the law, while the actions of the executive are constrained by the legislature and the courts.

Carothers and Hartnett (2024) empirically question the idea that democratic backsliding originates in a crisis of performance on the part of the State. After analysing twelve cases, including Brazil, India, Poland and the United States, they conclude that in most instances there was no prior economic deterioration that would explain the rise of leaders who later undermined the democratic order. The authoritarian turn occurred later, once they were in power, through the concentration of authority and the weakening of institutional counterbalances. The main lesson is that backsliding is not explained by a "failure to deliver", but by a "failure to constrain". This difference is crucial: if the problem is institutional, not economic, the response should focus on strengthening the checks and balances of the democratic system, not merely on improving its performance.

The two approaches are not mutually exclusive, and in many situations they are mutually reinforcing: institutional weakening by elites can intensify citizen disaffection with democracy, while the loss of public support for democracy can make it easier for illiberal leaders to pursue their agendas of institutional erosion. This interaction can lead to a regressive dynamic in which democratic legitimacy is progressively weakened.

One concrete example of that interaction is provided by the United States, where democratic quality indicators have progressively worsened since the middle of the last decade.[12] While the 2016 presidential election triggered a vigorous institutional response in defence of democratic values at the time, practices and discourse that strain fundamental principles of the liberal democratic order were gradually normalized as the years went by. As summarized by Levitsky and Way (2025): "Many of the politicians, pundits, media figures, and business leaders who viewed Trump as a threat to democracy eight years ago now treat those concerns as overblown—after all, democracy survived his first stint in office. In 2025, worrying about the fate of American democracy has become almost passé."

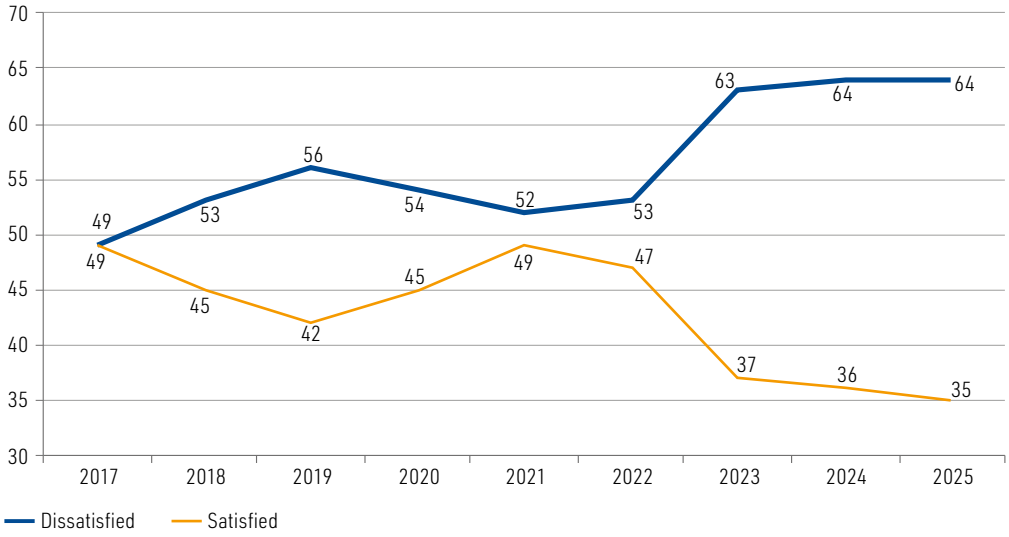
That shift must also be understood in light of changing social perceptions: while a significant portion of the public expresses concerns about the quality of democracy, they tend to relativize those risks when faced by other priorities they perceive as more urgent, be they economic, cultural or security-related. Thus, the combination of deinstitutionalization strategies (supply side) and high levels of citizen dissatisfaction or disaffection (demand side) reinforces a vicious circle that further weakens democratic legitimacy.

Public dissatisfaction with democracy's performance can be seen in a number of developed countries. According to the Pew Research Center, in twelve high-income countries, including Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, 64% of the population express dissatisfaction with their democratic systems, while only 35% are satisfied with them (see figure I.16). Perceptions of the economic situation have a major influence on those results: in countries where a higher proportion of citizens believe that the economy is in good shape, higher levels of democratic satisfaction are also observed (Wike et al., 2025).

In this global context of democratic backsliding, the case of Latin America should be examined not only in terms of citizen perceptions, but also in light of the institutional performance of its democracies as measured by the main international indices. These indicators reveal a regional trend towards democratic deinstitutionalization and the emergence of hybrid and illiberal regimes or electoral autocracies.

[12] According to Freedom House (cited in Levitsky and Way, 2025), between 2014 and 2021 the country's democratic rating dropped from 92 points (comparable to France) to 83 points (below Argentina and similar to Panama and Romania) (Levitsky and Way, 2025).

Figure I.16
Developed world (median of 12 high-income countries):[a] satisfaction and dissatisfaction with democracy, 2017–2025
(Percentages)



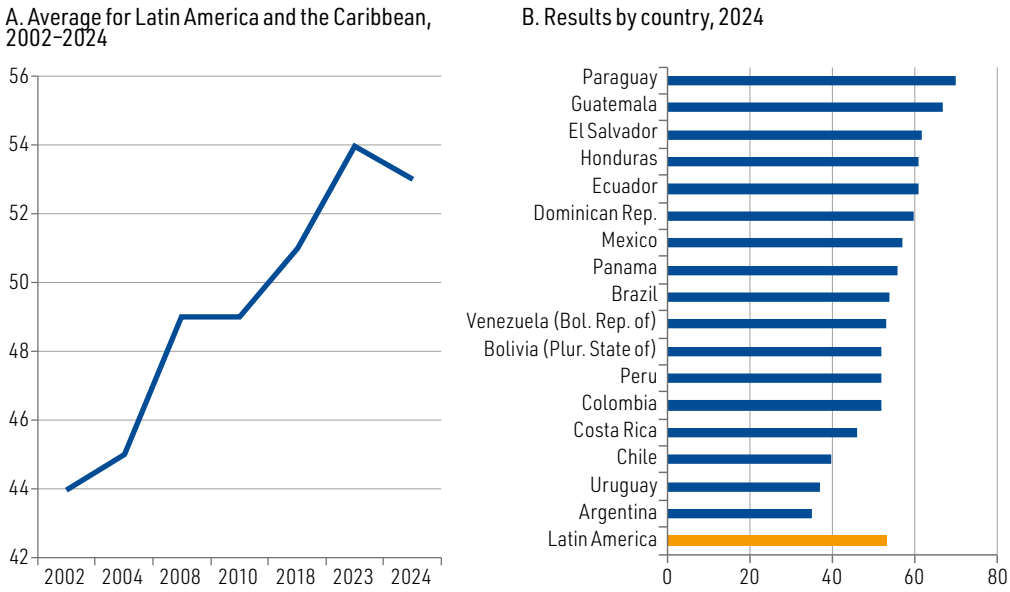
Source: Wike, R., Fetterolf, J. and Schulman, J. (2025, 30 June). *Dissatisfaction with democracy remains widespread in many nations*. Pew Research Center. https://www.pewresearch.org/short-reads/2025/06/30/dissatisfaction-with-democracy-remains-widespread-in-many-nations/.

[a] Canada, France, Germany, Greece, Italy, Japan, the Kingdom of the Netherlands, the Republic of Korea, Spain, Sweden, the United Kingdom and the United States.

This phenomenon is of particular interest because it exists even though Latin America has accrued several of the structural conditions that the literature associates with democratic consolidation, such as the historical duration of democratic regimes. Nevertheless, as Linz and Stepan (1978) warned, meeting those conditions does not guarantee the system's resilience if its capacity for institutional self-reform deteriorates. Classic explanations of democratic collapse highlight elements such as the regime's loss of legitimacy, the role of political parties as semi-loyal (or outright anti-democratic) actors and the rupture of traditions of consensus and compromise among the elite. In that context, the constitutional arrangements inherited from the third wave of democratization are beginning to show signs of exhaustion in the face of current tensions.

The 2024 Latinobarómetro report (Latinobarómetro Corporation, 2024) indicates that the proportion of people who would not mind a non-democratic government if it solved their problems reached 53% in 2024, almost 10 points higher than in 2002. Among the different countries, Paraguay ranked first with 70%, followed by Guatemala (67%), El Salvador (62%) and Honduras and Ecuador (61%) (see figures I.17A and I.17B).

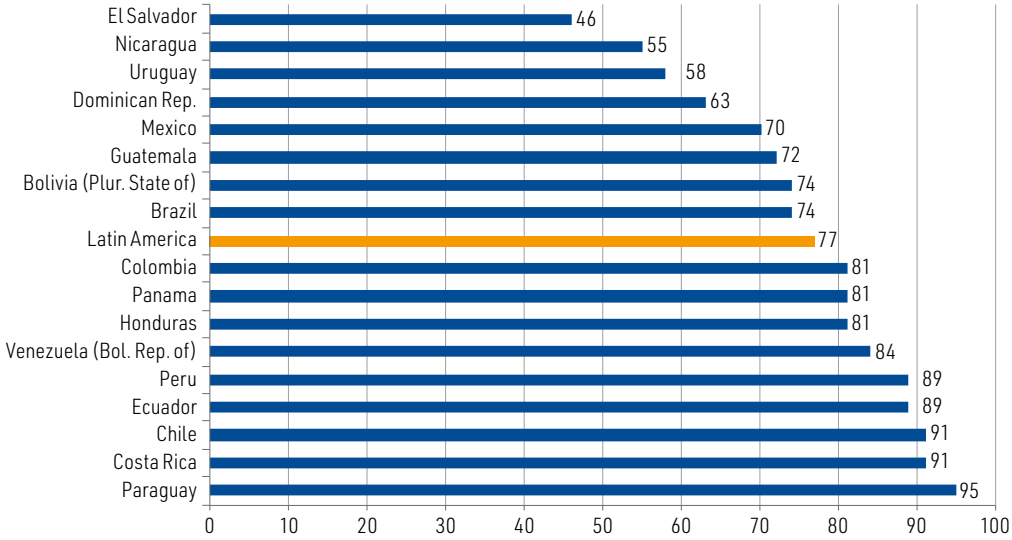
Figure I.17
Latin America and the Caribbean (17 countries): people agreeing with the statement "I would not mind a non-democratic government coming to power if it solves our problems", 2022–2024
(Percentages)



Source: Latinobarómetro Corporation. (2024). *Informe Latinobarómetro 2024: la democracia resiliente*.

This institutional panorama is also reflected in citizens' perceptions of how democracy functions in Latin America. Leaving regime classifications and structural indicators to one side, public opinion data reveal widespread concern about the fairness of the political process. According to the *Regional Human Development Report 2021* of the United Nations Development Programme (UNDP, 2021), a significant proportion of people believe that their countries are governed in the interests of a few powerful groups. On average, 77% of survey respondents in the region share this perception, with levels above 90% in countries such as Paraguay, Costa Rica and Chile (see figure I.18). Those figures reveal a persistent pattern of institutional distrust that cuts across different national contexts, regardless of ideological differences or disparities in economic performance.

Figure I.18
Latin America and the Caribbean (17 countries): people perceiving the political process as unfair, 2020[a]
(Percentages)



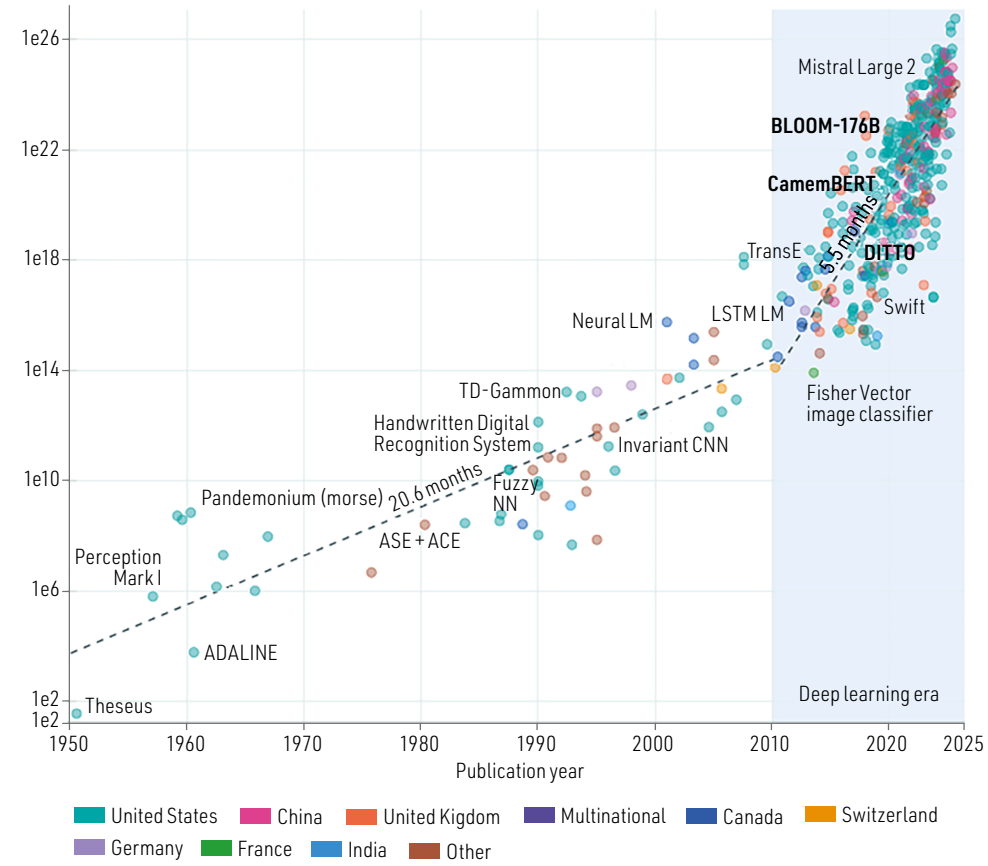
Source: United Nations Development Programme. (2021). *Regional Human Development Report 2021. Trapped: High Inequality and Low Growth in Latin America and the Caribbean*.
[a] Respondents to the Latinobarómetro survey stating that their country is governed in the interests of a few powerful groups.

Rupture 6: Disinformation and the crisis of truth in the age of AI

Although the basic ideas and techniques of AI have existed for decades, the technology experienced a turning point in 2010, when three decisive elements began to come together: the rise of deep learning,[13] access to large volumes of data and an unprecedented expansion in the computing capacity available. Whereas prior to the early 2010s the computational power used to train AI models was doubling approximately every 21 months, the rate then began to accelerate significantly, with doubling now taking place every six months or less (see figure I.19).

[13] Deep learning is a branch of machine learning that uses multilayer artificial neural networks, called deep neural networks, to learn directly from large volumes of data, without the need for human intermediation to explicitly program rules or features.

Figure I.19
Processing power used to train AI models, 1950–2025
(Total training compute per model in floating-point operations (FLOP))



Source: Epoch AI. (2025). *AI Models*. https://epoch.ai/data/notable-ai-models.

That technological acceleration has led to generative AI models capable of creating high-quality text, images, code and summarized content that in many cases are indistinguishable from those created by humans.

It was at the end of 2022, with the launch of ChatGPT by OpenAI, that the technology embarked on its massive expansion. For the first time ever, millions of people around the world were able to produce text, images, sounds and videos that were indistinguishable from their human-made or real-life equivalents, without the need for technical expertise or specialized infrastructure. That development marked a second turning point: the leap

taken was not only technological, but also social, cultural and political. The ability of these models to generate convincing false content challenges basic notions of truth and veracity. In a world which is already saturated with information, and in which disinformation and the algorithmic logic of social networks have proven capable of altering electoral processes, polarizing societies and even escalating armed conflicts (Harari, 2024), the sudden emergence of generative AI has initiated a new phase of uncertainty. 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" (Grynspan, 2023, p. 47).

From a geopolitical point of view, this transformation poses new challenges. Competition for leadership in AI is no longer confined to its economic or military applications; instead, it touches on the ability to define what can be considered true in the global public sphere. The malicious use of generative AI has opened a new dimension in international power by expanding the ability of State and non-State actors to influence global public opinion, interfere with strategic information flows and undermine the institutional stability of democracies. This disruptive potential transcends the technological realm and poses key challenges for the architecture of global AI governance: "Human civilization is threatened not only by physical and biological weapons of mass destruction like atom bombs and viruses. Human civilization could also be destroyed by weapons of social mass destruction, like stories that undermine our social bonds" (Harari, 2024, pp. 530–531).

Although artificial general intelligence (AGI) does not yet exist, its development would represent an even sharper turning point. Unlike the current systems, which are designed for specific tasks, AGI would command the ability to perform any human cognitive function with equal or greater efficiency. The mere possibility is already reshaping discussions on security and global governance. One scenario that has been discussed in specialized circles involves an autonomous AI agent capable of launching large-scale cyberattacks without direct human intervention, with devastating effects on critical infrastructure, financial systems or communications networks. Since assigning responsibility for cyberattacks is already difficult, the potential emergence of non-human actors with strategic decision-making abilities poses unprecedented challenges for international security (Chorev and Predd, 2025). These threats require a profound rethinking of regulatory frameworks and governance architectures, which are proving inadequate in light of the rate of technological progress.

Rupture 7: The backlash against women's rights, gender equality and inclusion

While progress on women's rights, gender equality and inclusion of minority groups has always been uneven, the current moment marks a qualitative break: a transition from incremental expansion and consolidation of equality frameworks to their growing contestation and, in some contexts, reversal. This shift is documented in the 30-year review of the implementation of the Beijing Declaration and Platform for Action (United Nations Entity for Gender Equality and the Empowerment of Women [UN-Women], 2025), which finds that almost one quarter of governments worldwide reported a backlash against women's rights in 2024, hampering implementation of the Beijing Declaration and Platform for Action.

Across different regions, reforms have weakened institutional mechanisms for the advancement of women, reduced funding for equality programmes and reversed commitments to reproductive and sexual rights. These trends are narrowing women's civic and political space and eroding the global consensus that positioned gender equality as a foundation of inclusive and sustainable development (United Nations Research Institute for Social Development and UN-Women, 2025).

The liberal universalism that structured much of the hyperglobalization period is being challenged by cultural counter-movements and by transformations in patterns of living and social reproduction. These dynamics do not operate in isolation, but interact and generate tensions that cut across institutions, policies and multilateral consensuses. Several analysts have compared this situation to the "double movement" described by Karl Polanyi (1944), in which the expansion of a liberal order is followed by a defensive response from society (Sanahuja and Stefanoni, 2023). The reaction occurs in the realms of culture and rules and takes the shape of an open dispute between opposing worldviews.

This reaction re-emphasizes the sovereignty of the State, cultural traditions and hierarchical orders as sources of legitimacy. It translates into legal reviews of or restrictions on LGBTIQ+ rights and sexual and reproductive health measures, and into the promotion at multilateral forums of "contextualized" interpretations of human rights that relativize their universal aspirations. The result is a regulatory dispute over the very status of rights and the authority that defines them.

One paradigmatic example of this regulatory and cultural shift can be seen in the reconfiguration of public policies that has led to the abolition of ministries or agencies specializing in gender, diversity and non-discrimination, along with explicit withdrawals of

support for such international frameworks as the 2030 Agenda for Sustainable Development and the United Nations Pact for the Future. In contrast, there have been reforms that have reinstated biological sex as the sole legal criterion, dismantled diversity, equity and inclusion (DEI) policies in public administrations and replaced equity programmes with agendas centred on national cultural values. References to rights frameworks have been removed from educational or symbolic content, and changes that delegitimize approaches deemed "ideological" have been made to official narratives.

This phenomenon is part of a broader narrative that seeks to reassert countries' cultural and legal sovereignty in the face of what are presented as external impositions. Internationally, this view has been expressed through diplomatic discourse questioning the binding nature of multilateral commitments on gender and human rights and promoting selective interpretations of international treaties. In some cases, the adoption of constitutional or legal reforms that enshrine traditional definitions of the family and explicitly limit reproductive rights has even been promoted in the name of protecting national or religious values. In that framework, contestation is not an exclusively domestic phenomenon, but part of a regulatory and symbolic restructuring that has geopolitical implications.

Such actions send a powerful signal at the multilateral level: they assert an alternative model of values that strains principles such as the indivisibility and interdependence of human rights, and they can be disseminated and emulated in other regions, including Latin America and the Caribbean. Thus, the concept of "reactionary internationalism" has been introduced to describe the cross-border interconnections of new conservative movements: a common front that rejects the liberal international order in matters of trade, the environment, migration, gender and diversity in the name of conservative ideas of community, people and nation (Sanahuja and Stefanoni, 2023).

These dynamics have cross-cutting effects. First, they deepen social and ideological polarization: gaps between progressive and conservative sectors, between generations, between urban and rural areas and between groups with different levels of education grow wider. Some authors have observed that this cultural split is aligned with the classic left-right axis, generating a gap in values that feeds into the rise of authoritarian populist options (Sanahuja and Stefanoni, 2023). Second, these dynamics strain multilateralism and fragment international cooperation, hindering the construction of consensus on issues such as the 2030 Agenda. In various areas of the United Nations, there is evidence of collective mechanisms weakening as divergent interests become increasingly difficult to harmonize. For example, the Commission on Population and Development has failed to reach substantive agreements in recent years because of the refusal of some States to

recognize previously agreed-upon rights, such as sexual and reproductive rights. Third, these dynamics normalize regulatory backsliding and exceptions to the rules, weakening the predictability of international legal frameworks.

This rupture consists, then, in a shift from contestation at the margins to contestation at the centre, whereby equality frameworks no longer differ primarily because of implementation gaps but are increasingly repoliticized and, in some contexts, subject to regulatory reversal within broader sovereignty- and identity-based policy projects.

Rupture 8: The end of the global climate consensus

The adoption of the Paris Agreement in 2015 symbolized a moment of multilateral convergence: near-universal recognition of climate change as a systemic risk requiring coordinated global action. The subsequent withdrawal of the United States in 2017, later reversed, and the renewed withdrawal notification that formally took effect in early 2026 (European Parliamentary Research Service, 2025) have established a precedent whereby, in the place of sustained international cooperation, the participation of major historical emitters is contingent upon domestic electoral cycles.

This is most evident in the fraught negotiations over global climate finance. While developed countries finally exceeded their overdue US$ 100 billion annual climate finance goal in 2022, reaching US$ 115.9 billion (Organisation for Economic Co-operation and Development [OECD], 2024), the debate has rapidly shifted away from this baseline. At COP 30 in Belém (Brazil) in late 2025, the focus pivoted to the massive scale of future needs, culminating in a highly contested target of US$ 1.3 trillion in annual climate finance to developing countries by 2035 (United Nations Framework Convention on Climate Change, 2025). This figure has transformed climate diplomacy into a confrontation over who bears the historical responsibility for and the economic burden of the green transition, exposing deep divides over concessionality, additionality and the governance of funds.

There are likewise two opposing perspectives in the current debate on climate finance: one that advocates global cooperation, intergenerational equity and the primacy of ecological limits, and another that defends conventional growth, the primacy of the nation State and the voluntary nature of commitments. For small island developing States (SIDS), this divide has immediate material consequences. According to the Intergovernmental Panel on Climate Change (IPCC), small islands are among the territories that are most vulnerable to sea level rise, coastal erosion and extreme weather events. Yet both least developed countries (LDCs) and SIDS have much lower per capita emissions than the global average (IPCC, 2023).

This political divide is mirrored by a widening chasm between diplomatic pledges to reduce emissions and the physical reality of the emissions trajectory. Rather than converging towards the goals of the Paris Agreement, global trajectories are moving in the wrong direction. The *Emissions Gap Report 2025* (United Nations Environment Programme [UNEP], 2025) revealed that global greenhouse gas emissions reached a record 57.7 $GtCO_2e$ in 2024. Aligning with the Paris Agreement's 1.5°C pathway requires a drastic 42% reduction in emissions by 2030 compared to 2019 levels (UNEP, 2024). Yet the updated nationally determined contributions (NDCs) submitted through COP 30 collectively deliver only a fraction of these required reductions.

Far from generating a universal consensus, the response to the climate crisis has led to a proliferation of positions and an intensification of divisions. On one side are those who advocate profound changes in production models and consumption patterns, arguing that avoiding climate catastrophe demands immediate systemic changes. On the opposite side are those actors, State and corporate alike, that relativize environmental commitments or seek to minimize their obligations, often invoking sovereignty and the right to development. Alongside these positions, a more explicit current of climate scepticism and denialism persists in parts of the political spectrum, questioning the scientific consensus, downplaying the urgency of the crisis or framing climate policies as economically damaging or ideologically driven. Although they find only minority support in the scientific literature, these narratives have gained political traction in a number of countries, influencing electoral debates and international negotiations and leading to regulatory rollback.

Complicating this fractured landscape further is the weaponization of the information environment, which now acts as a structural barrier to climate action. Global risk assessments, including *The Global Risks Report 2025* (World Economic Forum, 2025), consistently rank misinformation and disinformation among the top short-term systemic threats. Recognizing this epistemic crisis, the landmark Declaration on Information Integrity on Climate Change (Global Initiative for Information Integrity on Climate Change, 2025) launched at COP 30 explicitly frames coordinated disinformation, denialism and attacks on scientific voices as severe governance constraints. This polluted information ecosystem deliberately undermines public trust and provides political cover for systematic delay.

Ultimately, this rupture uncovers a new aspect of multilateral fragility. We have shifted from a period when climate change was managed through incremental, unified coordination towards a reality in which the climate agenda is structurally embedded in geopolitical rivalry and distributive conflict.

D. Scenarios: in what direction might the global order evolve?

The reconfiguration of the global order is not a mere rearrangement between powers, but a deeper, multidimensional transformation. In the words of Richard Haass (2025), we are living in "the era of disorder", a transitional phase characterized by the erosion of the institutional frameworks inherited from the post-war period, the emergence of new centres of economic and political gravity and the proliferation of divergent regulatory regimes. This situation has not yet crystallized into an order: it is a transitional stage in which elements of the previous system coexist with incipient dynamics that are struggling to impose themselves.

This phase of reconfiguration does not admit of simple extrapolations: the possible paths are not linear continuations of the recent past, but will depend on interactions between contending actors, rules and capabilities. There can be no single Latin American and Caribbean response to the situation: above and beyond the region's ideological fragmentation and polarization, its political and economic heterogeneity affects its ability to navigate shifting scenarios and leverage strategic opportunities.

This section proposes a structured reading of future scenarios, which are not to be understood as predictions, but as interpretative frameworks that could be of use in analysing the potential trajectories of the international system. The starting point is the initial analytical framework, which interconnects three interdependent levels of analysis: (i) structural changes in global geoeconomics (GDP, trade and foreign investment); (ii) the goals and strategies of the main State and non-State actors; and (iii) the evolution of multilateral rules-based regimes and the disputes surrounding them. From that perspective, four possible configurations of the changing international order are identified and discussed (see table I.6 below for a summary).

Scenario 1: Stable multipolar reconfiguration

- **Geoeconomics**: China, India and other emerging economies continue to grow their share of global GDP and trade and investment flows, not replacing the United States or the European Union, but as part of a reconfiguration that incorporates new centres of economic gravity in a more interdependent and diversified system. This means the progressive deepening and consolidation of a multipolar order with a more balanced distribution of economic and geopolitical power.

- **Goals and strategies**: The major powers adopt pragmatic positions on economic interdependence because they recognize the need to address common global challenges on a collaborative basis. Joint responsibility strategies are adopted to deal with such systemic risks as the climate crisis, financial stability and pandemics, within the framework of a governance model based on a balance between renewed leadership, common rules and consultation mechanisms.
- **Rules-based regimes**: Gradual but significant reforms are made to the main multilateral institutional frameworks such as the United Nations, WTO, IMF and G20 to strengthen their legitimacy, operational capacities and representativeness. At the same time, thematic regimes are consolidated in areas such as climate action, international tax cooperation and the regulation of critical supply chains, contributing to a more coherent and adaptive regulatory architecture.

Scenario 2: Geopolitical fragmentation into spheres of influence

- **Geoeconomics**: The global economy reorganizes around spheres of influence where regional powers shape trade, investment, infrastructure and technological choices within their respective spheres. Economic interdependence becomes subordinated to security considerations, with access for rival powers limited by design and priority given to security of supply, geographical proximity and regulatory affinity in strategic sectors such as the energy transition and AI.
- **Goals and strategies**: Great powers seek to consolidate control over their spheres of influence, an example being control over the Western Hemisphere by the United States as proposed in its National Security Strategy. A logic of regulatory competition, selective alliances and regulatory decoupling between blocs is imposed. This dynamic reinforces asymmetric relationships in which countries within a given sphere face growing constraints on their foreign policy and economic choices. Middle powers retain agency, but increasingly in the form of managing trade-offs under pressure. State and non-State actors must navigate a volatile environment with low levels of systemic predictability. This requires them to strengthen internal capacities so that they can identify opportunities, manage risks and forge international links as the needs of each specific sector, topic or regime dictate.
- **Rules-based regimes**: Multilateral frameworks lose their central position as rules are increasingly made, interpreted and enforced within spheres of influence. Regional or thematic mechanisms such as BRICS+, the CPTPP and climate finance platforms

outside the conventional frameworks remain relevant but come under pressure from dominant actors to align with their interests. Global governance becomes more fragmented as arrangements within blocs increasingly predominate.

Scenario 3: Extreme decoupling and systemic polarization

- **Geoeconomics**: Rivalry and decoupling between the United States and China becomes the structuring axis of the international economy, with consequences for the entire system. Instead of multipolar competition between powers, two rival economic and technological architectures are consolidated, with their own standards, segmented supply networks and incompatible rules for trade, investment and intellectual property. Value chains are drastically reconfigured, not for reasons of efficiency or cost, but because of security calculations and strategic alignments.
- **Goals and strategies**: Geopolitical pressure to align with one bloc or another increases, even for historically non-aligned countries. A zero-sum logic is imposed on cooperation mechanisms, and strategies of economic coercion, inter-State disputes and diplomatic ruptures become more common. Internal capacity to maintain leeway for strategic autonomy becomes an essential asset in an increasingly hostile and fragmented environment.
- **Rules-based regimes**: The weakening of multilateralism becomes more structural and permanent. The WTO, already facing serious limitations, loses functionality as the main rule-maker and legitimate arbiter of global trade, while the use of unilateral measures outside institutional frameworks becomes more widespread. Regulatory fragmentation accelerates in sensitive areas such as digital commerce and emerging technologies, which develop without coordination or shared principles. Global governance becomes a realm of regulatory disputes in which each bloc seeks to impose its own rules as a form of power.

Scenario 4: Resurgent multilateralism driven by middle powers

- **Geoeconomics**: The transition to a multipolar order becomes more stable, with sustained increases in economic flows between developing and emerging economies and a repositioning of a number of middle powers as important nodes of growth, production and consumption. In contrast to the subordination of the periphery seen in the previous scenarios, these economies begin to structure their own realms

of productive and technological integration, with more and denser regional and interregional linkages, especially in strategic sectors such as energy, agro-industry and intermediate manufacturing. Complementarity between regions strengthens, reducing historical asymmetries in patterns of international economic participation.

- **Goals and strategies**: Middle powers act with greater coordination on the international stage, not merely as rule takers, but as brokers and agenda setters. Instead of replicating the confrontational logics of great power rivalry, they adopt strategies aimed at structural cooperation, coalition-building and the defence of global public goods. Diplomatic networks among middle powers deepen and diversify, resulting in flexible coalitions that favour the exchange of capacities, dialogue with different blocs and the building of minimum consensuses capable of sustaining incremental progress in global governance. Coordination among middle powers becomes a stabilizing force in a multipolar order, tempering fragmentation and promoting functional cooperation.
- **Rules-based regimes**: Multilateralism undergoes a partial renewal driven by coalitions of middle powers that leverage their economic weight, regional influence and diplomatic credibility to shape regulatory principles in areas such as development financing, the regulation of global public goods and mechanisms for technological cooperation. While universal agreements are not reached in all areas, key multilateral forums are revitalized, with a greater plurality of voices, and new hybrid governance schemes that combine regional leadership with thematic agendas gain legitimacy. The principle of common but differentiated responsibilities is reasserted, especially on issues such as the climate, global health and the financial architecture.

The scenarios presented above should not be read as mutually exclusive or predetermined futures. Instead, they represent analytical typologies that serve to identify the main tensions in the structure of the global transition: multipolarity versus polarization, inclusive governance versus regulatory competition and structural cooperation versus forced alignments. In practice, these dynamics could overlap and coexist unevenly, generating a hybrid, volatile order with strong asymmetries.

The new international order will not simply be a product of geopolitical inertia, but will be shaped by strategic decisions, institutional capacities and political coalitions that succeed in influencing its orientation. The Global South, and Latin America and the Caribbean in particular, is faced with the challenge and the opportunity of positioning itself not as a passive follower of trends, but as an active builder of alternatives. That will require it to strengthen its strategic autonomy, coordinate common positions and take on a proactive role in setting new rules and mechanisms for cooperation.

Table I.6
Summary of contending scenarios for the world order

Scenario	Geoeconomics	Goals and strategies	Rules-based regimes
Stable multipolar reconfiguration	More balanced distribution of economic power. New centres of gravity are integrated into an interdependent and diversified system.	Joint responsibility vis-à-vis global challenges. Predominance of pragmatism and structured cooperation.	Gradual reforms to multilateral institutions.
Geopolitical fragmentation into spheres of influence	Regionalization of trade, FDI and value chains driven by considerations of security, supply chain resilience and regulatory affinity in strategic sectors.	Consolidation of spheres of influence through a combination of coercion, regulatory competition, selective alliances and decoupling. Middle powers face constrained choices.	Fragmented governance, with rules increasingly shaped within spheres of influence.
Extreme decoupling and systemic polarization	Emergence of two rival economic and technological architectures. Value chains are completely restructured for strategic reasons.	Pressure for forced alignments. Coercive strategies and diplomatic ruptures become the norm.	Collapse of multilateral frameworks. Regulatory disputes without shared principles or legitimate arbitrators.
Resurgence of multilateralism driven by middle powers	Denser cross-regional linkages. Middle powers as key nodes of growth and productive integration between regions.	Coalition-based brokerage, agenda-setting and defence of global public goods.	Partial renewal of multilateralism through middle-power coalitions.

Source: Prepared by the authors.

Final remarks

Chapter I has proposed an analytical framework that brings together three interdependent dimensions, namely system structure, global governance and actor agency, to offer a reading of how the international order is changing. On the basis of this framework, the chapter has identified eight major ruptures that characterize the process of change in global interdependence and geopolitics. These ruptures have significant implications for the development options and room for manoeuvre of developing countries in general and those of Latin American and the Caribbean in particular.

The eight critical ruptures identified and discussed are:

1. A reconfigured model of globalization and economic interdependence that prioritizes security over economic efficiency, instrumentalizes interdependence and weaponizes economic ties to achieve national objectives.
2. An erosion of universal multilateralism and the emergence of a multipolarity with more fragmented configurations of global governance, posing dilemmas of alignment for most countries.
3. A transition from unipolar hegemony to asymmetric multipolar competition, characterized by technological competition, regulatory disputes and a geographical diversification of power.
4. A reconfiguration of attraction-based soft power, with the United States trending downward and China on the rise.
5. A global decline in democracy, increased political polarization and a persistent pattern of weakened trust in institutions.
6. The spread of disinformation and a crisis of truth in the era of generative AI, with the risk that narratives will undermine collective ties and have geopolitical implications for people's ability to determine what is true in the global public arena.
7. A backlash against women's rights, gender equality and the inclusion of minority groups.
8. The end of the global climate consensus, with the climate agenda embroiled in geopolitical rivalry and distributive conflict.

On the basis of the analysis above, four plausible scenarios for the future of the international order have been outlined: (i) a stable multipolar reconfiguration; (ii) geopolitical fragmentation into spheres of influence; (iii) extreme decoupling and systemic polarization; and (iv) a resurgent multilateralism driven by middle powers. These scenarios represent analytical typologies that should not be understood as exclusive alternatives, but rather as configurations that could overlap and coexist unevenly, giving rise to a hybrid, unstable order with pronounced asymmetries.

By describing and analysing the major trends in geopolitics and globalization, together with the main ruptures and scenarios, this chapter has provided the first building block of the report. The second is the diagnosis of the development challenges facing the region presented in chapter II. With these two building blocks in place, chapter III will go on to analyse the first fundamental question posed to the Commission: what strategic recommendations would best serve the Latin American and Caribbean countries as they seek to navigate the new international situation with a view to turning it most effectively to account for their growth and development strategies?

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Chapter II

Latin America and the Caribbean in the changing world order

Chapter summary

According to ECLAC's diagnostic analysis, most Latin American and Caribbean countries are immersed in three interrelated development traps: a low capacity for growth; high inequality, low social mobility and weak social cohesion; and weak institutional capabilities and ineffective governance. These traps are embedded in a broader set of structural gaps that exist in most of the countries to different degrees as a consequence of the Latin American and Caribbean countries' heterogeneity in terms of size, production structures, trade integration, national histories and political systems.

In light of this predicament, the countries of the region need to make significant adjustments in their economic development strategies, both to address their historical gaps and challenges and to seize the opportunities arising from the new global scenario. Chapter II lays the groundwork for this effort by reviewing the region's key common development challenges (while recognizing the significant heterogeneity of its countries) and by identifying a variety of strategic assets that Latin American and Caribbean countries can leverage for development advantages in the evolving geoeconomic landscape.

The chapter classifies these assets into five categories: (i) strategic resource endowments, such as energy, food, critical minerals and biodiversity; (ii) productive, human and financial capabilities; (iii) the assets represented by the region's market size and network of integration and cooperation mechanisms; (iv) political assets associated with the region's status as a zone of peace and its multilateral engagement; and (v) a distinctive base of soft power derived from cultural, creative and symbolic capital. The central argument is that, if wisely leveraged, these assets have enormous potential to create growth and development opportunities for the region in the new geopolitical, geoeconomic and technological scenario in areas such as the energy transition, food security, digitalization and artificial intelligence (AI), sustainable development and many others.

The discussion presented in this chapter also embodies a recognition of the fact that there are a number of constraints that can limit the effective transformation of these assets into development gains. These include a limited fiscal space, regulatory rigidities, rising political polarization, fragmented governance structures, low levels of trust in institutions and the growing influence of organized crime, all of which raise implementation costs, shorten policy horizons and weaken the potential for regional coordination.

Introduction

This chapter begins by reviewing the main common development challenges of the region, while also recognizing and providing empirical evidence of the significant diversity existing in terms of country characteristics and situations. The main focus of the chapter is the identification and analysis of five categories of strategic assets that Latin American and Caribbean countries can leverage for development advantages in today's evolving geoeconomic landscape: (i) market size and population; (ii) strategic resource endowments such as energy, food, critical minerals and biodiversity; (iii) significant productive capabilities and development finance ecosystems; (iv) political assets associated with the region's status as a zone of peace and its multilateral engagement; and (v) a distinctive base of soft power derived from cultural, creative and symbolic capital.

The central argument is that, if wisely leveraged, there is an enormous potential for using these assets to create growth and development opportunities for the region in the new geopolitical, geoeconomic and technological scenario in areas such as the energy transition, food security, digitalization and AI, sustainable development and many others. Specific policies and strategies for accomplishing this for some of these categories of assets are the focus of chapter III.

The discussion presented in chapter II also recognizes that there are a number of constraints, including geopolitical risks, that can limit the effective transformation of assets into development gains. A key message of the chapter is that Latin American and Caribbean countries face a central dilemma: whether to remain in a peripheral position in global economic and governance systems or to harness their assets to promote their own development and consolidate their role on the global stage.

A. Latin America and the Caribbean: development traps and gaps

Three development traps

According to ECLAC's diagnostic analysis of the development challenges of the region (with which the members of the Commission generally concur), most Latin American and Caribbean countries are immersed in three interrelated development traps (ECLAC, 2024):

(i) A low capacity for growth, reflected in weak long-term growth and limited productive diversification that led to a second lost decade of low growth, little poverty reduction and weak quality job creation from 2014 to 2023;

(ii) High inequality, low social mobility and weak social cohesion, which erode trust and weaken social contracts; and

(iii) Weak institutional capabilities and ineffective governance that tend to limit the implementation of much-needed structural reforms.

The trap of a low capacity for growth reflects a prolonged period of economic stagnation. Between 2014 and 2023, the region's average GDP growth was only 0.9% per year, per capita GDP remained stagnant, the rate of job creation was the lowest in six decades and poverty reduction stalled. This is why ECLAC has called this "the second lost decade" for the region's development. This poor performance is closely tied to a production structure that remains largely undiversified and marked by a high degree of structural heterogeneity, with a large number of low-productivity sectors and a much smaller number of high-productivity ones, high levels of informality, limited investment in innovation and weak absorption of technological progress in production processes. Export concentration in primary goods, which is especially marked in South America, further exposes the region to swings in international commodity prices, hindering the creation of production linkages and restricting convergence with more advanced economies.

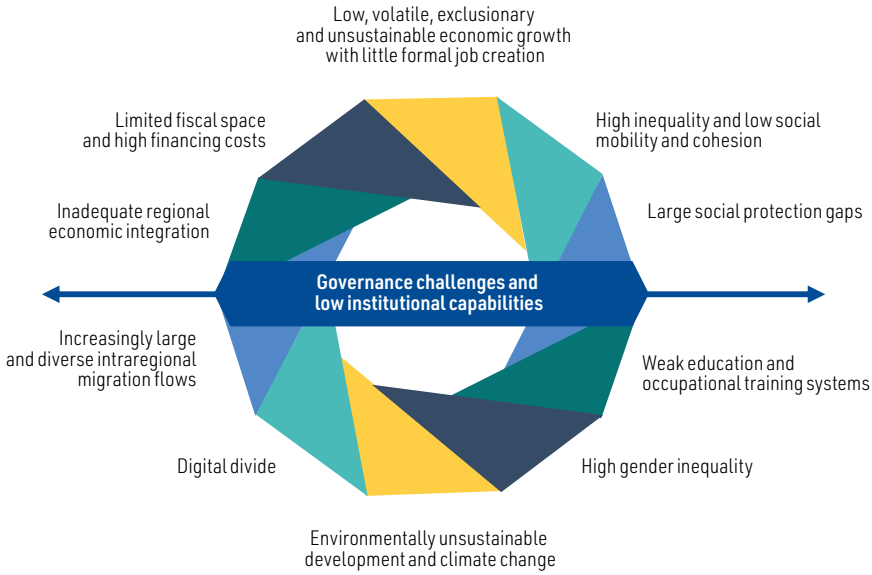
The trap of high inequality, low social mobility and weak social cohesion is reflected in the fact that Latin America and the Caribbean continues to be one of the most unequal regions in the world, with a Gini coefficient that, on average, exceeds those of the member countries of the Organisation for Economic Co-operation and Development (OECD) by 15 points. This is the result of several factors: the region's low growth capacity, high degree of production heterogeneity and the associated high level of informality; regressive tax systems; persistent gaps in access to healthcare, education and social protection; and the inequality associated with its patterns of urban development. These and other elements erode citizens' trust in institutions and constrain the possibility of forging long-term social pacts.

The trap of weak institutional capabilities and ineffective governance manifests itself in limited capacities for designing and sustaining transformative public policies over time. Political fragmentation, the high turnover rate of government authorities and low levels of trust in government undermine the continuity of policies and development strategies. These institutional shortcomings reduce the scope for implementing structural reforms and increase vulnerability to changes in the global environment.

A decalogue of structural gaps

These three development traps are embedded in a broader set of structural gaps that characterize most countries to different degrees. ECLAC has identified a decalogue of structural gaps that expand upon and complement the development traps analysis (ECLAC, 2024). Closing these structural gaps will require profound transformations that will enable the region to shift from its present development predicament towards a more productive, inclusive and sustainable development model (see diagram II.1).

Diagram II.1
Ten structural gaps in the development model



Source: Economic Commission for Latin America and the Caribbean. (2024). *Development Traps in Latin America and the Caribbean: Vital Transformations and How to Manage Them* (LC/SES.40/3-P/-*).

The region's low, volatile, exclusionary and unsustainable growth pattern is what underlies its low growth capacity and its difficulty in bringing about changes in its production patterns and creating high-quality jobs. This pattern is rooted in its structural heterogeneity, limited diversification, weak productivity and high degree of informality. The countries' sluggish growth constrains fiscal revenues and limits the scope for investment in social, production and environmental priorities. The characterization and understanding of this growth and productivity dynamic are an essential basis for defining new growth and jobs strategies for the countries of the region, particularly given today's new geoeconomic conditions.

A number of the existing gaps are directly related to the social dimensions of development. These include: high inequality, low social mobility and weak social cohesion; insufficient coverage of social protection systems, which leave large segments of the population vulnerable to shocks and reinforce informality; weak education and training systems that not only limit productivity and innovation but that, together with slack labour markets, reduce social mobility; high gender inequality, which continues to limit women's rights, participation and efficiency; and labour and care imbalances that reduce women's economic contribution. All these social situations erode trust, narrow opportunities and generate frustration on the part of the population, with significant political and governance implications.

One of the key structural gaps ties in with a series of the characteristics of the region's production and consumption models that give rise to environmental damage in the form of deforestation; inappropriate land use; land, air, water and ocean pollution; unsustainable fishing; and poor waste disposal and other practices. And this is exacerbated by climate change and its associated extreme weather events (hurricanes, floods, droughts).

The digital revolution, which has now entered into a new phase with the emergence of AI, brings with it many potential benefits, but it also poses the threat of creating another digital divide that adds a new layer of exclusion in the digital economy that can widen productivity gaps and exacerbate income and human development inequalities.

For a variety of reasons (including economic, social and political factors and the expansion of organized crime, among others), intraregional migration flows have grown enormously in number and diversity and have branched out into new patterns involving different countries of origin, transit and destination. There are important challenges here in terms of countries' institutional capacities and the regional cooperation required to ensure safe, orderly and regular migration. The evidence is also clear regarding the discrimination and lack of opportunities faced by many migrants.

Even though the dream of regional economic integration has been kept alive in the political and policy agenda of most countries in the region for many decades, real progress is slow if not stalled. Deeper regional integration can diversify markets and act as a

driver of growth and job creation. In today's new geopolitical and geoeconomic context, the diversification of trading and investment partners is key, as is greater integration with immediate regional neighbours. Regional cooperation can give rise to numerous regional public goods (infrastructure, electrical interconnection, joint management of natural resources and biodiversity, diverse cultural identities, tourism destinations, etc.). Cross-border investments and trade can not only bolster short-term growth but can also generate much more regionally integrated and globally competitive production platforms and value chains.

Addressing all these structural gaps requires public investment, public resources and a stable macroeconomic environment. It is also important to catalyse private investment. However, most countries in the region have limited fiscal space, relatively high debt and debt service levels and high financing costs. This curbs the State's ability to invest and respond to structural challenges.

In addition to these ten structural gaps, there is a cross-cutting one that lines up with the third trap mentioned above: weak institutional capabilities and weak governance. Weak institutions hinder coordination, policy continuity and implementation, affecting the capacity to address all other gaps.

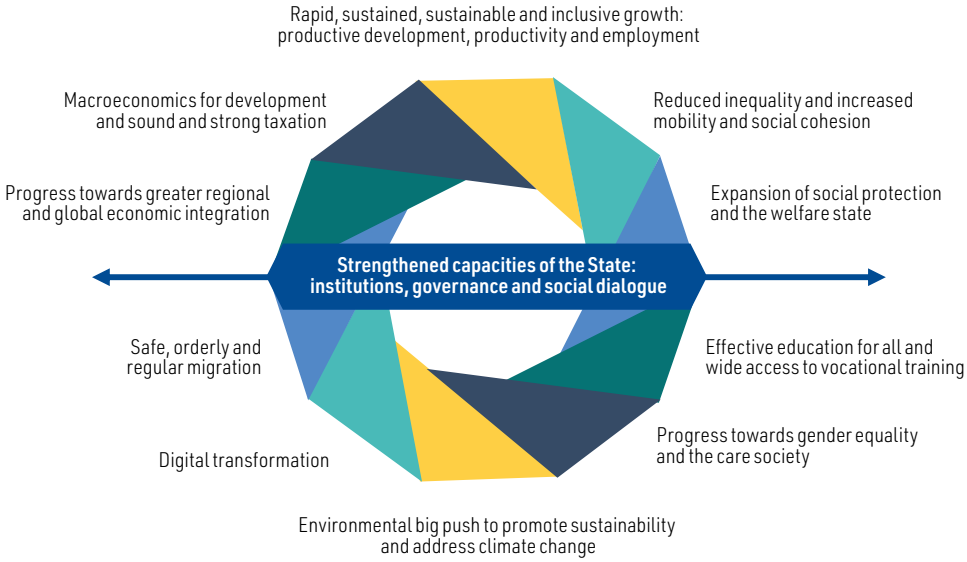
Taken together, these interconnected gaps form a self-reinforcing system that locks the region into a vicious cycle of low growth, high inequality and institutional fragility. Breaking this cycle is possible but will require policies that address each one of these gaps. along with integrated and sustained strategies that take into account the mutually reinforcing relationships between them. This is what has led to ECLAC's proposal of eleven vital transformations.

Eleven vital transformations in the Latin American and Caribbean region's development model

ECLAC has turned its diagnostic analysis of structural gaps into an agenda for action. When considered from the point of view of what needs to be done, these gaps define what ECLAC has called the eleven vital transformations that are needed in order to steer the region's development process towards more productive, inclusive and sustainable pathways (see diagram II.2). Each one of these transformations will need to be driven by specific country strategies based on specific policies and policy instruments. Many of these policies and instruments share common elements, but their starting points and implementation strategies vary from country to country in line with local conditions.

The Commission considers that this is a powerful framework for organizing and discussing action agendas for development policy in Latin American and Caribbean countries that would place the region in a stronger position to confront global ruptures and shocks and to escape from the three development traps.

Diagram II.2
Eleven vital transformations in the Latin American and Caribbean development model

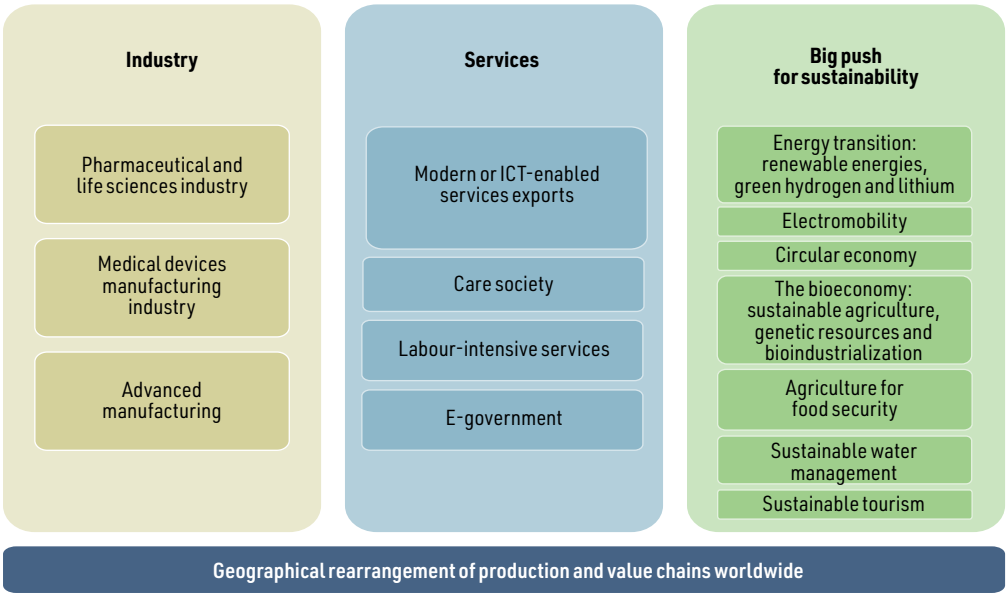


Source: Economic Commission for Latin America and the Caribbean. (2024). *Development Traps in Latin America and the Caribbean: Vital Transformations and How to Manage Them* (LC/SES.40/3-P/-*).

For example, the action agenda for escaping from the low growth capacity trap and promoting more rapid, sustained, sustainable and inclusive growth, ECLAC has proposed scaling up a new generation of productive development policies. The defining characteristics of these policies include the prioritization of sector-specific productive development agendas. Diagram II.3 presents an illustrative portfolio of potentially dynamizing sectors.

The Commission considers this to be a robust approach, especially under present geoeconomic conditions. Industrial and technological rivalry is at the very centre of the competition between the great powers, which are pursuing industrial and trade policies in and around very specific sectors and technologies. This point will be discussed in greater depth in chapter III.

Diagram II.3
Great productive transformations for productivity, inclusion and sustainability: portfolio of driving sectors



Source: Salazar-Xirinachs, J. M. and Llinás, M. (2023). Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies. *CEPAL Review* (141) (LC/PUB.2023/29-P/-*). Economic Commission for Latin America and the Caribbean.

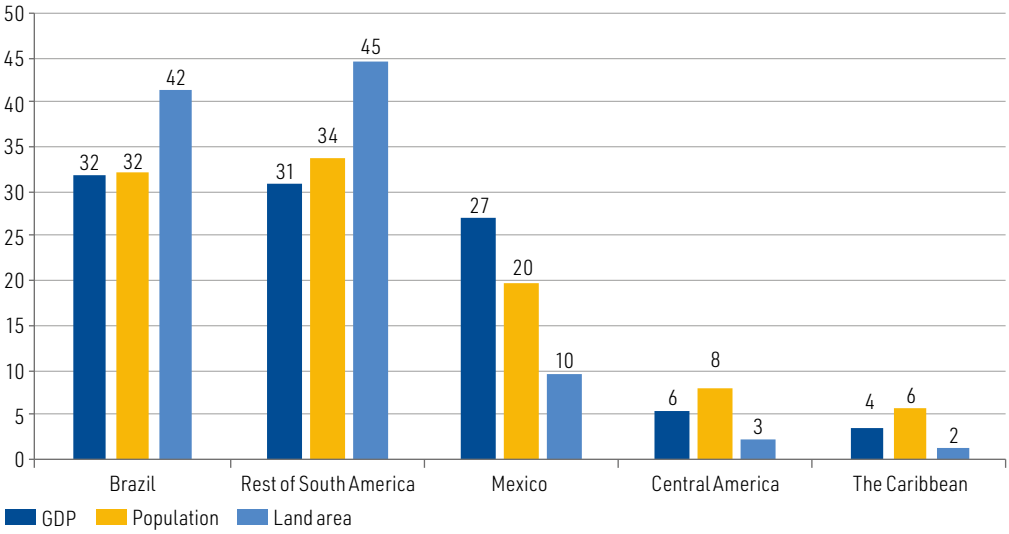
B. An economically diverse and heterogeneous region

The 33 countries of the Latin American and Caribbean region and its three subregions —South America, Central America and the Caribbean— are characterized by a marked degree of heterogeneity, as are its two largest economies (Mexico and Brazil). This diversity is evident not only in terms of economic and population size but also in the geographic patterns of economic links with external partners. This section provides a brief characterization of some of these differences which will serve as a foundation for the analysis and recommendations developed in the following chapters.

South America accounts for 63% of the region's GDP, 66% of its population and 87% of its land area. Brazil alone represents roughly half of South America's share in each of these dimensions (see figure II.1). Mexico, the region's second-largest economy, accounts for 27% of the region's GDP, 20% of its population and 10% of its land area.

Central America represents 6% of regional GDP, 8% of the population and 3% of the land area. The Caribbean is the smallest subregion in economic, demographic and territorial terms, accounting for 4% of GDP, 6% of the population and 2% of the land area.

Figure II.1
Share of Brazil, the rest of South America, the Caribbean, Central America and Mexico in the GDP, population and land area of Latin America and the Caribbean, 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean. (2025). CEPALSTAT (gross domestic product and population) and World Bank (area).

With the exception of Brazil and Mexico, Latin American and Caribbean countries are small in global terms. Given the size of their markets, economic and employment growth are only feasible if those markets engage in dynamic exchanges with the world economy. This trade openness makes countries very vulnerable to external shocks and economic conditions, however, which is why economic diversification in terms of both products and trade partners is important for them. This is especially the case for Central America and the Caribbean. In the Caribbean, most countries are small island States (nine of them have fewer than 500,000 inhabitants). These characteristics pose specific challenges in terms of scale and connectivity both within the Caribbean and between it and Latin America, the United States and the world.

The geographic patterns of economic links with external partners vary widely across the subregions and countries and are a key element in understanding the opportunities and challenges of the different countries in today's new geoeconomic and geopolitical

configurations. Trade flows tell a powerful story (see table II.1). Given their geographic proximity to the United States, Mexico and the Central American countries maintain close economic ties with that country through trade, foreign direct investment (FDI), migration, tourism and remittances. This is especially the case for Mexico, which sends over 80% of its total merchandise exports to the United States. This reflects its deep integration in North American production chains (the so-called "Factory North America").

Table II.1
Selected partners' share of Latin American and Caribbean countries' total exports of goods, 2024
(Percentages)

Country	United States	China	Latin America and the Caribbean	European Union	Rest of world
Argentina	8	8	39	11	34
Bolivia (Plurinational State of)	3	15	40	10	31
Brazil	12	28	15	14	31
Chile	17	36	14	9	24
Colombia	31	5	34	11	20
Ecuador	20	15	31	17	16
Peru	13	34	12	11	30
Uruguay	12	17	42	10	19
Venezuela (Bolivarian Republic of)	46	12	5	17	20
South America	**14**	**23**	**22**	**12**	**29**
Costa Rica	48	2	24	19	7
El Salvador	34	1	60	3	3
Guatemala	32	0	51	8	9
Honduras	47	1	31	14	7
Nicaragua	48	1	34	5	12
Panama	9	2	81	3	5
Central America	**36**	**1**	**46**	**10**	**7**
Dominican Republic	59	3	14	8	17
Mexico	84	2	4	3	7
Central America and Dominican Republic	**39**	**2**	**41**	**10**	**9**
Central America, Mexico and Dominican Republic	**79**	**2**	**8**	**4**	**8**
Antigua and Barbuda	19	10	23	21	27
Bahamas (The)	92	0	1	6	1

Country	United States	China	Latin America and the Caribbean	European Union	Rest of world
Barbados	26	1	54	5	14
Belize	29	0	30	8	33
Cuba	0	19	2	26	52
Dominica	6	1	31	25	37
Grenada	17	5	62	3	13
Guyana	15	1	25	33	27
Haiti	76	1	7	4	11
Jamaica	29	1	15	15	40
Saint Kitts and Nevis	39	1	15	36	9
Saint Lucia	8	0	83	3	6
Saint Vincent and the Grenadines	14	0	62	21	3
Suriname	34	4	22	16	24
Trinidad and Tobago	41	3	26	17	13
The Caribbean	**24**	**2**	**24**	**27**	**24**
Latin America and the Caribbean	**45**	**13**	**15**	**9**	**18**

Source: Economic Commission for Latin America and the Caribbean, on the basis of International Trade Centre. (n.d.). *Trade Map*. https://www.trademap.org/Index.aspx.
Note: The figures for the Bolivarian Republic of Venezuela, Cuba, Dominica, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines were calculated from mirror data.

The United States absorbs around 60% of the total exports of the Dominican Republic, around half the total exports of Costa Rica, Honduras and Nicaragua and about a third of those of El Salvador and Guatemala. Similarly, Mexico and the Central American countries source a large share of their total imports from the United States (ECLAC, 2025a). Central America —comprising small and geographically close economies— registers relatively high levels of intraregional trade: over 25% of total exports go to other countries in that subregion. Nevertheless, trade with Mexico remains limited, despite its geographic and cultural proximity and the absence of tariffs.

Overall, the Caribbean has the most geographically diversified export structure of the three subregions. The United States, the European Union and the Latin American and Caribbean market each account for about a quarter of total Caribbean exports, while China's share is minimal. However, geographic export patterns vary widely among individual countries.

South America maintains much weaker economic ties with the United States than Mexico, Central America and the Caribbean. The United States' share of total exports does not exceed 15% for most South American countries. China has been the main export destination for South America as a whole since 2015, as well as for Brazil, Chile, Peru and Uruguay individually. Exceptions include Colombia and Ecuador, for which the United States is the main export market, and Argentina, the Plurinational State of Bolivia and Paraguay, whose main export market is Brazil.

Despite accounting for over 60% of the region's GDP and population, South America's intraregional trade coefficient, at only about 13% of total exports, is much lower than that of Central America. This reflects, among other factors, the size of its vast territory (almost 18 million square kilometres), complex geography, poor transport infrastructure and strong export specialization in natural resources, which are primarily destined for extraregional markets (see table II.2).

