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Latin American Economic Outlook 2026

Deepening Integration into a Changing Global Economy



Latin American Economic Outlook 2026

DEEPENING INTEGRATION INTO A CHANGING GLOBAL ECONOMY

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Foreword

Since 2007, each edition of the annual *Latin American Economic Outlook* (LEO) analyses key challenges faced by the Latin American and Caribbean (LAC) region in its transition towards sustainable and inclusive development, comparing LAC's performance with that of its peers, suggesting policy recommendations and providing examples for policy learning.

The LEO benefits from the expertise and inputs of several institutions. In 2011, the United Nations Economic Commission for Latin America and the Caribbean joined the OECD as co-author, as did CAF, the development bank of Latin America and the Caribbean, in 2013 and the European Commission in 2018.

This 19th edition of the LEO, *Deepening Integration into a Changing Global Economy*, examines key global transformations, arguing that LAC is well positioned to seize emerging opportunities, and that deeper integration within and beyond LAC is essential to achieving this. It calls for smart regional integration that targets sectors and economic corridors with the potential to unlock broader forms of integration, scale up production, strengthen regional and global value chains, and serve as a springboard for deeper and more effective integration into the global economy. The report recommends improving key enabling conditions such as infrastructure and skills, reducing regulatory and non-tariff barriers, mobilising strategic financing, attracting quality foreign direct investment, and building international partnerships that expand access to markets, technology, knowledge, and finance.

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Editorial

The Latin American and the Caribbean (LAC) region has a historic opportunity to turn the transformations reshaping the global economy into new sources of growth, investment and prosperity. From the rapid development of AI, to the energy transition, demographic change and shifting patterns of trade and investment, many shared global challenges also offer new possibilities for the region.

Energy will be central to the economy of the future, and the region is endowed with abundant, renewable and reliable sources of energy, with two-thirds of electricity supply coming from renewables. Critical minerals will underpin the digital and green transitions, and the LAC region holds some of the world's largest reserves of many, including 48% of global lithium reserves and 37% of copper reserves. The region is also a major provider of food, with an 18% share of global agrifood exports, and possesses extraordinary biodiversity, freshwater resources and natural ecosystems. LAC's geographic position and diverse international ties also give it a further advantage at a time when governments and firms seek reliable, resilient and diversified supply chains.

These strategic advantages will not automatically translate into stronger development outcomes. Turning them into higher productivity, greater investment and better jobs will require deeper regional and global integration, coupled with ambitious reform and productive development policies to unlock investment and productivity growth. This Latin American Economic Outlook 2026: Deepening Integration into a Changing Global Economy identifies several priorities: better infrastructure, fewer regulatory barriers, greater access to financing, more integrated supply chains and stronger skills.

The LAC region does not start from scratch in this effort, and has important foundations on which to build. Existing regional initiatives demonstrate the benefits of closer co-operation, while expanding international partnerships are opening new opportunities for trade, investment, technology and sustainable development. The EU-LAC Global Gateway Investment Agenda and the recent EU-Mercosur Partnership Agreement illustrate the scope for more trade and more resilient supply chains. Considerable potential remains to further deepen integration within the region and strengthen connections with markets around the world.

The choices made today will shape whether ongoing global transformations become sources of renewed dynamism and inclusive development or missed opportunities. The purpose of the 2026 *Latin American Economic Outlook* is to identify these opportunities, highlight the importance of integration and international partnerships, underline the strategic role the region can play in the emerging global economy, and identify the policy areas where action is needed to translate the region's potential into better living standards for all.

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Abbreviations and acronyms

5G	Fifth-generation mobile network
ABGF	Agência Brasileira Gestora de Fundos Garantidores e Garantias
ADB	Asian Development Bank
AFD	Agencia Financiera de Desarrollo
AI	Artificial intelligence
AI/ML	Artificial intelligence/Machine learning
ALADI	Latin American Integration Association
ALBA-TCP	Bolivarian Alliance for the Peoples of Our America-People's Trade Agreement
APS	Announced Pledges Scenario
ASEAN	Association of Southeast Asian Nations
AVE	Ad valorem equivalent
BACI	Base pour l'Analyse du Commerce International
BaTIS	Balanced Trade in Services
BICE	Banco de Inversión y Comercio Exterior
BNDES	Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social)
BRICS	Brazil, Russia, India, China and South Africa
CAF	Development Bank of Latin America and the Caribbean (Banco de Desarrollo de América Latina y el Caribe)
CACM	Central American Common Market
CAN	Andean Community
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CELAC	Community of Latin American and Caribbean States
CENIA	National Center for Artificial Intelligence
CIF-FOB	Cost, insurance and freight-free on board
COFIDE	Corporación Financiera de Desarrollo
CORFO	Corporación de Fomento de la Producción
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CRM	Customer relationship management
CYTED	Programa Iberoamericano de Ciencia y Tecnología para el Desarrollo
DFI	Development finance institution
DigCompALC	Regional Digital Competencies Framework for Latin America and the Caribbean
ECA	Export credit agency

ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EFSD+	European Fund for Sustainable Development Plus
ESCS	Economic, Social and Cultural Status
ESG	Environmental, social and governance
EU	European Union
EV	Electric vehicle
EXIM	Export-import bank
FDI	Foreign direct investment
FDN	Financiera de Desarrollo Nacional
FIRA	Fideicomisos Instituidos en Relación con la Agricultura
FTAA	Free Trade Area of the Americas
GDP	Gross domestic product
GenAI	Generative artificial intelligence
GHG	Greenhouse gas
GSSSB	Green, social, sustainability, sustainability-linked and blue bonds
GTAP	Global Trade Analysis Project
GVC	Global value chain
ICT	Information and communication technology
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
IRC	International regulatory co-operation
ISCO-08	International Standard Classification of Occupations 2008
ISIC	International Standard Industrial Classification
ITIC	International Transport and Insurance Costs of Merchandise Trade
IoT	Internet of Things
KIIbIH	Key Indicators of Informality based on Individuals and their Households
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Association
LCOE	Levelised cost of electricity
LEO	Latin American Economic Outlook
MDB	Multilateral development bank
MERCOSUR	Southern Common Market (Mercado Común del Sur)
MSME	Micro-, small- and medium-sized enterprise
NAFINSA	Nacional Financiera
NAFTA	North American Free Trade Agreement
NDB	National development bank
NTM	Non-tariff measure
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OLADE	Latin American Energy Organization

OSH	Occupational safety and health
PDP	Productive development policy
PISA	Programme for International Student Assessment
PIPA	Programmes, Initiatives and Associated Projects
PPP	Public-private partnership
PPCM	Project Preparation Coordination Mechanism
PV	Photovoltaic
R&D	Research and development
SDG	Sustainable Development Goal
SEGIB	Ibero-American General Secretariat
SIDS	Small Island Developing States
SIEPAC	Central American Electrical Interconnection System
SINEA	Andean Electrical Interconnection System
SLB	Sustainability-linked bond
SME	Small and medium-sized enterprise
STEM	Science, technology, engineering and mathematics
TES	Total energy supply
TFP	Total factor productivity
TiVA	Trade in Value Added
TFFP	Trade Finance Facilitation Program
UN	United Nations
UNASUR	Union of South American Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added tax
WTO	World Trade Organization

Executive summary

Global transformations open new opportunities for development in the region

Latin America and the Caribbean (LAC) is well placed to benefit from the deep transformations reshaping the global economy. First, the green transition increases global demand for renewable energy, low-emissions fuels and critical minerals, areas in which LAC holds significant advantages. Renewable sources generated 64.3% of the region's electricity in 2024, more than double the global average (31.9%). This can attract industries seeking abundant and low-carbon energy, strengthen energy security and boost exports of low-emissions fuels (e.g. green hydrogen). LAC can also be a strategic supplier of critical minerals, given its large reserves (e.g. 48% of lithium and 36.6% of copper reserves globally). Local processing and refining (representing 20% of minerals extracted), supplier linkages and job creation are key.

Second, Artificial Intelligence (AI) offers important opportunities. LAC's geography, climate and renewable energy endowments make it attractive for data centres, which could grow globally by 19-22% annually until 2030. LAC accounts for 0.4% of global hyperscale data-centre capacity (the United States and China account for about one-third). Sustainability is essential, given the high resource intensity of AI infrastructure, while maximising benefits requires strong links with local firms, capabilities and digital ecosystems. AI can also raise productivity, by moving from consumption to adoption and innovation. Rather than competing at the AI frontier, LAC can build capabilities around its sectoral strengths and needs, including in agrifood, mining, renewables, logistics, and digital and financial services. Investments are key in a region accounting for 6.6% of global GDP but only 1.12% of AI investment. Unlocking AI's potential will require digital infrastructure, advanced skills, financing, alignment of digital and productive development policies, and regional co-operation on data, computing, regulation and research.

Finally, rising global food demand, demographic changes and the reconfiguration of the global order are also relevant global trends where LAC can play a strategic role. Building on its 18% share of global agrifood exports, the region can help meet growing food demand by improving productivity, value addition and climate resilience. Rising life expectancy and declining fertility rates accelerate population ageing in LAC, and the working-age population is expected to decline after 2030, but there will be strong potential for job creation around the silver and care economies. Finally, LAC's commitment to multilateralism and global agendas, as well as its relatively peaceful interstate relations, make it a reliable international partner.

These global transformations offer LAC a pathway to overcome longstanding structural weaknesses, like low productivity, infrastructure and skills gaps, and limited fiscal space. Turning these barriers into opportunities will require navigating a complex international context, characterised by weak global growth, geopolitical tensions, tight financial conditions and climate vulnerabilities, including the risk of an El Niño episode in LAC, with potential impacts on agriculture, infrastructure, electricity generation and inflation.

Deeper regional and global integration will help to seize emerging opportunities

A more integrated LAC can better navigate global transformations, as stronger regional markets and value chains can help firms gain scale, capabilities and resilience. In turn, deeper engagement with global

markets can drive regional integration by increasing demand for scale, efficiency and resilient supply chains, fostering lower barriers, harmonised standards, and stronger cross-border infrastructure.

Regional trade integration remains modest. Intraregional exports represented only 14% of LAC's total exports in 2024, lower than in 2000 (18%) and well below Africa (17%), Asia (59%) and the European Union (67%). However, there is important potential for expanding intraregional trade, which on average remains six percentage points of GDP below its estimated structural potential. Intraregional exports of high-technology and medium-low technology manufactures were 75% and 45% below the estimated potential.

Regional integration can also be deepened by strengthening regional value chains (RVCs), which link firms across countries through intermediate inputs, boosting specialisation. RVCs in LAC account for only 13% of global value-chain participation (49% in the EU; 52% in East and Southeast Asia). However, almost 10% of intermediate inputs sourced outside could be sourced regionally, including chemicals, iron and steel, agrifood, vehicles, machinery and electrical equipment. Sourcing up to 10% of extraregional inputs could increase domestic value added of exports by 0.47 percentage points of GDP.

Regional trade integration remains hindered by several factors, including tariff and non-tariff barriers. Non-tariff measures impose costs equivalent to a 13% average tariff. Also, overlapping production structures reduce opportunities for value-chain development, although important complementarities exist in medium-and-high-technology manufactures and between some countries. LAC can build on its integration frameworks by improving implementation, harmonising rules of origin and facilitating input cumulation.

LAC has become more integrated globally, with total trade rising from 39% to 50% of GDP in 2000-24. However, this has not led to sufficient diversification or upgrading. Commodities, resource-based products and low-technology manufactures account for 62% of goods exports, while high-technology manufactures represent only 17% (33% in ASEAN economies and 28% in the EU). Expanding trade with underexplored markets, such as ASEAN and Africa, which absorbed only 2.9% and 1.7% of LAC's goods exports in 2024, could open new opportunities for higher value-added exports. Foreign direct investment (FDI) can also support the development of regional and global value chains. For instance, a 10% increase in FDI is linked with a 0.16 percentage-point rise in domestic value added reaching global markets.

Regional integration in electricity, digital and financial markets can boost LAC's potential by improving the use of renewable energy, giving firms the scale to compete digitally and deepening access to capital. Progress will require stronger institutions, regulatory convergence and interoperable systems.

Stronger enabling conditions and partnerships are fundamental

Infrastructure, skills and financing are key enabling conditions for LAC to successfully integrate into a changing economy. Closing half the infrastructure gap with advanced economies could increase exports by 30%. Strategic financing, including through national and multilateral development finance institutions, can support regional priorities like cross-border infrastructure, value chains and SME trade finance. Stronger skills are needed to adapt to technological change. While traditional automation risks could affect 27% of LAC's labour force, AI could have a stronger impact on formal workers performing cognitive tasks.

Strategic partnerships can support LAC's development. The mutually beneficial EU-LAC partnership holds large potential: the EU's Global Gateway Investment Agenda can promote investment, trade and co-operation in strategic sectors such as renewable energy, critical raw materials, transport, health, and digital connectivity. Its growing focus on cross-border infrastructure, shared standards and regional value chains can support production transformation and regional integration. Recent initiatives explicitly target regional public goods, including the EllaLink submarine cable extension, Central American power market integration, green maritime corridors, and regional vaccine production. Likewise, the EU-Mercosur Partnership Agreement brings strong potential, which could have regional spillovers if the interoperability of rules of origin across existing EU–LAC agreements is improved.

Overview

Global transformations are creating new development opportunities for Latin America and the Caribbean

Latin America and the Caribbean (LAC) is well positioned to benefit from the profound transformations reshaping the global economy. The green transition is increasing demand for renewable energy, low-emissions fuels and critical minerals; artificial intelligence (AI) is changing how economies produce and innovate, while increasing demand for reliable and affordable energy; rising food demand is reinforcing the importance of reliable suppliers; and demographic change is creating new opportunities around care and ageing. At the same time, a more fragmented international landscape creates new opportunities for LAC to diversify its partnerships, position itself as a reliable partner and play a more prominent role in advancing global agendas.

These transformations can create new sources of investment, productivity and quality employment. Turning them into development gains will require stronger productive and technological capabilities, greater domestic value addition and policies that ensure the resulting benefits are widely shared.

The green transition can turn LAC's natural endowments into new sources of competitiveness

The green transition is increasing global demand for renewable energy, low-emissions fuels and critical minerals, areas in which LAC holds significant strategic advantages. Renewable technologies accounted for 92.5% of new global power-generation capacity in 2024, while investment in clean-energy technologies and infrastructure is expected to reach USD 2.2 trillion in 2026, around twice the amount invested in fossil fuels. Declining renewable energy costs are further driving this transformation. In this context, LAC is well positioned to benefit from two major assets: abundant renewable energy resources and large reserves of critical minerals. The challenge is to translate these endowments into investment, productive capabilities, jobs and broader development gains, while ensuring their use remains environmentally and socially sustainable.

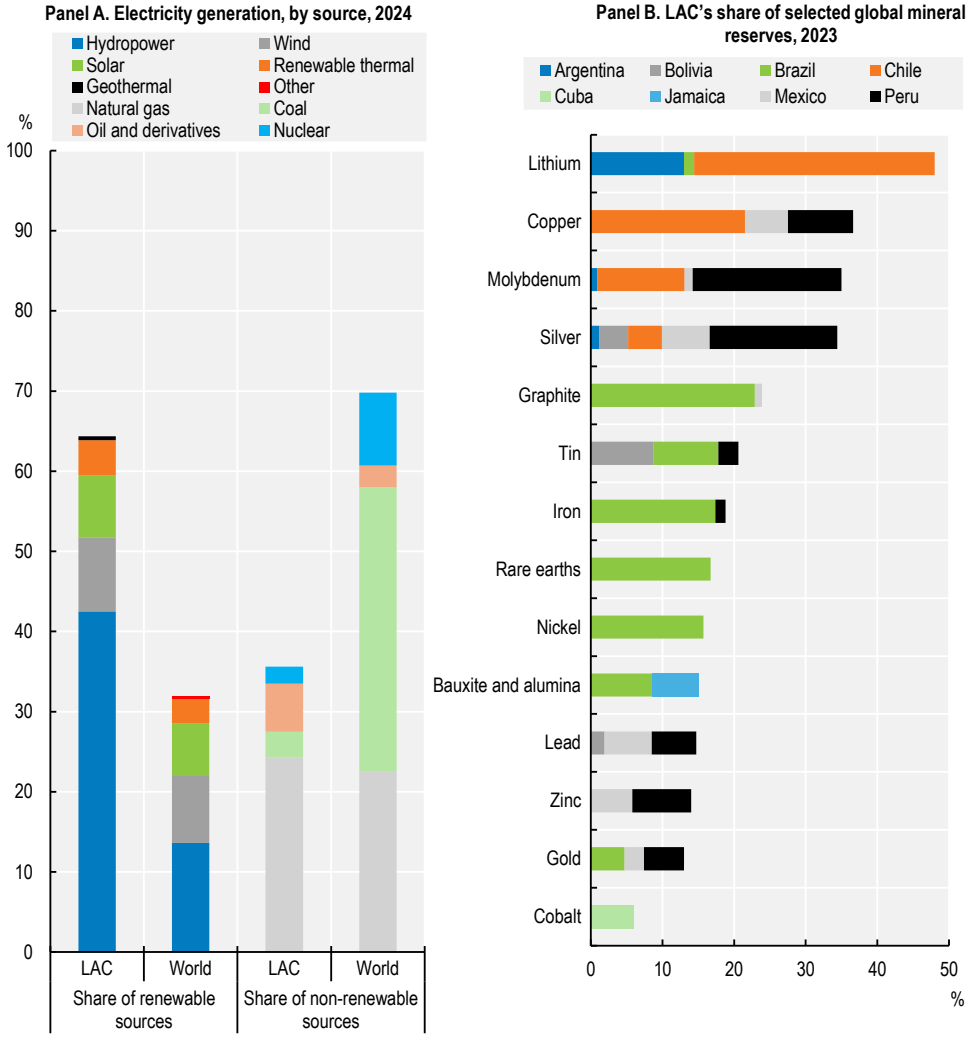
LAC already has one of the cleanest electricity mixes globally, supported by growing investment in clean energy over the past decade. Clean-energy investment has increased by almost 25% since 2015. Meanwhile, renewable sources generated 64.3% of the region's electricity in 2024, more than twice the global average of 31.9%. Hydropower accounted for 42.5% of regional generation, complemented by wind (9.2%), solar (7.8%) and other renewable sources (4.4%). However, the broader energy system remains significantly more dependent on fossil fuels, particularly in transport and other non-electric uses (Figure 1, Panel A).

LAC's abundant natural renewable energy resources represent a strategic opportunity, as firms increasingly seek access to reliable, competitively priced and low-carbon electricity. Specifically, these endowments can attract electricity-intensive activities seeking to reduce their carbon footprint, including mineral processing, green steel and fertilisers, or data centres. Similarly, LAC's sustainable electricity matrix can become a source of higher domestic competitiveness and resilience. To that end, it can reduce exposure to fossil-fuel price volatility, strengthen energy security, and support lower and more stable

energy costs. Finally, the region has significant potential to produce and export low-carbon energy, including green hydrogen and its derivatives. However, high capital costs, infrastructure gaps and still-emerging global demand constrain development of these industries.

Realising these opportunities will require complementary investment in electricity grids, storage and cross-border interconnections, as well as stable regulatory frameworks that can mobilise long-term investment. Ensuring that benefits are broadly shared will also be important. Renewable energy development can support better access to affordable and reliable electricity, create jobs and local business opportunities, and strengthen domestic value creation. At the same time, projects must be supported by strong environmental governance and meaningful community engagement, particularly where they create pressures on land, biodiversity or water resources.

Figure 1. LAC combines a clean electricity matrix with major reserves of minerals needed for the energy transition



Note: In Panel A, World category "Other" refers to geothermal and biogas.
Source: Panel A: OLACDE (2026[1]), *Sistema de Información Energética de América Latina y el Caribe (SIELAC)*, Energy balance matrix and electricity generation by source, Latin American and Caribbean Energy Organization (OLACDE), https://sielac.olade.org/; Panel B: ECLAC (2024[2]), *Critical minerals for the energy transition and electromobility: Economic development opportunities and socioenvironmental challenges*, https://www.cepal.org/en/insights/critical-minerals-energy-transition-and-electromobility-economic-development-opportunities.

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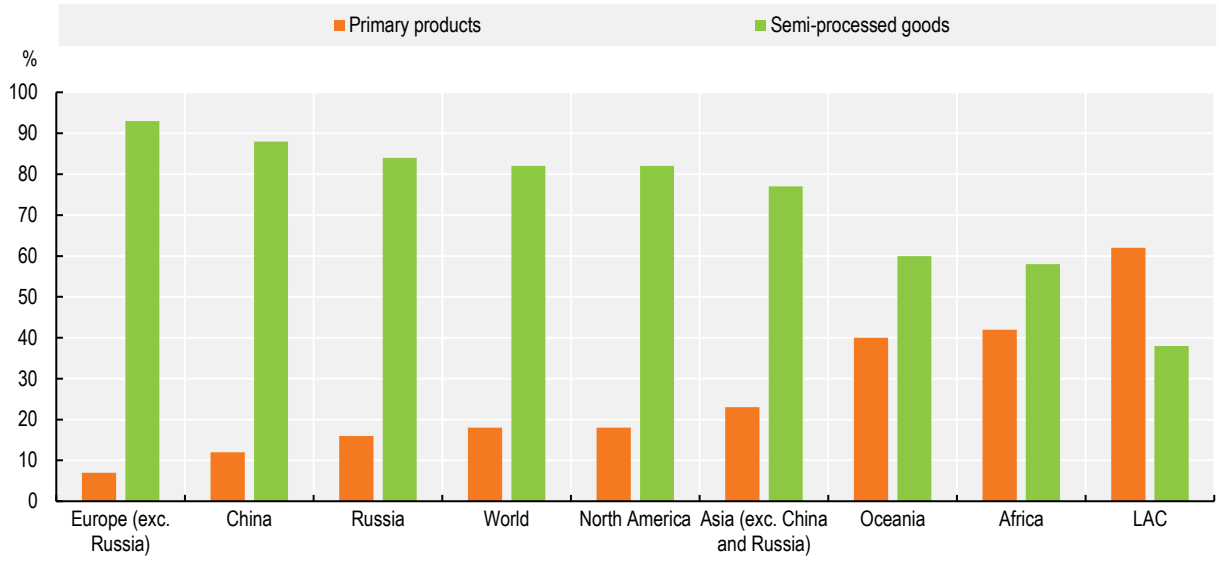
LAC can also become a strategic supplier of critical minerals for the global green transition. International demand for lithium is projected to triple between 2025 and 2040, while demand for graphite could double and copper demand could increase by around 30%. LAC is well positioned to respond: in 2023, it held 48% of global lithium reserves, 36.6% of copper reserves, 35% of molybdenum reserves, 34.5% of silver reserves and almost 25% of graphite reserves (Figure 1, Panel B). The region supplies around 35% of the world's lithium, led by Argentina, the Plurinational State of Bolivia (hereafter "Bolivia") and Chile. Meanwhile, Chile and Peru are among the leading international copper producers, accounting for 40% of global production.

Capturing the development benefits of this mineral wealth will require moving beyond extraction. In 2025, LAC countries refined, on average, only around 20% of the key energy minerals they extracted, excluding lithium. LAC exports a larger share of raw materials than any other major resource-rich region. Primary products account for approximately 62% of the region's critical mineral exports, while semi-processed goods represent only 38%. This contrasts with Africa and Oceania, where semi-processed goods account for 58% and 60% of critical mineral exports, respectively (Figure 2).

Figure 2. Composition of critical mineral exports by degree of processing, 2019-2023



Source: Authors' elaboration based on ECLAC (2025[3]), *Foreign Direct Investment in Latin America and the Caribbean, 2025,* https://www.cepal.org/en/publications/83116-foreign-direct-investment-latin-america-and-caribbean-2025.

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Realising the development potential of critical minerals will require a comprehensive policy approach that strengthens domestic value addition, mobilises investment and supports industrial development, while ensuring that mineral wealth translates into broad-based economic and social benefits. Key priorities include fostering regional co-operation across strategic value chains, developing local supplier capabilities and skills, and promoting innovation and technology transfer. Increasing domestic value creation will require investment in processing and refining where economically viable, but also more funds for engineering, logistics, digital services, research and specialised suppliers. Stronger links between mining projects and domestic firms can support technology transfer, develop local capabilities, and create more and better jobs. Regional co-operation can help countries combine complementary strengths, including lithium extraction in the Southern Cone, Andean copper production, Brazilian processing capabilities and Mexican manufacturing integration.

Greater productive upgrading must go hand in hand with responsible mineral development. Governments will need to strengthen environmental governance, transparency and community engagement to ensure responsible and inclusive development. Effective management of resource revenues and macroeconomic risks, including through fiscal frameworks and economic diversification strategies, will also be critical to maximise long-term development gains and avoid the adverse effects often associated with commodity dependence.

Digital transformation and AI offer new opportunities for LAC to attract investment and transform production

The digital transformation, with AI at its heart, is reshaping how economies produce, innovate, trade and deliver services. For LAC, digital technologies offer opportunities to raise productivity, develop new activities, and improve access to markets and public services. LAC can benefit both by attracting the physical infrastructure underpinning the digital economy and by applying digital technologies and AI to its productive strengths and development needs.

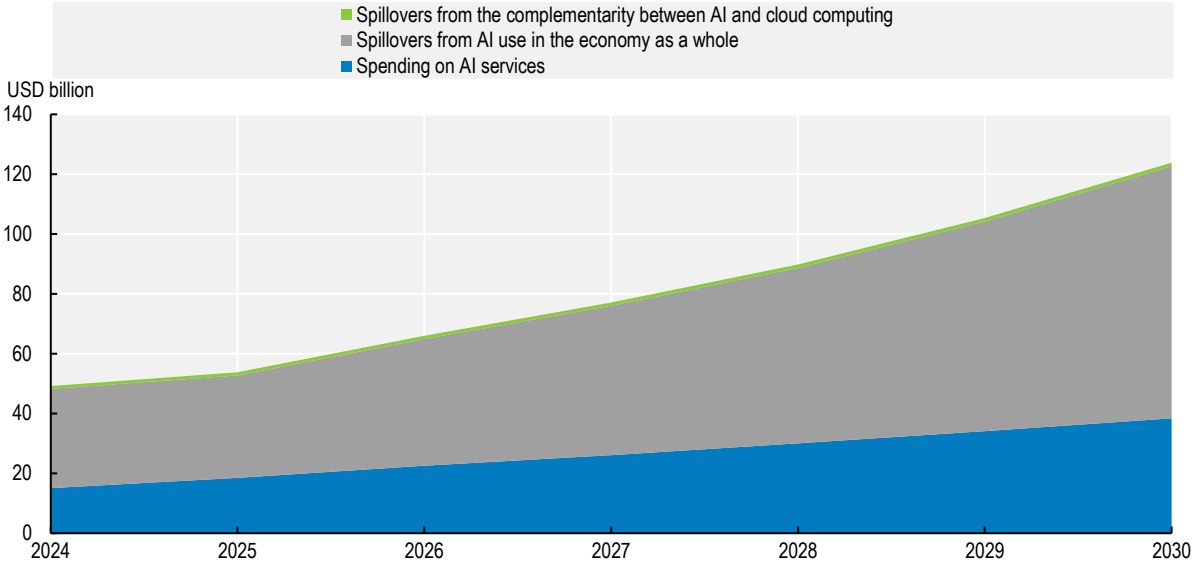
LAC's geography, climate and renewable energy endowments could help attract digital infrastructure, such as data centres. Global demand for data centres is projected to grow 19-22% annually through 2030. LAC's data centre market is projected to nearly double in value, from USD 5-6 billion in 2023 to around USD 10 billion by 2029. Yet the region accounts for only about 0.4% of global hyperscale data centre capacity. In comparison, the United States and the People's Republic of China (hereafter "China") together host around one-third of global data centre capacity. The number of hyperscalers operating in LAC is expected to increase from 2 to as many as 15 between 2025 and 2032.

Attracting this infrastructure could bring foreign direct investment (FDI), strengthen computing capacity and digital resilience, and create new opportunities for local firms and workers. However, capturing these benefits will require more than attracting capital. Reliable electricity and connectivity; appropriate regulatory frameworks; skills; and policies that foster links between data centres and domestic firms, research institutions and digital ecosystems will be essential. Given the substantial electricity, water and land requirements of data centres, their expansion will also need to be supported by credible environmental standards and careful planning. The extent to which data centres will contribute to broader development objectives in the region will depend on the generation of productive linkages with local firms, the reinforcement digital ecosystems and the support of local capability development, while ensuring that their high demand for electricity and water is managed sustainably.

Another major opportunity lies in moving from digital consumption towards productive adoption and innovation. Rather than competing directly at the frontier of general-purpose AI, LAC can adapt digital technologies and AI to sectors in which it already possesses capabilities and comparative advantages, and also use it to address longstanding productive weaknesses. Applications in agriculture, mining, renewable energy, logistics, financial and digital services, and public administration could raise productivity, improve decision making and support development of new products and services.

The potential economic gains are significant. Conservative estimates suggest that AI could generate USD 565 billion in additional economic output in LAC between 2025 and 2030. This would be equivalent to approximately 1.03% of the region's projected cumulative gross domestic product (GDP) over the same period (Figure 3). This contribution would result from spending on AI solutions; the indirect effects of AI services across other economic sectors; and complementarities between AI and cloud computing, including greater cost efficiency, new product development and support for start-ups.

Figure 3. Latin America: Projected impact of artificial intelligence, 2025-2030



Note: Latin America calculations include: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. This aggregate economic contribution of AI to output (GDP) breaks down as follows: (i) spending on AI (as measured by the revenues of AI service providers); (ii) the indirect effects of AI services on the other sectors of the economy; and (iii) the indirect effects of complementarities between AI and the use of cloud computing on the economy, measured by the benefits from AI in terms of cost efficiency, new product development, support for start-up incubation and the like.
Source: Jung and Katz (2026[4]), *Impacto económico de la inteligencia artificial en América Latina: transformación tecnológica y rezago en materia de inversión y capacidades laborales*, https://www.cepal.org/en/node/68349.

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LAC is already an active user of AI but has yet to translate this widespread adoption into comparable levels of investment and value creation**.** The region accounts for around 14% of global visits to AI solutions, but only 1.12% of global AI investment, despite representing 6.6% of global GDP. Spending on AI was estimated at USD 11.59 billion in 2023, equivalent to 3.7% of global expenditure in AI solutions and services. Moreover, only 23% of organisations in the region report generating any economic value from AI, and just 6% report significant value creation. This suggests that widespread use has yet to translate into productivity gains and new productive capabilities at scale.

Capturing these benefits will require closing gaps in infrastructure, skills, firm capabilities and innovation. Nearly one-third of the regional population does not use the Internet regularly, while only 45% possess basic digital skills, 22% intermediate skills and 14% advanced skills. These gaps constrain the ability of workers and firms to adopt cloud computing, AI and other advanced technologies. Digital and AI agendas should therefore be closely aligned with productive development policies. This would enable investment in connectivity, data and computing to translate into higher firm productivity, stronger domestic ecosystems and greater participation in digital value chains. Regional co-operation can complement national efforts by pooling talent, data, research and computing capacity, and by developing shared standards and interoperable systems.

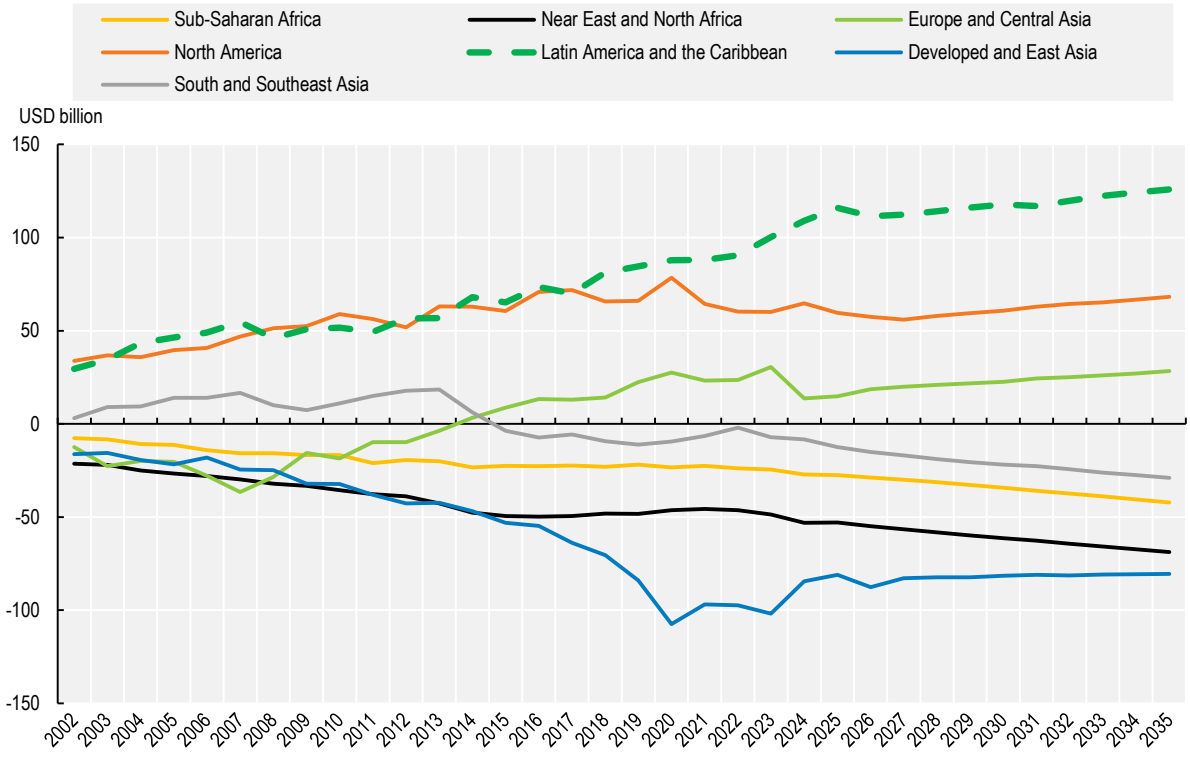
Rising global food demand and demographic change are creating additional development opportunities

Rising global food demand can reinforce LAC's role as a major and reliable agrifood supplier. Global consumption of agricultural and aquatic food products is projected to increase by around 12.5% by 2035. LAC already accounts for around 14% of global agricultural and fisheries production and 18% of global

agrifood exports. Meanwhile, its agricultural output is sufficient to feed an estimated 1.3 billion people, more than twice its own population.