Export specialization patterns also differ markedly across the Latin American and Caribbean subregions. In South America, exports are predominantly composed of primary products —mainly food (Argentina, Brazil, Paraguay and Uruguay), minerals (Chile, Peru and the Plurinational State of Bolivia) and fossil fuels (the Bolivarian Republic of Venezuela and Colombia) (see table II.2). In Central America, Guatemala, Honduras and Nicaragua exhibit mixed export profiles, combining similar proportions of food and manufactured goods, while Costa Rica, the Dominican Republic and El Salvador are primarily exporters of manufactures. For the latter three, as well as for Panama, services also represent a large share of total exports. In the Caribbean, most countries are primarily service exporters, with the share of services in total exports exceeding 70%, on average, and reaching more than 90% in some economies. The only exceptions are Guyana, Suriname and Trinidad and Tobago, where services represent just 4%, 13% and 14% of total exports, respectively. In these economies, exports are concentrated in fuels (oil in the case of Guyana and natural gas in that of Trinidad and Tobago) and minerals, particularly gold, for Suriname.

In the case of the two largest countries in the region, manufacturing dominates Mexico's merchandise exports (84%), while food products are the main export category for Brazil (40% of all merchandise exports). Manufactures and fuels/mining also account for significant shares of Brazil's total merchandise exports (23% and 31%, respectively).

Table II.2
Sectoral breakdown of Latin American and Caribbean countries' total exports, 2024[a]
(Percentages)

	Services	Goods	Agricultural raw materials	All food items	Fuels	Ores, metals, precious stones and non-monetary gold	Manufactured goods
Argentina	18	82	1	67	12	3	17
Bolivia (Plurinational State of)	11	89	1	23	18	51	7
Brazil	13	87	6	40	17	14	23
Chile	11	89	5	23	1	57	13
Colombia	26	74	5	20	44	9	22
Ecuador	10	90	4	54	28	10	5
Paraguay	20	80	2	70	11	2	15
Peru	9	91	1	22	5	64	7
Uruguay	40	60	7	69	2	1	22
Venezuela (Bolivarian Republic of)	-	-	1	5	72	3	19
South America	-	-	**4**	**37**	**16**	**24**	**18**
Costa Rica	43	57	1	35	0	1	62
Cuba	81	19	3	48	4	30	15
Dominican Republic	51	49	1	25	0	15	59
El Salvador	48	52	1	24	4	1	70
Guatemala	24	76	3	50	2	1	44
Haiti	13	87	0	4	0	2	93
Honduras	25	75	1	48	0	5	46
Nicaragua	15	85	1	42	1	17	40
Panama	58	42	2	39	5	8	45

	Services	Goods	Agricultural raw materials	All food items	Fuels	Ores, metals, precious stones and non-monetary gold	Manufactured goods
Central America, Cuba, Haiti and Dominican Republic	-	-	**2**	**38**	**2**	**6**	**52**
Mexico	**8**	**92**	**0**	**9**	**5**	**3**	**84**
Antigua and Barbuda	97	3	0	7	22	2	70
Bahamas (The)	90	10	0	8	36	2	54
Barbados	78	22	0	36	13	5	46
Belize	71	29	1	81	6	1	11
Dominica	87	13	1	28	0	13	58
Grenada	96	4	0	40	0	4	55
Guyana	4	96	0	2	85	6	7
Jamaica	74	26	0	25	36	33	6
Saint Kitts and Nevis	94	6	0	21	1	1	78
Saint Lucia	94	6	1	33	27	6	33
Saint Vincent and the Grenadines	87	13	0	41	0	1	58
Suriname	13	87	4	29	5	59	4
Trinidad and Tobago	14	86	0	6	43	1	50
The Caribbean	-	-	**0**	**7**	**65**	**9**	**19**
Latin America and the Caribbean	-	-	**2**	**25**	**12**	**14**	**47**

Source: United Nations Conference on Trade and Development. (2025). *UNCTADstat database*. Retrieved on 7 November 2025 from https://unctadstat.unctad.org.

Note: Non-allocated products were not considered in the calculations.

[a] The figures are for 2023 in the cases of Cuba, Guyana and Haiti.

Another dimension of heterogeneity lies in the degree of integration into global or regional value chains. In general, the empirical literature shows that the participation of Latin America and the Caribbean, as a whole, in both global and regional value chains is limited (Pérez Akaki, 2025; 2023; Lalanne, 2022; Filippo et al., 2024). This is true of both its backward linkages —the incorporation of imported inputs into exports— and its forward linkages, where the region's exports are used as inputs in the production processes of other countries. Even within Central America, despite having the highest share of intraregional trade in the region, integration into regional value chains remains shallow. Most of this subregion's trade involves final goods assembled from imported inputs, with little value added within the subregion itself; this pattern may reflect the limited complementarity of the productive structures of Central American countries (Iraheta and Orozco, 2025).

Nevertheless, there are some significant national and sectoral exceptions (Fernandes et al., 2021). Mexico, Costa Rica and Brazil have succeeded in integrating certain sectors into global value chains to a greater extent. Mexico is a key player in automotive and auto-parts value chains linked to the United States market; Costa Rica has successfully integrated its medical devices and business services sectors into global value chains; and Brazil participates in key segments of agribusiness chains and in certain advanced manufacturing industries such as aerospace (Vidal and González Pandiella, 2024; Mora-García, 2025; Reis et al., 2024).

C. Strategic assets for global engagement and development gains

The interaction between today's new geopolitical dynamics and global ruptures and the region's development traps and gaps configures a complex scenario of risks and opportunities for Latin America and the Caribbean. With regard to opportunities, as discussed in chapter I, the new geoeconomic and geopolitical landscapes, combined with new technological paradigms, have redefined international strategic priorities, placing food security, energy, climate action and technology-related sectors at the centre of global agendas. In this context, opportunities for Latin American and Caribbean countries are based on their unique set of assets, which, if strategically leveraged, can both generate development benefits and expand these countries' geopolitical influence. As for the risks, the top ones are associated with the unilateral actions that some of the great powers are prepared to take in order to control some of these assets. A clear example is the action taken by the United States in the Bolivarian Republic of Venezuela on January 3, 2026, one of the main objectives of which, as explicitly stated by the Trump Administration,

was to gain access to the country's oil (Freeman, 2026). The risks are particularly great for countries in the Western Hemisphere, which has been elevated to the top of the list of regional priorities in the latest national security strategy of the United States.

The region's assets can be summed up in five categories or classes, as shown in table II.3: (i) its market size, with more than 660 million people; (ii) its abundant natural resources, including water, critical minerals, biodiverse ecosystems and abundant sources of energy; (iii) its productive capabilities and financial framework, which include world-class production clusters, significant start-up and deep tech platforms and a strong network of development banks; (iv) its political influence based on its diplomatic platforms and the status of the region as a zone free of nuclear weapons and inter-State wars; and (v) its soft power, which stems from a combination of cultural, historic and creative industries and sports that is unique and quite varied and attractive.

Table II.3
Latin America and the Caribbean: strategic assets for global engagement and development gains

Asset class	Specific asset	Description
A. Strategic resource endowments	Energy (clean and fossil)	The region has large reserves of fossil energy sources, is a major producer of hydropower and solar and wind energy and is an emerging leader in green hydrogen.
	Food security provider	The region is the world's largest net food exporter.
	Critical minerals	The region has large reserves of lithium, copper, nickel, cobalt, rare earths, bauxite and graphite.
	Biodiverse ecosystems, freshwater reserves, carbon sinks	The Latin American and Caribbean region is the host of nearly half of the planet's terrestrial biodiversity and is home to more than 20% of the world's forests. The Amazon basin acts as a global carbon sink. In addition, Latin America and the Caribbean contains one-third of the planet's freshwater resources.
B. Productive, human and financial capabilities	World-class production clusters	Several Latin American and Caribbean countries have developed highly competitive production clusters in sectors such as aerospace, automotives, medical devices, modern services, renewable energy, food production, tourism and others.
	Creative industries	The region has strong cultural and creative industries in audiovisual production, music, design, fashion, gaming and digital content, and those industries have a growing export potential.
	Platform for start-ups and deep tech	The region has a growing tech start-up ecosystem. The number of Latin American and Caribbean unicorns is on the rise, and there are emerging deep tech hubs (biotech, agritech, AI, advanced materials) in countries such as Brazil, Mexico, Colombia and Chile.

Asset class	Specific asset	Description
B. Productive, human and financial capabilities	Development banking capacity	The region boasts a strong network of regional, subregional and national development banks that support strategic sectors and regional integration.
	Diaspora networks and external financial linkages	Migrant communities provide stable external income streams in the form of remittances and facilitate knowledge transfers, entrepreneurship and transnational business connections that strengthen the region's productive and financial capacities.
	Human talent	The region has a diverse human capital base characterized by broad educational coverage, expanding tertiary education systems, a sizeable youth population and a rising level of educational attainment among women.
C. The region as an asset	Market size	The population of over 660 million people produces a combined GDP of US$ 6.8 trillion.
	Integration and cooperation mechanisms	The network of regional and subregional integration mechanisms and cooperation frameworks support cross-border cooperation and the provision of regional public goods.
D. Political influence	Multilateral diplomacy platform	The region plays an active role in several multilateral forums, influencing the global agenda in regard to topics such as climate change, biodiversity, food and water security, renewable energy, human rights, oceans, gender equality, diversity and inclusion.
	A region free of nuclear weapons and inter-State wars	By projecting an image of peace, stability and commitment to international law, the region enhances its credibility and strengthens its moral authority in debates on disarmament, conflict prevention and global governance.
E. Soft power	Intangible assets	The region's soft power stems from its combination of cultural diversity, heritage and tourism of global significance, influence and visibility.

Source: Prepared by the authors.

Using these assets, the region has the potential to position itself as a reliable provider of global public goods in areas such as the energy transition and biodiversity conservation; further the development of global and regional value chains and dynamic sectors; accelerate its productive transformation, increase investment, generate more good-quality jobs and raise living standards; and position itself to exert greater influence in global forums and over governance arrangements.

These categories of assets differ in several ways, and their value in terms of global positioning is neither automatic nor evenly distributed. Some of them are material, whereas others are intangible. Some —in particular, the region's abundance of natural

resources— are directly linked to its geography, while others —such as its status as a zone free of nuclear weapons— are the result of collective decisions by its governments. These assets also differ in terms of how their value will likely evolve over time as a result of technological change, shifting global demand and geopolitical competition.

However, one feature that they all share is that, to obtain benefits from them, these assets need to be strategically leveraged and managed using carefully designed strategies. Without clear strategies, their potential development benefits will not accrue spontaneously, and a number of risk scenarios could play out in which some of these assets —and the corresponding countries' futures— might be caught up in geopolitically motivated events.

As part of national strategies designed for making the most of these assets, Latin American and Caribbean countries should consider leveraging regional cooperation to harness their full potential. The region's natural resources are one example. In the absence of cooperation, large reserves of critical minerals are national assets (for the countries that hold them), not regional ones. By contrast, if several countries holding reserves of a given mineral cooperate with one another, they can achieve more efficient production scales, increase their collective leverage in negotiations with foreign governments and firms, and move up the value chain from extraction to processing. Similarly, when the governments of the region work together to reduce barriers to intraregional trade and investment flows, the strategic value of the regional market becomes greater than it would be if it were to remain fragmented (as is largely the case today).

Summing up, to take full advantage of the region's many potential assets, governments need to cooperate. While cooperation is clearly desirable, and in some cases essential, it has historically proven very difficult to achieve due to constant policy swings and a lack of continuity in the national policies around regional integration and cooperation associated with each country's political cycle. This phenomenon is being exacerbated by the growing degree of political polarization. Going forward, Latin American and Caribbean countries would benefit from adopting a more pragmatic approach to regional initiatives, much as the countries of Southeast Asia have done (the so-called "ASEAN Way"). Otherwise, the region risks squandering its assets and becoming marginalized in a world that is increasingly structured around regional blocs.

A more detailed description of each one of these five categories of assets is provided below. Chapter III will come back to the subject and offer strategies and recommendations for leveraging these assets under the new conditions that have emerged in the global geoeconomic and geopolitical landscape, taking into account a number of restrictions and risks.

Asset class 1: Strategic resource endowments

Energy

Rising geopolitical tensions that amplify the pressure to diversify energy supply sources —together with the rapid surge in electricity demand fuelled by the global energy transition and the spread of energy-intensive technologies such as AI— are placing an unprecedented strain on global energy systems and elevating energy security to a central position on international agendas. Those countries in Latin America and the Caribbean that have either substantial fossil fuel reserves or potentially large non-fossil energy sources are well positioned to strengthen their role as reliable suppliers. But in the current environment of unilateral action, they may also come under strong pressure or worse, as major players may use raw power to ensure their supplies of some of these assets.

The region holds some of the world's largest crude oil reserves, accounting for 19.5% of the global total. The lion's share of these reserves is concentrated in the Bolivarian Republic of Venezuela (89%), followed by Brazil (5%), Guyana (3%), Mexico (2%) and Argentina (1%). Proven natural gas reserves, which represent 4.4% of the global total, are also mainly located in the Bolivarian Republic of Venezuela (66%), followed by Brazil (6%), Argentina (5%), Guyana (4%), Mexico (4%), Trinidad and Tobago (4%) and the Plurinational State of Bolivia (3%) (OLADE, 2024).

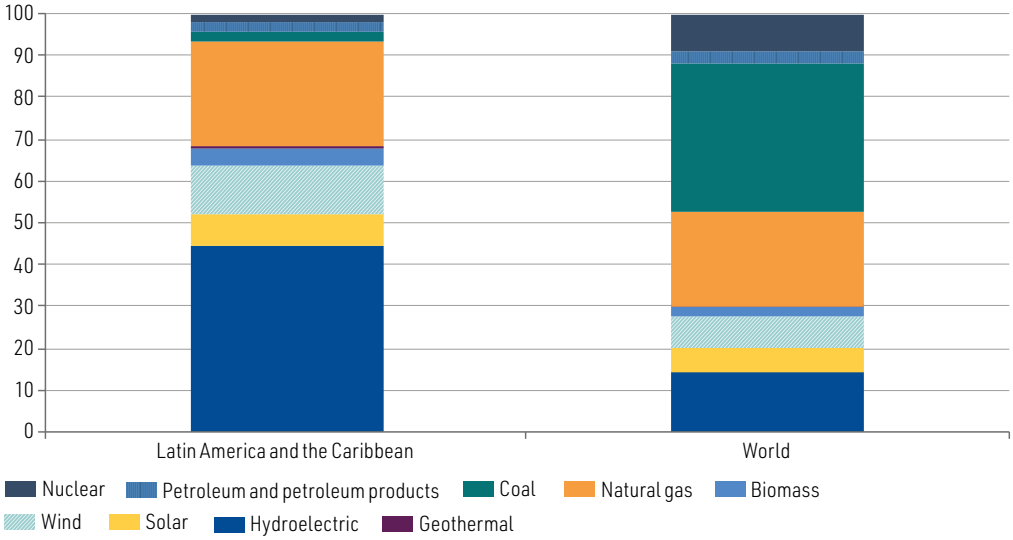
While fossil fuels remain an important component of the region's energy portfolio, Latin America and the Caribbean also has a large endowment of renewable resources, which are an increasingly strategic asset in a world moving towards decarbonization. This includes vast solar and wind resources in Brazil, Mexico, Chile and Argentina; extensive hydropower capacity in Paraguay, Brazil, the Bolivarian Republic of Venezuela, Mexico, Colombia and Argentina; and a mature biofuels industry in Brazil, among others (Arbache and La Rovere, 2023).

The region is at a more advanced stage in the energy transition than the global average: fossil fuels account for less than 70% of total energy consumption in Latin American and Caribbean countries, compared with more than 85% at the global level. This difference is explained primarily by the region's electricity matrix, which is the cleanest in the world (OLADE, 2025). Renewables account for nearly 70% of total electricity generation in Latin America and the Caribbean, compared with just 30% globally (see figure II.2). Some smaller countries, such as Paraguay, Costa Rica and Uruguay, generate almost all their electricity from renewable sources and, in Brazil, the share is already close to 90% (OLADE, 2024). The region's leading position is further underpinned by regional cooperation

platforms such as RELAC (REnewables in Latin America and the Caribbean), a voluntary initiative launched in 2019 that brings together 16 countries and has a collective target for renewable electricity generation of 80% by 2030 (Inter-American Development Bank, 2023).[1]

The region's diverse and abundant energy portfolio positions it favourably in a world increasingly focused on securing reliable energy supplies. The emerging trend towards decentralizing production to countries able to offer clean, secure, affordable and abundant energy —known as "powershoring" (Arbache, 2022)— creates new opportunities for leveraging this advantage. This concept stems from the recognition that climate change and geopolitical shifts are opening a window of opportunity for countries with comparative advantages in clean and renewable energy to attract energy-intensive manufacturing. With their abundant low-carbon electricity and diverse renewable energy base, several Latin American and Caribbean countries are well placed to become attractive powershoring destinations, particularly for industries with rapidly growing electricity needs, such as AI, large-scale data processing and advanced manufacturing (Esteves and Arbache, 2023).

Figure II.2
Latin America and the Caribbean and the world: share of renewable and non-renewable sources in electricity generation, 2024
(Percentages)

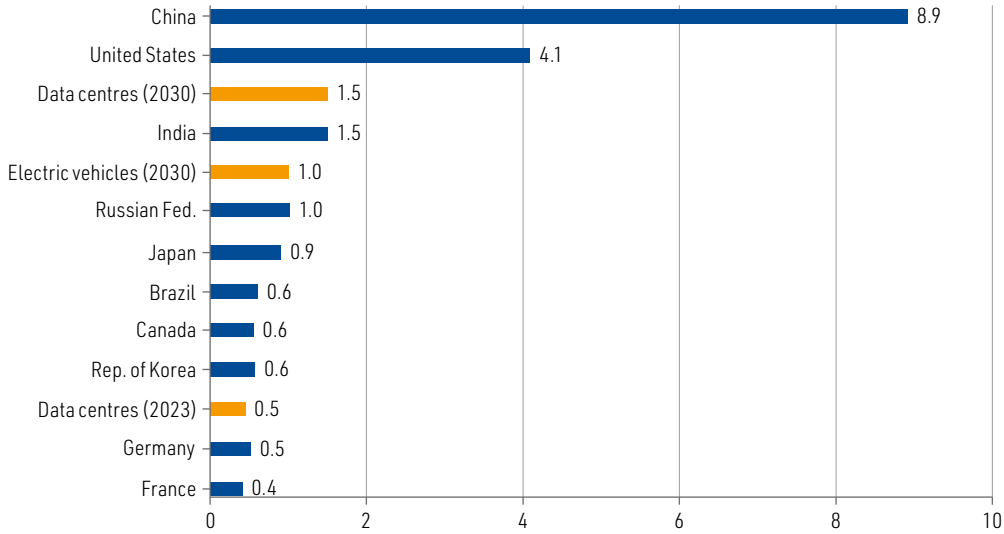


Source: Economic Commission for Latin America and the Caribbean, on the basis of Latin American and Caribbean Energy Organization. (2024). *Energy Outlook of Latin America and the Caribbean 2024. Executive Summary 2023–2024*. https://www.olade.org/wp-content/uploads/2025/06/LAC-outlook-summary-2024-OLADE-ENG.pdf.

[1] See Hub de Energía. https://hubenergia.org/relac.

Electricity demand from the above industries is already significant: in 2023, consumption by all data centres, taken together, was comparable to that of Germany or France and, by 2030, it is expected to match that of India, the world's third-largest electricity consumer (see figure II.3) (Bogmans et al., 2025). Overall, global electricity demand is projected to grow six times faster than total energy demand by 2035, driven by the combined effects of electrification in transport and industry, rising cooling needs, the accelerating deployment of digital technologies and continued efforts to expand electricity access. By 2050, electricity's share of final energy consumption is expected to have doubled (International Energy Agency [IEA], n.d.).

Figure II.3
Electricity demand from data centres and electric vehicles compared to the demand of top electricity-consuming countries, 2023 and 2030[a]
(Thousands of terawatt-hours)



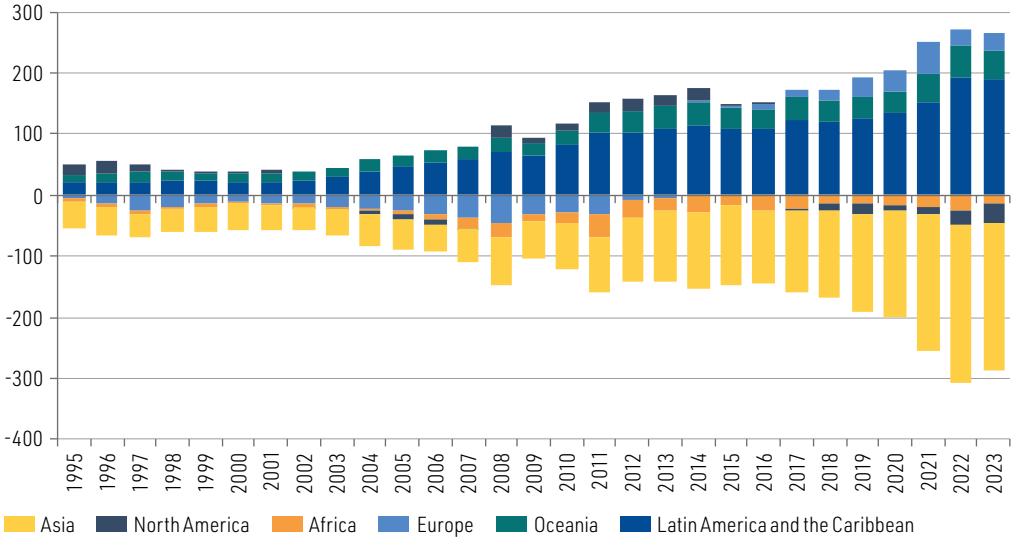
Source: Economic Commission for Latin America and the Caribbean, on the basis of International Monetary Fund. (2025). *World Economic Outlook Database*, April 2025.
[a] Figures for 2030 are projections.

Leveraging the opportunities arising from the global decarbonization drive and the growing demand for secure and reliable energy supplies can also serve as a catalyst for the region's productive transformation agenda. Strategies and recommendations for taking full advantage of the region's energy assets are discussed in chapter III.

Food

The intensification of climate change and the increasing frequency of extreme weather events, in combination with geopolitical shocks such as the war in Ukraine, have placed growing pressure on global food systems, bringing food security to the forefront of international agendas. In a context where agricultural production is often geographically distant from the regions with the highest demand for food for human consumption and feed for livestock, certain countries and regions consistently generate surpluses while others face chronic deficits. Against this backdrop, Latin America stands out as the world's leading net food-exporting region, playing a pivotal role in sustaining global food security (see figure II.4).

Figure II.4
Food trade balances, by world region, 1995–2023
(Billions of dollars)



Source: United Nations Conference on Trade and Development. (2025). *UNCTADstat database*. https://unctadstat.unctad.org.

The region's comparative advantages stem from its abundant arable land, favourable agroclimatic conditions and accumulated know-how in large-scale agricultural production. This aggregate strength, however, masks sharp subregional asymmetries. While major producers such as Brazil and Argentina have consolidated a strong export position (Organisation for

Economic Co-operation and Development and Food and Agriculture Organization of the United Nations [OECD/FAO], 2025), much of the Caribbean consists of small island economies facing structural land constraints and a high degree of climate exposure. As a result, food import dependence remains significant in this subregion, and hunger is far more prevalent there than in South and Central America (see chapter III, section A).

By positioning themselves as reliable global food security providers, the major food-exporting countries in the region can not only promote their own growth and development but also strengthen their geopolitical standing. In multilateral forums, they could take the lead in initiatives on food security and sustainable agricultural trade, shaping international norms and standards to reflect their priorities. Strategies and recommendations for taking full advantage of these countries' food and food security assets and potential are outlined in chapter III.

Critical minerals

Competition for critical minerals has become a defining feature of today's geopolitical landscape. Minerals such as lithium, copper, nickel and rare earth elements are not only indispensable for the energy and digital transitions (the so-called twin transitions) but also play a pivotal role in sectors such as defence, aerospace and telecommunications. They are essential inputs in the production of batteries, electric vehicles, wind turbines, smart grids, semiconductors, permanent magnets and a wide range of other technologies. Their dual role in both civilian and security-related applications reinforces their strategic value in a global order that is increasingly being shaped by technological rivalry and national security considerations (see chapter I).

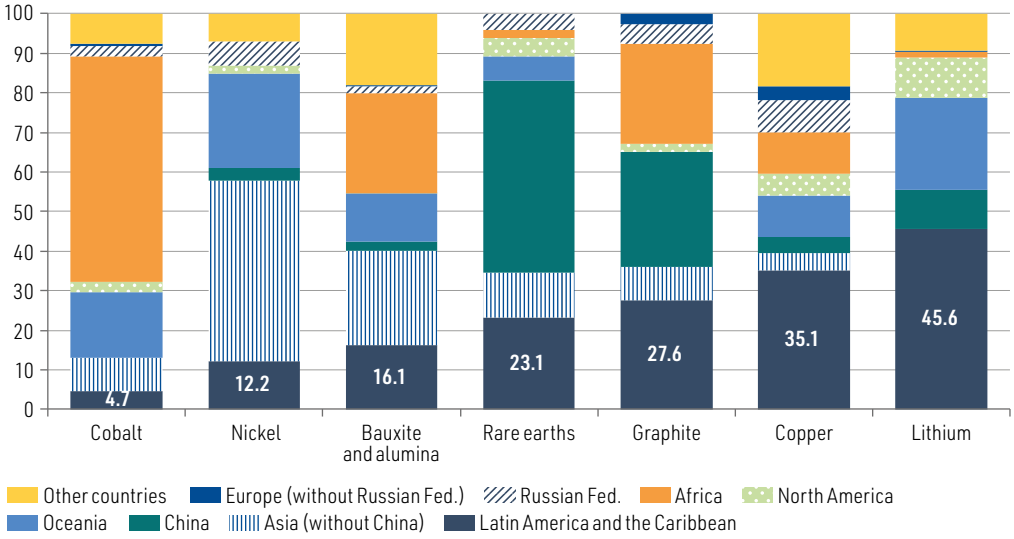
Major economies are intensifying their efforts to secure critical mineral supplies through a combination of domestic policies and strategic international partnerships. In the United States, alongside a series of executive orders aimed at fostering domestic extraction and processing projects, the government has actively pursued agreements with resource-rich countries. One example is the United States–Ukraine Reconstruction Investment Fund, which grants United States companies preferential access to untapped deposits of lithium, uranium, rare earth elements and titanium. Concurrently, the United States has strengthened its engagement with African countries, particularly in the Great Lakes region, negotiating arrangements that link access to critical minerals with commitments to provide security and development assistance in what are often described as "minerals-for-security" deals (Mostert and Field, 2025). The United States has concluded bilateral agreements on critical minerals with over 15 countries since 2025.

Other actors are moving in parallel. The European Commission, under the Critical Raw Materials Act, has identified 47 strategic projects to fast-track development and improve access to financing, while the International Energy Agency (IEA) has launched a new Critical Minerals Security Programme to address key supply-chain vulnerabilities. Along the same lines, countries such as Australia and Canada have announced major funding initiatives to strengthen their positions in the global critical minerals market (IEA, 2025).

In this context, the Latin American and Caribbean region, thanks to its vast reserves of these resources, is well placed not only to reinforce its role in the shifting geopolitical landscape, but also to leverage those reserves to foster long-term, sustainable and inclusive development.

The region's critical minerals endowment is particularly significant in lithium (46% of known world reserves), copper (35%), graphite (28%), rare earths (23%) and bauxite and alumina (16%) (see figure II.5) (U.S. Geological Survey, 2025). Chile alone has 31.3% of global lithium reserves, followed by Argentina (13.3%) and Brazil (1.3%). In the case of copper, Chile accounts for 19.4% of global reserves, Peru 10.2% and Mexico 5.4%. Brazil alone possesses 26.5% of the world's graphite reserves and ranks second in rare earth element reserves (23%), fourth in bauxite (9%) and third in nickel (12.2%), while Cuba has the fourth-largest share of cobalt (4.7%) (ECLAC, 2025b).

Figure II.5
Selected world regions: shares of global reserves of seven critical minerals, 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of United States Geological Survey. (2025, March). *Mineral commodity summaries 2025* (Version 1.2). https://doi.org/10.3133/mcs2025.

To fully harness its critical minerals wealth, the Latin American and Caribbean region must move up the value chain, developing not only its extraction capacity, but also its processing, refining and technology-intensive segments. This will entail attracting diversified investment and forging strategic partnerships that align foreign interest in natural resources with domestic productive development objectives, ensuring that the utilization of these resources becomes a lever for innovation, industrial upgrading and quality jobs.

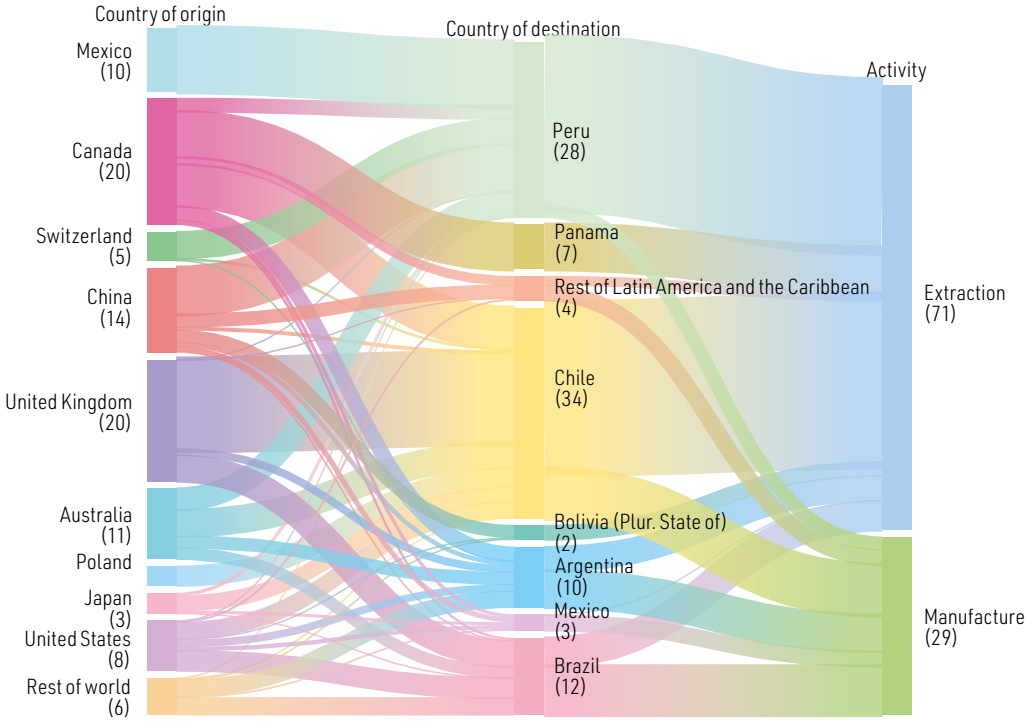
A number of actors are already helping to bring this about. China has initiated substantial investment flows that have enabled it to consolidate a strong presence in the region's critical minerals sector, while other countries, including India, are showing increasing interest (Financial Times, 2025). For the European Union, "which is in urgent need of a diversified supply of critical raw materials to navigate the clean and digital transition of its economy, the Latin American and Caribbean region is now more strategically important than ever" (Jütten, 2025). Complementing these dynamics, the Forum on Resource Geostrategic Engagement (FORGE) project recently launched by the United States offers additional scope to advance investment plans around these strategic resources.

This growing appetite for the region's resources is reflected in the 1,152 foreign direct investment (FDI) project announcements registered in its minerals and metals sectors between 2005 and 2024, for a total of US$ 230 billion (an annual average of US$ 11.5 billion). Projects targeting critical minerals represented almost 42% of that total. Those announcements concern a wide range of source countries and were led by Canada and the United Kingdom (around 20% each), followed by China (14%), Australia (11%) and the United States (8%) (see figure II.6).

Building on this interest, countries should aim to attract investments that facilitate economic diversification through linkages across critical mineral value chains and energy-transition technologies. Capturing the full benefits of these resources will require overcoming long-standing challenges in the region, including the limited development of upstream and downstream production linkages along the value chains where activities could incorporate greater technological content, generate more differentiated and complex products and create more highly skilled, better-paid jobs (ECLAC, 2025b).

Strategies and recommendations for taking full advantage of the region's critical mineral wealth are delineated in chapter III.

Figure II.6
Latin America and the Caribbean: FDI project announcements concerning selected critical minerals, by country of origin and country of destination, according to total value, 2005–2024
(Percentages)



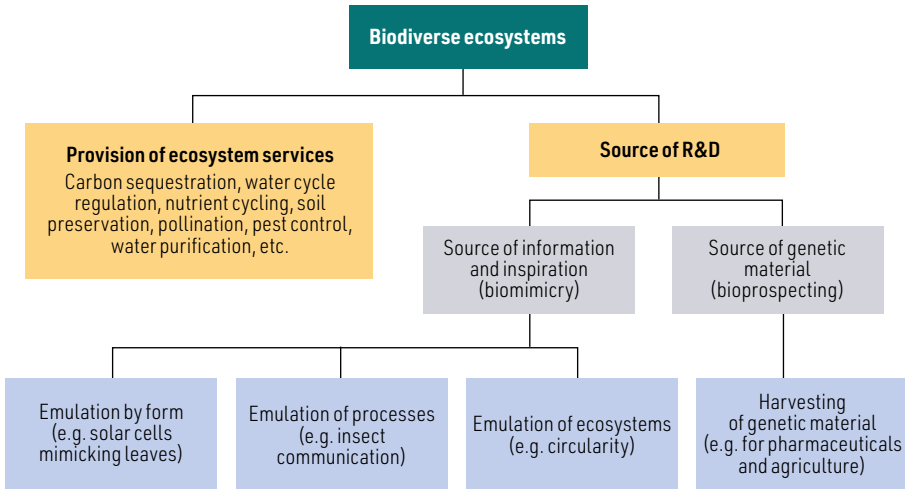
Source: Economic Commission for Latin America and the Caribbean (2025). *Foreign Direct Investment in Latin America and the Caribbean, 2025* (LC/PUB.2025/7-P), on the basis of Financial Times. fDi Markets. https://www.fdimarkets.com/.

Biodiverse ecosystems

The region encompasses an extraordinary variety of highly biodiverse terrestrial (forests, grasslands, wetlands), coastal (mangroves, estuaries) and marine (coral reefs, seagrass beds) ecosystems. Beyond their direct economic value in sectors such as agriculture, fisheries and tourism, biodiverse ecosystems provide a wide array of services that are fundamental to both global environmental stability and human well-being. These include carbon sequestration, water cycle regulation, nutrient cycling, soil preservation and other ecological processes such as water purification, pollination and pest control. Beyond this, biodiverse ecosystems are a vital source of knowledge and inspiration that can feed into

R&D processes across a range of critical industries worldwide (see diagram II.4).[2] For instance, Lebdioui (2022) points out that between 25% and 50% of pharmaceutical products originate from genetic resources, while approximately 70% of cancer drugs are either natural in origin or synthetic compounds inspired by natural sources. In this sense, biodiversity underpins the world's capacity to develop products vital to global health and well-being.

Diagram II.4
Sources of value from biodiverse ecosystems

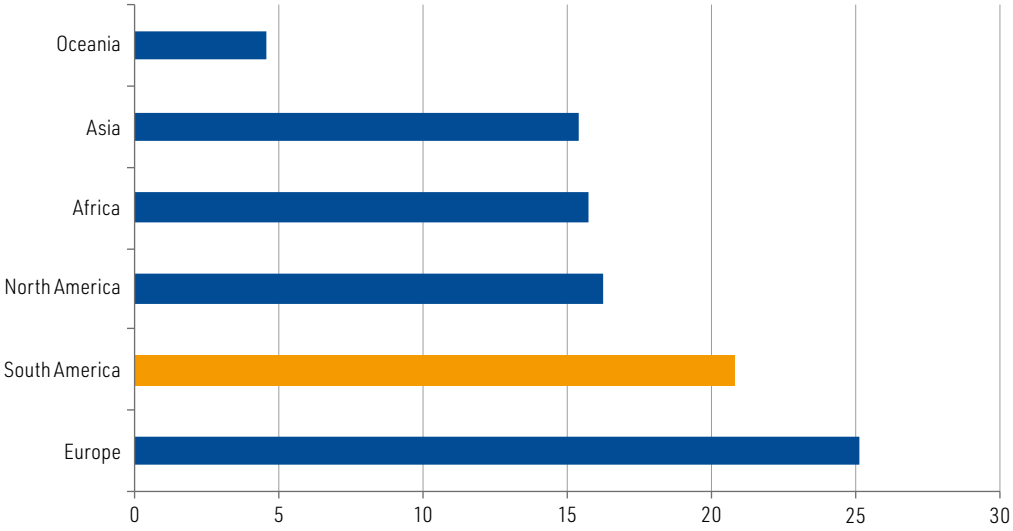


Source: Economic Commission for Latin America and the Caribbean, on the basis of Lebdioui, A. (2022). Nature-inspired innovation policy: Biomimicry as a pathway to leverage biodiversity for economic development. *Ecological Economics, 202*.

The Amazon Basin, which is the largest tropical rainforest remaining on Earth and spans eight countries in the region, stands as one of the planet's most important carbon sinks and plays a fundamental role in slowing the pace of global warming. More broadly, South America alone accounts for over 20% of the world's forest cover and is second only to Europe, whose total is largely concentrated in the Russian Federation (Ritchie, 2021). The region is thus an indispensable actor in the fight against climate change (see figure II.7).

[2] Bioprospecting (or biodiversity prospecting) is the exploration of natural sources in search of certain molecules or biochemical and genetic information that could be developed into products for the agricultural, cosmetics, pharmaceutical, nanotechnology or other industries. Biomimicry is an inspiration-based innovation method that relies on learning from and imitating the strategies found in nature to solve human design challenges (e.g. solar cells that mimic leaves). See https://www.lse.ac.uk/granthaminstitute/publication/learning-from-nature-to-reconcile-economic-upgrading-with-biodiversity-conservation-biomimicry-as-an-innovation-policy/).

Figure II.7
Shares of global forest area, by world region, 2020
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Ritchie, H. (2021). *Forest area*. Our World in Data. https://ourworldindata.org/forest-area.

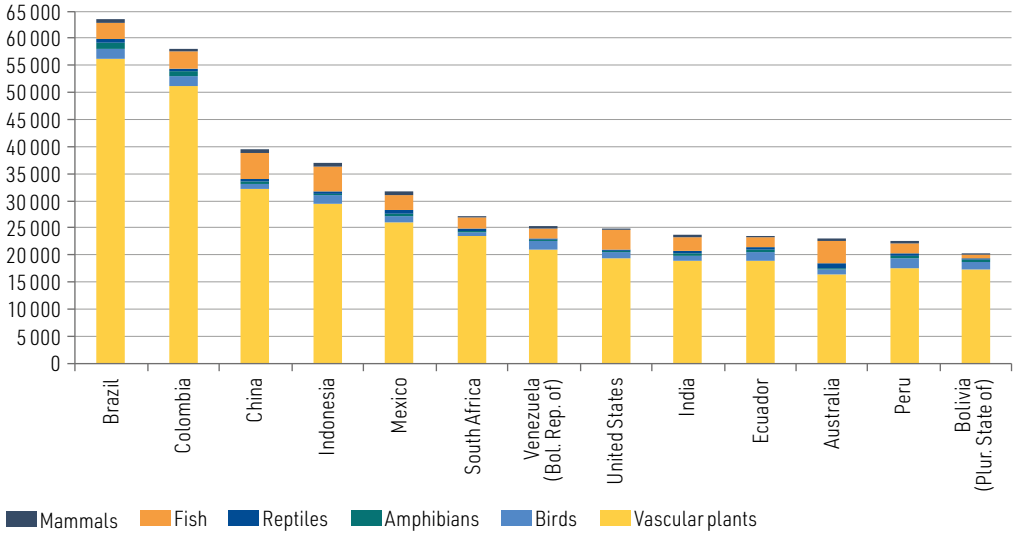
The region as a whole is home to nearly half of the planet's terrestrial biodiversity (ECLAC, 2024b) and contains one third of the planet's freshwater resources (FAO, n.d.), which are essential for water security.[3] It is also distinguished by the extraordinary diversity of its marine ecosystems, which encompass all or part of 47 marine ecoregions (more than any other world region) (ECLAC, 2025c). In addition, 7 of the world's 13 most biodiverse countries are in Latin America and the Caribbean (see figure II.8), which are home to a large proportion of terrestrial and marine species found nowhere else on the planet.

In the current global context, this extraordinary endowment of endemic species and biodiverse ecosystems offers opportunities for the countries of the region to leverage these resources and assume a more prominent role in international climate and biodiversity governance, as well as in shaping the global biodiversity-based innovation agenda.

Strategies and recommendations for taking full advantage of the assets represented by biodiverse ecosystems are examined in chapter III.

[3] The Latin American and Caribbean region's extensive wetlands play a critical role in sustaining freshwater ecosystems, acting as "the kidneys of the planet" by naturally filtering water and trapping sediments, pollutants and toxins before they reach rivers, lakes or oceans.

Figure II.8
The 13 most biodiverse countries in the world
(Total number of mammal, fish, reptile, amphibian, bird and vascular plant species)



Source: Lebdioui, A., Melguizo, A. and Muñoz, V. (2025). *Artificial Intelligence, Biodiversity & Energy: From a Resource-Intensive to a Symbiotic Tech in Latin America and the Caribbean*. Working Paper (090). Technology, Industrialisation and Development (TIDE) Centre. https://oxford-tide.org/wp-content/uploads/2025/01/tide-working-paper-90_-ai-biodiversity-and-energy5.pdf.

Asset class 2: Productive, human and financial capabilities

World class production sectors and clusters

Latin American and Caribbean countries have come a long way in the last few decades in developing a series of highly competitive production sectors and clusters and sophisticated workforces to go along with them. These sectors can serve as the foundation for the region's next phase of productive transformation, competitiveness and diversification (ECLAC, 2025d). For instance, Mexico and Brazil have developed prominent automotive manufacturing industries involving the presence of major international carmakers. Mexico's aerospace cluster in Baja California, Chihuahua and Sonora has seen significant growth and attracts considerable international investment. Guadalajara is known as the "Silicon Valley of Mexico" for electronics manufacturing. Jalisco also features a sizeable electronics cluster. In order to track these projects, ECLAC has developed a database on more than 400 cluster initiatives in 17 Latin American countries.[4]

[4] ECLAC (15 July 2025). An interactive map of cluster and other production linkage initiatives. Accessed on 17 November 2025: https://www.cepal.org/es/proyectos/plataforma-iniciativas-cluster-otras-iniciativas-articulacion-productiva-territorial.

Brazil is the second-largest exporter of processed foods globally and the fourth-largest footwear manufacturer in the world. Embraer, a Brazilian company, is the third-largest aircraft manufacturer globally. Brazil is also one of the top ten steel producers worldwide. São Paulo is ranked 73rd among the world's top 100 science and technology clusters on the Global Innovation Index published by the World Intellectual Property Organization (WIPO).

The tourism and hospitality industry in Latin America is on an upward trajectory that is being driven by the region's diverse cultural and natural attractions. The Caribbean, in particular, is one of the main tourist destinations in the world.

Several countries are also undergoing a technological revolution, with innovative advancements in areas such as fintech, edtech and health tech. The region has a growing start-up ecosystem and increasing venture capital investment, as will be discussed in the next section. The e-commerce sector has grown rapidly, particularly in the wake of the COVID-19 pandemic, driving investments in logistics and digital payment systems.

Strong growth in healthcare and biotechnology industries is being boosted by a growing middle class and increased healthcare spending. Costa Rica and the Dominican Republic have developed strong production and export clusters for precision medical devices.[5] Costa Rica is also actively developing a cybersecurity cluster and is attracting investment and fostering growth in this area with its skilled workforce. Uruguay, traditionally an agricultural exporter, has been growing a dynamic software and IT sector.

Banking systems in several Latin American and Caribbean countries are playing a central role in expanding financial inclusion and supporting productive activities. Domestic credit to the private sector has more than doubled since 2000, reaching 52% of GDP in 2024, while bank account ownership among adults has risen significantly.[6] In countries such as Brazil and Chile, digital innovation and innovative payment platforms have broadened access to credit and savings instruments. These advances illustrate how national banking sectors are not only enhancing financial depth but also mobilizing resources that sustain entrepreneurship, investment and productive diversification (OECD et al., 2024).

Although many Latin American and Caribbean countries still face limitations in providing private firms with access to equity and fixed-income markets, the growing presence of Latin American economies in international debt markets and via depositary receipts highlights their increasing ability to attract global investors. At the same time, ongoing efforts to deepen regional financial integration are opening up new opportunities to expand

5 For the history of the formation of the medical devices cluster in Costa Rica, see Salazar-Xirinachs (2022).

6 The percentage of the population of Latin America and the Caribbean aged 15+ reporting ownership of an account at a formal financial institution increased from 29.6% in 2011 to 57.2% in 2021 (see OECD et al., 2024).

liquidity, diversify instruments and connect local firms with broader pools of capital. This puts the region in a good position to leverage both international appetite and regional cooperation to strengthen its capital markets and support productive transformation.

Some Latin American countries are launching targeted initiatives to strengthen their stock exchanges. The recent integration of the markets of Colombia, Chile and Peru into the Nuam Exchange platform broadens investment horizons and enhances liquidity, creating more diversified exchanges that include companies from sectors such as mining, energy, and retail and financial services. In Brazil and Mexico, market innovation is opening up new opportunities for small and medium-sized enterprises (SMEs). Mexico's institutional stock exchange —the Bolsa Institucional de Valores (BIVA)— has significantly reduced listing costs through more agile processes and lower fees, making it easier for medium-sized companies to access equity financing. In Brazil, the Novo Mercado, with its high standards of transparency and corporate governance, has enabled companies to secure financing at a lower cost of capital by buoying investor confidence. Both mechanisms demonstrate how the modernization of stock markets can expand access to finance and become a driver of innovation and productive diversification (Valora Analitik, 2024).

Beyond the development of domestic banking and capital markets, another dimension of Latin America's changing financial and corporate landscape is the growing internationalization of its leading firms. A central feature of this process has been the rise of *translatinas*, companies that have expanded beyond national borders to position themselves as truly regional (and in some cases even global) players. Among the best known are Mercado Libre from Argentina, Bimbo, FEMSA and America Movil from Mexico, Itaú Bank, Vale and Petrobras from Brazil and Cencosud and LATAM from Chile. *Translatinas* are active in a wide range of industries, including mining, energy, food, retail commerce, banking, air transport, telecommunications and business services.

Outward FDI from Latin American firms (US$ 53 billion in 2024) is heavily concentrated in four source economies: Brazil, Mexico, Chile and Colombia. Together, they accounted for more than 85% of the regional total in 2024, with Brazil in the lead. Most of *translatinas*' outward investments are sited in Latin America and the Caribbean: in 2024, the region accounted for 72% of the *translatinas*' announced FDI projects (ECLAC, 2025b).

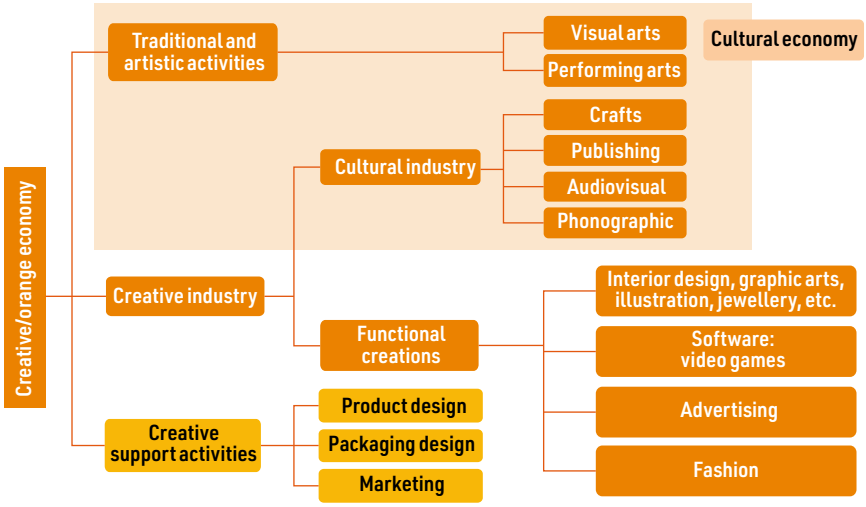
Orange economy

The creative (or orange) economy constitutes a strategic asset for Latin America and the Caribbean. It encompasses the set of activities through which ideas and talent are transformed into creative goods and services whose value is, or can be, protected by

intellectual property rights (IPRs). This includes three broad domains: (i) traditional and artistic activities; (ii) what are known as the creative industries; and (iii) activities that provide creative inputs and services to traditional industries (see diagram II.5).[7]

The region is home to a vibrant and internationally recognized creative base made up of audiovisual production, music, performing and visual arts, crafts, design, advertising, fashion, publishing, digital content, software and gaming. These sectors combine global appeal with strong local identities and cultural diversity: one of the region's most distinctive comparative advantages. This subject will be explored in greater depth in the section on Asset class 5.

Diagram II.5
The creative/orange economy



Source: Benavente, J. M., and Grazzi, M. (2017). *Public Policies for Creativity and Innovation: Promoting the Orange Economy in Latin America and the Caribbean*. https://doi.org/10.18235/0000841 and Buitrago Restrepo, P. F., and Duque Márquez, I. (2013). *The Orange Economy: An Infinite Opportunity La economía naranja: una oportunidad infinita*. https://doi.org/10.18235/0012837.

In addition to its cultural relevance, the orange economy represents a dynamic source of economic diversification. It comprises activities that are typically intensive in human talent and that generate high value added per unit of output.

[7] This definition builds on Benavente and Grazzi (2017), Buitrago and Duque (2013) and on definitions developed by various international organizations and thus reflects a consolidated and widely used approach.

Research results from 2015 indicate that the creative economy contributed around 2.2% of the region's GDP and employed approximately 1.9 million people at that time. Although these figures have not been updated, the subsequent expansion of digital content, audiovisual production and software development suggests that this economic segment's current contribution is likely significantly higher (Redondo Méndez et al., 2018).

The economic importance of the creative economy is further confirmed at the national level. Although systematic and fully comparable measurements remain limited, the available evidence consistently supports the conclusion that this economy makes a significant contribution to the wider economy. As a lower-bound approximation, data compiled by WIPO on what are often referred to as "copyright industries" (activities whose output is protected by copyrights and related rights, such as publishing, music, audiovisual production, broadcasting, software and advertising) show that, even using a conservative, copyright-based definition of creative activities, they account for a non-negligible share of economic output across the region. For the Latin American and Caribbean countries included in available WIPO estimates, the contribution of copyright industries to GDP ranges from 8.0% in Saint Lucia and 6.6% in Saint Kitts and Nevis to 6.4% in Panama, 5.6% in Saint Vincent and the Grenadines, around 4.8% in Jamaica, Grenada, and Trinidad and Tobago, 4.8% in Mexico, 4.7% in Argentina, 4.5% in Ecuador, 3.4% in Dominica, 3.3% in Colombia and 2.7% in Peru (WIPO, 2021).

Creative industries also play an expanding role in international trade. According to the latest data from the United Nations Conference on Trade and Development (UNCTAD), global exports of creative goods and services increased from almost US$ 700 billion in 2002 to more than US$ 2 trillion in 2022 (UNCTAD, 2024). Trade remains highly concentrated, however: Asia and Europe account for the largest shares, followed by North America. By contrast, Latin America and the Caribbean exported around US$ 22 billion in creative goods and services in 2022, a modest share in global terms. The existence of this gap points up the significant scope that remains for the region to expand its participation in the creative goods trade.

Digital platforms and AI are becoming key enablers of trade expansion. The rapid growth of streaming services, online content distribution, e-commerce and digital services has reduced entry barriers to global markets, allowing firms and creators to reach international customers and audiences directly. As highlighted in UNCTAD's *Creative Economy Outlook 2024*, AI is reshaping how creative goods and services are produced, distributed and consumed, while improving efficiency and facilitating their global reach.

For Latin America and the Caribbean, these tools provide concrete mechanisms for reducing SMEs' production costs, scaling exports and increasing the region's presence in global creative markets. For example, AI can support data-driven audience targeting in digital marketing, automated editing and post-production in audiovisual industries, AI-assisted design in fashion and architecture and real-time translation and localization of content (UNCTAD, 2024).

Another way to assess creative industries' economic relevance is to examine royalty collections, which reflect the monetization of intellectual property rights. According to the International Confederation of Societies of Authors and Composers (CISAC),[8] global royalty collections reached a record €13.09 billion in 2023, for a 7.6% year-on-year increase that was largely driven by the expansion of digital revenues, particularly from streaming subscriptions, and the continued recovery of live performances. Within this overall picture, Latin America and the Caribbean is the fastest-growing region, with total royalty collections approaching US$ 800 million in 2023 (+29.2%). Music accounted for close to 90% of the regional total, while Mexico, Brazil and Argentina together concentrated the bulk of collections, representing 29%, 28% and 22% of the regional aggregate, respectively (CISAC, 2024).

Although the region's royalty collections still account for a modest share of the world's total, their rapid increase underscores the growing capacity of Latin American and Caribbean creators to capture the value of creative goods and services. An examination of royalty flows shows how creative production translates into income streams for authors and underlines the importance of robust copyright frameworks for sustaining the sector's expansion.

Within the creative economy, screen industries (film and television) stand out for their multiplier effects across the economy and their symbolic resonance. A 2023 report commissioned by Netflix in consultation with the Inter-American Development Bank (IDB) highlights the fact that, in Argentina, Brazil, Colombia and Mexico, more than two thirds of total expenditure on film and television production spills over into other industries, such as professional services, textiles, fashion, construction and advertising (Luzardo, 2023). Argentina, Brazil and Mexico together generated about US$ 20 billion in audiovisual revenues in 2021, including US$ 3 billion from film, while Colombia's screen industries grew by 15% between 2009 and 2019, reaching a total of US$ 2.3 billion in 2021. The employment effects are also significant: for every 100 direct jobs in the industry, an additional 50–70 jobs are created across the wider economy. These spillovers show that

[8] CISAC brings together data from 225 collective management organizations (CMOs) that oversee copyrights and related rights on behalf of right holders in 116 economies.

the screen industries function not only as cultural representatives but also as drivers of industrial linkages, employment and tourism in connection with their filming locations and associated creative ecosystems.

Beyond its economic contribution, the orange, or creative, economy also generates substantial social returns. It can foster social inclusion and provide productive pathways for at-risk youth and marginalized groups. Young people, in particular, are not only beneficiaries but often primary creators and innovators within these sectors, driving new forms of cultural expression and digital entrepreneurship. In this sense, the orange economy contributes simultaneously to job creation, social cohesion and the intergenerational renewal of productive capabilities.

Taken together, the above analyses suggest that, if strategically leveraged, the orange economy can become a pillar of a more diversified, knowledge-based and inclusive development model for Latin America and the Caribbean. However, realizing this potential will require targeted productive development policies. Key priorities include strengthening intellectual property frameworks and enforcement; expanding access to finance tailored to intangible assets; investing in digital infrastructure and skills; improving measurements and statistical systems for the cultural economy; and facilitating regional and global market access.

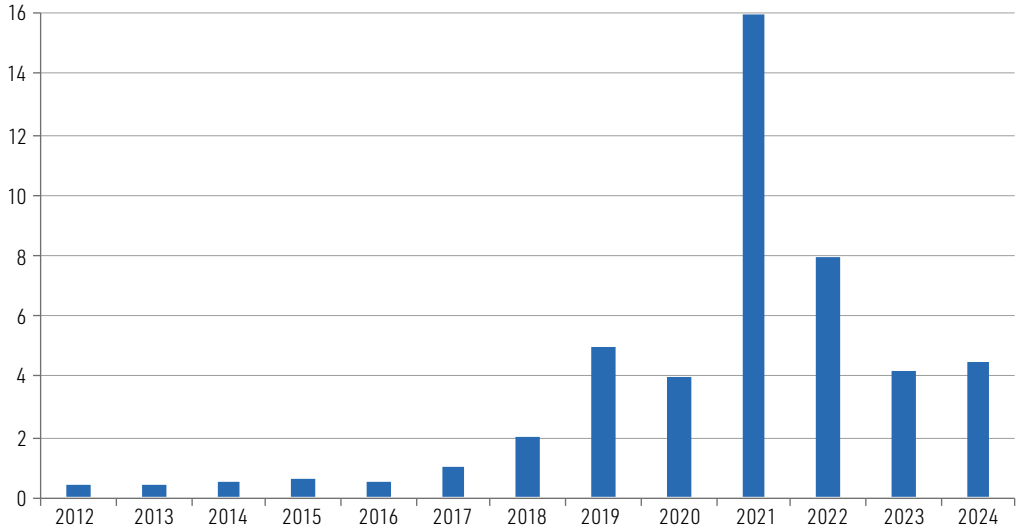
In this context, while AI tools create new opportunities for scaling creative production and broadening access to global markets, The *Re|Shaping Policies for Creativity 2026* report of the United Nations Educational, Scientific and Cultural Organization (UNESCO, 2026) identifies significant risks, including the potential devaluation of human creativity, widening digital divides and the growing concentration of power in global digital platforms. Ensuring that AI generates positive and inclusive outcomes for the creative sector will therefore require clearer rules on data use and remuneration, effective platform governance and sustained investment in digital and AI literacy for creative professionals. These issues will be further discussed in chapter III.

Platform for start-ups and deep tech

Latin America's start-up ecosystem has gained in importance in recent years thanks to the reduction of entry barriers and the growing availability of financing. Until the early 2010s, the opportunities for launching a company in the region were constrained by need for large initial investments, the scarcity of funding and weak digital connectivity. Since then,

conditions have improved significantly: cloud services have reduced the need for large upfront spending, digital platforms have made it easier to access talent and markets, and social media have lowered the cost of reaching customers. Above all, the expansion of venture capital since the late 2010s (see figure II.9) has eased financing constraints and created more favourable conditions for entrepreneurship, enabling the region's start-up ecosystem to grow and integrate more closely into global innovation dynamics.

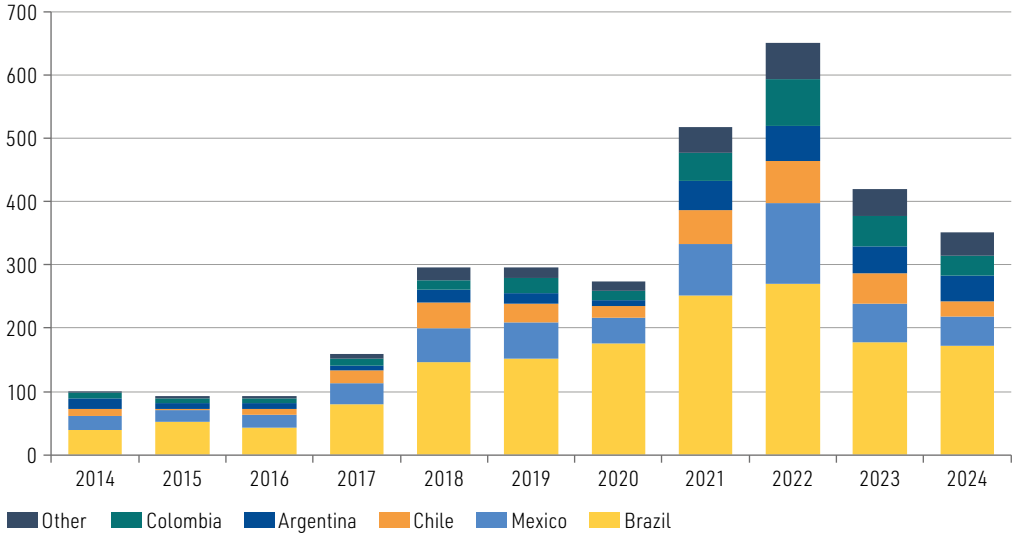
Figure II.9
Annual venture capital investment in Latin America, 2012–2024
(Billions of dollars)



Source: Association for Private Capital Investment in Latin America (2025). 2025 *LAVCA Trends in Tech*. https://www.lavca.org/wp-content/uploads/2025/02/LAVCA_Trends-in-Tech-2025.pdf.