LAC's net agricultural trade surplus is projected to increase from approximately USD 109 billion in 2024 to USD 126 billion in 2035, while deficits deepen in several parts of Africa, Asia and the Middle East (Figure 4). The greatest development gains, however, will come not simply from exporting more commodities, but rather from increasing productivity, value addition and climate resilience. Agricultural innovation, digital technologies, resilient logistics, and regional co-operation on standards and traceability can improve access to markets and reinforce LAC's reliability as a supplier.

Figure 4. Net agricultural trade of main agricultural commodities by region, in constant values



Note: Net trade (exports minus imports) of commodities covered in the *Agricultural Outlook*, measured in constant 2014-2016 United States dollars.
Source: OECD/FAO (2026[5]), *OECD-FAO Agricultural Outlook 2026-2035,* https://doi.org/10.1787/47874669-en.

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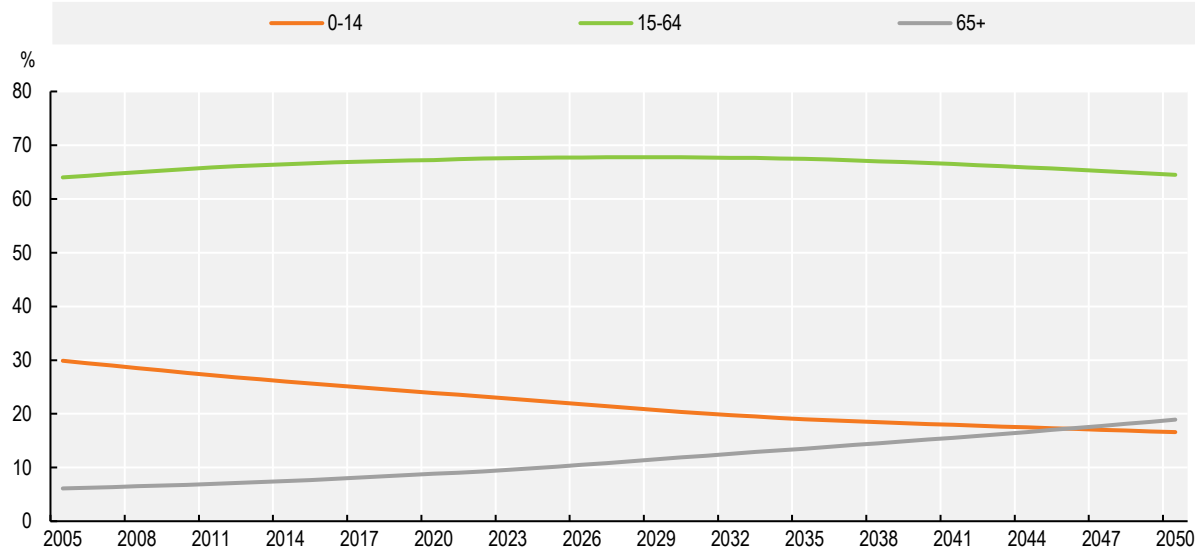
Export competitiveness must also be reconciled with domestic food security. In 2024, undernourishment affected 5.1% of LAC's population, while 25.2% experienced moderate or severe food insecurity. Stronger links between small producers, value chains and markets, together with improved access to healthy diets, will be essential to ensure that agricultural potential supports inclusive development.

Demographic change will create new economic opportunities even as it increases pressure on labour supply, public finances and social protection. Life expectancy increased from 72.5 years in 2005 to 76 years in 2025. Meanwhile, the share of the population aged 65 and over rose from 6% to around 10% and could approach 20% by 2050. Fertility rates are falling rapidly in the region, accentuating these pressures. In 2024, the total fertility rate in LAC stood at 1.8 children per woman, significantly below the replacement level, usually set at around 2.1 children per woman. This means that, on average, the number

of births is below the level required to keep the population size stable, leading to population ageing and eventually a decline in total population unless offset by immigration. The working-age share of the population is expected to begin declining after 2030 (Figure 5).

Figure 5. Evolution of population shares by groups of age in LAC, 2005-2050



Source: Authors' elaboration based on UN (2024[6]), *World Population Prospects: The 2024 Revision*, https://population.un.org/wpp/.

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The silver and the care economy are particularly relevant for LAC. The silver economy will generate growing demand for healthcare, long-term care, pharmaceuticals, housing, tourism, financial services and age-related technologies, offering opportunities for job creation and investment. The silver economy already generates roughly USD 22 trillion annually worldwide, and LAC could capture a growing share of that value as its older population expands. The care economy also offers a particularly important opportunity. Investment in care policies across 23 LAC countries could create around 31.3 million jobs, with approximately 88% in the formal economy. Expanding childcare and long-term care could also enable more women to participate in paid work, making care systems both a social investment and a source of employment and growth.

A changing global order creates opportunities for more diversified partnerships

Multilateralism and international development co-operation are facing heightened geopolitical tensions, weaker consensus-based governance and greater volatility in trade, finance, technology and environmental policy. For LAC, while this can increase uncertainty for long-term development strategies, it also creates opportunities for countries able to build coalitions, facilitate dialogue and contribute to global agenda-setting.

LAC has maintained a strong commitment to multilateralism and has played an active role in global governance, particularly on sustainable development, climate change and financing for development. By 2025, 32 of the region's 33 countries had submitted at least one Voluntary National Review. LAC countries have also taken leadership and convening roles in the UN, G20, BRICS (Brazil, Russian Federation, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, the United Arab Emirates and Indonesia) and climate, biodiversity and financing-for-development processes. However, internal fragmentation and

divergent policy positions limit the region's ability to translate this engagement into sustained collective influence.

International co-operation is increasingly combining development objectives with trade, investment, technology and geopolitical interests. This creates opportunities for LAC to attract investment, technology and expertise in strategic sectors, particularly those linked to the green and digital transitions. South-South and triangular co-operation also remain important, supporting knowledge exchange, technical assistance and institutional strengthening. For a predominantly middle-income region with limited access to concessional finance, these partnerships can help mobilise resources for production transformation and sustainable development.

The European Union is a leading example of this evolving approach through the EU-LAC Global Gateway Investment Agenda, which combines investment mobilisation with policy dialogue, technical assistance and institutional strengthening. Its initiatives in areas such as renewable energy, digital connectivity and electricity integration show how international partnerships can support production. The European Union is also a major investment partner, accounting for nearly one-third of greenfield FDI-related jobs in LAC, and supporting export diversification and greener, more knowledge-intensive activities.

Maximising the development impact of these partnerships will require more than mobilising finance. FDI and other investment flows need to be accompanied by technology transfer, skills development, stronger links with domestic firms and institutional capacity building so they contribute to productive diversification and higher-value activities. At the same time, limited concessional finance and growing debt-service pressures reinforce the importance of improving the quality and catalytic impact of finance through instruments such as blended finance and stronger collaboration among multilateral development banks, national development banks and private investors. Stronger regional co-ordination will be essential for LAC to leverage its international partnerships and shape a changing system of global co-operation.

These opportunities can help the region overcome longstanding development challenges amid a complex global context

These emerging opportunities are particularly important as LAC's current growth trajectory remains insufficient to deliver meaningful income convergence. GDP per capita has remained at around one-third of the OECD average for much of the past two decades, reflecting weak productivity growth, limited investment and insufficient productive transformation. These longstanding challenges are being compounded by geopolitical tensions and climate-related shocks. Conflict in the Middle East, including recent hostilities involving Iran, has disrupted energy supplies, pushed up commodity prices and heightened global uncertainty. Meanwhile, the phenomenon of El Niño affects agricultural production, fisheries, infrastructure and hydropower generation. Together, these shocks could weaken growth, revive inflationary pressures and complicate the policy response.

Persistent labour-market and social gaps could prevent new sources of growth from producing broad-based improvements in living standards. More than half of workers remain in informal employment, frequently without access to social insurance or adequate labour protection. Gender, age, and territorial and educational disparities continue to shape access to quality jobs, while poverty and inequality remain high. Green industries, digital services, care activities and new agrifood opportunities could support formalisation and quality job creation. However, their benefits will depend on complementary policies to develop skills, raise firm productivity, strengthen social protection and broaden access to finance and infrastructure.

Realising their full potential will also require mobilising substantial investment at a time when fiscal space is tight. Governments have limited room to support the infrastructure, human capital and productive transformation needed to underpin new engines of growth. Tax revenues average just 21.7% of GDP in LAC, compared with 34.1% in OECD member countries, while high debt-servicing costs absorb scarce public resources and further constrain public investment.

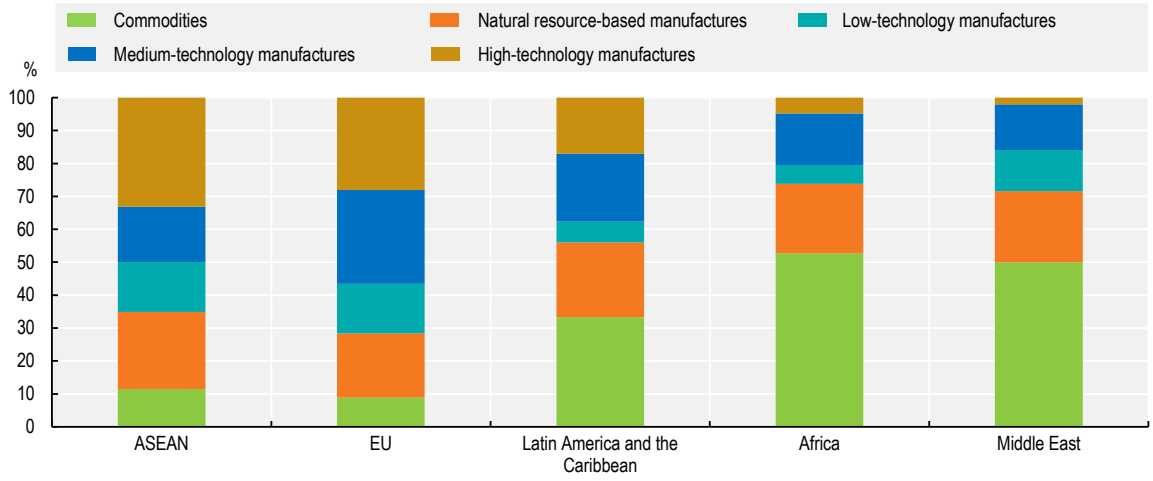
Deeper regional and global integration will be essential to harness global transformations, and strengthen growth and resilience

Deeper integration within the region and with the global economy can help LAC build the capabilities and scale needed to seize emerging opportunities and become more competitive in global markets. Regional markets and value chains can enable firms to expand production, combine complementary capacities and share infrastructure, knowledge and technology, while stronger global integration can broaden access to markets, investment, advanced technologies and specialised inputs. By facilitating greater domestic value addition and the development of higher-value activities, these two dimensions of integration can strengthen the region's competitiveness and resilience to external and climate-related shocks, while supporting stronger, more sustainable and more inclusive economic growth. Realising this potential, however, will require addressing the limited diversification, weak regional linkages and persistent barriers that continue to constrain LAC's integration.

Greater and more diversified participation in global trade and investment can strengthen LAC's position in the global economy

LAC has become more integrated into global trade, but diversification and productive upgrading remain limited. The region's total trade increased from 39% to 50% of GDP between 2000 and 2024. However, commodities, resource-based products and low-technology manufactures account for 62% of goods exports. For their part, high-technology manufactures represent only 17% of goods exports, compared with 33% in economies of the Association of Southeast Asian Nations and 28% in the European Union (Figure 6). Limited diversification constrains productivity and participation in more sophisticated segments of global production networks, underscoring the need to diversify exports and upgrade production.

Figure 6. Structure of goods exports by technology intensity, selected regions, 2022-2024 average



Note: ASEAN = Association of Southeast Asian Nations; EU = European Union.
Source: Authors' elaboration based on UN Comtrade (2024[7]), *UN Comtrade*, https://comtradeplus.un.org/.

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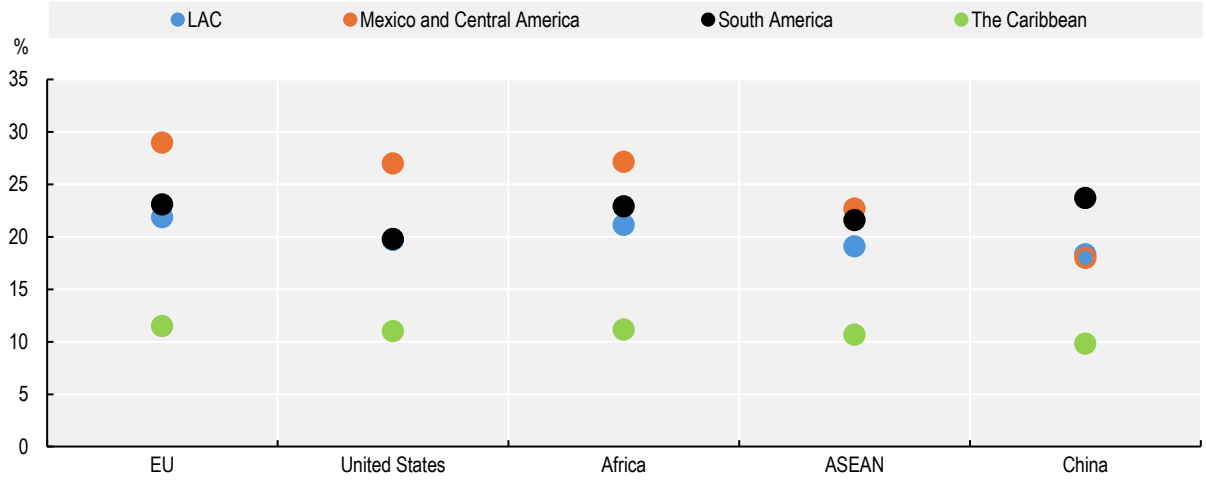
Trade complementarity points to opportunities for LAC to deepen trade with established partners and expand into markets with untapped potential. On average, LAC's export basket shows the strongest complementarity with the European Union (22%), followed by Africa (21%), the United States (20%), ASEAN (19%) and China (18%) (Figure 7). Yet ASEAN and Africa account for only 2.9% and 1.7% of LAC's goods exports, respectively, suggesting considerable scope to expand trade with these markets.

These opportunities vary across subregions. Mexico and Central America show the highest levels of complementarity with most partners, particularly the United States (29%), China and ASEAN. South America stands out for its complementarity with Africa (24%) and also records relatively high levels with the European Union (22%). In the Caribbean, lower levels of complementarity point to opportunities to diversify exports and strengthen trade links with international partners. Building on these different strengths, LAC economies could expand trade across a range of sectors, including agrifood, critical minerals, industrial inputs, digital services and more technologically sophisticated manufacturing, such as vehicles, machinery, chemicals, pharmaceuticals and medical devices. Strengthening trade with these partners could support export diversification and productive upgrading, particularly in economies with more diversified manufacturing capabilities.

Figure 7. Export complementarity of LAC subregions with external regions, 2020 to 2024 average



Note: ASEAN = Association of Southeast Asian Nations; EU = European Union.
Source: Authors' elaboration based on UN Comtrade (2024[7]), *UN Comtrade*, https://comtradeplus.un.org/.

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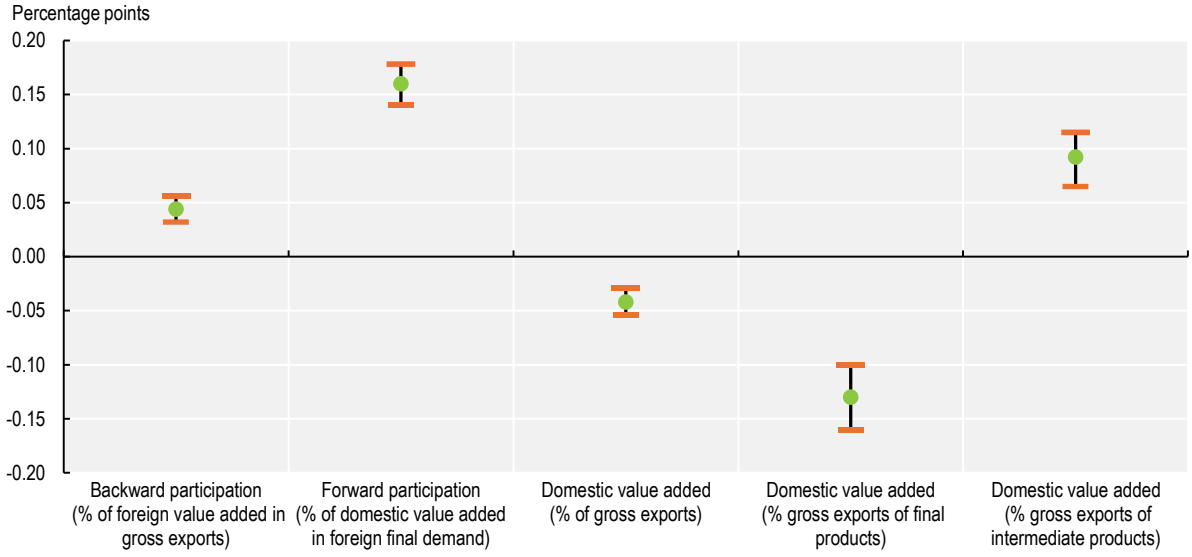
Increasing participation and moving into higher-value segments of global value chains (GVCs) can support productive upgrading in LAC. By connecting firms to foreign inputs, technologies and markets, GVCs can help diversify exports, increase domestic value creation and generate more and better-quality jobs. Yet LAC remains less integrated than other regions. Yet LAC remains less integrated into global value chains than other regions. Backward participation, which measures the use of imported inputs in exports, accounts for 3% of GDP in LAC, compared with 13% in East and Southeast Asia and 21% in the European Union. Forward participation, which measures the contribution of domestic value added to other countries' exports through intermediate goods and services, accounts for 5% of GDP in LAC, compared with 9% and 14%, respectively, in those regions.

Services can become an important driver of export diversification and value creation in LAC. Specifically, knowledge-intensive services offer opportunities to diversify into higher-value activities across the region. Services also strengthen the competitiveness of goods exports. Transport, logistics and finance facilitate trade and access to international markets, while research and development, engineering, design and digital services help firms produce more sophisticated goods and increase their value added. In seven LAC economies, services account for almost 30% of the value embodied in manufactured exports, close to levels in the United States (31%) and the European Union (36%), with domestic services contributing 18 percentage points. Strengthening services could help LAC economies diversify exports, improve

competitiveness and capture more value from international trade. Services exports are particularly important for many Caribbean economies, where tourism plays a central role.

FDI can play a fundamental role in deepening LAC's participation in GVCs and supporting a shift towards higher-value production. Multinational enterprises provide capital, technology, managerial expertise and access to foreign markets, while linkages with foreign firms can increase demand for domestic inputs and help local suppliers meet international standards. Empirical evidence confirms this potential: a 10% increase in FDI is associated with a 0.045 percentage-point rise in backward GVC participation (measured by the foreign value added in exports) and a 0.16 percentage-point increase in forward participation (measured as domestic value added embodied in foreign final demand) particularly in medium-high levels of technology manufacturing and services. FDI is also associated with greater domestic value added in intermediate exports, although not in total exports (Figure 8). LAC is already a major destination for foreign investment, with net FDI inflows equivalent to 2.7% of regional GDP in 2025, compared with 0.9% in South Asia, and 1.3% in East Asia and the Pacific. Enterprises from the European Union and the United States accounted for 28% and 25%, respectively, of announced greenfield investment in primary and manufacturing activities between 2015 and 2025. Meanwhile, technology activities at both medium-high and high levels represented 78.9% of inflows in Costa Rica, 56.3% in Mexico, 38.1% in Brazil and 36.5% in Colombia.

Figure 8. Foreign direct investment impact on GVC participation and domestic value added



Note: The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced greenfield FDI projects. For methodology, please refer to Box 2.1.
Source: Authors' calculations based on OECD (2024[8]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html; Financial Times (2026[9]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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Regional integration can unlock domestic development potential and support stronger global positioning

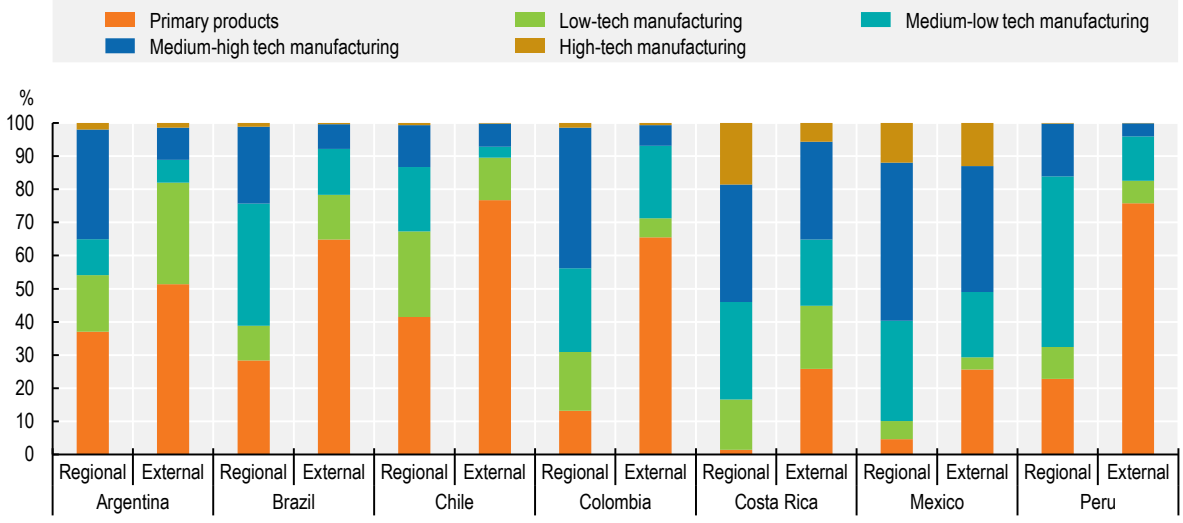
A more integrated LAC region will be better positioned to navigate global transformations. Stronger regional markets and value chains can help firms gain the scale, capabilities and resilience needed to thrive in a changing global landscape. In turn, deeper engagement with global markets can drive regional

integration by increasing demand for scale, efficiency, regulatory alignment and resilient supply chains, encouraging countries to reduce barriers, harmonise standards and strengthen cross-border infrastructure.

Regional trade integration remains modest. Intraregional exports represented only 14% of LAC's total exports in 2024, lower than in 2000 (18%) and well below Africa (17%), Asia (59%) and the European Union (67%). Integration is constrained by tariff and non-tariff barriers, regulatory and customs frictions, and infrastructure and logistics gaps. Overlapping production structures limit opportunities for regional trade. In 2024, the typical LAC country's export basket matched less than one-fifth of the region's import demand, although complementarities exist across specific countries and in medium- and high-technology manufacturing. Yet there is potential for expanding intraregional trade, which on average remains six percentage points of GDP below its estimated structural potential. Better implementation of existing integration frameworks, harmonised rules of origin and input cumulation could help address these barriers.

There is potential to deepen regional integration by strengthening regional value chains (RVCs). By linking firms through intermediate inputs, RVCs can support specialisation and productive capability development. RVCs are insufficiently developed in LAC, accounting for only 13% of the region's GVC participation, compared to 49% in the European Union, and 52% in East and Southeast Asia. Yet there is scope to deepen these linkages. Across seven LAC economies, intraregional intermediate exports are more diversified and technologically sophisticated than extraregional exports, highlighting the potential of regional markets to support productive diversification and upgrading. In Brazil, Colombia and Peru, primary products account for 65-75% of extraregional intermediate exports, while medium-technology manufactures represent 51-68% of intraregional trade. Costa Rica has a more diversified structure, but high-technology manufactures account for 19% of its intraregional intermediate exports, compared with only 6% of its extraregional exports (Figure 9).

Figure 9. Intraregional and extraregional exports of intermediate goods, 2022



Source: Authors' calculations based on OECD (2024[8]) *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

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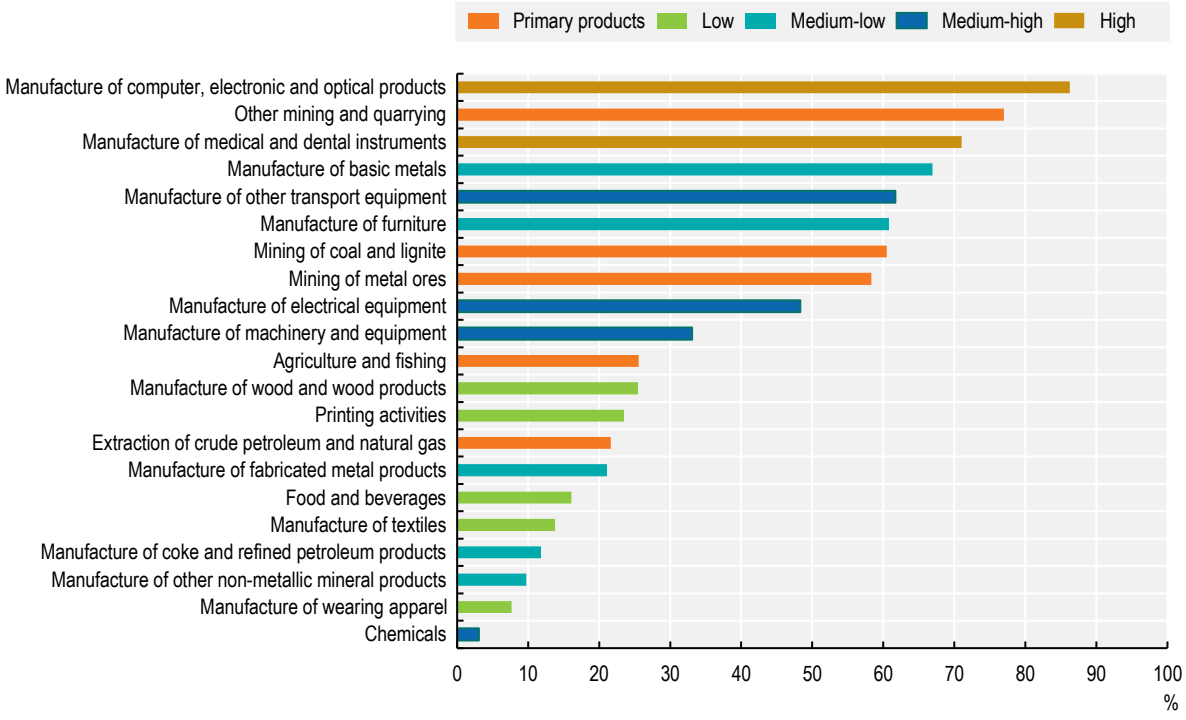
There is considerable untapped potential to deepen intraregional trade linkages, particularly in technology-intensive sectors. Estimates suggest that between 2002 and 2024, intraregional exports of high-technology manufactures were around 75% below expected levels, compared with 45% for medium-low technology

and 15% for low-technology manufactures. At the sectoral level, the largest untapped potential is found in computers, electronics and optical equipment (86%), medical instruments (71%) and transport equipment (62%), with significant opportunities also in machinery and electrical equipment (Figure 10). Beyond manufacturing, intraregional trade in metal ores was nearly 60% below expected levels, pointing to opportunities to connect the region's mineral resources with downstream industries.

Figure 10. Gap between observed and expected intraregional trade in LAC by sector and technology level

Percentage below predicted exports, 2002-2024



Note: Sectors specified by ISIC Rev.4, 2-digit sectors, sections A, B and C. Values indicate the percentage of trade gap relative to their structural potential. Please refer to methodology Box 2.2.
Source: Authors' calculations based on CEPII (2022[10]), *CEPII Gravity Database*, http://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=8; CEPII (2025[11]), *BACI: International Trade Database at the Product Level*, http://www.cepii.fr/CEPII.

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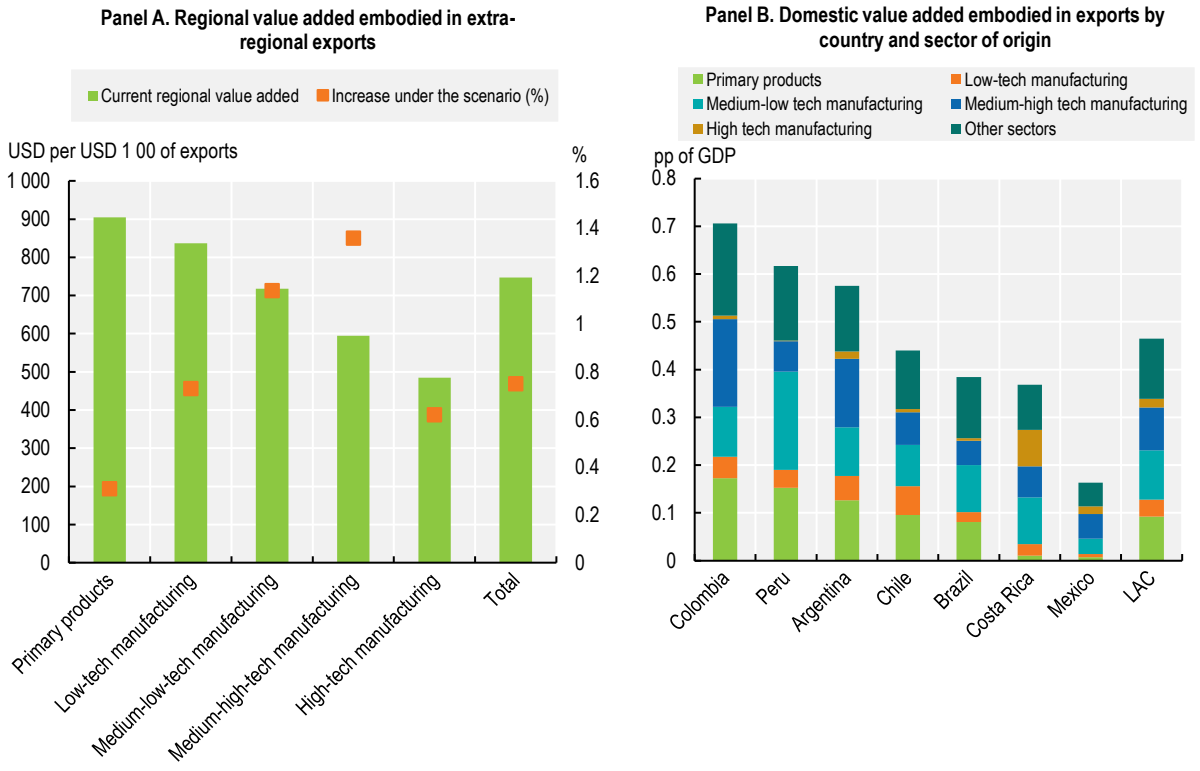
Deeper RVCs could increase the value added generated within LAC. Analysis covering seven LAC economies suggests that almost 10% of intermediate inputs sourced outside the region could instead be supplied regionally. Opportunities span chemicals, iron and steel, agriculture and food, and technology-intensive manufacturing such as motor vehicles, machinery, electronics and electrical equipment. Sourcing up to 10% of extraregional inputs from within LAC could raise regional value-added content across all technology groups, particularly medium-high technology (1.4%) and medium-low technology manufacturing (1.1%) (Figure 11, Panel A), and increase domestic value added embodied in exports by an average of 0.47 percentage points of GDP (Figure 11, Panel B).

Figure 11. Effects on value added of increasing regional sourcing of intermediate inputs

Scenario reallocating up to 10% of extraregional intermediate sourcing towards regional suppliers



Note: For methodology, please refer to Box 2.3.
Source: Authors' calculations based on OECD (2024[8]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

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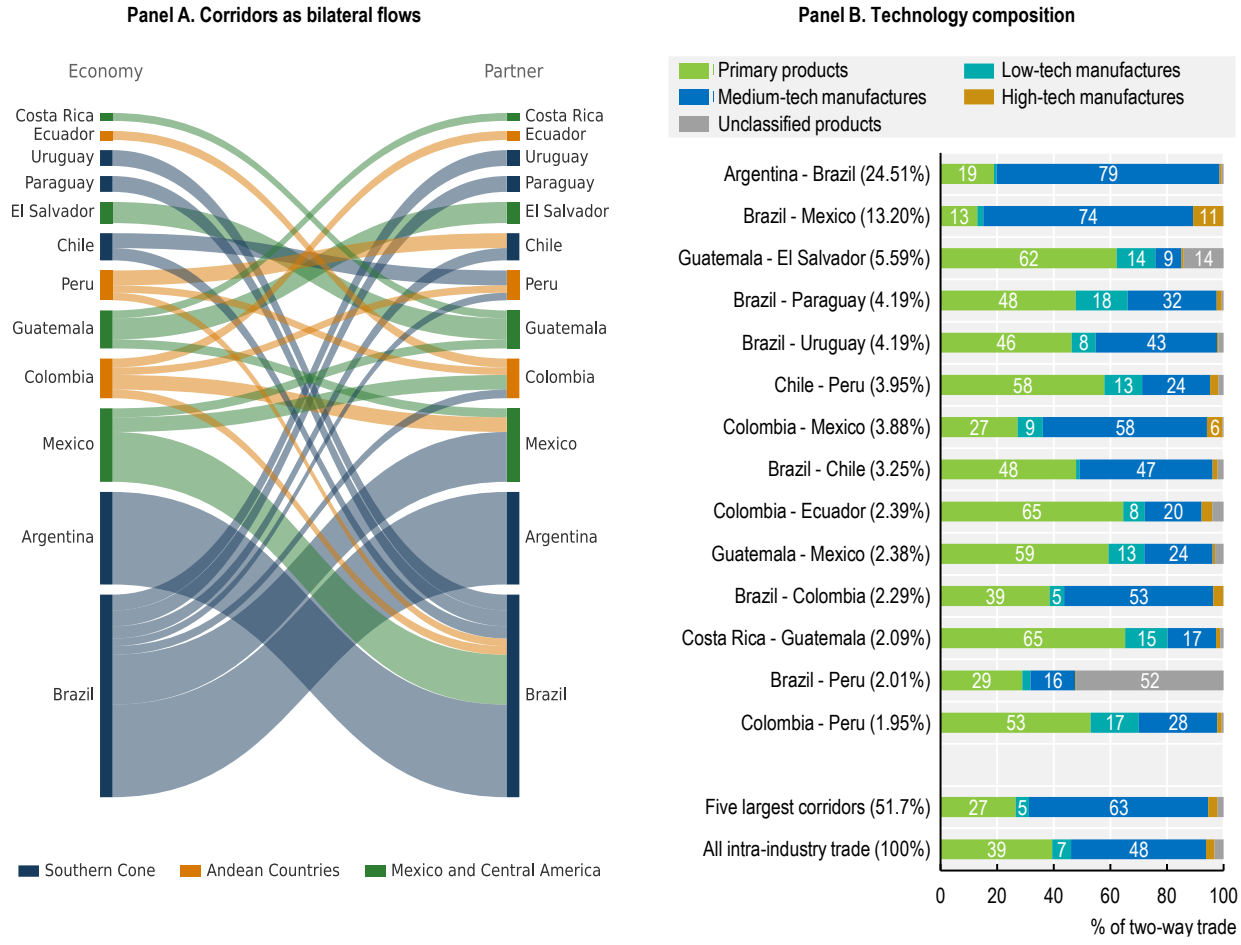
Existing intra-industry trade also provides a basis for deeper regional production networks. Trade within the same industries points to existing productive capabilities and specialisation that can support deeper productive integration. Almost 80% of regional intra-industry trade is concentrated in a small number of bilateral corridors, including Argentina-Brazil, Brazil-Mexico and Guatemala-El Salvador (Figure 12, Panel A). Manufactures account for more than 70% of trade in the leading corridors, while medium-technology products represent close to two-thirds of trade in the five largest (Figure 12, Panel B). Deepening and extending these networks could integrate more small and medium-sized enterprises (SMEs) and local suppliers, spread technology and productivity gains, and strengthen LAC's participation in GVCs.

Figure 12. Corridors of intra-industry trade in Latin America and the Caribbean, 2020-2024



Note: Panel A shows the 14 largest bilateral corridors; each corridor appears on both sides with half its value, so that ribbon widths are proportional to two-way trade. Panel B decomposes each corridor by technology intensity, and figures in brackets indicate the corridor's share in the regional total. The analysis covers 17 Latin American and Caribbean economies for which bilateral product-level trade data are available throughout the period.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[12]), *World Integrated Trade Solution*, https://wits.worldbank.org.

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Productive development policies can also play a central role in strengthening regional integration. Co-ordinating national strategies around shared regional priorities can support cross-border production networks through cluster initiatives, common standards, compatible rules of origin and supplier-development programmes. Strategies such as Brazil's *Nova Indústria Brasil*, Colombia's *Política Nacional de Reindustrialización*, Mexico's *Plan México* and Peru's *Política Nacional de Desarrollo Industrial*, together with more than 475 cluster and productive articulation initiatives across 20 countries, provide a foundation for this approach. Greater co-ordination among these efforts can increase scale and extend investment, technology and knowledge spillovers across the region.

Regional integration in LAC will need to extend beyond trade and investment to electricity, digital and financial markets. More interconnected electricity systems can improve use of renewable resources, reduce electricity costs, enhance energy security and support electricity-intensive investment. Existing initiatives provide a foundation for deeper integration, particularly the Central American Electrical

Interconnection System, which combines cross-border transmission infrastructure with a regional electricity market, alongside initiatives in the Andean region and the Southern Cone. Integrated digital markets can similarly give firms the scale to compete and innovate. The eLAC Digital Agenda, co-ordinated by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), provides a regional platform for convergence on digital infrastructure; data governance; digital skills; and emerging technologies, including AI. Financial integration can deepen capital markets, increase liquidity and expand access to investment. The Nuam exchange is advancing this agenda by bringing together the stock markets of Chile, Colombia and Peru through a common trading platform. Further progress in these areas depends on stronger institutions, regulatory convergence and interoperable systems, and can advance gradually at the subregional level.

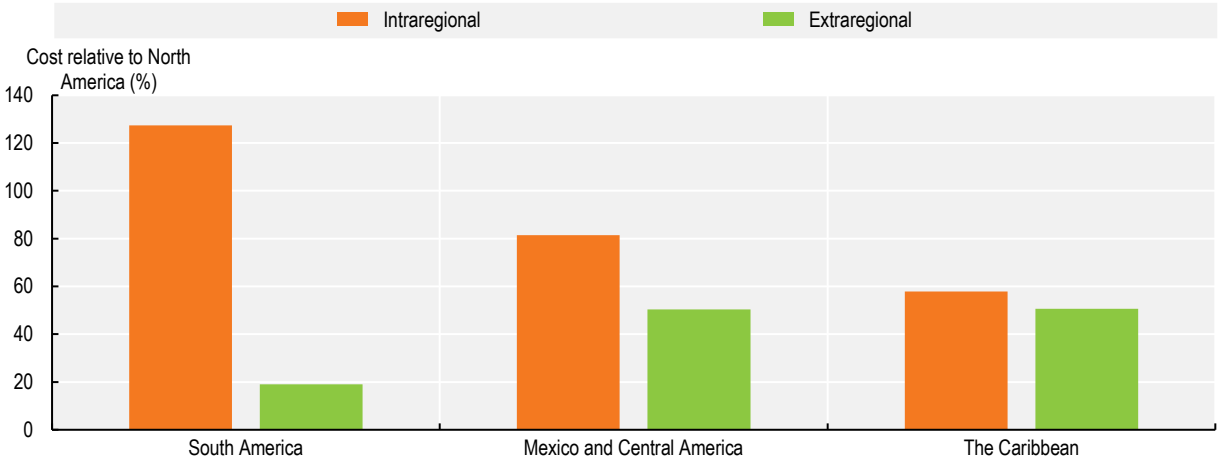
Stronger enabling conditions can unlock deeper regional and global integration

The region has significant opportunities to deepen regional integration and strengthen its position in a rapidly evolving global economy. Seizing these opportunities requires a broader set of enabling conditions than market access alone. Firms need efficient connections to regional and global markets, as well as regulatory frameworks, that facilitate cross-border activity; workers need the skills to move into higher-value activities; and adequate financing is needed to support investment, innovation and upgrading. Strategic partnerships can reinforce these domestic and regional capabilities by expanding access to markets, technology, knowledge and capital. Together, these mutually reinforcing conditions can help LAC build larger and more integrated regional markets, develop more sophisticated value chains, and participate in the global economy on more competitive, resilient and inclusive terms.

Better connectivity can expand market access and unlock trade opportunities

Persistent infrastructure and logistics gaps continue to weaken LAC's competitiveness and regional integration. Transport networks remain fragmented; multimodal connections are limited; and weaknesses in customs and logistics services increase the cost and time of trading. As a result, transport costs remain higher than in North America for both intraregional and extraregional exports, with particularly large gaps in South America. Closing half of the infrastructure gap with advanced economies could increase exports by up to 30%. However, infrastructure investment stood at only 1.5% of GDP in 2023, compared with estimated needs of around 3.1% annually through 2030. Addressing these constraints requires moving beyond isolated projects towards integrated connectivity strategies combining multimodal transport, efficient border management, digital logistics and strategic corridors. Linking production centres, ports, border crossings and markets would lower trade costs while helping firms participate more effectively in RVCs and GVCs (Figure 13).

Figure 13. Transport costs relative to North America for intraregional and extraregional exports, 2022



Note: Bars indicate the relative percentage difference in transport costs for each region compared to North America (United States and Canada). Estimates are derived from a semi-logarithmic regression of the cost, insurance and freight – free on board (CIF-FOB) margin on regional fixed effects, controlling for product categories (CAF, 2026[13]). Coefficients β^were transformed via (e^β^-1) to represent the percentage change relative to the base category.
Source: Authors' elaboration based on OECD (2025[14]), *International transport and insurance costs of merchandise trade* (ITIC).

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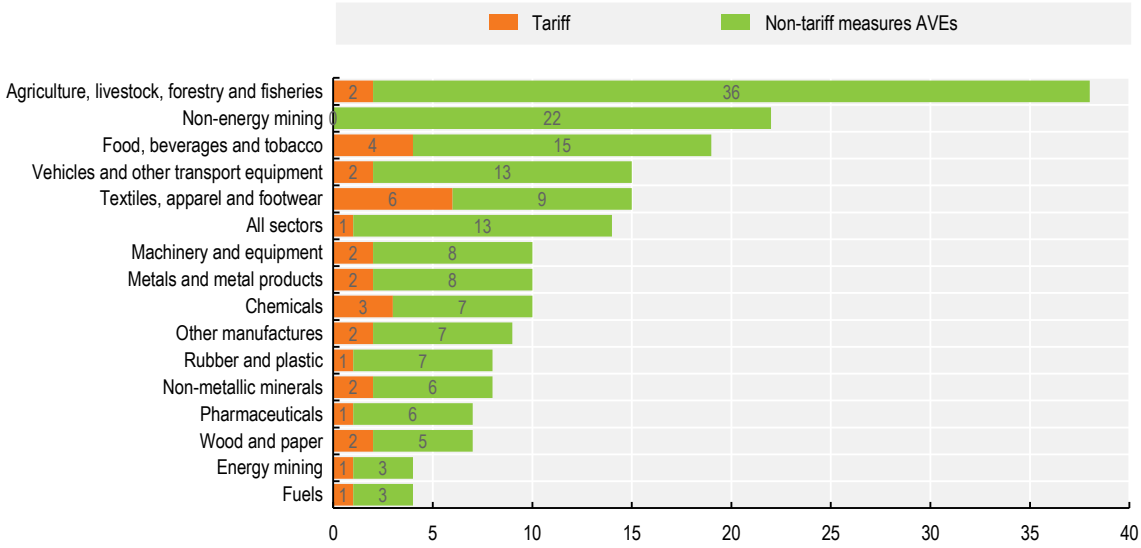
Regulatory convergence can turn market access into a more integrated regional market

Six decades of regional integration have substantially reduced tariffs and created an extensive architecture of trade agreements, but regulatory fragmentation increasingly represents the binding constraint on deeper integration. Divergent technical standards, sanitary requirements, conformity assessments and administrative procedures raise the costs of operating across markets, particularly for SMEs and firms participating in cross-border production networks. Non-tariff measures now represent an estimated average ad valorem equivalent of 13% across sectors, reaching 36% in agriculture and livestock, and 22% in non-energy mining. Simulations suggest that reducing non-tariff measures by 60% could lower average regional protection by 8.7 percentage points. The next phase of regional integration should therefore prioritise practical regulatory convergence, mutual recognition, compatible standards and better implementation of existing agreements. This need not imply uniform regulation: the objective is to make national systems sufficiently compatible for firms to source, produce and sell more seamlessly across the region while remaining connected to international standards and global markets (Figure 14).

Figure 14. Average tariff applied to intraregional trade in LAC and ad valorem equivalents of non-tariff measures, 2023



Note: Ad valorem equivalents (AVEs) are expressed as a percentage of intraregional imports. Latin America and the Caribbean comprises 20 countries. AVE values for bilateral trade were re-estimated using, as a weighting measure, the sectoral trade structure from the GTAP 12 database, which uses 2023 as its reference year. The GTAP 12 database and the Non-Tariff Measures database are included in GTAP 11.
Source: Estimates are based on Nicita and Koloskova (2025[15]), *Non-tariff measures at the border, a GTAP level analysis*, https://unctad.org/publication/non-tariff-measures-border-gtap-level-analysis.

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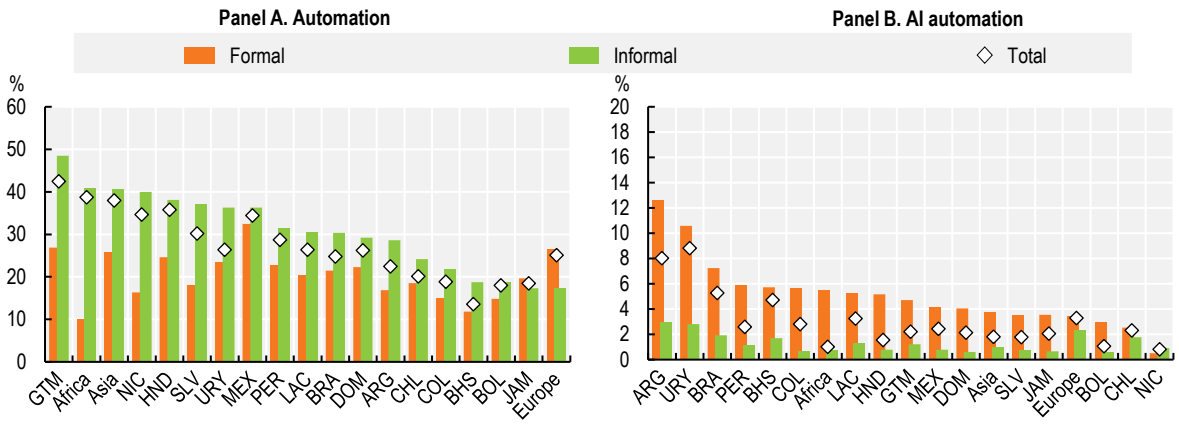
Better skills are essential for workers and firms to benefit from deeper integration and technological change

Skills deficits and informality could prevent LAC from capturing the opportunities created by more knowledge-intensive RVCs and GVCs. Students in the region lag the OECD average in mathematics by the equivalent of around five years of schooling, while 88% of socio-economically disadvantaged students are low performers in mathematics, compared with 55% among advantaged students. These weaknesses extend into labour markets, where informal workers remain concentrated in lower-skilled manual occupations and have fewer opportunities to train and upgrade. Around 27% of workers face high traditional automation risks, rising to 32% among informal workers, while only around 3% face high AI-related displacement risks. The more immediate challenge is therefore not widespread displacement by AI, but rather developing the foundational, digital, technical and transversal skills that allow workers and firms to use new technologies and enter higher-value activities. Better technical and vocational education, lifelong learning and work-based training should be closely aligned with sectors offering opportunities for regional integration and productive upgrading. This includes renewable energy, critical minerals and batteries, services enabled by information and communication technologies, agribusiness, health and sustainable transport (Figure 15).

Figure 15. Workers at high risk of automation, LAC countries, 2023 or latest available year

Percentage of workers aged 15 or more in each group



Note: Occupations considered to be at high risk of automation if they have a significant share of important skills and abilities (more than 25%) that are highly automatable, following Lassébie and Quintini (2022[16]). Occupations are considered to be at high risk of AI automation if they fall within the highest exposure gradient (Gradient 4), following Gmyrek et al. (2025[17]). The definition of informality follows ILO (2018[18]). Data are presented for the latest year available.

Source: Estimates based on Lassébie and Quintini (2022[16]), *What skills and abilities can automation technologies replicate and what does it mean for workers?: New evidence*, https://doi.org/10.1787/646aad77-en; Gmyrek et al. (2025[17]), *Generative AI and Jobs: A Refined Global Index of Occupational Exposure*, https://doi.org/10.54394/hetp0387; OECD (2025[19]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://www.oecd.org/en/data/datasets/main-informality-indicators.html.

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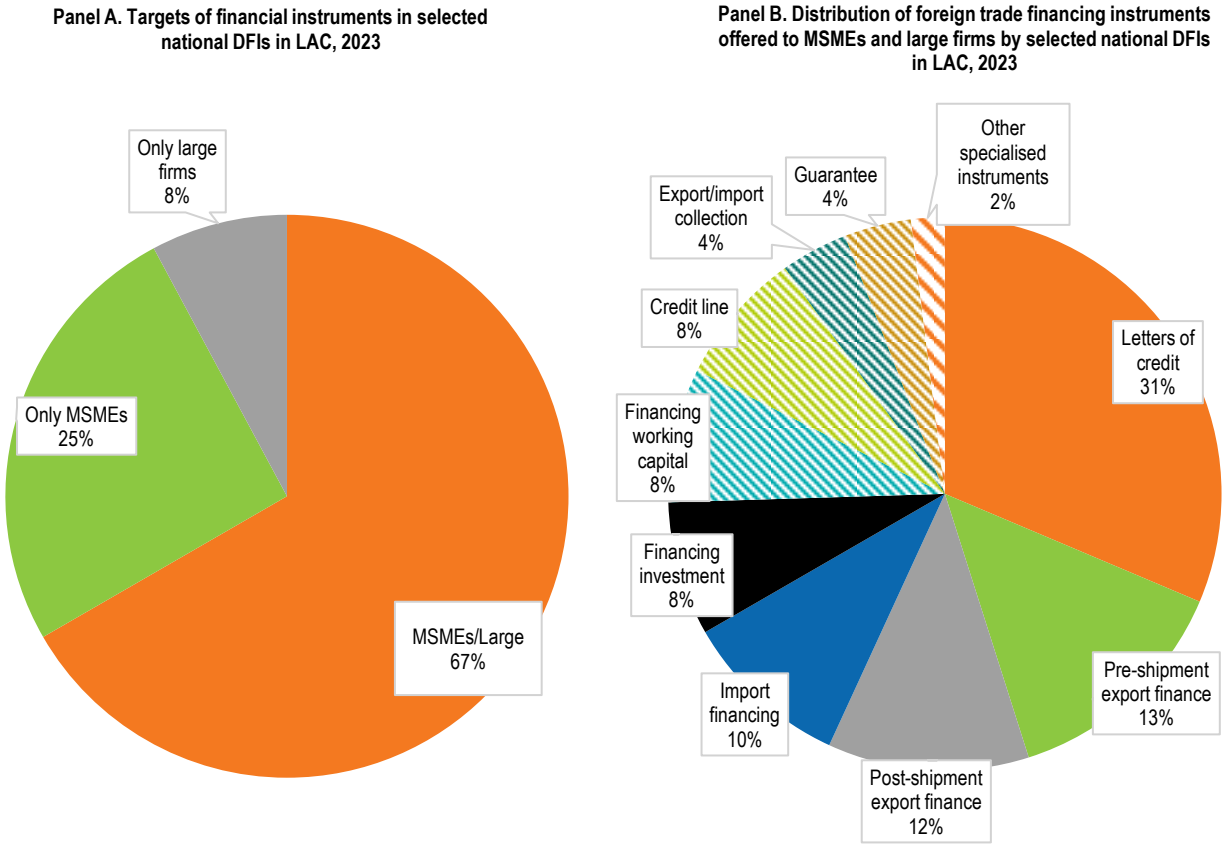
Strategic financing can turn regional priorities into investable projects

Deeper regional integration also depends on mobilising finance for infrastructure, productive upgrading and regional public goods. Development banks can help translate these priorities into bankable projects while supporting firms' participation in RVCs. National development banks and other development finance institutions (DFIs) provide trade finance, credit and guarantees to firms, particularly micro-, small- and medium-sized enterprises (Figure 16). Closer co-ordination among national and multilateral development banks can strengthen risk-sharing, crowd in private capital and support cross-border projects in transport, energy, digital infrastructure and regional payment systems.

Innovative debt instruments can complement these efforts by mobilising additional capital for sustainable infrastructure and regional public goods. International issuance of green, social, sustainability, sustainability-linked and blue bonds in LAC reached a cumulative USD 181.9 billion between 2014 and 2025, supporting investments in areas such as renewable energy. Debt-for-nature and resilience swaps offer further opportunities to finance shared environmental assets and climate resilience. Scaling up these instruments will require stronger project pipelines, institutional capacity, harmonised reporting standards and lower transaction costs.

Figure 16. Foreign trade financial instruments in selected national DFIs in LAC, 2023



Note: MSME = micro-, small- and medium-sized enterprise. The database covers 38 national and subnational public DFIs in 13 LAC countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Mexico, Paraguay, Panama, Peru and Uruguay.
Source: Authors' elaboration based on public data (annual and sustainability reports) accessed in 2023 from 38 public DFIs in 13 LAC countries.

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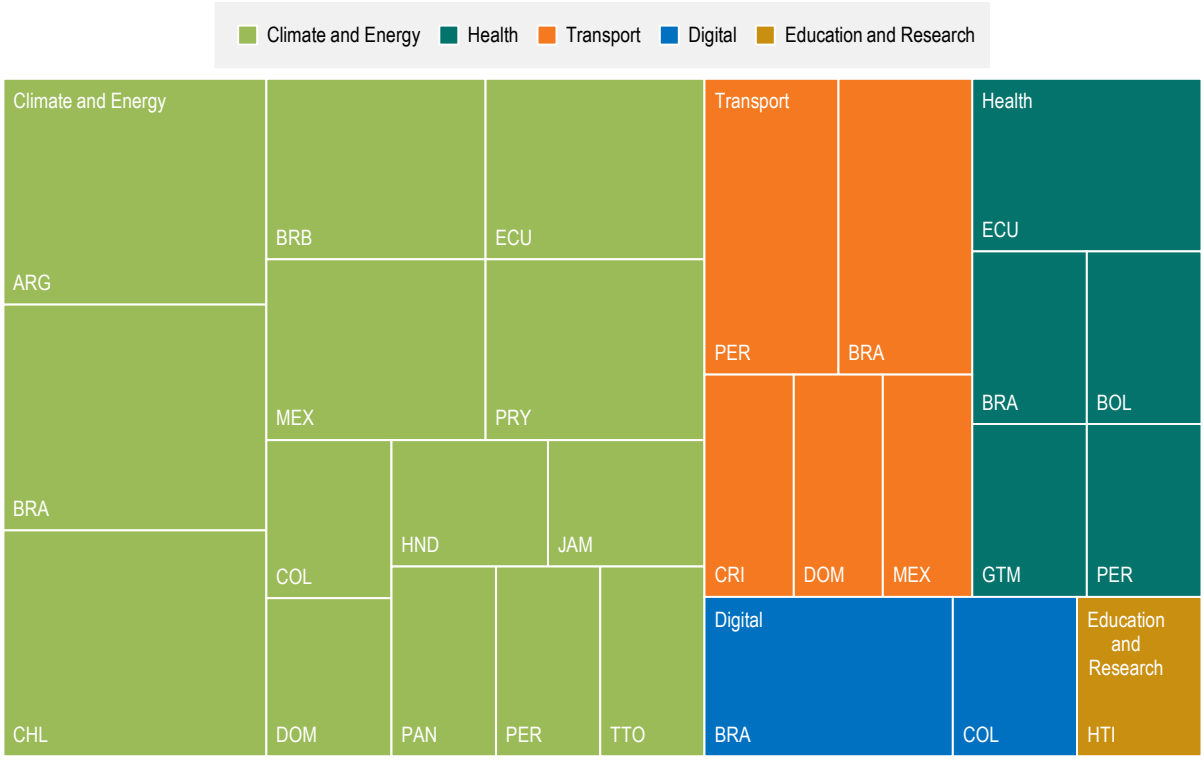
Strategic international partnerships can complement regional integration

International partnerships can reinforce domestic capabilities and regional integration by expanding access to finance, markets, technology and knowledge. The EU-LAC partnership illustrates this potential, building on strong economic ties and shared interests. The EU-LAC Global Gateway Investment Agenda reflects a shift towards an investment-based partnership, having mobilised around EUR 31.5 billion in LAC between 2021 and 2024. Its flagship projects focus primarily on climate and energy, alongside transport, health, digital connectivity, and education and research (Figure 17). Initiatives such as submarine cable extension EllaLink and Central American electricity market integration can strengthen cross-border infrastructure and RVCs. Maximising their development impact will require stronger local ownership, technology transfer, skills development and linkages with local suppliers.

Figure 17. EU-Latin America and the Caribbean Global Gateway flagship projects, 2026



Note: The size of each rectangle is proportional to the number of flagship projects identified. Projects are classified according to their primary area of focus. The figure presents project counts only and does not reflect the financial value of projects. The flagship projects presented do not capture the full extent of Team Europe engagement in the region.
Source: Authors' elaboration based on European Commission (2026[20]), *Global Gateway – EU-Latin America and the Caribbean flagship projects*, https://international-partnerships.ec.europa.eu/publications-library/global-gateway-flagship-projects-infographics_en.

StatLink https://stat.link/hgityo

International partnerships can also foster regional integration through closer economic ties, policy co-operation and knowledge exchange. The EU-MERCOSUR agreement offers significant opportunities to deepen economic integration between Europe and South America. The agreement could also support broader regional integration beyond MERCOSUR members. By encouraging regulatory convergence, greater alignment across rules of origin regimes and lower trade barriers, the agreement may strengthen incentives for deeper regional integration and development of complementary value chains across LAC.

Ibero-American co-operation, in turn, provides a distinctive platform for policy dialogue, knowledge exchange and capacity building across 22 countries. Through programmes and networks supporting scientific and technological co-operation, innovation, regulatory convergence and digital transformation, it can strengthen regional capabilities and competitiveness. Together, these partnerships can help LAC diversify its international ties while reinforcing regional integration, strengthening its resilience and position in a fragmented global economy.

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1 Unlocking development opportunities for Latin America and the Caribbean in a changing global context

This chapter examines how major global transformations – including the green transition, digital transformation and artificial intelligence, the transformation of food systems, demographic change, and evolving forms of international co-operation and partnerships – are creating new development opportunities for Latin America and the Caribbean. It assesses the region's capacity to seize these opportunities in a context of persistent macroeconomic, productive and social challenges, including weak growth, low productivity, limited fiscal space, financing constraints, labour informality, poverty and inequality. The chapter argues that turning these global shifts into stronger development outcomes will require policies that combine productive transformation, social inclusion and sustainability, with a key role for regional co-operation and integration.

Introduction

Latin America and the Caribbean (LAC) can navigate a rapidly changing global context by turning major global shifts into opportunities for sustainable and inclusive development. Climate change, digital transformation, artificial intelligence (AI), demographic change and geopolitical fragmentation are reshaping the global economy. In the process, they are creating new risks but also opening new avenues for structural transformation. For LAC, these shifts create opportunities to strengthen its position in renewable energy, critical raw materials,[1] low-emissions fuels, digital services, AI-related infrastructure, sustainable agriculture and food systems, and the care and silver economy, while diversifying and enhancing international partnerships. As demand grows for low-carbon energy, strategic minerals, digital infrastructure and reliable international partners, the region's natural resource endowment, biodiversity, clean electricity matrix and growing human capital can become important sources of comparative advantage. If supported by appropriate public policies, these assets can help attract investment, foster innovation, create quality jobs and strengthen the region's position in emerging global value chains (ECLAC, 2026[1]).

These trends emerge against a backdrop of persistent macroeconomic and structural constraints. Several LAC economies have demonstrated considerable resilience to recent global shocks, supported by stronger macroeconomic policy frameworks and relatively sound fundamentals. However, long-standing modest growth in LAC remains insufficient to support meaningful income convergence with advanced economies, largely reflecting weak productivity dynamics, low investment, limited innovation and constrained fiscal space. High debt-servicing costs, tight financing conditions, shallow financial markets and commodity-dependent external accounts further limit the region's capacity to finance production transformation and respond to shocks.

Social progress also remains fragile and uneven. While labour markets have shown resilience, they remain characterised by high informality, segmented access to quality jobs, large skills gaps and persistent inequalities across gender, age, territory and household types. Poverty and inequality have declined in recent years but remain high by international standards. Meanwhile, many households remain weakly connected to contributory social protection systems. Addressing these challenges will require a policy agenda that combines formalisation; productivity upgrading through productive development policies such as those proposed by the *Latin American Economic Outlook (LEO) 2025* (OECD et al., 2025[2]); better skills; broader tax base and more effective and progressive tax systems; and more comprehensive social protection.

The chapter is structured in two broad sections. The first examines five major global transformations and the important development opportunities they create for LAC, given the region's specific strategic assets and advantages. It analyses the opportunities associated with the green transition; digital transformation and the AI revolution; the transformation of global food systems; demographic change; and evolving forms of international co-operation and partnerships. The second section assesses the socioeconomic panorama of the region, examining where LAC stands across key dimensions and arguing that the changing global context presented above represents an opportunity to overcome longstanding development challenges in the region. It first considers macroeconomic and structural constraints, including weak growth, limited productivity gains, fiscal pressures, financing constraints and external vulnerabilities. It then examines social conditions, with a focus on labour market segmentation, informality, poverty and inequality.

Global shifts are opening new development opportunities for LAC

The global economy is undergoing profound transformations, including the green and digital transitions, demographic change, the transformation of global food systems, and the reconfiguration of global economic and geopolitical relations. These transformations are reshaping global patterns of production,

investment, technology and trade, creating new opportunities for LAC to strengthen its role in the global economy and advance its development.

LAC enters this period of change with a distinctive set of strategic assets and advantages, including abundant natural resources, significant renewable-energy potential, rich biodiversity, a strong position in global food production, and close economic and political ties with major global economies. Together with the region's geographic, productive and human capabilities, these assets position LAC to respond to emerging global demand for clean energy, critical raw materials, food and digitally enabled goods and services, while attracting investment, strengthening domestic value addition and supporting more diversified and resilient economies. The extent to which these opportunities translate into sustained development gains will depend on the region's ability to mobilise investment, build capabilities and strengthen institutions, while leveraging regional and international partnerships.

The opportunity of the green transition: Renewable energy and critical raw materials

A significant part of the global economy is undergoing a move towards lower-carbon models of production and consumption. This green transition comes associated with a rapid deployment of renewable energy and increasing global demand for clean energy sources and critical raw materials, which in turn are reshaping investment, trade, technology and energy systems. In this context, access to abundant, reliable and competitively priced renewable energy is becoming an increasingly important source of comparative advantage.

These transformations create important development opportunities for LAC. Externally, the region can leverage its abundant resources to participate more actively in global markets and value chains, by supplying renewable electricity and critical raw materials, and producing transportable forms of clean energy, such as green hydrogen and its derivatives. Access to clean and competitively priced energy could also help the region attract investment in energy-intensive activities seeking to reduce their carbon footprint, while creating opportunities to develop local productive, technological and service capabilities. Internally, greater renewable-energy deployment could lower and stabilise energy costs, thereby enhancing the competitiveness of regional economies. It could also reduce external dependence and exposure to fossil-fuel price volatility, strengthen energy security and economic resilience, and facilitate compliance with international climate commitments. More broadly, if appropriately managed, the expansion of renewable energy and critical raw materials could contribute to a more inclusive and environmentally sustainable development model. Regional co-operation may also support these opportunities by addressing shared infrastructure limitations, improving regulatory co-ordination, and strengthening technological and productive linkages (OECD, Forthcoming[3]).

This section first examines the evolution of the green transition and renewable energy demand and supply, as well as LAC's position in this context and the region's readiness to seize the resulting opportunities. It then explores the main areas of opportunity for the region, both externally and internally.

The global deployment of renewable energy has accelerated amid recent global disruptions and declining costs

Renewable energy is becoming increasingly important in the global energy system, driven by rapid deployment, rising investment and growing demand for renewable electricity. In 2024, renewables accounted for 92.5% of new global power-generation capacity (IRENA, 2025[4]). At the same time, renewable electricity generation is projected to increase by 60% between 2024 and 2030 and is expected to meet more than 90% of the growth in global electricity demand over this period (IEA, 2025[5]). Beyond the energy system itself, the economic importance of clean energy technologies is also growing rapidly: their combined global market value has increased by 20% on average per year over the past decade, reaching nearly USD 1.2 trillion in 2025 (IEA, 2026[6]). At the same time, global investment is increasingly

shifting towards clean energy, with investment in clean energy technologies and infrastructure expected to reach USD 2.2 trillion in 2026, twice the amount invested in fossil fuels (IEA, 2025[7]).

Renewable energy technologies have also demonstrated strong cost competitiveness. In 2024, renewables remained the most cost-effective option for new electricity generation globally based on a levelised cost of electricity (LCOE) basis (IRENA, 2024[8]). Between 2010 and 2024, the global weighted-average LCOE of utility-scale solar photovoltaic (PV) declined by around 90%, while onshore wind costs fell by more than 60% (IRENA, 2024[8]). New solar capacity added between now and 2030 will account for 80% of the growth in renewable power globally by the end of this decade. Onshore wind has emerged as the lowest-cost source of new power generation, with a weighted-average LCOE of USD 0.034/kWh, followed by solar PV (USD 0.043/kWh) and hydropower (USD 0.057/kWh) (IRENA, 2024[8]; IEA, 2025[9]).