Each year, hundreds of new Latin American and Caribbean start-ups secure their first venture capital round, creating a pipeline of new ventures that will play an essential role in developing the next generation of innovative companies. While many of these start-ups are concentrated in Brazil and Mexico, countries such as Chile, Colombia and Argentina also host vibrant entrepreneurial ecosystems, and new hubs are emerging in cities such as Lima, Montevideo and Quito, all of which is contributing to greater regional diversification (see figure II.10) (Association for Private Capital Investment in Latin America [LAVCA], 2025).

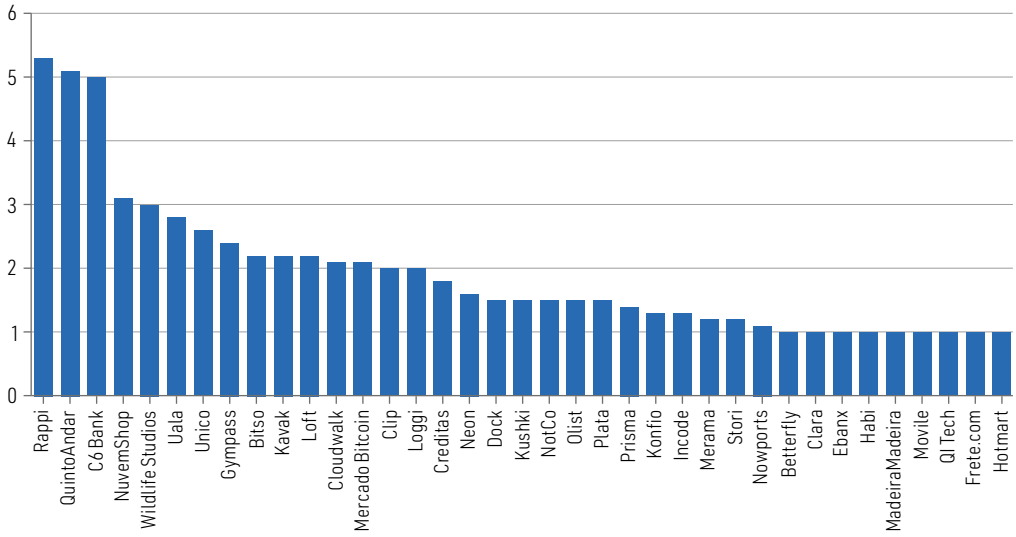
Figure II.10
Latin America: number of start-ups raising first round of venture capital, by country, 2014–2024
(Number of companies)



Source: Latin American Venture Capital Association, *Startup Ecosystem Insights* (2025).

Within the region's expanding start-up ecosystem, an important segment is made up of the so-called *tecnolatinas:* technology-based private companies born in Latin America and the Caribbean and founded by entrepreneurs from the region. For the first time, Latin America is producing technology companies at scale, ranging from early-stage startups to well-established firms valued in the tens of billions of dollars and employing thousands of people (Peña, 2021). Within this group, the so-called unicorns (private companies valued at more than US$ 1 billion) have become emblematic of the region's capacity to build large technology firms from scratch in a short time (Real Instituto Elcano, 2024). As of June 2025, the region had an estimated 38 unicorns. Brazil accounts for the largest share, while one of the most prominent cases is the Colombian delivery platform Rappi, valued at more than US$ 5 billion (see figure II.11) (Multiples.vc, 2025). Most unicorns are concentrated in the fintech sector, but they are also found across diverse industries, including QuintoAndar (real estate, Brazil), Kavak (used cars, Mexico), Betterfly (health services, Chile) and NotCo (biotech, Chile).

Figure II.11
Latin America and the Caribbean: valuation of unicorns, as of June 2025
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Multiples (2026). *The Unicorns of Latin America — March 2026*. https://multiples.vc/insights/the-unicorns-of-latin-america.
Note: Unicorns are, by definition, companies that have not yet gone public through an IPO, so listed firms such as D-Local are not included in the regional unicorn counts.

The region is also home to former unicorns that have already gone public through an initial public offering (IPO) and are therefore listed on a stock exchange or that have been acquired and have become global players. The Argentine company Mercado Libre (e-commerce and digital services, with a market capitalization of US$ 122.5 billion as of 25 August 2025), the Brazilian Nubank (fintech, US$ 69 billion), Argentina's Globant (IT services, US$ 3 billion) and the Argentine Despegar (tourism, US$ 1.6 billion) stand out as emblematic cases. These companies are examples of ventures that began as local initiatives but then scaled up into large regional and, in some cases, global enterprises with multibillion-dollar market capitalizations.

Alongside the expansion of more traditional digital start-ups, Latin America is also developing a foothold in deep tech. Unlike conventional technology ventures that scale primarily through digital platforms and software, deep tech companies are rooted in

tangible scientific breakthroughs and engineering innovations. They operate at the frontier of fields such as biotechnology, artificial intelligence, robotics, blockchain, advanced materials, photonics, electronics and quantum computing.[9]

Whereas deep tech startups once depended on hefty investments in laboratories and equipment, the key driver today is human capital. Advances in cloud-based high-performance computing used for complex tasks (such as molecular modelling, material simulations or training large AI models), together with the use of shared research facilities and more affordable scientific equipment, have reduced infrastructure costs. As a result, breakthroughs increasingly hinge on specialized human talent. The region is home to more than 865,000 STEM researchers and professionals in fields such as engineering and life sciences who can be recruited at a fraction of the cost of their peers in advanced economies.[10]

The region's deep tech ecosystem already spans multiple sectors, with an estimated 340 start-ups that have attracted investment in areas such as biotechnology, medical devices, artificial intelligence, clean technologies, space tech, advanced manufacturing, mobility and robotics. Biotechnology is by far the most developed segment, representing 61% of all deep tech start-ups, 35% of all the capital raised and 42% of total value (see figure II.12) (Peña and Jenik, 2023). This prominence reflects the competitiveness of the region's agricultural sector and its exceptional biodiversity. NotCo (an AI-powered food tech) and Puna Bio (a biotech in Argentina) are examples of how the region can generate innovations with a global impact. Other emerging sectors include nanotechnology (6% of Latin American and Caribbean deep tech start-ups), Cleantech (5%), space tech (4%), advanced mobility (4%), robotics (2%), advanced manufacturing (2%), health tech (2%) advanced materials (1%) and medical devices. (Although the latter represent less than 1% of deep tech start-ups, start-ups dealing with medical devices account for 22% of total value creation).

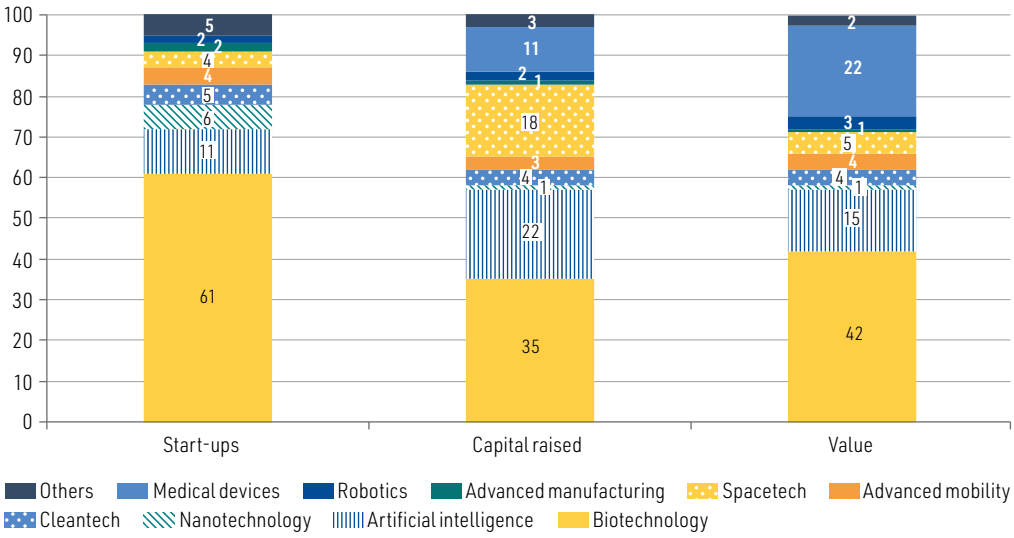
As these platforms and the associated equipment become more accessible, entry barriers are lowered and new possibilities for Latin American and Caribbean start-ups to participate in frontier innovation are created, thereby turning the region's scientific talent and cost advantages into concrete opportunities (Peña and Jenik, 2023). For instance, reusable

[9] According to Peña and Jenik (2023), the term "deep tech" was coined in 2014 by Swati Chaturvedi, from Propel(X), who defined it as follows: "Deep technology companies are built on tangible scientific discoveries or engineering innovations. They are trying to solve big issues that really affect the world around them. For example, a new medical device or technique fighting cancer, data analytics to help farmers grow more food, or a clean energy solution trying to lessen the human impact on climate change".

[10] For instance, hiring a young electronics engineer in Latin America can be up to five times cheaper than it is in the United States, while the salary gap between the two regions for a person holding a PhD in biology can be nearly tenfold. See Peña and Jenik (2023).

rockets have slashed the cost of gaining access to space, enabling applications in connectivity and earth observation; widely available AI models allow start-ups to harness advanced capabilities in areas such as health and agriculture without building infrastructure from scratch; and progress in autonomous vehicles is driving down the cost of sensors and control systems, thus opening up spillover opportunities in logistics and mobility.

Figure II.12
Latin America and the Caribbean: start-ups, capital raised and ecosystem value, by sector, 2022
(Percentages)



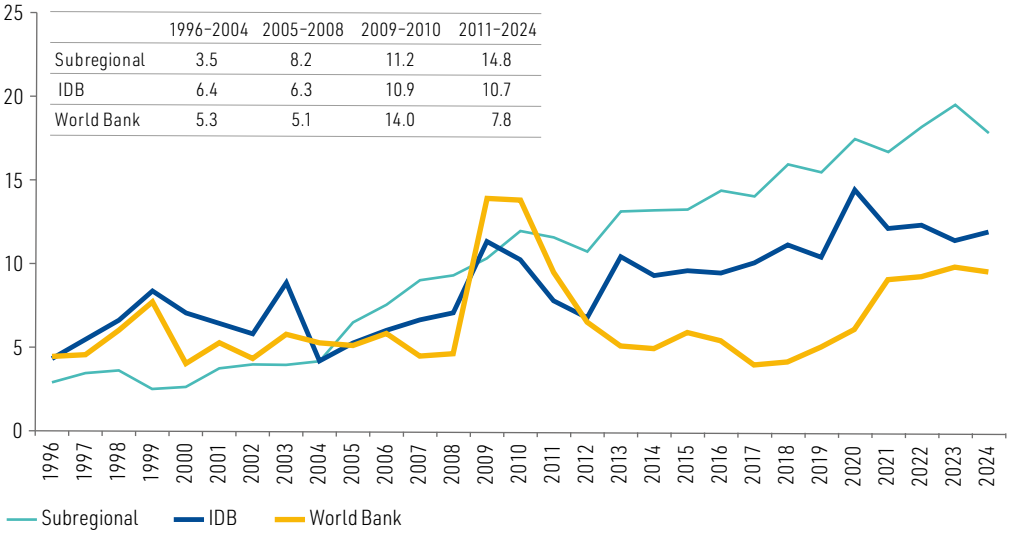
Source: Peña, I., and Jenik, M. (2023). *Deep Tech: The New Wave*. Inter-American Development Bank.

Development banking capacity as a pillar for productive transformation

Development banking is a strategic development asset for Latin America and the Caribbean, providing the region with essential capacity to finance productive transformation and sustainable development. The main multilateral development banks that provide financing in the region include the World Bank, two regional banks —the Inter-American Development Bank (IDB) and the Development Bank of Latin America and the Caribbean (CAF)— and three subregional banks: the Central American Bank for Economic Integration (CABEI), the Financial Fund for the Development of the River Plate Basin (FONPLATA) and the Caribbean Development Bank (CDB) (see figure II.13). Together with more than 100 national development banks, they form an extensive network that channels resources into activities with high social returns but

limited private profitability, helping to correct market failures and acting as catalysts for investment in sectors of strategic importance for long-term growth and structural transformation (ECLAC, 2025g).

Figure II.13
Latin America and the Caribbean: financing provided by subregional development banks, the IDB and the World Bank, 1996–2024
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean. (2025g). *Economic Survey of Latin America and the Caribbean, 2025: resource mobilization to finance development* (LC/PUB.2025/12-P).
Note: Annual averages per period. The figures do not include the Financial Fund for the Development of the River Plate Basin (FONPLATA).

At the regional and subregional levels, development banks have traditionally focused on financing the large-scale infrastructure projects that are essential for improving connectivity, streamlining logistics and underpinning long-term growth. By contrast, national development banks have concentrated their efforts on expanding financial inclusion for micro-, small and medium-sized enterprises (MSMEs), which are major sources of job creation and productive diversification. In recent years, institutions at all levels have also increased their participation in climate action, green financing and sustainability-related projects, although national engagement in these areas remains comparatively limited (ECLAC, 2025g).

Taken together, this dense and diverse system of development banks constitutes a pillar of productive transformation in Latin America and the Caribbean. If effectively coordinated and strengthened, it can mobilize resources at scale, channel investment into sectors with

high social and environmental returns and underpin the sustainable and inclusive growth that the region urgently needs. Moreover, by leveraging the presence of Europe's and Asia's major economies, whose governments are non-borrowing members of institutions such as the IDB, and through CAF's deepening ties with Asia and the Middle East, the region has a rare opportunity to establish co-financing platforms, knowledge-sharing alliances and joint ventures with institutions such as the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), China Development Bank (CDB), Arab Aid Coordination Group (ACG) and the OPEC Fund for International Development, thereby fostering a more integrated and multipolar ecosystem for development finance.

Diaspora

Diasporas have become a steady source of income and financial resilience for several Latin American and Caribbean countries, contributing significantly to macroeconomic stability and social welfare. In 2024, remittance inflows reached an estimated US$ 160.9 billion (Maldonado and Harris, 2024), exceeding FDI and official aid in several economies and providing a countercyclical buffer during economic slowdowns (Ratha et al., 2024). For Central America and the Caribbean, remittances represented 11.8% and 9.2% of GDP, respectively (see table II.4), in 2024 and, in countries such as Nicaragua, Honduras and El Salvador, these transfers amounted to over 20% of GDP, reinforcing external balances and household consumption (World Bank, 2024). Remittances have also supported financial inclusion by linking households to formal financial systems and expanding access to savings and credit instruments (Ansar et al., 2018, and Adams and Cuecuecha, 2010).

Table II.4
Latin America and the Caribbean: remittance inflows, by subregion, 2024
(Millions of dollars and percentages of GDP)

Subregion/country	**Remittances** *(Millions of dollars)*	**Remittances as a share of GDP** *(Percentages)*
South America	31 703	0.7
Central America	45 690	11.8
The Caribbean	18 387	9.2
Mexico	65 150	3.2
Latin America and the Caribbean	**160 930**	**2.3**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Maldonado, R., and Harris, J. (2024). *Remittances to Latin America and the Caribbean in 2024: Diminishing rates of growth*. Inter-American Development Bank. https://publications.iadb.org/publications/english/document/Remittances-to-Latin-America-and-the-Caribbean-in-2024-Diminishing-Rates-of-Growth.pdf.

In addition to boosting financial transfers, diasporas have become important enablers of trade, investment and knowledge flows. Their role in promoting what are known as "nostalgia exports", tourism and creative industries connects regional producers to new market niches while reinforcing cultural linkages (Newland and Tanaka, 2010, and Dufour, 2018). Diaspora-targeted instruments, such as bonds and remittance-backed securities, have also gained in importance as complementary financing tools for infrastructure and reconstruction, especially in the Caribbean (Ketkar and Ratha, 2010, and Schneidman et al., 2022). In parallel, professional and scientific diasporas contribute to technology transfer and "brain circulation"[11] that help to offset the effects of high-skilled emigration (Nurse, 2016, and Frisancho and Parrado, 2021). Taken together, these dynamics underscore the fact that the diasporic economy is not limited to monetary flows: it encompasses networks of knowledge, trust and investment that enhance the region's capacity for sustainable growth and global integration (Nurse, 2018).

Strategies and recommendations for taking full advantage of some of the productive capabilities and financial assets available under the new conditions that have emerged in the global geoeconomic context are explored in chapter III.

Human talent

The Latin America and Caribbean region has significantly expanded its human capital stock over recent decades, with the working-age population reaching the highest average educational level in the region's history. Whereas in 2003, 62% of employed workers between 20 and 59 years of age had not completed their secondary education, by 2023 this share had dropped to 41%. Furthermore, the proportion of employed workers with at least one year of tertiary education rose from 20% to 32% in the same period, indicating that the workforce has become more specialized and has acquired greater capabilities. While challenges in learning quality remain, the average of years of schooling has risen to 8.9 years in Latin America and 9.6 years in the Caribbean (ECLAC, 2025f).

This expansion of the stock of human capital is underpinned by broad educational coverage. Primary education is now nearly universal across most countries, and the rate of upper secondary school completion reached 72% among young people aged 20–24 in 2023. Educational progress has also fostered upward mobility: approximately 57% of young people now surpass the educational attainment of their parents. This signals a meaningful shift in intergenerational opportunity structures (ECLAC, 2025f).

[11] In development and migration studies, "brain circulation" refers to the two-way movement of talent, skills and knowledge across borders, unlike the older concept of brain drain, which implied a permanent loss of human capital from sending countries.

The increasingly educated youth cohort entering the labour force, together with a growing scientific and technical base (the region is home to more than 865,000 STEM researchers and professionals), creates a structural advantage for innovation-driven sectors and knowledge-intensive activities, as was discussed in the earlier section on world class production sectors and clusters.

The region's talent base has deepened not only in quantity but also in composition. A central driver of this transformation has been the educational advancement of women, who now complete more years of schooling than men in most countries and consistently outperform them in cognitive tasks such as reading (ECLAC, 2025f). Moreover, according to the EF English Proficiency Index (EF EPI) 2025 regional report, the average English proficiency score for Latin America increased from 450 points in 2011 to 489 points in 2025. This 39-point rise over fourteen years suggests a gradual improvement in measured English proficiency among the adults assessed in the EF EPI sample. While the index does not cover the entire population and results vary considerably across countries and demographic groups, the regional trend provides one indicative measure of evolving second-language skills, likely associated with expanded access to language education and the growing importance of English in education systems and labour markets (EF Education First, 2025).

Taken together, these trends indicate that, although much improvement is still necessary, human talent constitutes a central development asset for Latin America and the Caribbean, providing a foundation for productivity growth, technological upgrading and structural transformation.

Asset class 3: The region as an asset

Market size

Latin America and the Caribbean's demographic and economic scale is a strategic asset. The region brings together more than 660 million people (8% of the world's population) with a combined GDP of approximately US$ 6.8 trillion (equivalent to 7% of the global economy at purchasing power parity). Despite the region's low growth performance since 2014, 28 of its 33 countries are currently classified as either high income (10) or upper-middle income (18) (World Bank, 2025).[12] The poverty rate has also fallen in the last three decades, although not continuously. The steady progress in poverty reduction

[12] The region's four largest economies (Brazil, Mexico, Argentina and Colombia) are all in the upper-middle-income category.

since the 1990s until 2014 (when 27% of the population was classified as poor) was interrupted thereafter with the beginning of the second lost decade. After climbing above 30% in 2020 and 2021 during the COVID-19 pandemic, the regional poverty rate (measured by monetary income) fell to 25.5% of the population in 2024, the lowest level on record (ECLAC, 2025f). However, there are good reasons to doubt this reduction will continue unless there is an improvement in the growth and employment performance of the region, as well as a further strengthening of social policies.

Latin America and the Caribbean is also one of the world's most urbanized regions: 81.5% of its population lives in cities, well above the global average of 57.8% (United Nations, 2025). A growing urban middle class constitutes a vast consumer base for businesses and offers the potential for significant economies of scale. These assets, if coupled with deeper regional integration and greater investment in productive transformation, could increase the region's capacity to attract investment, foster innovation and enable it to scale up its participation in global value chains.

Integration and cooperation mechanisms

Latin America and the Caribbean has a network of regional and subregional integration mechanisms that has gradually been built up over more than six decades. This institutional architecture has demonstrated functional adaptability, transitioning from the State-led integration projects of the 1960s to the open regionalism of the 1990s and subsequently expanding the regional agenda to include cooperation on a wide range of non-economic issues.

While intraregional trade remains comparatively limited (representing 14% of the region's total exports of goods in 2024), it has great qualitative value. The regional market absorbs nearly half of Latin America and the Caribbean's total manufacturing exports (excluding Mexico), serving as the primary platform for export diversification, value addition and the internationalization of SMEs. Furthermore, with intraregional tariffs averaging around 2%, the existing trade architecture offers a robust foundation for mitigating external economic shocks and reducing exposure to extraregional supply chains in times of global volatility (ECLAC, 2021). Moreover, the outward investments made by the region's multinational companies (*translatinas*) are heavily concentrated in the Latin American market. Intraregional FDI flows are particularly important for the region's smaller economies (ECLAC, 2025b; Blyde et al., 2025).

Latin America and the Caribbean's regional integration network facilitates the coordinated provision of regional public goods and eases cross-border development bottlenecks. For example, in the area of trade facilitation, the mutual recognition agreement of

authorized economic operators concluded in 2022 among eleven Latin American countries demonstrates their capacity for regulatory convergence (Villarroel, 2021). With regard to physical connectivity, the South American Integration Routes initiative is mobilizing regional development banks to finance cross-border infrastructure projects that address long-standing logistical deficits (Sanguinetti et al., 2021). Regional cooperation is also expanding into the digital sphere, with subregional blocs working towards the formation of a regional digital market (Calderón et al., 2021) and fostering technological sovereignty, as evidenced by transnational data-sharing initiatives such as Latam-GPT. Additionally, the region's extensive web of free trade agreements, such as those linking 29 Latin American and Caribbean countries with the European Union, presents strategic opportunities for interregional value chain integration through such mechanisms as diagonal cumulation of origin (Berganza et al., 2025; ECLAC, 2023).

Overall, despite persistent fragmentation that reduces its effectiveness (see the section on regional integration in chapter III), Latin America and the Caribbean's network of regional integration and cooperation institutions provides a platform for leveraging its strategic assets, managing transboundary risks, supporting cross-border cooperation and providing regional public goods.

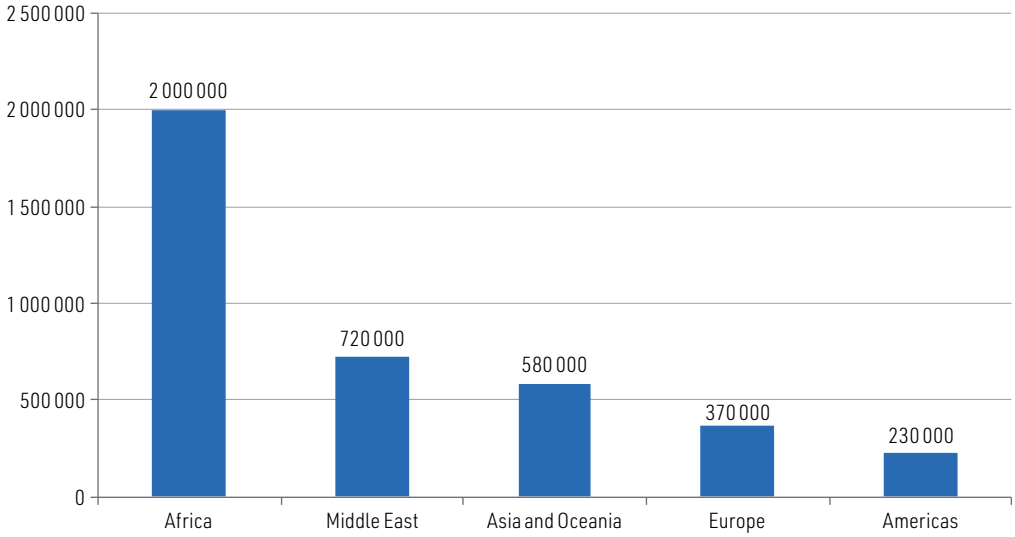
Asset class 4: Political assets

A region free of nuclear weapons and inter-State wars

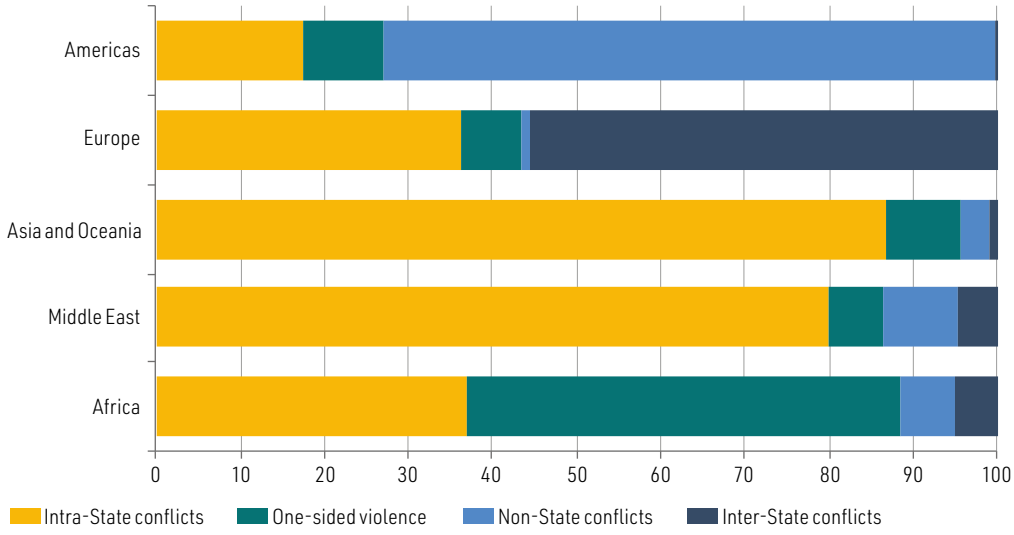
The Latin American and Caribbean region stands out as the first nuclear-weapon-free zone in a populated area (United Nations Office for Disarmament Affairs, n.d.) and as one of the few regions free of active inter-State wars. Since the end of the Cold War, it has consistently recorded the lowest number of deaths from violent conflicts among all world regions (see figure II.14). This status is not coincidental: it reflects a long-standing commitment to peaceful coexistence, the peaceful settlement of disputes and respect for international law. The Treaty of Tlatelolco of 1967, which established the region as the first nuclear-weapon-free zone in a densely populated area of the world, remains a milestone in international security. It set a precedent later replicated in the South Pacific (1985), Southeast Asia (1995), Africa (1996) and Central Asia (2006) and continues to be a touchstone in multilateral debates on disarmament and non-proliferation.

Figure II.14
Deaths in armed conflicts since the end of the Cold War, 1989–2024
(Number of combatant and civilian deaths in armed conflicts)

A. Total



B. By conflict type



Source: Economic Commission for Latin America and the Caribbean, on the basis of Herre, B. (2024). *Millions have died in conflicts since the Cold War; most of them in Africa and intrastate conflicts*. https://archive.ourworldindata.org/20260304-094028/conflict-deaths-breakdown.html.
Note: The data do not include deaths caused by famine or illnesses resulting from conflicts.

Equally significant is the region's record of avoiding inter-State wars in the contemporary era. While intra-State violence and organized crime pose serious domestic challenges (see chapter IV), the absence of armed conflict between States has reinforced the region's identity as a space of relative stability in global terms. This condition constitutes a political asset of high symbolic value: it casts Latin America and the Caribbean as a region committed to peace, lends credibility to its calls for dialogue and disarmament and strengthens its legitimacy when advocating for a more effective multilateral system of collective security. In a world marked by rising geopolitical tensions and regional conflicts, the image of Latin America and the Caribbean as both a nuclear-weapon-free zone and a region free of inter-State wars enhances its international visibility and places it in a position to exercise influence and moral authority in global governance.

Multilateral diplomacy platform

Latin America and the Caribbean has played a visible role in shaping multilateral agendas, particularly in areas where it has developed distinctive approaches and sustained commitments. While the region faces enduring structural challenges, it has also demonstrated the ability to act as a constructive interlocutor and a source of proposals in the international arena.

This role has unfolded along two complementary dimensions. The first is issue-based leadership, which is most visible in areas where Latin America and the Caribbean's long-standing regional processes have aligned with pressing global challenges. The region's leadership in climate diplomacy, its pioneering role in gender equality, its decisive contribution to the 2030 Agenda for Sustainable Development and its long-standing commitment to human rights have established a pattern. The region has frequently anticipated themes that have later assumed centrality in global debates, and it has advanced them not only through normative contributions but also by establishing mechanisms and coalitions that have translated those principles into enduring multilateral commitments.

Recent examples of this kind of leadership include Brazil's presidency of the G20 in 2024 and its hosting of the seventeenth BRICS Leaders' Summit and the United Nations climate change conference —COP30— in 2025, which have allowed it to influence the global agenda on economic, political and environmental issues; Chile's chairmanship of the SDG 4 High-Level Steering Committee, where it is providing guidance on ways to accelerate progress on education; Costa Rica's co-organization of the United Nations Ocean Conference, which is amplifying the region's voice regarding marine sustainability; Mexico's co-facilitation of the outcome document of the International Conference on Financing for Development, which is advancing international cooperation on finance;

and Barbados's Bridgetown Initiative for the Reform of the Global Financial Architecture, which has positioned the country as a leading voice for reform in that area, particularly in relation to climate and development financing.

These contemporary contributions build upon a longer tradition of regional leadership. In the fields of climate and sustainable development, Latin America and the Caribbean has been an active participant ever since the Rio Earth Summit of 1992 and Rio+20 and has helped to define the principles of sustainable development and to further innovations such as the Escazú Agreement. This is the first regional environmental treaty in Latin America and the Caribbean and the only legally binding instrument in the world that explicitly guarantees both the rights of environmental defenders and the rights of all citizens to information, participation and justice in environmental matters. Caribbean States played a decisive role in ensuring that the issue of loss and damage —the irreversible harm caused by climate change that cannot be mitigated or adapted to— was recognized and addressed within the global climate regime, leading to the creation of an international fund to support vulnerable countries. Meanwhile, Brazil and Colombia have underscored the Amazon Basin's role as a global public good, advancing regional coordination at COP30 in Belém as a milestone in global climate discussions.

In advancing gender equality, Latin America and the Caribbean is in a globally unique position thanks to its Regional Gender Agenda, which has been institutionalized in the course of more than four decades of intergovernmental conferences. This process has ensured continuity, peer review and consensus-building, while at the same time generating substantive innovations that position the region at the forefront of global debates. Successive instances of regional consensus —starting with the La Habana Regional Plan of Action (1977) and continuing on to the fifteenth session of the Regional Conference on Women in Latin America and the Caribbean in Buenos Aires (2022) and the Tlatelolco Commitment (2025)— have progressively expanded the agenda from the recognition of the economic value of unpaid work to the right to care, the development of universal care systems and the integration of gender-responsive fiscal and statistics policies.

By advancing concepts such as gender parity, intersectionality and the centrality of the care economy, the region has provided policy frameworks that now resonate in multilateral forums. Indeed, the region's proposals have informed United Nations resolutions adopted by the General Assembly, the Human Rights Council, the United Nations Economic and Social Council (ECOSOC) and the International Labour Organization and are feeding into global negotiations such as the Summit of the Future and the sixty-ninth session of the Commission on the Status of Women. This unique trajectory makes Latin America and the Caribbean the only region with a standing intergovernmental gender agenda, as well as a recognized source of normative and institutional innovation in global governance.

These experiences reveal a consistent pattern: Latin America and the Caribbean has been able to transform regional priorities into global agendas, advancing both principles and institutions that resonate beyond its borders.

The second dimension of this role has been articulated through regional platforms that amplify a collective voice. Among these, the Community of Latin American and Caribbean States (CELAC) has played a prominent role as a space for policy coordination and joint action, generating frameworks with a tangible scope and shared ambition. CELAC has been the vehicle for several summit meetings among Heads of State of the region, the European Union and China which have reviewed the status of region-to-region relationships and cooperation and defined directions for the future.

The CELAC Plan for Food and Nutrition Security and the Eradication of Hunger by 2025, which was first adopted in 2015 and then updated in 2023, articulates a comprehensive regional strategy structured around four pillars: ensuring universal access to sufficient and nutritious food; strengthening family farming and sustainable production; securing stable supply and intraregional trade; and enhancing institutional coordination and governance. The plan seeks to align national policies with regional priorities and with the 2030 Agenda and frames food security not merely as a policy challenge but as a fundamental social right and a regional public good.

CELAC has also advanced initiatives to strengthen regional resilience to climate change and natural hazards. The most recent and ambitious effort is the Fund for Climate Adaptation and Comprehensive Response to Natural Disasters (known by its Spanish acronym as FACRID/CELAC), which was first announced at the sixth CELAC Summit in 2021 and formally launched in 2023. FACRID is designed to mobilize resources and implement projects for prevention, risk reduction, response, mitigation and recovery from disasters and extreme climate events, combining innovative and agile financial mechanisms with voluntary contributions and multi-actor partnerships.

Taken together, the Food Security Plan and FACRID illustrate CELAC's efforts to evolve from political declarations to policy frameworks focused on delivering regional public goods. They highlight the region's ability to harmonize shared priorities, such as food security and disaster resilience, into structured strategies with international visibility. At the same time, their limited implementation capacity underscores a broader challenge: initiatives often succeed at generating relevant normative benchmarks but struggle to consolidate enduring institutions, constrained by unstable financing, shifting political priorities and decision-making rules that inhibit agility. In this sense, CELAC embodies both the promise and the fragility of the region's multilateral architecture, which is capable of producing innovative proposals yet is still searching for the institutional solidity needed to sustain them over time.

These two dimensions of the region's multilateral diplomacy platform reflect a trajectory of partial advances shaped by persistent tensions. While not without limitations, this platform remains a distinctive political asset: it amplifies the region's collective voice, places its priorities within the framework of global debates and creates channels for the delivery of regional and global public goods. Its future relevance will depend on the region's capacity to overcome institutional fragility and sustain cooperation across political cycles, thereby ensuring that Latin America and the Caribbean continues to act as a credible and influential actor in an increasingly fragmented world order.

Asset class 5: Soft power

Soft power in Latin American and Caribbean countries derives from a set of intangible assets that reinforce the region's identity and international attractiveness. Heritage, tourism, creative industries, cultural diversity and sports together form a system of symbolic social, cultural and political capital that enables the region to enhance its international visibility, legitimacy and influence.

Latin America and the Caribbean has over 150 UNESCO World Heritage Sites and more than 100 elements of intangible cultural heritage. These include monumental sites such as Machu Picchu in Peru, Teotihuacan in Mexico and Cartagena's walled city and port in Colombia, alongside distinctive landscapes such as Easter Island in Chile, Barbados's Historic Bridgetown and its Garrison and the Maya city of Tikal in Guatemala. Equally important are the living traditions that embody the region's diversity: carnival celebrations in Brazil, Uruguay and the Caribbean, Andean music and dance across Peru, the Plurinational State of Bolivia and Ecuador, the Garifuna language, dance and music in Central America and Jamaica's reggae, to name just a few. Their global recognition elevates the region's authority in debates about cultural preservation and sustainable tourism while, at the same time, they are vital to the region's tourism economy. Another pillar of soft power is the creative economy, where music, audiovisual production, literature, design and digital content serve simultaneously as economic drivers and instruments of cultural expression.

By disseminating these kinds of narratives, identities and cultural expressions across global platforms, these industries shape international perceptions and expand Latin America and the Caribbean's cultural footprint. Although they generate important economic spillovers, their importance within this asset class lies primarily in their symbolic and representational power, which is reinforcing the region's visibility and influence in the global arena.

Cultural diversity underpins all these sectors. Latin America and the Caribbean's blend of Indigenous, Afrodescendent, European and Asian heritage provides a unique reservoir of narratives and artistic expression. This diversity is visible in music but also in literature: six regional authors have been awarded the Nobel Prize in literature, and contemporary voices continue to incorporate Latin American and Caribbean perspectives into global debates. Festivals, carnivals and other cultural modes of expression act as both economic assets and vehicles of intercultural dialogue. The capacity to embrace and promote this diversity bolsters the region's legitimacy in global conversations about migration, inclusion and multicultural governance, making diversity itself a form of soft power.

Sports complement these cultural assets by offering one of the most powerful and emotionally resonant channels for public diplomacy. Latin American and Caribbean athletes and events give voice to narratives of creativity, perseverance and inclusion that resonate universally. Icons such as Pelé, Maradona, Messi, Neymar and Usain Bolt have become cultural ambassadors whose influence extends far beyond the pitch or track. Women also exemplify the region's ability to combine sporting excellence with powerful social narratives. For instance, Marta Vieira da Silva is the UN Women Goodwill Ambassador for women and girls in sport and has thus become an emblem of women's empowerment through football.

Brazil's hosting of the 2007 Pan American Games, the 2014 FIFA World Cup and the 2016 Olympic Games reinforced perceptions of its organizational capacity and modernity, while the Caribbean's dominance in athletics has become a symbol of excellence on the global stage. Paralympic sports have further enriched this profile; athletes such as Tamara Leonelli and Jorge Carinao have embodied narratives of perseverance and diversity that resonate globally, aligning with the 2030 Agenda for Sustainable Development and its recognition of sport as a facilitator of health, education and equality. The Youth Parapan American Games held in Santiago in 2025, with more than 1,500 athletes from over 30 countries, further demonstrated the region's capacity to organize, to include and to inspire.

Taken together, the region's heritage, tourism, creative industries, cultural diversity and sports constitute an interconnected system of symbolic capital. UNESCO heritage sites provide anchors of authenticity; tourism translates recognition into flows of people and resources; creative industries generate both cultural representation and measurable spillovers across supply chains; cultural diversity legitimizes the region's role in global conversations; and sport gives voice to emotional narratives that transcend borders. Each of these types of assets carries both economic and symbolic weight and, taken together, their potential lies in how they reinforce each other.

D. Constraints and risks in seizing opportunities

These five categories of assets open up great opportunities for growth and development that are there for the taking, provided that clear strategies for doing so are developed that take into account today's new geoeconomic and geopolitical conditions. There are, however, certain constraints on States' capacity to develop successful strategies for turning assets into drivers of development and global engagement. These constraints, along with the risks they pose, will have to be overcome.

This section maps out the main constraints on the region's capacity to leverage its assets, strengthen its resilience and exercise agency internationally. They are summarized in table II.5. While some of them interact with the ten development gaps identified earlier, this list of constraints focuses on the factors that most directly shape the region's capacity to narrow these gaps and seize these opportunities. Several of these constraints —and proposals to overcome them— are discussed in greater detail in chapter IV.

Table II.5
Constraints on Latin America and the Caribbean's capacity to narrow development gaps and seize opportunities

Constraint	Description
Limited fiscal space	High levels of public debt are forcing governments to allocate an increasing share of public resources to debt service at the expense of investment in areas critical to long-term development.
Regulatory rigidities	Outdated, fragmented, burdensome regimes dampen the investment climate and slow down adaptation to technological and environmental transitions, deterring investment and learning.
Political polarization	Political polarization —driven by ideological tensions, declining trust and persistent social divides— reduces the space for democratic dialogue and narrows the scope for agreement. It shortens policy horizons, increases the volatility of reforms and undermines the continuity and coherence needed to advance long-term development strategies and regional integration initiatives.
Fragmented governance and weak institutional capability	Uneven bureaucratic capacity, fragile coordination and weak policy continuity raise implementation costs and erode the ability to sustain reforms and coherent external action.
Low levels of trust and institutional legitimacy	Persistent gaps between citizens' expectations and institutions' ability to deliver quality public services, along with corruption, capture of the decision-making process, discretionary rule enforcement and short political horizons, undermine cooperation, predictability and institutional credibility.
Organized crime	Territorial, institutional, financial and social capture by illicit networks and illegal economies erodes the rule of law, raises costs and distorts integration and external credibility.

Source: Prepared by the authors.

Limited fiscal space

The narrow fiscal space existing in most Latin American and Caribbean countries has become a defining constraint on their development strategies. High levels of public debt (on average 51.4% of GDP in 2024) are forcing governments to allocate an increasing share of public resources to debt service at the expense of investment in areas critical to long-term development (ECLAC, 2023b). The trade-offs are stark. In some countries, interest payments on the public debt are already equal to, or even exceed, expenditure on education or health, and the trend has worsened over the past decade. While, in 2012, governments in the region spent an average of 1.7% of GDP on interest payments and 2.6% on capital investment, by 2024 this relationship had reversed, with 2.9% spent on interest and only 1.9% on public investment (ECLAC, 2025g).

Regulatory rigidities

Regulatory frameworks are a central lever of development: they protect public goods, structure markets and can guide productive transformation. In Latin America and the Caribbean, however, outdated, fragmented and burdensome regulatory systems often act as a constraint on investment, innovation and structural change. Overlapping mandates, inconsistent enforcement and long approval times raise transaction costs and delay projects, particularly in critical sectors for green and digital transitions.

These rigidities reflect institutions' limited capacity to adapt to accelerating global change. In the context of mobile capital, fast-evolving technologies and tighter environmental and digital standards, regulatory inertia becomes a strategic liability. Countries that are slow to update their regulatory regimes risk being excluded from emerging value chains, losing access to investment and falling behind in technology adoption.

The challenge is therefore not simply to "deregulate", but to move from reactive administration to anticipatory regulatory governance. This implies simplifying and coordinating rules where necessary, while simultaneously aligning regulation with long-term development objectives in such areas as climate policy, digital governance, infrastructure and innovation. Regulatory agility, transparency and coherence can become forms of strategic capital: they enhance credibility, reduce uncertainty and enable States to steer the course of productive transformation in line with both domestic priorities and the evolving parameters of the international economy.

Political polarization

Political polarization combines ideological disputes with strong affective and identity-based antagonisms. Beyond differences in policy preferences, polarization increasingly takes the form of negative identities, where opposing political groups are viewed as illegitimate or threatening. This hybrid pattern, in which ideological, social and emotional divides overlap, narrows the space for compromise and erodes the democratic norms that allow societies to process disagreements institutionally.

Several structural drivers converge in this configuration: high and persistent inequality, frustration with low social mobility, weak and volatile party systems and the growing influence of digital misinformation. Rising insecurity and fear also make people more inclined to frame politics in "us versus them" terms and to prefer confrontational narratives over programmatic debate. In this context, political alternation often translates into sharp policy reversals rather than incremental adaptation and learning.

Polarization constrains development and international agency by reducing the capacity to forge stable governing coalitions, hindering the adoption of complex reforms and increasing uncertainty for citizens and investors. It also weakens the continuity of external action, as governments struggle to sustain cross-partisan agreements on key issues such as climate, integration or migration. Managing polarization through inclusive dialogue, institutional mediation and long-term social compacts is therefore a critical governance capability and a prerequisite for projecting a consistent regional voice in an international system increasingly organized around blocs and strategic alliances.

Fragmented governance and weak institutional capabilities

Across Latin America and the Caribbean, fragmented governance and weak institutional capabilities remain persistent structural obstacles to sustainable development. Fragile coordination mechanisms, discontinuous policy cycles and limited bureaucratic continuity constrain governments' ability to deliver public goods, sustain reforms and ensure predictability in collective action. These deficits underpin what ECLAC has termed the "trap of weak institutional capabilities and ineffective governance": a self-reinforcing cycle in which low levels of performance undermine trust and low levels of trust erode the conditions for effective governance and long-term planning.

The fragmentation of governance operates vertically (between levels of government), horizontally (across sectors and ministries) and societally (between State and non-State actors). The result is an unequal geography of State presence and effectiveness: islands of bureaucratic strength coexist alongside territories and sectors characterized by a fragile rule of law and limited institutional capacity. This institutional heterogeneity not only reproduces territorial and social inequalities but also raises coordination costs and widens the implementation gap for strategic reforms.

From a geopolitical perspective, fragmented governance reduces the region's capacity to act strategically and coherently in an increasingly competitive global context. Weak coordination across ministries and political cycles translates into volatile commitments and fragmented positions in regional and multilateral arenas. Strengthening integrated, adaptive institutional capabilities, including technical, operational, political and prospective functions, is therefore a precondition for managing transformations and exercising strategic autonomy, rather than merely reacting to external shocks.

Low levels of trust and institutional legitimacy

Trust and institutional legitimacy are core intangible assets for development and international projection. Legitimacy provides a normative basis for authority, while trust sustains the cooperation that makes governance viable. When citizens perceive that institutions are fair, capable and predictable, they are more willing to comply with rules, support reforms and accept short-term costs in exchange for long-term benefits. Conversely, perceived corruption, arbitrariness and chronic underperformance erode both trust and the sense that public authority is rightful.

In Latin America and the Caribbean, the erosion of trust and legitimacy stems from the interaction of several factors: persistent gaps between expectations and State performance; widespread perceptions of corruption and capture; discretionary rule enforcement; and short-term political horizons that generate frequent policy reversals. These dynamics feed into a vicious circle: weak performance and low integrity reduce trust; low levels of trust diminish compliance and cooperation, further constraining performance and deepening legitimacy deficits. The result is a high-cost, low-trust equilibrium that undermines long-term planning and social pact-building.

This erosion has direct implications for the region's external agency. Governments whose domestic legitimacy is fragile face higher coordination costs, shorter policy horizons and difficulties sustaining commitments across Administrations, which in turn weaken

their credibility as partners in multilateral, financial and trade negotiations. Rebuilding trust and legitimacy is therefore not only a democratic imperative, but also a geostrategic necessity: a capable, fair and predictable State is the cornerstone of both domestic cohesion and the ability to negotiate, attract investment and project a coherent voice in a fragmented global order.

Organized crime

Organized crime has become a structuring feature of the political economy of many countries in the region. High levels of violence, organized crime and illicit markets impose substantial economic costs, undermine the rule of law and erode citizens' trust in institutions. Criminal organizations capture territories, infiltrate State structures and penetrate legal markets, creating feedback loops in which illicit rents finance corruption and coercion, while weak institutions and social vulnerabilities facilitate their recruitment and territorial control.

These dynamics also have a regional and geopolitical dimension. Transnational criminal networks involved in drug trafficking, illegal mining and logging, human trafficking, cybercrime and contraband operate through cross-border circuits that outpace national enforcement capacities and exploit gaps between fragmented jurisdictions. This "criminal interdependence" erodes sovereignty, hampers regional cooperation and undermines the region's credibility in multilateral forums focused on security, finance and sustainable development. It is also an important issue in geopolitical relations.

Strengthening the State's presence in vulnerable territories, reinforcing integrity and accountability systems and enhancing cross-border cooperation are essential in order to regain control over fiscal and territorial circuits and reduce geopolitical threats. Countries that succeed in doing so will be better positioned to attract long-term investment, protect their environmental and productive assets and negotiate from positions of credibility in an increasingly security-sensitive global environment.

Final remarks

This chapter has shown that the Latin American and Caribbean region possesses an extraordinarily diverse array of natural, productive, political and cultural assets. If strategically mobilized, these assets can contribute to the region's growth and development and position it as both a provider of global public goods and a proactive actor in emerging governance arrangements. Yet they differ across several dimensions: they are unevenly distributed between countries; many require collective action to generate bargaining power; and, in the case of some of them, their relevance and attractiveness are continuously being redefined by shifts in technology, demand and global priorities.

In this chapter, the argument has been made that these assets do not translate into influence by default, nor do they benefit all countries alike. In a world reshaped by geopolitical rivalry, technological disruption and fragmented multilateralism, these assets offer opportunities only if countries have clear strategies for leveraging them with value propositions and have the necessary capabilities to implement such strategies in the face of geopolitical risks. In several instances, such strategies will be more effective if they are structured around cooperation and coordination between several countries in the region. To this end, Latin American and Caribbean countries would benefit from developing a shared vision of how some of these assets can be leveraged, protected and developed in the context of the ongoing transition in the world order.

Without mechanisms to reconcile divergent national interests and sustain institutional coordination, the region risks remaining fractured and divided in the face of geopolitical risks, with limited influence over the rules and standards shaping the future. Similarly, without smart industrial upgrading strategies, it risks remaining locked into its main role as a supplier of primary products. Conversely, by cooperating with one another to leverage their unique combination of resources, capabilities and soft power, Latin American and Caribbean countries can demonstrate their ability to act as reliable partners and providers of solutions: not passive recipients —or even victims— of global transformations, but as active shapers of them. Ideas and recommendations about how to accomplish this in the case of a number of specific assets are the focus of the next chapter.

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Chapter III

Activating strategic assets for global engagement and developmental benefits in the new world order

Chapter summary

This chapter translates the diagnostic insights of the previous chapters into an action-oriented framework for activating Latin America and the Caribbean's assets. It recognizes that endowments and capabilities do not generate developmental outcomes automatically, but that they must be mobilized through deliberate strategies, coordinated policies and effective governance. Thus, the chapter presents a panorama of opportunities in each asset category and analyses the type of productive development and other policies that can allow countries individually, and the region as a whole, to seize these opportunities.

The analysis begins by focusing on productive development policies as the most immediate channel through which assets can be converted into growth in areas such as food systems, biodiversity, critical minerals and energy, all of which have acquired strategic importance in the current global context. Rather than treating these endowments as static comparative advantages, the chapter emphasizes productive development strategies aimed at raising productivity, diversifying production and markets, strengthening value addition and improving integration into global value chains, while recognizing the countries' heterogeneous starting points and risk exposure.

Building on this sectoral foundation, the chapter then examines the role of technological capabilities. Its basic premise is that digital transformation, AI and automation are reshaping both competitiveness and power relations and that passive technological adoption risks deepening dependency. The chapter therefore frames technological capability-building as a strategic objective, linking digital transformation to productivity gains, labour market adaptation and social inclusion, while highlighting the importance of closing digital divides to avoid a fragmented, two-speed development path.

The chapter goes on to present human talent as an enabling condition for the effective implementation of both productive and technological strategies and for greater social mobility. It argues that greater participation by women, improved education-to-employment

transitions for youth and better integration of diaspora capacities expand the available skills base, support innovation and reduce implementation constraints, thereby reinforcing the viability of the broader transformation agenda.

Next, the green transition is framed as a source of strategic resilience. While climate change and environmental degradation constitute binding constraints on development, particularly in vulnerable subregions, the chapter shows how these constraints can be leveraged through sustainability standards, access to climate finance and growing demand for low-carbon solutions. Environmental action is therefore treated as an integral component of production and technological strategies, shaping competitiveness, access to external markets and engagement with international partners.

Finally, the chapter situates regional integration and cooperation as a cross-cutting mechanism that can allow national strategies to scale and translate into influence. In a fragmented global economy, coordinated regional action can be used as a policy instrument to reduce vulnerabilities, enhance bargaining power and convert assets into collective leverage.

Introduction

Chapter I showed that Latin America and the Caribbean was faced with a global context marked by a number of geopolitical, geoeconomic and other ruptures. Chapter II examined long-standing domestic structural gaps that Latin American and Caribbean countries had to deal with to achieve a more productive, inclusive and sustainable growth path. It also pointed out several factors which could constrain the ability of countries in the region to deal with these structural gaps and respond to the new global realities. Chapter II also presented a forward-looking vision for the next stage of the countries' economic development, showing that they possessed a number of assets and capabilities which, although unevenly distributed and developed, provided strong foundations for the attainment of developmental benefits in the new global landscape.

The present chapter focuses on providing strategic orientations and actionable policy recommendations so that this potential can be translated into action. It identifies where institutional coordination can deliver results and how existing capabilities can be mobilized to strengthen the region's position in global production, technology, diplomacy and development, while highlighting the role of regional integration and cooperation as vehicles for more effective progress with many of the proposed thematic recommendations.

A key message is that the region's assets will not translate into developmental gains spontaneously or by default. Seizing the opportunities they offer requires mechanisms to reconcile national interests in the light of broadly shared visions, as well as strengthening institutional capabilities for collective action at the national and regional levels. In the new context of a multipolar world, it also requires careful consideration and deep understanding of geopolitical and geoeconomic changes in the world economy, including the ruptures identified in chapter I, so that balanced relationships can be developed with the great poles of economic growth and centres of political power.

A. Leveraging strategic resource endowments for growth and development

Resource endowments and productive capabilities have been identified as a category of strategic assets that the region can use to pursue economic growth, productive transformation and higher living standards. Having sector-specific productive transformation agendas in sectors that can dynamize growth and employment would be an effective strategy for dynamizing growth. This is what international experience shows has been done by successful countries, and it is also what developed countries are doing today to position themselves in the competition for industrial and technological leadership.

The fact that all the major powers are now implementing proactive industrial and technological policies marks a major change in the intellectual climate since the heyday of the Washington Consensus, when developing countries were advised not to engage in such policies. Today, productive development policies, involving collaborative agendas in specific sectors, are an essential part of the new growth and development strategies.

This section looks at four examples of sectors where the region has competitive advantages and whose growth and competitiveness it can further enhance by applying the right strategies and promoting collaboration between critical players. These sectors are food and food security, biodiversity, critical minerals and energy. Many other sectors also present significant opportunities for the application of dynamizing growth and productive development strategies; these four are presented to provide examples of the type of strategies and approaches that should be applied in other areas with significant potential for developmental returns in specific countries, complemented by multi-country or regionwide collaboration and the creation of regional public goods.

Food and food security

As discussed in chapter II, the worsening impacts of climate change, more frequent extreme events and recent geopolitical disruptions, including trade tensions and armed conflicts, have intensified pressure on agrifood systems globally. Latin America and the Caribbean is uniquely placed in this regard as the world's leading net food-exporting region, a position that has become a strategic asset for international food security. At the

same time, the region possesses an extraordinary wealth of biological resources and biodiversity, which constitutes a strategic asset not only for food production but also for the bioeconomy, thereby expanding opportunities for diversification and value addition.[1]

However, countries vary significantly in the ways they can realize this asset, which depend on differences in production scale, technological capabilities and exposure to climate risks. Accordingly differentiated strategies are needed depending on the realities on the ground in each case.

A first group of countries make up the core of the region's contribution to global food security by virtue of the scale of their net food exports. In the region, Brazil's food trade surplus, at approximately US$ 116 billion in 2023, is the largest by a wide margin, followed at a considerable distance by Argentina (US$ 18 billion), Mexico (US$ 15 billion), Ecuador (US$ 13 billion) and Chile (US$ 12 billion). These countries are all among those running the 15 largest food surpluses in the world (see figure III.1).[2]

A second group of countries includes Paraguay, Uruguay and some Central American economies (e.g. Guatemala, Honduras and Nicaragua), whose smaller production scale limits their impact on global food security, but whose food sector accounts for a significant proportion of their total exports (see section B of chapter II) and is a major driver of rural employment, territorial development and the wider economy.

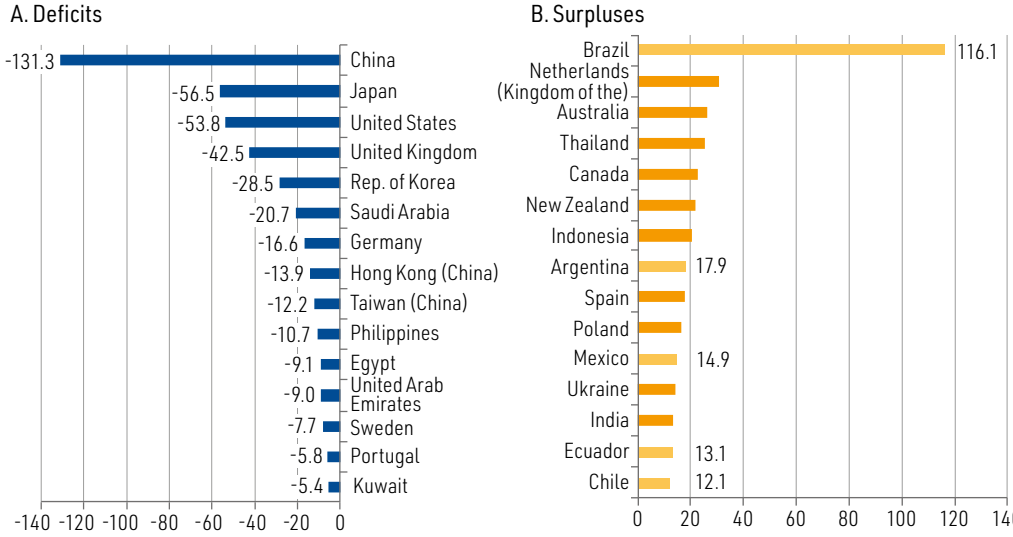
A third group comprises the Caribbean countries, which remain structurally dependent on food imports. With the exception of Belize, Guyana and Suriname, these are generally small island economies whose limited land availability and high exposure to climatic events impose structural constraints on primary food production and affect domestic food security. The cost of accessing a healthy diet in this subregion is 30% higher than the world average, restricting access to adequate nutrition for large segments of the population. Consequently, hunger is more than three times as prevalent in the Caribbean (17.2%) as in South America (5.2%) and Central America and Mexico (5.8%).

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1 The bioeconomy is understood as the set of productive and economic activities that use biological resources (biomass, biodiversity and biological processes) and biotechnological knowledge to generate sustainable goods and services. It includes sectors such as agriculture and forestry, fisheries and aquaculture, the production of bioenergy, biomaterials and bioproducts, emerging industries in the areas of biocosmetics, biopharmaceuticals, biomedicine, biomonitoring and bioremediation platforms, and urban applications such as biocities.

2 The types of food these countries export are different: unprocessed food makes up 70% of the total in Brazil, for example, compared to 35% in Mexico, with the remainder having some degree of processing.

Figure III.1
World (30 countries): largest food trade deficits and surpluses, 2023
(Billions of dollars)



Source: Prepared by the authors, on the basis of United Nations Conference on Trade and Development. (2025, 20 March). *Trade by food processing, detailed by food category (analytical)*. https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeFoodProcByCat.

Fully leveraging this strategic asset, i.e. Latin America and the Caribbean's position as the world's leading net food-exporting region, requires productive development policies in the sector which can ensure that the region's role as a provider of food security also translates into innovation, productive transformation and improved integration into global value chains. From the ECLAC perspective, productive development policies are efforts aimed at upgrading, diversification and positive structural change in the economy as a vehicle to boost productivity. These policies are understood primarily as collaborative, multi-level efforts involving and coordinating public, private, academic and civil society actors, and they are implemented at both the national and subnational levels. Governance for productive development therefore becomes central.

Within this framework, the need for countries and their territories to work on sector-specific productive development agendas for the agrifood sector is posited as a cross-cutting strategic axis. These agendas should address multiple fronts, including among others: science, technology and innovation; technological extension services; entrepreneurship; digital transformation; identification and closing of human capital skills gaps; financing and the role of development banking; investment, particularly foreign direct investment (FDI); the provision of sector-specific infrastructure and other types of targeted public goods; sector-specific regulatory and quality agendas; and internationalization strategies.

An effective way to organize productive development efforts combining sectoral prioritization, a territorial approach and multi-stakeholder governance is through cluster initiatives. These are understood as institutional technologies that serve to coordinate multiple actors around strategic agendas for productive development. ECLAC has a Platform for Cluster and Other Territorial Productive Coordination Initiatives in Latin America and the Caribbean in which more than 400 such initiatives in the region are registered, around 160 of them in the agricultural and food sector.

Several of the recommendations presented for the axes listed below are grounded in this perspective, which conceives productivity as a pillar of economic development, social inclusion and environmental sustainability. For a more detailed analysis of ECLAC's renewed vision of productive development policies, see ECLAC (2024a, 2025a).

This section lists five strategic axes, identifying the main challenges in each and proposing concrete policy recommendations for the countries in the three groups described to fully leverage the value of the agrifood asset as a strategic resource for development under the new conditions of the global economy.

Axis 1: Scaling and strengthening of productive development policies in the agrifood sector

Issue:

In a context of increasing sustainability requirements and international competition, sustained growth in agrifood production in Latin America and the Caribbean cannot rely on the expansion of the agricultural frontier, but must be driven by substantial improvements in productivity.

Agricultural productivity in Latin America and the Caribbean has displayed a worrying trend: after significant advances in previous decades, total factor productivity growth has slowed markedly, falling between 2010 and 2021 to levels even lower than those observed during the "lost decade" of the 1980s. This stagnation has been accompanied by a growing dependence on chemical inputs, such as fertilizers and agrochemicals.

These dynamics are compounded by deep structural gaps. The region has more than 16 million small-scale farms, characterized by low levels of technology and limited access to land, water and finance, coexisting with highly technified production units. This heterogeneity translates into inequalities in connectivity,[3] in human capital (with

[3] In 2023, 57% of the rural population in Latin America and the Caribbean remained unconnected, versus 22% of the urban population.

an ageing family farming population characterized by low levels of schooling) and in access to finance, since only around 15% of producers have access to formal credit, and annual interest rates exceed 30% in some countries.

These structural constraints, together with the absence of appropriate policies and effective governance mechanisms, perpetuate a restrictive low-productivity, low-sophistication agrifood production model that excludes the majority of producers from the benefits of dynamic markets. Overcoming these barriers requires comprehensive productive development policies that can integrate technological innovation with human capital development, infrastructure investment, financing and multi-level governance to drive a sustainable and inclusive productive transformation.

Recommendations:

- *Promote the technological transition by developing the agricultural technology (AgTech) ecosystem and extension services*

Driven by the advance of new technologies, the technological transformation of agriculture has become a strategic pillar for efforts to increase productivity, reduce costs, optimize the use of water and inputs and move towards more resilient and sustainable agrifood systems.

Technologies already available offer significant potential for the region. Tools such as remote sensing, drones, satellite imagery, precision agriculture, smart irrigation systems, biocontrol agents, AI, biotechnology and improved seeds make it possible to increase yields while reducing pressure on natural resources. At the global level, AI is transforming productive decision-making through the analysis of climate and sensor data, while gene editing using clustered regularly interspaced short palindromic repeats (CRISPR) technology opens up opportunities to develop crops resistant to drought, heat and salinity, reducing climate vulnerability and post-harvest losses. Although Latin America and the Caribbean is making progress with regulatory frameworks that facilitate the safe adoption of these technologies, significant gaps in digital infrastructure, financing and technical capacities persist, especially among family farming and agrifood SMEs.

What is proposed to close these gaps is a strengthened AgTech ecosystem, understood as the set of firms, scientific institutions, startups and technological services developing and incorporating innovations for agriculture. This ecosystem should be closely linked to the real needs of producers and to sustainability agendas.

There are international benchmarks that illustrate how effective policies to promote AgTech innovation can be. In the United States, programmes such as Small Business Innovation Research (SBIR) fund agrifood technologies from early stages, while in Israel,

strong public support in the form of seed capital, technology incubators and public-private partnerships has consolidated a globally competitive ecosystem (Ministry of Economic Affairs of Argentina, 2025). In the region, countries such as Colombia and Brazil are already moving in this direction. In Colombia, the National Reindustrialization Policy includes agroindustry and food sovereignty among its strategic priorities (National Council on Economic and Social Policy, 2023). In Brazil, the New Industry Brazil plan, for example, identifies sustainable and digital agro-industrial value chains as a priority mission, including precision agriculture, agricultural machinery and biofertilizers (ECLAC, 2025a). Brazil leads the regional AgTech ecosystem with more than 1,900 startups in 2024, supported by institutions such as the Brazilian Agricultural Research Corporation (Embrapa), which acts as a key intermediary between scientific research and its adoption by producers (Ministry of Economic Affairs of Argentina, 2025).

Greater adoption of these technologies requires effective mechanisms for disseminating and appropriating them. The recommendation is to implement training and technical assistance programmes, complemented by mixed rural extension systems that integrate face-to-face advisory services with digital tools (online platforms, social networks and remote training) to expand coverage and reduce costs. These systems should be integrated with productive development agendas and with technological demonstration centres in rural areas, allowing concrete results to be showcased and boosting trust in innovation. Without such integration, there is the risk that innovation efforts will be concentrated in the most technologically advanced segments, deepening inequalities and limiting the structural transformation the region requires.

Financing is another critical component. What is proposed here is to create dedicated credit lines and innovation funds that lower entry barriers for small and medium-sized producers, linking financing to the effective adoption of technologies with measurable impacts on productivity and sustainability. These funds should be managed by multilateral organizations in partnership with governments and the private sector, and should combine seed capital for AgTech startups, concessional loans for producers and competitive grants for biotechnology research. Another recommendation is to establish regional governance mechanisms and improve access to global climate finance, ensuring that disruptive technologies become a factor of competitiveness rather than a barrier for the region.

Finally, the digital transformation of agriculture not only increases productivity and sustainability but also opens up opportunities for the internationalization of knowledge-based services. Companies exporting satellite monitoring and water management solutions, for example, have demonstrated that agrifood know-how can become a strategic asset for the region (ECLAC, 2024b; Herreros and Durán, 2024). To fully harness this potential, there

need to be productive development policies that integrate technological innovation with human capital, financing and infrastructure under multi-stakeholder and multi-level governance schemes that ensure coherence and continuity over time.

- *Promote agrifood clusters, supplier development and knowledge-based services*

The high degree of territorial fragmentation in the region, with small producers struggling to access technologies, could be mitigated through cluster initiatives and productive agglomeration strategies, which help reduce transaction costs and facilitate the diffusion of innovations. In the region, the agriculture, livestock, hunting, forestry and fisheries sector has the largest number of cluster initiatives, with 155 identified, representing 38% of the total, according to ECLAC's Platform for Cluster and Other Territorial Productive Coordination Initiatives in Latin America and the Caribbean.[4]

It is possible to identify a range of successful experiences from this database, such as fruit clusters in Brazil, agro-industrial hubs in Mexico and the Bio Hub in Santa Fe (Argentina) (D'Angelo et al., 2025). These clusters function as platforms for the diffusion of digital technologies and biotechnologies, the provision of shared services (logistics, certification and traceability) and the generation of value added at origin.

The experiences of Brazil, Mexico and Argentina show that public-private coordination, combined with fiscal incentives and stable financing, can energize production chains and facilitate technological adoption. It is proposed that these initiatives should be supplemented by regional innovation funds, public procurement mechanisms and cooperation agreements that ensure scalability and sustainability. In addition, it is essential to incorporate impact metrics (e.g. for the number of producers integrated, reductions in logistics costs, increases in value added) to guide expansion towards territories with greater productive vulnerability.

- *Promote multi-stakeholder, multi-level and experimentalist governance to coordinate productive development policies*

The effective implementation of productive development policies for the agrifood sector requires renewed governance that can overcome institutional fragmentation and the lack of coordination among actors and levels of government, identified as one of the main constraints on productive transformation in the region. Currently, weak intersectoral coordination and the absence of inclusive mechanisms limit the countries' capacity to design and implement comprehensive policies, perpetuating isolated and short-term

[4] See the Interactive map of cluster and other productive coordination initiatives (https://geo.cepal.org/dp-clusters/index.html?lang=en).

approaches. To reverse the situation, there needs to be a form of governance that links public, private, academic and community efforts around shared strategic agendas, with clear rules, appropriate incentives and spaces for dialogue that are conducive to consensus-building and solutions consistent with territorial realities.

It is proposed that agrifood productive development policy councils or round tables should be set up in each country, with dedicated budgets and explicit mandates to coordinate instruments in the areas of science, technology and innovation, human capital, financing, and infrastructure. These bodies should follow an experimentalist governance approach in their operations, prioritizing iterative and collaborative processes (design, piloting, evaluation and adjustment) with shared goals, peer review mechanisms and collective learning. This approach makes it possible to adapt policies to changing environments, such as those arising from climate change, digital transformation, evolving markets and geopolitical dynamics, and to build sustainable, territorially grounded solutions.

Besides multi-stakeholder coordination, it is also essential to advance towards multi-level governance that generates synergies between national policies and subnational agendas, avoiding duplication and inconsistencies. A recommendation to this end is the institutionalization of spaces such as technical round tables, co-managed platforms and technological consortia that facilitate coordination among ministries, local governments, firms, cooperatives and research centres.

Models such as public-private partnerships, commodity-specific commissions and virtual communities of practice, all of which have already been implemented in the region, offer valuable templates for efforts to scale governance so that it encompasses more inclusive and resilient arrangements.

Axis 2: Food diplomacy and strategic alliances

Issue:

Major food importers are diversifying their supply sources to reduce their exposure to bottlenecks produced by trade tensions, sanctions and geopolitical conflicts. This reconfiguration of global demand has opened a window of opportunity for countries in the first and second groups of regional food exporters to consolidate a position as reliable suppliers capable of guaranteeing predictable supplies and responding to the sourcing needs of major importers.

Recommendations:

- *Forge long-term supply agreements that include investment and technology transfer*

Such agreements, particularly with Asia and the Middle East, could include packages that combine specified supply volumes with investments in logistics and port and transport infrastructure and in productive modernization technologies.

- *Explicitly include logistical improvements in the food diplomacy agenda*

If supply agreements are to fulfil their strategic purpose, the systemic costs that currently constrain regional competitiveness must be reduced. This means developing food logistics corridors (dry ports, rail or river access, collection hubs), expanding cold storage infrastructure in production areas and digitalizing logistics to optimize routes and monitor transport conditions. These investments will boost the reliability of supply and the region's attractiveness as a strategic partner.

A good example in the region is cooperation between Brazil and China, which combines agrifood trade with infrastructure investments (Inan, 2025; Aranha, 2023). In July 2025, the two countries signed a memorandum of understanding in which they agreed to begin feasibility studies for a bi-oceanic rail corridor connecting the port of Ilhéus (Bahia state, Brazil) with the port of Chancay (Peru). This infrastructure would shorten the export route to China by up to 10,000 km, avoiding the Panama Canal and strengthening logistical integration between Asia and South America. The port of Chancay, built with Chinese financing and in operation since 2024, is the key connection point in the Pacific for this future corridor (Máximo, 2025).

Axis 3: Green conditionalities as a competitive frontier

Issue:

The region's agrifood exports are increasingly subject to environmental sustainability requirements, especially in the European market. Instruments such as the European Union Deforestation Regulation (EUDR) (No. 2023/1115)[5] and the Carbon Border Adjustment Mechanism (CBAM) reflect a broader trend: the growing linkage between trade, climate change and public health. These regulations, which are presented as environmental policies, have direct impacts on tropical crops and small producers, who face the greatest

[5] An EU regulation (No. 2023/1115) prohibiting the import and sale in the European market of products linked to deforestation (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02023R1115-20251226).

difficulties in adapting. In this context, early adoption of environmental certification systems and verifiable traceability, including carbon and water footprint measurements and deforestation-free standards, is not only a regulatory obligation but also a key factor in competitiveness, allowing producers to access green premiums, climate finance and high-value markets (Herreros et al., 2024). The key challenge is to anticipate and adapt to international regulatory changes with national policies and international cooperation that ensure real compliance with these standards.

For the countries in the first group, whose production directly impacts global food security, this also means increasing their participation and influence in the setting of global standards so that these reflect the realities of production in the region rather than becoming trade barriers in disguise. The most effective strategy for Latin America and the Caribbean is proactive adaptation, complemented by bilateral dialogue and the strengthening of joint positions in multilateral forums.

Recommendations:

- *Implement national certification and traceability systems for agrifood exports as a route towards competitive advantage*

The countries should develop and implement national traceability and certification systems for raw materials from the field to the point of shipment, including, for example, the geolocation documentation required under the EUDR to prove that exports are deforestation-free. Early adoption of these measures will reduce the risk of exclusion from key markets and position the region advantageously vis-à-vis competitors with greater constraints on compliance.

Uruguay provides a concrete example of this within the region, with one of the most comprehensive and advanced "farm-to-table" traceability systems in the world. It is one of the few countries with a mandatory electronic individual traceability system for all live cattle, complemented by another traceability system covering meat in processing plants which is unique in the world (National Meat Institute of Uruguay, n.d.).

The region's major producers are also making progress in this direction, with the Government of Brazil having recently launched a traceability plan for livestock that requires the entire national herd to have mandatory individual tags by 2032 (Pooler, 2025).

- *Regional coordination to strengthen advocacy and regulatory adaptation*

It is essential to coordinate a common position within the WTO and other forums to address the relationship between agriculture and sustainability, so as to prevent environmental standards from becoming trade barriers. This includes creating joint technical forums

to interpret and anticipate standards, advancing regulatory harmonization within the region and creating mechanisms for cooperation with the EU on technology transfer and the dissemination of good practices, as envisaged in the EUDR. This process should be facilitated by the extensive network of partnership agreements between the EU and various countries and blocs in the region, and by the strong presence of European companies in several of the value chains covered by the Regulation (Herreros et al., 2024).

Axis 4: Regional manufacture of critical inputs such as fertilizers

Issue:

Heavy reliance on imported inputs, especially fertilizers, represents a structural vulnerability for the agrifood sector in Latin America and the Caribbean: 78% of the fertilizers used in the region come from outside it, with Brazil alone accounting for 67% of regional imports. Except for the Bolivarian Republic of Venezuela, Chile and Trinidad and Tobago, all the countries run structural deficits in the fertilizer trade (ECLAC, 2024b). This heavy dependence on suppliers from outside the region exposes them to price shocks, supply disruptions and geopolitical constraints, and therefore represents a critical risk to the productive stability of the agrifood sector.

Recommendation:

- *Promote local production and adoption of bio-inputs and organic fertilizers*

This involves creating incentives for the establishment of local plants, promoting partnerships between research centres and companies and establishing regulatory frameworks to facilitate commercialization. Scaling up bio-inputs not only reduces costs and vulnerability to external shocks but also contributes to environmental sustainability and productive diversification. The transition towards greater use of bio-inputs must be accompanied by measures to ensure that productivity is not compromised as systems move towards greater sustainability.

A good example is the Argentine Agricultural Bioinputs Programme (PROBIAAR),[6] which provides non-reimbursable financing to SMEs and cooperatives to develop bio-inputs and gradually replace imported chemical fertilizers with lower-cost alternatives that have less of an environmental impact (Inter-American Board of Agriculture, 2025).

[6] https://www.magyp.gob.ar/probiaar/

In addition, the development and adoption of biological nitrogen fixation[7] technologies offers significant potential for reducing the use of synthetic fertilizers. Countries such as Argentina, Brazil and Uruguay have accumulated over eight decades of research in this area and are already placing competitive products on the market (ECLAC et al., 2024).

Axis 5: Local production, intraregional trade, connectivity and logistics in Caribbean countries

Issue:

Caribbean countries face a particularly restrictive combination of structural factors that constrain their food security: limited availability of arable land, heavy dependence on imports, elevated logistics costs, weak intraregional connectivity and high vulnerability to climate-related and external shocks. At the same time, the lack of effective trade agreements, the persistence of non-tariff barriers and the inadequacy of subregional logistics infrastructure limit intraregional food trade —precisely in the subregion that could benefit most from it (ECLAC, 2024b).

The constraints on the Caribbean countries reduce the scope for large-scale expansion of domestic production there, but there is room for selective strategies focused on viable products and on the reduction of critical imports.

Recommendations:

- *Adapt local production support instruments to the Caribbean's structural conditions*

It is recommended that the countries implement public procurement programmes prioritizing products from family farms, artisanal fisheries and cooperatives, especially via schemes such as school feeding programmes, thereby creating stable markets and fostering local development. In the Caribbean context, these instruments can play a key role in reducing vulnerabilities and stabilizing supply, rather than serving as tools for large-scale expansion of production.

- *Pursue gradualist schemes for intraregional food trade integration*

While full trade liberalization in the food sector does not appear feasible in the short term, given the high sensitivity of certain crops and production activities, progress could be made through gradual and flexible liberalization methods, perhaps even including commitments to asymmetric tariff reductions in favour of smaller partners (ECLAC, 2024b).

[7] Biological nitrogen fixation is a sustainable agricultural practice in which biological resources (usually microorganisms) are used to convert atmospheric nitrogen into forms of nitrogen that plants can assimilate, thus directly contributing to crop nutrition.

The countries should also pursue trade facilitation (full implementation of electronic single windows) and regulatory convergence (the harmonization of sanitary, phytosanitary and technical standards) (see section E of this chapter) to reduce costly non-tariff barriers, which are equivalent to an 8.3% tariff on intraregional trade in agricultural products (ECLAC et al., 2024).

- *Advance with the development of subregional food distribution centres for the Caribbean*

A strategic way to improve food trade logistics in the Caribbean is to accelerate and consolidate the commissioning of the Guyana-Barbados food terminal, currently under construction as a joint project between the two countries (Guyana Times, 2025). This terminal is designed to operate as a regional hub for the storage, sorting, light processing and redistribution of agrifood products, leveraging Guyana's production capacity and Barbados's logistical advantages. It is based on a hub-and-spoke model to facilitate the arrival of products from Guyana and their shipment to other Caribbean markets, reducing costs, transit times and post-harvest losses.

Likewise, the experience of the Caribbean Regional Logistics Hub, which is currently in operation for emergency use, can be taken as a benchmark for expanding that model to regular food trade (World Food Programme, 2025).

These investments in logistics infrastructure, combined with trade agreements and process digitalization, are essential to consolidate resilient supply chains and advance towards food security objectives in the Caribbean.[8]

Biodiversity

As discussed in chapter II, Latin America and the Caribbean contains an exceptional diversity of terrestrial, coastal and marine ecosystems that together make the region one of the most biodiverse in the world. It includes seven of the planet's thirteen most biodiversity-rich countries, namely Brazil, Colombia, Mexico, the Bolivarian Republic of Venezuela, Ecuador, Peru and the Plurinational State of Bolivia, and a large share of terrestrial and marine species found nowhere else on Earth.

This natural endowment not only constitutes a global ecological asset but also holds extraordinary potential for productive transformation and high-value innovation, for example through bio-based industries, nature-based solutions and international tourism. More broadly, biodiversity underpins economic activity across the entire production

[8] The Caribbean Community (CARICOM) Vision 25 by 2025 Initiative aimed to reduce food imports by 25% by 2025, but in early 2025 the deadline for this target was extended to 2030. See Caribbean Community (2025).

system, as all sectors depend to some extent, directly or indirectly, on ecosystem services, and no productive activity is environmentally neutral. However, this dependence does not automatically translate into value creation or appropriation. As a result, countries continue to capture only a fraction of the economic, technological and geopolitical value that their biodiversity could generate.

Leveraging the biodiversity asset in these countries requires a strategic shift towards a conception of biodiversity as the foundation of a knowledge-intensive, innovation-driven, nature-friendly development model.

This section is structured around four strategic axes, for each of which key issues are outlined and actionable policy recommendations that countries can adopt to unlock the full value of biodiversity as a strategic asset are proposed.

Axis 1: The overcoming of bioextractivism and scaling of bio-inspired innovation in advanced bioeconomy segments

Issue:

Biodiversity-related economic activities in the Latin American and Caribbean countries often remain centred on bioutilization or bioextractivism: models that are based on extracting biological materials (plants, marine species, forest biomass) with low value added and limited scalability while creating significant ecological pressure. This pattern hastens environmental degradation and restricts the scope for biodiversity to drive technological upgrading and productive diversification (Lebdioui, 2025).

Recommendations:

- *Prioritize bio-inspired innovation (biomimicry)*

The countries should explicitly promote bio-inspired innovation (biomimicry), prioritizing the design of technologies, materials and processes based on natural principles over models dependent on physical biomass extraction (see chapter II). Bio-inspired innovation uses biodiversity as an "ideas bank" rather than a stock of extractable inputs. It is knowledge-intensive, high-value and low-volume, making it the most scalable and least ecologically constrained pathway (Lebdioui, 2025).

It is vital to incorporate ecology and biology into engineering course syllabuses from a bio-inspired innovation perspective, while promoting these approaches within industry and showcasing successful applications and case studies.

Although biomimicry is still at an early stage in the region, there are already numerous promising initiatives, some of which are documented by the Biomimicry Institute on its AskNature platform.[9]

- *Develop advanced bioeconomy segments producing high-value, low-volume bioproducts*

A second, complementary approach is to strengthen the region's advanced bioeconomy, which includes high value added bioproducts such as biofertilizers, biocosmetics and biopharmaceuticals.[10] These segments require relatively low biomass volumes per unit of value and generate products that can be integrated into global value chains with strong export potential. Given that Latin America and the Caribbean's participation in advanced bioeconomy exports has declined relative to global trends (ECLAC et al., 2024), targeted incentives to promote these activities can be an option.

Also, it is important to strengthen linkages between academia, scientific research centres and venture capital, including development banks, while also facilitating access to patenting processes and promoting the effective commercialization of innovations.

Issue:

The nature-inspired innovation landscape is currently dominated by a small group of high-income economies in the Global North, often relying on genetic information and biological data originating in the biodiversity of the Global South (Lebdioui, 2022). Latin America and the Caribbean's contributions remain undervalued, and the region continues to face risks of biopiracy and inequitable benefit-sharing, for example in relation to digital sequence information (DSI)[11] (see chapter II).

Recommendation:

- *Strengthen the governance of biodiversity access and benefit-sharing*

Latin America and the Caribbean should consolidate a coordinated regional position to ensure fair benefit-sharing in relation to genetic resources and DSI. While the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits

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9 https://asknature.org/

10 ECLAC (2020) identifies three bioeconomy categories, each capturing different levels of diversification, value added and incorporation of advanced knowledge and technologies: (i) the primary-product bioeconomy; (ii) the processed-biomass bioeconomy; and (iii) the diversified and high value added bioeconomy (or advanced bioeconomy).

11 DSI refers to the digitized genetic information of biological resources that can be stored and made available in databases.

Arising from Their Utilization to the Convention on Biological Diversity provides a framework for addressing this issue, the results to date have been limited, underscoring the need for stronger regional coordination. At the sixteenth session of the Conference of the Parties to the Convention on Biological Diversity (COP16) in Cali (Colombia) in 2024, 196 countries reached an agreement on how companies in sectors such as pharmaceuticals and cosmetics should contribute financially when using genetic information derived from biodiversity in their R&D activities. A special fund, the Cali Fund for the Fair and Equitable Sharing of Benefits from the Use of Digital Sequence Information on Genetic Resources, will be financed through contributions from eligible companies, which should represent either 0.1% of their revenues or 1% of their profits, according to the text adopted at the summit (Secretariat of the Convention on Biological Diversity et al., 2025).

Axis 2: Development of blue economy opportunities

Issue:

The marine economy is strategically central to the development of small island developing States (SIDS) in the Caribbean, in whose insular region the surface area of the sea exceeds 91% of the total. Coastal and marine tourism is particularly vital for SIDS, often serving as their primary economic pillar, with some Caribbean nations deriving up to 50% of their GDP from this sector (ECLAC, 2025b).

Recommendation:

- *Improve local retention of the rents generated and promote diversification into sustainable options such as scientific, academic, volunteer and educational (SAVE) tourism*

This type of tourism is beneficial because it tends to generate higher revenues, often involving extended stays in remote areas, the hiring of specialized guides (who should ideally be local and benefit from capacity development), technical teams, and participation in conservation and research projects. In 2024, Latin America only represented 8.1% of the global SAVE tourism market, leaving ample opportunities for expansion.

Axis 3: Financing

Issue:

Advanced bioeconomy ventures and bio-inspired innovation require capital that is willing to take early-stage risks and remain patient over long development horizons. Traditional financing instruments are often ill-suited to the long and uncertain cycles typical of biodiversity-based technologies.

Recommendations:

- *Leverage development banks as catalytic investors*

Regional and national development banks should act as catalysts for biodiversity-based innovation by offering concessional loans, equity instruments, technical cooperation grants and dedicated windows for bioventures. Their long-term horizon and capacity for risk absorption make them uniquely suited to the financing of early-stage innovation ventures.

- *Mobilize innovative financing instruments*

Expanded use should be made of payment for ecosystem services (PES) schemes, biodiversity credits, debt-for-nature swaps and biodiversity bonds such as those first pioneered by Colombia at COP16, to unlock private and public capital for restoration, conservation and biodiversity-based technological development.

Issue:

Biodiversity systems in Latin America and the Caribbean are transboundary (e.g. the Amazon), yet innovation funding normally remains nationally compartmentalized, generating duplication and inefficiencies (Lebdioui, 2025).

Recommendation:

- *Finance shared regional scientific infrastructure*

Development banks, especially regional ones, can pool resources across countries to create regional public goods, including biodiversity observatories and data platforms, shared laboratories and scientific stations, particularly in biodiversity hotspots, since this infrastructure functions as a regional public good (Lebdioui, 2025).

Issue:

A further financing challenge concerns biodiversity funding for Indigenous Peoples and local communities (IPLCs), who are key stewards of biodiversity in Latin America and the Caribbean and essential actors in biodiversity-based economic activities. Despite this role, IPLCs face substantial barriers to financing access, reflecting institutional constraints, legal and regulatory limitations, limited financial capacities and challenges related to territorial governance.

Recommendation:

- *Create or strengthen the financial capacities of Indigenous Peoples and local communities*

IPLCs should become partners in any extension of the biodiversity-related value chain in the territories where the activities are taking or will take place.

Axis 4: Strengthening of scientific capacity at the territorial level

Issue:

The most biodiverse territories are often those with the weakest scientific and technological capacities, leading to what some scholars have called "cognitive extractivism": knowledge, samples and data flow outward, while local capabilities remain underdeveloped (Lebdioui, 2025).

Recommendation:

- *Establish territorial science grants for biodiverse regions*

These grants should support research centres, incubators and training programmes in biodiversity-rich territories. Grant conditionalities should be explicitly linked to local employment, support for local start-ups and conservation outcomes, aligning R&D with local needs.

Critical minerals

As discussed in chapter II, geopolitical competition surrounding critical minerals has intensified, while their availability is subject to high levels of vulnerability and potential disruption. These minerals are considered strategic owing to their role in the energy transition, the development of electromobility, high-tech value chains and the defence industry, which accounts for the growing global attention they are receiving.

In this context, Latin America and the Caribbean has become a strategically important region because of the magnitude of reserves, production or both in several countries.

In the case of copper, an essential mineral for the energy transition, Chile is the country with the largest share of global reserves (19%), while it and Peru together account for more than 30% of the total. Regarding rare earth elements, Brazil has the second-largest global reserves after China with a 23% share, including both light and heavy rare earths, which adds to its strategic importance,[12] although currently its production accounts for less than 1% of the global total (BNamericas, 2026). As for lithium, identified resources in the "lithium triangle" of Argentina, Chile and the Plurinational State of Bolivia amount to more than half the world total: 57 million tons, of which 23 million tons are in the Plurinational State of Bolivia, 23 million tons in Argentina and 11 million tons in Chile (United States Geological Survey, 2025). It should be noted, however, that resources are not the same as reserves. Resources are quantities of lithium that have been geologically identified with some degree of confidence (measured or inferred) but are not necessarily economically viable to extract at present. Reserves, by contrast, represent the portion of those resources that can be profitably extracted under current technological and economic conditions (Ritchie and Roser, 2024). Table III.1 presents a comparative overview of selected critical minerals, showing Latin American and Caribbean countries' shares of global reserves.

Table III.1
Latin America and the Caribbean: country shares of global reserves of selected critical minerals
(Percentages)

Critical mineral	Countries and shares
Bauxite	Brazil (9), Jamaica (7)
Cobalt	Cuba (4.5)
Copper	Chile (19), Peru (10), Mexico (5)
Graphite	Brazil (26), Mexico (1)
Lithium	Chile (31), Argentina (13), Brazil (1.3), Plurinational State of Bolivia (n.a.)
Manganese	Brazil (16)
Nickel	Brazil (12)
Rare earths	Brazil (23)
Silver	Mexico (6), Peru (22), Chile (4), Plurinational State of Bolivia (3), Argentina (1)
Tin	Brazil (10), Plurinational State of Bolivia (9.5), Peru (3)
Zinc	Peru (9), Mexico (6), Plurinational State of Bolivia (n.a.)

Source: Prepared by the authors, on the basis of United States Geological Survey. (2025, March). *Mineral Commodity Summaries 2025* (version 1.2). https://doi.org/10.3133/mcs2025.
Note: Reserves can increase over time as new mineral deposits are discovered and others become economically feasible to extract.

[12] While light rare earths are widely used in industrial applications, heavy rare earths are particularly critical for advanced technologies.

The scenario for these countries is two-faceted: on the one hand, there is the opportunity to capitalize on growing international demand and seek partnerships to facilitate technology transfer and access to financing; on the other, there is the persistent risk of reprimarization, unequal rent capture and exposure to external geopolitical tensions. The challenge is not only to export more, but to capture more value through active governance combining environmental and social standards, traceability and due diligence, and production policies geared towards diversification and local supply chains.

However, the position varies from one country to another in the region. Differences in natural resources, institutional capacities and policy frameworks generate both opportunities and challenges for the design of national and regional strategies.

This section presents a number of strategic areas and a selection of policy recommendations aimed at sustainably harnessing the potential of critical minerals by strengthening governance, productive diversification and value addition and boosting international cooperation.

Axis 1: Governance and an integrated institutional framework

Issue:

The ability to set clear strategic priorities and attract investment into the critical minerals sector is limited in some countries by institutional fragmentation and the lack of a coherent and coordinated national strategy for policies affecting these resources. Emerging geoeconomic and geopolitical conditions make it all the more important and urgent to develop these types of institutional capacities. As in other areas, this is not possible without close public-private collaboration.

Recommendations:

- *Establish an integrated institutional framework (one-stop shops) for critical minerals and formulate national critical mineral strategies*

Countries should set up an integrated institutional framework, such as national critical minerals offices, to provide one-stop shops for investors, mining and manufacturing companies, research centres, technology developers and public bodies. These offices would centralize inter-institutional coordination and serve as a single point of contact to facilitate comprehensive management, encompassing everything from geological and scientific exploration to the attraction of capital for processing and value addition, and representing the country in international forums and cooperation initiatives on critical minerals.

Australia offers an international example. In 2020, it established a Critical Minerals Office (CMO) to perform these functions. The CMO coordinates with Geoscience Australia, the national scientific agency responsible for generating geological information and providing technical support to the sector, and with the Australian Trade and Investment Commission (Austrade), which promotes international investment in this field. The CMO also leads the development of the Critical Minerals Strategy (the latest edition covers 2023–2030), which sets the government's strategic vision for the country's critical minerals sector (Department of Industry, Science and Resources, 2023).

Australia has also established an integrated institutional framework in the scientific and technological sphere. In 2023, it created the Australian Critical Minerals Research and Development Hub, which coordinates collaboration among three national science agencies, namely the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO) and Geoscience Australia, and works with industry to align R&D activities with the main technical challenges of the critical minerals sector.

Within Latin America and the Caribbean, several countries have begun to establish formal governance mechanisms for critical minerals. In Chile, for example, an expert committee headed by the Ministry of Mining was set up to develop a national strategy for critical minerals, a draft of which is currently open to public consultation,[13] intended to complement the existing National Lithium Strategy and the 2050 National Mining Policy (Ministry of Economy, Development and Tourism of Chile, 2023).

Brazil operates a regulatory fast-track process under the Policy for Supporting the Environmental Licensing of Investment Projects for the Production of Strategic Minerals (Pro-Strategic Minerals Policy), which performs some of the functions of a critical minerals strategy (Ministry of Mines and Energy of Brazil, n.d.). The country's National Council for Mineral Policy (CNPM) also began operating in October 2025, and a bill is being prepared to establish a National Policy on Critical and Strategic Minerals. Further initiatives include an investment fund for critical minerals managed by the National Bank for Economic and Social Development (BNDES) and a State enterprise, EBMinerals, which will coordinate policies, investment and intelligence in the sector (Teles, 2025).

In other countries, however, the institutional framework for critical minerals is still somewhat dispersed across different ministries or levels of government, resulting in isolated efforts and sectoral plans that lack a comprehensive, cross-cutting strategy. In some cases, the

[13] https://participa.minmineria.gob.cl/es-CL/projects/consulta-estrategia-minerales-criticos

sector is managed mainly by subnational bodies, the result being fragmented approaches without any effective national coordination mechanism (Delgado, 2025; Ruvenal, 2025). In these contexts, taking steps towards a more integrated governance structure and a long-term national strategic vision could improve institutional coherence and efficiency in resource allocation and strategic direction. Stronger governance structures are also more conducive to the identification of opportunities and facilitate negotiations with major technological and geoeconomic powers.

- *Put together a priority portfolio of investment-ready projects and make it publicly available with detailed geological, financial, technical, regulatory and procedural information*

Once the integrated institutional framework for critical minerals is in place, a priority portfolio of strategic projects should be put together and made publicly available. Projects could be in advanced exploration, processing, infrastructure or technological services and should include sufficient (and openly, accessibly and transparently available) geological, technical, financial and regulatory information to facilitate evaluation by investors. This is a key element of the Australian strategy, where a web platform is available to potential investors, showcasing the portfolio of investment-ready critical mineral projects across the country and including geological, financial, technical and procedural information (Australian Trade and Investment Commission, 2025). Similarly, under the European Critical Raw Materials Act, the EU maintains an up-to-date public database of priority investment projects with the information necessary to make them investment-ready (European Commission, 2025).

Before they can prepare a portfolio of publicly available priority projects, the countries in the region will need comprehensive studies to inform decisions about which areas to prioritize. In Australia, for example, the CSIRO has conducted detailed analyses of existing mid-stream processing capabilities for each mineral, evaluating the country's infrastructure, technological base and skills, as well as the gaps and requirements that would have to be covered for more downstream stages in the value chain to be developed (Australian Critical Minerals Research and Development Hub, n.d.). It is not possible to create a priority project portfolio aligned with the national strategy established for the critical minerals sector without this sort of analytical foundation.

Axis 2: Availability of full, up-to-date and freely accessible geological information and policies promoting exploration for critical minerals

Issues:

Full, up-to-date and freely accessible geological information is critical for attracting exploration investment. Without sufficient exploration activity, countries are limited in their ability to sustain the steady pipeline of new projects needed to revitalize the critical minerals sector.

Given that exploring for critical minerals is an inherently risky activity with low initial returns until deposits with economic potential are identified, specific regulatory and financial policies, in addition to the geological data, are needed to stimulate exploration.

Recommendations:

- *Develop up-to-date digital geological databases for critical minerals*

Geological information on critical minerals should be systematized within dynamic digital systems equipped to include new data whenever needed. This is because technological advances increasingly enable previously invisible structures and formations to be detected, expanding knowledge of different areas' mineral potential. At the same time, changes on the ground, such as urban expansion, climatic events or infrastructure construction, can alter accessibility and geological risks. Lastly, sustainable management principles increasingly require water and biodiversity mapping to be integrated with geological information. Accordingly, databases must make it possible to add new information and improve record accuracy and scope so that decision-making and exploration investment strategies are based on full, up-to-date evidence.

Several countries in the region, especially those with a strong mining tradition, are making increasing efforts to expand and digitize geological mapping. For example, Chile's Public Platform for Critical Minerals holds geological information and data on strategic projects, providing open access to information that is important for exploration, resource assessment and investment decisions (National Geology and Mining Service of Chile, 2025). Countries with limited fiscal resources could seek finance for the updating of geological databases from multilateral or regional banks such as the Inter-American Development Bank (IDB), the Development Bank of Latin America and the Caribbean (CAF) the World Bank and the Financial Fund for the Development of the River Plate Basin (FONPLATA).

- *Integrate geological data regionwide*

Once the countries have consolidated national databases, they can move towards interoperable regional platforms to share standardized, georeferenced data. Gradual harmonization of scales, terminology and metadata, supported by technical cooperation and capacity-building, would improve the transparency and comparability of geological information, strengthen investor confidence, reduce technical uncertainty and facilitate access to financing. It could also make it easier to identify cross-border mineral corridors and productive complementarities, allowing infrastructure, energy and logistics investments to benefit from economies of scale.

However, this process poses significant technical and institutional challenges. Countries in the region use different criteria to describe the physical, chemical and mineralogical characteristics of rocks and the various types of mineral deposits. They also use different cartographic scales and resolutions, and their metadata are sometimes incomplete or incompatible, with differences in surveying methods or levels of precision. This is further complicated by disparate legal frameworks for data access and ownership, and by uneven technical capabilities across national geological services.

An important example of international cooperation is this area is the Critical Minerals Mapping Initiative (CMMI), which was set up in 2019 by the geoscience agencies of Australia (Geoscience Australia), Canada (Geological Survey of Canada) and the United States (United States Geological Survey) to harmonize geological information on critical minerals between the three countries. The process took several years of technical work and institutional coordination to unify nomenclatures and metadata standards. The initiative produced an integrated and standardized database that combines detailed information on deposits of dozens of critical minerals in the three countries.

Another international example is the Committee for Mineral Reserves International Reporting Standards (CRIRSCO), which develops common frameworks for the classification and reporting of mineral resources and reserves (International Council on Mining and Metals, 2024). Brazil, Chile and Colombia are already engaged with CRIRSCO, and their experience could serve as a basis for eventually developing a Latin American framework for standardized geological information, spearheaded by ECLAC and national geological services. Alternatively, a less ambitious exercise would be to foster initiatives that brought together several countries with potential in critical minerals or shared mining borders, without going as far as regional or subregional

coverage.[14] The Association of Iberoamerican Geological and Mining Surveys (ASGMI) has been supporting the Mines Ministries of the Americas Conference (CAMMA) in the preparation of a map of critical minerals for Latin America.[15]

- *Develop regulatory and financial instruments to promote exploration*

Junior mining companies, i.e. those specializing in the initial states of the mining cycle (mainly prospecting and exploring for mining resources), play a crucial role in identifying new deposits. Their business model is based on raising venture capital to finance the early exploration phases, with the aim of later partnering with or transferring assets to larger companies that take over the development and extraction stages.

The Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) are the world's leading markets for financing junior mining companies, hosting hundreds of exploration firms with a global presence. Around 19% of the over 900 junior mining companies listed on the TSX and TSXV have at least one asset in Latin America, compared to only 6% in Africa, 3% in Australia and 2% in Asia, which confirms the region's strategic importance as a destination of choice for high-risk exploration investment. However, there is still ample room to expand mineral exploration, both by attracting foreign junior mining companies and by strengthening domestic players. In Chile and Peru, junior companies have a limited presence compared to other jurisdictions, despite the importance of the mining sector in their economies and goods exports (see section B of chapter II). In Peru, for example, juniors account for around 23% of investment in mining exploration, well below the global average of some 40%, testifying to major potential for expansion (De Vicente, 2025).

To strengthen the exploration base and diversify the pipeline of new projects, countries need to be able to develop action plans for mineral exploration within predictable and sustainable regulatory frameworks. A first step would be to optimize permit processes and inter-institutional coordination with a view to reducing bureaucratic redundancy and strengthening regulatory transparency and predictability. These factors are stifling the emergence of new projects in several countries (De Vicente, 2025). Consideration could also be given to setting up special regimes for junior exploration companies, with specific tax incentives for the early stages of exploration. There are international experiences that serve as a benchmark in this regard: in Australia, the Junior Minerals

[14] Something similar was achieved in regional geographical mapping with the GeoSUR initiative developed by CAF in 2007, which came to be administered by ECLAC in 2022. See Development Bank of Latin America and the Caribbean (2022).

[15] https://asgmi.org/

Exploration Incentive (JMEI) provides tax credits to investors in small venture capital exploration companies, while Canada's flow-through shares (FTS) mechanism allows companies to transfer exploration costs to investors for tax deduction purposes, and is complemented by a Critical Mineral Exploration Tax Credit (CMETC) (ECLAC, 2025c).

Consideration should also be given to the mechanisms that regulate the ownership and rotation of exploration permits, in order to prevent these from being stockpiled by firms which are not actively engaged in exploration and may therefore be blocking the pipeline of new projects. In Chile, for example, the Mining Code was amended in 2023 to address this problem by gradually increasing licence fees for inactive concessions and linking their ongoing validity to proven activity criteria, such as drilling or submission of geological reports. However, this sort of measure must be designed carefully to avoid disproportionately penalizing small firms with less financial capacity and to preserve a diversity of actors in the sector (Valdés Muñoz, 2025). Taken together, these matters could all be included in a broader reflection on how to promote the effective and balanced rotation of exploration permits.

Axis 3: Upstream value addition and supplier ecosystems (mining equipment, technology and services)

Issues:

Value can be added not only downstream, through mineral processing and industrialization, but also upstream, by strengthening mining equipment, technology and services (METS) ecosystems. Countries with established mining sectors such as Brazil, Chile and Peru already have a base of METS suppliers and specialized technological capabilities that can serve as a platform for learning and technology transfer when it comes to mining other critical minerals. In these countries, digital technologies such as automation, robotics, the Internet of things, advanced data analytics and AI are transforming mining operations by enabling more precise planning, remote monitoring of operations, predictive maintenance and energy optimization.

Certain obstacles can arise, however. Large mining companies often prefer solutions (equipment, technology or services) that are of proven effectiveness or come from established suppliers with a certain size and track record, or both. This poses a challenge for local METS suppliers, especially SMEs, owing to a lack of scale, insufficient expertise, organizational weaknesses or limited access to financing (Bamber and Fernandez-Stark, 2021).

At the same time, developers of mining solutions often lack accurate information about the specific needs of mining operations, which creates a mismatch between the demand for and supply of solutions (information asymmetry) (Bamber and Fernandez-Stark, 2021).

Recommendations:

- *Provide testing and technology validation centres*

A major limitation on the development of local METS providers is the scarcity of pilot-scale evaluation sites for testing and refining new solutions before deploying them in mining operations.[16] The lack of controlled testing environments prevents providers, and especially SMEs and startups, from demonstrating that their solutions are safe and effective and reduces the appetite of large companies for local emerging technologies.

As part of the solution to this problem, Chile established its Mining Technology Testing Centre (M2TC), which is cofinanced by the government and the private sector and offers opportunities to test and validate new technologies in pilot projects before offering them to operational mines. In addition to testing at scale, M2TC provides expert advice and industry-recognized certifications to broaden solutions. In addition, in December 2025 the country launched the Strategy for the Development of Chilean Mining Suppliers (EDP), a road map for coordinating and strengthening productive development initiatives by reinforcing what already exists, bringing in new public support instruments, fostering training programmes and setting standards for sustainable development.[17]

- *Connect mining challenges with solutions provided by METS suppliers*

Mechanisms such as open innovation platforms could be supported as a way to connect the needs of mining companies with possible solutions from METS providers.

Within the region, Chile's Expande platform supports a collaborative network of mining companies and technology providers. Mining companies publish their main operational or innovation challenges on the platform, and different supplier firms offer solutions for evaluation. Peru's LinkMiners platform operates in a similar manner, aiming to address the information asymmetries that can hinder the development of innovative solutions to mining problems.

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16 Mining companies are also generally reluctant to open up operational mines to outside METS suppliers owing to the high costs of halting operations.

17 https://www.minmineria.cl/estrategiaproveedores/

Access to venture capital and specialized financing instruments is also essential to bring in smaller, local METS providers, who often face liquidity constraints and difficulties in scaling their technological innovations. Mechanisms to facilitate this access can be crucial for bringing solutions to maturity and accelerating commercial integration into mining value chains. In Brazil, for example, the Strategic Minerals Equity Investment Fund, managed by the Ministry of Mines and Energy and BNDES, mobilizes resources for SMEs with exploration, mining research and technological development projects, offering a replicable financing model geared towards innovation (ECLAC, 2025c). In Chile, Expande identifies and connects suppliers and startups with venture capital funds, facilitating access to financing and the scalability of technological solutions in the mining sector.

- *Strengthen vocational training in smart mining*

A thriving METS ecosystem necessarily requires a workforce with strong skills in advanced technologies. Measures to strengthen the workforce could include, for example, bolstering scholarship programmes for study abroad in the fields of science, technology, engineering and mathematics (STEM), particularly in critical minerals mining. It is also crucial to support R&D centres at universities with a focus on applied research for industry.

Axis 4: Downstream value addition from local processing and industrialization

Issue:

Latin America and the Caribbean exports most of its critical minerals in raw form or with only basic refining. This primary export pattern restricts productive diversification, the capture of value added and the creation of higher-skilled jobs.[18]

Recommendations:

Policy recommendations to foster local processing and downstream industrialization are primarily aimed at countries that have critical mineral reserves and industrialization potential and are seeking to integrate these resources into the electromobility, energy storage or technological manufacturing value chains, among others.

[18] For example, between 2019 and 2023, 62% of the region's critical mineral exports were unprocessed or only lightly refined. This was the highest proportion among major exporters of these minerals (Economic Commission for Latin America and the Caribbean [ECLAC], 2025c).

A caveat, however, is that minerals with very limited downstream uses, such as lithium in batteries, face greater risks of substitution, as new technologies or alternative materials can rapidly reduce demand for them. History shows that the emergence of substitutes can lead to the collapse of entire sectors. Decisions to incentivize downstream processing must explicitly consider this technological uncertainty and make use of basic technological foresight capabilities to anticipate changes in global markets (Lebdioui and Riofrancos, 2025).

- *Establish different types of incentives for downstream value addition*

Direct tax incentives: Granting tax incentives to attract investment in processing is important in order to mitigate the high initial cost of such investments. Australia's model, for example, includes a Critical Minerals Production Tax Incentive (CMPTI), starting in 2027. This is a refundable tax credit of 10% for spending on activities that "substantially" transform ore into a more refined form (Australian Taxation Office, 2026).

Price and volume schemes: To reduce the price volatility and volume uncertainty that affect new entrants in concentrated markets such as those for critical minerals, consideration should be given to mechanisms such as price stabilization schemes (e.g. contracts for difference or cap and floor models) and volume guarantee mechanisms.

Strategic cooperation schemes among producing countries: In the case of copper, a critical mineral for the energy transition, Chile and Peru could develop structured mechanisms for the exchange of mining and market information and enhance long-term coordination at an aggregate and strategic level. This could include the alignment of public policies and enabling investments affecting the sequencing of project pipelines and the pace of capacity expansion, and indicative windows for major maintenance activities, without interference with firm-level operational decisions or market functioning. The objective would be to mitigate excessive procyclical investment and supply dynamics. Complementarily, such cooperation could extend to joint manufacturing initiatives in higher value added segments such as electrical components, and to the development of industrial alliances linked to technologies that are crucial for the energy transition.

Local content and preference strategies: Chile offers an example of these in the region with its National Lithium Strategy, which requires lithium mining companies (Sociedad Química y Minera de Chile (SQM) and Albemarle) to allocate a portion of their lithium carbonate and hydroxide production at preferential prices to value added projects in Chile. This scheme aims to use tenders to attract investments in advanced manufacturing, for example of cathode materials and battery components, thereby promoting the development of local industrial capacity (ECLAC, 2023a).

Co-investment mechanisms with international partners: A proactive and targeted approach is required to attract FDI not only in extraction but specifically in the processing and refining stages. In Australia, the International Partnerships in Critical Minerals (IPCM) programme allocates funds to support co-investment between Australian companies and international partners in projects aimed at developing entire supply chains. In the region, countries that have fiscal space could implement similar mechanisms to catalyse higher value added projects that would struggle to attract private investment on their own.

Innovative financing mechanisms: Where limited fiscal space precludes the provision of direct support, consideration could be given to innovative mechanisms such as the credit-substitution guarantee (CSG) scheme included in the recent agreement between the Republic of Korea and the IDB.[19] This mechanism leverages Korea's sovereign credit standing to lower financing costs, extend maturities and crowd in private investment for strategic projects financed by the IDB in the region.

Measures to capitalize on the advantage of a low carbon footprint in the electricity mix: Several countries in the region that have critical mineral reserves also have a large share of renewables in their power generation mix. This offers a competitive advantage for mining and energy-intensive downstream processing activities. The frontrunners are Brazil (with 90% of electricity generation from renewable sources), Chile (63%), Colombia (76%), Panama (55%) and Peru (53%), compared to lower values in Argentina (37%), Mexico (19%), Jamaica (9%) and Cuba (4%) (Latin American and Caribbean Energy Organization [OLACDE], 2025). This further enhances the potential to boost smelting and refining at source in the region, taking advantage of the low carbon footprint of power systems compared to Asian countries, where most processing currently takes place. It is also estimated that transporting concentrates generates a carbon footprint approximately 45% greater than cathode production, so promoting local refining contributes both to decarbonization and to greater generation of value added within the countries of the region (ECLAC, 2024c).

Several countries in the region already have initiatives aimed at advancing downstream value addition. Chile presented its National Strategy to Strengthen Smelting and Refining Capacity in 2023,[20] and Brazil launched its Strategic Minerals Equity Investment Fund in February 2024. Managed by the Ministry of Mines and Energy and BNDES, the Fund seeks to mobilize capital and attract investment throughout the minerals value chain.

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[19] The CSG mechanism is a risk transfer instrument designed to multiply the Bank's capacity to finance the public sector in strategic areas, including critical minerals.

[20] https://biblioteca.digital.gob.cl/items/ba81795a-38f6-4156-b6cd-ee8461f6fb2c

The effort around downstream value addition is also reflected in recent initiatives by BNDES and the Studies and Projects Financing Entity (FINEP), which launched a public call for proposals in early 2025 within the framework of the New Industry Brazil programme to finance business and technology projects targeting the processing of strategic minerals and local production of materials and manufactured goods linked to the energy transition and decarbonization.

The Government of Brazil has specifically identified rare earths as a strategic priority and, through its MagBras project, seeks to leverage its reserves to develop higher value added downstream industries in areas such as permanent magnets. These policies include the provision of financial guarantees and tax breaks for the development of downstream industries, with BNDES financing rare earth projects. In June 2025, furthermore, the fund created by BNDES and FINEP selected 56 projects across the critical minerals value chain as eligible for financing totalling more than US$ 890 million, including several projects focused on rare earth elements (BNAmericas, 2025).

Axis 5: Responsible and sustainable production guided by environmental, social and governance (ESG) criteria

Issue:

The critical minerals sector, like any extractive activity, puts environmental and social pressure on the territories where it operates, generating potential impacts such as water stress, loss of biodiversity and disruption of the traditional economic activities of local communities.

In addition to the intrinsic value of responsible production, the "ESG" label has become a source of value added and a requirement for accessing the most demanding international markets, where traceability, transparency and compliance with environmental and social standards are key conditions for competitiveness.

Recommendations:

- *Foster an "ESG brand" for the region's critical minerals to strengthen their global competitiveness and access to markets*

The goal is for the region to win a reputation for responsible mining and sustainable environmental management based on traceability, transparency and compliance with environmental and social standards, in line with the principles of the United Nations

Secretary-General's Panel on Critical Energy Transition Minerals (2024).[21] The adoption of digital traceability technologies allows the responsible origin of minerals to be certified and their sustainability data verified. A comprehensive strategy against illegal mining and smuggling is needed alongside this, with effective sanctions and cross-border cooperation to ensure effective compliance with environmental and social regulations (Delgado, 2025). Lastly, steps must be taken to fortify mechanisms for prior consultation, social compensation and support for affected communities to ensure the restoration of degraded ecosystems and mitigate the related social and environmental impacts.

Canada offers an international example, with the Towards Sustainable Mining (TSM) programme requiring every mine to demonstrate mineral traceability and compliance with social, environmental and labour standards. This approach, along with mutually beneficial agreements with Indigenous communities, has helped reduce disputes and secure preferential access to international markets that demand high ESG standards (Mining Association of Canada, n.d.).

Similarly, Australia's Critical Minerals Strategy 2023–2030 aims to consolidate the country's critical minerals sector as an ESG performance leader. Mining operations are required to incorporate verifiable environmental and social practices, including benefit-sharing mechanisms with Aboriginal communities. These regulatory frameworks seek to ensure a lasting social licence for mining operations.

In Chile, the National Lithium Strategy establishes that there should be a process of dialogue with Indigenous communities, civil society organizations, companies and territorial organizations within the framework of the International Labour Organization (ILO) Indigenous and Tribal Peoples Convention, 1989 (No. 169) and the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (Escazú Agreement).[22] It also provides for the creation of a Protected Salt Flats Network (with 33% of salt flats under protection) and established the National Institute for Lithium and Salars (INLiSa), whose role is to generate, apply and share knowledge, technology and information to contribute to the sustainable development of the lithium industry value chain and to the sustainable management of the economic, environmental and social value of Chile's salt flats.[23] Similarly, contracts between the Production Development Corporation (CORFO) and SQM and Albemarle include clauses giving communities, regional governments and municipalities a share of lithium-related economic rents (Poveda Bonilla, 2020).

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21 https://www.un.org/en/climatechange/critical-minerals

22 https://participa.minmineria.gob.cl/es-CL/folders/consultas-indigenas

23 https://www.gob.cl/chileavanzaconlitio/

Energy

As discussed in chapter II, the global drive towards decarbonization and the growing importance of energy security are reshaping production and investment patterns. This shift creates a strategic opportunity for Latin America and the Caribbean to advance productive transformation by leveraging its energy endowment.

The region is particularly well positioned to attract energy-intensive manufacturing and digital activities through powershoring, understood as the relocation of production to locations that offer abundant, clean and competitively priced electricity. Latin America and the Caribbean already has the cleanest electricity mix in the world, with around 70% of electric generation coming from renewable sources, and this provides a strong foundation for strengthening domestic energy systems and attracting new productive activities.

At the same time, there is still untapped potential to further expand renewable energy capacity across the region. This includes solar and wind resources in countries such as Brazil, Mexico, Chile and Argentina; extensive hydropower capacity in Paraguay, Brazil, the Bolivarian Republic of Venezuela, Mexico, Colombia and Argentina; and a mature biofuels industry, particularly in Brazil, but also elsewhere (Arbache and La Rovere, 2023).

Realizing the full potential of this energy asset requires a coherent set of policy actions implemented across multiple fronts. The following section outlines some important strategic axes, the key challenges associated with each and policy recommendations designed to unlock the region's clean energy potential while supporting productive transformation.

Axis 1: Data centres, AI and rising digital energy demand

Issue:

Despite the rapid global expansion of the digital economy, Latin America and the Caribbean still accounts for only a small share of global data infrastructure,[24] and this is constraining its capacity to capture value from AI, cloud services and advanced digital industries.

At the same time, although data centres and AI-related infrastructure represent a major opportunity, these facilities are highly resource-intensive. Individual data centres can consume between 10 and 50 times as much electricity as standard commercial buildings

[24] Latin America and the Caribbean hosts only 4.8% of the world's nearly 10,000 data centres, and within the region this infrastructure is highly concentrated in a small number of countries. Brazil, Chile, Mexico, Colombia and Argentina account for more than three quarters of regional capacity, while much of Central America and the Caribbean remains marginally connected and relies on data storage and processing located abroad (United Nations Development Programme [UNDP], 2025).

and require very large volumes of water for cooling.[25] In the absence of adequate planning and regulation, their rapid deployment can stress transmission networks, reduce system reliability and intensify competition for water in water-stressed regions.

Recommendation:

- *Align data centre expansion with new clean energy generation and system resilience*

Countries should require that data centre electricity demand be met with new renewable generation capacity, rather than increasing reliance on existing fossil-based power. They should also mandate or incentivize sustainable cooling technologies, including seawater, recycled water and closed-loop systems, to reduce pressure on water resources, and develop clear transparency and community engagement frameworks to reduce social conflict and improve project acceptance (Institute of the Americas, 2025).

Energy storage solutions to ease peak-load stress on electricity grids need to be pursued, as storage bridges the gap between the intermittent nature of renewable sources such as solar and wind and the constant, high-capacity needs of data centres, helping to reduce curtailment (the waste of clean energy when the grid cannot absorb it) and ensuring supply reliability.

These measures need to be complemented by integrated spatial planning tools that identify and prioritize suitable locations for data centres on the basis of energy availability, grid capacity, digital connectivity, land-use compatibility and socioenvironmental constraints.

Chile's National Data Centre Plan (2024–2030) illustrates this approach by combining territorial planning, regulatory clarity and sustainability standards to ensure that the expansion of digital infrastructure is aligned with environmental objectives and local development needs.[26]

Axis 2: Enhanced international competitiveness and diplomatic action

Issue:

New climate-related trade rules are increasingly shaping access to international markets. While their goal is to reduce global emissions, their design does not always reflect real differences between countries' energy systems.

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[25] Even a relatively small facility can use up to 25.5 million litres of water per year, which is equivalent to the consumption of approximately 300,000 people (UNDP, 2025).

[26] https://minciencia.gob.cl/uploads/filer_public/95/6b/956b8c9f-d937-4b4d-8f6c-a871495a52ff/plan_nacional_de_data_centers_pdata.pdf

A clear example is the EU's Carbon Border Adjustment Mechanism (CBAM).[27] In its initial phase, calculations focus mainly on companies' direct emissions (Scope 1), while emissions linked to electricity purchased for production (Scope 2) are included only for a very limited set of products. This means that most other products covered by CBAM, including iron, steel and aluminium, are assessed without consideration of differences in the carbon intensity of the electricity used in production.

As a result, products manufactured in countries with cleaner electricity systems, including many in Latin America and the Caribbean, do not receive full recognition for their lower-emission production conditions, which reduces their competitiveness in international markets.

Recommendations:

- *Negotiate mutual recognition of carbon footprint certification*

Robust national and regional certification systems for the carbon footprint of export products should be developed, and there should be proactive engagement in negotiations over bilateral and multilateral agreements to harmonize criteria and efforts to secure international acceptance of these certifications.

- *Diplomatic action to address the scope of climate-related trade measures*

The region should engage in international negotiations to ensure that climate-related trade frameworks fully recognize the advantage of Latin America and the Caribbean's clean electricity mix, including where relevant the systematic incorporation of Scope 2 emissions into calculation methodologies, e.g. in mechanisms such as CBAM.

Axis 3: Energy transmission, distribution and storage

Issue:

Although renewable electricity generation has expanded rapidly in several Latin American and Caribbean countries, transmission and distribution infrastructure has not kept pace. Today, according to the International Energy Agency (IEA) and OLACDE, for each dollar spent on new power generation in the region, less than half a dollar is spent on grids and storage (IEA and OLACDE, 2025).

[27] CBAM is an EU policy that applies a carbon-related charge on certain imported products to reduce the risk of production shifting to countries with weaker climate policies ("carbon leakage").

The result is severe transmission bottlenecks and a lack of system flexibility, leading to the waste of clean energy (curtailment) and limiting the region's ability to maximize its powershoring potential. A clear example is Chile, which in 2024 wasted an amount equivalent to 19% of the total solar and wind energy generated that year. These losses were mainly the result of insufficient transmission capacity and limited storage infrastructure (Suárez, 2025).

Recommendations:

- *Prioritize investments in transmission and distribution infrastructure*

Countries need to significantly strengthen their transmission and distribution networks. Recent experiences in the region demonstrate that when governments articulate a clear long-term vision for the energy transition and create credible frameworks for private sector participation, results can be achieved. In Brazil, two competitive auctions held in 2024 mobilized close to US$ 4 billion to finance the construction of nearly 7,300 kilometres of new transmission lines. A further auction successfully carried out in October 2025 awarded the development and operation of more than 1,000 kilometres of additional transmission infrastructure.

- *Accelerate energy storage and flexibility solutions*

Energy storage, particularly in the form of battery energy storage systems (BESS), is essential for system security and reliability. A minimum storage requirement could be introduced for new solar and wind projects located in congested areas (zones with high levels of curtailment). For example, some jurisdictions require storage capacity equivalent to around 10% of installed variable renewable energy (VRE) capacity (Suárez, 2025).

This storage should be deployed through system-level and publicly coordinated mechanisms that serve the entire grid rather than only individual facilities, in order to free up grid capacity and reduce clean energy waste.

Also, demand response mechanisms and demand-side energy planning should be developed to encourage large industrial and commercial users to adjust their electricity consumption in response to system conditions. By providing price signals and financial incentives, these mechanisms allow energy-intensive users to shift consumption towards periods of abundant renewable generation and reduce demand during periods of grid stress, improving system stability and reducing clean energy waste (Suárez, 2025).

- *Expand regional (cross-border) interconnections to alleviate bottlenecks and ensure reliability*

Cross-border interconnection allows countries to leverage the complementarity of their different energy generation resources. For instance, a country with abundant midday solar energy can share its surplus with a neighbouring country that requires power, potentially using its neighbour's extensive hydroelectric generation infrastructure as "virtual batteries" to store energy when supply exceeds demand (Suárez, 2025).

Cross-border interconnections can be treated as regional public goods and supported by regional development banks, helping to alleviate bottlenecks, improving system reliability and enabling the use of complementary energy resources.

Several electricity integration initiatives exist across the region, but they are at very different stages of development. The most advanced is the Electricity Interconnection System for the Countries of Central America (SIEPAC), which has consolidated a functional subregional electricity market supported by dedicated infrastructure, harmonized regulations and common institutions.

In South America, integration efforts remain at earlier stages and mainly rely on bilateral exchanges. Ongoing initiatives include the Andean Electrical Interconnection System (SINEA), which brings together Chile, Colombia, Ecuador, Peru and the Plurinational State of Bolivia; the Energy Integration System of the Southern Cone Countries (SIESUR), involving Argentina, Brazil, Chile, Paraguay and Uruguay, with the potential incorporation of the Plurinational State of Bolivia; and the Arco Norte initiative, which aims to interconnect Brazil and the northern Atlantic coast of South America, notably Guyana and Suriname, with the possible future inclusion of French Guiana (OLACDE, 2024).