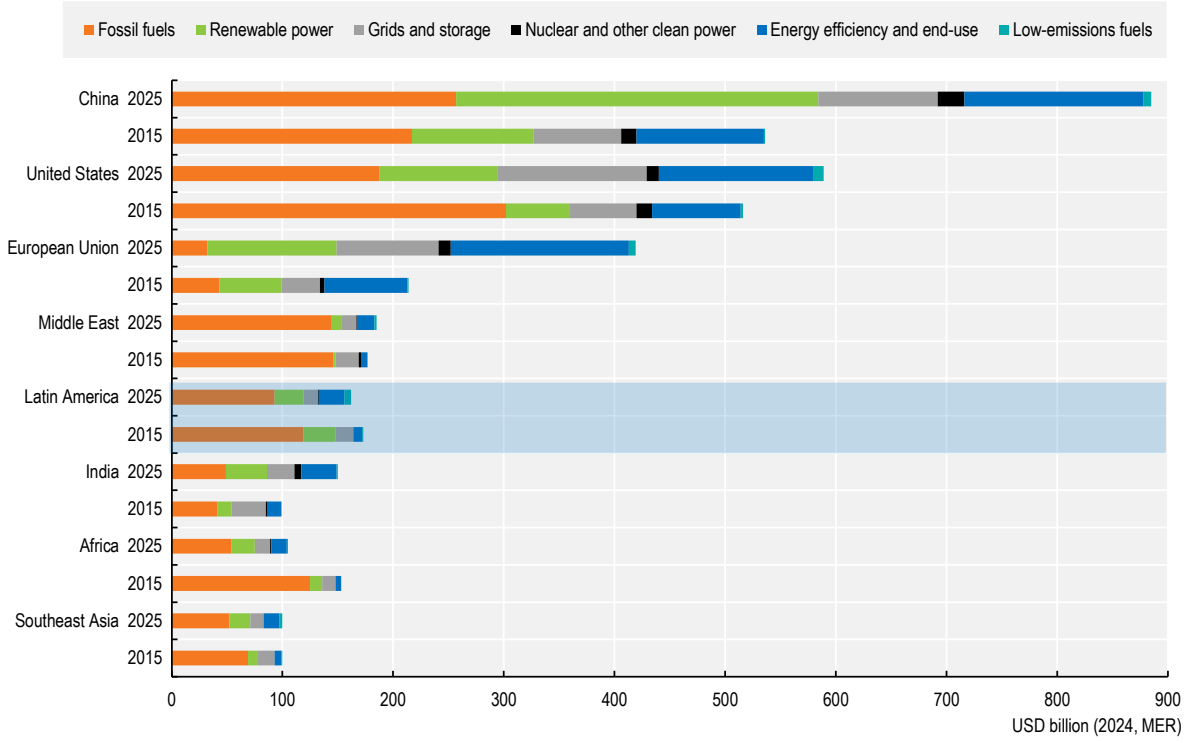
The acceleration of renewable energy deployment has been fostered by a mix of economic-related issues, environmental priorities and energy security concerns. These include better cost competitiveness, increasing investment flows, industrial policy objectives, growing electricity demand, the commitment of countries to Nationally Determined Contributions and the search for new sources of competitiveness in a changing global energy economy. Moreover, in recent years, the global energy system has experienced successive shocks, including the COVID-19 pandemic, the war of aggression against Ukraine by the Russian Federation (hereafter “Russia”) and heightened geopolitical tensions in the Middle East. These shocks have exposed vulnerabilities associated with fossil-fuel dependence and underscored the strategic value of low-carbon, domestically available energy sources.

The rapid expansion of clean-energy markets is accompanied by a highly uneven geography of investment and production, with potential implications for global energy markets and industrial competitiveness. The People’s Republic of China (hereafter “China”) has emerged as the world’s largest energy investor, with its share of global clean energy investment rising from around one-quarter a decade ago to almost one-third today (IEA, 2025[7]). China also accounts for around 60% of global manufacturing capacity in key clean-energy technologies, including solar PV modules, wind power equipment and batteries, and approximately 40% of global electrolyser production (IEA, 2023[10]). Renewable energy investment increased substantially across all three major economies between 2015 and 2025. Investment in renewable power and low-emissions fuels (including sustainable biofuels, biomethane, low-emissions hydrogen and hydrogen-derived fuels)[2] more than tripled in China, increasing by around 201% over the period, while the European Union and the United States expanded investment by approximately 116% and 95%, respectively (Figure 1.1). These trends point to a broad acceleration of clean-energy investment across major economies, with particularly rapid growth in China and sustained expansion in the European Union. The concentration of investment and manufacturing capacity in a small number of economies could shape third countries’ ability to benefit from the expansion of clean-energy markets and to develop competitive positions in emerging value chains.

Investment in renewable energy has also been growing in LAC in the last decade, and the region already has one of the cleanest energy mixes globally

Clean energy investment in LAC has increased by almost 25% since 2015, reaching USD 70 billion in 2025, while investment in fossil fuels declined by more than 20% in the same period (Figure 1.1). Investment trends underscore tangible progress despite different country contexts and transition pathways. Colombia and Costa Rica recorded the largest relative increases, reflecting a doubling of renewable investment flows. Brazil also played a central role in strengthening regional momentum, supported by an enabling investment environment for small-scale solar PV and bioenergy projects.

Figure 1.1. Energy investment across regions and sectors, 2015 and 2025



Note: 2025 values are estimated.
Source: IEA (2025[7]), *World Energy Investment 2025*, https://www.iea.org/reports/world-energy-investment-2025.

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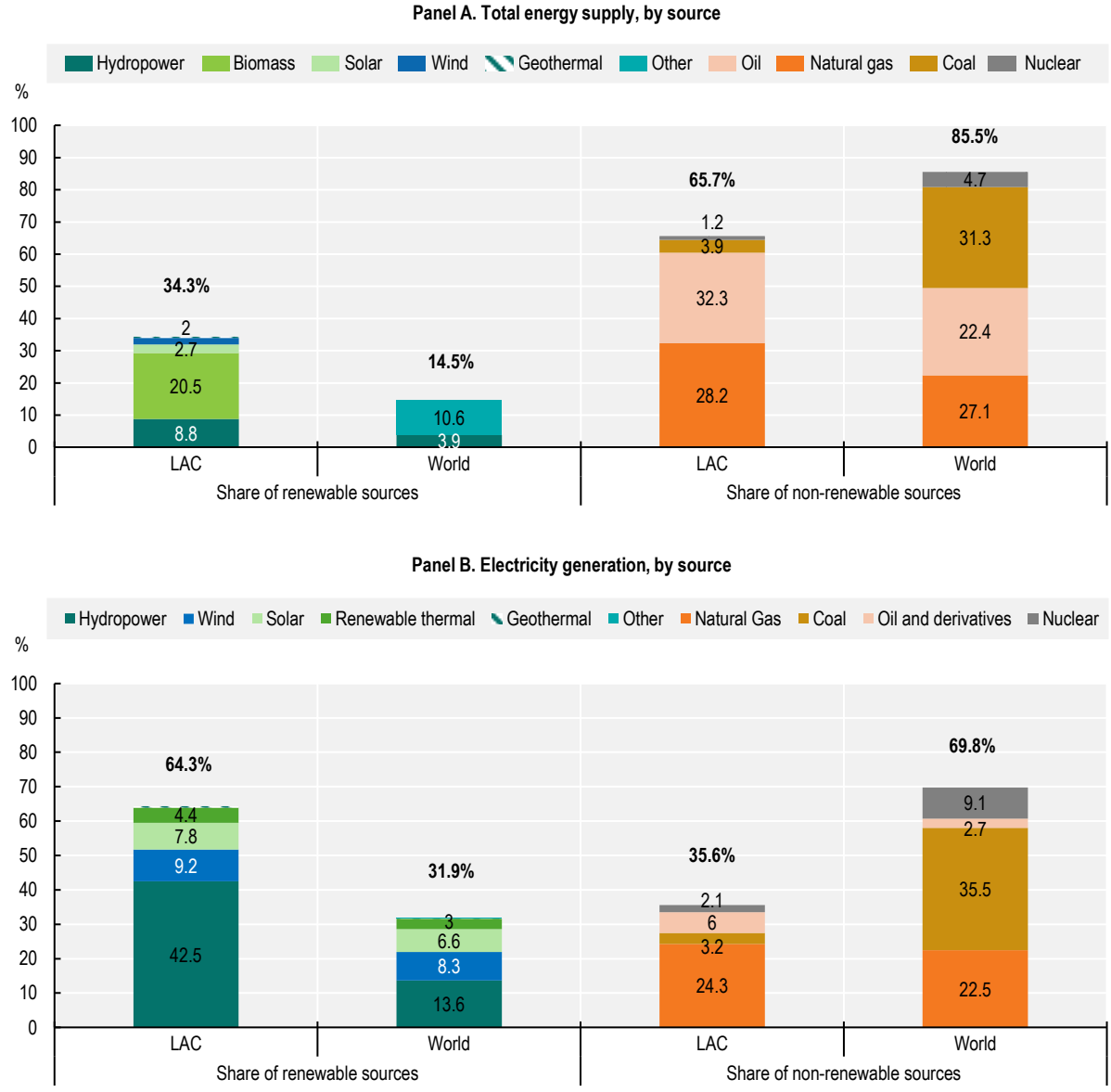
LAC countries have a markedly cleaner energy mix than the world average, reflecting in large part the region's exceptionally high share of renewable energy in electricity generation, mainly due to the region's abundant hydropower and growing deployment of wind and solar energy. However, fossil fuels continue to account for a large share of the region's overall energy consumption, particularly in transport and other non-electric uses, highlighting the scope for further decarbonisation (OECD, 2023[11]; OECD, 2023[12]).

Renewable sources in LAC accounted for 34.3% of total energy supply (TES) in 2024, compared with 14.5% globally. This reflects the region's strong reliance on biomass (20.5%) and hydropower (8.8%), whose shares are substantially higher than the global averages of 10.6% and 3.9%, respectively. This is largely because coal plays a much smaller role in the region (3.9%) than worldwide (31.3%), despite the continued importance of oil (32.3%) and natural gas (28.2%) (Figure 1.2, Panel A). The contrast is even more pronounced in the power sector, where renewables generated 64.3% of electricity in LAC, more than double the global average of 31.9%. This reflects the dominant contribution of hydropower (42.5% of generation), complemented by wind (9.2%), solar (7.8%) and renewable thermal sources (4.3%) (Figure 1.2, Panel B). Consequently, non-renewable sources accounted for only 35.6% of electricity generation in LAC, compared with 69.8% globally. In sum, the region has progressed much further in decarbonising its electricity sector than its broader energy system, where fossil fuels still supply nearly two-thirds of total energy demand.

Figure 1.2. Total energy supply and electricity generation by source (percentage), 2024



Note: In Panel A, World category "Other" includes biomass, solar, wind and geothermal. In Panel B, World category "Other" refers to geothermal and biogas.

Source: OLACDE (2026[13]), *Sistema de Información Energética de América Latina y el Caribe (SIELAC)*, energy balance matrix and electricity generation by source, Latin American and Caribbean Energy Organization (OLACDE), https://sielac.olade.org/.

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Renewable electricity generation is expected to continue expanding in LAC, increasing from just over 60% of electricity supply today to around two-thirds by 2030 and close to 80% by 2050 under current policy settings (IEA, 2023[14]). Solar PV and wind are the main drivers of this growth, led by Brazil, Mexico, Chile and Argentina, while coal- and oil-fired generation declines. Hydropower remains a key pillar of the region's power systems, particularly in Brazil, Colombia, Costa Rica, Ecuador, Panama, Paraguay and Venezuela, being an important source of flexibility, helping to integrate growing shares of variable renewable energy and maintain system reliability. As renewable energies continue to expand, this flexibility will become increasingly important to balance electricity systems, maintain reliability and facilitate the integration of

larger shares of renewable energy (OECD, 2023[12]; IEA, 2023[14]). At the same time, climate change is expected to alter hydrological regimes across the region, increasing exposure to droughts and affecting hydropower output. These risks reinforce the need for more diversified and climate-resilient electricity systems, supported by investment in grid infrastructure, energy storage, demand-response mechanisms and other sources of operational flexibility to ensure security of supply and facilitate the integration of variable renewable energy (OECD, Forthcoming[3]; OECD, 2023[12]).

LAC's abundant renewable resource base offers an opportunity to strengthen competitiveness, enhance energy security, and support job creation and sustainability

Increased renewable-energy deployment can strengthen the competitiveness of regional economies by reducing and, over time, stabilising energy costs. This is particularly relevant for electricity-intensive activities, for which energy costs can represent a significant share of production costs. Continued expansion of low-cost renewable generation could therefore help reduce electricity costs for households and firms, while promoting greater diversification of the generation mix. Realising these benefits will, however, require complementary investments in electricity grids, storage and other forms of system flexibility to integrate higher shares of variable renewable generation.

Greater reliance on domestic renewable resources could also strengthen energy security and economic resilience by reducing exposure to international fossil-fuel markets and price volatility. This is particularly relevant given that, despite being a net exporter of crude oil and coal, LAC is a net importer of oil products and natural gas (IEA, 2023[14]). Expanding renewable generation can reduce the need for imported fuels and limit the transmission of external energy shocks to electricity prices, inflation and production costs.

The adoption of renewables can also be a source of development by helping to create quality jobs. In a scenario where investments in green sectors in LAC increase by three percentage points annually, additional net job creation could reach 10.5% by 2030 in the region (OECD et al., 2022[15]). Realising these gains will require well-targeted investments in human capital to address persistent gender gaps in green sectors and develop the skills required for emerging green occupations. New green occupations in LAC tend to be formal and skill-intensive, often requiring advanced scientific and technical competencies, which are more likely to be held by highly educated men (OECD et al., 2023[16]).

Finally, renewable-energy deployment can help countries advance towards their international climate commitments while supporting a more environmentally sustainable development model. Beyond reducing greenhouse-gas emissions from electricity generation, the substitution of fossil fuels with renewable sources can reduce local air pollution and other environmental pressures associated with fossil-fuel extraction and combustion. At the same time, renewable-energy deployment can generate environmental and social pressures of its own, including through land use, impacts on biodiversity and water resources, and demand for critical raw materials. Strong environmental governance and appropriate social safeguards will therefore be essential to ensure that the expansion of renewable energy translates into lasting environmental benefits and contributes to a more sustainable development model.

These benefits could be maximised by putting in place policies to advance regional grid integration. In fact, regional electricity integration could allow countries with different resource endowments and demand patterns to share electricity and flexibility. Stronger regional interconnections could reduce flexibility needs, broaden access to dispatchable resources and improve resilience to changing climatic conditions (IEA, 2023[14]). Beyond physical interconnections, co-ordinated system operation, congruent trading agreements, and reliable rules for cross-border electricity exchanges will also be needed to realise these benefits (OECD, Forthcoming[3]; IEA, 2023[14]). As an illustration, the experience of the Regional Electricity Market (*Mercado Eléctrico Regional*, MER) in Central America, an EU's flagship initiative of the Global Gateway Investment Agenda, and the System of Electricity Interconnection of the Countries of Central America (Sistema de Interconexión Eléctrica de los Países de América Central – SIEPAC) are combining

cross-border transmission infrastructure with regional governance, market-operation and regulatory arrangements to facilitate electricity trade and improve system integration (IDB, 2024[17]).

LAC could enhance and expand its role as an important supplier of renewable energy transition commodities and products to global markets

LAC's abundant renewable energy resources and relatively clean electricity mix place the region in a strong position to supply a range of products and inputs that are expected to play a critical role in the global energy transition. These inputs include green hydrogen and its derivatives (such as ammonia, methanol and e-fuels); sustainable aviation fuels and other biofuels; low-emissions industrial products such as green steel and green fertilisers. Realising this potential, however, will depend on the region's ability to attract investment; develop enabling infrastructure; strengthen domestic value chains; and provide stable and predictable policy and regulatory frameworks that support long-term industrial development (ECLAC, 2026[1]).

Low-emissions hydrogen production at lower costs could foster decarbonisation of hard to abate sectors in LAC and overseas

The region's relatively low-emissions electricity mix provides an advantage to attract firms from abroad seeking to decarbonise production processes and supply chains in response to tightening climate regulations, investor expectations and consumer demand. This is particularly relevant for electricity-intensive activities such as green hydrogen production, green steel, fertilisers, mining and minerals processing, data centres and advanced manufacturing (IEA, 2023[14]). Attracting FDI and foreign activities seeking reliable, abundant and low-carbon sources of energy could generate positive spillovers for local economies by strengthening domestic supply chains, creating demand for local goods and services, and fostering technology and knowledge transfer.

Similarly, LAC countries can also be strategic providers of renewable electricity for other countries, either directly, where cross-border interconnections allow, or through transportable forms of clean energy and other products required for the global energy transition. One notable example is low emissions hydrogen,[3] which LAC has the potential to produce at a lower cost than many other regions and could help decarbonise hard-to-abate sectors (e.g. long-distance trucking, aviation, shipping and heavy industry) in the region and overseas (IEA, 2023[14]). This is a growing opportunity, as global hydrogen demand is projected to increase 15% by 2030 and 45% by 2050 compared with 2022 (IEA, 2023[14]).

LAC exports of hydrogen-based fuels are expected to represent 15% of low-emissions hydrogen regional production by 2030 and 45% by 2050 (IEA, 2023[14]). Moreover, intraregional demand is expected to rise faster than the global average although it remains concentrated in traditional applications (oil refining, ammonia and methanol and iron and steel). Hydrogen production in LAC is currently concentrated in six countries accounting for almost 90% of regional demand and production (Argentina, Brazil, Colombia, Chile, Mexico and Trinidad and Tobago) (IEA, 2021[18]). Trinidad and Tobago is the largest hydrogen consumer, largely driven by its ammonia and methanol industries. Scaling up low-emissions hydrogen production could contribute to reduce the region's reliance on imported natural gas and ammonia given that almost 90% of hydrogen in LAC is produced using natural gas (IEA, 2023[14]).

Policy support for hydrogen is gaining momentum across LAC. Chile was the first country in the region to adopt a national hydrogen strategy in 2020, followed by Colombia in 2021, Uruguay in 2022, and Argentina, Brazil, Costa Rica, Ecuador and Panama in 2023. Over 200 low-emissions hydrogen projects are planned in LAC. Near-term development opportunities lie mostly in refining and ammonia production for domestic use, which may provide demand for initial low-carbon hydrogen projects and support their gradual scale up. A phased approach to supply in the region, starting with smaller-scale projects, will help mitigate risks, reduce capital investment and provide valuable experience for scaling up in the future. The main barriers lie in high capital costs, infrastructure gaps and the need to create global markets. A key challenge for

scaling up low-emissions hydrogen production is ensuring sustainable water use, as electrolytic hydrogen requires reliable water supplies. To avoid increasing pressure on local water resources, robust site assessments, water management and the use of alternative sources such as desalinated seawater or treated wastewater are essential, particularly in water-stressed areas (OECD, 2023[12]).

LAC is also well positioned to expand production of low-emissions fuels. Bioenergy is a growing industry in the region, with biofuels playing an important role in advancing both energy security and climate objectives. The region already accounts for more than one-quarter of global liquid biofuel production, with Brazil representing around 93% of regional output (OLACDE, 2024[19]). The share of biofuels in road transport in LAC is roughly twice the global average and has continued to increase over the past decade (IEA, 2024[20]). Rising global demand for sustainable aviation fuels (SAF), conceived as a major pathway to decarbonise the aviation sector, could create new exports opportunities for LAC countries. Biojet kerosene is particularly promising because it is a drop-in fuel that can be used in existing aircrafts with little or no modification. Today biojet kerosene production makes up for only 0.1% of global aviation demand, but global demand is projected to increase in the next decades (IEA, 2023[14]). LAC's biojet kerosene production in LAC is projected to represent from near zero to around 5-20% of global production by 2030, building on its competitive advantages in biofuel production, abundant biomass availability and industrial know-how. Brazil (Fuel of the Future Law No. 14.993/2024), Chile (*SAF Roadmap 2050* in 2024*)* and Colombia (National SAF Roadmap in 2025) have already adopted dedicated strategies to support the development of sustainable aviation fuels, providing policy signals that could help attract investment and position the region as a future supplier of SAF to international aviation markets (Governo Federal of Brazil, 2024[21]; Government of Chile, 2024[22]; Government of Colombia, 2025[23]).

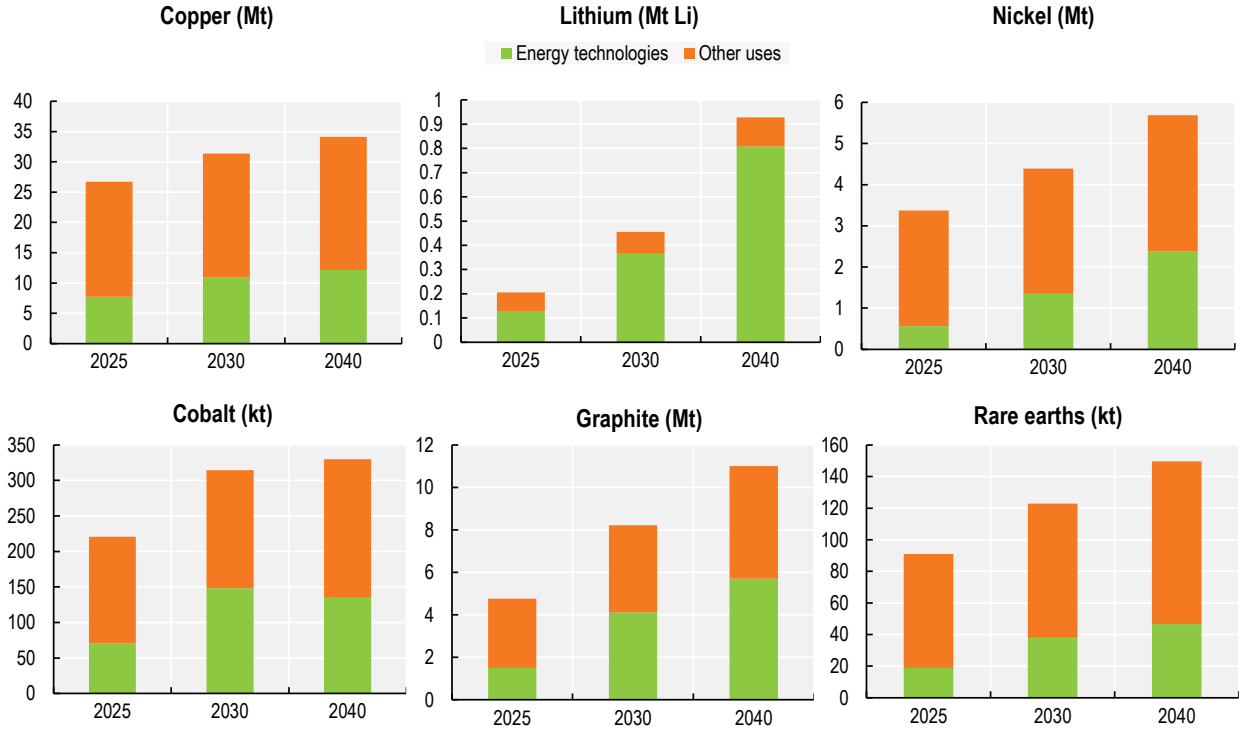
Partnerships to advance the green transition can provide a favourable context for LAC to make the most of its abundant renewable energy sources and benefit international partners seeking to engage with the region. For instance, the European Union's technology, investment capacity and experience in green transition policies create strong complementarities with LAC's assets. Co-operation is already advancing through initiatives such as the regional programme Global Gateway Euroclima, which supports renewable hydrogen, energy storage and regional electricity markets, as well as Team Europe co-operation on green hydrogen in countries such as Chile. The opportunity extends beyond energy supply to developing new technologies, value chains and green industries in both regions. This is reflected in the Regional Electricity Integration initiative, through which the EU, LAC governments and regional institutions are working to strengthen electricity grids, cross-border interconnections, regulatory co-operation and the deployment of renewable energy across the region.

The LAC region holds strong potential to become a strategic supplier of critical raw materials for the green transition

Sustained demand growth for critical raw materials is projected over the coming decades

The global energy transition is expected to drive sustained growth in demand for critical raw materials over the coming decades, with the clean energy sector accounting for the bulk of incremental growth. Projections suggest that global demand for lithium will increase threefold between today and 2040; graphite demand will double; and nickel demand will increase by around 65% in the same period. Demand for cobalt and rare earth elements is also expected to expand significantly, rising by around 50-60% over the same period. Copper, which already serves the largest established market among these materials, is projected to grow in demand by around 30% by 2040 (Figure 1.3).

Figure 1.3. Global critical raw materials demand, 2025-2040



Note: Mt = million tonnes; kt = kilotonnes. Figures are projections under (IEA, 2026[24]) Stated Policies Scenario, an exploratory scenario that reflects the prevailing direction of the energy system under today's policy settings, without assuming that aspirational targets are met. The figures for copper are based on refined copper (excluding direct-use scrap); those for rare earth elements are for magnet rare earth elements only. Growth rates (in blue) are between 2024 and 2040.
Source: Authors' elaboration based on IEA (IEA, 2026[24]), *Global Critical Minerals Outlook 2026*, https://www.iea.org/reports/global-critical-minerals-outlook-2026.

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These trends reflect distinct demand for drivers across technologies. The deployment of batteries in electric vehicles (EVs) and stationary storage applications underpins strong growth in demand for lithium, graphite, nickel and cobalt. At the same time, increased investment in construction, grid expansion and the electrification of industrial equipment is driving rising demand for copper. Growing deployment of EVs and wind power is also boosting demand for permanent magnets, intensifying requirements for magnet rare earth elements (IEA, 2025[25]; OECD, 2026[26]).

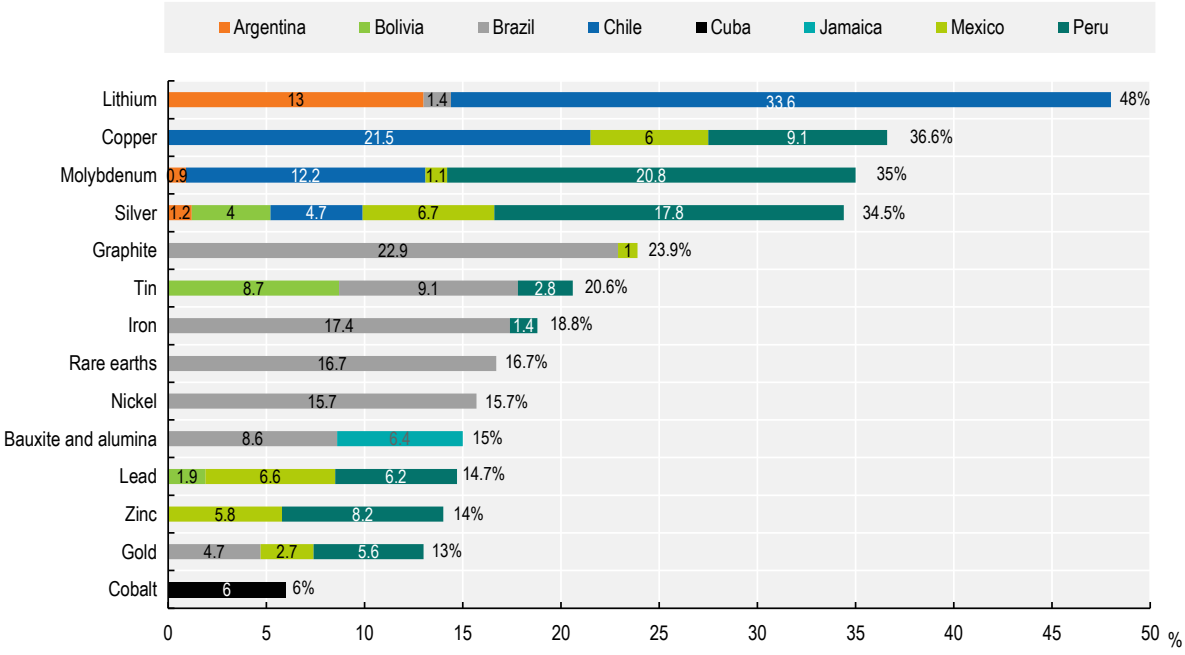
LAC could become a strategic supplier of critical raw materials for the global green transition, reflecting the scale and diversity of its natural resource endowment

The region is a major producer of key minerals for clean energy technologies. While Argentina, Bolivia, Chile and Peru are notable for copper or lithium, Venezuela, Brazil, Argentina, Mexico, Peru and Guyana have substantial oil and natural gas resources (IEA, 2023[14]).

LAC's critical raw materials market represents around 25% of the global total, with an estimated value of USD 180 billion. Copper accounts for the largest share (USD 70 billion), followed by iron ore (USD 50 billion), gold (USD 30 billion) and silver (USD 10 billion) (OLACDE, 2024[27]). In 2023, the region held 48% of global lithium reserves, 36.6% of copper, 35% of molybdenum and 34.5% of silver reserves (Figure 1.4). LAC includes the world's largest copper producer (Chile); the world's largest silver producer (Mexico); one of the

world's top ten steel producers (Brazil); the second- and fourth-largest lithium producers (Chile and Argentina, respectively); and a top ten bauxite producer (Jamaica) (OECD et al., 2022[15]).

Figure 1.4. LAC's share of selected global mineral reserves, 2023



Source: ECLAC (2024[28]), *Critical minerals for the energy transition and electromobility: Economic development opportunities and socioenvironmental challenges*, https://www.cepal.org/en/insights/critical-minerals-energy-transition-and-electromobility-economic-development-opportunities.

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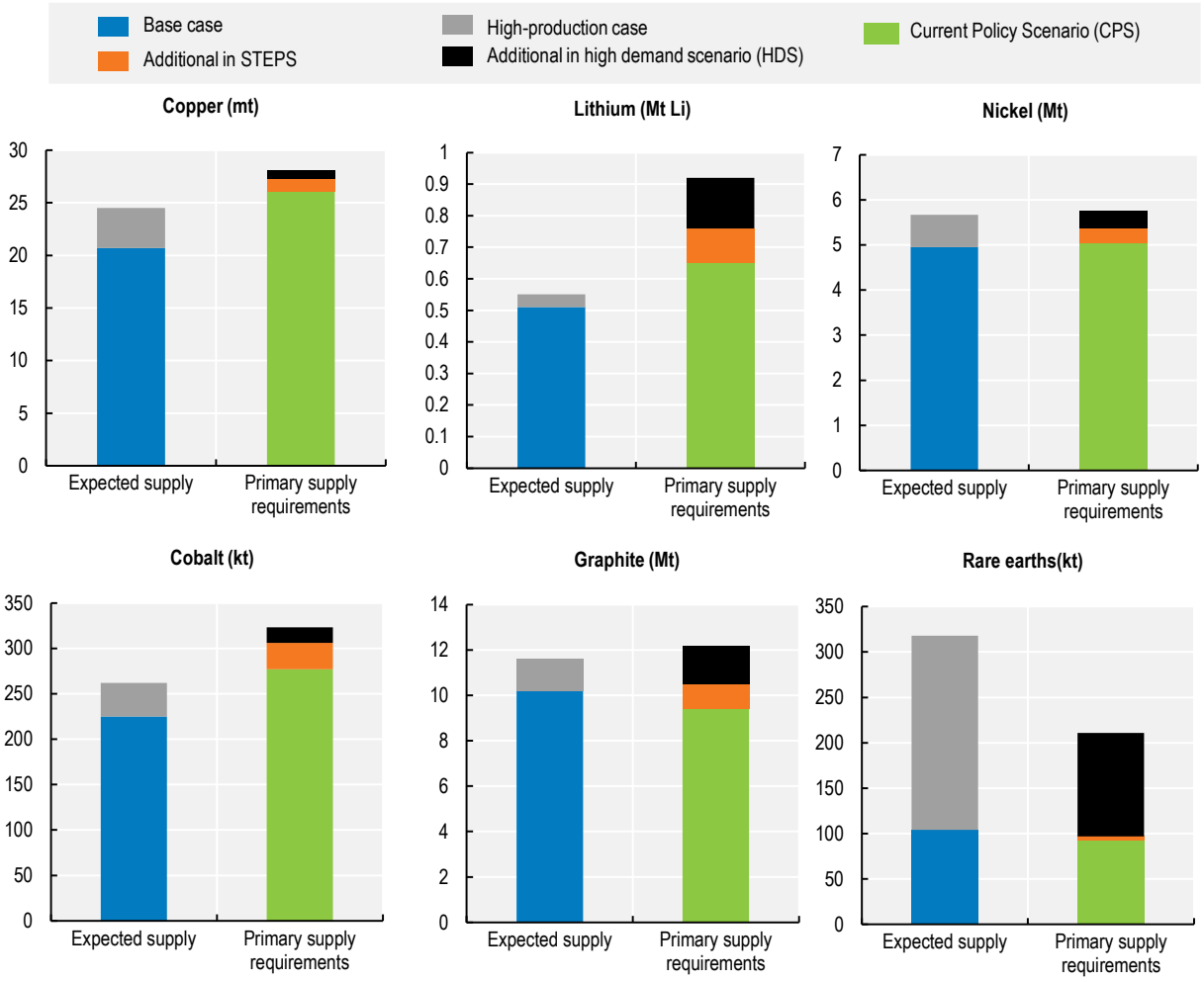
Projected supply gaps for several critical raw materials present an opportunity for LAC

LAC could step in to bridge expected supply gaps for several minerals under current announced mining projects (IEA, 2026[24]). Future supply is unlikely to keep pace with projected demand for several minerals critical to clean energy technologies, particularly for copper, cobalt and lithium. Meanwhile, risks persist for graphite depending on project execution and policy developments. The projected supply gap for copper is approximately 25% by 2035 (Figure 1.5). These projections suggest that additional production capacity will be needed from new jurisdictions. This, in turn, makes the case for mineral-rich countries in LAC to expand investments in critical raw materials, particularly Chile and Peru for copper; Argentina, Chile and Bolivia for lithium; Brazil for graphite, rare earths and nickel; and Cuba for cobalt (IEA, 2026[24]).