Advancing towards common regulatory standards, improving real-time data sharing and increasing transparency will enable more efficient planning and coordination among countries. Over time, the region can move progressively from limited bilateral exchanges towards more structured regional electricity markets wherever feasible. This evolution would maximize the use of the region's diverse renewable resources.

Axis 4: Sustainable fuels

According to the IEA's latest report on sustainable fuels, global demand for liquid and gaseous renewable fuels such as biofuels, low-emission and green hydrogen, and biogases could quadruple by 2035 relative to current levels under a scenario of full policy implementation. By 2035, sustainable fuels could cover roughly 10% of global road transport demand, 15% of aviation demand and 35% of shipping demand (IEA, 2025).

For Latin America and the Caribbean, this global expansion of sustainable fuels represents a strategic opportunity. The region combines abundant renewable electricity, which is critical for the production of green hydrogen, with vast biomass and agricultural resources that can support the large-scale development of biofuels.

Issue:

While some countries in the region, notably Brazil, but also Argentina, Colombia and others, have long-standing biofuel industries based on first-generation feedstocks (maize, sugar cane, palm oil, soybeans), this model has structural limitations. First-generation biofuels compete directly with food and livestock production, which creates vulnerability to food-versus-fuel tensions and exposes production to price and supply volatility. Relying on crops also constrains the capacity to scale significantly without affecting food security and land use.

Recommendation:

- *Develop the technology for producing advanced biofuels*

To take advantage of growing global demand and overcome the structural constraints of first-generation biofuels, Latin American and Caribbean countries could steer their national strategies towards advanced sustainable fuels (those based on non-food biomass such as agricultural residues, forestry by-products or other cellulosic materials, algae, etc.).

A strategic priority within this effort could be the development and scale-up of sustainable aviation fuel (SAF), as aviation is widely recognized as one of the most difficult sectors to decarbonize. International climate commitments are becoming more stringent, and international regulatory frameworks such as the EU's ReFuelEU Aviation initiative are expected to significantly drive SAF demand over the coming decade, creating major investment and export opportunities for producers in the region (Precision Business Insights, 2025).

National incentives and regulatory frameworks can play a critical role in accelerating this transition. For example, it is estimated that Brazil's Fuel of the Future Act, approved in late 2024, could unlock around US$ 4 billion per year in investments for sustainable fuels, including SAF. The law establishes mandatory blending targets and targeted incentives to expand production, supporting efforts to attract private capital into the sector (IEA and OLACDE, 2025).

Issue:

Early green hydrogen strategies in Latin America and the Caribbean were mainly designed around export opportunities and based on optimistic expectations about global demand, costs and transport feasibility.[28] Over time, countries have started to adopt a more practical approach, recognizing that hydrogen can play an important role in domestic industries and energy systems. The challenge is that hydrogen is still not fully integrated into local value chains and hard-to-abate sectors.[29]

Recommendation:

- *Focus hydrogen strategies more strongly on domestic uses*

Hydrogen strategies should increasingly prioritize domestic industrial decarbonization rather than treating hydrogen solely as an export commodity. Its strongest advantage lies in hard-to-abate sectors such as refining, fertilizers, steel, mining, heavy transport, aviation and shipping, where electricity alone is insufficient. Hydrogen can be stored and later used as energy, providing industrial heat or serving as a fuel, and can also act as a direct industrial input.

Near-term opportunities include replacing refinery hydrogen in Mexico and Colombia, deploying low-emission hydrogen in mining in Chile and Peru, scaling green fertilizers in Brazil, Argentina and Uruguay, and developing low-carbon steel production in Brazil. Governments can accelerate this shift through public procurement, long-term purchase agreements and clear industrial policies that create stable local demand.

Axis 5: Gas infrastructure for the energy transition

In some countries, significant volumes of natural gas are reinjected into oil wells owing to the lack of adequate transport and distribution networks. Expanding pipelines and industrial distribution infrastructure can rapidly transform these stranded resources

[28] Green hydrogen is produced using renewable electricity (e.g. wind, solar or hydro) and has near-zero direct emissions. Low-emission hydrogen includes hydrogen produced through other pathways that significantly reduce but do not fully eliminate greenhouse gas emissions, such as natural gas-based hydrogen.

[29] Hard-to-abate sectors are those that are most difficult to decarbonize with current technology. This is due to their need for very high-temperature operation, energy-dense fuels or specific chemical inputs which are more difficult to replace.

into economic value. When designed strategically, this infrastructure can also lay the foundations for the future transition to green and low-emission hydrogen as clean energy options.

Although South America has 17 cross-border gas pipelines, their utilization has fallen sharply in the past decade. Between 2013 and 2023, gas trade in South America declined by half, from 18.6 billion m^3 to 9.2 billion m^3, mainly because of lower Bolivian production, and the share of pipeline-transported gas in regional consumption fell from 13% to 6.6% (ECLAC, 2025e). Greater reliance on imported liquified natural gas (LNG) has also contributed to this decline, further reducing the use of existing pipeline infrastructure. These trends highlight the need to modernize and expand gas networks so that they meet current demand patterns while being compatible with future hydrogen transport.

Recommendation:

- *Build hydrogen-ready infrastructure from the outset*

Gas pipelines and related infrastructure should be built to bring currently stranded gas resources into productive use. This infrastructure should be designed from the outset so that it can be upgraded in the future to transport green hydrogen, thereby supporting the broader energy transition.

B. Mobilizing productive, human and financial capabilities to accelerate productive transformation

The recommendations presented in this section focus on selected assets among the region's productive, human and financial capabilities. They are not intended to be exhaustive, but rather to highlight those areas with the greatest potential for generating development returns and accelerating productive transformation in Latin America and the Caribbean.

World-class production clusters

As seen in chapter II, Latin American and Caribbean countries have developed a number of highly competitive production clusters over recent decades. Cluster initiatives, or more generally productive coordination initiatives (PCIs), provide an effective institutional mechanism for coordinating firms, public institutions and knowledge organizations

around shared productive development agendas. By facilitating collective action, these initiatives help address coordination failures, strengthen productive capabilities and support structural transformation (ECLAC, 2025a).

Evidence shows however, that PCIs do not typically emerge spontaneously or sustain themselves without structured policy support, and that there remains considerable scope in the region to strengthen PCI policies (ECLAC, 2025a).

PCIs are particularly relevant in several of the strategic sectors discussed in this report. For example, the development of critical mineral value chains requires coordination among geological agencies, mining firms, equipment and technology providers, research institutions and investment promotion agencies in pursuit of value addition and technological upgrading. Similarly, biodiversity-based innovation ecosystems linking universities, biotechnology startups, research laboratories and investors illustrate how coordinated ecosystems can help translate natural capital into higher-value biobased industries (see section A).

The following policy recommendations are aimed at scaling up and improving PCIs in the region.

Axis 1: Alignment of PCIs with priority sectors in national and subnational productive development strategies

PCIs should be the operational platform through which countries develop their selected priority sectors. If lithium, copper, agrifood systems, renewable energy or creative industries are identified as strategic, dedicated PCIs should be established to coordinate collective action in these areas.

Recommendations:

- *Establish PCIs for the selected priority sectors with clearly defined mandates, governance structures and multi-year road maps.*
- *Identify bottlenecks that might be hindering the development of a cluster (e.g. supplier gaps, technological constraints, certification needs, logistical inefficiencies).*
- *Align public support instruments such as innovation grants, export promotion measures and skills development around the PCI rather than delivering them separately.*
- *Identify measurable objectives and milestones and link public support to progress on these (e.g. exports, decarbonization, technology upgrading).*

Axis 2: PCI policy continuity

The effectiveness of PCIs depends on sustained commitment and institutional stability. Policy discontinuity, often associated with political cycles or weak coordination across levels of government, undermines collective action and long-term transformation (see chapter IV).

Recommendations:

- *Avoid policy interruptions associated with political cycles by strengthening their institutional anchoring.*
- *Consolidate participatory governance mechanisms that involve stakeholders in co-design and co-responsibility. Representatives of the public, private, academic and civil society sectors should not merely participate in PCIs but act as co-designers of the policies.*
- *Ensure predictable resource allocation over time to prevent stop-and-go implementation.*

Axis 3: Strengthened capabilities among professionals implementing PCIs

The effective implementation of PCIs depends on the capabilities of the professionals involved in their design, coordination and management. Strengthening these capabilities is essential to improve the quality and impact of PCI policies.

Recommendations:

- *Invest in strengthening the skills of professionals responsible for coordinating and managing PCIs. Support training processes that enhance their knowledge and understanding of PCI management.*
- *To ensure a steady supply of qualified human capital, technical schools and universities should adapt their curricula to the specific technological and labour requirements of local clusters.*
- *Encourage "brain circulation" by engaging diaspora communities to serve as mentors, investors or knowledge brokers who can create bridges between local firms and global markets. This is especially true for the Caribbean subregion, whose highly skilled and affluent diaspora communities represent a powerful yet sometimes overlooked network of technical skills and business contacts (see section on diaspora networks below).*

Creative industries

As discussed in chapter II, the creative (or orange) economy already plays an important role in growth and employment in several countries of the region. Over and above its economic contribution, it supports social inclusion by creating productive opportunities for at-risk youth and marginalized groups. However, fully realizing the orange economy's potential requires measures to address persistent market and coordination failures that constrain investment and limit firms' ability to scale and retain a greater share of the economic value generated across creative sectors.

Creative goods and services often embody intangible content and can be reproduced at a very low cost, which weakens appropriability and limits creators' ability to retain the full economic returns from their work. Because part of the value generated is diffused through knowledge spillovers and imitation, private returns to creative activity tend to be smaller than the broader social benefits generated, resulting in less than socially optimal levels of investment (Benavente and Grazzi, 2017).

Moreover, many creative industries, such as film, publishing and music, have high upfront fixed and sunk costs, while the cost of producing and distributing additional units is typically very low once the initial work has been created. This internal cost structure generates strong economies of scale, which can give an advantage to large incumbents, raise barriers to entry and concentrate market power, making it more difficult for smaller firms to scale and retain value. In addition, demand is highly uncertain, and creative assets, including knowledge, talent and reputation, are difficult to value and use as collateral, constraining access to finance and limiting firms' growth potential.

Besides these structural market failures, weak coordination among key actors, including training institutions, producers, distributors and financiers, often prevents complementary investments from taking place simultaneously, thus limiting the development and scaling of creative industries.

According to Benavente and Grazzi (2017), this compound of failures within the creative ecosystem provides a clear rationale for public intervention. Such intervention should rely on integrated policy mixes that simultaneously stimulate supply, demand and interaction among actors, rather than on isolated measures.

This section, which is based on Buitrago Restrepo and Duque Márquez (2013) and Benavente and Grazzi (2017), outlines a set of policy recommendations aimed at unlocking the creative economy's potential in Latin America and the Caribbean. The proposals focus on strengthening institutional frameworks, expanding access to finance, building

productive capabilities and reinforcing coordination across the creative ecosystem. Following Buitrago Restrepo and Duque Márquez (2013), particular emphasis is placed on the promotion of "mindfactures", as the authors call those goods and services such as art, design, video games, films and crafts whose intangible symbolic value exceeds their use value. Recognizing mindfactures as engines of growth and employment means positioning the creative economy as part of wider development strategies.

Axis 1: Strengthened institutional frameworks

A strong institutional architecture is essential to support the development and scaling of the creative economy. Given its cross-cutting nature, institutional fragmentation can significantly reduce policy effectiveness and weaken incentives for investment and innovation.

Recommendations:

- *Modernize intellectual property right (IPR) frameworks to adapt to digitalization, ensuring adequate incentives for creation and innovation while strengthening enforcement against unauthorized reproduction and distribution.*
- *Reinforce collective organizations such as chambers and professional associations that represent small firms and freelancers, aggregating their interests and facilitating dialogue with public institutions.*
- *Improve coordination across ministries and levels of government dealing with culture, the economy, education, finance and innovation, establishing clear mandates and inter-institutional mechanisms to reduce fragmentation, duplication and regulatory inconsistencies.*

Axis 2: Targeted financial instruments

As well as coordination failures, creative sectors face structural financing gaps. Traditional financial institutions often underprovide credit to firms whose main assets are intellectual property, talent and future earnings potential.

Recommendations:

- *Expand access to finance for creative startups and SMEs, particularly those lacking tangible collateral.*

- *Introduce sector-specific fiscal incentives, such as R&D tax credits for video game and audiovisual industries, to reduce innovation risk and crowd in private investment.*
- *Establish public-backed investment funds and credit guarantee schemes tailored to creative enterprises, leveraging development banks to share risk and mobilize long-term capital.*

Axis 3: Creative clusters and "kreatopolis" hubs

To address coordination failures and high fixed and sunk costs that hold back individual creators, governments should promote geographically concentrated creative ecosystems with clear governance and shared infrastructure.

Recommendations:

- *Establish designated creative districts or clusters with shared production facilities, co-working spaces and digital labs to reduce entry costs and foster collaboration.*
- *Develop knowledge exchange hubs anchored in universities and technical institutes to provide innovation support, prototyping services and business development assistance to creative entrepreneurs.*
- *Integrate creative industries into urban economic planning by ensuring the provision of affordable workspaces, adequate digital infrastructure and connectivity with broader city development strategies.*
- *Create cluster governance mechanisms (public-private coordination bodies) to align training, financing and market access initiatives.*
- *Support joint commercialization platforms (shared branding, export consortia, collective participation in trade fairs) to enable scale economies.*
- *Promote structured linkages between creative firms and traditional sectors by helping creative SMEs become qualified suppliers to manufacturing and other industries.*

Together, these measures contribute to the development of "kreatopolises", urban environments where companies can benefit from knowledge spillovers and mindfactures become central drivers of innovation, productivity and employment growth.

Axis 4: Human capital and measures to address skills mismatches

Human capital is the primary input of the creative economy. Strengthening capabilities and reducing mismatches between available skills and industry needs is essential for long-term competitiveness and value capture.

Recommendations:

- *Invest in human capital formation and continuous skills upgrading across creative and digital fields.*
- *Integrate science, technology, engineering, arts and mathematics (STEAM) approaches into national education systems to foster both the technical and the creative competencies required in the creative economy.*
- *Strengthen the role of universities, technical institutes and research centres in talent development, knowledge diffusion and applied research linked with creative sectors.*

Axis 5: Stimulation of demand for creative goods and services

Expanding domestic demand for cultural goods and services is essential to enable firms to scale and prosper.

Recommendations:

- *Implement cultural voucher programmes that provide low-income households and youth with credits to access books, cinema and performing arts, thereby broadening market participation and strengthening domestic demand.*
- *Introduce innovation or creative services voucher schemes targeted at specific sectors, such as SMEs or startups, whereby firms receive a credit that can be used to purchase designated services. By requiring the vouchers to be spent on the services of creative firms, such schemes help create structured linkages between creative industries and traditional sectors.*
- *Support export promotion and internationalization strategies to complement domestic demand, enabling creative firms to access regional and global markets while reinforcing their domestic base.*

Diaspora networks and external financial linkages

Diaspora and migration dynamics can strengthen human talent through knowledge transfer, entrepreneurship and access to international networks, while also contributing to social and economic inclusion. When integrated into development strategies, mobility can support skills upgrading, productive diversification and deeper links with external

markets. Moving beyond a narrow focus on remittances allows countries to better leverage transnational experiences and capabilities in ways that reinforce domestic productive transformation and inclusive development.

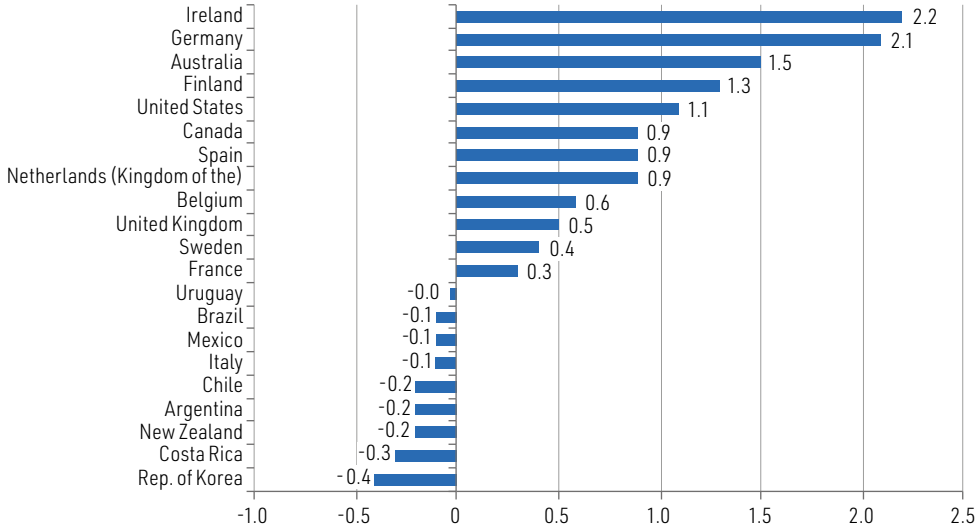
For Latin America and the Caribbean, as shown in chapter II, large diasporas embedded in North America and Europe constitute reservoirs of skills, professional experience, tacit knowledge and transnational networks that can strengthen productive capabilities, innovation and international connectivity if deliberately integrated into development strategies. The region's exposure to global mobility is structural. Latin America and the Caribbean accounts for around 18% of global remittance flows, and in several economies remittances exceed 20% of GDP.

Moreover, a key dimension of Latin America and the Caribbean's technological lag lies in the region's limited capacity not only to generate sufficient technological and scientific talent, but also to retain it. The loss of AI-related talent is particularly illustrative. According to the Organisation for Economic Co-operation and Development (OECD) Artificial Intelligence Policy Observatory, all Latin American and Caribbean countries with available data recorded negative net migration of AI professionals in 2023, meaning that more specialists in AI and related fields left the region than entered it (figure III.2). This trend underscores the region's limited ability to compete globally for high-skilled professionals, especially amid rising international demand driven by the AI investment boom in the United States, Europe and Asia. This represents a major loss for the region: the cost of providing training, often at public universities, to specialized professionals who then leave to work in foreign companies that capture the economic returns on that investment.

The net outflow of talent is not only a symptom of the region's technological lag: it reinforces it. The departure of highly skilled AI professionals weakens the region's capacity to build domestic innovation ecosystems, delays technology adoption and increases dependence on imported digital technologies.

The core challenge is therefore institutional: converting migration from a mechanism of talent loss into a channel for brain circulation, skills upgrading and strategic connectivity. In an environment where access to technology, standards and markets is increasingly shaped by power relations, diaspora networks can reduce information asymmetries, facilitate market entry and support institutional learning.

Figure III.2
World (selected countries): net between-country AI skills migration, 2021–2025
(Per 10,000 LinkedIn members with AI skills)



Source: Organisation for Economic Co-operation and Development. (2025, 7 April). *Artificial Intelligence Policy Observatory*. https://oecd.ai/, on the basis of LinkedIn. (2025). *LinkedIn's Economic Graph*. Retrieved on 12 October 2025.
Note: The indicator measures the net between-country migration of LinkedIn members with AI engineering skills per 10,000 such members in the country concerned. Positive values indicate net inflows of AI talent, while negative values indicate net outflows.

Axis 1: A shift from remittance management to brain circulation policies

Priority should be given to policies that facilitate temporary return, remote collaboration and cross-border provision of professional services by diaspora members, particularly in strategic sectors such as digital technologies, health, energy and public administration.

Recommendations:

- *Align diaspora engagement programmes with national skills and innovation strategies, ensuring that mobility contributes to domestic capability-building rather than reinforcing permanent skill depletion. Recent European cooperation practice has increasingly emphasized "brain circulation" rather than permanent return. Through the European Union-funded European*

Union Global Diaspora Facility (EUDiF), diaspora engagement has been operationalized through short-term, virtual and hybrid skills-transfer schemes, skills profiling and targeted knowledge-transfer initiatives linked to development priorities (Hincu, 2024).

- *Link remittance-related financial products to education, training and entrepreneurship, while strengthening consumer protection to avoid transferring financial risks to households. Mexico's 3x1 Programme for Migrants matched collective remittances with public funds to finance local infrastructure and productive projects (Ministry of Welfare, n.d.).*

Axis 2: Diaspora networks as platforms for productive upgrading and market access

Diasporas operate through networks that can support trade, entrepreneurship, tourism and knowledge exchange, particularly through "nostalgia" demand, cultural industries and visiting-friends-and-relatives tourism.

Recommendations:

- *Institutionalize diaspora business and knowledge networks within export promotion, innovation and investment frameworks, focusing on reducing market entry costs, meeting standards and scaling SMEs into higher-value segments. Scotland's GlobalScot network connects senior diaspora professionals with domestic firms seeking to enter foreign markets (GlobalScot, n.d.), while ChileGlobal has applied a similar model to link Chilean startups with international technology and venture capital ecosystems (Kuznetsov, 2012).*
- *Proactively map and connect scientific and business diasporas to integrate highly skilled expatriates into local innovation ecosystems. As posited by Colombia's Internationalization Mission (Hausmann et al., 2021), structured networks of global talent are fundamental institutional tools for closing the region's technological gaps and facilitating direct knowledge transfer, technology adoption and the integration of domestic firms into global value chains.*
- *Treat diaspora networks as instruments of economic diplomacy, enhancing the region's connectivity and diversifying external partnerships in a fragmented global economy. The Philippines' Commission on Filipinos Overseas operates as a cabinet-level body supporting long-term diaspora engagement, not least through the BaLinkBayan digital portal (Philippine Information Agency, 2025). The Dominican Republic has established Dominican Communities Abroad (CONDEX) and Institute for Dominicans Abroad (INDEX) to integrate the diaspora into national development planning (Orozco, 2020).*

Human talent

As established in the previous chapter, Latin America and the Caribbean possesses an important potential asset in its increasingly educated workforce, growing STEM base and improved linguistic capabilities. However, to strengthen the region's human talent and mobilize it for productive transformation, simultaneous progress is needed in tackling coverage inequalities and ensuring quality education at all levels. This requires both cross-cutting education policies and other public policies designed to unlock the productive potential of two critical segments whose labour market participation remains constrained despite their educational gains: women and youth.

Axis 1: Cross-cutting education policies[30]

Recommendations:

- *Improve the coverage and quality of early childhood education*

Foundational learning, and with it the onset of educational inequality, begins in early childhood. Quality early childhood education strengthens the effectiveness of education systems, improves learning outcomes at later stages and generates higher social and economic returns. To achieve this, countries must provide for adequate infrastructure, appropriate adult-to-child ratios, qualified educators and inclusive, government-led curricular and pedagogical frameworks. The sector continues to face challenges, particularly in the professional development, training and recognition of early childhood teachers, whose roles are essential but often undervalued.

Given its proven impact in reducing dropout and grade repetition rates and in promoting equitable learning, expanding access to quality pre-primary education must be a regional priority. Progress requires strengthened teacher training and the alignment of early childhood education with broader social protection policies. Coordinated actions across education, health, nutrition, care and social protection systems are crucial to ensure that all children receive comprehensive support from their earliest years.

Despite efforts to expand coverage in recent decades, quality challenges continue to limit the transformative potential of early childhood education. Teachers continue to be inadequately trained and remunerated, and their work receives limited recognition, which undermines

[30] This section is based on ECLAC (2025d).

the professionalization of the sector. Addressing these gaps requires not only investment in teachers but also stronger governance, inclusive pedagogical approaches and alignment with broader social protection systems. For progress towards universal, high-quality pre-primary education, the United Nations Children's Fund (UNICEF) recommends allocating at least 10% of education budgets to this level and strengthening curricular frameworks that support cognitive and socioemotional development. Complementing these actions with training for parents and caregivers is also essential to reinforce early development within the home and ensure that all children, regardless of socioeconomic background, enter primary school with solid and equitable learning foundations.

- *Build inclusive pathways to universal secondary education*

Because secondary education is the minimum threshold for social and labour inclusion, it is strongly recommended that both access to and completion of this level be universalized, whence the importance of preventing pupils from dropping out, particularly during transitions between educational stages, which are moments of heightened vulnerability. To address this, other recommendations include removing access barriers such as the financial burdens of uniforms, materials and transportation and improving coordination among institutions to facilitate smooth progression from the primary to the lower secondary and then to the upper secondary levels. It is also important to postpone early specialization, which has been shown to hinder student continuity, and to implement early warning systems that track individual, family and contextual risk factors with a view to triggering timely interventions.

Ensuring successful educational trajectories also means providing students with support figures —tutors, counsellors and teachers focused on academic reinforcement— whose presence has proven effective in improving retention. It is also recommended that gender inequalities be reduced through differentiated strategies that expand learning opportunities and challenge institutional and cultural practices reinforcing traditional gender stereotypes, which limit students' development and constrain countries' social and economic potential. Overall, the recommendations point to the creation of more inclusive institutional arrangements, strengthened monitoring of student pathways and school-based reforms that collectively promote universal access, continuity and completion of secondary education for all learners.

- *Strengthen cognitive, digital and socioemotional skills*

Students must develop cognitive, digital and socioemotional competencies to navigate personal, social and professional challenges, particularly in a context shaped by technological transformations and the emergence of AI. Education systems therefore need to integrate these competencies into teaching and learning processes, supported by curriculum prioritization that enables deeper, more meaningful learning.

Strengthening learning also requires policies that expand instructional time and reconfigure pedagogical approaches. Extending the school day has been shown to improve learning outcomes, particularly among students who face disadvantages outside the classroom, but its success depends on broader transformations within education systems and a gradual, fiscally viable implementation. More broadly, education must prepare students to think critically and creatively, to collaborate and to become active agents capable of shaping their own paths. This calls for project-based, interdisciplinary learning, safe spaces for intellectual exploration and opportunities for inquiry, problem solving and collective work. Despite advances, many national curricula in the region have not fully transitioned to competency-based models, and alignment across policy, assessment, teacher training and school-level practices is required to consolidate this approach.

Meeting these challenges requires a new appreciation of the role of teachers and the nature of the school environment. Teachers are central to the transmission of educational values and need stronger professional development, autonomy, collaboration opportunities and recognition. Socioemotional skills are particularly crucial in a region marked by inequality, instability and exposure to violence. Effective development of these skills requires explicit standards, teacher training, cooperation among educational stakeholders, positive school climates and, ultimately, concrete pedagogical practices, psychosocial training for teachers and continuous support structures that empower students as active, resilient and empathetic learners. This requires the establishment of professional teaching pathways that offer stability, encourage educators to remain in the classroom and support their ongoing professional growth.

Achieving this goal demands political commitment and a long-term vision that positions education at the core of the region's development agenda, ensuring that education policies are financially sustainable through efficient allocation and management of resources.

Axis 2: Women's empowerment for economic parity

Notwithstanding women's educational progress, constraints on labour market participation, the unequal distribution of care responsibilities and barriers inhibiting access to dynamic and technologically evolving sectors excludes some of them from the formal economy and decision-making spheres. Consequently, the participation of women in labour markets is also a strategic imperative for breaking out of the trap of low capacity for growth. In 2023, women's labour force participation in the region was 51.6%, compared to 76.9% for men (Economic Commission for Latin America and the Caribbean and United Nations Entity for Gender Equality and the Empowerment of Women [ECLAC and

UN-Women], 2025). Time-use patterns reveal marked disparities: women dedicate 12.9% of their total time to unpaid domestic and care work, while men allocate between 3.0% and 12.5%, depending on the country.

Economic inequality reinforces these dynamics. The femininity index of poverty continues to show high values: for every 100 men living in poverty in 2023, there were 121 women in this position. Gaps in economic autonomy persist, with 26% of adult women reporting no personal income, compared to 10% of men. Differences are also evident in the transition from education to employment. Among young people aged 15 to 24, 24.1% of women were neither studying nor employed in 2023, compared to 10.2% of young men (ECLAC and UN-Women, 2025). This highlights the barriers faced by young women in attaining educational continuity and participation in the labour market.

Despite their educational situation improving, women in Latin America and the Caribbean remain underrepresented in the fields that generate the highest returns in terms of productivity, innovation and digital transformation. OECD (2025) data for Latin America and the Caribbean show that gender gaps in STEM begin early and persist throughout education and employment. Although women complete secondary school at higher rates than men (68.7% versus 61.5%), they remain underrepresented in STEM trajectories. Using Programme for International Student Assessment (PISA) data from 2022, the OECD shows that in most countries of the region, only 5% to 19% of girls expect to work in STEM fields, and in some countries boys are over 15 percentage points more likely to express STEM career aspirations.

These expectations translate into outcomes. Across Latin America and the Caribbean, women represent roughly 40% of STEM graduates, a share higher than the global average but still below parity. In the labour market, the pattern becomes more pronounced: women hold only 30% of information and communications technology (ICT) jobs, with country variation from 42% in Guyana to 22% in Argentina, and men are two to three times as likely to work in STEM occupations between ages 30 and 40. Adult skills data reinforce these disparities. Even among highly skilled workers, wage gaps remain substantial (e.g. 15% in Chile, 40% in urban areas of the Plurinational State of Bolivia, 37% in Colombia), and women continue to bear the largest burden of unpaid care work (74% of total care hours) (OECD, 2025). In the digital sphere, mobile access is nearly equal, but an Internet usage gap persists (81.6% of men versus 80.4% of women (ECLAC and UN-Women, 2025)). Combined with lower STEM participation, these gaps limit women's access to advanced digital skills and to employment in high-productivity technology sectors.

Nonetheless, these constraints coexist with major institutional strengths. The region has built a solid normative framework for gender equality with instruments such as the Regional Gender Agenda.[31] In addition, the Tlatelolco Commitment (ECLAC, 2025g) called for a regional working group on the impacts that emerging digital technologies, including AI, might have on gender equality (ECLAC and UN-Women, 2025), because if women are absent from the design and governance of digital systems, existing inequalities may be reproduced in new technological environments.

Recommendations:

- *Increase women's labour-force participation through formalization and quality employment*

Formality, wages and social protection determine women's economic autonomy. Accordingly, countries need to:

(i) Professionalize and formalize the care economy and domestic work by enforcing written contracts, payment of social security contributions and certification standards aligned with the ILO Domestic Workers Convention, 2011 (No. 189). This approach has been implemented in Uruguay through the National Integrated Care System, which formalized care work by requiring training, certification and social security registration (Salvador, 2019).

(ii) Extend social protection to the self-employed and informal workers through contributory and non-contributory schemes, ensuring that maternity, pension and unemployment benefits do not depend exclusively on formal wage employment. Uruguay's *monotributo* simplified tax regime follows this logic by integrating tax and social security contributions for self-employed and informal workers (Aguiar et al., 2024).

- *Enhance fiscal capacity and co-responsibility to fund equality-promoting policies, including the care economy*

Equality strategies require predictable, sustainable financing, which requires countries to:

(i) Strengthen gender-responsive budgeting systems to track resource allocation and execution, improving accountability and enabling strategic prioritization. This has been institutionalized in Canada through mandatory gender impact assessments for federal budgets (Government of Canada, 2018) and in Mexico through Annex 13 of the General Foreign Trade Rules, which provides for the tagging and tracking of equality-related spending.[32]

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[31] The Regional Gender Agenda consolidates the gender equality commitments adopted by Latin American and Caribbean governments at the Regional Conference on Women in Latin America and the Caribbean, providing a regional framework for policies that promote women's rights, autonomy and gender equality in synergy with the 2030 Agenda for Sustainable Development (see ECLAC and UN-Women, 2025).

[32] Annex 13 is a budgetary classification that aggregates federal programmes and expenditures identified as contributing to gender equality objectives (see Martínez et al., 2025).

(ii) Introduce innovative financing instruments such as care bonds or blended finance partnerships that mobilize private capital while preserving affordability and public oversight. Recent initiatives include Iceland's sovereign gender bond (Ministry of Finance and Economic Affairs of Iceland, 2023) and Mexico's Trust Fund for Agribusiness and Fisheries (FIRA) social gender bond, both aimed at financing gender equality objectives (Inter-American Development Bank [IDB], 2020).

(iii) Implement enhanced paternity leave and conduct social campaigns to foster shared family responsibilities within households. As demonstrated by the research of Nobel laureate Claudia Goldin (2021, 2024), equalizing the division of domestic work narrows the gender wage gap. Furthermore, comparative research indicates that a more equal share of family responsibilities is positively correlated with higher national fertility rates, as women do not have to choose between career continuity and family building.

- *Enhance women's economic autonomy in high-growth sectors*

The most dynamic sectors of the global economy, such as renewable energy, digital services, data-intensive agriculture and logistics, offer opportunities for upgrading.

(i) Facilitate women's access to land, credit and productive assets through reforms of property regimes, financial innovations and dedicated microloans for women-headed households and women-owned businesses. Literature highlights that microloans directed to women are associated with lower default risks and with higher economic returns for creditors and overall economic growth, as women disproportionately reinvest earnings back into their families' health and education (D'Espallier et al., 2011). Asset-based reforms in Viet Nam, such as joint land titling under the Land Law, illustrate how legal changes can strengthen women's economic security (Zakout, 2016).

(ii) Allocate a portion of public procurement contracts to women-led enterprises, incentivizing the growth of formal, high-productivity businesses. Public procurement quotas have been applied in Kenya through the Access to Government Procurement Opportunities (AGPO) programme[33] and in the Dominican Republic under Law 488-08 (Colman, 2020).

- *Ensure digital safety and inclusion.*

Digital violence and online harassment represent a growing barrier to educational and professional engagement. Governments should therefore:

(i) Develop robust regional regulatory frameworks to prevent, monitor and sanction online gender-based violence, ensuring coordination among data protection, justice and telecommunications authorities. Mexico's Ley Olimpia reflects this approach by criminalizing digital violence and establishing sanctions (United Nations Entity for Gender Equality and the Empowerment of Women [UN-Women], 2025).

[33] https://agpo.go.ke

(ii) Incorporate digital safety modules into formal curricula, teacher training, public campaigns and digital skills programmes, enabling women and girls to participate safely in digital environments. Australia has embedded digital safety in education through its eSafety Commissioner and curriculum-linked tools for schools (Government of Australia, n.d.).

- *Ensure equal education opportunities and lifelong learning*

While initiatives to close STEM gaps are critical for high-growth sectors, they do not address the barriers faced by the broader population with minimal educational opportunities. Countries thus need to expand baseline educational access, vocational training and continuous education specifically targeting women from lower-income, rural or marginalized backgrounds. By investing in foundational skill-building and literacy programmes, governments can ensure that women with average or minimal formal education are not permanently excluded from the formal economy and have viable pathways into quality employment. This approach has been institutionalized in Brazil through the Mulheres Mil programme, which democratizes access to professional and technological education for vulnerable women, and in Chile through the Women Heads of Household programme,[34] which combines vocational training in local trades with the levelling of primary and secondary studies.

Axis 3: Rebuilding of youth education and employment pathways

Youth transitions from education and training into productive employment remain a decisive determinant of long-term productivity, social mobility and growth. Despite significant progress in recent decades with enrolment, progression and completion of compulsory education, major inclusion gaps remain. Furthermore, a severe learning crisis has become increasingly evident, indicating that diplomas are not automatically translating into relevant competencies.

The region's deep structural inequalities are mirrored in its education systems, where opportunities are shaped by students' place of residence, household income, gender, ethnic or racial identity, migration status and disability status. These disparities are particularly visible in upper secondary education completion rates: in 2023, 28% of young people

[34] Further information can be found on the official public policy portals. For Brazil's Mulheres Mil programme, instituted by the Ministry of Education, see https://www.gov.br/mec/pt-br/acesso-a-informacao/perguntas-frequentes/mulheres-mil. For Chile's Women Heads of Household programme, executed by the National Service for Women's Affairs and Gender Equity (SernamEG) (https://www.chileatiende.gob.cl/fichas/12885-programa-mujeres-jefas-de-hogar).

aged 20 to 24 in 16 Latin American countries had not completed this level, with a gap of more than 37 percentage points between people from the richest and poorest income quintiles (ECLAC, 2025d).

Yet completing school is not enough. The quality of learning, with all its implications for labour market participation, is equally critical. Results from the OECD's 2022 PISA highlight the region's poor learning outcomes: 71.2% of students did not reach minimum proficiency in mathematics, compared with 28.5% among their OECD peers, while the figures were 50.7% versus 21.8% for reading and 54.3% versus 20.8% for science. Socioeconomic disparities are stark: among students in the lowest income quartile, 86.7% failed to attain basic proficiency in mathematics, compared with 47.3% in the highest quartile. As regards gender gaps, women attain more years of education than men in most countries on average, yet significant disparities in learning outcomes persist (ECLAC, 2025d).

This lack of learning translates into a workforce unprepared for modern demands: the 2022 U-Report survey conducted by UNICEF found that nearly one third of Latin American and Caribbean youth perceived companies as requiring skills and experience they did not possess (United Nations Children's Fund [UNICEF], 2023). Additionally, a 2022 report by UNICEF and The Education Commission titled *Recovering Learning* revealed that only 47% of youth aged 15–24 in the region were on track to acquire essential transferable skills such as problem-solving and critical thinking, and only 33% were on track to acquire necessary digital skills (Education Commission and UNICEF, 2022, cited in UNICEF, 2023).

The economic stakes are significant. According to a 2022 joint estimate by the World Bank, UNICEF and the United Nations Educational, Scientific and Cultural Organization (UNESCO), learning losses resulting from pandemic-related school closures in Latin America and the Caribbean were expected to translate into aggregate foregone earnings of between US$ 1.5 trillion and US$ 2.3 trillion in 2017 purchasing power parity (PPP) dollars, depending on the effectiveness of mitigation efforts. These losses are equivalent to between 16% (optimistic scenario) and 24.7% (intermediate scenario) of regional GDP. Under the intermediate scenario, the average student was projected to lose approximately US$ 1,374 in annual earnings (2017 PPP dollars), or about 10% of projected lifetime earnings (World Bank, UNICEF and United Nations Educational, Scientific and Cultural Organization [UNESCO], 2022).

According to the ILO, youth labour markets in Latin America and the Caribbean exhibit a structural duality: unemployment has fallen to historic lows, but job quality remains weak and access to decent work is limited. In 2023, youth unemployment declined to 13.4% in

Latin America (-4.5 percentage points relative to 2019) and to 18.1% in the Caribbean, but labour market attachment remains fragile. In the same year, the share of youth not in employment, education or training (NEET) stood at 19.6% in Latin America and 20.2% in the Caribbean, with limited progress since 2019 (ILO, 2024).

Employment quality is the main constraint. In 2023, 51% of young adult workers were in non-secure employment, including temporary jobs and self-employment. Temporary employment among those aged 25–29 stood at 30.4%, while time-related underemployment stood at 9.2%, the highest figure globally. Real wages for young adults stagnated or declined between 2013 and 2022 in major economies, and the share of youth in low-paid employment rose to 20.1% in 2023. The sectoral structure reinforces these vulnerabilities. By 2021, 35.2% of youth employment was concentrated in trade, transport, accommodation and food services, sectors associated with low productivity and high informality. This employment profile is reflected in elevated insecurity: during 2017–2022, 76% of young people reported concern about losing their jobs and only 45% believed their living standards exceeded those of their parents (ILO, 2024).

Recommendations:

- *Make school-to-work transition outcomes an explicit policy objective*

Education systems in the region are rarely held accountable for labour market outcomes. The following measures would help to remedy this:

(i) Require publicly funded upper secondary, technical and tertiary study programmes to include mandatory, supervised work-based learning (apprenticeships, paid internships or practical modules) as a condition for certification, prioritizing sectors with demonstrated labour demand. This approach follows that of the German dual vocational education and training system, where work-based learning is a mandatory legal component of certification (Federal Foreign Office, n.d.). It is also reflected in Canadian cooperative education programmes, where paid work terms are required for graduation (University of Waterloo, n.d.).

(ii) Scale dual education and apprenticeship schemes through partnerships with firms, public utilities and infrastructure projects, reducing hiring risk for employers while providing youth with real work experience. In Germany, training costs are borne by firms as part of a long-term skills strategy (Federal Foreign Office, n.d.), while in Canada, cooperative education models formalize employer participation in training delivery (University of Waterloo, n.d.).

(iii) Ensure that technical and vocational education and training (TVET) programmes have clear progression routes into higher qualifications and stable employment, avoiding dead-end tracks.

- *Reconnect training provision with observed labour market demand*

Persistent skill gaps reflect weak feedback loops between employers and training institutions. Countries accordingly need to:

(i) Establish permanent mechanisms for coordination between education, labour and economy ministries, training providers and employer associations to regularly update curricula on the basis of vacancy data and employer feedback. In the United Kingdom, for example, employer-led sector skills councils determine national occupational standards that publicly funded training programmes must follow (British Council, 2014).

(ii) Prioritize mid-level technical and operational skills, which are consistently undersupplied but critical for productivity, instead of focusing narrowly on university expansion. Singapore's Skills Frameworks map skill requirements across entire sectors and are used to align training provision, public subsidies and career guidance with labour market demand (SkillsFuture Singapore, n.d.).35 Another example is Uruguay with its Finishing Schools programme, a joint initiative by Uruguay XXI and the National Institute of Employment and Vocational Training that co-finances up to 70% of company-led training plans in technical and soft skills, including digital bootcamps, to strengthen workforce competencies aligned with export-oriented investments (Uruguay XXI, n.d.).

(iii) Use public procurement and infrastructure programmes as demand anchors, linking training provision to concrete employment opportunities for young people. In South Africa, public infrastructure programmes combine employment with accredited technical training for youth, directly linking training to labour demand (Government of South Africa, n.d.).

- *Create targeted and flexible pathways to re-engage disconnected youth*

Youth disengagement often reflects early transition failures that compound over time, creating a need to:

(i) Develop re-entry programmes that combine basic skills remediation, short-cycle technical training and immediate work exposure and that are tailored to local labour market conditions. South Africa's Expanded Public Works Programme integrates temporary employment with mandatory training and structured exit pathways (Government of South Africa, n.d.).

35 https://jobsandskills.skillsfuture.gov.sg/frameworks/

(ii) Task public employment services and municipalities with active outreach to NEET youth, moving beyond passive registration towards guided reintegration pathways. Finland's Ohjaamo centres integrate employment, social, health and counselling services under one roof, reducing administrative barriers to youth re-engagement (OECD, 2024).

(iii) Shift public employment services from job title matching to skills-based matching, reducing frictional unemployment and improving placement quality. In Belgium, the Flemish public employment service uses competency-based matching systems that connect jobseekers to vacancies on the basis of transferable skills rather than job titles (European Centre for the Development of Vocational Training, n.d.).

C. Leveraging regional integration and cooperation

The strategic importance of regional integration and cooperation in the current global situation

Chapter II argued that the vast size of the Latin American and Caribbean market (over 660 million people and a combined US$ 6.8 trillion GDP) represents a strategic asset. It also showed that, despite more than six decades of efforts, the region remains weakly integrated owing to institutional, economic and geographical factors, compounded by growing political polarization. The share of intraregional trade in Latin America and the Caribbean's total exports fell from an all-time high of 21% in 2008 to just 14% in 2024, one of the lowest rates in the world. This is a lost opportunity, since for most Latin American and Caribbean countries, the regional market:

- is the main destination for manufacturing exports (see figure III.A1.1 of the annex).
- is the market to which the greatest variety of products is exported (see figure III.A1.2 of the annex).
- is served by the largest number of exporting companies, especially SMEs, which benefit from shorter distances, cultural proximity, payment in local currencies and the lesser complexity and relative cost of trade procedures (see figure III.A1.3 of the annex).
- is the main FDI destination for Latin American multinational companies (*multilatinas*).

All these characteristics mean that the regional market is key to productive diversification, quality job creation and internationalization. The region has a highly polarized business structure, with a few large, highly productive and internationalized companies at one end, and at the other a large majority of SMEs characterized by high levels of informality and low productivity and typically serving only their domestic markets. By enabling firms to scale up, upgrade their capabilities and accede to regional value chains, intraregional trade could play a central role in fostering a middle segment of formal, innovative and internationalized SMEs. This in turn would help the region to escape from its low growth capacity trap.

The previous sections of this chapter have illustrated that the benefits of regional cooperation go well beyond trade. For example, it allows efforts and resources to be pooled for investments in infrastructure that many countries would not be able to undertake individually, in areas such as transportation, energy and telecommunications. Regional cooperation can also allow countries to jointly manage shared resources such as critical minerals and biodiversity and to address key cross-border issues such as intraregional migration and transnational organized crime,[36] to name just two. These benefits, whether actual or potential, are valued by the region's population: the 2024 Latinobarómetro survey showed support for regional integration at 81%, its highest level in three decades (see figure III.A1.4 of the annex).

The sheer magnitude and simultaneity of the global ruptures examined in chapter I create additional incentives to revitalize regional integration (and cooperation more generally). These arise mainly from:

- the need to diversify economic, trade and investment markets and partnerships.
- the growing geopolitical importance of natural resources such as critical minerals, food, biodiversity and clean water, of which several Latin American and Caribbean countries (mainly in South America) have large endowments.
- the geographical proximity of several Latin American and Caribbean countries to the United States, which opens up opportunities for nearshoring (mainly in Mexico, Central America and the Caribbean) within the framework of the ongoing reconfiguration of global supply chains.[37]

Regional integration and that of Latin America and the Caribbean into the global economy are not contradictory; on the contrary, they are complementary and mutually reinforcing. This is especially true now that the global economy appears to be increasingly reconfiguring around regional blocs. Summing up, regional integration must now be seen not just as a complement to national development strategies but rather as a strategy to reduce vulnerabilities, diversify risks and gain negotiating power on the global stage.

[36] See chapter IV for specific proposals on regional cooperation to fight organized crime.

[37] In 2022, the IDB estimated that nearshoring could increase the region's exports of goods and services by US$ 78 billion, equivalent to 4.7% of its total exports that year (IDB, 2022).

Towards a renewal of regional integration

The "how": three key criteria

Efforts to re-energize regional integration and cooperation must focus not just on the "what" (i.e. the issues or areas to be prioritized) but also on the "how" (i.e. the institutional arrangements best suited to overcoming the obstacles arising from increasing political polarization). Regarding the latter dimension, three key requirements stand out. The first is to reduce the current overreliance on presidential diplomacy. The second is to recognize the heterogeneous realities that coexist within the region. The third is to understand that progress with regional integration and cooperation requires a wide range of institutional capabilities. Each of these three requirements is briefly discussed below.

Firstly, progress with Latin American and Caribbean regional integration and cooperation efforts has depended largely on momentum from presidential summits. While high-level political support and guidance is essential to the success of regional integration projects, growing political polarization in the region is making it increasingly difficult for agreements to be reached among presidents. This problem is compounded by the anti-incumbent mood prevailing across the region, which results in voters routinely changing the political forces in office. Both trends conspire against sustained progress with regional integration and cooperation, which by their very nature demand a long-term vision and efforts that are sustained through time. Against this backdrop, the first key challenge is to craft institutional arrangements that ensure the continuity of integration and cooperation initiatives by isolating them as much as possible from political polarization and national political cycles. These functional cooperation arrangements should focus on specific, high-impact areas where cooperation is both feasible and strategically necessary, such as the development of regional value chains; digital governance and data standards; the energy transition and critical minerals; climate adaptation and environmental resilience; and logistics and connectivity.

Functional cooperation mechanisms must be embedded in technical institutions with stable mandates, supported by legal frameworks or regional agreements that grant them operational autonomy from partisan cycles. Central America stands out as a successful example, since the technical secretariats of the Central American Integration System (SICA) and of its economic integration branch, the Secretariat for Central American Economic Integration (SIECA), have been able to bridge differences between national governments and ensure the continuity of integration initiatives over the years, despite a considerable diversity of governments in member countries and changes in them over time.

Secondly, chapter II showed that Latin America and the Caribbean is a very heterogeneous region. There are substantial economic, demographic and geographical differences between Mexico, Central America, South America and the Caribbean. Therefore, their

priorities for regional integration and cooperation will naturally differ too. Variable geometry arrangements may be needed to deal with this heterogeneity, since not all countries or subregional groupings will necessarily be interested in advancing on the same issues, or doing so at the same pace. At the same time, it will be important to design those arrangements in a way that ensures agreements reached within small groups can be subsequently extended to new interested members.

Thirdly, high-level political support is a necessary condition for progress with regional integration and cooperation, but not a sufficient one: a network of institutional capacities is required to sustain the implementation of agreements over time. At the technical level, this involves, for example, comparable data, common standards and systems interoperability. At the operational level, it requires agile processes and shared platforms, from trade single windows to coordinated transit corridors, that are capable of reducing transaction times and costs. At the political level, it is vital to build broad "pro-integration" coalitions spanning all segments of civil society, business and academia, as well as mechanisms that ensure an equitable distribution of benefits and costs across all countries. At the prospective level, regional integration requires a long-term vision, road maps and risk management mechanisms that ensure continuity in the face of shocks and uncertain scenarios. Without these four capacities in place (technical, operational, political and prospective), the integration agenda runs the risk of making little real progress and thus losing support.

The "what": possible priority areas

Below is a non-exhaustive list of areas requiring priority progress to unlock the potential of regional integration and of the region's assets. In some cases, this will entail the creation of regional public goods benefiting all countries. For the reasons explained above, initiatives in these areas will probably continue to occur primarily at the subregional level; however, it is vital to create mechanisms that allow them to gradually converge at the regional level. Continuous dialogue and collaboration with the region's business sectors will be required for these initiatives to materialize, as will clear objectives, intermediate goals and appropriate monitoring and evaluation mechanisms.

1. Joint infrastructure development

Latin America and the Caribbean has a historical deficit in the quantity and quality of its transportation and logistics infrastructure. In 2023, the region spent 2.2% of its GDP on infrastructure, but actual investment needs are estimated at 3.5% of GDP (The Economist

Intelligence Unit, 2024). Machado Parente and Moreau (2024) estimate that if the regional infrastructure gap were reduced by 10%, 20% or 50% compared to the developed country average, the region's total exports would increase by 5%, 11% or 30%, respectively.

Poor regional infrastructure not only negatively impacts export performance but also impedes an adequate spatial distribution of gains from trade and investment. This situation, in turn, makes it difficult to reduce the marked development asymmetries between and within countries that characterize the region. Improving the provision and quality of regional infrastructure would reduce transaction costs associated with the transport of inputs and final products, allowing production from rural and remote areas to reach markets at competitive prices and facilitating the development of new economic activities.

Given its vast size and complex geography, South America is especially affected by insufficient transport and logistics infrastructure.[38] The South American Integration Routes project,[39] launched by the Brazilian Government in 2024, holds great potential to boost its productive integration and international competitiveness. The project seeks to improve connectivity between Brazil and the other South American countries through five plurinational routes, with the dual objective of promoting trade and productive integration within South America and reducing the cost and time involved in trade with Asia (see map III.1). Implementation of the five routes would entail concerted development of various infrastructure projects (roads, bridges, waterways, etc.) by Brazil and its partner countries. The projects to be implemented in Brazil are to be financed by BNDES and regional development banks (IDB, CAF and FONPLATA).

Progressively closing regional infrastructure gaps should be the main priority for regional integration in the coming years, particularly in South America, given the significant impact this would have on export competitiveness, the attraction of new investment and the development of productive linkages.[40] It will require significant investments over long periods of time, in a context where the region's countries have limited fiscal space. Therefore, the involvement of regional development banks and the private sector through public-private partnerships is crucial, and other innovative sources of financing such as blended finance should also be explored.

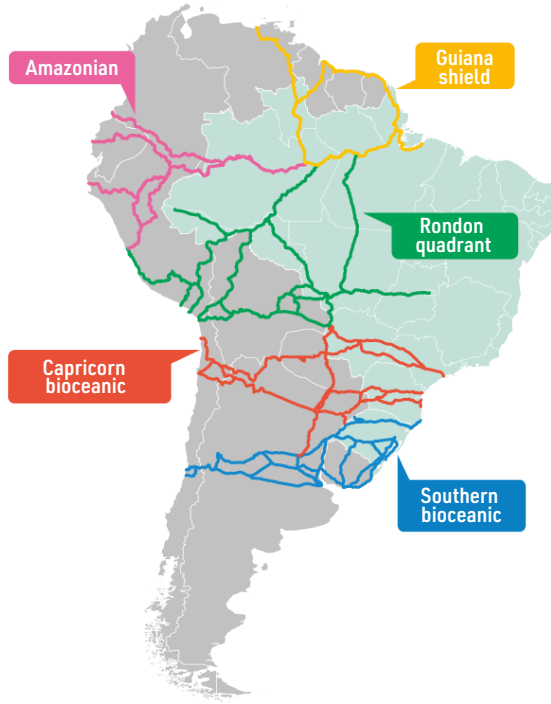
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38 Two reasons why intraregional trade is much greater in Central America than in South America, at around 25% of the total, are the much shorter distances involved and the existence of a highway connecting all Central American countries from Guatemala to Panama.

39 https://www.gov.br/planejamento/pt-br/assuntos/articulacao-institucional/rotas-de-integracao-sul-americana

40 In the case of the Caribbean, improving maritime connectivity within the subregion would facilitate intraregional trade in food and help to drive down food prices (see section A of this chapter).

Map III.1
The five routes of the South American Integration Routes project



Source: Ministry of Planning and Budget of Brazil.

Besides the development of transport infrastructure, section A of this chapter showed that greater interconnexion of national electric grids, especially in South America, can play a key role in reducing energy costs and greenhouse gas emissions, improving security of supply and opening up new productive opportunities. Moreover, by taking advantage of the complementarity of hydroelectric, solar and wind resources, it can reduce redundant investments and the need for fossil fuel backup (ECLAC, 2025e).

2. Trade facilitation and regulatory convergence

Along with improving physical infrastructure, there is now a shared understanding in the region of the importance of streamlining cross-border trade procedures to increase export competitiveness and enhance participation in value chains. There is also a growing understanding that the positive impact of advances in trade facilitation is multiplied when they transcend the national level and become subregional (and ideally regional)

initiatives. The WTO Trade Facilitation Agreement provides a minimum framework of disciplines from which countries in the region can go on to consider more ambitious commitments in areas such as the interoperability of their single windows for foreign trade and digital certification of origin. A notable example is the agreement reached in 2022 among 11 Latin American countries for the mutual recognition of their national authorized economic operator schemes.[41]

To streamline intraregional trade, it is also important to advance the regulatory convergence agenda. This concept refers to the gradual harmonization or mutual recognition at the regional level of national sanitary and phytosanitary, quality, safety, security and other standards. The aim is to reduce the costs resulting from the existence of multiple standards for the same product in different countries. Various studies reveal that these costs can often exceed those of tariffs, especially in the case of highly regulated products such as food, pharmaceuticals, cosmetics and chemicals.[42] Rationalizing standards would particularly benefit exporting SMEs, as they have less capacity than large companies to deal with the multitude of regulatory requirements they face in the region's various markets.

3. Trade in modern services

Modern services encompass a wide range of business, professional, technical and financial services, many of them knowledge- and technology-intensive, that can be delivered internationally through digital means. Over the past two decades, the widespread introduction of broadband Internet has enabled global exports of modern services to grow more than those of goods and traditional services such as transportation and tourism. A similar trend has occurred in Latin America and the Caribbean; however, the share of modern services in total services exports remains much lower in the region than globally (38% versus 54%). The region accounts for just 2% of the world's modern services exports.

Modern services represent a significant opportunity to diversify and enhance the sophistication of Latin American and Caribbean exports. The regional market should play a key role in the internationalization of modern service providers, given its large size and the linguistic, cultural, legal and other similarities that exist among the countries in

[41] Authorized economic operators are companies certified by customs as safe and reliable. When mutual recognition exists between countries, this status is accepted by all countries, streamlining trade.

[42] For example, it is estimated that, on average, the cost of non-tariff barriers in Latin America and the Caribbean is equivalent to a tariff of 8.3% on intraregional trade in agriculture and fish products, which is almost four times the average tariff of 2.2% (Economic Commission for Latin America and the Caribbean, Food and Agriculture Organization of the United Nations and Inter-American Institute for Cooperation on Agriculture [ECLAC, FAO and IICA], 2024).

the region. Likewise, greater regional integration in modern services would increase the competitiveness of other sectors, as these services are key inputs for agriculture, mining and manufacturing. However, in most Latin American countries, less than 15% of total modern service exports go to the regional market.

Monge-González et al. (2025) have identified significant regulatory discrepancies between countries as one of the main factors limiting intraregional trade in modern services. They highlight the disparate tax treatment of service exports across countries, which can result in double taxation of these transactions. Another limiting factor is that the quality and sectoral disaggregation of national statistics on trade in services varies widely across countries. In this context, it is proposed that the Latin American and Caribbean countries not only adopt a work agenda aimed at reducing barriers to intraregional trade in modern services but also actively promote services trade. Along with cooperation on regulatory, tax and statistical issues, this agenda should include the mutual recognition of professional qualifications, the digitalization of SMEs and investment in human talent.

4. Migration

Over the last decade and a half, international migration has both increased and diversified significantly in Latin America and the Caribbean, becoming more prevalent in countries that until recently were primarily countries of origin. Virtually all Latin American and Caribbean countries are part of migration cycles as countries of origin, destination, return or transit (ECLAC, 2024d). The number of migrants living in the region, both regular and irregular, more than doubled from 8.3 million in 2010 to 17.5 million in 2024 (United Nations, 2025). Of the latter figure, around 80%, or 14 million people, moved within the region, mainly in South America.

The rapid increase in intraregional migration, the highest in the world between 2000 and 2024 at 81%,[43] has been largely driven by the movement of Venezuelans (and to a lesser extent of people from Cuba, Central America and Haiti), adding to historical patterns of mobility between neighbouring countries. By May 2025, there were nearly 6.9 million Venezuelan migrants and refugees in the region (International Organization for Migration [IOM], 2025). However, the greater part of the Latin American and Caribbean migrant population (34 million people) lives outside the region, mainly in the United States (United Nations, 2025).

[43] https://www.un.org/development/desa/pd/content/international-migrant-stock

The new patterns of migration are reshaping the societies and politics of the region. According to Chaves-González et al. (2025), migration has become unpredictable, multidirectional and increasingly difficult for governments to manage, as they must simultaneously grapple with the integration of displaced people, secondary migration, circular and return migration and emigration by the frustrated middle classes. Against this backdrop, migration has become an increasingly divisive issue across the region, featuring prominently in several recent elections. The challenges facing Latin American and Caribbean governments increased during 2025 as a result of the hardening of migration policy in the United States, which has led to deportations of Latin American migrants, so that what were traditionally South-North migratory flows are now increasingly reversing and running from North to South.

Migration is by definition a cross-border phenomenon. Therefore, addressing the multiple challenges it raises, notably its impact on recipient countries' labour markets, public services and societies, requires a coordinated response by the governments of the region. There are several migration agreements in place: two mobility agreements within the Caribbean (the CARICOM Single Market and Economy and the Organisation of Eastern Caribbean States Economic Union), two in South America (the Agreement on Residence for Nationals of the States Parties of MERCOSUR, the Plurinational State of Bolivia and Chile, and the Andean Community's Migration Statute) and one in Central America (the Central America-4 Free Mobility Agreement (CA-4)). There are also the Regional Conference on Migration and the South American Conference on Migration, consultative processes created with the objective of arriving at common regional policies. The Regional Conference on Migration was created in 1996 by the countries of Central and North America, and the South American Conference on Migration in 1999 by those of South America. Since 2018, the Quito Process has allowed the major host governments for displaced Venezuelans to share information and coordinate strategies.

Existing agreements have often made migration more fluid and easier to manage (Selee et al., 2023). However, according to Riggirozzi and Quiliconi (2026), the effectiveness of migration governance in Latin America has been undermined by policy ambiguity and ad hoc discretionary practices. They argue that "Latin American states formally commit to progressive, rights-based regional migration frameworks, but in practice, govern migration through policy ambiguity and ad hoc mechanisms that deprioritize rights-based solutions and weaken regional governance structures needed to protect displaced populations" (Riggirozzi and Quiliconi, 2026, p. 173). They conclude that "the challenge ahead lies not in designing new frameworks, but in addressing the political incentives that enable their systematic circumvention" (Riggirozzi and Quiliconi, 2026, p. 186).

An adequate governance of migration at the multilateral, national and local levels is needed to foster the contributions of migrant persons to development (Cecchini and Martínez Pizarro, 2023). Through their work and the taxes they pay, international migrants contribute to the development and GDP growth of destination countries. Highly skilled migrants contribute with their talent and expertise, while low-skilled migrants work in occupations for which natives are in short supply, allowing natives to perform higher-productivity work (ECLAC, 2023b; Jaumotte et al., 2016; Pritchett, 2023). Likewise, the work of migrants also makes significant contributions to their countries and households of origin through remittances (see section B of this chapter).