Figure 1.5. Expected mine supply from existing and announced projects and primary supply requirements for key energy minerals by scenario, 2035



Note: CPS = Current Policies Scenario; HDS = High Demand Scenario; STEPS = Stated Policies Scenario. The percentage values indicate the share of base case supply against 2035 primary supply requirements in the STEPS. Expected supply is based on mined or raw material output based on announced projects, except for graphite, where the figure refers to the sum of natural flake graphite and synthetic graphite supplies. Primary supply requirements are calculated as total demand net of secondary supply, also accounting for losses during refining operations. Rare earths refer to magnet rare earth elements only.
Source: IEA (2026[24]), *Global Critical Minerals Outlook 2026*, https://www.iea.org/reports/global-critical-minerals-outlook-2026.

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Lithium and copper offer significant opportunities for LAC, reflecting both the projected increase in global demand for these critical raw materials minerals and the region's large share of global reserves and production. Led by Argentina, Bolivia and Chile, LAC supplies 35% of the world's lithium and holds around half of global lithium reserves (48%). The region accounts for 40% of the global production of copper, led by Chile (27%), Peru (10%) and Mexico (3%), respectively (IEA, 2023[14]). Lithium carbonate-equivalent production capacity in LAC is projected to expand rapidly over the next decade, by around 2.7 times. If projects currently in the pipeline or classified as probable are realised, production capacity could increase fivefold (ECLAC, 2024[28]). Global copper demand is projected to increase from around 26 Mt in 2023 to more than 36 Mt by 2040, driven largely by the expansion of clean energy technologies, electricity networks and electric vehicles (IEA, 2025[25]). Realising this potential will require targeted investment, adoption of environmentally and socially responsible mining practices, and coherent policy frameworks to strengthen

regional and local value chains. Co-ordinated planning – both within the region and with global energy demand trajectories – will be critical to promote value addition, create quality employment and ensure that mineral development translates into sustained socio-economic gains.

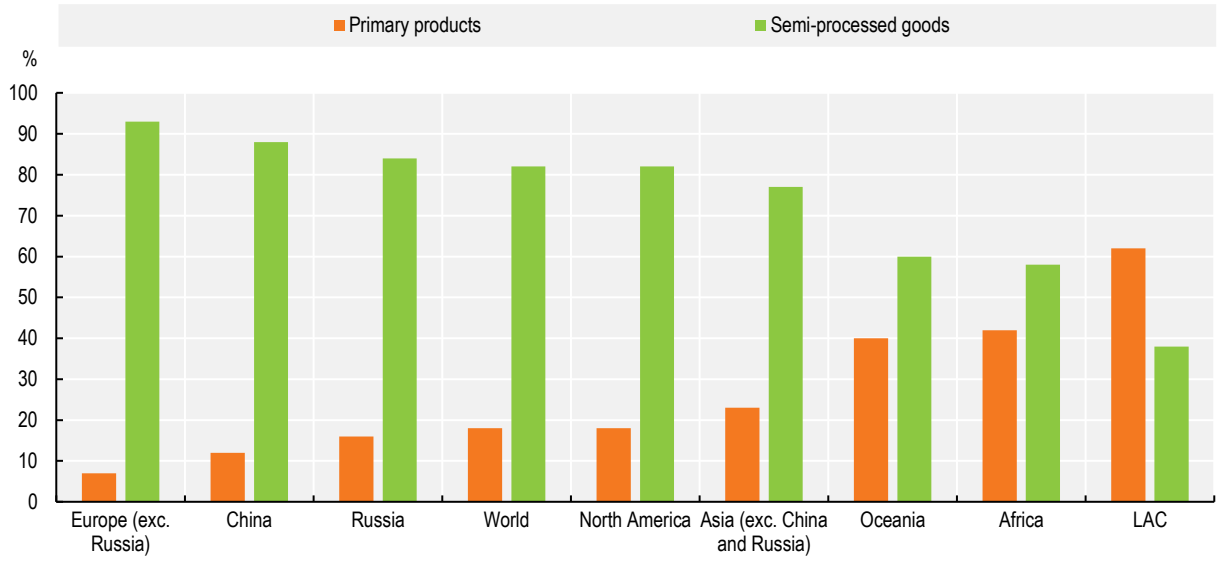
Investment in critical-minerals production is exposed to fast-moving technology and demand cycles. Advances in battery chemistries and other clean-energy technologies could shift demand away from specific minerals and affect the commercial viability of long-lived mining and processing projects. LAC countries can mitigate these risks by diversifying their mineral portfolios, strengthening market and technology monitoring, and developing adaptable value chains that can respond to evolving demand.

Avoiding the extractivism trap: LAC's critical raw materials endowment is substantial, although still concentrated in extraction and raw material exports

LAC's resource endowment is substantial, although the region captures only a limited share of the value generated along critical mineral supply chains. In most countries, mining remains concentrated in extraction, with downstream refining, chemical processing and manufacturing largely taking place elsewhere. In 2025, LAC countries refined on average only around 20% of the key energy minerals they extracted (excluding lithium) (IEA, 2026[24]). Critical mineral projects in the pipeline could generate approximately USD 185 billion in cumulative economic value by 2035 for the region. However, if local refining and processing capacities were expanded substantially, the economic value generated could rise to approximately USD 220 billion, illustrating the importance of moving beyond extraction towards downstream activities (IEA, 2026[24]). Nevertheless, LAC remains far behind East Asia in processing capabilities. China dominates many midstream segments, including refining and battery materials production, giving it a decisive advantage in capturing value from global supply chains (IEA, 2026[24]).

Critical raw materials' trade shows that LAC remains more dependent on raw material exports than any other major resource-rich region. Primary products account for approximately 62% of the region's critical raw materials' exports, while semi-processed products represent only 38% (Figure 1.6). By comparison, semi-processed products account for a larger share of mineral exports in other resource-rich regions, reaching 58% in Africa and 60% in Oceania. This composition highlights a key structural challenge for the region: translating its strong mineral resource base into greater participation in processing, refining and other higher value-added activities along critical mineral value chains (OECD, 2026[29]; ECLAC, 2026[1]).

Figure 1.6. Composition of critical raw materials exports by degree of processing, 2019-2023



Note: "Critical raw materials" refers to aluminium (including alumina and bauxite), cobalt, copper, graphite, lithium, nickel and rare earth elements.
Source: Authors' elaboration based on ECLAC (2025[30]), *Foreign Direct Investment in Latin America and the Caribbean, 2025*, https://www.cepal.org/en/publications/83116-foreign-direct-investment-latin-america-and-caribbean-2025.

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LAC will need the right enabling conditions in place to move beyond extractivist patterns of natural resource management. Holding vast reserves of critical raw materials does not automatically translate into higher exports or income gains. For example, critical raw materials account for 55% of export revenues in Chile and 40% in Peru, with exports remaining concentrated in raw and minimally processed forms (IEA, 2026[24]). The ability to capture value from these resources depends on structural conditions, including access to reliable and competitively priced energy, adequate infrastructure, an enabling regulatory framework and achieving higher levels of economic complexity. These conditions are essential for participating in higher value-added segments of production chains. In the absence of these factors, LAC countries risk replicating previous extractivist patterns, with limited opportunities for upgrading and value capture. Strong technological foresight capabilities; inclusive social governance; robust environmental regulations; and a careful co-ordination of critical raw materials strategy within a broad, sustainable and equitable industrial policy are critical for long-term success (Lebdioui and Riofrancos, 2026[31]).

Opportunities for LAC in mineral production are increasing, although the region will need to focus on creating higher value added, benefiting local economies, creating quality jobs and taking into account sustainability aspects. Global critical mineral supply and processing, as well as refining chains, remain highly concentrated, although mining supply shows signs of mild diversification. The top three producing countries, on average, account for 76% of global mine production. This share is projected to decline modestly to 73% by 2035, except for nickel where 70% of global supply is concentrated in Indonesia. For lithium in particular, supply is expected to become more diversified as growing production in Africa and continued investment in Argentina reduce the combined share of Australia, Chile and China from around 75% to below 70% (IEA, 2026[24]). In this context, LAC can offer a combination of large resource endowments, proximity to North American markets and growing renewable electricity availability that could support lower-carbon mineral production. The challenge remains to increase value creation.

Refining remains significantly more concentrated than mining at the global level, making it more difficult and costly for individual countries to invest in developing these capacities in isolation. Today, China

accounts for just under 50% of global copper refining capacity, 70% of lithium refining, 75% of cobalt refining, 85% of magnet rare earth separation and over 90% of battery-grade graphite production (IEA, 2026[24]). At the same time, Indonesia has rapidly emerged as a dominant actor in nickel processing, accounting for 70% in 2024 (UN Comtrade, 2026[32]). Concentration risks have become increasingly important as governments adopt export controls and industrial policies aimed at securing domestic access to strategic raw materials. Export restrictions on critical raw materials have increased more than fivefold since 2009. They remain at historically high levels, covering up to 70% of global exports of cobalt and manganese, 47% of graphite exports and 45% of rare earth elements (OECD, 2026[33]).

Producing countries across LAC are pursuing diverse strategies to capture a greater share of value from critical mineral production. While the region is a major supplier of copper, downstream processing and manufacturing activities remain limited, with less than 10% of locally mined copper used in domestic manufacturing. To address this gap, in lithium, Chile has sought to attract investment in downstream industries through preferential supply arrangement. For its part, Mexico has strengthened state involvement in the governance and development of strategic mineral value chains since 2023. Meanwhile, Argentina has coupled investment incentives with efforts to expand local supplier development and processing capacity. In addition, Brazil has leveraged industrial and innovation policies to support domestic production of battery materials and clean energy technologies. In the Andean region, countries such as Peru are increasingly exploring strategies to promote local beneficiation, technology transfer and stronger linkages between mining operations and domestic industries.

The critical raw materials sector could become an increasingly important source of employment in LAC, particularly if producing countries move beyond extraction into processing and manufacturing. In Chile, for example, the development of domestic lithium value chains could create between 19 000 and 32 600 jobs by 2035, with employment gains concentrated in higher value-added activities such as cathode and battery production. In Argentina, seven lithium production plants were established in the last decade, creating more than 5 000 direct jobs in the northwest region. Nonetheless, construction phases can employ up to six times more workers than operations phases (OECD, 2026[26]). Targeted training and certification requirements could help equip local workers with the skills needed for operational roles, facilitating their gradual integration into the formal economy, improving access to social protection systems, including health care, pension programmes and unemployment benefits (IEA, 2023[14]; OECD, 2026[26]).

Regional integration could enable a more diversified and resilient critical raw materials ecosystem than any single country could develop independently. For example, lithium extraction in the Southern Cone, Brazilian processing capabilities, Andean copper production and Mexican manufacturing could together support regional participation in battery and clean technology supply chains. This would help the region to move beyond its traditional role as a supplier of raw materials and capture a greater share of the economic benefits associated with the global energy transition. Further regional integration provides opportunities to strengthen investment attractiveness, develop shared infrastructure, foster technology transfer and develop skills to build more competitive and resilient critical mineral value chains (IEA, 2026[24]).

The importance of regional co-operation is increasingly recognised by governments across the region. In August 2026, Chile, Argentina, Bolivia and Peru signed a joint declaration on strategic minerals for regional integration, described as a first step towards a more permanent partnership. The declaration aimed at positioning the region as a reliable and strategic supplier of critical raw materials for the energy transition, electromobility and artificial intelligence, by promoting sustainable mining development, technical co-operation and responsible investment (Ministry of Mining of Chile, 2026[34]). This experience builds on existing binational co-operation frameworks, notably the reactivation of the Chile-Argentina *Treaty on Mining Integration and Complementation* in 2026 and the *Memorandum of Understanding on Mining Affairs* signed by Chile and Peru in 2025. Moreover, the *Permanent Forum for Technical Dialogue on Lithium*, co-ordinated by ECLAC since 2022, brings together public institutions and state-owned enterprises from Argentina, Bolivia, Brazil, Chile and Mexico, while engaging subnational authorities, private stakeholders

and international partners. The forum promotes sustainable lithium development through regional co-operation, technical exchange and knowledge sharing (IEA, 2026[24]).

International partnerships will also be critical. For instance, the EU has an interest in diversifying and making its supply chains more resilient and sustainable. This shared interest is reflected in EU strategic partnerships with Argentina and Chile on sustainable raw-material value chains, covering investment, research, infrastructure, skills and higher-value processing, as well as a broader EU initiative on responsible mining in LAC. The EU–LAC Global Gateway Investment Agenda explicitly supports investment in critical raw materials and joint value chains, including the EU-Brazil Critical Raw Materials Partnership, which has identified joint investments in lithium, nickel and rare earth elements in the country. Moreover, the EU-IDB Critical Raw Materials Initiative backed by a EUR 6.3 million EU grant and expected to leverage around EUR 120 million in IDB investments will support initiatives in mining governance, geological knowledge, sustainable extraction and critical raw materials value chains, in Argentina, Bolivia, Brazil, Chile and Ecuador (EU, 2024[35])

Realising the development potential of critical raw materials will require a comprehensive policy approach that ensures local beneficiation, strengthens domestic value addition, mobilises investment and supports industrial development, while ensuring that mineral wealth translates into broad-based economic and social benefits. Key priorities include ensuring responsible business conduct and due diligence of mining companies, fostering regional co-operation across strategic value chains, developing local supplier capabilities and skills, and promoting innovation and technology transfer. At the same time, governments will need to strengthen environmental governance, transparency and community engagement to ensure responsible and inclusive development. Effective management of resource revenues and macroeconomic risks, including through fiscal frameworks and economic diversification strategies, will also be critical to maximise long-term development gains and avoid the adverse effects often associated with commodity dependence.

The digital transformation and the AI revolution: A strategic opportunity for productivity, inclusion and sustainable development

Digital technologies are becoming foundational to how economies produce, trade, innovate and deliver public services, while the rapid development of artificial intelligence (AI) is accelerating this transformation. The expansion of cloud computing, data infrastructure and AI is reshaping production processes and creating new opportunities across a growing range of sectors. For LAC, this trend presents both a development opportunity and a risk: digital technologies can help address long-standing productivity and inclusion gaps, but uneven access, skills and productive capabilities could also widen existing divides.

This section first documents the acceleration of digital transformation and AI globally and in LAC. It then considers three broad channels through which the region could benefit: leveraging its renewable-energy and critical-mineral endowments to support the digital transition; strengthening its capacity to develop and adapt digital technologies and AI, albeit selectively; and using digitalisation to raise productivity, improve public services and expand participation in new activities and markets. The final part considers the infrastructure, skills, productive capabilities and institutions needed to capture these opportunities (García Periche and Martínez Pinto, 2024[36]; OECD et al., 2025[2]; ECLAC, 2025[37]).

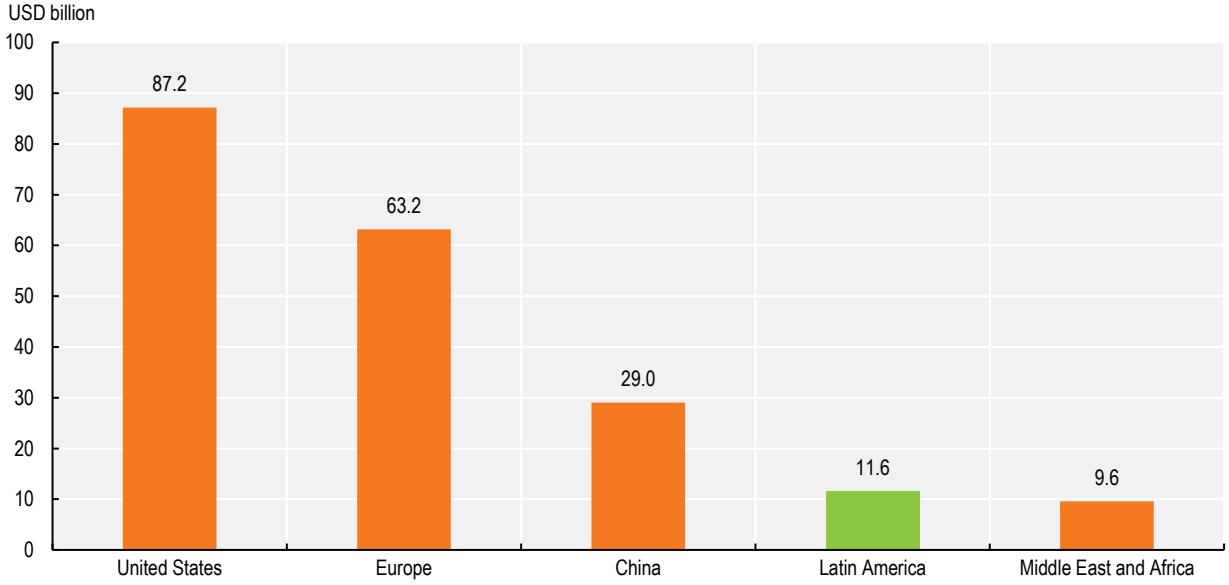
Digital transformation and Artificial intelligence (AI) are rapidly expanding globally, while LAC's capacity to capture its benefits remains uneven

Artificial intelligence has moved rapidly from a specialised technology to a mainstream economic technology, with generative AI driving an especially rapid expansion in adoption and investment. Generative AI reached around 53% population adoption globally within three years of its introduction, faster than the personal computer or the Internet, while organisational AI adoption in surveyed organisations

reached 88% in 2025. Global corporate investment in AI more than doubled in 2025, underscoring the speed at which the technology is moving from experimentation towards widespread deployment (Stanford HAI, 2026[38]).

The participation of LAC in this global trend remains uneven. The region has been particularly active in terms of AI usage, accounting for 14% of global visits to AI solutions and ranking third worldwide in downloads of generative-AI applications. Expenditure on AI adoption in LAC, measured by the revenues of AI solutions and service providers, was estimated at USD 11.59 billion in 2023, equivalent to only 3.7% of global expenditure on AI solutions and services (Figure 1.7). Although the region's AI expenditure slightly exceeded that of the Middle East and Africa (USD 9.55 billion), spending was approximately seven times lower than in the United States (USD 87.18 billion) and more than five times lower than in Europe (USD 63.18 billion). This gap in AI spending risks limiting the region's capacity to develop, deploy and adapt AI technologies at scale (ECLAC, 2025[37]).

Figure 1.7. Latin America and world regions: Artificial intelligence expenditure, 2023



Note: AI expenditure was based on the revenues of AI providers. Latin America includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic and Uruguay.
Source: ECLAC (2025[37]), *Overcoming Development Traps in Latin America and the Caribbean in the Digital Age: The Transformative Potential of Digital Technologies and Artificial Intelligence,* https://www.cepal.org/en/publications/81383-overcoming-development-traps-latin-america-and-caribbean-digital-age.

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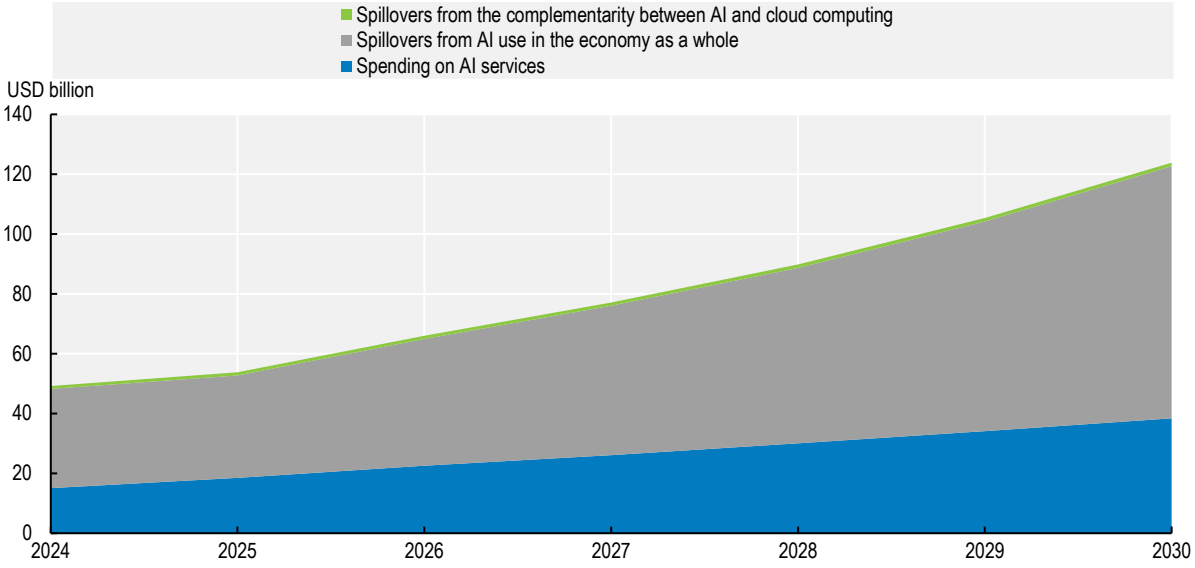
The potential economic gains are nevertheless substantial. Based on conservative approaches, AI has been estimated to generate USD 565 billion in additional economic output in LAC over 2025-2030, equivalent to around 1.03% of projected cumulative GDP over the same period (Figure 1.8) (ECLAC, 2025[37]). However, recent evidence suggests that only 23% of LAC organisations are currently generating any economic value from AI use, while just 6% report significant value creation (WEF and McKinsey & Company, 2026[39]). This suggests that the region is already engaging with AI at scale as a user, but has significant scope to translate adoption into productivity gains, new activities and higher-value capabilities.

Figure 1.8. Latin America: Projected impact of artificial intelligence, 2025–2030



Note: Latin America calculations include: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. This aggregate economic contribution of AI to output (GDP) breaks down as follows: (i) spending on AI (as measured by the revenues of AI service providers); (ii) the indirect effects of AI services on the other sectors of the economy; and (iii) the indirect effects that the complementarities between AI and the use of cloud computing have on the economy, measured by the benefits from AI in terms of cost efficiency, new product development, support for start-up incubation and the like.
Source: Jung and Katz (2026[40]), *Impacto económico de la inteligencia artificial en América Latina: transformación tecnológica y rezago en materia de inversión y capacidades laborales*, https://www.cepal.org/en/node/68349.

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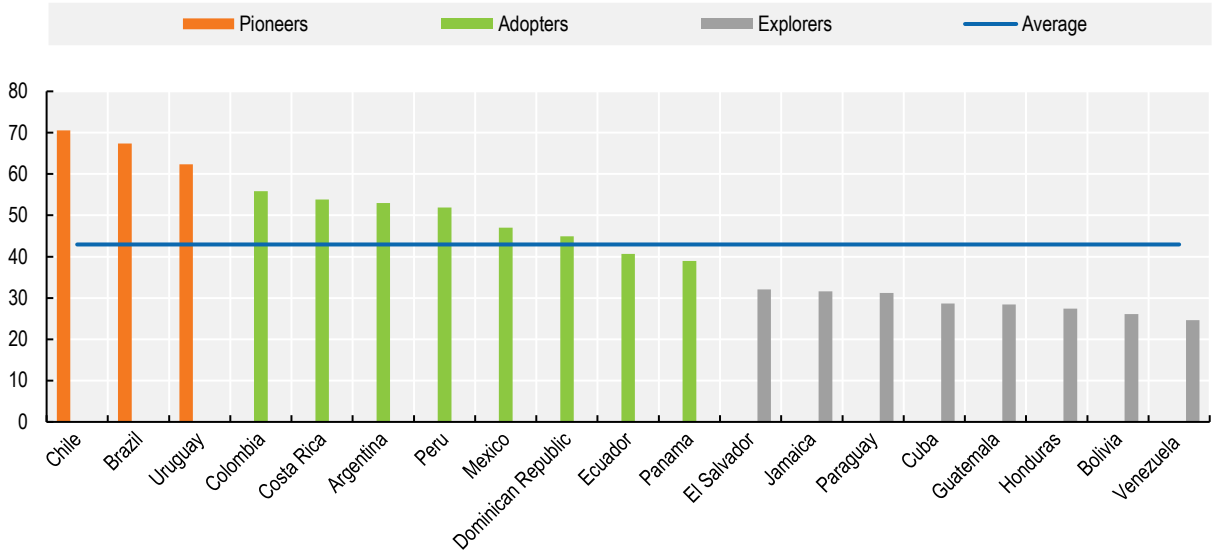
Progress within the region is highly heterogeneous. Chile, Brazil and Uruguay are classified as AI pioneers in the 2025 Latin American Artificial Intelligence Index (ILIA), while eight countries are classified as adopters and more than one-third remain at an exploratory stage (Figure 1.9). The uneven distribution of AI capabilities suggests that the region is not starting from a single baseline and that opportunities for catching up will depend on countries' existing technological, productive and institutional capabilities (ECLAC, 2026[41]).

Figure 1.9. Latin American Artificial Intelligence Index (ILIA) total score, by LAC countries, 2025

Index, base 100



Note: The "Pioneers" category comprises countries scoring above 60 points and refers to those that have achieved a leadership position, standing out for their efforts in key areas such as technological infrastructure, development of specialised talent, scientific productivity and innovation capacity. "Adopters" comprises countries with scores between 35 and 60 points and reflects an intermediate level of performance, with room for improvement in several relevant areas that constrain broader deployment of AI. "Explorers" are countries scoring below 35 points and reflects earlier stages of maturity.
Source: ECLAC (2026[41]), *Latin American Artificial Intelligence Index (ILIA) 2025,* https://repositorio.cepal.org/server/api/core/bitstreams/58abbd61-7c47-4208-8e8f-44bc1d14b894/content.

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Digital transformation and AI bring about important development opportunities for LAC

Digital transformation and AI offer LAC opportunities at different levels. These include leveraging the region's natural-resource advantages, building capabilities to develop and adapt digital technologies, and using digital tools to improve productivity, innovation and the delivery of economic and social services. Despite notable progress in expanding basic digital infrastructure, digital transformation across LAC remains uneven, constrained by persistent gaps in access, connectivity, digital skills and government digitalisation.

LAC can leverage renewable energy and critical raw materials to support the digital transition and attract digital infrastructure, including data centres

The expansion of AI creates demand not only for computing and connectivity, but also for the physical resources that underpin them. LAC can build on its critical-mineral endowments and abundant renewable-energy resources (see previous section) to attract increasingly electricity-intensive digital activities. The clearest example is data centres: access to reliable, competitively priced and low-emissions electricity could become an increasingly important factor in their location as demand for AI computing expands.

Data centres are a critical component of the digital economy, providing the infrastructure to store, process and transmit data. Nearly 10 000 data centres are operating across 164 countries (UNDP, 2025[42]). Their strategic importance is increasing as demand expands for cloud services, 5G connectivity and,

increasingly, AI. AI applications, particularly the training and deployment of large-scale models, require substantial computing capacity, fueling rapid growth in demand for data-centre services and infrastructure.

Global demand for data centres is projected to grow between 19% and 22% per year through 2030, with the United States, Germany and the United Kingdom continuing to dominate the market (UNDP, 2025[42]). Although China hosts only 3.2% of the world's data centres, it possesses the second-largest computing capacity globally, behind the United States (Figure 1.10, Panel A).

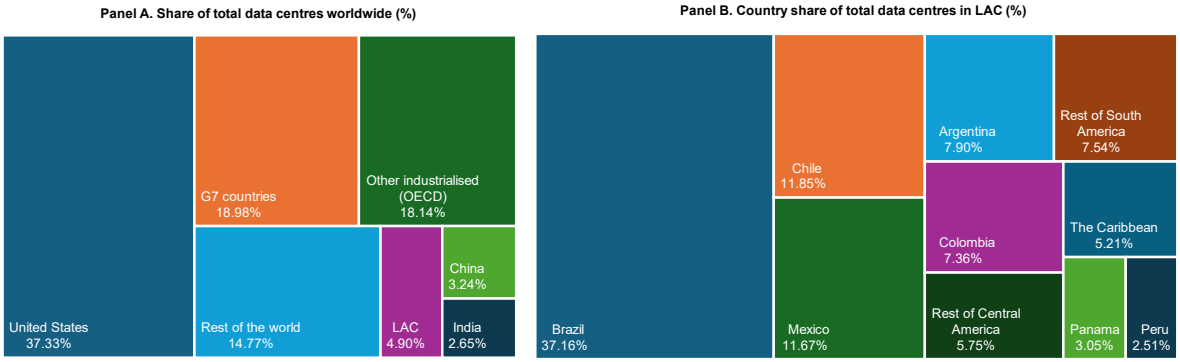
The United States and China dominate the global landscape for hyperscale data centres – large-scale facilities that provide the computing power for AI model training, cloud services, data processing and advanced analytics. Together, the United States and China host around one-third of global hyperscale data-centre capacity, while LAC accounts for only around 0.4%. This highlights the region's limited participation in the most advanced segment of digital infrastructure (UNDP, 2025[42]). LAC's data centre market is projected to nearly double, from USD 5-6 billion in 2023 to around USD 10 billion by 2029. Hyperscalers in LAC are expected to increase from 2 in 2025, located in Brazil, up to 15 by 2032 (UNDP, 2025[42]).

The LAC region could benefit from constraints in traditional data-centre industry hubs located in other developed countries to keep pace with AI computing demand. The data-centre industry is facing growing constraints in its traditional hubs, driven primarily by limited power availability, increasing regulatory complexity, and rising social and political concerns related to environmental impacts (IDB, 2025[43]). These pressures are prompting operators to seek alternative locations for AI data centres, which creates new opportunities for LAC. The extent to which data centres will contribute to broader development objectives in the region will depend on the generation of productive linkages with local firms, the reinforcement digital ecosystems and the support of local capability development, while ensuring that their high demand for electricity and water is managed sustainably.

The rapid expansion of AI applications and non-latency-sensitive activities, such as AI model training and the optimisation of digital workloads across time zones, is opening strategic opportunities for LAC countries to attract new investments in digital infrastructure. The abundance of renewable resources in LAC, particularly hydropower, can position the region as a provider of low-cost, low-carbon electricity for sustainable AI infrastructure. Realising this potential will require converting this resource endowment into reliable, competitively priced and contractable energy, supported by strong regulatory frameworks and investment certainty (UNDP, 2026[44]). Moreover, LAC's geography, climate and renewable energy endowment provide a potentially attractive environment for the development of data-centre infrastructure. In this context, LAC's abundant renewable energy resources could enable global firms to reduce the carbon footprint of AI and data-centre operations, while complying with evolving environmental standards (IDB, 2025[43]).

Although LAC hosts around 557 traditional data centres (Data Center Map, 2026[45]), accounting for just 4.9% of global facilities (Figure 1.10, Panel A), the region's market value is expected to nearly double from about USD 5 billion in 2023 to around USD 10 billion by 2029. This growth underscores the region's potential as a hub for data storage and processing services for AI expansion (UNDP, 2025[42]). Within the region, Brazil leads the expansion of data-centre infrastructure, hosting more than one-third of all facilities (37.16%) and the only two hyperscalers in LAC (Figure 1.10, Panel B), followed by Chile (11.85%) and Mexico (11.67%) (Data Center Map, 2026[45]). While these countries have relatively robust data-centre industries, only around one in five facilities complies with international sustainability standards. Colombia, Peru, Costa Rica and Panama are emerging as potential hosts for new data centres (ECLAC, 2026[41]).

Figure 1.10. Total data centres by region and by LAC country, 2026



Note: Panel A: Share of total data centres worldwide. G7 countries include the United Kingdom, Japan, Italy, Germany, France and Canada. "Other industrialised countries" refers to OECD Member countries not in the G7 or the LAC region.
Source: Authors' calculations based on Data Center Map (2026[45]), https://www.datacentermap.com/.

Sustainability aspects of data centres should be carefully considered. Most AI and digitalisation policies overlook environmental impacts, which may conflict with the region's environmental sustainability objectives (ECLAC, 2026[41]). AI-oriented data centres are highly resource-intensive, consuming significant amounts of water, electricity and land. These pressures may constitute negative externalities for local communities that need to be weighed against the potential gains in fiscal revenues, including corporate and property taxes (Gorey, 2025[46]).

AI data centres typically require dedicated infrastructure to ensure reliable operation, potentially leading to higher energy system costs that may ultimately be borne by taxpayers. Compared with earlier generations of cloud infrastructure, AI data centres also tend to be physically disconnected from surrounding communities for security reasons and generate a relatively limited number of direct jobs (Gorey, 2025[46]). Their broader contribution to development will therefore depend on their ability to foster productive linkages with local firms, strengthen digital ecosystems and support development of local capabilities.

Recent evidence shows that, in the early stages of development, AI tends to increase energy consumption and CO_2 emissions. However, these relationships are not linear: as AI adoption matures, it can generate positive environmental effects, including emissions reductions and a greater reliance on renewable energy, consistent with a "Green AI Kuznets curve" (Melguizo, Katz and Jung, 2025[47]). AI leading countries, such as Singapore and the United States, are already benefitting from this technological dividend (Melguizo, Katz and Jung, 2025[47]).

These findings point to the need for stronger and more coherent global governance frameworks linking AI and energy at global and national levels, including a strategic vision and solid institutions to drive AI adoption. Current global efforts are led by UN bodies, the G20 and the OECD, although more coherence is needed to guide adoption of national AI strategies. Moreover, innovative financing mechanisms are needed to support greener AI adoption. For example, such mechanisms could make public support conditional on energy performance, as well as on improved transparency, standards and reporting to better monitor associated energy use (Melguizo, Katz and Jung, 2025[47]). In addition, targeted policies are needed to mitigate sustainability risks and ensure local benefits, including through quality job creation, stronger skills ecosystems and the use of AI data-centre investments to enhance digital connectivity and supporting infrastructure.