Regularization of migrants' migration status is a basic (although not sufficient) condition for maximizing their contribution to development. In its absence, migrants cannot participate in formal employment or pay into the social security system. Apart from regularization, it is important to find ways of putting the knowledge and educational credentials previously obtained by migrants in their home countries to good use. In the case of professional degrees, expediting accreditation is an obvious answer, but skills certification is another avenue that should be pursued. In addition, labour inclusion policies need to promote access for migrants to national or local employment programmes and incentives for business start-ups (ECLAC, 2023b).

5. Biodiversity

Lebdioui et al. (2025) show that advances in AI, combined with rich biodiversity datasets, can play a vital role in identifying and analysing patterns, functions and efficiency principles within species and ecosystems that excel at particular processes, and that might otherwise be invisible to human analysis. These insights can then guide researchers in adapting biological strategies to address human challenges.

Across Latin America and the Caribbean, national biodiversity institutes hold vast repositories of biological information. However, their datasets are fragmented, stored in heterogeneous formats and based on taxonomies that differ across countries. This lack of interoperability limits data sharing and prevents the region from building the large-scale, high-quality datasets required for effective AI applications. As a result, much of the region's biodiversity information remains underexploited.

Latin American and Caribbean countries should cooperate to harmonize the way biological information is classified and documented, establishing common taxonomic and metadata standards as a precondition for creating an interoperable regional repository. Collaboration among institutes such as the National Biodiversity Institute (INBio) in Costa Rica, the

National Commission for the Knowledge and Use of Biodiversity (CONABIO) in Mexico and the National Biodiversity Institute (INBIO) in Ecuador to integrate their datasets into a unified digital platform would enable systematic analysis of traits, functional attributes and efficiency principles to be carried out across species, transforming biodiversity from a dispersed biological resource into a strategic knowledge asset.

D. Harnessing the benefits of technological revolutions

According to United Nations Conference on Trade and Development (UNCTAD) estimates, the market for frontier technologies, including AI, the Internet of things (IoT), advanced robotics and green technologies, amounted to about US$ 2.5 trillion in 2023 and could increase sixfold to US$ 16.4 trillion by 2033. The market for AI alone is projected to be worth roughly US$ 4.8 trillion, reconfiguring patterns of productivity, trade and value creation (UNCTAD, 2025).

However, technological rivalry is placing Latin America and the Caribbean in a position with limited room for error. Technological revolutions are reshaping geopolitical influence, and dependence on external digital systems and non-interoperable technologies may further narrow the region's already constrained policy space. In this context, digital development and technological capacity-building are Latin America and the Caribbean's most effective, and perhaps only realistic, geopolitical responses.

The goal for Latin American and Caribbean countries is to move from passive, ad hoc adoption of digital tools towards a proactive strategy that leverages their assets, addresses their structural constraints and builds technological agency, understood as the capacity to identify domestic priorities, govern AI development and use AI to solve their own economic and social challenges.

The region is not starting from zero. As shown in chapter II, Latin America and the Caribbean has dynamic entrepreneurial ecosystems, a growing deep-tech and startup sector, public digital infrastructure that is relatively advanced in some countries, and significant opportunities to apply AI in agriculture, biodiversity-related activities, energy systems and public service delivery. These assets, however, are unevenly distributed between and within countries, and they coexist with structural constraints such as limited fiscal space, lags in technological capabilities and digital inclusion, and persistent high inequality and low social mobility.

Nonetheless, Latin America and the Caribbean is adopting and adapting to technological revolutions at different speeds. Investment in AI and enabling infrastructure remains well below that of advanced economies; innovation systems are fragmented; and only a small

group of countries has the institutional and technological capabilities required to govern AI-intensive change at scale. UNCTAD's Frontier Technology Readiness Index (FTRI),[44] which combines indicators of ICT deployment, skills, R&D, industrial capacity and finance for 170 countries, shows that most developing countries occupy lower positions in the ranking.

Brazil is the front-runner with a high readiness score, closely followed by Chile and Uruguay, which, along with a number of other economies, form a second tier of upper-middle performers (10 countries). At the other extreme, several Caribbean and Central American countries are classified as lower-middle or low (17 countries), with Haiti registering the lowest score (table III.2).

Table III.2
Latin America and the Caribbean (28 countries): UNCTAD Frontier Technology Readiness Index (FTRI), 2025

Country	Score	Rank 2024	Score group	ICT rank	Skills rank	R&D rank	Industry rank	Finance rank
Brazil	0.74	38	High	38	59	18	50	41
Chile	0.7	45	Upper-middle	23	40	40	105	21
Uruguay	0.67	49	Upper-middle	13	47	77	45	112
Argentina	0.63	53	Upper-middle	57	37	60	79	152
Mexico	0.63	54	Upper-middle	73	75	34	37	98
Colombia	0.63	55	Upper-middle	72	48	39	92	82
Barbados	0.62	58	Upper-middle	34	41	79	80	47
Costa Rica	0.61	62	Upper-middle	61	55	98	34	67
Panama	0.52	77	Upper-middle	63	87	89	86	24
Peru	0.51	80	Upper-middle	75	90	58	140	80
Bahamas (The)	0.49	84	Upper-middle	36	61	129	119	83
Trinidad and Tobago	0.48	86	Lower-middle	54	56	130	122	84
Ecuador	0.44	91	Lower-middle	87	94	78	138	60
Paraguay	0.43	94	Lower-middle	68	85	133	131	65
Guyana	0.42	97	Lower-middle	74	102	153	111	131
Saint Vincent and the Grenadines	0.42	98	Lower-middle	56	50	166	165	85

[44] UNCTAD emphasizes that such rankings do not fully capture the depth of underlying disparities and that average scores by country group conceal wide differences in skills, R&D and industrial capabilities. They nevertheless confirm that many Latin American and Caribbean economies remain at an early stage in terms of their preparedness for frontier technologies and that, without targeted policies, the current wave of AI-driven innovation could widen rather than close gaps within and between countries.

Country	Score	Rank 2024	Score group	ICT rank	Skills rank	R&D rank	Industry rank	Finance rank
Dominican Republic	0.41	100	Lower-middle	86	105	136	75	105
El Salvador	0.41	101	Lower-middle	96	123	131	66	54
Jamaica	0.4	102	Lower-middle	59	98	138	156	72
Bolivia (Plurinational State of)	0.39	108	Lower-middle	98	89	124	152	39
Saint Lucia	0.38	111	Lower-middle	70	100	166	123	73
Belize	0.37	114	Lower-middle	78	108	158	139	87
Guatemala	0.37	115	Lower-middle	105	140	133	78	89
Venezuela (Bolivarian Republic of)	0.35	118	Lower-middle	121	79	109	157	108
Nicaragua	0.33	120	Lower-middle	95	117	166	113	107
Suriname	0.32	124	Lower-middle	103	97	166	121	140
Honduras	0.32	125	Lower-middle	110	145	117	133	38
Haiti	0.19	152	Low	136	142	160	118	168
Average for Latin America and the Caribbean	**0.47**	**90**		**73**	**85**	**110**	**106**	**83**

Source: Prepared by the authors, on the basis of United Nations Conference on Trade and Development. (2025). *Technology and Innovation Report 2025: Inclusive Artificial Intelligence for Development* (UNCTAD/TIR/2025).

Note: Cell colours reflect the position of each economy in the FTRI. Score group shading (green scale) indicates the country's overall performance tier in the index. Blue shading identifies the best-performing domain in which the economy shows its greatest comparative strength. Orange shading marks the weakest-performing dimension, where the economy faces its greatest structural constraints on frontier technology adoption and diffusion.

The strongest pillars are ICT deployment and skills, where Brazil, Chile, Uruguay and Argentina show comparatively solid foundations for digital transformation. Relatively high connectivity, wide digital access and strong human capital provide a baseline that supports technology adoption. In parts of Central America and the Caribbean, skill advantages reflect progress in education and training, although countries are still struggling to turn these gains into productive capabilities. Latin America and the Caribbean displays pockets of readiness that, if effectively leveraged, could reinforce innovation ecosystems, accelerate digital upgrading and widen opportunities for productive transformation.

By contrast, the weakest dimensions are R&D and industry, reflecting low research intensity, weak university-firm linkages, limited high-tech production and shallow participation in global value chains. ICT deployment remains highly uneven, with several economies showing educational gains that have not been absorbed by the productive sector. Finance also acts as a systemic constraint, with insufficient long-term capital and underdeveloped venture finance.

On the basis of UNCTAD's FTRI, then, the Latin American and Caribbean countries can be classified into four groups by their relative preparedness across digital infrastructure, skills, research and innovation, industrial capabilities, and access to finance, with a view to formulating differentiated policy recommendations in line with countries' capabilities and structural conditions:

- **Advanced**: Countries with the highest overall readiness levels in the region, displaying strong and relatively balanced performance across pillars (Brazil, Chile, Uruguay, Argentina, Mexico, Colombia, Barbados, Costa Rica).
- **Emerging**: Countries with intermediate to high capabilities, but with significant gaps in one or more pillars such as finance, R&D, industrial capacity or skills (Panama, Peru, The Bahamas, Trinidad and Tobago, Ecuador, Paraguay, Saint Vincent and the Grenadines, Jamaica, the Plurinational State of Bolivia, Saint Lucia, Belize, the Bolivarian Republic of Venezuela).
- **Developing**: Countries with lower overall readiness and presenting structural constraints that affect multiple pillars, although with some emerging strengths (the Dominican Republic, El Salvador, Guatemala, Honduras).
- **Foundational**: Countries presenting deep structural constraints across most pillars, particularly connectivity, skills, financing and research capacity (Guyana, Nicaragua, Suriname, Haiti).

Recommendations are organized around three axes: (i) digital transformation and AI; (ii) automation and the world of work; and (iii) digital inclusion as a development imperative. When appropriate, the recommendations set out a differentiated road map based on each group's readiness. While recommendations are framed at the national level, in several areas their effectiveness depends on scale. In these cases, subregional and regional cooperation becomes a practical instrument for pooling resources, reducing duplication and strengthening technological autonomy. Such arrangements can take flexible forms, allowing countries to participate according to their capacities while benefiting from shared platforms, standards and learning processes.

Digital transformation and AI

According to UNCTAD, progress in AI adoption and development hinges on three critical leverage points, namely infrastructure, data and skills, all underpinned by appropriate policy and governance frameworks. These elements are mutually reinforcing: infrastructure

and connectivity enable data generation and use, data are required to train and adapt models, and skills are needed both to build AI systems and to deploy them responsibly. Where these pillars are weak, AI diffusion is constrained and risks are amplified.

For Latin America and the Caribbean, digital transformation and AI adoption intersect with structural vulnerabilities: weak regional integration, lags in technological capabilities and digital inclusion, persistent inequality, and limited institutional capacity, all of which constrain the diffusion of advanced technologies and reduce policy space. At the same time, as stated in chapter II, the region possesses significant assets: a large market of more than 660 million people and a GDP of US$ 6.8 trillion, world-class production clusters, a growing startup and deep-tech ecosystem, and a renewable-rich energy mix that can support data-intensive industries.

AI offers transformative applications across agriculture, manufacturing, services and public administration, but without stronger infrastructure, skills, data governance and institutional coordination, adoption risks deepening dependency on external technological powers rather than enabling productive upgrading and innovation. The recommendations offered for each axis below address the challenge of leveraging the region's assets while addressing its constraints so that digital transformation becomes a driver of, and not a substitute for, structural change.

Axis 1: Resilient and development-oriented digital infrastructure

Digital transformation and AI adoption rest on basic infrastructure (electricity, Internet access, digital devices), and for Latin America and the Caribbean, closing this gap and upgrading infrastructure for AI-ready uses are preconditions for any serious AI strategy.

Recommendations:

- ***Advanced**: Prioritize autonomous computing capacity and secure cloud infrastructure for public interest use. This includes investing in high-performance computing centres, regional or national cloud facilities and energy-efficient data centres, and high-speed networks for AI development.*
- ***Emerging**: Focus on expanding industrial-grade connectivity beyond major urban centres, particularly fibre and advanced mobile networks, to enable AI-based applications in export-relevant sectors such as agriculture, logistics and mining.*

- ***Developing**: Concentrate on connectivity that is affordable, reliable and focused on productive Internet access, including low-cost devices and basic computing power for small enterprises and public institutions.*
- ***Foundational (especially Caribbean SIDS)**: Strengthen infrastructure resilience in the face of climate risks with redundant submarine cables, satellite backup (including low Earth orbit constellations) and renewable energy solutions that protect digital systems during extreme weather events.*

Axis 2: Mission-oriented AI programmes linked to concrete development needs

Generic national AI strategies often remain aspirational. Mission-oriented programmes, by contrast, link public investment and regulation to clearly defined problems such as reducing diagnostic delays in public health, improving climate risk management or enhancing tax compliance.

Recommendations:

- ***Advanced**: Design "AI for transformation" missions with measurable targets (e.g. reducing waiting times in public hospitals or losses in electricity distribution) and use them to align the domestic deep-tech ecosystem with public value creation.*
- ***Emerging**: Focus on applied AI in strategic value chains. Public policy should support consortia that integrate AI into export baskets (logistics, agro-industry, energy, tourism), raising productivity and moving towards more sophisticated, knowledge-intensive activities.*
- ***Developing and foundational**: Prioritize digital public infrastructure (digital ID, payments, registries) as platforms on which simple AI tools such as risk-scoring, fraud detection or automated triage can be layered to increase fiscal capacity and improve delivery of social protection.*

Axis 3: Decentralized capacity-building through AI extension services

Evidence on frontier technologies shows that productivity gains tend to be captured by a small group of leading firms unless complementary policies facilitate diffusion. Latin America and the Caribbean requires mechanisms that expand AI from capital cities and large corporations to SMEs, local governments and communities.

Recommendations:

- ***Advanced**: Establish AI extension services anchored in national development banks or productive development agencies. Multidisciplinary teams (data science, process engineering, sector specialists) should work directly with firms to co-design simple AI solutions and ensure knowledge transfer.*
- ***Emerging**: Scale learning through demonstration portfolios financed via blended instruments, combining grants for design and concessional loans for implementation in priority sectors.*
- ***Developing**: Develop a corps of local "AI facilitators", such as teachers or librarians, who can help small businesses and citizens use basic AI tools (translation, advisory chatbots, low-code automation) safely and productively.*
- ***Foundational**: Create and support "digital champions" in the public sector trained to manage vendors, oversee the implementation of digital solutions and ensure minimum standards of resilience, even where in-house coding capacity is limited.*

Axis 4: Trusted data spaces

The availability of reliable, well-structured and secure datasets is central to AI readiness. For countries in Latin America and the Caribbean, strengthening data governance ensures that AI applications are grounded in accurate and context-specific information, improving their effectiveness across public services, productivity functions and innovation systems.

Recommendations:

- ***Advanced**: Lead the creation of sectoral and regional data spaces in areas such as health, energy, mobility and agriculture that allow secure data sharing for research and innovation and support regional foundation models, treated as public goods.*
- ***Emerging**: Focus on becoming data-ready by cleaning up and digitizing key public registries (civil, land, business), enforcing interoperability standards and investing in secure storage and processing capacity.*
- ***Developing and foundational**: Apply smart procurement when using AI-as-a-service, negotiating contracts that include clauses on data residency, access to outputs and explainability, in line with the emerging principles of responsible AI governance.*

Automation and the future of work

Global debates on AI frequently focus on the risk of job destruction. Generative AI is automating non-routine cognitive tasks, from drafting and translation to coding and data analysis, that are usually performed by middle-income professionals. Without deliberate policy, this could intensify labour market polarization. However, AI can also act as a skills amplifier, enabling less experienced workers to perform more complex tasks if they are equipped with the capabilities to interact with, supervise and complement AI systems.

The goal for Latin America and the Caribbean should therefore be "offensive adaptation": protecting people, not obsolete tasks, and enabling workers and firms to use AI to raise productivity, particularly in SMEs and the informal sector. This demands that the region move beyond a narrow focus on universities towards diversified upskilling and reskilling strategies tailored to different readiness groups.

Axis 1: Transformation of technical and vocational education and training

UNCTAD's analysis of the FTRI shows that skills are one of the dimensions with the largest gaps between developed, developing and least developed countries. Technical and vocational education and training (TVET) systems in Latin America and the Caribbean are still often rigid, supply-driven and disconnected from emerging technological demands.

Recommendations:

- ***Advanced**: Transition towards AI-enhanced TVET with dual education models in Industry 4.0 sectors, combining in-firm learning with classroom instruction and integrating ethics, problem-solving and other human-centric skills that are difficult to automate.*
- ***Emerging**: Update national TVET curricula so that every occupation includes basic digital and data-handling competencies, preparing workers to interact productively with AI tools.*
- ***Developing and foundational**: Reinforce basic skills (literacy, numeracy, critical thinking) in secondary education, recognizing that effective use of AI tools requires the ability to read, prompt, interpret and verify outputs.*

Axis 2: Large-scale upskilling and reskilling initiatives

Formal education reforms will only affect future cohorts. Existing workers, particularly those in occupations at risk of automation, require accessible opportunities to acquire new skills throughout their careers.

Recommendations:

- *Pilot individual learning accounts financed by public funds and employers, enabling workers to purchase accredited micro-credentials and short courses in emerging digital and AI-related skills.*
- *Promote sectoral reskilling pacts in the activities most exposed to automation (e.g. call centres, back office services, logistics), linking tax incentives and public support to firm-level commitments to retrain workers for new roles.*
- *Use train-the-trainer models, supported by international cooperation, to build a cadre of local digital instructors who can deliver basic AI-related skills training through community centres, libraries and schools.*
- *Support targeted digital skills bootcamps for youth, orienting them towards exportable online services (e.g. virtual assistance, basic coding, content moderation) and harnessing language advantages where they exist.*

Axis 3: Modernization of labour market information systems

Without reliable, timely information on emerging skill demands, training systems risk misalignment with labour market realities.

Recommendations:

- *Establish AI-powered labour observatories that analyse online vacancies and professional platforms to identify emerging skills and occupations, and feed these data into curriculum design and active labour market policies.*
- *Digitize public employment services and shift from vacancy-job title matching to skills-based matching, reducing frictional unemployment and better signalling demand for new competencies.*

- *Strengthen basic labour market statistics, including those on informality and platform work, to understand exposure to automation and adjust training and social protection policies accordingly.*

Digital inclusion as a development imperative

For decades, digital policy in Latin America and the Caribbean was informed by national averages that obscured deep structural fissures. ECLAC's Digital Development Observatory data reveal a region operating at two speeds, the result being a "digital caste system" in which 57% of the rural population remains unconnected (versus 22% in cities) and most MSMEs lack an online presence (ECLAC, 2024).

Digital inclusion thus becomes a core development imperative. Without it, AI and digital transformation risk reinforcing the structural territorial, gender, generational, disability-related and intercultural gaps that already exist. Dealing with these gaps requires coordinated action across infrastructure, skills, content and governance.

Axis 1: Community-centric models to close the rural usage gap

Market forces alone have proved insufficient to connect sparsely populated or low-income areas profitably, and last mile constraints are a key bottleneck for AI-enabled development.

Recommendations:

- *Promote agro-digitalization programmes that bundle connectivity with specific agricultural applications (sensor networks, climate risk tools, market information platforms), making Internet access a productivity investment for rural producers.*
- *Reform regulatory frameworks to allow municipalities and cooperatives to operate as local Internet service providers in areas where commercial operators do not invest.*
- *Support community-owned networks and "digital kiosks" in schools or community centres that provide shared access and basic digital skills training.*

Axis 2: "STEM and safety" strategies to bridge the gender divide

The digital gender gap in Latin America and the Caribbean manifests itself not only in access, but also in skills, leadership roles and exposure to online violence, discouraging participation.

Recommendations:

- *Introduce gender-responsive criteria in innovation funds and public procurement to increase support for women-led tech and AI ventures and adopt robust policies against online gender-based violence.*
- *Create targeted "women in data and AI" reskilling programmes to support transitions from administrative roles at high risk of automation to digital and analytical occupations.*
- *Promote digital financial inclusion for women, including digital payment systems for social transfers and initiatives that help build credit histories and access to formal financial services.*

Axis 3: Inclusive digital design

Inclusive governance is essential to ensure that AI and digital technologies support broad-based development. If public digital services are not accessible to older persons or people with disabilities, digitalization can become a new layer of exclusion.

Recommendations:

- *Mandate compliance with the Web Content Accessibility Guidelines (WCAG) for all public digital services, backed by enforcement mechanisms and support for adaptation.*
- *Implement large-scale "digital literacy for seniors" programmes through pension systems, municipalities and community centres, with a focus on secure use of digital banking and e-government services.*

Axis 4: Digital identity for all as a gateway right

In a digitized economy, a secure, interoperable digital identity is increasingly the gateway to other rights and services, from banking to health care and mobility.

Recommendation:

- *Accelerate the implementation of interoperable digital identity systems that are privacy-protecting and inclusive of migrants, refugees, Indigenous Peoples and Afrodescendent communities, with registration processes adapted to cultural specificities and available in people's native languages.*

E. Harnessing the green transition as a source of strategic resilience

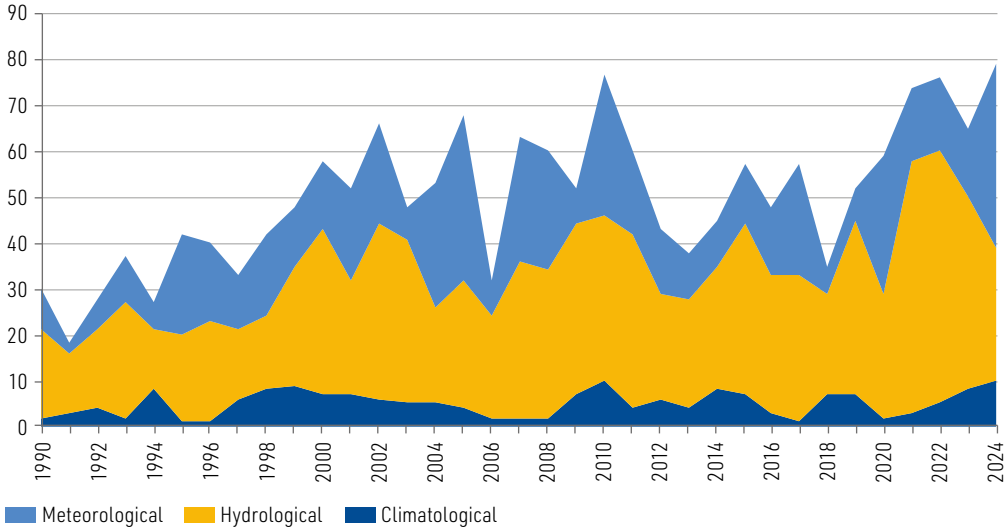
Building on the sectoral and productive development recommendations discussed in section A, this section focuses on the green transition as a cross-cutting enabler of development opportunities. Rather than treating climate action as a standalone environmental agenda, it examines how resilience to climate shocks, compliance with emerging standards and access to climate-related financing increasingly shape countries' ability to protect productive capacity, preserve market access and reduce exposure to external disruptions. In a more fragmented and power-based global context, these dimensions condition whether environmental assets translate into sustained development gains and greater room for policy manoeuvre.

Latin American and Caribbean countries are highly vulnerable and increasingly exposed to the effects of climate change. Most of them are in areas particularly exposed to extreme weather events, whose frequency and intensity have increased markedly in recent decades. This is reflected by the sharp rise in disasters of a meteorological (extreme temperatures and storms), hydrological (floods and landslides) and climatological (wildfires and droughts) character, nearly 80 of which were recorded in 2024 (see figure III.3). Caribbean countries are especially exposed to hurricanes, coastal flooding and rising sea levels, while other countries in the region are mostly affected by droughts and floods (Blackman et al., 2025).

The intensification of climate shocks is causing severe and lasting macroeconomic damage. Extreme weather events are a permanent negative shock to the production structure of impacted countries, causing significant dislocations in key economic sectors. In some South American countries, rising temperatures and shifting hydrometeorological patterns, including more frequent droughts and heatwaves and greater variability in

rainfall, are already undermining economic growth as they destroy physical capital and disrupt agricultural and mining production. In the Caribbean and Central America, the growing frequency and intensity of hurricanes and floods has led to recurrent destruction of infrastructure and severe losses in strategic activities such as agriculture and tourism. The economic costs of climate change are already considerable and are expected to increase further as extreme weather events continue to escalate.

Figure III.3
Latin America and the Caribbean (33 countries): incidence of disasters, by type, 1990–2024
(Numbers)



Source: Prepared by the authors, on the basis of the EM-DAT International Disaster Database. https://public.emdat.be/data.

Biodiversity loss and climate change are mutually reinforcing. Biodiversity and ecosystem services play an essential role in carbon sequestration and several other ecological processes that sustain climate stability. In turn, climate change is a major direct driver of biodiversity loss. By altering climate patterns and increasing the frequency of extreme weather events, it leads to a loss of genetic diversity and, in some cases, the extinction of species that are unable to adapt. It also causes coral bleaching, increases the frequency of wildfires and disrupts species' reproductive and migratory cycles (ECLAC, 2025f).

In addition, air pollution is the leading environmental risk to public health in Latin America and the Caribbean, according to the World Health Organization (WHO). More than 150 million people in the region live in cities where air pollution levels exceed WHO

recommended limits, exposing them to long-term health risks. Chronic exposure to these pollutants is linked to higher mortality and morbidity, especially from respiratory and cardiovascular diseases, while maternal exposure during pregnancy has been associated with adverse fetal development outcomes (Pan American Health Organization [PAHO], n.d.).

At the same time, plastic pollution has become a growing environmental and public health concern. Nearly 17,000 tons of plastic waste are discarded daily in open dumpsites across the region, with serious consequences for the environment, the economy, aquatic ecosystems, coastal landscapes and human health. The rising use and poor management of plastics amplify the region's overall pollution burden, threatening both ecosystem integrity and human well-being (Chiroma et al., 2024).

These dynamics underscore the need for countries to reconceptualize the green transition, treating it not as a standalone environmental policy, but as a cross-cutting enabler of development. Climate shocks, ecosystem degradation and pollution are increasingly acting as persistent drags on productive capacity, fiscal space and external competitiveness, limiting countries' room for manoeuvre in an international system characterized by heightened volatility, tighter standards and asymmetric adjustment pressures.

Within the current geopolitical context, the Paris Agreement remains the central multilateral framework shaping climate-related expectations, standards and financing. However, its effective implementation is increasingly under strain following the conclusion of the thirtieth session of the Conference of the Parties to the Convention on Biological Diversity (COP30) in Brazil. While the "Belém Consensus" attempted to reinvigorate multilateralism, the most recent synthesis of the 2025 nationally determined contributions (NDCs 3.0) confirms that collective ambition remains insufficient to meet long-term temperature goals, with implementation gaps between developed and developing economies widening (United Nations Framework Convention on Climate Change [UNFCCC], 2025).

In Latin America and the Caribbean, the Paris framework, now anchored by the new collective quantified goal on climate finance (NCQG), which seeks to establish a baseline of US$ 100 billion per year in climate finance for developing countries from 2025 onward (Zero Carbon Analytics, 2024), structures the rules for international benchmarking and transparency. For the region, engagement with the Paris framework is less about demonstrating climate ambition and more about practical necessity. It helps the countries to preserve access to external financing, avoid barriers in markets that increasingly apply climate-related requirements and align climate commitments with tight domestic fiscal conditions (ECLAC, 2026).

The urgency of this alignment is underscored by the region's wide climate finance gap. Despite the new targets set in Belém, Latin America and the Caribbean continues to receive flows equivalent to only 0.5% of its GDP, against estimated needs of 3.7% to 4.9%, requiring an eight- to tenfold increase to meet the region's adaptation and mitigation goals (ECLAC, 2026). Furthermore, 81% of this financing is provided as loans, exacerbating debt burdens at a time when many countries already spend more on debt servicing than on social and climate expenditures (Zero Carbon Analytics, 2024).

The green transition cannot be approached as a conventional policy agenda. Climate change, biodiversity loss and pollution operate as systemic constraints on growth, fiscal stability and external competitiveness and are shaped by forces largely beyond the direct control of individual countries. As a result, the focus of this subsection is not on prescriptive policy recommendations, but on strategic leverage points at which Latin America and the Caribbean can protect productive capacity, preserve market access and retain room for policy manoeuvre in an increasingly fragmented and power-based global economy.

Climate shocks and productive capacity

Climate shocks should be treated as recurring damage to productive structures and fiscal space, rather than as an environmental externality. In Latin America and the Caribbean, the increasing frequency and intensity of extreme events translate into repeated physical capital losses, output volatility and rising reconstruction costs, particularly in the areas of infrastructure, water systems, agriculture, tourism and energy. In this context, resilience functions as economic protection.

Current financing patterns reveal a structural mismatch between risk exposure and resource allocation. In 2023, climate finance in the region remained heavily concentrated in mitigation (88%), with only a marginal share directed to adaptation and mixed projects, even though physical climate risks already represent a direct macroeconomic threat for many countries. At the same time, ECLAC estimates that the region would require at least US$ 248 billion annually between 2024 and 2030 to avoid the worst climate impacts, which is nearly three times current mitigation flows, highlighting the scale of the financing gap (ECLAC, 2026).

From a strategic standpoint, this means prioritizing bankable, system-protecting investments and scaling them through coordinated public-private finance, including the use of national and regional development banks as execution platforms. Strengthening adaptation and resilience within NDC implementation frameworks can reduce policy uncertainty and help secure long-term investment pipelines.

Standards and compliance

In the current context of regulatory fragmentation, environmental and climate requirements increasingly operate as filters for trade, finance and investment, particularly in the form of carbon intensity expectations and sustainable finance classifications. For the region, the key leverage point lies in building credible and interoperable standards infrastructure that allows firms and projects to remain financeable and export-capable.

Sustainable finance taxonomies are explicitly framed as instruments for identifying environmentally sustainable activities aligned with the Sustainable Development Goals and the Paris Agreement, while also serving as tools to mitigate the risk of stranded assets and abrupt shifts in market rules. However, ECLAC notes that Latin America and the Caribbean faces persistent challenges with mainstreaming, interoperability and comparability across national taxonomies. In response, a regional working group has developed a Common Framework for Sustainable Finance Taxonomies for Latin America and the Caribbean, aimed at reducing fragmentation and transaction costs (ECLAC, 2026).

From a strategic perspective, advancing measurement, reporting, verification and certification capacities and operationalizing taxonomies aligned with this regional framework should be understood as a defensive competitiveness strategy, not as a normative choice. A pragmatic approach to carbon pricing and related fiscal instruments, focused on institutional readiness and transparency, can further support this objective.

Coalition-based multilateralism as leverage

Latin America and the Caribbean's individual bargaining power in climate negotiations is uneven, but its leverage increases when climate action is treated as a platform for coalition-building and for shaping the terms of finance, cooperation and rule-setting. Chapter II identifies political influence and soft power, alongside natural resource endowments, as assets that can support a role for the region as a provider of global public goods such as biodiversity conservation and contributions to the energy transition, thereby strengthening its position in global forums. At the same time, the UNFCCC's most recent NDC synthesis report frames climate action as increasingly intertwined with economic stability, growth, employment, health and energy security, underscoring the fact that climate is no longer a niche agenda but a core pillar of national policy imperatives (UNFCCC, 2025).

In this setting, sustained engagement with the Paris Agreement and related multilateral processes is less about signalling moral leadership than about preserving implementation-oriented outcomes and securing workable access to finance and cooperation instruments. Building coalitions with like-minded partners around concrete tools such as climate finance platforms, Article 6[45] mechanisms and risk-sharing facilities can help reduce asymmetric adjustment pressures while aligning external commitments with domestic productive and fiscal constraints.

In this way, political influence, soft power and multilateral engagement function as leverage, enabling the region to shape rules, mobilize resources and protect policy space in a power-based international system.

Final remarks

The countries of the region possess a number of capabilities and assets that provide strong foundations for efforts to obtain developmental benefits in the new global landscape. Yet this will not happen spontaneously or automatically. To maximize their developmental impact, these assets must be leveraged with deliberate policy action and clear strategies, usually including regional cooperation. Stronger institutions and governance at the national level and greater coordination across sectors and countries are even more necessary under the new realities of geoeconomic rivalry, great power competition and weaponized interdependence.

The central message of this chapter is straightforward. The new world order rewards proactive and clear strategies, collaboration between key players, policy consistency and the ability to deploy existing capabilities with purpose and foresight. Leveraging the region's assets requires a long-term perspective and a willingness to prioritize areas and sectors where transformation is both feasible and impactful. The region has the foundations for this. The challenge is to convert those foundations into coherent strategies that enhance resilience, improve competitiveness and enable Latin American and Caribbean countries to position themselves and the region as a whole as providers of solutions in the emerging global landscape. This is very much a challenge of governance, leadership, collaboration and institutional capabilities, and that challenge is the subject of the next chapter.

[45] Article 6 of the Paris Agreement enables countries to cooperate voluntarily in meeting their climate targets, including through carbon market mechanisms and other cooperative approaches that can mobilize finance, lower mitigation costs and support sustainable development.

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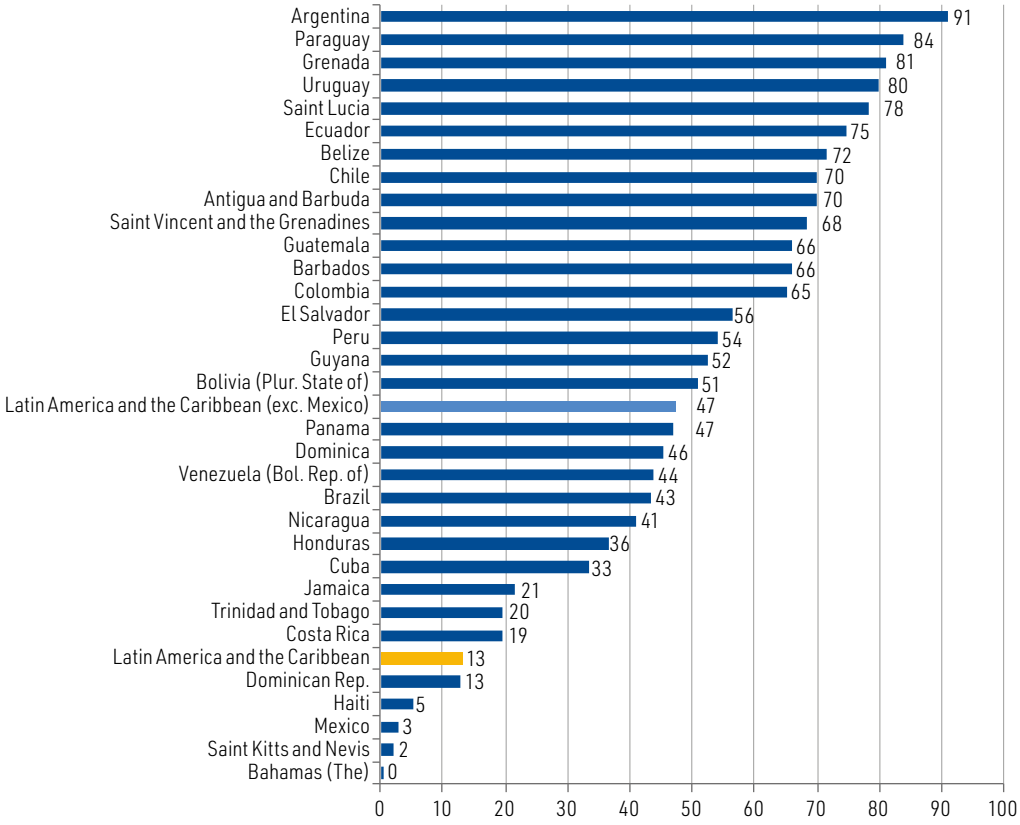
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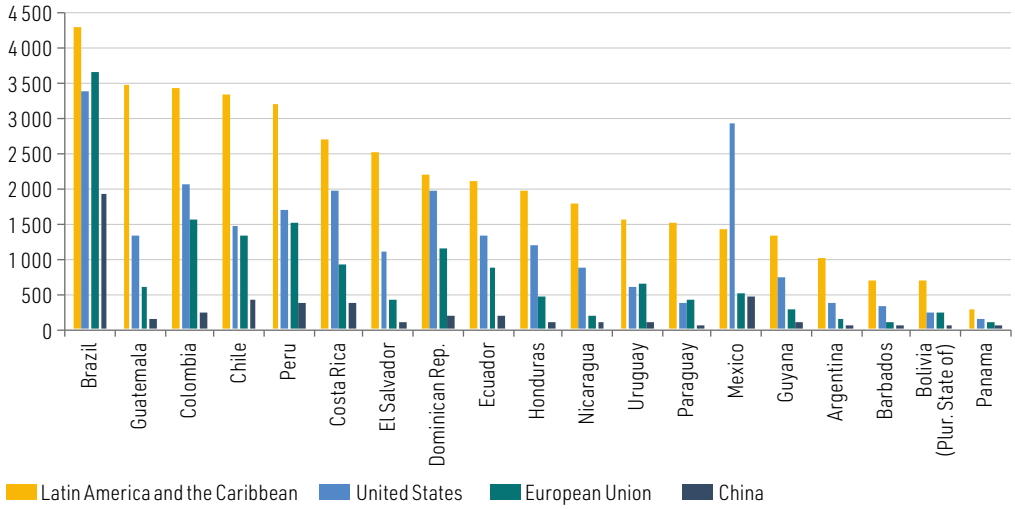
Annex III.A1

Figure III.A1.1
Latin America and the Caribbean (32 countries): share of total manufacturing exports going to the region itself, 2024
(Percentages)



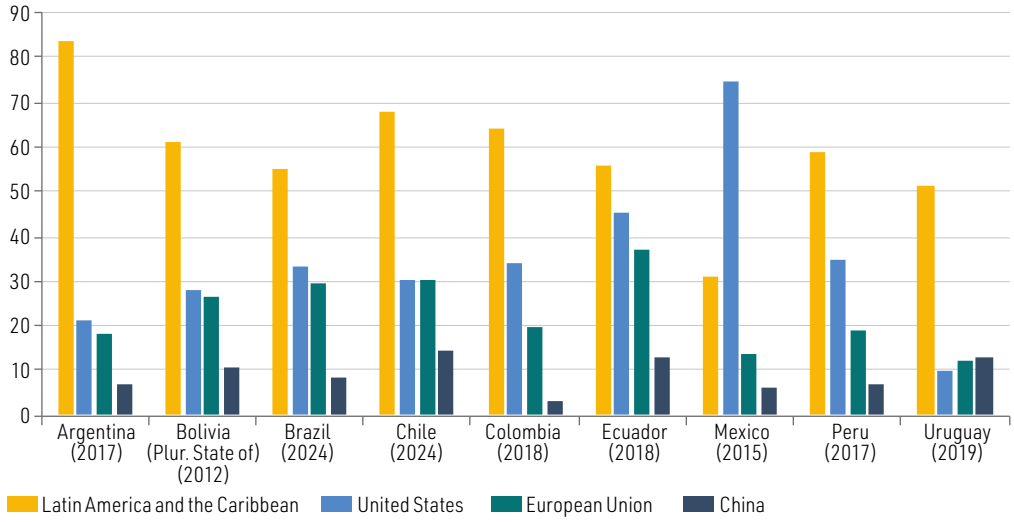
Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations, *UN Comtrade Database*. https://comtradeplus.un.org/.
Note: Includes exports of low-, medium- and high-tech manufactured goods. The shares of the Bolivarian Republic of Venezuela, Cuba, Dominica, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines were estimated using mirror values.

Figure III.A1.2
Latin America and the Caribbean (19 countries): number of different products exported to the region itself, the United States, the European Union and China, 2024



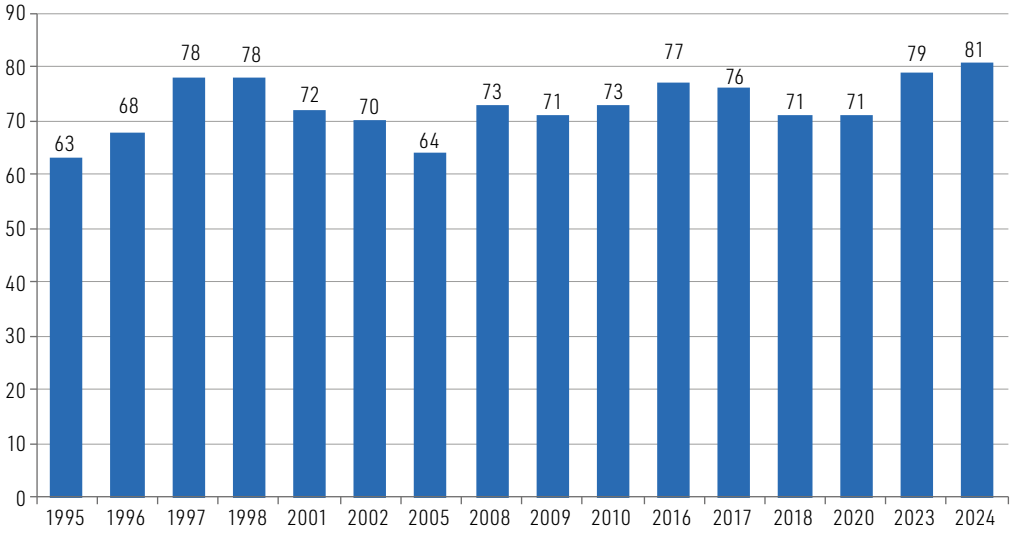
Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations, *UN Comtrade Database*. https://comtradeplus.un.org/.

Figure III.A1.3
Latin America (9 countries): share of exporters exporting to the region itself, the United States, the European Union and China, various years
(Percentages)



Source: Economic Commission for Latin America and the Caribbean. (2021). *International Trade Outlook for Latin America and the Caribbean, 2020: regional integration is key to recovery after the crisis* (LC/PUB.2020/21-P); and data from the Secretariat of Foreign Trade of the Ministry of Development, Industry, Trade and Services of Brazil and the Undersecretariat of International Economic Relations of the Ministry of Foreign Affairs of Chile.

Figure III.A1.4
Latin America (17 countries):[a] average support for integration with other Latin American countries, 1995–2024
(Percentages of respondents)



Source: Latinobarómetro Corporation. (1995-2024). *Latinobarómetro Study*.
[a] Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

Chapter IV

Strengthening governance and institutions for development results and global influence

Chapter summary

This report identifies several categories of strategic assets that Latin American and Caribbean countries possess to varying extents and has argued that they can leverage these assets to yield significant growth and development benefits if they have clear strategies for making the most of the value propositions that these assets represent in the new era of rival geopolitics and fragmented globalization.

However, developing effective strategies for seizing the opportunities offered by those assets depends critically on the existence of effective governance and capable institutions. Governance and institutions can serve as enablers for positive development trajectories or can act as binding constraints on those trajectories, especially in an era of overlapping geopolitical, geoeconomic and institutional disruptions. Whether the region's strategic assets become sources of resilience or vulnerability fundamentally depends on the quality, legitimacy and coordination capacity of governance arrangements and the relevant institutions.

This chapter of the report discusses how fragmented State architectures, weak policy coordination, declining trust, rising polarization and the expansion of organized crime interact to limit governments' effective policy space. Drawing on evidence from the region's "decade of discontent", it shows how persistent electoral volatility and anti-incumbent dynamics are symptoms of a deeper misalignment between rising social expectations, constrained fiscal and administrative capacity and eroding institutional credibility. It also demonstrates how this misalignment is shortening time horizons and undermining policy continuity.

The chapter identifies core mechanisms through which governance shapes development outcomes. These include executive–legislative relations, party-system structures, legislative and bureaucratic capacity, judicial credibility and the channels through which social demands are processed.

Within this framework, an action-oriented agenda is proposed that is organized around four governance and institutional improvement pathways: (i) strengthening State capacity for coherent and effective governance and delivery; (ii) restoring trust and institutional legitimacy; (iii) forging common ground in a polarized political landscape; and (iv) confronting the expansion of organized crime.

The final section of the chapter emphasizes that governance and institutions are not technocratic add-ons to development strategies but rather a precondition for transforming strategic assets into a sustained development process and using them to achieve international agency, particularly in today's more fragmented and transactional global order.

Introduction

Latin American and Caribbean countries face an era marked by ongoing disruptions linked to geopolitical factors, technology, demographic shifts and climate change, compounded by long-standing, unresolved development gaps. In many countries and sectors, public institutions and governance arrangements are not up to the task of addressing this powerful combination of challenges. And it is often the case that the public's patience is often strained by a backlog of unmet expectations.

At the same time, the region has assets of undeniable strategic value: critical minerals, biodiversity, diverse food systems, technological niches, productive capacities and cultural influence. In a global context marked by geoeconomic competition, supply-chain reconfiguration and the growing politicization of interdependence, these assets have acquired even greater strategic relevance. Yet these assets alone do not translate into development at home or influence abroad. Their effective transformation requires the capacity to mobilize and coordinate a broad ecosystem of actors, including the private sector, academia, civil society and subnational governments. The central question, therefore, is whether States can exercise the political vision and have the steering capacity needed to align these actors and capabilities around shared development priorities, transforming these assets into positive development outcomes at home and sustained influence in the international sphere, rather than allowing them to become sources of vulnerability, contestation or external dependency.

The defining test is therefore one related to governance and institutions, the subject matter of this chapter. The international experience of recent decades strongly suggests that State capability is no longer a background condition of development; it is development (Besley et al., 2025). Yet State capability in contemporary development processes is not exercised in isolation. It rests increasingly on the capacity of public institutions to coordinate and guide the actions of multiple actors across society. A country's ability to

raise revenue fairly, regulate markets wisely and predictably, deliver services effectively and sustain reforms across political cycles is inseparable from its capacity to foster productive collaboration with the private sector, academia and civil society and to build institutional platforms for dialogue, cooperation and collective problem-solving. In this sense, effective governance depends on the ability to structure cooperative relationships between public authorities and the broader constellation of actors that shape development outcomes.

Across the region, however, political and institutional dynamics are evolving in ways that tend to limit the strategic space for governing. Fragmented State architectures weaken coordination precisely when long-term transformations demand a coherent sense of direction. Poor performance erodes trust and legitimacy, lowering compliance with public obligations, deterring investment and limiting the political space needed for reform. Polarization precludes the minimal agreements that make continuity possible. Organized crime exploits governance gaps and reconfigures territorial authority. And democratic institutions face rising expectations with limited capacity to deliver. These dynamics interact, forming not a series of discrete challenges but a structural configuration that shapes countries' room for manoeuvring, both domestically and internationally.

The first section of this chapter identifies core mechanisms through which governance shapes development outcomes. These include executive–legislative relations, party-system structures, legislative and bureaucratic capacity, judicial credibility and the channels through which social demands are processed.

The following sections advance an action-oriented agenda organized around four governance and institutional improvement pathways: (i) strengthening State capacity for coherent and effective governance and delivery; (ii) restoring trust and institutional legitimacy; (iii) forging common ground in a polarized political landscape; and (iv) confronting the expansion of organized crime.

Moving forward demands political reconfiguration rather than technocratic fixes: institutions capable of aligning actors around shared priorities; States able to plan, deliver and sustain their policies; democratic systems that rebuild legitimacy through fairness, participation and performance; and regional cooperation mechanisms that insulate collective action from domestic volatility. In short, countries need governance systems that can be effective internally in sustaining development and externally in navigating a world where international relations are more transactional and where influence must be gained through negotiation and alliances.

Governance and institutions under pressure

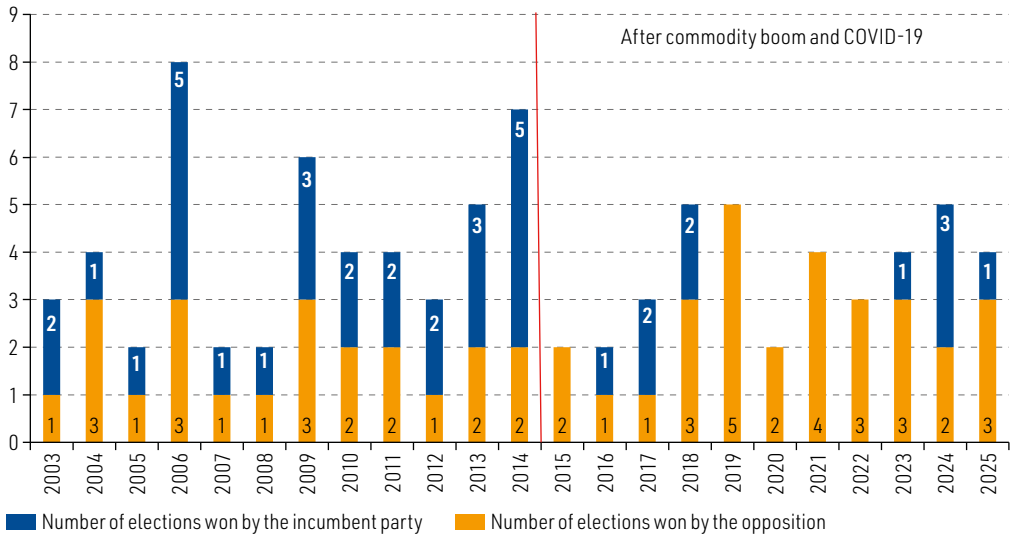
The political economy of discontent

The governance constraints outlined above have increasingly taken on a political character. Over the past decade, the region has experienced a sustained cycle of political discontent that has reshaped the relationship between citizens, the State and democratic authority (Kessler and Murillo, 2025). This cycle has been marked by recurrent waves of protest, growing electoral volatility and a systematic tendency to vote against incumbents, signalling a deeper strain in the political foundations on which governance and policy continuity depend.

Empirical evidence documents the scale and persistence of this shift. Electoral dynamics provide an early signal: governing parties that benefited from high re-election rates during the commodity boom period have faced repeated defeats since the mid-2010s. In the wake of the commodity boom, and even more so after the COVID-19 shock, opposition victories have become more frequent, and incumbents have increasingly failed to secure re-election. Electoral data covering democratic presidential elections between 1982 and 2024 show a sustained decline in incumbency success since 2014 which has reversed the advantage enjoyed by governing parties during the years of expansion (see figure IV.1). The fact that opposition victories rose from about 44% during the commodity boom (2003–2014) to 73% in the post–2014 period points to a shift in the underlying structure of electoral competition rather than cyclical political turnover (Munck, 2024; Salazar-Xirinachs and Boeninger Sempere, 2026). This erosion of electoral continuity reflects the political toll that slower growth, tighter fiscal space and rising expectations are taking on States with a reduced capacity to deliver.

Kessler and Murillo (2025) provide evidence that this discontent has followed two distinct but equally destabilizing paths. In some countries, it has translated into acute polarization, with political competition coalescing around antagonistic blocks, thus narrowing the scope for compromise. In others, it has taken the form of fragmentation, declining turnout and a generalized rejection of political elites, leaving no actor with sufficient legitimacy to anchor collective expectations. These patterns have been reinforced by a marked increase in anti-government protests since the end of the commodity boom, with protest activity in the 2010s far exceeding that of the previous decade. This combination of polarization, fragmentation and sustained mobilization has weakened the capacity of democratic systems to aggregate interests, sustain cooperation and uphold policy agreements over time.

Figure IV.1
Latin America (16 countries):[a] outcomes of presidential elections, 2003–2025



Source: Munck, G. L., on the basis of Munck, G. L. (2024). Semi-patrimonial states and durable low-quality democracies in Latin America. *Mexican Journal of Sociology*, 86(e). https://doi.org/10.22201/iis.01882503p.2024.e.62573.

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

These political dynamics intersect with structural development constraints long identified by the Economic Commission for Latin America and the Caribbean (ECLAC, 2024), whose findings have been corroborated by the United Nations Development Programme and International Institute for Democracy and Electoral Assistance (UNDP and International IDEA, 2022) and are documented in detail in chapter II, sections A and D, of this report. Low and volatile growth, persistent inequality, segmented labour markets and fiscally constrained States interact with perceptions of unfairness, insecurity and ineffective rule of law. As ECLAC has consistently emphasized, these structural conditions undermine both development outcomes and the legitimacy of public authority, narrowing the political space available for reform precisely when more ambitious policy action is required.

It is within this political context that governance must be understood. The region's difficulties stem from a sustained misalignment between rising social expectations, limited State capabilities and eroding democratic legitimacy. Over the past decade, political discontent has shortened time horizons, hardened competition and weakened the cooperative foundations on which effective governance depends. Governments are thus pressed to deliver transformative results under conditions of low trust, high contestation and

shrinking room for agreement. Ignoring these dynamics obscures why reforms so often falter and why rebuilding State capacity is inseparable from the political conditions under which authority is exercised and renewed.

Political institutions, cooperation and policy continuity

Governance outcomes in the region are shaped by how political institutions structure authority, incentives and cooperation over time. Development results and international influence emerge from the political arrangements through which decisions are negotiated, implemented and sustained across electoral cycles. In the region, the capacity of the State to coordinate action, deliver policies and uphold commitments is inseparable from the way power is distributed across the executive, legislative and territorial levels and from the possibility of translating political conflict into durable agreements.

Comparative research has been consistent on this point: policy quality depends not only on technical soundness but also on the ability of political actors to cooperate, make credible commitments over time and learn within stable institutional frameworks (Salazar-Xirinachs and Boeninger Sempere, 2026; Spiller and Tommasi, 2000; Stein et al., 2006; ECLAC, 2024; UNDP and International IDEA, 2022). When these political and institutional dynamics are misread or underestimated, reforms may advance formally yet remain vulnerable to reversal once political alignments shift.

These dynamics are most clearly reflected in policy continuity. Where political systems foster repeated interaction, accountability and credible commitments, public policies tend to accumulate over time, adapting to new conditions without being reset at each electoral cycle. Where such conditions are absent, volatility, uneven implementation and short-termism become entrenched, eroding institutional learning and weakening State credibility (Ardanaz et al., 2010; Stein et al., 2006). Viewed from this perspective, State capacity is less a static organizational attribute than it is the outcome of political systems capable of sustaining cooperation over time.

This helps to account for the stark contrasts observed across the region. Some countries have managed to preserve broad policy orientations across administrations, creating environments conducive to investment, learning and gradual accumulation of institutional capability. Others experience recurrent reversals, abrupt shifts in priorities and weak enforcement, often synchronized with electoral cycles or changes in governing coalitions. As the political economy literature emphasizes, these patterns are not accidental; they reflect how political institutions allocate power, shape incentives and structure expectations among actors engaged in the policy process (Ardanaz et al., 2010; Spiller and Tommasi, 2000).

Policymaking can therefore be viewed as a political process embedded in institutional arenas where outcomes are negotiated, contested and enforced. These arenas encompass constitutionally defined actors —presidents, legislatures, courts, cabinets and subnational governments— as well as influential stakeholders whose power does not derive solely from formal positions of authority. Business groups and financial actors, trade unions, civil society organizations, the media, think tanks, social movements and, increasingly, digital platforms and large technology firms shape the coalitions, constraints and trade-offs surrounding public policy decisions. The way these actors interact and the rules that channel or distort their influence largely determine whether policies align around shared long-term priorities or devolve into short-term bargaining sessions driven by narrow interests (Stein and Tommasi, 2006; Stein et al., 2006).

Presidents: agenda-setting authority, partisan support and governing constraints

At the centre of political decision-making in Latin America, the relationship between presidents, political parties and legislatures is decisive. In most countries, presidents are called upon to set the direction of public policy. Their room for manoeuvre is shaped both by formal constitutional powers (such as decree authority, budgetary prerogatives and appointment powers) and by the partisan resources available to them, particularly the size, cohesion and discipline of their legislative support. Experience shows that when these two dimensions align, governments are better positioned to advance policy priorities and sustain them over time. When they do not, presidents often face the dilemma of governing through unilateral instruments or ad hoc negotiations, with negative implications for institutional balance and long-term policy credibility (Stein and Tommasi, 2006; Stein et al., 2006).

This is the daily reality of States striving to govern democratic systems marked by fragmentation, high expectations and limited margins for error. Electoral horizons, coalition arithmetic and intra-party competition shape priorities in ways that systematically compress time and reward immediacy over durability. Even when long-term reforms are clearly warranted, political incentives often favour visible action, short-term stabilization or symbolic victories. These dilemmas cannot be wished away.

Institutional extremes further compound these challenges. Where checks and balances are weak, concentrated executive power may facilitate rapid action, but it also heightens the risk that discretion may displace deliberation and that partisan priorities may override the public interest. Where authority is highly fragmented and cooperation mechanisms are ineffective, paralysis, unstable bargains and recurrent policy resets

prevail. Comparative evidence shows that both unchecked concentration and excessive fragmentation undermine policy continuity and erode the capacity to sustain reforms over time (Spiller and Tommasi, 2000; Ardanaz at al., 2010).

Party systems: fragmentation, discipline and the sustainability of commitments

Political parties play a critical mediating role. Where party systems are institutionalized, programmatic and socially rooted, they help aggregate interests, structure competition and provide continuity across electoral cycles. Beyond representation, they function also as commitment devices by stabilizing expectations among political actors. Parties reduce uncertainty about future policy choices and increase the likelihood that successive governments will build upon —rather than dismantle— the achievements of their predecessors. Weak, fragmented or highly personalized party systems, by contrast, shorten political horizons, increase discounting of the future and raise the costs of intertemporal cooperation, making policy reversal more likely (Stein et al., 2006; Scartascini et al., 2011; Ardanaz et al., 2010).

Key characteristics of party systems —such as fragmentation, legislative seat distribution and party discipline— have a powerful influence on executive–legislative relations. Highly fragmented, undisciplined legislatures increase transaction costs and often entail extensive bargaining that involves cabinet appointments, budgetary concessions or policy carve-outs. While coalition politics can broaden inclusion, in the absence of strong institutional anchors, it may also generate policies marked by exceptions, uneven enforcement and distributive bias. Conversely, cohesive governing majorities can facilitate policy adaptation and implementation, although, if unchecked, they may concentrate power excessively and weaken accountability (Spiller and Tommasi, 2000).

Legislatures: where reforms become commitments

Legislatures often determine the difference between a reform agenda that moves forward and one that stalls. Their role is neither secondary nor procedural. Where legislatures possess institutional weight thanks to the presence of experienced members, professional committee systems and genuine technical capacity, they can become decisive allies in sustaining reforms, channelling conflict into negotiations and anchoring policy choices beyond a single administration. In such cases, legislatures raise the political cost of improvisation and help transform executive initiatives into shared commitments. Where that capacity is absent, however, legislatures tend to oscillate between two equally destabilizing roles: passive endorsement that weakens accountability, or obstruction unaccompanied by responsibility that blocks change without offering alternatives. Both

outcomes shorten political horizons, amplify volatility and open the door to capture by narrow interests, with lasting consequences for development trajectories and State credibility (Stein et al., 2006; Ardanaz et al., 2010).

Courts: credible enforcement as a political condition

Judicial institutions exert an equally decisive influence in shaping these dynamics. For governments seeking to sustain reforms, an independent and effective judiciary is a political necessity. Courts that enforce rules consistently and resolve disputes impartially provide assurance that agreements will survive shifts in power and electoral cycles, lowering incentives for strategic defection and short-term opportunism. In this sense, judicial credibility functions as a form of political insurance that enables actors to commit to policies whose benefits will materialize over time.

When that insurance is weakened by politicization, selective enforcement or erosion of independence, policy commitments lose credibility, investment decisions are postponed and cooperation gives way to tactical calculation. As emphasized by UNDP and International IDEA (2022), the erosion of judicial credibility reverberates far beyond the courtroom: it undermines regulatory authority, accelerates conflict judicialization, corrodes democratic legitimacy and ultimately narrows the space in which elected governments can govern with decisiveness in an atmosphere of trust.

Social mobilization: when protest substitutes for negotiation

Beyond formal institutions, social mobilization has become an increasingly salient feature of the region's political landscape, reshaping how demands enter the public arena and how authority is contested. In many countries, it has surfaced demands that institutions were unable or unwilling to process, forcing political systems to respond. But when those demands cannot be absorbed through representative channels, protest displaces negotiation. Governments are then pushed towards reactive decisions, short-term concessions and abrupt policy shifts, raising the political cost of continuity. Recurrent and weakly institutionalized mobilization compresses political time horizons and makes sustained agreements harder to build and uphold (UNDP and International IDEA, 2022).

Implications for governance reform agendas

Governance outcomes depend on whether political systems generate incentives for cooperation beyond the electoral horizon. Where power is fragmented without credible coordination, or concentrated without effective constraints, political actors rationally

prioritize short-term survival over durable commitments. In such contexts, policy instability becomes the predictable outcome of the political game, rather than a failure of technical design (Spiller and Tommasi, 2000; Stein and Tommasi, 2006; Stein et al., 2006).