Investments in AI data-centre infrastructure are exposed to rapid technological change. Advances in computing technologies, shifts in energy costs and changes in corporate strategies could reshape data-centre location decisions and leave long-lived assets commercially or technologically obsolete. To mobilise long-term capital in this sector, LAC countries will need to promote flexible, modular and upgradable

infrastructure, supported by contractual and regulatory safeguards that help preserve asset value as technologies and market conditions evolve.

Regional co-operation can foster greater alignment among governments, investors and research institutions, enabling data centres to become a foundation for homegrown AI ecosystems that support innovation, technological development and broader digital transformation across the region. Regional and subregional co-operation, supported by strategic joint investments, can help the region capture emerging opportunities and develop competitive advantages in the global AI landscape. Latam-GPT – the first open and inclusive large language model developed in LAC – is an important milestone for the region (UNDP, 2026[44]).

Grouping resources, talent and data across countries can improve bargaining power and reduce duplication. The African Union's Continental AI Strategy, the Guide on AI Governance and Ethics of the Association of Southeast Asian Nations (ASEAN) and the Santiago Declaration for Latin America and the Caribbean all emphasise local ownership, regional co-operation and public interest digital and data infrastructure (African Union, 2024[48]; ASEAN, 2024[49]; Ministry of Science, Technology, Knowledge and Innovation of Chile, 2023[50]). Building regional institutional capabilities may require resources and concerted efforts, but it offers a foundation for AI and energy transitions to spur long-term development, not just short-term gains. This may support developing economies in capturing the green window of opportunity through inclusive rules, stronger sovereignty and technology spillovers (UNDP, 2026[44]).

International partnerships are key. The relationship with the EU on digital matters is an important example. Both regions have an interest in expanding connectivity and digital adoption while developing a human-centred approach to artificial intelligence, including common approaches to data governance, digital rights and responsible AI. The EU–LAC Digital Alliance, launched in 2023, provides a dedicated framework for co-operation on connectivity, digital policy, skills, innovation and AI. More recently, the partnership has moved towards practical co-operation, including an EU–LAC Supercomputing Network for AI and high-level policy dialogues on AI governance. In this context, the OECD's AI Policy Observatory and AI Toolkit offers a practical resource to support governments in translating AI principles into policy and regulatory approaches, helping to advance trustworthy and human-centred AI across countries and regions (OECD, 2026[51]).

LAC has the potential to capture more value from the digital transformation by developing, adapting and deploying digital technologies and AI

A second opportunity lies in increasing the region's capacity to develop, adapt and apply digital technologies rather than relying exclusively on solutions developed elsewhere. This should be understood as a selective and realistic objective: LAC is unlikely to replicate the scale of the frontier AI ecosystems of the United States or China, but it can build capabilities in areas where regional data, knowledge and productive strengths provide an advantage. The development of AI applications for agriculture, mining, logistics, renewable energy, climate resilience and public-service delivery could help translate local knowledge and comparative advantages into new products, services and productivity gains. The objective should therefore be less to compete at the frontier in general-purpose AI and more to strengthen the region's capacity to adapt frontier technologies, develop sector-specific applications and participate in emerging digital value chains.

The digital revolution can also support the expansion of activities in which some LAC economies already have a foothold, including digitally delivered services and other knowledge-intensive activities. The region's ICT exports remain modest: ICT goods account for around 5.2% of total goods exports, compared with 12.3% globally, while ICT services exports reached USD 19.5 billion in 2024, only 1.6% of the global total (UNCTAD, 2026[52]; ECLAC, 2025[37]). These figures point to both a relatively small existing base and scope for expansion, provided that countries strengthen digital capabilities, innovation ecosystems and access to international markets.

The most immediate and broad-based opportunity is likely to come from wider diffusion of digital technologies across firms, governments and households. Digital tools can reduce transaction costs, facilitate access to markets and information, improve business processes and support the delivery of public services. AI can amplify these effects by automating or augmenting tasks, improving decision-making and enabling new products and services. In LAC, where productivity growth remains weak and firm-level capabilities are highly uneven, the gains from diffusion and effective adoption may be particularly important. However, the benefits will depend on whether digital technologies are integrated into production processes and value chains rather than remaining limited to basic connectivity or consumption.

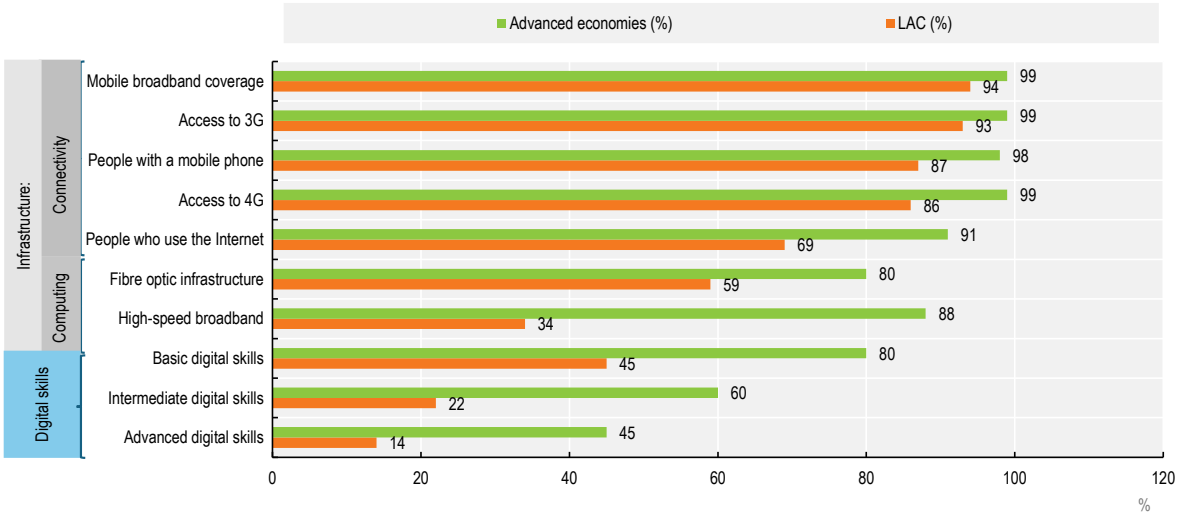
Seizing these opportunities will require stronger investment, capabilities and enabling institutions, while adopting a regional approach to build scale and strengthen impact

Digital transformation in LAC requires further expanding investment in digital infrastructure and skills

LAC countries made notable progress in expanding basic digital infrastructure, nonetheless, digital transformation remains uneven, reflecting persistent gaps in access, infrastructure, skills and digital government. Connectivity infrastructure in LAC has advanced considerably, with mobile broadband and 3G coverage reaching over 90% of the population. More advanced digital infrastructure like fibre-optic networks reached 59% of the population, while high-speed broadband covers 34%. Mobile phone ownership is widespread (87%), and 86% of the population has access to 4G networks, while 5G represents only 5% of total mobile connections. Nevertheless, nearly a third of the population do not use the Internet regularly (Figure 1.11), highlighting a persistent gap between infrastructure availability and effective connectivity. Connectivity access drops drastically in rural areas and among lower-income groups, resulting in gaps of up to 50 percentage points between the wealthiest and poorest households (ECLAC, 2025[53]).

Additional investment in digital skills is needed to take advantage of digital transformation. Less than 50% of the population in LAC (45%) possess basic digital skills, while only 22% and 14% have intermediate and advanced skills, respectively (Figure 1.11). These connectivity and skills disparities constrain the ability of firms and workers to adopt more sophisticated digital technologies, including cloud computing and AI. This, in turn, limits the contribution of digital transformation to productivity growth and inclusive development (ECLAC, 2025[53]).

Figure 1.11. Connectivity and computing infrastructure, and digital skills, LAC countries and advanced economies (percentage of the population)



Source: Authors' elaboration based on UNDP (2025[54]), *Atlas of Artificial Intelligence for Latin America and the Caribbean*, https://www.undp.org/latin-america/publications/; data from the International Telecommunication Union, 2025.

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Addressing the digital skills gap requires sustained national efforts to modernise education and training systems, expand lifelong learning opportunities, strengthen partnerships with the private sector and better align skills provision with rapidly evolving labour market needs. These measures are essential to equip workers with the digital, technical and transversal skills increasingly demanded by technological change and digital transformation. In addition, regional co-operation can help countries accelerate progress by developing shared networks that can serve as a common basis for countries to design curricula, skills policies and assessment instruments adapted to their contexts.

The Digital Competence Framework for Latin America and the Caribbean (DigCompALC) provides a common language for identifying and developing the digital competencies with which citizens, workers and institutions need to engage with the digital economy. DigCompALC covers 21 competencies across five areas, with AI as a cross-cutting domain. It introduces a pre-basic proficiency level designed to capture the depth of digital exclusion in LAC, including populations with limited or no access to digital environments (Ripani, 2025[55]).

Specifically focusing on direct investments on AI, the relatively low level of AI investment remain a major constraint on the region's ability to capture its benefits. In 2025 LAC attracted only around 1.12% of global AI investment, despite accounting for 6.6% of global GDP and 8.8% of the world's population (ECLAC, 2026[41]). AI investment and startup activity remain highly concentrated in Latin America and the Caribbean, pointing to a still-fragmented innovation ecosystem. Chile, Uruguay, Brazil, Mexico and Colombia account for the vast majority of AI-related investment and startup creation in the region, while Argentina stands out, representing more than half of the estimated total value of AI investments (ECLAC, 2026[41]).

Public AI strategies are key to guide countries' actions, but implementation is lagging

With the uneven development of AI strategies in the region, some countries risk falling behind. Nine LAC countries have national AI strategies, but only a few have allocated budgets, defined implementation plans or established impact indicators. Without execution mechanisms, these strategies risk remaining mere statements. Countries such as Brazil, Chile and Uruguay, considered as AI pioneers, have robust national

strategies, multi-stakeholder co-ordination bodies and long-term visions. Seven countries have yet to define a roadmap or been unable to consolidate a national strategy for the development of AI. Costa Rica and Cuba have recently published their strategies, while Panama and Venezuela are still completing theirs. This process illustrates it is still possible to define AI initiatives at the national level (ECLAC, 2026[41]). However, the uneven progress towards national AI strategies risks generating a fragmented region with unbalanced regulatory frameworks. In this scenario, entire countries may fail to fully benefit from AI.

Strengthening the effectiveness of AI governance is a priority. Establishing a policy framework is an important first step, but it is not sufficient. Without a clear implementation plan, these strategies risk remaining largely declarative documents, with limited budgetary backing, no measurable impact indicators, and weak monitoring and evaluation mechanisms. The focus should shift from strategy design towards implementation, institutional capacity, financing, monitoring and accountability to ensure that AI policies deliver tangible economic and social outcomes.

Making the digital revolution a driver of production transformation in the region will require active productive development policies

Connectivity and digital infrastructure are necessary but not sufficient conditions for production transformation. Without deliberate policy effort to translate digital access into real and effective use, the digital transition risks reproducing and deepening structural heterogeneities. In practice, this means the incorporation of digital tools and AI into production processes, business models and value chains in ways that measurably increase productivity, innovation and competitiveness (ECLAC, 2025[53]).

Addressing the challenge of production transformation requires moving beyond infrastructure expansion towards active policy support for technology adoption at the firm level. LAC countries have made progress in this direction, with initiatives that illustrate both advances and differences across countries. Brazil stands out with the *Brasil Mais Produtivo* programme, which has benefitted more than 100 000 firms. For its part, Chile operates multiple programmes aimed at SMEs – such as *Ruta Digital* and *Digitaliza tu PyME* – offering subsidies, training and co-financing for innovation. Costa Rica has developed Digital Checkup 2.0, which allows companies to assess their level of digital maturity and receive training of up to 16 weeks. Similar initiatives are found in Uruguay and Colombia. However, these advances coexist with structural challenges that limit their reach and sustainability. Institutional fragmentation, weak articulation between digital and productive development policies, and uneven interministerial co-ordination persist across the region (ECLAC, 2025[56]).

These limitations point to a deeper structural problem. Digital transformation agendas and productive development policies (PDPs) have historically evolved in parallel, governed by different ministries and institutional logics. Digital agendas have focussed on connectivity and e-government, while PDPs have targeted firms and sectors through technology extension services, investment promotion and innovation financing. Neither domain is sufficient on its own, yet their integration remains the exception rather than the rule.

Bridging this gap between digital agendas and PDPs requires active co-ordination across multiple levels. At the firm level, digital extension services must be aligned with productive sectoral priorities rather than designed as generic horizontal programmes. At the sectoral level, industrial strategies must incorporate digital readiness as a core diagnostic dimension. Finally, at the institutional level, co-ordination mechanisms between digital transformation bodies and productive development institutions are essential to ensure that digital investments translate into concrete productive outcomes (ECLAC, 2025[56]).

Beyond the national level, a regional dimension to digital productive transformation is equally critical, given the scale requirements of the digital economy and the need for regulatory convergence, shared digital infrastructure and integrated data ecosystems. Strengthening regional integration as a platform for productive development requires closer alignment between digital and productive agendas. In this context,

reinforcing the eLAC Digital Agenda, with an explicit productive development dimension, could provide the institutional backbone for advancing regional co-operation in these areas (see Chapter 2) (ECLAC, 2025[56]; Calderón et al., 2021[57]).

Alongside demand-side adoption policies, LAC also needs PDPs that actively strengthen the regional supply of digital technologies. A significant gap persists between the region's high consumption of digital technologies and its limited capacity to develop and produce them locally. In 2025, LAC accounted for some 14% of world traffic to AI solutions while representing only 11% of global Internet users (ECLAC, 2026[41]). The relatively small contribution of ICT goods to total exports and the region's limited participation in global ICT services exports underscore its weak position in global digital value chains (UNCTAD, 2026[52]; ECLAC, 2025[56]). This asymmetry between consumption and production of digital technologies risks deepening the region's technological dependence and limiting its capacity to capture value from the digital transition. Strengthening domestic technological capabilities, supporting local digital firms and fostering regional digital value chains could help close this gap.

Closing this supply-side gap requires a diversified set of policy instruments. Potential instruments include investment promotion; research and development incentives for digital technology firms; targeted trade and export facilitation for ICT services; the development of technology parks and digital innovation ecosystems; and the strengthening of digital talent pipelines through education and training policies. Among these instruments, cluster and productive articulation initiatives (IAP) in the digital economy can play a complementary role by connecting digital supply-side actors – start-ups, technology firms, universities and development agencies – with productive sectors. In so doing, it can facilitate the adaptation of digital technologies to local contexts. Available evidence suggests that some active digital cluster initiatives in LAC are already working on this type of linkage, with agendas covering AI and analytics, cybersecurity, EdTech and AgTech, among others (ECLAC, 2025[37]). Their contribution depends, however, on effective articulation with national PDPs and regional digital agendas such as eLAC – conditions that remain partial and uneven across the region (ECLAC, 2025[56]).

Regional co-operation is key to promote LAC's involvement in AI development

Regional and subregional co-operation, supported by joint strategic investments, is essential to building durable comparative advantages in an increasingly competitive global landscape. In addition to supporting long-term development, regional co-operation can enhance institutional capacity and bargaining power by pooling resources, talent and data across countries, while reducing duplication.

Latam GPT, the first open and inclusive large language model developed in LAC, is an important milestone in the region for AI development. Built on regional data through collaboration among 27 institutions and more than 60 experts, Latam-GPT is designed to reflect the region's linguistic, cultural and regulatory specificities (UNDP, 2025[42]).

A co-ordinated effort to transfer good practices and promote shared ethical standards would benefit the entire region (ECLAC, 2026[41]). Several ethical guidelines have been developed in LAC to steer AI expansion towards socially desirable outcomes (OECD/CAF, 2022[58]; UNESCO, CAF and OGTIC, 2026[59]). A key challenge will be to advance data openness and interoperability, in line with global trends, while striking a balance between regulatory and ethical considerations, development-oriented policies and effective implementation. This will be critical to ensuring that AI creates economic and social value without stifling innovation (ECLAC, 2026[41]). This process should promote inclusion transparency and accountability, and mitigate risks such as bias and misuse (UNDP, 2026[44]). Regional and international initiatives, including the Santiago Declaration for LAC, the African Union's Continental AI Strategy and ASEAN's AI governance guidelines, underscore the importance of local ownership, regional co-operation, and public-interest digital and data infrastructure (UNDP, 2026[44]). Initiatives such as the EU-LAC Supercomputing Network for AI between the European Union and the LAC region, under the Global Gateway Strategy, are also examples of concrete partnerships in this sector.

LAC as a global food security provider

Global food demand is projected to continue increasing, while the goal of ending hunger by 2030 is unlikely to be achieved

Global demand for food is expected to continue rising over the coming decade, driven by population growth, urbanisation and rising incomes, particularly in lower middle-income countries in Asia and Africa. Global consumption of agricultural and aquatic food products is projected to increase by around 12.5% by 2035, reinforcing the strategic importance of regions such as LAC, which can supply international markets (OECD/FAO, 2026[60]). The composition of global demand will also evolve, with a particular continued projected growth in demand for animal-source foods in many middle-income economies (OECD/FAO, 2026[60]).

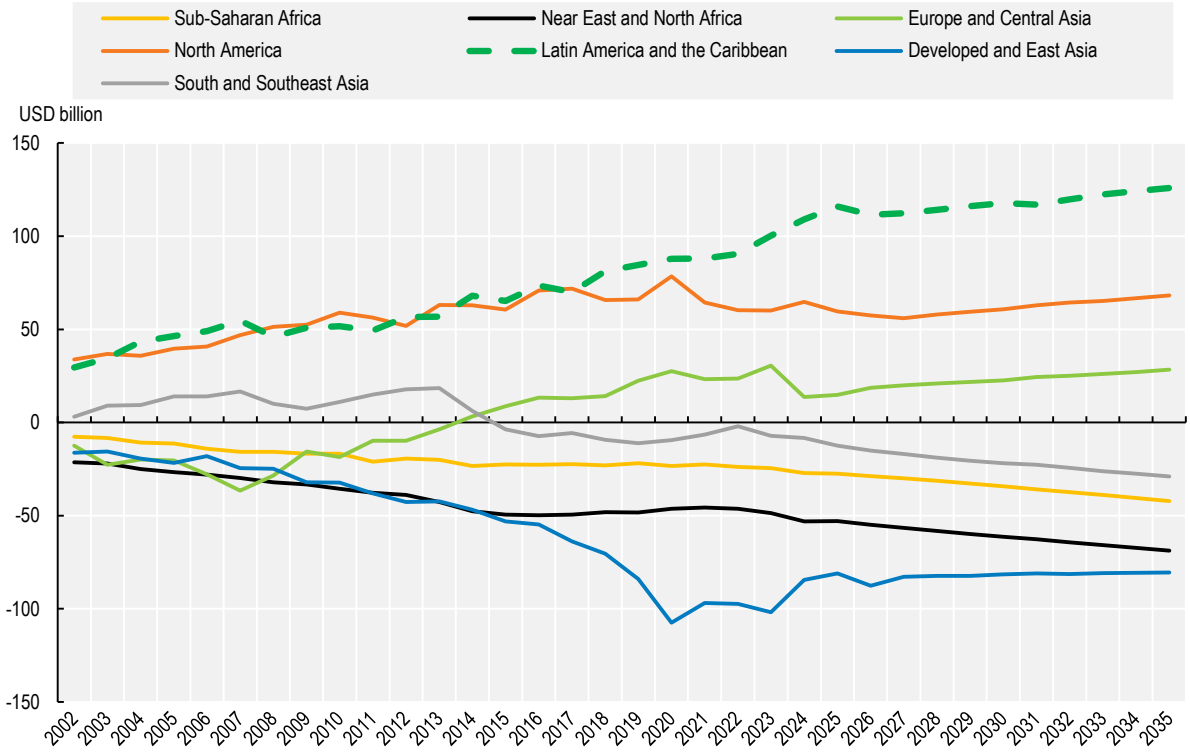
The region can contribute to reducing global food insecurity both by expanding sustainable food production and strengthening value chains. Food insecurity remains a major global challenge, with approximately 735 million people experiencing hunger. Trends suggest the world is unlikely to achieve the goal of ending hunger by 2030 (OECD/FAO, 2026[60]). Importantly, the challenge is no longer solely one of global food production. Hunger persists due to poverty, unequal access, conflict, climate-related shocks and disruptions to food supply chains. This points to a growing opportunity for LAC, both to sustainably expand food production and strengthen the reliability, affordability and resilience of food supplies reaching global markets (OECD/FAO, 2026[60]; FAO et al., 2026[61]; Granados, 2024[62]).

LAC already plays a pivotal role in global food systems

LAC combines abundant natural resources, strong agricultural production capacity and deep integration into global food markets, positioning it as one of the world's most important food-producing regions. Although the region accounts for only around 15% of global land area, it receives approximately 29% of global precipitation. It also holds about one-third of the world's renewable water resources and contains nearly 40% of global freshwater reserves, providing significant advantages for agricultural production. The region accounts for approximately 14% of global agricultural and fisheries production and around 18% of global agrifood exports (OECD/FAO, 2026[60]). LAC's agricultural output is sufficient to feed an estimated 1.3 billion people, twice its population, underscoring its importance as a net supplier to international markets.

Latin America is also expected to maintain its position as the world's primary exporter of agricultural commodities. The region's net agricultural trade surplus is projected to increase from approximately USD 109 billion in 2024 to USD 126 billion in 2035 (Figure 1.12). This trend is largely influenced by Brazil, Argentina and Paraguay. North America is projected to remain the second-largest exporter, with exports stabilising below their 2020 peak. The Europe and Central Asia region, which became a net exporter in 2014 following productivity gains and investment, particularly in the Black Sea region, is also expected to expand its trade surplus (OECD/FAO, 2026[60]).

Figure 1.12. Net agricultural trade of main agricultural commodities by region, in constant values



Note: Net trade (exports minus imports) of commodities covered in the Agricultural Outlook, measured in constant 2014-2016 United States dollars.
Source: OECD/FAO (2026[60]), *OECD-FAO Agricultural Outlook 2026-2035*, https://doi.org/10.1787/47874669-en.

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The current mismatch between food-surplus and food-deficit regions offers an opportunity for LAC, although it also entails challenges

The opportunity for the LAC region stems not from a projected global shortage of food production but rather from two other factors. First, there is a growing mismatch between rapidly expanding demand in food-deficit regions, particularly sub-Saharan Africa, North Africa and the Middle East, and Developed and East Asia. Second, exportable food surpluses are concentrated in a relatively small number of producing regions, such as LAC, North America, and Europe and Central Asia (Figure 1.12).

The widening food and feed deficit in Asia creates opportunities for LAC, but also increases the exposure of exporters to changes in Asian demand, trade policy and geopolitical relationships (OECD/FAO, 2026[60]). LAC's contribution to food security depends partly on its ability to remain a reliable supplier during periods of volatility (Illescas and Vicentin Masaro, 2024[63]). This is why LAC countries would benefit from predictable market access and a rules-based multilateral trading system, including greater transparency and stronger disciplines around export restrictions. At the same time, access to key markets increasingly depends on compliance with sustainability-related requirements. As major markets, including the European Union, strengthen environmental and sustainable agriculture standards, LAC producers will need to adapt production practices and improve traceability to maintain competitiveness and secure continued market access.

South America is best positioned to expand its role in global food markets through productivity sustainable gains, value addition and export diversification. Strengthened trade integration, including through recently

negotiated agreements such as the EU-Mercosur Partnership Agreement, could create additional opportunities for agricultural exports, provided producers are able to meet sustainability and traceability requirements. Opportunities in Mexico are closely tied to strengthening its position within North American agrifood value chains; Central America can benefit from higher-value exports, agro-processing, regional trade and stronger linkages between family farms and markets. For its part, Caribbean priorities lie in building more resilient food systems, reducing import dependence where feasible, developing fisheries and aquaculture, and better connecting agriculture with tourism demand. These differences underscore the need for differentiated strategies that reflect each subregion's resource endowments, market structures and climate vulnerabilities.

Food security and productivity gains within LAC remain a priority

While growing global demand creates important export opportunities, challenges related to food access, affordability, nutrition and resilience remain significant within the LAC region too. In 2024, undernourishment affected 5.1% of the population, while moderate or severe food insecurity affected 25.2%. Although both indicators have improved steadily since the COVID-19 pandemic, substantial disparities persist across countries, subregions and population groups. This highlights the need to complement export competitiveness with policies that strengthen domestic food security and access to healthy diets (FAO et al., 2026[64]). Moreover, productivity gains within the region may not translate into broad-based development if they remain concentrated among large, capital-intensive producers. The distribution of productive capabilities and benefits should therefore be treated as a central component of the opportunity, not as a secondary social-policy concern (CAF, 2026[65]; ECLAC et al., 2026[66]).

Regional co-operation can be a cross-cutting enabler contributing to greater co-ordination on sanitary and phytosanitary standards, transport and logistics corridors, agricultural research and innovation, and climate adaptation initiatives. Sustainability and traceability frameworks at the regional level can lower costs, enhance resilience and strengthen the LAC's capacity to supply international markets, while improving domestic food security.

Beyond its role as a major agricultural producer, LAC can contribute to global food security, trade resilience and the transition towards more sustainable food systems. Realising this opportunity will depend on four mutually reinforcing priorities: fostering sustainable agriculture productivity growth through innovation, research and development, and the adoption of digital technologies; strengthening resilience to climate risks through investments in irrigation, climate-smart practices and risk-management tools; improving logistics and connectivity to facilitate access to domestic and international markets; and advancing more sustainable agrifood systems that reduce environmental pressures while enhancing economic, social and health outcomes. Progress across these areas can be supported by stronger regional co-operation, including through knowledge sharing, policy co-ordination and collective action on shared challenges.

Demographic trends bring about new challenges but also provide new economic opportunities

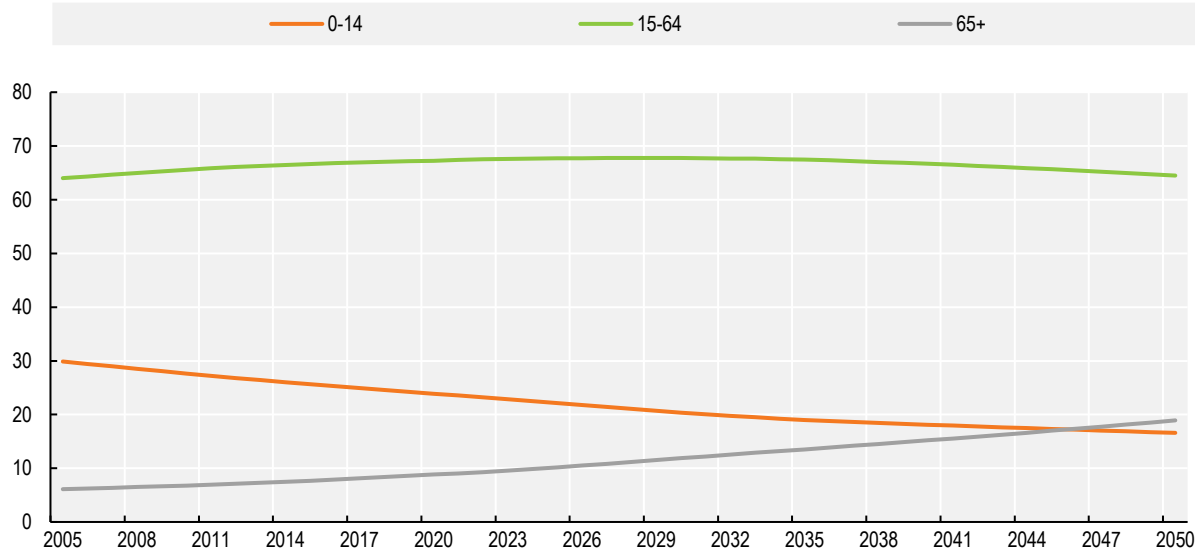
LAC is undergoing a rapid demographic transition, reflecting broader global trends but with distinct regional implications. Worldwide, fertility rates have fallen from 3.3 births per woman in 1990 to 2.3 today, while life expectancy reached 73.3 years in 2024 and is projected to rise to 77.4 years by 2054 (United Nations, 2024[67]). In LAC, population ageing has accelerated as life expectancy increases and fertility rates decline rapidly, gradually reducing the share of the working-age population and increasing dependency ratios. Migration flows are also reshaping demographic dynamics, altering the size and composition of the working-age population across countries. Sustained emigration may compound population decline and ageing in some countries, while immigration could support labour-force growth in others. Together, these forces are transforming the age structure of LAC societies, with profound implications for economic growth, public finances, labour markets and social cohesion. These challenges are particularly relevant in a region

where informality remains high, affecting more than half of the working-age population, and social protection coverage remains relatively limited, increasing vulnerabilities as populations age.

An ageing population puts increasing pressure on fiscal space and social protection systems

LAC countries have experienced important progress in terms of life expectancy, which has grown by almost four years in two decades – from 72.5 in 2005 to 76 years in 2025. It is expected to rise to 80 years by 2050 (UN, 2024[68]). This has implications for the structure of the population, with the group aged 65+ growing from 6% of the population in 2005 to around 10% in 2025, and expected to reach almost 20% by 2050 (Figure 1.13). In parallel, the 0-14 age group will have declined from around 30% in 2005 to slightly above 20% in 2025, and to 16.5% in 2050. Importantly, the share of the working-age population (15-64 age group) is reaching its peak and will start to decline after 2030.

Figure 1.13. Evolution of population shares by groups of age in LAC, 2005-2050



Source: Authors' elaboration based on UN (2024[68]), *World Population Prospects: The 2024 Revision*, https://population.un.org/wpp/.

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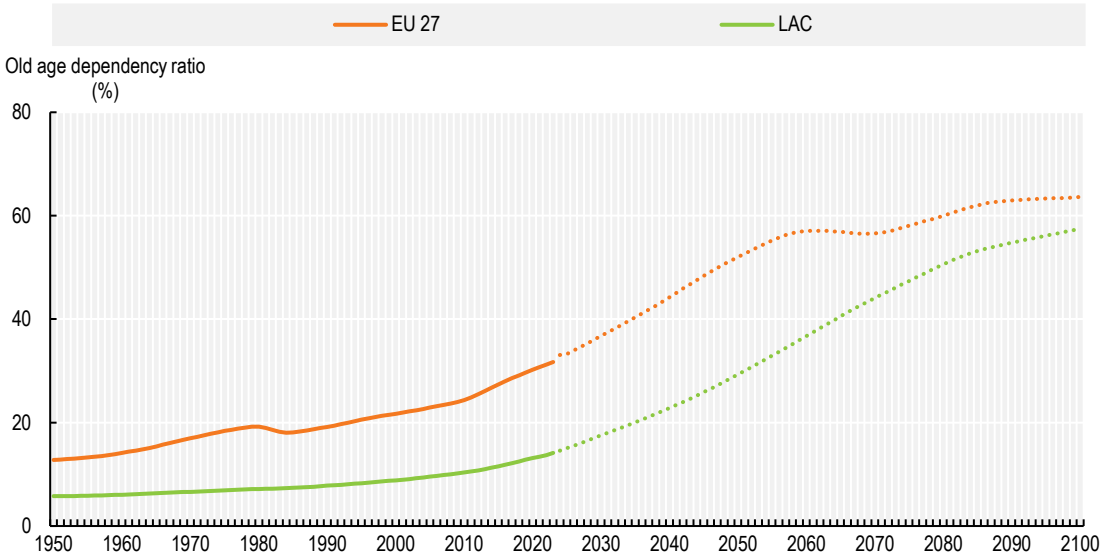
An important implication of these demographic dynamics is the increasing pressure on the working-age population to sustain older people (Figure 1.14). Old-age dependency ratios represent the number of people aged 65+ per 100 working-age individuals (15-64). A rising dependency ratio means that a smaller working-age population must support a growing number of dependents, with significant economic and social implications. This is likely to put pressure on public finances through higher pension and healthcare costs, while slowing potential growth as labour force expansion weakens. At the same time, it increases the urgency of boosting productivity, raising labour force participation (especially among women and older workers) and reducing informality. The shift may also affect savings patterns, strain care systems and exacerbate inequality, particularly across groups for which access to social protection remains uneven. Overall, it marks the transition from a demographic dividend to a more constrained environment where policy choices become critical to sustain growth and inclusion.

Figure 1.14. Old-age dependency ratios, LAC and EU 27, 1950-2100



Source: Authors' elaboration based on UN (2024[68]), *World Population Prospects: The 2024 Revision*, https://population.un.org/wpp/.