This has direct implications for reform agendas. Efforts to strengthen State capacity, coordination or public administration cannot be treated as technocratic upgrades detached from politics. Reforms that ignore incentive structures, coalition dynamics and time horizons tend to remain symbolic or to collapse with political turnover. Effective reform strategies must therefore target institutional arrangements that alter the underlying political game by reducing volatility, enabling cooperation and making long-term commitments credible.

Leadership is central but double-edged. Political leadership can expand the space for reform by brokering agreements, structuring deliberation and anchoring policies in broad coalitions. But leadership that replaces cooperation with the concentration of power may deliver short-term action at the cost of institutional erosion. The dividing line is not decisiveness versus deliberation; instead, it is whether leadership reinforces or undermines the rules that make commitments credible beyond a single term.

The region's experience suggests that more stable governance trajectories emerge where political systems reduce the incentives for permanent policy reversal. This occurs when there are sufficiently institutionalized party systems that anchor programmatic commitments; legislatures with real technical and political capacity to transform executive initiatives into shared decisions; courts capable of enforcing rules with a at least a basic minimum of credibility; and public administrations that are shielded from systematic politicization (UNDP and International IDEA, 2022; Stein et al., 2006). These conditions do not eliminate conflict, but they make it governable.

The fiscal foundations of governance

A critical aspect of the governance challenges discussed in this chapter concerns the fiscal capacity of the State. The extent to which governments can effectively plan, coordinate and sustain development strategies depends in part on their ability to mobilize and allocate public resources.

In recent years, the fiscal environment in Latin America and the Caribbean has become increasingly restrictive. Policymakers across the region are operating in a context marked by weak economic dynamism and limited fiscal space, precisely at a moment when countries need to undertake profound economic, social and institutional transformations.

As discussed in chapter II, section A, of this report, the region faces a set of mutually reinforcing development traps: low capacity for sustained economic growth, persistent inequality and weak social cohesion, and limited institutional and governance capabilities. Overcoming these structural constraints requires an active and effective fiscal policy capable of supporting productive transformation, strengthening social protection and promoting investment in strategic public goods. Yet the fiscal conditions under which governments must operate often constrain precisely these ambitions.

As highlighted in chapter II, section A, the region is currently experiencing a prolonged period of economic stagnation and limited social progress that can reasonably be characterized as a "second lost decade". At the same time, elevated levels of public debt have further narrowed the fiscal space available to governments. In 2024, public debt in the region averaged approximately 51.4% of GDP, and an increasing share of public resources must now be allocated to servicing that debt. This dynamic creates a policy dilemma. In order to stabilize public debt trajectories, governments have to devote more and more resources to interest payments, frequently at the expense of investments essential for long-term development, such as investments in infrastructure, productive capacity and social inclusion, which are critical for restoring growth and improving fiscal sustainability over time (ECLAC, 2023).

The trade-offs are already evident and increasingly stark. In several countries in the region, interest payments on public debt now equal or even exceed public expenditure on essential sectors such as education or health, and the trend has worsened significantly over the past decade. While, in 2012, governments spent an average of 1.7% of GDP on interest payments and 2.6% on capital investment, by 2024 this relationship had been inverted: interest payments had risen to 2.9% of GDP while public investment had declined to only 1.9% (ECLAC, 2026a). This trend illustrates how fiscal pressures are progressively draining resources away from strategic investments in infrastructure, innovation, productive transformation and social inclusion: precisely the investments required to enable the region to escape from its development traps and strengthen its long-term growth prospects.

Beyond the pressures associated with public debt, the region is also troubled by structural weaknesses in its fiscal architecture. Compared with other regions at similar levels of development, the Latin America and Caribbean region continues to have relatively low level of tax pressure and a narrow tax base. In many countries, personal income taxation remains highly concentrated, with only a small share of the population effectively contributing to the receipts from this tax. This limited fiscal base reflects not only structural characteristics of the region's economies, including high levels of informality

and inequality, but also the political economy of taxation itself. Efforts to expand the tax base often encounter significant political resistance associated with distributive conflicts, low levels of trust in public institutions and persistent debates over fairness and reciprocity in the social contract.

For this reason, without addressing the structural limitations of fiscal systems (and the political economy that underpins them), efforts to address many of the governance issues discussed in this chapter risk remaining aspirational. Across the region, the difficulty of confronting the fiscal foundations of the State has frequently been shaped by short-term political incentives that hinder the formation of durable fiscal agreements. Moving forward will therefore require not only technical reforms, but also the political capacity to build broad and durable fiscal agreements capable of sustaining development strategies over time.

Framing governance pathways

The policy pathways presented in the following sections should be considered within the context of the governance dynamics described throughout this chapter. Many of the courses of action discussed below —strengthening State capacity, rebuilding trust, improving coordination, reducing the effects of polarization and confronting organized crime— reflect enduring priorities on the region's governance agenda. Their importance lies less in any novel aspects than in the fact that they remain central and, in many cases, insufficiently embedded within a broader strategy for governing under persistent governance constraints.

As Salazar-Xirinachs and Boeninger Sempere (2026) argue, many transformative policies fail, not so much because their goals are misguided, as because governance is still treated as an external element rather than as an endogenous dimension of policy design and implementation. Viewed from this perspective, the central challenge is not only to identify the right policy pathways, but also to ensure that they are formulated in ways that internalize the political and institutional conditions for their effective implementation and sustainability over time.

The central issue, therefore, is not simply to identify what should be done, but to recognize the conditions under which these policies can be advanced, however partially, and be sustained over time. Across the region, governance reforms are often met with political resistance and veto dynamics driven by entrenched interests in combination with short-term incentives that weaken continuity and reward deferral over implementation. For that reason, the pathways set out below should not be regarded as self-executing solutions

or as a blueprint that can be transferred mechanically across contexts. They are better understood as strategic lines of action that can help expand governments' manoeuvring room, strengthen institutional resilience and improve the prospects for deploying development strategies with greater continuity and effectiveness.

Against that background, the following sections are organized around four governance and institutional improvement pathways:

(i) Strengthening State capacity for coherent and effective governance and delivery;

(ii) Restoring trust and institutional legitimacy;

(iii) Forging common ground in a polarized political landscape; and

(iv) Confronting the expansion of organized crime.

A. Strengthening State capacity for coherent and effective governance and delivery

Day in and day out, governments must deal with the consequences of fragmented bureaucracies, weak coordination across levels of government and institutions that change direction with every change in administration. Citizens see the situation clearly: the State is present in some territories and absent in others; it delivers in certain sectors and services and falters in many more.

The available evidence confirms what political leaders across the region experience first-hand. Most Latin American and Caribbean countries score between –0.5 and +0.5 on the State Capacity Index (Hanson and Sigman, 2021), far from the +2.0 levels of high-performing governance systems. Only a small group —Chile, Costa Rica and Uruguay— approaches +1.0. The Worldwide Governance Indicators[1] tell a similar story: since the mid-2000s, more than two thirds of all countries have seen declines in government effectiveness, regulatory quality and the rule of law. These are not abstract metrics: they reflect the extent to which institutions can implement decisions, provide continuity and sustain public trust.

The root causes of this fragmentation are political. High turnover empties institutions of experience; unstable coalitions dilute priorities; and ministries often work in silos rather than working to advance a common strategy. Policies are relaunched instead of strengthened. Financial factors are also at play. Building and maintaining institutional

[1] https://www.worldbank.org/en/publication/worldwide-governance-indicators

capacities require investments that are often precluded by limited fiscal space combined with misplaced priorities. The result is a State that reacts more than it anticipates, precisely when strategic planning is essential for competitiveness, resilience and international credibility (ECLAC and Latin American and Caribbean Institute for Economic and Social Planning [ILPES], 2014; ECLAC, 2018).

Strengthening the State's capacity to coordinate, plan and sustain priorities across administrations enables a country to carry reforms to completion, reduce volatility and act with greater clarity and consistency in both the domestic and international arenas.

Break down institutional silos by strengthening whole-of-government coordination

Issue:

Fragmented governance in the region is not only the result of weak institutions; it is also a consequence of how power and responsibilities are organized within the State. Centres of government often lack the tools and authority to align ministries around shared priorities. Line ministries operate as separate islands, subnational governments receive mandates without resources, and cross-cutting agendas are managed by ad-hoc committees that change with the arrival of each new administration. The result is a State that multiplies plans but struggles to deliver coherent action (Organisation for Economic Co-operation and Development [OECD], 2024, 2025a, 2025d).

Policy recommendation: Empower the centre of government to steer priorities, coordination and delivery

Strengthening coordination begins at the top. Governments should reinforce their centres of government —offices of the President or Prime Minister, cabinet secretariats, planning and budget authorities— so that they can set a limited number of strategic priorities and require all ministries to align policies, programmes and major investments with those objectives. This does not mean centralizing every decision; it means giving the centre a clear mandate and the capacity to arbitrate between competing demands and solve cross-sectoral bottlenecks.

To make the centre of government's role effective, coordination must be institutionalized. Regular cabinet committees focused on cross-cutting agendas, inter-ministerial working groups with clear outputs and timelines, and performance dialogues between the centre and line ministries help turn strategies into shared work programmes. International

experience shows that these mechanisms are most effective when they are anchored in formal mandates, supported by permanent technical secretariats and linked to the budget and monitoring cycles, all of which reduces their dependence on political discretion (OECD, 2025a, 2025d).

The Latin American and Caribbean region also has had relevant experiences with coordination mechanisms linked to productive development agendas, particularly through inter-institutional and public–private platforms focused on competitiveness, skills and productivity. Regional evidence shows that initiatives for addressing talent and skills gaps are more effective when they are embedded in institutionalized coordination arrangements that link up ministries of production, education and labour with private sector and territorial actors within a clear strategic framework. Where such mechanisms have stable mandates and are connected to national development priorities, they help reduce fragmentation, align policies and sustain continuity across sectors and levels of government; where they remain ad hoc, their impact on productivity and structural transformation is more limited (Economic Commission for Latin America and the Caribbean, Inter-American Centre for Knowledge Development in Vocational Training and Development Bank of Latin America and the Caribbean, 2025).

Coherent governance also requires clarity in "who does what" within the State apparatus. Many countries in the region have accumulated overlapping mandates, creating confusion and duplication between planning agencies, finance ministries, cross-cutting secretariats and sectoral ministries. ECLAC (2012, 2014) has consistently documented how fragmented institutional architectures and unclear functional boundaries weaken the coordination of planning, budgeting and implementation functions, thereby undermining the effectiveness of national strategies. Clarifying roles through legal and organizational reforms reduces friction, averts gaps and improves accountability.

Finally, coordination must reach beyond the central government. Mechanisms that bring together national and subnational authorities around shared agendas concerning infrastructure, urban policy, climate resilience, territorial development and other issues allow countries to align investments and regulations across levels of government. Evidence compiled by the OECD (2024, 2025a, 2025d) shows that formal intergovernmental coordination platforms, supported by predictable financing arrangements and shared information systems, are critical to avoid unfunded mandates and territorial disparities and to translate national priorities into effective implementation on the ground.

Align national priorities with actual delivery and results

Issue:

In Latin American and Caribbean countries' national development strategies, sectoral policies and long-term visions abound.[2] Yet political leaders often face a different reality: these documents do not sufficiently guide decisions on budgets, regulations or implementation. Plans proliferate without clear prioritization, monitoring is fragmented, and performance information does not systematically feed into cabinet decisions or budget negotiations. When planning and budgeting move on parallel tracks, strategic coherence is lost, and citizens perceive a gap between promises and results (ECLAC, 2012, 2014).

Policy recommendation: Turn strategic planning into a driver of priorities, budgets and accountability

The starting point is to simplify and consolidate the strategic framework. Governments should define a national development strategy as the backbone of public action, in alignment with global and regional commitments, and make sure that sectoral and territorial plans derive from it, rather than coexist in parallel. Reducing the number of overlapping strategies and focusing on a manageable set of priorities help concentrate political attention and institutional capacity where it is most needed.

Planning must be firmly anchored in public finances. Medium-term expenditure frameworks and annual budgets should delineate how the allocated resources will advance the priorities set out in the national strategy, and government ministries should be required to justify their proposals based on the nature of their strategic contributions. When planning authorities and finance ministries operate with shared timeframes, data and analytical tools, the budget becomes the primary instrument for implementing national priorities, rather than an annual negotiation detached from long-term commitments. As has been documented by ECLAC (2012), in several countries the consolidation of medium-term expenditure frameworks and multiannual budgeting have helped reconnect national development plans with budget decisions, moving budget processes away from automatic,

[2] See the ECLAC Regional Observatory on Planning for Development in Latin America and the Caribbean, which compiles the main national planning instruments of the 33 countries of Latin America and the Caribbean, including national development plans, national development strategies, government plans and long-term country vision statements, in order to provide a comprehensive overview of the region's planning frameworks. Available at https://observatorioplanificacion.cepal.org/en/.

inertia-driven allocations and strengthening the budget as the financial expression of government priorities, thus allowing fiscal policy to sustain strategic commitments beyond a single budget cycle.

Monitoring and performance management are equally critical. Governments can develop integrated platforms that track progress on key national targets, combining financial execution, outputs and outcome indicators. Regular reviews at cabinet level, based on this information, allow leaders to identify bottlenecks, reallocate resources and adjust policies. Experience from diverse regions shows that when monitoring is embedded in decision-making, it strengthens both accountability and learning. Studies conducted by ECLAC (2012, 2014) show that performance- and results-based management systems in Latin America and the Caribbean have had the greatest impact when monitoring data on financial execution, outputs and outcomes were systematically reviewed at senior political levels and used to inform policy adjustments and resource reallocations. Conversely, where monitoring systems operated in isolation from cabinet deliberations and budget processes, their contribution to accountability and learning remained limited. Integrating performance reviews into the core management cycle has therefore been critical to strengthening both policy learning and institutional credibility.

Lastly, planning processes must be based on realistic appraisals of implementation capacity. Incorporating assessments of institutional capabilities —including technical, operational, political and prospective (TOPP) dimensions— into the design of reforms helps align ambition with what is feasible, identify where additional capacity is needed and sequence policies over time. A planning system that looks not only at "what" should be done but also at "how" it can be delivered is better equipped to sustain reforms and protect them from the volatility of the political cycle (ECLAC, 2024; Salazar-Xirinachs and Boeninger Sempere, 2025).

Professionalize and mobilize the civil service to sustain reforms over time

Issue:

No strategy can be implemented without a capable civil service. Yet, in many parts of Latin America and the Caribbean, public administrations face persistent challenges in attracting, retaining and motivating talent. High turnover at senior and technical levels, limited mobility across institutions, fragmented training systems and weak performance

management systems undermine the State's capacity to learn and to execute complex reforms. In this context, each administration must rebuild capabilities instead of building on what already exists, which hinders continuity and increases the cost of governing (De Michele et al., 2025).

Policy recommendation: Build a professional, agile and future-ready civil service

Governments should develop civil service strategies that go beyond administrative compliance and focus on capabilities: what skills are needed to design and deliver on the country's main priorities and how to attract and retain people with those profiles. Evidence from the Inter-American Development Bank (IDB) (De Michele et al., 2025) shows that civil service systems centred on procedural control, rather than on strategic capabilities, struggle to support complex reform agendas. In fact, countries with more merit-based, capability-oriented civil service frameworks are better able to sustain policy implementation, coordinate across institutions and adapt to changing priorities, while highly politicized or fragmented personnel regimes generate instability and a recurrent loss of institutional memory.

Careers in the public sector need to offer career development potential, mobility and recognition. Introducing structured career paths, with clear expectations for progression, and enabling movement across ministries and levels of government help spread good practices, prevent the siloing and isolation of expertise and retain talent that might otherwise leave. Experiences in countries that have implemented digital human resource management platforms and internal mobility programmes show that a more flexible public workforce is better able to adapt to emerging priorities and crises. By making competencies, vacancies and career opportunities visible across the civil service, these platforms reduce information asymmetries, facilitate redeployment of skills and support more agile responses without relying on ad-hoc hiring or political turnover, thereby strengthening continuity and institutional learning (De Michele et al., 2025).

Training systems also need to be updated. Public servants need to have specialist knowledge as well as skills in data use, digital tools, public innovation, strategic foresight and stakeholder engagement. National schools of government and training institutes can play a pivotal role by offering modular programmes tailored to different levels of responsibility and linking participation to career development. When learning is treated as an investment in institutional capability, rather than as a formality, civil service administrations become more resilient and adaptive (OECD, 2017).

Finally, performance management should support both accountability and learning. Governments can take steps to phase in systems where objectives are more clearly defined, feedback is provided more regularly and evaluations inform promotions, training and support.

Equip the State to anticipate change, not just manage crises

Issue:

Given the current global context, together with demographic, technological and climate trends, States need to be able to look ahead rather than to be constantly governing in reaction mode. Yet many public administrations in the region remain anchored in short-term horizons, constrained by rigid procedures, a limited use of data and fragmented technical, operational, political and prospective capabilities. As highlighted in the *Overview of Public Management in Latin America and the Caribbean, 2025* (ECLAC, 2026b), strategic foresight, innovation and experimental approaches still tend to rely on individual champions instead of being embedded in durable institutional arrangements.

Policy recommendation: Embed innovation and strategic foresight within the government

Countries need to institutionalize spaces where governments can explore future trends, test new solutions and integrate that learning into core decision-making. Establishing dedicated units for public sector innovation and strategic foresight in centres of government or planning agencies can provide the leadership, structure and continuity that this agenda calls for. These units should work across ministries, supporting their efforts to experiment, evaluate the results and scale up what works. Evidence from Poland illustrates how embedding foresight within central decision-making structures has helped to inform medium-term priorities, support cross-sectoral coordination and strengthen the State's capacity to manage complex transitions, rather than treating foresight as a stand-alone analytical exercise (OECD, 2025b).

Foresight must be operationally linked to policy, budget and reform cycles. Regular horizon-scanning exercises, scenario workshops and strategic dialogues are most valuable when they feed directly into national planning processes, major reforms and strategic investment decisions. ECLAC (Medina Vásquez et al., 2025) has underscored that foresight contributes to a closer alignment between short-term political pressures and long-term development objectives only when it is integrated into decision-making routines, rather

than operating in parallel to them. Training programmes for senior officials and technical staff in systems thinking, data analysis, behavioural insight and design methodologies enable them to approach problems differently. Pilot projects, regulatory sandboxes and "safe spaces" for experimentation allow teams to test innovations at a small scale before broader roll-out, thereby reducing political and operational risk.

Finally, cognitive capacities such as innovation and foresight are most effective when they are embedded in wider communities of practice.[3] Networks that bring together public servants, the private sector, academia and civil society can enrich analyses, provide external challenges and ensure that new approaches are relevant to societal needs.

The main recommendations for this pathway are summarized in table IV.1.

Table IV.1
Policy recommendations for strengthening coherent governance and State capability

Policy challenge	What should be done	What this solves and why it matters
Fragmented mandates, weak coordination and disconnected decision-making limit governments' ability to act.	Strengthen whole-of-government coordination by empowering the centre of government to steer priorities, coordination and delivery.	Creates a unified strategic direction and reduces duplication, competing mandates and policy drift. Clear roles, structured coordination mechanisms and alignment across ministries and levels of government improve coherence, accelerate delivery and reduce volatility across administrations.
National strategies, plans and visions do not effectively guide budgets, regulations or implementation. This creates a gap between ambition and results.	Turn strategic planning into a driver of priorities, budgets and accountability.	Ensures that plans shape real decisions. Aligning strategies with the budget strengthens prioritization, enables long-term commitments and improves implementation.
Civil services lack the stability, mobility, modern skills and performance systems to sustain reforms over time.	Build a professional, agile and future-ready civil service.	Strengthens the technical, operational, political and prospective (TOPP) capabilities needed to deliver reforms. Structured careers, mobility across institutions, modern skills and stronger performance systems improve continuity, attract talent and reduce the erosion of State capacity in the course of each political cycle.

[3] A relevant example is the Network of Parliamentary Committees of the Future of Latin America and the Caribbean, which is coordinated by ECLAC in collaboration with the legislatures of Chile and Uruguay. This initiative brings together parliamentarians and other actors interested in anticipatory governance and legislative foresight who are working to foster the development of prospective capabilities to improve strategic decision-making, institutional adaptability and resilience in the face of rapid technological, social, political and environmental change.

Policy challenge	What should be done	What this solves and why it matters
States remain reactive, oriented towards the short-term and unable to anticipate emerging risks or innovate in policy design and delivery.	Embed innovation and strategic foresight into the government.	Equip governments with the ability to anticipate change, test solutions and integrate forward-looking analysis into planning, budgeting and reforms.

Source: Prepared by the authors, on the basis of Organisation for Economic Co-operation and Development. (2024). OECD Public Governance Reviews: Egypt. Strengthening the foundations for more efficient and effective public governance reforms. *OECD Public Governance Reviews*. https://doi.org/10.1787/d5a42670-en; (2024). Strengthening the innovative capacity of the public sector of Bulgaria. *OECD Public Governance Reviews*. https://doi.org/10.1787/39fa2eed-en; (2025). Governing cross-cutting challenges from the centre in Thailand. *OECD Public Governance Reviews*. https://doi.org/10.1787/cdd76f47-en; (2025). OECD Public Governance scan of Kazakhstan: toward a more agile, responsive and effective public administration. *OECD Public Governance Reviews*. https://doi.org/10.1787/f8298798-en; (2025). Building anticipatory capacity with strategic foresight in government: lessons from Lithuania, Italy, and Malta. *OECD Public Governance Reviews*. https://doi.org/10.1787/d7eb0bb6-en; Economic Commission for Latin America and the Caribbean. (2012). Panorama de la gestión pública en América Latina: en la hora de la igualdad. *Project Documents* (LC/W.426); (2018). Panorama de la gestión pública en América Latina y el Caribe: un gobierno abierto centrado en el ciudadano. *Project Documents* (LC/TS.2017/98/Rev.1); Economic Commission for Latin America and the Caribbean and Latin American. (2014). Panorama de la gestión pública en América Latina y el Caribe. *Project Documents* (LC/W.633); Medina Vásquez, J., Pizarro, P. and Bustamante, A. (2025). Anticipatory governance and legislative foresight: an imperative for Latin America and the Caribbean. *Project Documents* (LC/TS.2025/34). Economic Commission for Latin America and the Caribbean; Naranjo Bautista, S., Mosqueira, E. and Lafuente, M. (2024). *Better Governments for Better Lives: Strengthening State Capacities for Strategic, Meritocratic, and Inclusive Management of Civil Service in Latin America and the Caribbean*. https://doi.org/10.18235/0013264.

B. Restoring trust and institutional legitimacy

Citizens increasingly doubt whether public institutions act fairly, deliver results or speak with authority. This erosion of trust is not abstract. It is visible in everyday interactions with the State, in political debates bereft of credibility and in the growing perception that institutions are either distant, captured or unable to respond to the problems that matter most. When trust is weakened, legitimacy falters because people cease to believe that public authority is exercised with purpose, integrity and fairness.

The numbers confirm what leaders across the region hear every day. Only 35% of people in Latin America and the Caribbean express high or moderately high levels of trust in their national governments, while nearly one in two (48%) report having little or no trust at all (OECD, 2025b). Even when compared with OECD countries, where 39% of respondents say that they trust their government, the region stands at a disadvantage. These perceptions are not a footnote; they shape whether citizens comply with rules, whether firms invest with confidence and whether governments can carry out the reforms that they were elected to implement. Without trust, even the best-designed policies will fail to take root.

At the heart of the problem is a pattern that repeats across the region. Institutions often promise more than they can deliver, generating what the OECD (2025b) calls "performance fatigue": frustration with promises that do not translate into results. Policies change direction with each administration; implementation is uneven; and oversight bodies lack the independence or resources to ensure integrity. The problem is compounded by populist politicians who attack key institutions, deepening the trust deficit while proposing no constructive alternatives.

Rebuild trust through better services and stronger institutional responsiveness

Issue:

The erosion of trust in public institutions is closely linked to citizens' daily experiences in dealing with the State. When services are slow, unpredictable or inequitable or simply mediocre, confidence ebbs, even when macro indicators improve. These perceptions are shaped by concrete interactions: a delayed benefit, an unanswered complaint, inconsistent service quality between territories or a lack of clarity regarding how personal data are handled. When people feel the State does not deliver reliably or fairly, legitimacy weakens, compliance declines and collective action become harder to sustain.

Policy recommendation: Improve core public services to rebuild trust

Rebuilding trust requires visible, measurable improvements in the areas where the State and society interact most directly. Countries should take a strategic, whole-of-government approach to strengthening service delivery, emergency preparedness and institutional responsiveness (OECD, 2025c).

Governments should begin by improving the quality, fairness and accessibility of essential services: administrative procedures, local services and front-line systems such as health and education. This includes reducing waiting times, standardizing procedures across territories, establishing clear service guarantees and strengthening complaint-handling systems so that they provide transparent, trackable responses. Services must also be adapted to meet diverse needs through the introduction of multilingual options, inclusive designs and a combination of digital and in-person channels to avoid deepening inequalities.

Second, governments should strengthen their capacity to prepare for and manage large-scale risks and disruptions. Public perceptions of emergency readiness, whether for natural disasters, epidemics or infrastructure failures, is one of the strongest predictors of trust in government (OECD, 2025c). Investing in risk management systems, simulation protocols, inter-agency coordination and early-warning mechanisms builds credibility and demonstrates that institutions can protect people's lives and well-being when it matters most.

Third, trust grows when institutions demonstrate consistent respect for citizens' rights, including how personal data are collected, stored and used. Building robust data-governance frameworks (transparent rules, independent oversight and clear safeguards) reinforces confidence in digital government and reduces fears of misuse or discrimination.

Finally, improving responsiveness requires the establishment of systematic feedback loops. Governments should report publicly on service standards, publish performance dashboards and incorporate citizen feedback into service redesign (OECD, 2025c).

Restore fairness and credibility by strengthening integrity systems and independent oversight

Issue:

A growing share of the region's population believes that public decisions are shaped more by special interests than by a consideration of the common good. This perception deeply erodes trust. Only 35% of people in the region report having high or moderately high levels of confidence in their national governments, and corruption remains among the top concerns in nearly every country (OECD, 2025c).

Evidence from Latinobarómetro Corporation (2024) reinforces this picture and adds important political context. Trust in government rose during the commodity-driven "virtuous cycle" of the early 2000s, reaching 44% between 2007 and 2008, before declining sharply throughout the 2010s as economic growth slowed, falling to a low of 22% in 2017. Since 2019, confidence levels have partially recovered alongside successive political alternations, reaching around 31% in 2024. This trend indicates that fluctuations in the level of trust in government in the region mirror the different phases of the economic cycle and perceived government performance, thus making the State's legitimacy fragile and highly sensitive to results rather than discourse.

Policy recommendation: Strengthen integrity and oversight to ensure fair public decisions

Restoring trust requires demonstrating that public authority is exercised with fairness, transparency and accountability. Evidence from the OECD (2025c) shows that perceptions of undue influence, weak accountability and limited openness are among the strongest drivers of declining trust in government across countries. Governments must therefore strengthen and enforce modern integrity frameworks that protect public decision-making from special interests. This includes transparent regulation of lobbying, clear and enforceable conflict-of-interest rules and robust requirements for asset, interest and activity disclosure by public officials. These frameworks should be supported by practical guidance, training and digital tools that make compliance straightforward, verifiable and enforceable in practice.

Effective integrity systems also depend on strong and independent oversight. The OECD (2025c) highlights the fact that reinforcing confidence in the independence of public powers, and particularly in the capacity of legislatures to oversee the executive branch, is critical to strengthening trust both in national governments and in public administrations. Parliaments need to have real investigative and technical capacity; supreme audit institutions should move towards more timely and risk-based financial oversight; and anti-corruption bodies must be protected from political interference through merit-based appointments, multi-year mandates and safeguarded budgets.

Integrity and accountability must also be visible and intelligible for the general public. Transparency should go beyond passive disclosure and evolve into an accessible accountability ecosystem, including publicly available data on lobbying, procurement, conflict-of-interest management, sanctions and anti-corruption outcomes. This information should be presented on dashboards, as well as in periodic reports, and clear explanations should be provided about how integrity systems function. Evidence compiled by the OECD (2025c) suggests that initiatives which allow citizens to see how decisions are made contribute to higher levels of trust in legislatures and public administrations, with positive spillovers for overall confidence in government.

Finally, integrity must start at the top. Political leadership plays a decisive role in shaping norms and expectations. Clear ethical standards for government ministers and senior officials, public commitments to uphold the public interest and swift, credible action when standards are breached are essential to restore confidence (OECD, 2025c).

Strengthen meaningful citizen participation to rebuild democratic legitimacy

Issue:

Across the region, members of the public increasingly feel distant from political decision-making, even when they are engaged in public affairs. Many participate, but few believe their voice can influence public policy. This gap between participation and agency deepens frustration, widens institutional distrust and fuels perceptions that governments respond only to organized interests. In this context, rebuilding trust requires giving people visible, credible ways to shape the policies that affect their lives.

Policy recommendation: Expand the scope for meaningful participation that can be seen to have an influence on decisions

Rebuilding legitimacy demands forms of participation that are substantive, visible and consequential. Governments should design participatory processes that are clearly linked to policy cycles so that citizens' input informs how priorities are set, how services are improved and how reforms are implemented.

Participation must be structured around clear mandates and concrete outcomes. Mechanisms such as participatory budgeting, the co-design of local development plans, sectoral dialogues on education, health or productive development policies, and structured consultations concerning regulatory reforms provide citizens with direct channels for influencing decisions (OECD, 2025c). What strengthens trust is not the volume of consultations but the credibility of the process and clarity about how contributions shape results.

For participation to matter, feedback must be systematic and transparent. Institutions should publicly report how citizen inputs were used, what proposals were incorporated and why certain approaches were not adopted. These feedback loops are essential for transforming engagement into confidence and are among the strongest drivers of trust in legislatures, local governments and public administrations (OECD, 2025c).

Participation must also be inclusive and accessible to those who are often excluded from traditional deliberative spaces: youth, women, Indigenous peoples, persons with disabilities and residents of peripheral or underserved areas. This entails diversifying formats (digital

platforms, mobile participation units, targeted assemblies) and ensuring the availability of translation services and of accessibility and logistical support so that engagement is not limited to those already connected to formal political channels (OECD, 2025c).

Finally, participation builds trust when it is accompanied by visible improvements in responsiveness. Local and national governments should track and publish indicators on complaint resolution, service improvements and response times.

The main recommendations for this pathway are summarized in table IV.2.

Table IV.2
Policy recommendations to rebuild trust and strengthen institutional legitimacy and delivery

Policy challenge	What should be done	What this solves and why it matters
Everyday interactions with the State are slow, unpredictable or inequitable, eroding public confidence.	Improve core public services and strengthen institutional responsiveness.	Creates visible and measurable improvements in citizens' daily experience of government. Reduces frustration, increases satisfaction with essential services and strengthens confidence that institutions will deliver results reliably and fairly. Reinforces the credibility of the State by improving service quality, emergency preparedness and data protection.
Perceptions of corruption, biased decisions and weak oversight undermine the credibility of public authority.	Strengthen integrity systems and independent oversight to ensure fair public decisions.	Demonstrates that power is exercised with fairness, transparency and accountability. Modern integrity frameworks and independent oversight reduce discretionary action, prevent undue influence and ensure consistent rule enforcement.
Citizens participate but do not feel their voice influences decisions, weakening democratic legitimacy.	Expand meaningful citizen participation that clearly has an influence on decisions.	Bridges the gap between engagement and impact by creating structured, consequential and inclusive participatory processes. Transparent feedback loops show how public input shapes decisions, strengthening legitimacy and reducing perceptions of exclusion.

Source: Prepared by the authors, on the basis of Organisation for Economic Co-operation and Development. (2025). *OECD Survey on Drivers of Trust in Public Institutions in Latin America and the Caribbean: 2025 Results*. https://doi.org/10.1787/ea3385cf-en.

C. Forging common ground in a polarized political landscape

Political polarization has ceased to be a background tension and has become a defining feature of public life, not only in Latin America and the Caribbean but around the world. (See the section in chapter I on the global decline of democracy and rising political polarization). It undermines the capacity to build shared purpose, weakens the institutional muscle needed to sustain reforms and places governments in a permanent short-term survival mode. What once were manageable differences of opinion are now entangled with deep social inequalities, territorial divides and a growing sense of mistrust that corrodes confidence in democratic institutions.

Added to this is a digital environment that accelerates outrage faster than institutions can process it, giving antagonism a velocity that outpaces the capacity to deliberate. (See the section in chapter I on disinformation and the crisis of truth in the age of AI). The result is a political climate that drains the political system's energy, distracts from long-term development and narrows the space for cooperation at the very moment when countries need it most. It is difficult to recall a period in recent decades where the political visions of leaders and governments in the region have been as polarized or divergent as they are now.

The evidence leaves little room for doubt. In Latin America and the Caribbean, only 17% of citizens trust political parties and 24% trust their nation's congress. Even more tellingly, 42% of Latin Americans believe democracy could function without political parties and 39% think that it could do so without a legislature (Latinobarómetro Corporation, 2024). This is not a data point: it is a warning. It reflects a deeper shift in the political culture of the region; institutional channels are losing their status as the legitimate space in which to process disagreement. As they weaken, conflict migrates to more emotional, identity-driven arenas where cooperation becomes harder and volatility becomes the norm.

Political polarization in the region is not a single expression of division but a layered phenomenon that interacts with the social and institutional fabric. It brings together ideological distance in the sense of disagreements over the direction of development, affective hostility towards political adversaries and structural divides rooted in inequality, ethnicity and geography. These are not abstract categories. They are manifested daily in political discourse, in fragmented public spheres and in the increasing difficulty of building durable agreements. What the literature has described (Iyengar et al., 2019; Gidron et al., 2020) aligns with what governments confront in practice: a form of polarization that is emotionally intense, fragile in terms of its programmatic content and corrosive to the democratic cooperation and basic minimum agreements in the form of social pacts that are required to advance the development process.

Several long-term factors are sustaining and deepening this pattern. Inequality in the region, which has a Gini coefficient of nearly 0.45, remains among the highest in the world. Household survey data further illustrate the depth of this concentration: on average, the top income decile captures around one third of total national income, while the bottom decile receives less than 2%, implying an income gap of more than twenty to one between the richest and poorest 10% of the population (ECLAC, 2025b). Economic stagnation over the past decade has fed frustration and nurtured narratives that frame politics as a confrontation between "the people" and "the privileged few". Volatile party systems and increasingly personalized leadership erode the ability to form stable governing coalitions (International IDEA, 2024). The digitalization of public debate has fractured information ecosystems, replacing shared facts with competing realities.

The consequences for governance are immediate and far-reaching. Polarization weakens the ability of political and societal actors to form broad coalitions, fuels policy reversals and erodes the technical, operational, political and prospective (TOPP) capabilities that institutions need to plan, deliver and sustain long-term reforms (Salazar-Xirinachs and Boeninger Sempere, 2025). It shifts incentives towards short-term confrontation, slows essential reforms through judicialization and makes long-term planning regarding fiscal, productive and environmental matters exceptionally difficult. Under these conditions, disagreement stops being part of a deliberative process and becomes a zero-sum struggle where no actor can commit credibly to sustained action.

Its effects on foreign policy are equally consequential. Domestic fragmentation spills over into external action, generating abrupt shifts in diplomatic alignment and weakening credibility in global negotiations. At a time when the international system is reorganizing around blocs, technological rivalries and climate imperatives, the Latin American and Caribbean region is confronted with a dual asymmetry: internal division and external dispersion. This combination narrows the region's capacity to forge common positions and defend its strategic interests.

Reduce polarization by strengthening redistribution and public goods as well as accelerating the creation of good job opportunities

Issue:

Political polarization in the region is not driven solely by ideological distance or identity-based antagonism; it is greatly reinforced by persistent economic insecurity, extreme inequality and weak social mobility. Where large segments of the population have

stagnating incomes, limited mobility and little social protection, political competition becomes increasingly framed as a struggle between "insiders" and "outsiders", amplifying affective polarization and eroding trust in democratic institutions.

Recent research in the fields of political economy and behavioural political science shows that economic hardship and inequality increase risk aversion across social groups, which in turn fuels affective polarization and the alignment of economic identities with partisan conflict (Stewart et al., 2021). Once it becomes entrenched, this dynamic can persist even when macroeconomic conditions improve, giving rise to a self-reinforcing feedback loop between inequality, mistrust and polarization. In highly unequal contexts such as those found in Latin America and the Caribbean, these dynamics are particularly salient, as distributive cleavages overlap with ethnic, territorial and social divides.

Redistributive policies are not enough to resolve this problem. A large part of economic insecurity is associated with low labour demand, weak labour markets and insufficient employment creation. To reduce economic insecurity, it is also important to increase and sustain higher economic growth rates and good job creation.

Policy recommendation: Use redistributive public goods to weaken the inequality–polarization feedback loop

Reducing political polarization requires addressing its material foundations, not only its discursive or institutional expressions. Governments should deploy credible, progressive redistributive policies centred around universal, high-quality public goods, such as education, health, social protection and basic services, that reduce economic insecurity and narrow distributive gaps in a visible and sustained manner.

There is evidence that a sufficiently robust redistribution of public goods can simultaneously reduce inequality and dampen affective polarization by lowering risk aversion, weakening identity-based economic sorting and expanding the perceived common ground across social groups (Stewart et al., 2021). Importantly, the effectiveness of redistribution depends on its scale and credibility: partial or unstable redistribution may fail to reduce inequality and, in some cases, may even intensify polarization by raising expectations without altering underlying conditions.

From a governance perspective, this indicates that redistributive policy should be framed not only as a social objective but also as a stabilizing political investment. Progressive taxation, when transparently linked to the provision of public goods that benefit broad segments of society, can help rebuild the social foundations of cooperation, reduce zero-sum perceptions of political competition and create conditions more conducive to durable agreements across parties and administrations.

In highly polarized contexts, redistributive public goods thus perform a dual function: they mitigate material deprivation while also reconstituting the social bases of democratic cooperation, making disagreement less existential and restoring space for programmatic politics. As such, redistribution should be understood as a core instrument for managing polarization, rather than merely as a compensatory policy operating at the margins.

Strengthening regional cooperation continuity through functional cooperation mechanisms

Issue:

Polarization does not stop at a country's borders; it spills over into foreign policy and erodes the region's collective capacity to act. Frequent policy reversals and abrupt shifts in diplomatic alignment undermine credibility, weaken bargaining power and complicate the region's engagement in global negotiations. Without mechanisms capable of sustaining cooperation across political cycles, the region struggles to arrive at stable positions, defend shared interests and leverage its considerable strategic assets.

Policy recommendation: Build functional regional coalitions that can weather political cycles

To mitigate the geopolitical costs of polarization, countries should advance functional regional mechanisms that withstand and overcome ideological swings and electoral transitions. As discussed in chapter III, these mechanisms should focus on specific high-impact domains where cooperation is both feasible and strategically necessary, such as the development of regional value chains; digital governance and data standards; the energy transition and critical minerals; climate adaptation and environmental resilience; and logistics and connectivity systems across the region.

Functional mechanisms operate on the principle of pragmatic interdependence, not political alignment. Their purpose is to convert cooperation into a public good by producing shared standards, procurement rules, monitoring indicators and technical protocols that remain valid regardless of changes in government. By anchoring cooperation in evidence, technical mandates and long-term national interests, these mechanisms help rebuild continuity as a strategic foreign policy asset.

To ensure durability, these mechanisms must be embedded in technical institutions with stable mandates that are supported by legal frameworks or regional agreements that grant them operational autonomy from partisan cycles.

Using this approach, integration is reframed, not as ideological alignment, but as the governance of shared vulnerabilities and opportunities. This model strengthens national strategies and enhances the region's collective agency in an international order undergoing profound transformations.

The use of this approach already has precedents in the region. A notable example is the Permanent Technical Dialogue Forum on Lithium Innovation, Technological Development and Value Addition,[4] which has been convened on numerous occasions by ECLAC since 2020. The Forum brings together the leaders of lithium enterprises in Argentina, the Plurinational State of Bolivia, Chile and Mexico to exchange information on institutional frameworks for governing the development of lithium reserves as a strategic resource. This platform has mobilized ministries, public companies, academia and civil society around issues such as revenue management, environmental safeguards and value-chain development. Crucially, cooperation has continued despite ideological changes in participating government administrations, thereby illustrating how technically focused, strategically anchored mechanisms can withstand political volatility and strengthen both regional learning and collective credibility. These lessons offer a practical foundation for scaling up functional regional coalitions capable of weathering the shifts associated with political cycles.

The main recommendations for this pathway are summarized in table IV.3.

[4] The Permanent Technical Dialogue Forum on Lithium Innovation, Technological Development and Value Addition is convened by ECLAC and brings together State-owned lithium enterprises from Argentina (YPF Tecnología [Y-TEC]), the Plurinational State of Bolivia (Yacimientos de Litio Bolivianos [YLB]), Chile (Corporación de Fomento de la Producción [CORFO]) and Mexico (Litio para México [LitioMx]). Under the Forum's First Biennial Action Plan (2022–2024), more than 20 technical coordination and planning sessions were conducted, as well as knowledge-exchange workshops, specialized analytical studies and technical visits to lithium brine operations, laboratories and research and development centres. The Action Plan organizes cooperation around three strategic axes: technological surveillance across the lithium value chain, systematic exchanges of institutional experiences and information, particularly among government-run lithium enterprises, and capacity-building and specialized training. The sustained functioning and progressive expansion of this platform, including its extension beyond the Andean countries, illustrate the potential of technically grounded and strategically anchored cooperation mechanisms to support regional coordination in a geopolitically sensitive sector. (See https://www.cepal.org/en/node/63059).

Table IV.3
Policy recommendations for reducing political polarization

Policy challenge	What should be done	What this solves and why it matters
Economic insecurity and extreme inequality are reinforcing affective polarization.	Use redistributive public goods and progressive taxation to weaken the inequality–polarization feedback loop. Use productive development policies to promote higher, and more sustained and inclusive, economic growth and good job creation.	Addresses the material foundations of polarization by reducing economic insecurity and risk aversion. Credible redistribution through universal public goods lowers zero-sum perceptions, weakens identity-based economic sorting and helps rebuild the social bases of democratic cooperation, making durable agreements across parties and administrations more feasible.
Domestic polarization is weakening regional continuity and international credibility.	Develop functional regional cooperation mechanisms that can weather political cycles.	Anchors cooperation in technical mandates and long-term national interests rather than ideological alignment. Enhances continuity across administrations, strengthens regional credibility and bargaining power, and reinforces collective agency in a fragmented and competitive global order.

Source: Prepared by the authors, on the basis of Stewart, A. J., Plotkin, J. B. and McCarty, N. (2021). Inequality, identity, and partisanship: how redistribution can stem the tide of mass polarization. *Proceedings of the National Academy of Sciences, 118*(50). https://doi.org/10.1073/pnas.2102140118.

D. Confronting the expansion of organized crime

Organized crime has become a structuring force in the region. Although the region has only 8% of the world's population, it is the site of around one third of the total number of homicides worldwide (Bisca, et al., 2024), and the economic cost of crime is estimated at 3.4% of GDP, which is roughly equivalent to four fifths of the regional public education budget (Pérez-Vincent et al., 2024). These figures are not background noise; they describe an environment in which violence, extortion and territorial control distort the development process itself.

The economic effects are well documented. A 10% rise in homicides leads to a 4% contraction in local economic activity (Bisca, et al., 2024) by undermining investment, productivity and youth employment. In many territories, these losses are inseparable from governance weaknesses: a limited State presence, a fragile rule-of-law, corruption and political volatility. Criminal rents then feed coercion and territorial capture, creating a cycle where economies stagnate, institutions weaken and illicit actors strengthen their

position. In some contexts, criminal groups do more than exploit institutional gaps: they provide order, settle disputes, regulate mobility and even offer rudimentary forms of welfare support (Carrión et al., 2026). Every function ceded by the State deepens this asymmetry.

This phenomenon also has a regional and global dimension.[5] Illicit markets (for cocaine, synthetic drugs, illegal mining and logging, human trafficking, cybercrime, contraband) operate through cross-border supply chains and financial circuits that far exceed the capacity of individual States to control. Criminal networks thrive on regulatory asymmetries, porous borders and fragmented security agencies, while governments remain bound by their jurisdictions. The result is a form of criminal interdependence that weakens sovereignty, complicates regional integration and reduces the region's credibility in multilateral settings.

The mechanisms that sustain this criminal economy are neither random nor static. Economic disruptions, such as trade liberalization in Brazil (Dix-Carneiro et al., 2018) or manufacturing displacement in Mexico (Dell et al., 2019), have led to increased violence in cases where workers lost their jobs in the formal economy and criminal organizations were then able to recruit them and profit from the situation. In Peru, spikes in coca prices drew adolescents into illicit work, increasing the likelihood of incarceration years later (Sviatschi, 2024). In El Salvador, deportations of gang leaders spread organizational

[5] Transnational organized crime has also become an area of engagement between Latin America and the Caribbean and major global actors. In the case of the United States, the issue is framed as a central hemispheric security priority, reflected in the "Shield of the Americas" (Americas Counter Cartel Coalition) launched in March 2026. According to the presidential proclamation, the initiative seeks to coordinate the efforts of the United States and its regional partners to dismantle criminal cartels and transnational gangs operating in the hemisphere, deprive them of territorial control and financial resources, strengthen the operational capabilities of partner militaries through training and mobilization, and prevent external actors from outside the hemisphere from influencing regional security dynamics (Trump, 2026). The European Union addresses similar challenges primarily through the Cooperation Programme between Latin America, the Caribbean and the European Union on Drugs Policies (COPOLAD), which supports the strengthening of drug policies across Latin America and the Caribbean. That programme's work has been complemented by commitments adopted at the Summits of Heads of State and Government of the Community of Latin American and Caribbean States and the European Union (European Union-CELAC Summits) of 2023 and 2025 to expand cooperation in countering organized crime, corruption and money laundering, including the launch of the new EU-LAC Alliance for Citizen Security. China has also incorporated security cooperation into its engagement with the region through the Forum of China and Community of Latin American and Caribbean States (China–CELAC Forum) and its successive action plans, which include cooperation in areas such as drug control, human trafficking, money laundering, environmental crime and illegal mining, with emphasis on police training and operational coordination. These initiatives are framed within the five cooperation programmes announced by Xi Jinping at the opening ceremony of the Fourth Ministerial Meeting of the China-CELAC Forum in Beijing on 13 May 2025, and particularly as part of the Peace Programme, which includes cooperation on drug control, transnational crime and law enforcement coordination, as well as in the third China's Policy Paper on Latin America and the Caribbean, released in December 2025.

know-how across municipalities, turning prisons into hubs of criminal skill development (Sviatschi, 2024). Weak accountability mechanisms, selective law enforcement and corruption then cement impunity and further erode citizens' trust.

These impacts are also gendered and territorial. Exposure to crime affects women's mobility, mental health and labour participation (de Hoop et al., 2026). Firms in gang-controlled areas in Mexico face operating costs up to four times higher than their counterparts in other areas (Gopinath, 2024). Cities, ports and border regions where the State is weakest become critical nodes of illicit regional markets.

Restore State authority in communities where criminal actors now set the rules

Issue:

In too many territories across the region, the State does not set the rules; criminal organizations do. These groups exploit weak governance, economic vulnerability and institutional fragmentation to impose their own forms of order: regulating markets, adjudicating disputes, taxing residents through extortion and providing selective "services" that displace the State. When illicit actors govern territory, violence becomes systemic, institutions lose legitimacy and the very ability of the State to protect its citizens is eroded.

Policy recommendation: Re-establish territorial governance by building an integrated State presence

Restoring authority requires more than policing. It demands an integrated State presence capable of simultaneously providing security, services and opportunities. Governments should adopt place-based strategies that combine law enforcement with rapid service deployment, infrastructure rehabilitation and targeted economic programmes. The aim is not only to remove organized crime from the area but also to replace its logic of coercion with credible and legitimate public order. This involves professionalized policing, predictable justice processes and visible service improvements, such as schools that function, health posts that stay open and safe public transportation systems (Carrión et al., 2025).

Territorial recovery requires a clear and disciplined sequence of actions, not a patchwork of isolated efforts. The first priority is to stabilize conditions on the ground through focused, intelligence-driven deterrence and coordinated operations that reduce violence and disrupt the coercive power of criminal actors. As security conditions begin to shift,

governments must move quickly to avoid the humanitarian emergencies that often follow the collapse of criminal control by ensuring access to food, services, protection and urgent social support (Carrión et al., 2025). Only then can the State anchor a permanent institutional presence capable of sustaining the transition: local administrations that operate predictably, justice institutions that enforce the rule of law, social protection offices that remain accessible and mechanisms for meaningful community participation. When this sequence is deployed in an integrated and sustained manner, criminal governance loses legitimacy and territory, and communities begin to re-engage with public authority.

Reduce criminal recruitment by expanding economic and social alternatives for at-risk youth

Issue:

Organized crime in the region gains ground not only through coercion, but also through recruitment. Economic shocks, high school dropout rates, precarious forms of employment and a lack of meaningful opportunities create a pipeline of vulnerable adolescents and young adults that criminal organizations can tap into. Research shows that when legitimate options shrink, violence expands. Evidence from Brazil and Mexico confirms that trade shocks, automation and job displacement lead to significant increases in criminal recruitment and territorial violence. In this context, prevention is a core pillar of security (Inter-American Development Bank [IDB] and International Monetary Fund [IMF], 2024).

Policy recommendation: Expand high-impact prevention systems that block recruitment pathways

Reducing criminal recruitment requires shaping the economic and social incentives that determine whether young people see a future outside of violence. Governments should prioritize high-return interventions with demonstrated effects: conditional cash transfers that keep adolescents in school; vocational training linked to genuinely effective job placement; mentorship and psychosocial programmes; and targeted early-childhood initiatives that change long-term life trajectories (Carrión et al., 2025). These policies reduce the labour supply for organized crime and increase the opportunity cost of joining criminal networks.

Prevention must be territorially focused. Violent crime is spatially concentrated around borders, ports and areas of economic decline. Place-based development strategies (urban renewal, transport access, public space recovery and targeted credit for small firms) can transform the local conditions that criminal networks exploit (IDB and IMF, 2024).

School systems also represent front-line institutions in crime prevention. Absenteeism, rising dropout rates and school-based violence are early-warning indicators. Governments should integrate detection systems, counselling services and strong school-to-work pathways. Preventing recruitment requires acting before criminal organizations do. It is a race that States can win only by means of sustained, coordinated investments (IDB and IMF, 2024).

Target illicit economies and financial circuits that sustain criminal power

Issue:

Organized crime in the region is not only violent; it is also profitable. Illicit markets in commodities and activities such as cocaine, synthetic drugs, illegal mining, wildlife trafficking, cybercrime and contraband form transnational supply chains that far exceed the reach of any single State. Criminal organizations exploit weak borders, uneven regulations and financial loopholes to move products, launder gains and reinvest in violence. Without disrupting these economic circuits, enforcement remains reactive and criminal groups regenerate.

Policy recommendation: Focus on strategic markets, disrupt financial flows and close regulatory gaps

Governments should target the illicit economies with the highest social, environmental and security costs through integrated policy packages combining enforcement, financial investigation and regulatory tightening. Controlling supply chains requires stronger customs controls, transparent mining regimes, regulation of high-risk sectors (real estate, vehicles, cryptocurrencies) and international cooperation that aligns legal frameworks and facilitates information exchange (Carrión et al., 2025).

Financial intelligence must become a central pillar of security policy. Strengthened financial intelligence units, expanded access to financial data subject to legal safeguards, forensic accounting in prosecutors' offices and coordinated money-laundering investigations can be used to dismantle the financial infrastructure that allows criminal networks to scale. Targeting financial flows weakens illicit markets more effectively than episodic interdiction (Carrión et al., 2025).

Regulation of the lawful economy also matters. Crime thrives where weak governance results in poorly regulated ports and free-trade zones, opaque business environments and fragmented land registries (Carrión et al., 2025; IDB and IMF, 2024). Strengthening these systems reduces the arbitrage opportunities that criminal organizations exploit.

Build regional and international coalitions that match the transnational scale of organized crime

Issue:

While organized crime is transnational, State responses remain overwhelmingly national. Criminal networks coordinate across borders, diversify risks and exploit jurisdictional gaps. Meanwhile, regional cooperation is often limited by political mistrust, uneven institutional capacity and inconsistent legal frameworks.

Policy recommendation: Create functional, depoliticized cooperation mechanisms focused on joint enforcement and intelligence

Governments should work to advance regional cooperation that is technically oriented, mission-focused and insulated from political cycles. This type of cooperation involves interoperable information systems, joint investigation teams with permanent mandates, shared financial intelligence protocols and cross-border early-warning mechanisms. Harmonized legal definitions, standardized procedures for evidence sharing and coordinated strategies for blocking flows of arms and chemical precursors would close the gaps that criminal networks exploit (Carrión et al., 2025).

Stronger border and port governance is essential. Investments in scanning technology, anti-corruption mechanisms, integrated border posts and bilateral patrols increase the cost of moving illicit goods. Cooperation with extraregional partners, particularly those working to put a stop to flows of weapons or illicit drugs, must be structured around shared responsibility and transparent monitoring.

Regional coalitions must also address long-term drivers of criminal power: economic vulnerability, a weak rule of law and an uneven State presence. By aligning social policy, economic development and security strategies across borders, countries can reinforce one another's efforts and prevent displacement effects that simply push crime into neighbouring countries.

The main recommendations for this pathway are summarized in table IV.4.

Table IV.4
Policy recommendations to confront the expanding power of organized crime in Latin America and the Caribbean

Policy challenge	What should be done	What this solves and why it matters
Criminal organizations exert de facto control over communities, displacing State authority and legitimacy.	Restore State authority through integrated territorial governance and a permanent institutional presence.	Re-establishes public authority where criminal groups currently set the rules. A coordinated sequence of security stabilization, humanitarian protection and institutional consolidation will reduce violence, restore essential services and rebuild public confidence in the State's ability to protect, deliver and govern.
Economic vulnerability, a high school dropout rate and limited opportunities fuel criminal recruitment among adolescents and young adults.	Expand economic and social alternatives to block recruitment pathways.	By increasing the opportunity cost of joining criminal groups, prevention policies reduce the labour supply on which organized crime depends. High-impact interventions in such areas as education continuity, job-linked vocational training, early-childhood support and urban renewal reduce long-term violence, strengthen local development and address the structural vulnerabilities that criminal groups exploit.
Illicit markets and financial circuits give criminal groups the resources and networks they need to expand their power.	Target strategic illicit economies and disrupt financial infrastructures.	Prioritizing high-impact illicit markets and strengthening financial intelligence undermine the profitability of criminal activity. Closing regulatory loopholes, modernizing customs controls and port security mechanisms, and tightening oversight of high-risk sectors make it harder for criminal networks to launder proceeds, reinvest in violence or expand across borders.
Criminal networks operate transnationally, while State responses remain fragmented, politically volatile and bounded by national borders.	Build functional, depoliticized regional cooperation mechanisms focused on enforcement and intelligence.	Harmonized legal frameworks, interoperable information systems and joint investigation teams close jurisdictional gaps that criminal organizations exploit.

Source: Prepared by the authors, on the basis of Carrión, F., Macaroff, A., Niño, C., Oviedo, E. and Rico, M. A. (2026). *Report. First seminar on the impact of organized crime on the economy of Latin America and the Caribbean. From data to policy: measuring criminal economies for public decision-making, ECLAC, Santiago, 23 and 24 September 2025* (LC/TS.2025/121). Economic Commission for Latin America and the Caribbean; Bisca, P. M., Chau, V., Dudine, P., Espinoza, R. A., Fournier, J. M., Guérin, P., Hansen, N. J. H. and Salas, J. (2024). Violent crime and insecurity in Latin America and the Caribbean: a macroeconomic perspective. *Departmental Paper*. (2024/009). https://doi.org/10.5089/9798400288470.087.

Final remarks

This chapter has approached governance through a political rather than a purely institutional lens in recognition of the fact that it is a contested arena in which development ambitions, social demands and power relations are continuously negotiated. In the current global environment, governance has become a question of political viability, that is, what States can realistically sustain over time under conditions of constraint, polarization and external pressure.

The foregoing analysis suggests that many of the region's governance difficulties are not best understood as failures of design, but rather as outcomes of structural tensions. Rising expectations coexist with limited fiscal and administrative space; demands for rapid change collide with weak coordination and short political horizons; and pressures for inclusion and accountability unfold alongside the erosion of trust and the growing influence of illicit actors. These tensions help explain why reforms often stall, are reversed or fail to be consolidated, even when their technical rationale is broadly accepted.

The chapter emphasizes that strengthening governance inevitably involves navigating trade-offs rather than implementing optimal solutions. Policy continuity may require accommodation and sequencing; legitimacy may depend as much on visible delivery as on procedural integrity; and governability in polarized contexts may rest on the ability to contain conflict rather than to resolve it. Functional regional cooperation, when anchored in concrete mandates and long-term interests, can mitigate some of these constraints, but it, too, is shaped by domestic political incentives and asymmetries across countries.

The discussion presented in this chapter also underscores that organized crime represents not only a security threat but also a governance challenge of the first order and has a direct impact on State authority, territorial control and policy credibility. Meeting this challenge will require integrated strategies that combine prevention, institutional strengthening and cross-border cooperation, while insulating core functions from short-term political cycles.

Ultimately, the argument being made is that, in a world of sharper competition and politicized interdependence, the ability to sustain credible commitments, manage conflict and coordinate action over time becomes a decisive source of resilience. For Latin America and the Caribbean, the central challenge is therefore not to achieve convergence on ideal governance models, but instead to expand the scope of what is politically feasible so that development strategies can endure, adapt and deliver under conditions of uncertainty.

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Chapter V

The quest for regional agency in a changing world order

Chapter summary

The preceding chapters have built an argument that can be summed up in two parts. First, Latin America and the Caribbean is neither empty-handed nor lacking in options as it faces up to a period of ruptures in the international order. Second, converting its significant strategic assets into development gains and international agency requires deliberate activation strategies, effective governance and a regional stance suited to a world where interdependence has become an instrument of power.

Chapter I documented a number of ruptures in the international order, one of which is the transition from a system organized around shared multilateral rules to one increasingly dominated by power, strategic rivalry and fragmented governance. That chapter also identified four scenarios for how the consequences of this and related ruptures might unfold. Chapter II assessed the region's position within this shifting landscape: the Latin American and Caribbean countries are caught in three interrelated development traps and suffer from a number of structural gaps, yet also possess significant strategic assets that, under the right conditions, can be leveraged for developmental advantage and international influence. Chapter III translated that diagnosis into an action-oriented framework for activating these assets. Chapter IV established that the effectiveness of any such strategy depends critically on governance and institutional capacity. It further argued that whether the region's strategic assets become sources of resilience or vulnerability will be determined to a significant degree by the quality and legitimacy of the governance arrangements through which they are managed.

This chapter takes up the question that follows from the above argument: given the assets the countries of the region possess, the strategies available to activate them and the governance conditions required to do so effectively, what choices do the Latin American and Caribbean

countries have in seeking to navigate a world order that is experiencing several ruptures? In other words, how and to what extent can the countries of the region exercise genuine agency rather than simply absorbing the consequences of choices made elsewhere?

The chapter examines the choices available to the countries of the region in their quest for international agency. Its purpose is not to set out a concrete action plan, which is the prerogative of national governments, but to propose a framework for thinking about strategic choices and offer some principles and orientations for navigating this new phase of great power rivalry. It does so by focusing on three key domains: security, the economy and values. It then suggests areas in which a convergence of interests among Latin American and Caribbean countries can lead to collective action. Finally, it offers a set of principles for the countries of the region to steer by in the emerging world order.

A. A framework for thinking about the strategic choices before the region

The previous chapters have made it clear that the international order is being reshaped under the pressure of weaponized interdependence and great power rivalry. What is less clear is the new configuration that will emerge from the current moment of transition or interregnum. Latin America and the Caribbean faces this pivotal moment with significant regional assets but also with deep asymmetries of power and capabilities relative to the main global powers. The key issue is therefore the extent to which the region can exercise agency against this backdrop. Agency does not mean complete autonomy from the international system, which is neither feasible nor desirable. It means something more practical and attainable: the ability to convert its assets into influence, to protect its room for manoeuvre and to sustain credible commitments in a global environment where interdependence has become increasingly weaponized. The core strategic question is simple, even if the answer is not: how and to what extent can the region avoid either international irrelevance (Schenoni and Malamud, 2021) or a situation in which it is drawn into subordination and incurs high opportunity costs because of great power rivalry?