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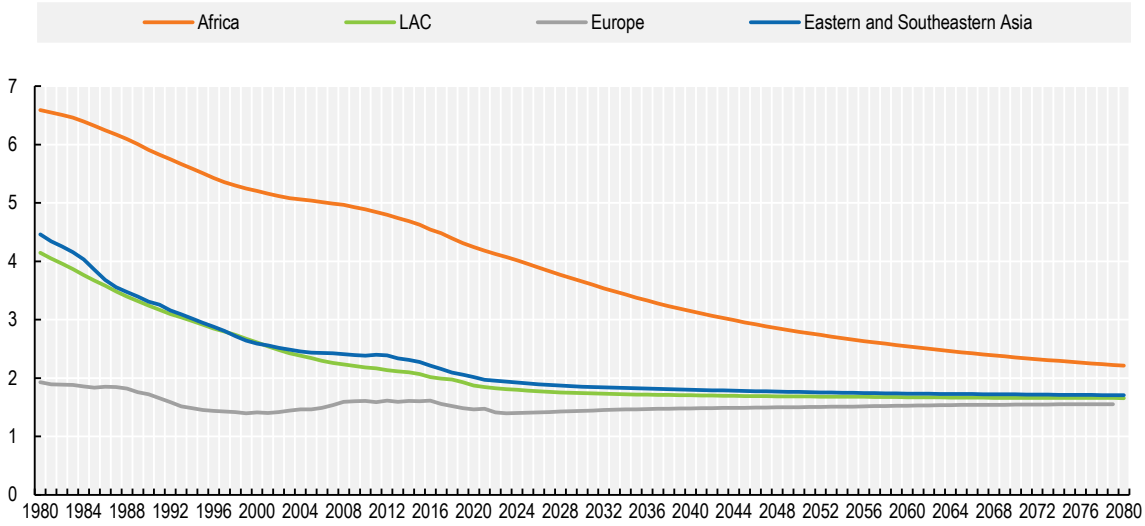
Fertility rates are falling, further accentuating ageing dynamics and exacerbating the need to increase productivity as the main engine of growth and social progress

Fertility rates are falling rapidly in LAC. In 2024, the total fertility rate for the region stood at 1.8 children per woman. This is significantly below the replacement level, usually set at around 2.1 children per woman. The region has been beneath this threshold since 2015 (Figure 1.15). Being below the fertility replacement rate means that, on average, the number of births is below the level required to keep the population size stable. Over time, this leads to smaller cohorts of younger people, population ageing and eventually a decline in total population unless offset by immigration. As a result, the working-age population shrinks relative to dependents, increasing pressure on economic growth, public finances and social systems.

The decline in fertility rates in LAC has been relatively fast. This decline is comparable to other emerging regions like East and Southeast Asia (Figure 1.15) but in contrast to more developed regions like Europe. However, the fall in fertility rates in LAC has taken place at a moment where the region still has significant structural vulnerabilities (López-Calva, 2020[69]). Conversely, many East and Southeast Asian economies saw fertility rate declines after major progress in raising income per capita, providing access to key social services and building institutional capacities.

Figure 1.15. Fertility rates by regions, 1980-2080



Source: Authors' elaboration based on UN (2024[68]), *World Population Prospects: The 2024 Revision*, https://population.un.org/wpp/.

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While these demographic trends bring about major challenges, they also create new opportunities for LAC countries

The demographic dividend in LAC (i.e. the period when the working-age population is at its maximum share of the total population) is closing rapidly. How governments, firms and families respond over the coming decade to the challenges associated with these demographic trends will largely determine whether the region can turn this moment into a development opportunity.

In countries with a relatively large and growing working-age population, a higher share of workers relative to dependents can boost growth, savings and fiscal space. Consequently, they can continue to benefit from a remaining demographic dividend. However, for this to happen, the countries will need to invest significantly in education quality, healthcare and pathways towards job formalisation.

At the same time, ageing itself is creating new economic opportunities. For instance, the "silver economy" is likely to drive demand for healthcare, long-term care, pharmaceuticals, financial services and age-related technologies, offering opportunities for job creation and investment (Cecchini et al., 2025[70]). The scale of this opportunity is significant. The silver economy already generates roughly USD 22 trillion annually worldwide, and LAC is positioned to capture a growing share of that value as its older population expands (IDB, 2025[71]). As of 2024, 166 million people aged 50 and over lived in the region, representing 25% of the total population, a figure projected to reach 280 million (38%) by 2050. This would create durable consumer demand in housing, healthcare, tourism and entrepreneurship aimed at this cohort. Financial innovation stands out as a particularly promising dimension of this opportunity: today's older adults are more active, digitally connected and financially empowered than the stereotypes of previous generations suggest. Consequently, the silver economy can be a fertile ground for new financial products and services tailored to this population (Ponce and Etchegoyen, 2025[72]).

In addition to the potential of the silver economy, the "care economy" represents another important opportunity. Expanding labour force participation, especially through greater provision of childcare and eldercare, can help sustain labour supply, improve gender equity and strengthen fiscal outcomes. Indeed, formal care sectors could bring substantial benefits – from increased economic empowerment for women

to better preparedness and resilience to external shocks. For instance, investment in the care economy can help female care workers transition to formal employment (OECD, 2024[73]). Estimates suggest that investing in care policies across 23 countries in the region could create around 31.3 million jobs. Of these, 10.6 million would be in childcare and 20.7 million in long-term care, with about 88% in the formal economy (CEPAL and ILO, 2026[74]).

Emerging opportunities for LAC in a changing multilateral and co-operation landscape

Greater scope for LAC to shape global governance

Multilateralism and international development co-operation are undergoing a profound transition, marked by heightened geopolitical polarisation, erosion of consensus-based global governance, and growing volatility in international economic and financial relations. Strategic competition among major powers has increasingly spilled over into trade, finance, technology and environmental governance. These trends are contributing to a more fragmented and less predictable system.

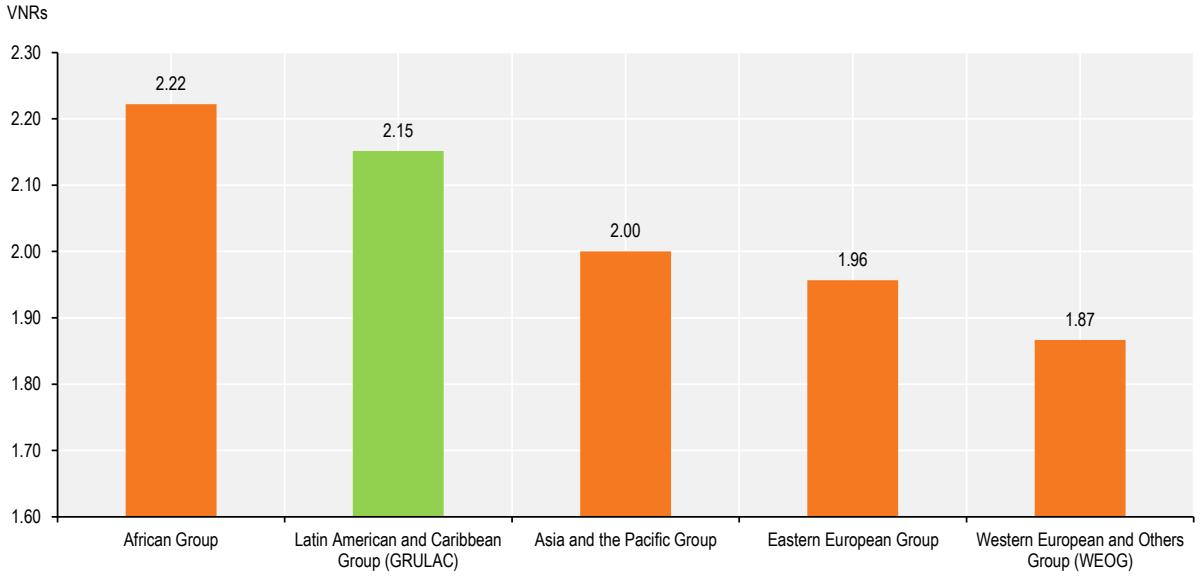
Momentum generated during the COVID-19 crisis has also weakened. The pandemic initially catalysed ambitious agenda-setting, including renewed attention to global public goods, social inclusion and reform of the international financial architecture. However, progress has since slowed. Key negotiations on climate, financial reform and multilateral governance have faced delays or setbacks, reflecting broader geopolitical tensions and competing policy priorities (ECLAC, 2026[75]; OECD et al., 2022[15]).

The evolving landscape creates both challenges and opportunities. The dynamics at play create uncertainty, complicating long-term planning and implementation of national development strategies. This is especially the case given the region's openness to trade and investment and reliance on external financing. However, they are also opening new spaces for countries and regions that can build coalitions, facilitate dialogue and contribute to global agenda-setting (OECD et al., 2024[76]; Manservisi and Pezzini, 2025[77]; Government of Canada, 2026[78]; OECD, 2026[79]).

LAC already occupies a distinctive position in the global multilateral system. While not a cohesive geopolitical bloc, the region maintains a strong normative commitment to multilateralism, international law and rules-based co-operation. In the context of increasing fragmentation and the emergence of more flexible, issue-based coalitions, this positioning creates opportunities for LAC to strengthen its role within evolving multilateral arrangements and global governance discussions.

LAC countries have played an active role in shaping global agendas, particularly on sustainable development, climate change and financing for development. This commitment is reflected in the region's sustained participation in multilateral processes, including the submission of Voluntary National Reviews. These reviews are country-led reports submitted to the United Nations to assess and communicate progress, challenges, and lessons learnt in implementing the Sustainable Development Goals (SDGs) under the 2030 Agenda for Sustainable Development (Figure 1.16). By 2025, 32 of the region's 33 countries had submitted at least one Voluntary National Review (VNRs). Between 2016 and 2025, the region submitted a total of 71 VNRs, equivalent to an average of 2.15 reviews per country, one of the highest reporting intensities across UN regional groups. This sustained engagement reflects LAC countries' continued commitment to multilateral co-operation and collective action in support of sustainable development. LAC countries also continue to advocate for multilateral solutions in areas such as climate adaptation, biodiversity protection, social inclusion and sovereign debt reform (EU-LAC, 2025[80]; UN, 2025[81]).

Figure 1.16. Average number of Voluntary National Reviews submitted per country, by world region, 2016-2025



Note: Average number of Voluntary National Reviews (VNRs) submitted per country between 2016 and 2025. Calculated as the total number of VNRs submitted by countries in each UN regional group divided by the number of countries in the group.
Source: Authors' calculations based on (UN (2025[81]), United Nations High-level Political Forum (HLPF) *Voluntary National Reviews Database*, https://hlpf.un.org/c/ountries.

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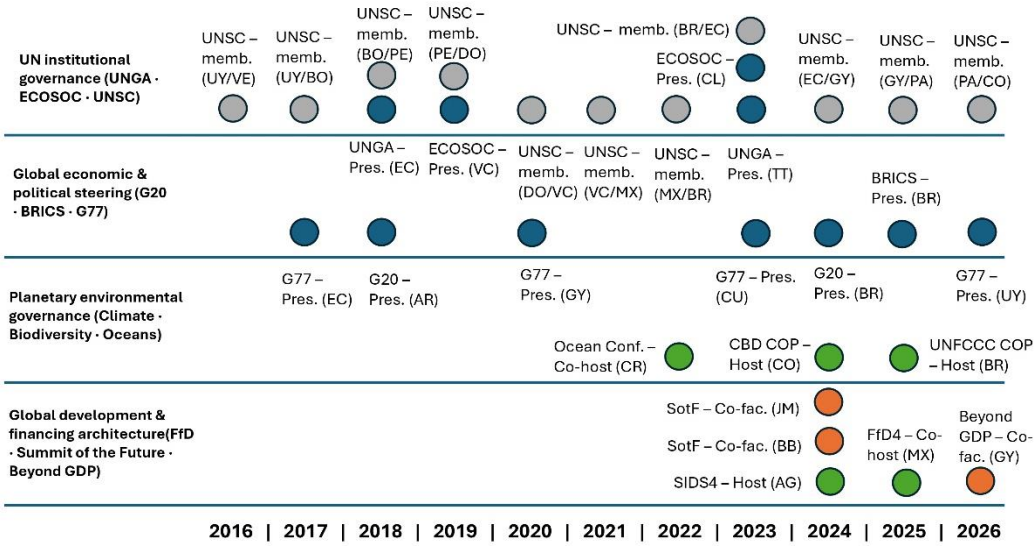
The region's engagement extends beyond participation and advocacy. LAC countries have assumed leadership, convening and facilitation roles across major multilateral processes, including the United Nations system; the G20; BRICS (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, the United Arab Emirates and Indonesia); climate and biodiversity negotiations; and financing-for-development processes. These roles have become more diverse in recent years and have been shared across a broad range of countries, reflecting the region's capacity to contribute to agenda-setting and bridge-building across different areas of global governance (Figure 1.17).

Figure 1.17. Latin America and the Caribbean in global multilateral governance (2016-2026)

Selected formal leadership, convening and participation roles



Note: The horizontal bands group roles into four governance domains: (i) UN institutional governance; (ii) global economic and political steering; (iii) planetary environmental governance; and (iv) global development and financing architecture. Colours distinguish categories of engagement (see legend), including leadership, convening, hosting, co-facilitation and participation roles. Labels identify the relevant institution/process, role and country (country codes in parentheses).

Source: Authors' compilation based on official records and websites of the UN Security Council, UN General Assembly, ECOSOC, UN DESA, Group of 77 and China, G20, BRICS, UN Ocean Conference, Convention on Biological Diversity (CBD), UNFCCC, UN-Habitat and the Financing for Development process.

The region's influence derives less from economic weight than from its capacity for coalition building, mediation and agenda-setting. Across a diverse set of countries, LAC has demonstrated different forms of "middle power diplomacy", combining Global South positioning with active engagement in OECD, UN, G20 and regional fora (Tagliapietra and Casarões, 2025[82]).

Active participation in initiatives such as the Financing for Development process, discussions on sovereign debt reform and emerging agendas such as Beyond GDP would create opportunities for LAC countries to support the evolution of international co-operation frameworks and financing arrangements. These processes provide avenues to advance approaches that better reflect multi-dimensional development challenges, structural vulnerabilities and the financing constraints. At the same time, they support more nuanced development metrics, country diagnostics and financing frameworks. Such shifts could, in turn, influence how international financial institutions, including multilateral development banks (MDBs), assess countries' needs and allocate support (OECD, 2026[83]; OECD, 2026[84]).

Yet, the region's ability to leverage these opportunities is constrained by its internal fragmentation. Regional fragmentation, political heterogeneity and divergent development models limit collective action. This creates a risk of a "middle power trap", where influence remains episodic rather than sustained, particularly in the absence of stronger co-ordination mechanisms (Tagliapietra and Casarões, 2025[82]).

International co-operation for productive transformation and sustainable development in LAC

In addition to participating in global co-operation debates, LAC has actively shaped them. Since the *Development in Transition* framework, several countries in the region have contributed to reframing international co-operation beyond traditional donor-recipient models, emphasising multi-dimensional development challenges and differentiated pathways (OECD et al., 2019[85]). The co-operation model

promoted by some LAC countries places strong emphasis on knowledge exchange, technical assistance and peer learning. South-South and triangular co-operation remain central, reflecting the region's dual role as both recipient and provider of development solutions. These forms of co-operation have also evolved, increasingly supporting policy learning, institutional strengthening and knowledge sharing around common challenges such as digital transformation, climate action, social inclusion and productive development. (SEGIB, 2024[86]; UN, 2025[87]).

As international development co-operation and partnerships become more explicitly linked to increasing trade and investment at home, LAC could leverage its position to attract support for sustainable development. Co-operation is increasingly shaped by strategic self-interest in the form of geopolitical and economic competition, a shift that can make co-operation more selective and less predictable. However, the shift is also creating new opportunities for LAC countries to attract investment, technology and expertise in sectors that have become strategically important in the global economy. Co-operation is now more explicitly expected to support trade integration, investment mobilisation and economic resilience. For a predominantly middle-income region with limited access to concessional finance, this shift is particularly significant. It creates opportunities to leverage the region's strategic assets and partnerships to attract investment, technology and knowledge that support long-term development objectives. At the same time, growing competition among global partners may limit the region's room for manoeuvre, making it increasingly important for LAC countries to balance partnerships in ways that preserve strategic autonomy and advance national development objectives.

Recent partnership patterns point to co-operation models that leverage development instruments to catalyse private investment. Emerging partnerships – such as those with the European Union and China – illustrate increasingly integrated approaches combining trade, investment and co-operation instruments, particularly in sectors linked to the green and digital transitions. They reflect a broader shift towards models that increasingly combine investment, infrastructure development, technology co-operation and productive development objectives.

The development impact of emerging co-operation models depends critically on their ability to support diversification and higher value-added activities. Maximising the benefits of these partnerships therefore requires ensuring that investment is accompanied by technology transfer, skills development, institutional strengthening and stronger linkages with domestic productive sectors. This would allow countries to move up value chains and reduce persistent inequalities (OECD et al., 2023[16]; OECD et al., 2024[76]).

The EU-LAC Global Gateway Investment Agenda illustrates this evolving model of co-operation (see Chapter 3). Beyond mobilising investment, it seeks to combine financing, policy dialogue, technical assistance and institutional strengthening in strategic sectors linked to sustainable development and productive transformation. Several initiatives demonstrate the potential of such approaches. Support for the development of green hydrogen ecosystems in Chile combines investment mobilisation with regulatory development, technology deployment and skills formation, helping to build domestic capabilities around emerging clean energy value chains. Similarly, co-operation on regional electricity integration seeks to strengthen regulatory harmonisation, infrastructure planning and electricity market integration, contributing to renewable energy deployment, regional integration and energy security. This process involves the European Union, the Latin American and Caribbean Energy Organization, national governments and development finance institutions.

From a financing perspective, private finance is the dominant external flow to LAC. Official development assistance represents only a small share of gross national income. Conversely, private flows, particularly foreign direct investment (FDI), have played a key role in supporting structural transformation and global integration. FDI has contributed to job creation, technological upgrading and sectoral diversification, including in renewable energy and digital activities.

The European Union has been a key partner in this process. In addition to accounting for nearly one-third of greenfield FDI-related jobs in the region, it supports export diversification, skills development and the transition towards greener and more knowledge-intensive sectors (OECD et al., 2025[2]; OECD, 2025[88]).

The growing importance of private finance also reinforces the need to ensure that investment translates into broader development outcomes. While FDI has supported employment, diversification and productivity gains, its impact remains uneven across countries and sectors, and private flows other than FDI tend to be more volatile. At the same time, access to concessional finance remains constrained. Rising debt-service burdens continue to constrain fiscal space in several countries, highlighting the importance of debt sustainability and reform of the international financial architecture (OECD, 2026[89]).

In this context, new partnership approaches seek both to mobilise investment and also strengthen its developmental impact. Emerging mechanisms – including country platforms promoted by the G7 and MDBs; blended-finance instruments; and stronger collaboration between MDBs, national development banks and private investors – offer opportunities to reduce fragmentation and crowd-in investment for strategic sectors. More broadly, MDBs are increasingly combining financing with technical assistance, project preparation, knowledge sharing and private capital mobilisation to support productive sectors, climate action and infrastructure development.

LAC has opportunities both to mobilise more investment and shape how investment contributes to development. Realising the full potential of these partnerships will require international co-operation frameworks that focus on the quality of finance rather than solely on volumes; deepen understanding of the socio-economic impacts of FDI and other private flows; and promote comprehensive policy approaches that enhance their catalytic contribution to development. Co-operation instruments beyond finance, including knowledge sharing, technical assistance and institutional strengthening, remain critical to ensuring that investment contributes to productive transformation, capability building, stronger domestic linkages and long-term development outcomes.

Initiatives such as the EU-LAC Global Gateway illustrate the potential of this approach. They combine investment mobilisation with policy dialogue, institutional strengthening, skills development and regional integration. In so doing, they help align investment more closely with the region's long-term development and transformation objectives (EU-LAC, 2025[80]; OECD et al., 2025[2]). More broadly, the region's ability to advance its development objectives in an increasingly fragmented and resource-constrained international environment will depend on how effectively it leverages its distinctive position at the intersection of development, trade and investment. Drawing on its experience in South-South co-operation, its contribution to global development debates and its engagement with a diverse range of partners, LAC can help shape more integrated and effective models of international co-operation. Realising this potential will require stronger regional co-ordination, sustained policy alignment and a continued focus on ensuring that partnerships and investment support capability building, productive transformation and long-term development outcomes.

Leveraging these new opportunities can help LAC address longstanding development challenges

Weakening international economic growth

The global economic outlook has weakened as the conflict in the Middle East has disrupted energy supplies, raised commodity prices and heightened uncertainty across the global economy. Beyond the severe humanitarian consequences, the conflict has highlighted the strategic importance of the region as a supplier of energy and other critical industrial inputs, as well as a key hub for global trade and transport. The immediate effects have been reflected in higher energy and commodity prices, disruptions to trade

routes and tighter financial conditions. However, the economic consequences extend well beyond the countries directly involved. They are transmitted through global supply chains, financial markets, and consumer and business confidence, with particularly significant impacts on commodity-importing and more vulnerable economies. The episode underscores the importance of policies that strengthen macroeconomic resilience, enhance energy security, preserve open markets and support the capacity of economies to absorb future shocks (OECD, 2026[90]).

Growth is expected to moderate across LAC's main economic partners, although the extent of the slowdown will depend on the duration of the disruptions stemming from the conflict in the Middle East. Under a time-limited disruption scenario, growth in the United States, the Euro area and China is projected to soften in 2026 before recovering gradually as energy markets stabilise and uncertainty recedes. A more prolonged disruption would result in a significantly weaker outlook. Persistent energy shortages, higher commodity prices and tighter financial conditions would slow growth across all major economies. Under either scenario, the external environment facing developing economies is expected to become less supportive. This reflects weaker demand in key export markets, heightened uncertainty and less favourable conditions for trade and investment (OECD, 2026[90]).

Transmission channels of the Middle East crisis

The complex situation in the Middle East is likely to affect LAC primarily through indirect transmission channels. While direct economic linkages between the region and the Middle East are relatively limited, the conflict has significant spillover effects through its impact on global growth, commodity markets, supply chains and financial conditions. Although the region is less directly exposed to the Gulf than Asia or Europe, experience suggests that global shocks are rapidly transmitted through prices, trade and financial markets. At the same time, LAC enters this episode with stronger macroeconomic fundamentals than in previous periods of global turbulence, including more credible monetary policy frameworks, greater exchange-rate flexibility and more resilient financial systems (ECLAC, 2026[91]; OECD, 2026[92]). In particular, slower growth in major economies such as the United States, the European Union and China could weaken external demand for LAC exports, and dampen trade, investment and tourism flows (OECD, 2026[90]; Tobias et al., 2026[93]; UNCTAD, 2026[94]).

A second transmission channel operates through energy and commodity markets. Disruptions to oil and gas supplies have contributed to higher energy prices, which in turn increase production and transport costs across the global economy. The impact on each LAC country depends on its individual energy trade balance. Net fuel-importing economies can face higher import bills, renewed inflationary pressures and deteriorating external balances. Conversely, hydrocarbon exporters such as Guyana, Colombia and Brazil can benefit from stronger export revenues and improved terms of trade. However, these gains may be partly offset by weaker global demand (OECD, 2026[90]; Tobias et al., 2026[93]; UNCTAD, 2026[94]).

A third transmission channel is through disruptions to global supply chains. The Middle East plays an important role not only in energy markets but also in the production and export of fertilisers, petrochemicals and other industrial inputs. The Gulf countries account for around one-third of global urea exports and about one-fifth of exports of other key fertilisers, meaning that disruptions can have repercussions well beyond the region (ECLAC, 2026[91]). Higher shipping costs, longer delivery times and shortages of key intermediate goods could increase production costs across a range of sectors. For agricultural producers, higher fertiliser prices raise input costs and contribute to higher food prices, with implications for inflation and food security (ECLAC, 2026[91]; OECD, 2026[90]; Tobias et al., 2026[93]; UNCTAD, 2026[94]).

Finally, heightened geopolitical uncertainty could tighten global financial conditions and increase financing costs for LAC economies. Rising risk aversion, higher sovereign bond yields and capital flows towards safe-haven assets can increase borrowing costs, particularly for countries with elevated financing needs or limited fiscal space. At the same time, higher energy and food prices could erode household purchasing power and place additional pressure on inflation (see below), complicating the task of monetary authorities.

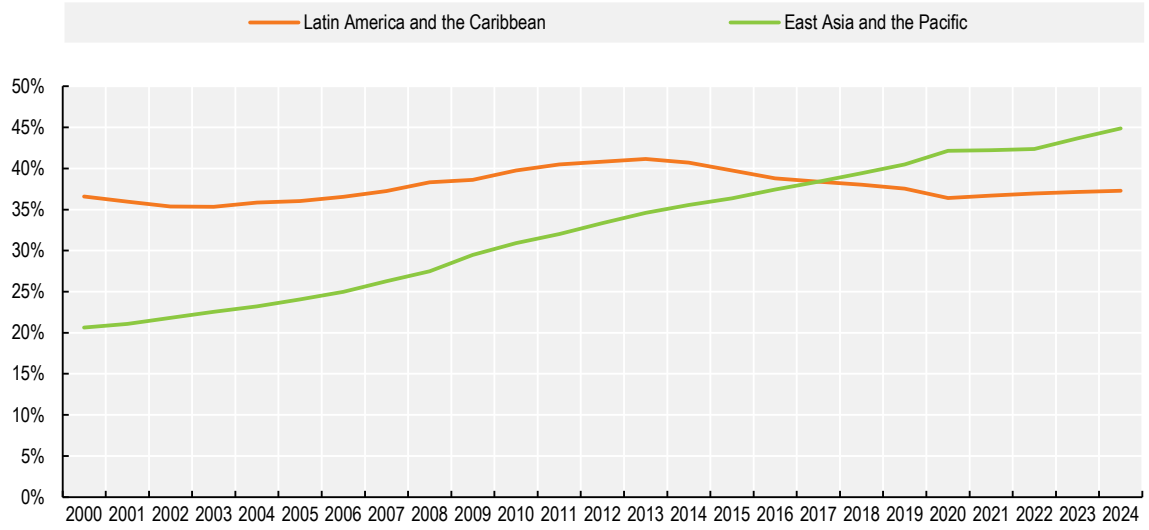
Higher interest rates for longer periods in advanced economies could further increase external financing costs. Meanwhile, a stronger US dollar could put additional pressure on exchange rates, import prices and foreign-currency debt servicing across the region (ECLAC, 2026[91]). Together, these channels could weigh on economic activity and make it more difficult to mobilise the resources needed to support sustainable and inclusive development (OECD, 2026[90]; Tobias et al., 2026[93]; UNCTAD, 2026[94]). Compared with previous external shocks, stronger macroeconomic frameworks should help the region absorb part of the impact. However, elevated public debt, alongside narrower fiscal and monetary policy space, may limit governments' capacity to respond if global conditions deteriorate further (OECD, 2026[92]).

Growth in LAC remains insufficient to achieve meaningful income convergence

Against a backdrop of weakening global growth and heightened uncertainty, LAC's growth remains too weak to deliver meaningful income convergence. Since 2023, economic activity has expanded at a pace broadly consistent with the region's estimated potential growth rate. Yet this rate remains low, limiting the region's ability to close the income gap with the economies of OECD Members (OECD et al., 2023[16]). As a result, even a period of relatively stable growth has done little to alter the region's long-term development trajectory. While gross domestic product (GDP) per capita in LAC has increased steadily since 2000, growth has been insufficient to generate meaningful convergence with OECD Member economies. It has also been lower than in other emerging economies, such as those in East Asia. Measured relative to the OECD average, GDP per capita in the region has remained broadly stable at around one-third of OECD levels for most of the past two decades (Figure 1.18).

Figure 1.18. GDP per capita relative to the OECD

GDP per capita, PPP (constant 2021 international dollars)



Note: GDP per capita is measured in purchasing power parity (PPP) terms at constant 2021 international dollars and expressed as a percentage of the OECD average (OECD = 100). Regional averages are based on the aggregation methodology of the World Development Indicators and are calculated as population-weighted averages of the countries included in each region.
Source: Authors' elaboration based on World Bank (2026[95]), *World Development Indicators*, https://data.worldbank.org/indicator/NY.GNP.PCAP.CD.

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Climate-related shocks could further constrain an already subdued growth outlook. Against a backdrop of persistently low potential growth and limited income convergence, the possible emergence of an El Niño episode represents an additional downside risk for several LAC economies. Although its effects vary

considerably across countries, El Niño typically disrupts economic activity through lower agricultural and fisheries production, damage to infrastructure and pressures on electricity generation. This is especially the case in countries with high dependence on hydropower. These disruptions can weaken output in climate-sensitive sectors and exacerbate structural vulnerabilities, further limiting the region's capacity to accelerate growth (BBVA, 2026[96]; EIU, 2026[97]).

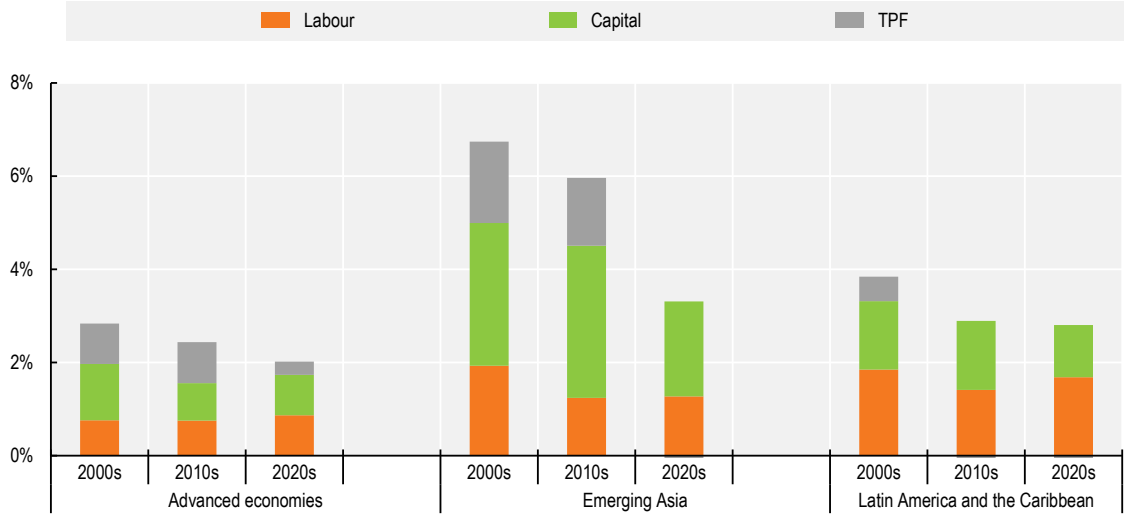
The economic impact of El Niño is also likely to be amplified through inflation and financing channels. Adverse weather conditions can reduce food supply, increase energy costs and disrupt domestic supply chains, contributing to renewed inflationary pressures across the region. In turn, higher inflation could slow the pace of monetary easing or require a more restrictive policy stance than anticipated, weighing on investment and domestic demand. Given LAC's prominent role in global agricultural and commodity markets, climate-related supply shocks may also generate broader trade and price effects. As a result, a severe El Niño episode could simultaneously weaken growth and increase inflation. This, in turn, would create an additional policy challenge for economies already struggling to achieve stronger and more inclusive growth (BBVA, 2026[96]; EIU, 2026[97]).

Limited productivity gains are at the root of LAC's weak growth performance

Weak productivity dynamics, rather than a lack of capital accumulation alone, have been central to LAC's limited growth performance. Growth decomposition suggests that, while capital accumulation has contributed positively, the region has struggled to translate investment into sustained gains in productivity, efficiency and structural transformation. Weaknesses in productive investment, innovation and technological adoption (OECD et al., 2023[16]) have translated into low total factor productivity (TFP) growth, constraining the quality and impact of growth. By contrast, Emerging Asia has combined strong capital deepening with more robust TFP growth, enabling investment to support deeper structural change rather than predominantly factor-driven expansion. LAC's growth model remains comparatively more reliant on labour inputs and less effective in sustaining productivity-enhancing dynamics (Figure 1.19).

Figure 1.19. Growth decomposition, LAC, Emerging Asia and advanced economies

Average contribution to GDP growth by decade (percentage points)



Note: TFP = total factor productivity. Using Penn World Table 11.0, countries were grouped into Advanced, Emerging Asia and LAC. Annual GDP growth was decomposed into labour, capital and TFP contributions using a Cobb-Douglas framework (α = 0.4), with decadal averages used for comparison.
Source: Authors' elaboration based on Feenstra, Inklaar and Timmer (2015[98]), *The next generation of the Penn World Table*, www.ggdc.net/pwt.

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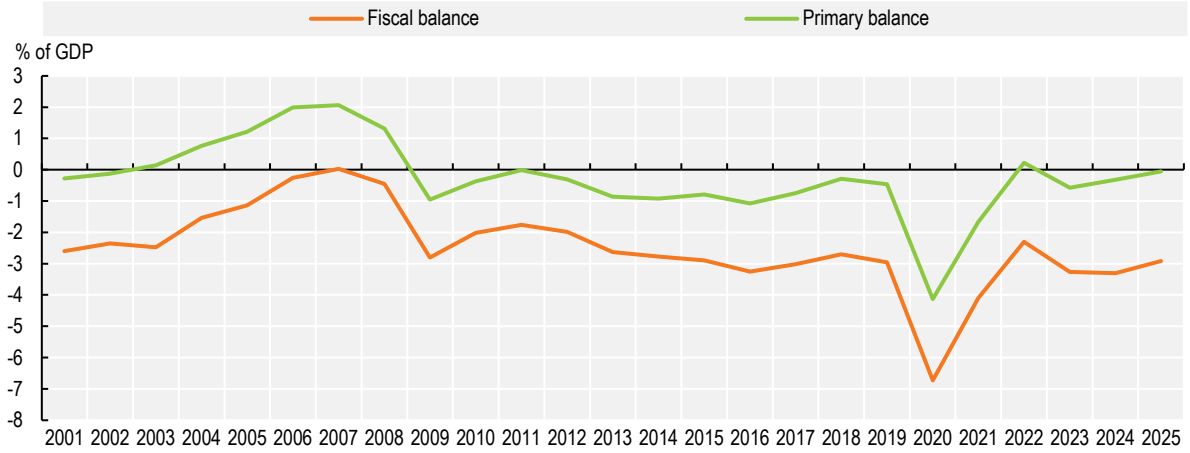
Limited fiscal space constrains public investment and growth in LAC

Limited fiscal space has constrained LAC's capacity to support sustained growth and production transformation. Although fiscal positions have improved since the sharp deterioration during the pandemic, overall fiscal balances have remained in deficit of around 3% of GDP, while primary balances have gradually returned to near balance (Figure 1.20). These trends reflect a combination of limited tax capacity, rigid budgets, reliance on volatile revenues and elevated financing costs. Together with inefficiencies in the composition of public spending, these factors have reduced governments' ability to allocate resources effectively towards infrastructure, human capital, innovation and other productivity-enhancing investments.