The concept of autonomy has a long tradition in Latin American foreign policy debates and scholarship (Míguez, 2021; Lima and Pinheiro, 2018). Almost fifty years ago, Helio Jaguaribe (1979) and Juan Carlos Puig (1980) offered a distinctly Latin American approach to this concept which retains much of its relevance today. Autonomy was not conceived by them as full independence from the international system, but as the expansion of

national (or regional) room for manoeuvre within an asymmetric international system. Crucially, autonomy is not uniform across domains. For example, a country may have considerable leeway to conduct its trade relations while remaining much more constrained in security matters. This differentiated understanding of autonomy is particularly relevant in today's fragmented environment.

More recently, the concept of "active non-alignment" has been put forward as a strategy for the Global South, and particularly for Latin America and the Caribbean, in an era of renewed great power rivalry (Heine et al., 2025). Active non-alignment recognizes that a country may simultaneously maintain strong economic links with multiple partners, engage with yet others in security matters and uphold a normative commitment to democracy, human rights and multilateralism. It is not neutrality or equidistance but an active and pragmatic pursuit of national and regional interests under structural constraints. Instead of blanket alignment with one or another global power, it calls for issue-specific, variable-geometry cooperation schemes where partners may differ across topics.

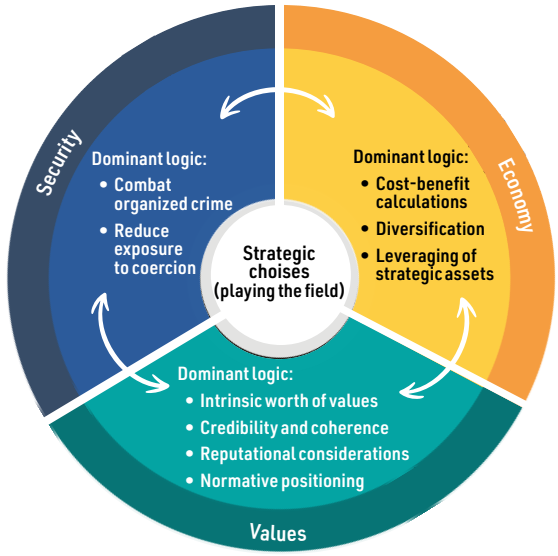
Empirical evidence suggests that this pattern has indeed characterized much of Latin American diplomacy in recent times. For example, an analysis of voting behaviour in the General Assembly of the United Nations between 2001 and 2023 (Talvi and Leiva García, 2024) shows that countries in the region have tended to align with the United States and the European Union (EU) on issues related to values such as human rights, sovereignty and territorial integrity while often siding with China on economic matters such as development, trade and sanctions. This pattern points to a pragmatic form of issue-specific alignment.

The regional autonomy concept acquires renewed relevance in a context marked by the transformation of economic interdependence into an instrument of coercion (Farrell and Newman, 2019, 2025; Bego, 2025). Economic sanctions, export restrictions, investment screening mechanisms and control over supply chain chokepoints are being routinely used by major powers to pursue geopolitical goals. Interdependence, once framed primarily as a source of mutual gain, is now increasingly seen as a source of leverage for some actors and of vulnerability for others.

When coercive instruments are normalized, they alter expectations and behaviours across the system. Supply chains, financial networks, digital infrastructures and access to critical technologies and resources can all become pressure points. The rise of weaponized interdependence is thus reshaping national strategies all over the world. "Hedged globalization" (Tan, 2025) is gaining traction as countries seek multiple economic partners to reduce their exposure and vulnerability to geopolitical coercion.

The challenge for Latin America and the Caribbean is understanding its own chokepoints and managing the associated risks intelligently. Hedging and selective de-risking become central elements of any strategy geared towards that goal. At the same time, important limits and trade-offs must be acknowledged. To structure this analysis, we propose a conceptual framework organized around three domains that shape strategic choices: security, the economy and values (see figure V.1).

Figure V.1
Strategic choices framework for foreign policy: security, the economy and values



Source: Prepared by the authors.

The analytical framework proposed in this chapter draws on a consolidated tradition in international relations theory. The distinction between issue areas as differentiated spaces of State behaviour was developed by Holsti (1970), who demonstrated that State preferences, coalition patterns and bargaining outcomes varied systematically depending on the substantive domain concerned. This insight was later incorporated into the liberal institutionalist tradition by Keohane and Nye (1977), whose concept of complex interdependence established that military, economic and transnational dimensions of inter-State relations operated according to different logics and involved different

distributions of power and vulnerability. Later, Putnam's two-level games framework (Putnam, 1988) elaborated on the ways in which domestic and international pressures interact differently across issue areas.

From a realist perspective, Waltz (1979) argued that under conditions of international anarchy, security imperatives ultimately override economic and normative considerations when they come into conflict, since survival is the precondition for the pursuit of any other State objective. Gilpin (1981) extended this logic to the economic domain, demonstrating that the structure of international trade and investment is shaped by the distribution of political and military power among States, and not only by comparative advantage or market efficiency. The coercive potential of asymmetric economic interdependence was first theorized systematically by Hirschman (1945), who demonstrated that trade dependence generates political leverage for the stronger party, an insight that Mastanduno (1998) later extended to great power economic statecraft and that Farrell and Newman (2019, 2025) have updated for the era of global financial and digital networks.

The three-domain framework applied in this chapter thus inherits a theoretically grounded lineage: rather than assuming uniform State behaviour across all areas of foreign policy, it proceeds from the empirically supported premise that strategic choices are domain-specific, that power asymmetries likewise differ by domain and that coalitions and alignments need not be (and in practice are not) replicated uniformly across them. This framework suggests that the region has the possibility of differentiated choices in these different domains and thus some room for manoeuvre. Even amidst great power rivalry, not everything is vulnerability and dependence.

Security

In the case of Latin America and the Caribbean, constraints are most evident in the security domain. The countries of the region are not global military actors, and their security arrangements depend heavily on access to external technologies, guarantees and intelligence. Despite increasing engagement by other actors, mainly China,[1] the United States is by far the dominant external player in Latin America and the Caribbean's security landscape. Historically, United States predominance in the region has been

[1] In recent years, China has expanded its military engagement with the region, particularly through so-called "military diplomacy" activities (defence education and training programmes, exchanges between military institutions and high-level defence dialogues). Indeed, since 2020 the number of Latin American and Caribbean military personnel enrolled in Chinese military colleges has been more than five times the number enrolled in the United States (Berg et al., 2025).

underpinned by an extensive network of defence cooperation initiatives, including military education and training programmes, joint exercises and intelligence-sharing, usually coordinated through the United States Southern Command (SOUTHCOM), the military body responsible for security cooperation with Latin America and the Caribbean.[2] Moreover, recent United States strategic doctrine has put a strong emphasis on the concept of the "Western Hemisphere" as a space of particular strategic interest. Thus, the latest National Security Strategy of the United States of America states: "After years of neglect, the United States will reassert and enforce the Monroe Doctrine to restore American preeminence in the Western Hemisphere, and to protect our homeland and our access to key geographies throughout the region. We will deny non-Hemispheric competitors the ability to position forces or other threatening capabilities, or to own or control strategic vital assets in our Hemisphere" (The White House, 2025, p. 15).

As highlighted in chapter II, Latin America and the Caribbean was the world's first nuclear weapon-free zone and is one of the few regions without active inter-State wars. Its engagement with external partners in the security domain is thus selective, concentrating on defence cooperation, dual-use technologies and intelligence-sharing rather than comprehensive alliances. Strategies focus less on deterrence or power projection than on containing specific vulnerabilities, notably those derived from the action of transnational organized crime.

United States preponderance in the region's security arrangements has been further reinforced by the launch in March 2026 of the "Shield of the Americas" initiative, also known as the Americas Counter Cartel Coalition. According to the United States Department of State, the initiative will bring together "our strongest and most like-minded allies in the hemisphere" to promote freedom, security and prosperity in the region, advancing joint strategies to confront foreign interference, criminal gangs and drug cartels, and irregular migration (United States Department of State, 2026a). As of April 2026, sixteen countries from the region had signed up to this initiative, although several of the largest ones had not.

Economy

In the economic domain, the range of available options is broader but uneven. As shown in chapter II, Mexico, Central America and the Caribbean remain primarily linked to the United States in the fields of trade, foreign direct investment (FDI) and remittances. Those links are generally weaker in the case of South America, especially as regards trade,

[2] The only exception is Mexico, which falls under the area of responsibility of the United States Northern Command (NORTHCOM) (Berg et al., 2025).

with China now the top trading partner (and a major foreign investor). Notably, while China is not among the top export destinations for several countries of Latin America and the Caribbean, it ranks among the top three import sources for almost all of them. It is also an important partner for infrastructure development.

Over the last three decades, to differing degrees, most Latin American and Caribbean countries have sought to diversify their trade and investment partners. Proof of this is the vast and expanding network of preferential trade agreements linking the region with the United States,[3] China and the European Union, as well as with other important partners such as Japan, India, the Republic of Korea and the Association of Southeast Asian Nations (ASEAN) (see table A1.1 in the Annex). The participation of three Latin American and Caribbean countries (Chile, Mexico and Peru) in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), with three more (Costa Rica, Ecuador and Uruguay) as accession candidates, is further evidence of interest in diversifying trade partners and upholding rules-based trade relations.

The countries of Latin America and the Caribbean have also sought to diversify their sources of external financing: as of March 2026, seven of them were members of the Asian Infrastructure Investment Bank (AIIB)[4] and over 20 had signed memorandums of understanding (MOUs) with China to participate in its Belt and Road Initiative. Latin American and Caribbean countries also participate actively in the European Global Gateway initiative, while Brazil is a founding member of the New Development Bank (NDB), established in 2015 by the BRICS countries.

As competition between the United States and China has escalated globally over the last decade, its repercussions have increasingly been felt across the region, not least in the economic domain. In line with the hemispheric security logic outlined in its National Security Strategy, the United States is seeking to limit the ability of non-hemispheric competitors to gain control over strategic assets and critical infrastructure in the region.[5] Against this backdrop, decisions by Latin American and Caribbean governments

[3] As a result of the profound shift in the trade policy of the United States since 2025, many of the tariff elimination commitments contained in its free trade agreements (FTAs) with Latin American countries have been unilaterally suspended. The main exception is the United States-Mexico-Canada Agreement (USMCA). In some cases, those FTAs have been supplemented by highly asymmetrical Agreements on Reciprocal Trade.

[4] Argentina, Brazil, Chile, Ecuador, El Salvador, Peru and Uruguay.

[5] "The terms of our alliances, and the terms upon which we provide any kind of aid, must be contingent on winding down adversarial outside influence—from control of military installations, ports, and key infrastructure to the purchase of strategic assets broadly defined" (The White House, 2025, p. 17).

regarding strategic sectors and technologies such as energy, critical minerals and digital infrastructure are increasingly being subject to external pressures and conditionalities, as the logic of security penetrates economic relations.

Values

The third domain, that of values, concerns States' normative preferences on issues such as democracy, human rights and multilateralism. By and large, Latin American and Caribbean countries' foreign policies during the post-Second World War period have reflected a commitment to liberal or Western democratic values (Hirst et al., 2024). However, in the actual practice of foreign policy, normative commitments must coexist with pragmatic, interest-driven decisions. This is especially the case in a world where Western values are not necessarily shared or accepted as universal by States representing growing shares of the world's population and economy. Moreover, as examined in chapter I, those same values are increasingly being contested within the West itself.

Integrating the three domains

In principle, the three domains identified above need not necessarily move together: a country or group of countries may cooperate in security matters with one partner, be more economically integrated with another and share more values with a third. However, the three domains interact. In practice, the "hard" dimensions of security and the economy largely determine the space to pursue alliances or coalitions based on values or shared visions. Mindful of this, Finnish President Alexander Stubb coined the term "values-based realism" as "a set of universal values based on freedom, fundamental rights, and international rules, which take into account the realities of global diversity, culture, and history of the nation states, regions and continents that make up the global order of international relations" (Stubb, 2026). This concept underlies the call by Canada's Prime Minister Mark Carney during the latest World Economic Forum Annual Meeting for middle powers to act together and seek variable-geometry, issue-specific coalitions with partners who share enough common ground to act together.[6]

[6] "…to help solve global problems, we're pursuing variable geometry. In other words, different coalitions for different issues based on common values and interests… It's building coalitions that work issue by issue with partners who share enough common ground to act together. In some cases, this will be the vast majority of nations… Our view is the middle powers must act together because if we're not at the table, we're on the menu" (World Economic Forum, 2026).

Along similar lines, Zhiyenbayev (2023) documents how secondary powers increasingly navigate great power rivalry through flexible, issue-specific coalitions rather than rigid blocs. Such variable-geometry arrangements allow cooperation on areas such as the energy transition, digital standards or financial reform without requiring comprehensive geopolitical alignment.

The strategy of pursuing variable-geometry, issue-specific coalitions with partners who share common interests also makes sense for the countries of Latin America and the Caribbean in the quest to retain as much autonomy as possible. Probably the most difficult challenge facing the region in this regard is navigating the tensions and frictions entailed by its strong economic links with both the United States and China. The countries of the region should as far as possible avoid "picking sides" between the world's two largest economies, while recognizing that the viability of this aspiration will vary between individual countries and issue areas. Concerning the latter, it is crucial to identify those areas where diversification strategies are more feasible (e.g. trade) and those where pressures for alignment will be stronger, such as security, technologies and critical infrastructures.

Although seeking coalitions with partners outside the region is essential (more on this below), a good strategy for maximizing global influence and developmental benefits is to pursue regional coordination around issues where there is a critical mass of shared interests. Here the countries of the region should try to avoid two equally misleading ideas. The first is the utopian idea that regional coordination should be comprehensive, ambitious and based on ideological alignment. Clearly political polarization and fragile regional institutions make this unviable. The second is the idea or attitude of total scepticism, i.e. thinking that because comprehensive coordination is too hard to achieve, meaningful regional agency is out of reach and should not even be attempted.

A more realistic approach emerges from the region's own intellectual tradition of autonomy and respect for national sovereignty and from the practical experience of issue-based cooperation. In a world shaped by weaponized interdependence, the choices facing Latin American and Caribbean countries are rarely black and white. They are about reducing vulnerabilities without closing off opportunities, about leveraging strategic assets without overexposing them to foreign pressures, and about preserving credibility without being locked into rigid positions. Being clear about these trade-offs is essential to identify where functional convergence is possible, where compromises are inevitable and where strategic assets can be leveraged for geopolitical and developmental advantage. The next section identifies and discusses possible areas for regional coordination and cooperation.

B. Regional coordination for increased geopolitical resilience and influence

The baseline hypothesis of this section is that, in light of both the region's fragmented political environment and the new global geopolitical context, regional coordination and cooperation are extremely important but must be selective and functional (i.e. focus on specific issue areas). It is suggested that priority be given to those areas where three conditions are simultaneously met: (i) there is cross-cutting interest in coordination among governments with different political orientations; (ii) coordination and cooperation would reduce the region's geopolitical vulnerability and/or improve its external bargaining capacity; and (iii) concrete operational instruments for moving forward exist or could be established.

As argued in chapter III, candidates for concerted action are areas associated with regional and global public goods and/or common strategic assets. These include, among others, trade and investment, development financing and financial stability, digital standards and governance, physical and digital infrastructure, action against transnational organized crime, biodiversity, energy, health, critical minerals, food security, water and ocean resources, and climate risk management.

On trade, for instance, just as Latin America and the Caribbean has historically defined itself as a zone of peace that is free of nuclear weapons, it should also consolidate a position as a region with strong trade and investment integration and without internal trade wars. This means, not necessarily that its countries should aspire to be an FTA, which was the objective some decades ago, but that they should avoid using coercive trade instruments against one another. In a world of weaponized interdependence, maintaining the predictability of intraregional trade is in itself a strategic asset and a major imperative.

Besides coordination and cooperation within the region itself, collective action can also increase the region's influence in global governance forums and organizations where key international rules that directly affect it are set. As shown in chapter II, the 33 Latin American and Caribbean countries are very diverse, and therefore their national interests are unlikely to coincide fully on any particular topic. However, there is enough in the way of common ground and common interests to justify concerted regional action in a number of areas. It is useful to divide these areas into two major categories:

(i) regional public goods and common strategic assets, and (ii) global governance processes, forums and organizations. The next sections will briefly consider a number of potential areas of cooperation within these two categories.

Regional public goods and strategic assets

Critical minerals

As discussed in previous chapters, the world is seeing a rise in economic nationalism surrounding critical minerals, whereby global powers seek to secure strategic supplies and minimize external dependencies. The United States, the European Union, China, India and Japan, among others, are competing to secure stable supplies of these minerals. For example, China has already secured a strong presence through FDI in the so-called "lithium triangle" formed by Argentina, Chile and the Plurinational State of Bolivia and in the copper sectors of several countries, while India has been pursuing strategic partnerships with Argentina and the Plurinational State of Bolivia for lithium exploration and mining since 2024 (News On Air, 2025; Ministry of Foreign Affairs of the Plurinational State of Bolivia, 2025).

For Latin America and the Caribbean, this new geoeconomic context creates a window of opportunity to translate its natural resource endowments into sustained productivity gains and structural transformation. Capturing these gains means moving beyond extraction into processing, refining and technology-intensive segments, strengthening domestic linkages and building technological capabilities, as highlighted in chapter III.

Major economies are already deploying a range of policy and investment instruments to secure access to critical minerals and develop associated value chains, such as the EU's Global Gateway and RESourceEU strategy (European Commission, 2025), China's Belt and Road Initiative and the recently launched, United States-led Forum on Resource Geostrategic Engagement (FORGE) project.[7] These initiatives provide an opportunity to align external demand for strategic minerals with domestic productive development and added value objectives. The challenge is to leverage such partnerships not only to attract investment, but to enhance local value chains, foster technology transfer, build human capital and increase productivity.

[7] FORGE is a cooperation framework that seeks to strengthen partnerships with both consuming and producing countries, including several in Latin America, around the development of resilient critical mineral supply chains (United States Department of State, 2026b).

Realizing these gains will require stronger coordination among critical mineral-producing countries. Without such coordination, countries tend to operate in isolation, deploying uncoordinated regulatory regimes and competing incentive schemes to attract similar investments. This leads to duplicated efforts, fragmented projects and disconnected production stages that could have been more efficiently distributed between countries. Strengthened cooperation can help address these failures by aligning investment frameworks, enabling scale in selected segments, facilitating the exchange of regulatory experiences and best practices and supporting more coherent positions in interactions with external partners.

A concrete area where coordination can yield major gains is productive integration around electromobility value chains. Cooperation could advance joint manufacturing initiatives in higher value added segments, such as electrical components and battery-related inputs, as well as the development of industrial partnerships around other technologies forming part of the energy transition.

Existing platforms provide a basis for such efforts. The Mines Ministries of the Americas Conference (CAMMA) serves as a forum for political and technical coordination on mining matters across the region. At its meeting in August 2025, ministers approved the new terms of reference of the Conference and designated the Economic Commission for Latin America and the Caribbean (ECLAC) as its Technical Secretariat. In this role, ECLAC is coordinating the preparation of CAMMA's 2026–2028 Biennial Action Plan (Economic Commission for Latin America and the Caribbean [ECLAC], 2025b). ECLAC also serves as the Technical Secretariat of the Permanent Technical Dialogue Forum on Lithium Innovation, Technological Development and Value Addition in the Countries of the Lithium Triangle, Brazil and Mexico (ECLAC, 2026).

Oceans

The global oceans agenda spans a broad range of topics and forums. Here it is proposed that regional action be focused on four specific dimensions: plastic pollution, fisheries sustainability and subsidy reform, deep sea mining, and the impact of climate change on oceans.

Plastic pollution

The region is severely affected by marine pollution. In particular, the Caribbean registers far higher levels of floating and beach litter (mainly plastics) than the world average despite its small population. In 2022, the United Nations Environment Assembly (UNEA) mandated the negotiation of a legally binding international instrument on plastic pollution, including in the marine environment. However, so far consensus between countries calling for production cuts and those (mainly petroleum producers) advocating an approach focused mainly on recycling has proved elusive.

The countries of the region could jointly promote a binding treaty that: (i) reduces plastic production and phases out problematic formats; (ii) regulates chemicals of concern; (iii) establishes cross-border extended producer responsibility with full value chain transparency; (iv) secures finance, technology transfer and a just transition, with priority for small island developing states (SIDS); and (v) is compatible with biodiversity beyond national jurisdiction (BBNJ) and the Kunming-Montreal Global Biodiversity Framework of the Convention on Biological Diversity.

Fisheries sustainability and subsidy reform

Overfishing remains the largest threat to ocean biodiversity. It is exacerbated by subsidies that fuel distant water fleets, many operating near or even inside countries' exclusive economic zones. In September 2025, the World Trade Organization (WTO) Agreement on Fisheries Subsidies, known as "Fish 1", entered into force, banning subsidies for illegal, unreported and unregulated fishing, the fishing of overfished stocks and unregulated high seas fishing. However, the negotiations on a second package of disciplines ("Fish 2") remain stalled because of disagreements on overcapacity and fuel subsidies that benefit distant fleets. The stakes are high for the region: more than 2.3 million people there rely on the fisheries sector, and its combined fisheries, aquaculture and processed seafood exports exceed US$ 20 billion annually. Since Latin America and the Caribbean accounts for only about 6% of the world's harmful subsidies, it would benefit from a successful conclusion of the Fish 2 negotiations, gaining in competitiveness, sustainability and food security. Moreover, if Fish 2 is not adopted within three years, Fish 1 will lapse, seriously weakening global fisheries subsidy governance and undermining progress towards SDG 14 (Conserve and sustainably use the oceans, seas and marine resources for sustainable development).

The countries of the region could jointly push for a quick and meaningful conclusion to the Fish 2 negotiations establishing effective prohibitions and limits on subsidies that drive overcapacity and sustain distant fleets, while reinforcing transparency and implementation assistance to protect small-scale fisheries and coastal livelihoods across the region.

Deep sea mining

Commercial exploitation of mining resources in areas beyond national jurisdiction has not yet begun; exploitation regulations for the International Seabed Authority (ISA) Mining Code are under negotiation. Environmental risks and scientific uncertainties remain considerable, and support for a moratorium or precautionary pause has grown. For economies with a high degree of dependence on terrestrial mineral revenues, including several in the region, there are also risks of exposure to market shifts and environmental liabilities.

In the context of the Mining Code negotiations at the ISA, the countries of the region could support a precautionary pause on exploitation until agreement has been reached on binding environmental thresholds, robust anti-corruption and transparency mechanisms, an operational Common Heritage Fund and full consistency with the United Nations Agreement on Marine Biological Diversity of Areas beyond National Jurisdiction (BBNJ).

Climate change and oceans

Ocean warming is accelerating, altering currents and wind patterns, degrading corals, mangroves and seagrass, contributing to sargassum blooms and hitting fisheries, tourism and ports. Evidence confirms that of all world regions, Latin America and the Caribbean, and especially the Caribbean, is now one of the most vulnerable to these impacts. For example, marine and coastal tourism accounts for 53% of the region's ocean economy exports, and inbound tourism expenditure represents an average of 21.9% of GDP in its SIDS (ECLAC, 2025a). Progress depends primarily on substantial emission cuts by major emitters.

Within the different bodies of the United Nations Framework Convention on Climate Change,[8] the countries of the region could press major emitters to deliver: (i) greater mitigation ambition consistent with a "safe and just" trajectory; (ii) immediate technology transfer for ocean-based adaptation and mitigation (coral and mangrove restoration, marine

[8] Including the Conferences of the Parties (COPs), the Fund for Responding to Loss and Damage and the Green Climate Fund.

heatwave and sargassum early warning, coastal protection, shipping decarbonization, sustainable blue foods, marine renewables, etc.); and (iii) blue finance and debt relief packages for SIDS and highly vulnerable countries, with annual metrics on disbursements and technologies transferred.

Biodiversity

Considering the strategic importance of natural capital in Latin America and the Caribbean, there is a strong argument for countries in the region to collaborate in international forums where rules, commitments, financing mechanisms and resource flows that influence biodiversity governance and sustainable development are negotiated.

Protection of the Amazon

Deforestation, ecosystem fragmentation, illegal economic activities and governance gaps are increasing pressure on the Amazon's biodiversity and harming the health of its ecosystems. Scientific evidence shows that if deforestation exceeds 20% to 25% of the basin's total area, the Amazon could reach a critical ecological threshold, leading to irreversible ecosystem changes. Recent estimates indicate that nearly 18% of the Amazon has already been deforested, highlighting the need for coordinated action to stop this trend (Science Panel for the Amazon, 2025).

Protecting the Amazon requires governance strategies that address in a coordinated manner the cross-border causes of environmental damage and the economic activities affecting its integrity. Therefore, regional cooperation is essential to enhance basin-wide governance, strengthen environmental monitoring and align policies focused on conservation, restoration and the sustainable use of biodiversity.

The Amazon Cooperation Treaty Organization (ACTO) provides the primary political and institutional framework for pursuing a coordinated regional agenda centred on conserving and sustainably managing the Amazon as a connected ecological system. Strengthening this collaboration mechanism is a crucial part of the effort to harmonize public policies among Amazonian countries, build regional environmental monitoring systems and encourage joint conservation and ecosystem restoration initiatives across the basin (Science Panel for the Amazon, 2025).

Regional instruments like the Amazon Regional Observatory provide a vital foundation for integrating national information systems, enhancing the availability of comparable data and strengthening evidence-based decision-making across the region. Additionally,

multilateral biodiversity forums, including the Conferences of the Parties to the Convention on Biological Diversity, offer opportunities to present a unified regional stance and mobilize international funding in support of conservation and restoration initiatives led by Amazonian countries.

Sustainable use of biodiversity as a driver of economic transformation

The region derives a unique geoeconomic advantage from its extraordinary biological wealth, which can support the growth of regional bioeconomies and strengthen nature-based sectors such as sustainable agrifood, forestry, fisheries, nature-based solutions and ecotourism. Also, being host to some of the most biodiverse ecosystems on the planet, the region plays a critical role in providing global environmental public goods (see chapter II). However, this natural wealth has not translated into diversified industries, technological progress or higher-value economic activities. One reason is that the global financial architecture does not adequately recognize the economic value of natural capital or the macroeconomic risks associated with ecosystem degradation (Gardes-Landolfini et al., 2024).

Nature-related risks are not systematically reflected in sovereign debt markets or in the country risk assessments used by investors and credit rating agencies (Finance for Biodiversity Foundation, 2024). This misalignment causes a disconnect between the global economic value produced by the region's ecosystems and the financial conditions faced by the countries that preserve them. In practice, these countries face fiscal limitations and high borrowing costs, despite the transboundary benefits those ecosystems provide for climate stability, biodiversity and global economic resilience.

The seventeenth meeting of the Conference of the Parties to the Convention on Biological Diversity (Yerevan, Armenia, 19–30 October 2026) will be a pivotal opportunity to push forward discussions on resource mobilization and the international financial framework for biodiversity. In this context, Latin America and the Caribbean can aim for a unified stance that acknowledges the strategic importance of its natural capital while seeking to promote financial tools that strengthen public sector capacity and attract private investment into bioeconomies and nature-based solutions. The region is also well positioned to adopt a coordinated stance in key global financial governance forums, including the International Monetary Fund (IMF), the World Bank and the G20, with a focus on integrating natural capital and biodiversity-related risks into sovereign risk assessments and debt sustainability frameworks. In these forums, the region could prioritize three strategic goals:

(i) Develop internationally recognized metrics for natural capital and ecological resilience that can be included in debt sustainability analyses and sovereign risk assessments.

(ii) Expand financial instruments connected to biodiversity and ecosystem conservation, such as debt-for-nature swaps, biodiversity-linked sovereign bonds and blended finance mechanisms that can attract private capital for bioeconomies and nature-based solutions.

(iii) Add environmental performance clauses to sovereign debt instruments to improve financing conditions for countries making measurable progress in conservation, ecosystem restoration and the reduction of deforestation.

Development financing and financial stability

Regional cooperation strengthens the region's capacity to mobilize resources in support of long-term development strategies while also reinforcing financial stability. Latin America and the Caribbean already possesses elements of a regional financial architecture capable of complementing the global one by providing instruments tailored to the specific needs of the region. These mechanisms contribute both to development financing, through the mobilization of medium- and long-term resources for investment, and to financial stability, through the provision of liquidity during periods of external stress.

A first key component of this architecture is formed by regional and subregional development banks, including the Development Bank of Latin America and the Caribbean (CAF), the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB) and the FONPLATA Development Bank. These institutions were originally created with the main goal of mobilizing medium- and long-term resources for productive investment. Over time, their role has expanded and they have assumed a greater role in the financial development and inclusion of the countries of the region, in addition to providing technical, climate-change and emergency support, among other functions.

This regional layer of development financing is complemented by growing cooperation among national development finance institutions across the region, particularly through technical networks and knowledge-sharing platforms. Initiatives such as the Community of Practice on Development Finance in Latin America and the Caribbean, launched by the Latin American Association of Development Financing Institutions (ALIDE),[9] the Inter-American Development Bank (IDB) and ECLAC, bring together national development finance institutions from different countries in the region to exchange

[9] ALIDE is a regional association that brings together development banks and other development finance institutions in Latin America and the Caribbean.

experiences, strengthen institutional capabilities and promote dialogue on the challenges of development finance in the region (Latin American Association of Development Financing Institutions [ALIDE], 2021).

A second core component of the region's financial cooperation architecture is the Latin American Reserve Fund (FLAR), which provides countercyclical liquidity to member countries facing balance-of-payments pressures. Established in 1978 as the Andean Reserve Fund and later expanded to include additional countries, the institution has played an important stabilizing role during episodes of external stress. Further strengthening the FLAR by expanding its membership to more countries in the region could significantly enhance the region's capacity to respond collectively to external shocks, reduce dependence on extraregional financing and strengthen financial stability as a regional public good (Titelman et al., 2014).

Besides its role in helping Latin America and the Caribbean mobilize resources for development and maintain financial resilience, regional coordination also increases the region's influence in global debates on reform of the international financial architecture, including the financing for development agenda. By articulating common positions in multilateral negotiations and advancing shared proposals on issues such as debt restructuring mechanisms, access to development finance, international tax cooperation and climate-related financing, the region can help ensure that the challenges faced by its countries are adequately reflected in global frameworks and financing mechanisms.

AI governance

Coordinated positions in global AI governance forums

The countries of Latin America and the Caribbean should adopt a coordinated approach to ensure that global AI governance frameworks reflect the region's development constraints and opportunities. They can leverage the Digital Agenda for Latin America and the Caribbean (eLAC)[10] as a technical and political coordination platform to sustain common positions in multilateral AI forums, and particularly in ongoing United Nations processes under the Global Digital Compact, including the Independent International

[10] eLAC is a strategy that promotes the use of digital technologies as tools for sustainable development. Its mission is to foster the development of the digital ecosystem in Latin America and the Caribbean through a process of regional integration and cooperation, strengthening digital policies that promote knowledge, inclusion and equity, innovation, and environmental sustainability. Its top decision-making body is the ministerial conference, and ECLAC serves as its secretariat. See https://elac.cepal.org/agenda-gobernanza.html.

Scientific Panel on AI and the Global Dialogue on AI Governance, as well as the World Summit on the Information Society 20-year review (WSIS+20). This would require, for example, activating a pre-session coordination mechanism among Latin American and Caribbean governments ahead of each Global Dialogue cycle and leveraging the participation of representatives from Brazil, Chile and Mexico on the Scientific Panel to incorporate regional evidence and priorities into the international agenda. ECLAC could translate regional priorities into inputs for global deliberations and channel emerging global normative developments back into the Latin American and Caribbean policy agenda.

Convergence on a regional baseline for trustworthy and safe AI

The countries of the region should agree on a minimum common AI governance baseline that: (i) comprises a risk-based approach, transparency and accountability requirements, human oversight mechanisms and redress pathways;[11] (ii) is aligned with widely accepted international frameworks such as the United Nations Educational, Scientific and Cultural Organization (UNESCO) Recommendation on the Ethics of Artificial Intelligence and the updated OECD AI Principles; and (iii) is adaptable to national situations. This shared normative benchmark would facilitate regulatory consistency across the region. The eLAC framework could serve as the coordination vehicle for tracking progress and scaling regional cooperation on implementation tools, such as those included in ECLAC's Digital Transformation Laboratory for Latin America and the Caribbean (DLAB).[12]

Climate change

Many developing countries, in the region as elsewhere, are trapped in a climate-financial trap where high debt levels limit their capacity to respond to disasters and finance the green transition. It is imperative to reform the international financial architecture so that access to financing depends not only on per capita income but also on multidimensional vulnerability. Developed countries must fulfil their ethical imperative to redistribute resources to developing ones, given the latter's historically much smaller share of emissions. This must be accompanied by a reformulation of WTO rules to restore policy space for the deployment of green industrial strategies and economic diversification policies that currently face multilateral constraints.

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[11] Redress pathways are mechanisms through which individuals can challenge, appeal or seek remedy for harms caused by automated or AI-based decisions.

[12] https://elac.cepal.org/dlab.html

At the operational level, it is essential to systematically integrate climate risk into macrofiscal management through common methodologies, regional stabilization funds and the collective trading of resilient bonds. The financial system must adopt green taxonomies, climate risk disclosure and robust monitoring, reporting and verification systems in productive sectors to improve the region's negotiating power in global forums. Another recommendation is to scale up the use of debt-for-nature swaps, such as those of Belize and Ecuador, which provide fiscal relief in exchange for binding commitments to protect strategic ecosystems. Likewise, it is urgent to redirect fossil fuel subsidies, which in the Latin America and Caribbean region equal or exceed total climate finance, towards investments in low-carbon sectors and social resilience.

Enhanced integration through cumulation of origin

Another clear example of the potential of biregional cooperation is the possibility of connecting up the various trade agreements linking the region with the EU. Currently, 29 of the 33 Latin American and Caribbean countries have agreements with the EU, following the recent entry into force of its agreement with the Southern Common Market (MERCOSUR). There is now a historic opportunity to link all these agreements through a diagonal cumulation of origin regime. In simple terms, this would allow unrestricted use of inputs originating in any country of Latin America and the Caribbean or the EU in products traded tariff-free between the two regions (ECLAC, 2023; Cornejo et al., 2025). Such a mechanism would be a powerful incentive for productive integration among the countries of the region, as well as between them and Europe. But above all, it would send a powerful political signal of both regions' commitment to mutually beneficial, rules-based international trade.

Global governance processes and forums

United Nations

As outlined in chapter I, the institutional architecture and normative framework that organized global governance for decades are being challenged by geopolitical rivalry and declining confidence in international institutions. One of the clearest manifestations of this is the growing questioning of the role of the United Nations. What is under scrutiny today is not only how the United Nations system operates, but what role it can realistically play in a more contested international order. Its relevance, representativeness and financial sustainability are increasingly part of the political discussion surrounding the future of multilateral governance.

In response, the United Nations has sought to maintain political initiative in the evolving debate on the future of multilateralism. Two initiatives promoted by Secretary-General António Guterres, the Pact for the Future and the UN80 Initiative, reflect this effort to both renew political momentum for multilateralism and adapt the organization's functioning to a changing global environment.

The Pact for the Future was adopted by Member States at the 2024 Summit of the Future. The Pact reflects a collective effort to renew political support for multilateral cooperation and update global governance frameworks in areas ranging from peace and security to development, climate governance and digital technologies. It builds on the process initiated in the Secretary-General's report *Our Common Agenda* (United Nations, 2021), which proposed the Summit of the Future as a platform to strengthen international cooperation and accelerate implementation of the 2030 Agenda for Sustainable Development.

The UN80 Initiative, launched in the context of the organization's eightieth anniversary, focuses on the institutional functioning of the United Nations system. The aim is to strengthen its effectiveness through the simplification of structures and procedures, the review of mandates, greater consistency across institutions of the United Nations system and closer alignment between United Nations activities and evolving global priorities.

At the same time, the ongoing process for selecting the next Secretary-General has acquired particular relevance for Latin America and the Caribbean. So far, of the five candidacies formally presented by Member States, four have been put forward by countries from the region.[13] While the Charter of the United Nations does not establish a formal system of regional rotation for the position, the principle of geographical balance has become an important political consideration in past selection processes. The region has not held the office since Javier Pérez de Cuéllar (1982–1991). Therefore, the current selection process raises a broader question about the role it may seek to play in the future evolution of the multilateral system.

For Latin America and the Caribbean, engagement with the United Nations is not primarily a matter of normative commitment: it is a question of strategic positioning in a world where power is increasingly concentrated among a small number of major actors. In such an environment, the erosion of multilateral rules narrows the diplomatic space in which the region's influence can be exercised.

The countries of Latin America and the Caribbean have a meaningful presence within the United Nations, accounting between them for around 17% of the votes in the General Assembly (Schönrock and Surasky, 2024). Yet this presence is not reflected in the

[13] As of May 2026, five candidacies had been formally presented: Michelle Bachelet (nominated by Brazil and Mexico), Rafael Grossi (nominated by Argentina), Rebeca Grynspan (nominated by Costa Rica), Macky Sall (nominated by Burundi) and María Fernanda Espinosa (nominated by Antigua and Barbuda).

institutions where decision-making power is most concentrated. No country from the region holds a permanent seat on the Security Council. In practice, this means that the region's influence depends less on institutional power than on its capacity to build alliances and act collectively in multilateral negotiations. Two platforms are particularly important in this effort: the Group of Latin American and Caribbean States (GRULAC) and the Group of 77 and China (G-77 and China). Through GRULAC, permanent representatives coordinate positions and exchange information during negotiations at the United Nations. The G-77 and China, which represents nearly 70% of the votes in the General Assembly, provides a broader coalition through which developing countries can articulate shared priorities and strengthen their collective negotiating voice in global governance debates. It is through these coalitions that the countries of Latin America and the Caribbean seek to advance their interests across the main domains of the United Nations system.

In matters of peace and security, the region has historically defined itself as a zone of peace and nuclear non-proliferation, most notably through the Treaty of Tlatelolco. In the current global environment, the preservation of the Charter of the United Nations, the peaceful settlement of disputes and the integrity of international disarmament frameworks remain essential to the maintenance of regional stability.

In the field of development, constraints linked to the development traps discussed in chapter II remain central challenges. Progress in areas such as reform of the international financial architecture, access to development finance and the provision of global public goods remains central to the region's development prospects. For a middle-income region, the effectiveness of the United Nations development system and its capacity to mobilize international cooperation remain strategically important.

In the field of human rights, Latin America and the Caribbean has played an important role in shaping international norms and institutions. A longstanding diplomatic tradition in support of democracy, human rights and international law continues to provide a source of legitimacy and soft power in multilateral forums.

Ultimately, the ability to advance these interests within the United Nations system depends on the degree of political coordination among the Latin American and Caribbean countries. Greater use of GRULAC as a platform for substantive coordination, together with a more strategic use of the Community of Latin American and Caribbean States (CELAC) as a political space for identifying shared priorities, could strengthen the region's capacity to shape agendas in negotiations taking place in the General Assembly, the Economic and Social Council and other key forums, including debates on financing for development, climate governance, digital regulation and international taxation.

World Trade Organization

Since its creation in 1995, the World Trade Organization (WTO) has underpinned a multilateral trading system that, while far from perfect, has provided an open and predictable trading environment based on rules rather than force. The countries of Latin America and the Caribbean share a strong interest in preserving a robust multilateral trading system; indeed, its value has only grown with the global increase in trade barriers over recent years. The process of reform the WTO is now undergoing therefore involves high stakes for the region. This process includes discussions on key topics like the most favoured nation principle, the WTO's dispute settlement system, special and differential treatment for developing countries and the role of plurilateral initiatives. Concerted action by the countries of Latin America and the Caribbean, such as the submission of joint statements and proposals, would provide increased influence in WTO reform discussions, as well as making clear what the region's core interests and "red lines" are. Some possible examples include:

- Stressing the importance for the region of a rules-based, non-discriminatory multilateral trading system with the WTO at its centre, including the preservation of the most favoured nation principle and the prompt restoration of a fully functioning dispute settlement mechanism.
- Making the WTO's governance fit for today's challenges, including provisions to make it easier for new plurilateral initiatives to be incorporated into its rulebook in areas where there is support from a large majority of the membership.
- Strengthening efforts to bring about long-overdue reform of agricultural trade and to achieve greater consistency between the multilateral regimes for trade and environmental sustainability. For example, the Integrated Forum on Climate Change and Trade,[14] launched at the initiative of Brazil during its presidency of the thirtieth session of the Conference of the Parties to the UNFCCC (COP30), is a useful space for dialogue between the trade and climate communities that could inform future WTO debates.
- Pushing for a swift and meaningful conclusion to the negotiations on a second package of fisheries subsidies (see "Oceans" above).

[14] See Integrated Forum on Climate Change and Trade (2026).

G20

The G20 has the potential to be one of the main platforms through which middle powers shape global debates and coordinate their responses to an increasingly fragmented international order. As has often been observed in debates on international cooperation, middle powers must have the firmness of purpose to think beyond immediate national calculations and reason together about common objectives. This requires a certain strategic autonomy of thought, constructive political values and the conviction that being smaller than other powers does not imply a lesser relevance. In a world of competing major powers, the capacity of middle powers to coordinate positions and act collectively becomes a practical necessity grounded in geopolitical reality (Argüello, 2024).

The G20 membership of Argentina, Brazil and Mexico provides an important avenue for increasing the region's influence in global debates (Schenoni and Malamud, 2021). This would require those three countries not just to enhance coordination among themselves, but to maintain channels of dialogue with the other Latin American and Caribbean countries with a view to acting as "regional ambassadors" for them and voicing their perspectives and concerns in that forum, thereby helping to connect its deliberations with the broader development priorities of the region.

Regional mechanisms such as CELAC and the Organization of American States (OAS) and initiatives such as the Brasilia Consensus could play an important role in this process by serving as platforms for policy dialogue and coordination. The Latin American and Caribbean countries could use those forums to pursue convergence around shared priorities which the region's G20 members could then project into global discussions. Brazil's recent presidency of the G20 illustrates the potential of this kind of coordination, particularly in areas such as social development, climate action and international tax cooperation, where the region's perspectives have gained visibility in global discussions. A concrete example is the Global Alliance against Hunger and Poverty launched under Brazil's presidency. Endorsed at ministerial level in 2024, the initiative was designed to be open to all countries, not only G20 members, enabling broader participation by developing countries and allowing successful public policy experiences with the reduction of poverty and food insecurity to be scaled up. The agreement that allowed the initiative to be adopted also marked a significant moment for the G20, as it helped restore the practice of issuing consensual ministerial declarations after several years in which geopolitical tensions had made such agreement difficult to achieve.

The G20 agenda also encompasses a number of policy areas of direct relevance to Latin America and the Caribbean. Those include issues such as debt sustainability and reform of the international financial architecture; the mobilization of private capital for development through multilateral development banks; the governance of emerging financial technologies and digital payments; and global challenges with strong development implications such as climate action, food security and pandemic preparedness. Greater coordination among the Latin American and Caribbean countries around these agendas would not only increase the region's visibility in global debates but also strengthen its capacity to translate its economic and environmental assets into influence within the evolving architecture of global governance (Svenstrup, 2025).

There are further avenues that could help reinforce this link between regional perspectives and global deliberations. For instance, aligning certain G20 ministerial meetings with periods of broader multilateral diplomacy, such as gatherings held during the General Assembly of the United Nations, could create opportunities for dialogue between G20 members and non-members. Such mechanisms could help strengthen the inclusiveness and legitimacy of global governance discussions while allowing regional perspectives to be more systematically incorporated into global policy debates.

BRICS

As highlighted in chapter I, the BRICS group has sought to position itself as a mediator for the demands of the Global South. According to its 2025 Brazilian presidency, the group's objectives include "strengthening economic, political, and social cooperation among its members, as well as increasing the influence of Global South countries in international governance. The group seeks to improve the legitimacy, equity in participation, and efficiency of global institutions such as the UN, IMF, World Bank, and WTO" (Ministry of Foreign Affairs of Brazil and Social Communication Secretariat of the Presidency of the Republic of Brazil, 2025). Owing to the great diversity and sometimes conflicting views of its members, BRICS has struggled to become a cohesive international actor. Nevertheless, its economic, demographic and geopolitical weight is undeniable. For this reason, Latin American and Caribbean countries would benefit from engaging with it on topics where there is a sufficient convergence of interests. It is important to emphasize that engagement does not mean (or require) political alignment: it is rather a pragmatic search for agreement in areas of common interest.

Only one country of Latin America and the Caribbean, Brazil, is a full BRICS member. However, flexible modalities of dialogue between the region and BRICS can be explored. The latter currently has two mechanisms for engaging with non-members. BRICS Outreach is a meeting between BRICS member countries and others from the geographical region of the country holding the rotating presidency that have been invited to attend.[15] BRICS Plus is a meeting between BRICS member countries and invited countries that are not from the geographical region of the country holding the BRICS presidency. The establishment of a mechanism for dialogue between CELAC and BRICS could also be explored.

Regional governance processes and forums

Economic integration forums

The region has a complex economic integration architecture. At its core are four subregional groupings: the Andean Community, the Caribbean Community (CARICOM), the Central American Common Market (CACM) and MERCOSUR. All four have established FTAs among their members and have advanced to differing degrees towards the establishment of common external tariffs. Almost all Latin American and Caribbean countries are full members of one of the four blocs, the only exceptions being the Bolivarian Republic of Venezuela (suspended from MERCOSUR membership in 2017), Chile, Cuba, the Dominican Republic and Mexico. Besides the four subregional blocs, the Pacific Alliance is a plurilateral free trade agreement between three South American countries (Chile, Colombia and Peru) and Mexico. Some countries of Latin America and the Caribbean are full members of two different groupings. There is also a vast network of mostly bilateral trade agreements among Latin American countries, but there are few between them and Caribbean countries.

The closest Latin America and the Caribbean has to a regional economic forum is the Latin American Integration Association (LAIA), whose membership includes the ten South American countries[16] plus Cuba, Mexico and Panama. However, most Caribbean and Central American countries are not members. LAIA is not in itself a trade agreement, but rather a forum for coordination among its members in trade matters and an umbrella organization for bilateral and plurilateral agreements with one another.

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15 Chile was invited during Brazil's presidency in 2025.

16 Guyana and Suriname, although geographically in South America, are not members of LAIA. Both countries are members of the Caribbean Community.

There have been two formal attempts this century to achieve some form of convergence among the region's different blocs. Around 2005, an initiative aimed at convergence between the two South American blocs (the Andean Community and MERCOSUR) plus Chile was launched. However, that effort did not progress beyond the exploratory phase. In 2018, a convergence agenda was launched at the presidential level between MERCOSUR and the Pacific Alliance. While this initiative remains formally in force, little progress has been publicly recorded. Both experiences illustrate the difficulties that have historically plagued large-scale economic integration projects in the region. Those difficulties are not just technical; they also stem from an inability to sustain integration initiatives over time owing to constant changes in the political orientation of national governments.

ECLAC

In a more fragmented, contested and transactional global environment, the role of ECLAC has acquired renewed strategic relevance. Its value lies in its ability to operate simultaneously as a generator of ideas, a provider of solutions and a platform for collective action.

ECLAC's core functions position it uniquely within the United Nations system. First, its intellectual leadership has historically shaped the region's development thinking, translating structural challenges into actionable policy frameworks. This role goes beyond research: it informs decision-making processes and contributes directly to the design, implementation and evaluation of public policies through technical assistance and capacity-building.

Second, ECLAC serves as a regional repository of data, evidence and analytical tools, providing governments with a shared base of diagnostic information on economic and social development. In a context where policy debates are increasingly polarized, the availability of credible, regionally grounded data becomes a critical asset for sustaining informed decision-making and reducing uncertainty.

Third, and most distinctively, ECLAC's intergovernmental nature enables it to bring together an exceptional variety of actors. Through its subsidiary bodies and regional forums, it hosts authorities from all countries of the region (and extraregional member States) and engages them in technical dialogue on issues that are often politically sensitive and ideologically contested, such as inequality, digital transformation and productive development. These are spaces where participants can exchange ideas in a structured way, find common ground and cooperate for progress even in the absence of full consensus.

ECLAC currently operates through subsidiary bodies and intergovernmental meetings,[17] which function as platforms specializing in key areas of development. These bodies facilitate peer learning, policy coordination and the gradual construction of shared regional agendas through technical dialogue and the exchange of experiences among countries. Thus, what distinguishes ECLAC is not only what it does, but how it operates: as an intergovernmental platform combining analytical work, technical support and political dialogue. Its comparative advantage lies precisely in its ability to engage with the "how" of development: how policies can be designed, implemented and sustained under political, fiscal and institutional constraints.

In the current geopolitical context, where regional coordination must be selective and grounded in feasible agreements, this combination of functions becomes critical. It allows the region to move from declarative convergence to actionable (variable-geometry) cooperation, strengthening its ability to sustain priorities, reduce fragmentation and exercise effective agency in a more contested international environment.

CELAC

The creation of CELAC in 2010 was an attempt to reposition Latin America and the Caribbean in the international system. By bringing together the 33 countries of the region in a single political forum, CELAC created the possibility, which is still largely unrealized, of projecting collective weight in a world increasingly shaped by large regional blocs.

As mentioned in chapter II, the economies, resources and demographic scale of the region represent a significant potential source of influence. The central question is therefore not whether the region has weight, but whether it can translate it into coordinated action (Bonilla Soria and Álvarez Echandi, 2014). The Declaration of Cancun, adopted at the Latin American and Caribbean Unity Summit in February 2010, reflected this ambition. It framed CELAC simultaneously as a space for strengthening intraregional cooperation

[17] ECLAC subsidiary bodies include the Caribbean Development and Cooperation Committee (CDCC); the Regional Conference on Population and Development in Latin America and the Caribbean; the Regional Conference on South-South Cooperation in Latin America and the Caribbean; the Conference on Science, Innovation and Information and Communications Technologies; the Regional Conference on Social Development in Latin America and the Caribbean; the Regional Conference on Women in Latin America and the Caribbean; the Regional Council for Planning of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES); and the Statistical Conference of the Americas. The intergovernmental meetings include the Ministerial Conference on the Information Society and the Digital Transformation in Latin America and the Caribbean and the Regional Intergovernmental Conference on Ageing and the Rights of Older Persons in Latin America and the Caribbean.

and as an instrument to project a stronger regional voice in global affairs. In essence, it sought to move the region from fragmented diplomacy towards a more coordinated presence in international negotiations and global governance debates.

Regarding the intraregional dimension, CELAC was set up to create a broad political platform where countries could work out shared priorities, identify areas of cooperation and sustain regular high-level intergovernmental consultation. It was also conceived as a platform through which the region could engage major global actors on more equal terms. This has taken concrete form in interregional dialogues such as the EU-CELAC summits, the China-CELAC Forum and growing cooperation with partners such as India, the African Union, Japan, Türkiye and the Gulf Cooperation Council.

In practice, CELAC has advanced more in the diplomatic and symbolic sphere than in the institutional and operational one. An important achievement has been to keep alive the notion of a common regional space by providing a venue where leaders can articulate regional narratives on autonomy, development and multilateralism. At the same time, its capacity to turn that political symbolism into concrete policies, joint positions in multilateral forums or coordinated implementation has remained very limited, constrained as it is by the absence of a permanent secretariat, rotating presidencies, the requirement of consensus for decision-making and highly uneven institutional capacities among member States.

This combination of political value and institutional weakness suggests that meaningful regional coordination through CELAC is most likely to emerge in a limited number of issue areas where interests converge strongly and where cooperation promises tangible, near-term benefits, such as food security, critical minerals or productive development strategies.

C. Towards a shared set of principles for enhanced regional agency

The discussion in the previous sections suggests that regional agency depends on two complementary dimensions. The first is the way the countries of Latin America and the Caribbean position themselves externally in the current context of great power rivalry and weaponized interdependence. The second is the way they organize intraregional cooperation to translate shared interests into collective action. The principles proposed below reflect this dual logic. The first one relates to the region's external positioning in a fragmented international system, while the other three focus on the conditions required for effective intraregional coordination and cooperation.

Principle 1: Avoid rigid alignments in a world of competing powers

In a context of renewed geopolitical rivalry, Latin America and the Caribbean should avoid approaching its external relations through rigid or uniform alignments. The region's capacity to exercise agency now and in the future depends precisely on its ability to preserve flexibility in the ways it engages with different partners across different issues. In practice, this means recognizing that strategic interests rarely align neatly across all domains, and that cooperation partners may vary depending on the issue at stake.

Principle 2: Prioritize viable agreements over unanimity

Regional experience has shown that requiring full consensus often leads to initiatives and even the work of entire organizations or forums being blocked. In the current regional context of marked political fragmentation, unanimity is not a realistic goal in most cases. The alternative is not to assume that regional cooperation is impossible, but rather to identify minimum common interests in specific areas, such as protecting regional public goods or reducing shared strategic vulnerabilities, and design functional cooperation mechanisms that can survive changes of government. The key message is that regional agency does not require uniform alignments (which are not feasible anyway), but rather functional, cumulative and scalable agreements.

Principle 3: Translate minimum common ground into concrete commitments

Cooperation around the minimum common interests identified above is only meaningful if it is translated into concrete objectives, clear timelines and specific commitments. The institutions and actors responsible for implementation should also be identified, and should include influential governmental entities and political leaders, as well as representatives from the private sector and civil society. One such commitment, mentioned earlier in this chapter, could be the avoidance of intraregional trade wars. Others could relate to the attainment of concrete goals by specific deadlines in areas of physical and digital infrastructure.

Principle 4: Prioritize functions over institutional forms

The discussion should not be about which of its many institutions and forums "best represents" the region, but rather about which functions are needed to generate effective agency in today's fragmented international environment. Three functions appear particularly important: (i) political coordination to forge common positions on strategic issues; (ii) technical coordination and analytical capacity that can translate political intentions into policy frameworks and operational proposals; and (iii) financing and implementation mechanisms that provide concrete instruments to translate decisions into action.

The basic architecture for all three functions already exists in the region. As argued above, CELAC can play a role in achieving regionwide political coordination by providing a space for high-level dialogue and political signalling. For its part, ECLAC has historically supported the design of regional policy agendas through its technical expertise and ability to bring together a wide array of actors. Today ECLAC supports more than a dozen intergovernmental bodies or platforms for policy development, peer review and regional cooperation in a broad range of areas (demography, the environment, tax and fiscal policies, social policies, digital transformation, AI and productive development, among others). Finally, existing regional and subregional development banks provide platforms capable of mobilizing resources and supporting regional initiatives.

Summing up, greater regional coordination need not involve the creation of new institutions. A renewed focus on functional coordination should rely on a more efficient use of existing mechanisms. Rather than reopening debates about institutional design, the priority should be to strengthen coordination among existing platforms, reinforce their capabilities and align their efforts around a limited set of strategic priorities.

Final remarks

While Latin America and the Caribbean cannot fully control the transformations reshaping the international order, the region is not condemned to passively absorb them. The extent to which it can exercise meaningful agency depends fundamentally on its capacity to act collectively, mobilize its strategic assets and articulate coherent positions in global governance debates.

Institutional weakness, internal polarization, regional fragmentation and the lack of a shared vision have limited the ability of the Latin American and Caribbean countries to act concertedly in global affairs. The region must transition from this peripheral position to that of a proactive actor, capable of influencing the ongoing rewriting of global rules. To do so, it must strengthen its regional institutions, build minimum levels of consensus and position its strategic assets as levers of negotiation. By acting with strategic consistency and a long-term vision, it can become a key player in the restructuring of the multilateral system and play a leading role in promoting a new global pact for co-responsibility, inclusion and sustainability.

Platforms such as CELAC can provide spaces for forging common positions on issues where the region has clear stakes, including climate action, digital governance, AI and the fight against transnational organized crime. Progress is most likely to emerge through incremental agreements that build trust, show results and gradually expand the scope for collective action. The region should also seek coalitions with like-minded countries from both the Global North and the Global South to gain influence in the debates on issues such as climate finance, access to technology, WTO reform and the regulation of data flows.

A region with the capacity for collective action gains autonomy, in the sense that it has a greater chance of maintaining mutually beneficial relations with the world's major powers without being subordinated to any of them. Concerted action in multilateral forums would also maximize the region's influence in crucial global debates. Ultimately, a more cohesive region would also be one with greater geopolitical resilience, a better negotiating position vis-à-vis major powers and a stronger voice when it comes to shaping the rules of the emerging global order.

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Annex V.A1

Table V.A1.1
Latin American and the Caribbean: preferential trade agreements with selected partners, as of March 2026

	United States	China	European Union (27 countries)	Japan	India	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
South America						
Argentina	Signed		Signed		X	
Bolivia (Plurinational State of)						
Brazil			Signed		X	
Chile	X	X	X	X	X	X
Colombia	X		X			
Ecuador	Signed	X	X			Applied
Paraguay			Signed		X	
Peru	X	X	X	X	Neg.	X
Uruguay			Signed		X	Applied
Venezuela (Bolivarian Republic of)						
Central America, Dominican Republic and Mexico						
Costa Rica	X	X	X			Neg.
Dominican Republic	X		X			
El Salvador	X		X			
Guatemala	X		X			
Honduras	X	X	X			
Nicaragua	X	X	X			
Panama	X		X			
Mexico	X		X	X		X
The Caribbean						
CARICOM (15 members)			X			
Cuba						

Source: Prepared by the authors.
Note: Not all agreements have universal or near-universal product coverage. X: agreement in force. Signed: agreement signed and awaiting ratification. Neg.: negotiations under way. Applied: the country has applied for membership.

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A physician and former two-term President of Chile (2006–2010 and 2014–2018), Michelle Bachelet served as Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) from 2010 to 2013 and as United Nations High Commissioner for Human Rights from 2018 to 2022. With a background in military strategy and public health, she has led international initiatives on gender equality, social inclusion and democratic governance. Throughout her career, she has championed human rights and the strengthening of institutional frameworks within Latin America and the global community.

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Iván Duque is a lawyer and politician who served as the President of Colombia from 2018 to 2022. He had previously served as a Senator and as a senior official at the Inter-American Development Bank (IDB) in Washington, D.C. His Administration focused on economic reactivation, legal institutionalism and the promotion of creative industries. Currently a member of the University of Oxford's Blavatnik School of Government, he continues to contribute to global dialogues on sustainability and economic entrepreneurship.

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An economist with a doctorate in economics from the University of Oxford and former Deputy Director-General of the World Trade Organization (2005–2013), Harsha Vardhana Singh has held senior positions in the General Agreement on Tariffs and Trade (GATT) Secretariat and has served as Secretary of the Telecom Regulatory Authority of India (TRAI). His areas of expertise include international trade policy, economic regulation and the development of global governance frameworks for emerging markets and international commerce.

Vera Songwe
Cameroon

Vera Songwe is an economist, holds a PhD in Mathematical Economics and served as the Executive Secretary of the United Nations Economic Commission for Africa (ECA) from 2017 to 2022, becoming the first woman to ever lead that organization. She has also held senior leadership roles at the International Finance Corporation and the World Bank. Her work focuses on macroeconomic stability, development finance and digital transformation. She is a recognized authority on African trade, debt sustainability and fiscal governance.

Brian Winter
United States

A journalist and political analyst specializing in Latin American affairs, Brian Winter is the Editor-in-Chief of *Americas Quarterly* and Vice President of Policy at the Americas Society/Council of the Americas. He has also served as a foreign correspondent for Reuters in Brazil, Argentina and Mexico. His work centres around the analysis of political and economic trends in the region, and he has co-authored notable publications on a number of world leaders, among other subjects.

Great power rivalry, ongoing technological revolutions and changing world views and values have led to several ruptures in the world order. In late 2024, the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) convened an independent commission and invited its members to prepare a report on the impacts of the evolving global environment on the region and make recommendations on how the countries of the region might respond. This book is the result of the work of the ECLAC Commission on Geopolitics, Globalization and Development for Latin America and the Caribbean. It is intended primarily for decision makers in government, the business sector and civil society who face the challenge of managing the profound transformations in the world order that are currently under way. One key message is that, while the countries of Latin America and the Caribbean cannot fully control these transformations, they have assets and options to navigate the new global landscape to achieve development gains and increase their agency in international affairs. Critically, their success will depend on the ability to craft appropriate strategies and to strengthen their governance and institutions to ensure effective implementation.

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