Figure 1.20. Fiscal and primary balances in Latin America and the Caribbean (LAC)



Note: The regional average is calculated as an unweighted average of the economies with available data: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
Source: Authors' elaboration based on ECLAC (2026[99]), *CEPALSTAT*, https://statistics.cepal.org/portal/cepalstat/index.html?lang=en; ECLAC (2026[100]), *Fiscal Panorama of Latin America and the Caribbean, 2026: Strengthening tax systems to finance more productive, inclusive and sustainable development*, https://www.cepal.org/en/publications/89990-fiscal-panorama-latin-america-and-caribbean-2026-strengthening-tax-systems.

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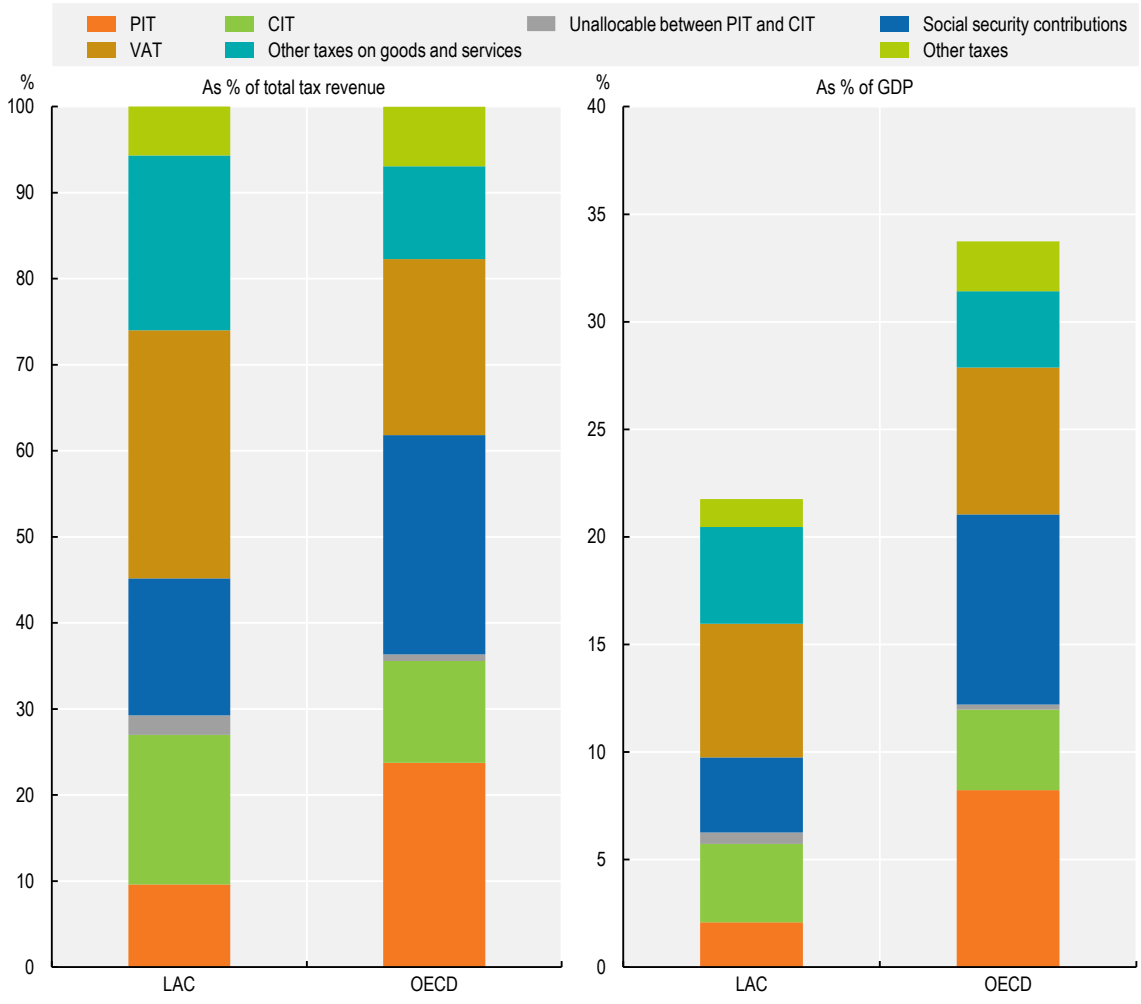
Tax revenues in LAC remain insufficient to meet financing needs, with an overreliance on indirect taxes

Despite significant variation across countries, tax revenues in LAC remain comparatively low and insufficient to meet development financing needs. In 2024, tax revenues averaged 21.7% of GDP, well below the OECD average of 34.1% (OECD et al., 2026[101]). The structure of taxation in LAC further limits its effectiveness. Personal income tax and social security contributions accounted for only 26.1% of total revenues (5.7% of GDP) in LAC, compared to 49.2% (17% of GDP) in OECD Member economies (Figure 1.21). By contrast, corporate income tax represents a larger share of GDP in LAC (18.4%) than in the OECD (11.9%). Taxes on goods and services dominate the structure, making up 47.7% of revenues (10.3% of GDP), with value added tax alone contributing 28.4% (6.1% of GDP) (OECD et al., 2026[101]). However, the revenue potential of VAT is constrained by extensive exemptions and reduced rates, which narrow the tax base while disproportionately benefitting higher-income households (OECD et al., 2026[101]; Peláez Longinotti, 2026[102]).

Figure 1.21. Average tax structure in LAC and the OECD, 2024



Note: The LAC average excludes Venezuela due to data issues. Ecuador is excluded from the LAC average for personal income tax and corporate income tax revenues due to data quality issues. The OECD average corresponds to the 2023 average and represents the unweighted average of the 38 OECD Member countries, including Chile, Colombia, Costa Rica and Mexico.
Source: OECD et al. (2026[101]), *Revenue Statistics in Latin America and the Caribbean 2026*, https://doi.org/10.1787/2f21f131-en.

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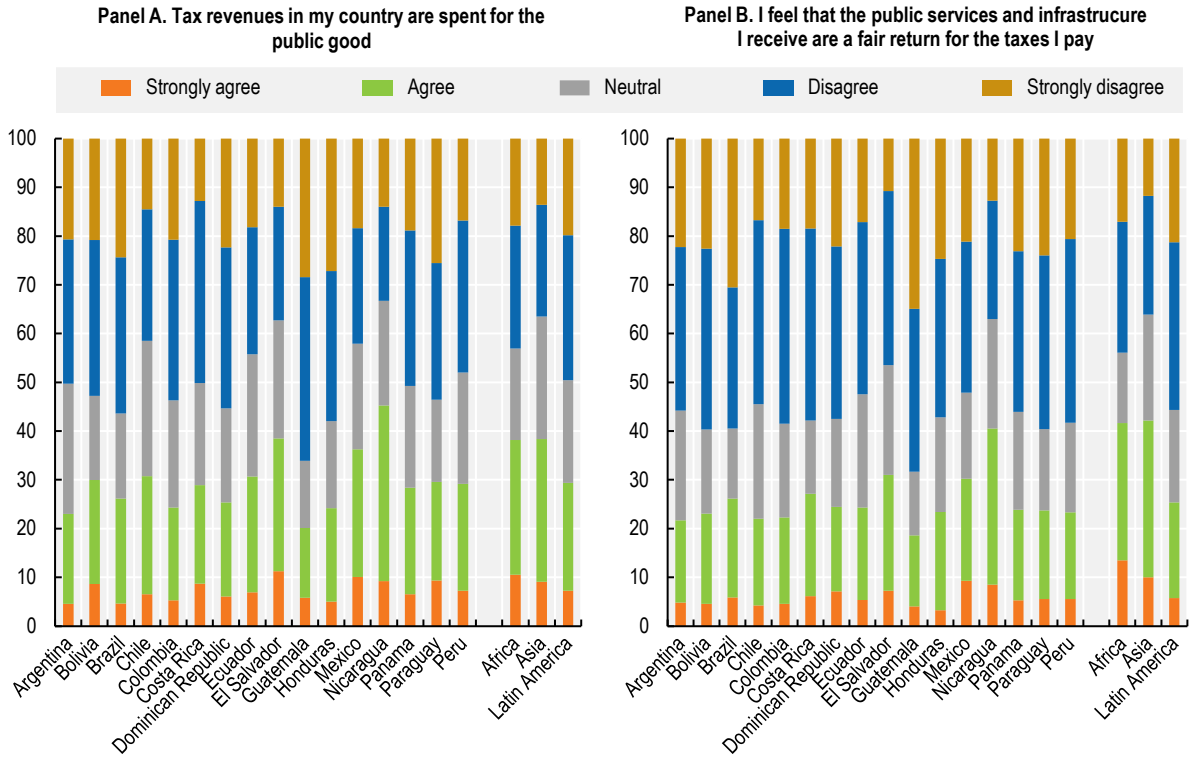
The limited capacity of tax systems to mobilise revenues and finance quality public goods has also contributed to a weak fiscal contract between citizens and the state. Across LAC, only 29.4% of respondents agree that tax revenues are spent for the public good, while 49.6% disagree. This compares unfavourably with Africa, where 38.1% agree and 43.1% disagree, and with Asia, where 38.4% agree and 36.5% disagree. Citizens are similarly sceptical about the value they receive in return for their taxes. Only 25.4% of respondents in LAC consider public services and infrastructure to be a fair return for the taxes they pay, compared with 55.7% who disagree. Again, perceptions are more negative than in Africa (41.7% agree versus 43.9% disagree) and Asia (42.2% agree versus 36.1% disagree). Perceptions also vary considerably across the region. The share of respondents who agree that tax revenues are spent for the public good ranges from around 20% in Guatemala and 23% in Argentina to more than 45% in Nicaragua and 36% in Mexico. Similar disparities emerge in perceptions of the fiscal return from taxation: while more than 40% of respondents in Nicaragua and around 30% in Mexico consider public services and

infrastructure to be a fair return for the taxes they pay, the corresponding share falls below 25% in Argentina, Colombia, Guatemala and Peru (Figure 1.22).

Figure 1.22. Perceptions of the use of tax revenues and the value of public services received

Percentage of respondents who agree/disagree with the statement



Note: Panel A is percentage of respondents who agree/disagree with the statement "Tax revenues in my country are spent for the public good." (Neutral responses not shown). Panel B is percentage of respondents who agree/disagree with the statement "I feel that the public services and infrastructure I receive are a fair return for the taxes I pay." (Neutral responses not shown). Regional aggregates are calculated as simple (unweighted) averages of the countries included in each region. Africa comprises Angola, Côte d'Ivoire, Egypt, Kenya and Nigeria. Asia aggregate comprises Kazakhstan, Malaysia, Pakistan, the Philippines and Viet Nam. LAC comprises Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru.
Source: OECD/IFAC/ACCA (2024[103]), *Public Trust in Tax 2024 – Latin America and Beyond,* https://doi.org/10.1787/52ce48d5-en.

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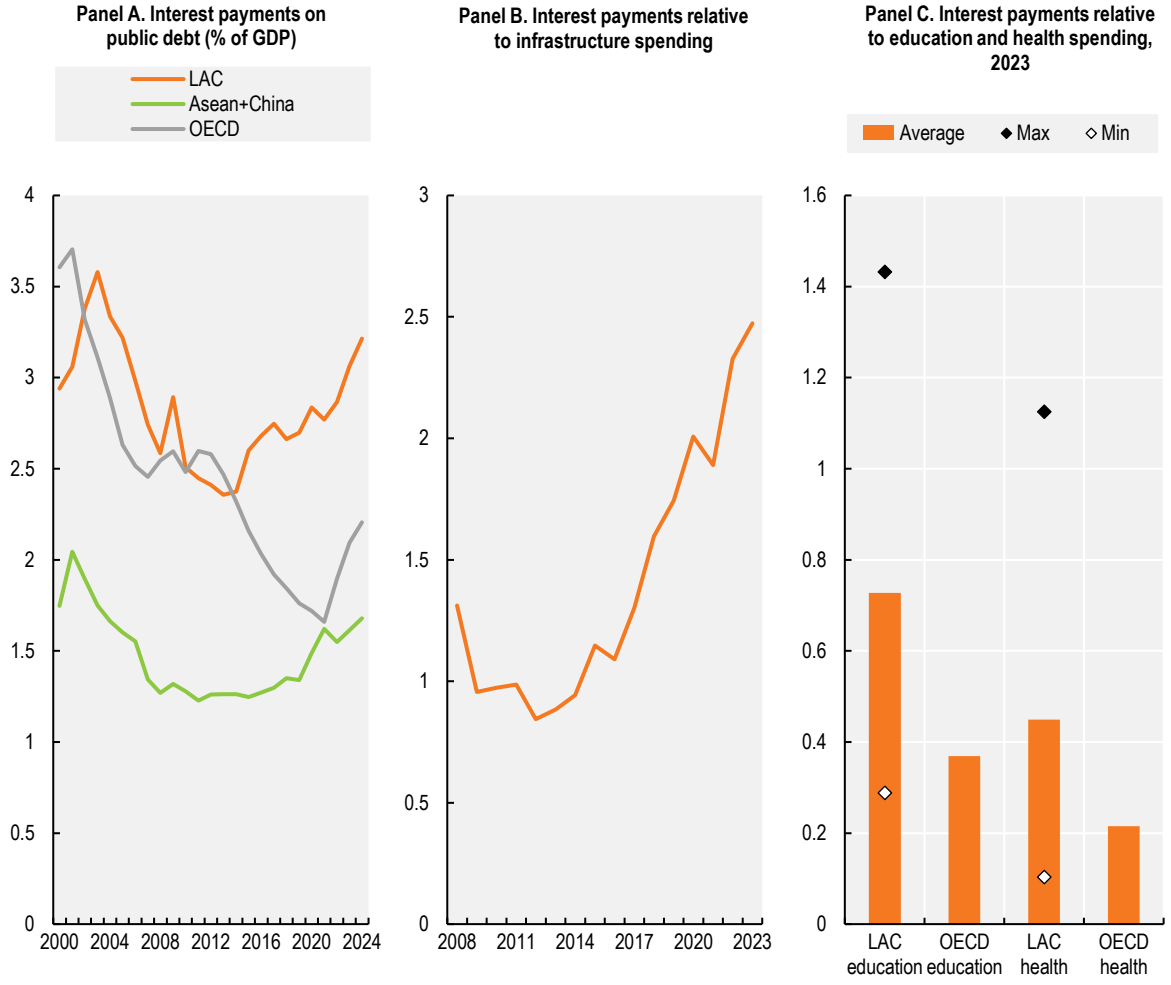
Rising debt and tight financing conditions constrain fiscal space in LAC

Despite efforts to stabilise and reduce public debt levels in recent years, debt-servicing costs remain elevated, limiting fiscal space in LAC. Several countries have implemented fiscal consolidation measures and debt ratios have generally declined from their post-pandemic peaks. However, tight global financial conditions and higher borrowing costs have kept interest payments on public debt at historically high levels. Interest payments increased from around 2.3% of GDP in the mid-2010s to nearly 3% of GDP in 2024, remaining well above levels observed in many advanced economies (Figure 1.23, Panel A). As a result, even where debt dynamics have improved, governments continue to devote a growing share of public resources to servicing debt. This, in turn, reduces the fiscal space available to support productive investment, strengthen public services and respond to economic shocks.

Rising debt-servicing costs compete with other possible uses of public resources, such as public investment and public goods. In 2023, interest payments on public debt were equivalent to almost 2.5 times public infrastructure expenditure on average, compared with less than one-to-one in the early 2010s (Figure 1.23, Panel B). Debt service also represents a substantially larger share of social expenditure than in OECD Member economies. Interest payments represented around 72% of education spending and 45% of health spending in LAC, nearly double the corresponding OECD averages of 37% and 22%, respectively. In several countries, debt-servicing costs exceeded expenditure on either education or health (Figure 1.23, Panel C). As a result, a growing share of public resources is being devoted to servicing past borrowing rather than advancing development objectives through investments in infrastructure, human capital and essential public services.

Figure 1.23. Public debt interest payments in Latin America and the Caribbean



Note: Debt service is calculated as general government primary lending/borrowing minus general government net lending/borrowing.
Source: Authors' elaboration based on IMF (2026[104]), *World Economic Outlook*, https://data.imf.org/en/datasets/IMF.RES:WEO.

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Stronger monetary policy frameworks have improved macroeconomic stability

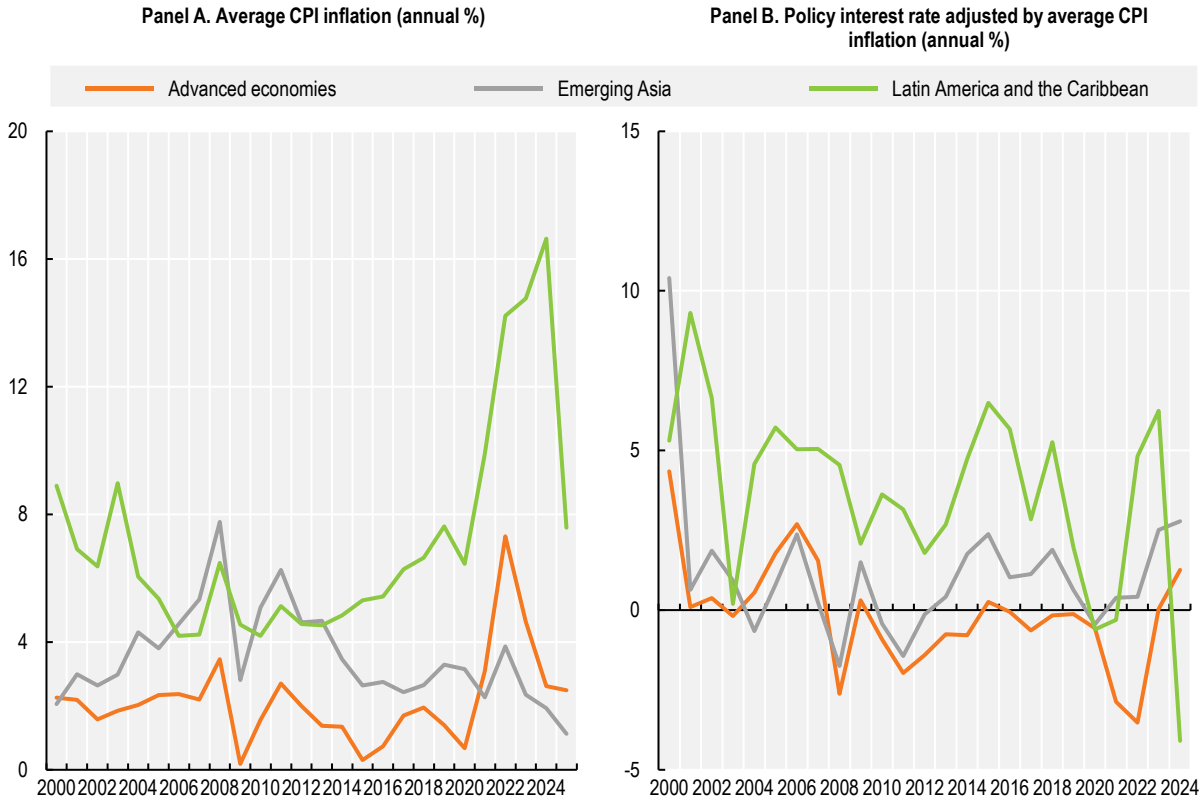
Monetary policy frameworks in LAC have strengthened significantly, improving nominal stability despite persistent structural constraints. Over recent decades, the adoption of more independent central banks,

inflation-targeting regimes and stronger macroeconomic frameworks has reduced the frequency and severity of inflationary episodes compared to earlier periods.

The post-pandemic inflation surge in the region highlighted both vulnerabilities and improved policy credibility. Several central banks in LAC reacted earlier and more decisively than many of their peers, drawing on strengthened institutional frameworks and past experience with inflationary pressures. As a result, although inflation rose more sharply during 2021-2023, it declined relatively quickly thereafter, with convergence towards pre-pandemic levels (Figure 1.24, Panel A). This pattern points to enhanced monetary policy effectiveness, even in the face of large global shocks. More recently, the conflict in the Middle East has begun to affect inflation and policy rate expectations, reversing earlier disinflation trends. Meanwhile, persistent core inflation – particularly in services – continued to delay convergence towards central bank targets in LAC (Banco de España, 2026[105]).

Real interest rates in LAC remain structurally high. Real policy rates have remained elevated across much of the region, particularly relative to advanced economies and Emerging Asia (Figure 1.24, Panel B). This has been driven by higher sovereign risk, fiscal vulnerabilities, shallower financial systems and sensitivity to external conditions. These factors contribute to a higher cost of capital for households and firms, constraining long-term investment, innovation and private sector expansion.

Figure 1.24. Inflation and real policy interest rates across regions, percentage



Note: CPI = Consumer Price Index.
Source: Authors' elaboration based on IMF (2026[104]), *World Economic Outlook*, https://data.imf.org/en/datasets/IMF.RES:WEO.

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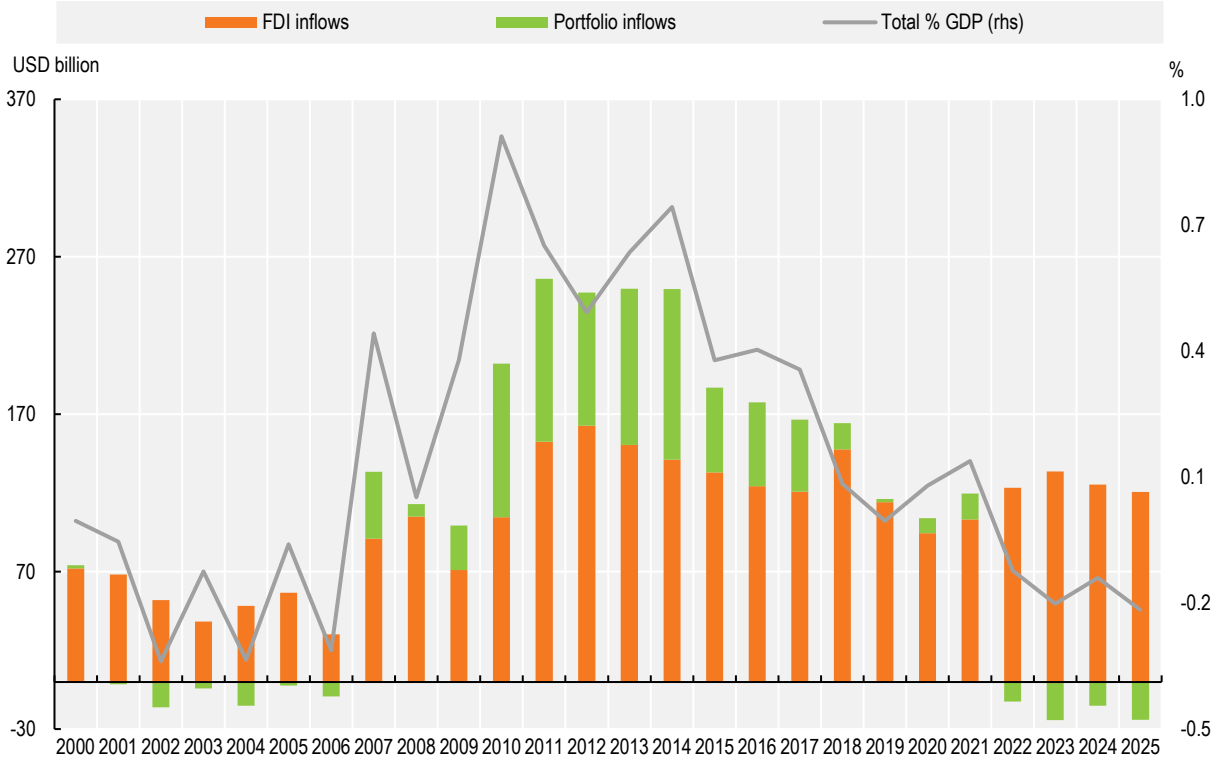
External accounts in LAC reflect commodity dependence and volatile financing dynamics

External accounts in several LAC economies reflect a historical pattern of commodity dependence and volatile capital flows that reinforces structural macroeconomic vulnerabilities. Capital inflows surged during the commodity boom but proved highly cyclical rather than structurally transformative. Portfolio flows have been particularly volatile, increasing sensitivity to global financial conditions and shifts in investor sentiment. Since the mid-2010s, total capital inflows as a share of GDP have declined, while portfolio inflows have weakened and, in recent years, turned negative (Figure 1.25). More recently, portfolio inflows in LAC have shown relatively greater resilience than in other emerging regions during episodes of global stress. However, they have still slowed and remain sensitive to geopolitical developments and shifts in global financial conditions (Banco de España, 2026[105]).

FDI has remained comparatively more stable than other forms of external financing, helping to cushion external financing conditions amid heightened global uncertainty. In LAC, FDI inflows reached USD 194 billion in 2025, equivalent to 2.8% of GDP and 14.0% of gross fixed capital formation. Portfolio and debt flows have become increasingly sensitive to global financial conditions. However, FDI has continued to provide a relatively resilient source of external financing, supporting balance-of-payments sustainability and helping finance current account deficits across several economies in the region (ECLAC, 2026[106]).

Figure 1.25. Net capital inflows to Latin America and the Caribbean (LAC), by type



Source: Authors' elaboration based on IMF (2026[104]), *World Economic Outlook*, https://data.imf.org/en/datasets/IMF.RES:WEO.

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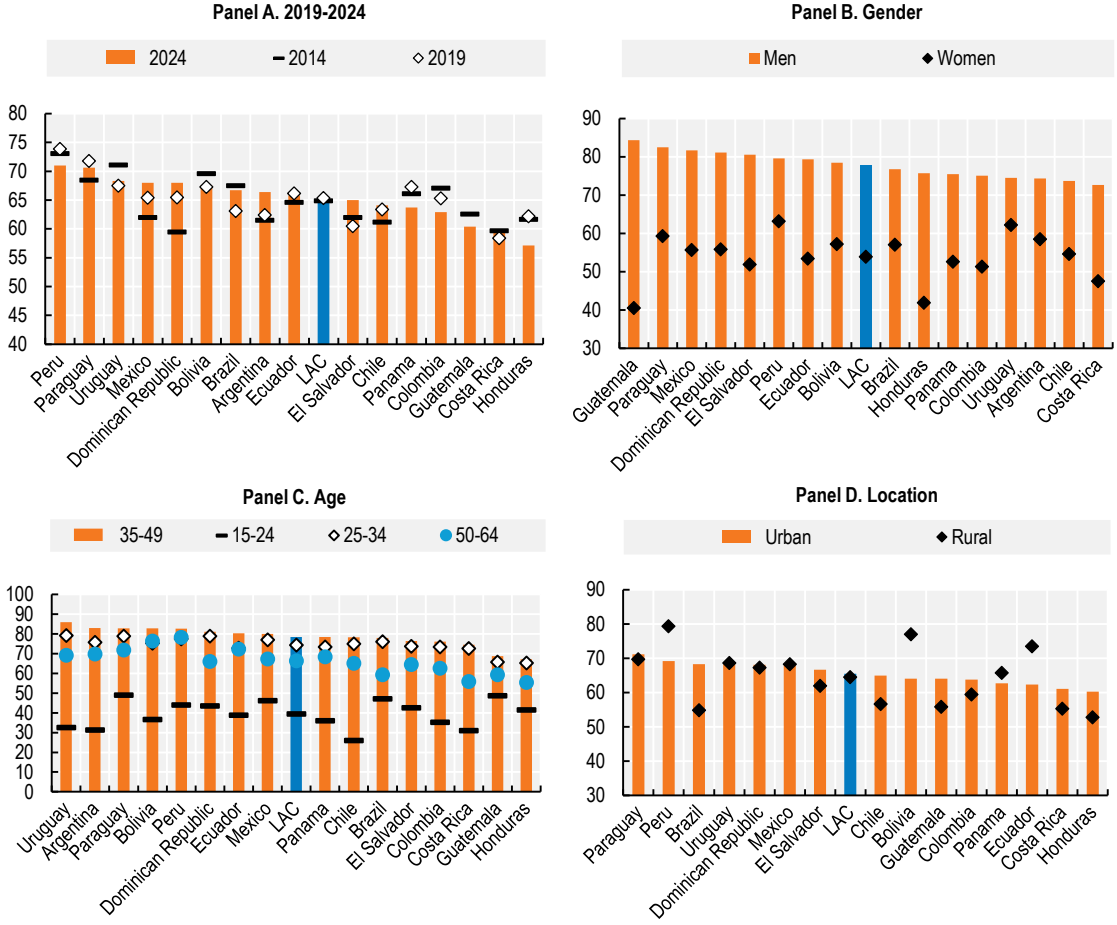
Social context and structural socio-economic challenges

LAC labour markets are resilient, but structural gaps persist

The LAC region's labour markets remain segmented along multiple dimensions, with high cross-country heterogeneity and persistent gaps in access to good-quality jobs. Recent labour market developments in LAC point to a familiar pattern: employment has broadly recovered from the profound shock of COVID-19 and remained resilient. However, large segments of the LAC population still face persistent labour exclusion and the quality of their jobs has improved only slowly (OECD et al., 2022[15]; OECD et al., 2023[16]; OECD et al., 2024[76]; OECD et al., 2025[2]).

Figure 1.26. Employment to population ratios, by selected socio-economic characteristics

Percentages of the population aged 15-64 in each group



Source: Estimates based on CEPALSTAT and OECD (2026[107]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://data-explorer.oecd.org/s/55m.

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Working-age employment rates in LAC have been remarkably stable over the past decade, but this strength should not be mistaken for robust and inclusive labour market dynamism. The regional employment rate for the population aged 15-64 rose only marginally from 64.9% in 2014 to 65.3% in 2019 and recovered the pre-pandemic levels at 65.3% in 2024 (Figure 1.26, Panel A). This suggests that the region has managed to be resilient and to preserve employability during the last big shock but has not

shifted to a significantly higher-employment equilibrium. In a context of low growth, however, informality has often worked as a buffer for the absorption of shocks. After being muted during the pandemic, job creation in the informal economy recovered faster than in its formal counterpart (ECLAC, 2023[108]; OECD, 2023[109]; OECD et al., 2025[2]).

Behind the regional average lies substantial heterogeneity across countries (Figure 1.26, Panel A). At the upper end of the distribution, employment rates are above 70% in Peru (71.0%) and Paraguay (70.6%), followed by Mexico and the Dominican Republic at 68.0%, and Uruguay at 68.3%. At the lower end, Honduras (57.1%), Costa Rica (59.5%) and Colombia (62.9%) remained well below.

The most persistent gap in employment prospects remains the gender divide. In 2024, men in the LAC region record an employment rate of 78% compared with 54% for women, implying a gap of around 24 percentage points (Figure 1.26, Panel B). The disparity is particularly large in Guatemala, where male employment rates were 84.4% against 40.5% for women, and in Honduras (75.7% versus 41.9%).

Even in countries with lower than regional gender gaps, sizeable differences in percentage points remain, as in Argentina and Peru (16), Brazil (20), Chile (19) and Uruguay (12). The gender inequality in labour markets is largely shaped by three factors: the unequal distribution of unpaid care work; discriminatory social institutions and social norms that constrain women's labour market participation; and barriers that go beyond labour demand and market features alone (ECLAC, 2023[108]; OECD, 2023[110]; ILO, 2024[111]).

At the same time, the cross-country variation in women's employment rates suggests that policy and institutional arrangements matter. Female employment is comparatively high in Peru (63.2%), Uruguay (62.2%) and Paraguay (59.3%), but much lower in several Central American economies. This points to the importance of childcare provision, transport, working-time arrangements, labour intermediation and the broader institutional environment that allows women to enter and remain in paid work. In this regard, expanding women's labour participation is both a social objective and a route to raise potential growth and make labour markets more inclusive (ECLAC, 2023[108]; ILO, 2024[111]).

Young and older people continue to face much weaker labour market participation than prime-age adults (Figure 1.26, Panel C). In 2024, the employment rate in LAC was only 39.4% among those aged 15-24, compared with 78.5% for the 35-49 group, and 66.4% for workers aged 50-64. Youth employment is lower, although still high, in Chile (26.1%), Costa Rica (31.0%), Argentina (31.3%) and Uruguay (32.6%). Part of the lower shares of youth in employment reflect rising school attendance, which is a positive long-term development also observed across OECD Member countries. Overall, high youth unemployment partially reflects weak school-to-work transitions, scarce formal entry jobs and the concentration of younger workers in precarious forms of employment. ILO's latest regional review underscores precisely the difficulty in securing formal employment opportunities for youth (ILO, 2024[111]).

At the regional level, the employment rate is 65.5% in urban areas and 64.5% in rural areas (Figure 1.26, Panel D). Rural employment exceeds urban employment in Peru, Ecuador and Bolivia, while the reverse is true in Guatemala, Honduras, Chile and Costa Rica. These differences largely reflect variation in productive structures and household labour strategies rather than unequal opportunities across space (ECLAC, 2023[108]). Higher rural employment often coexists with lower productivity, higher self-employment and weaker protection, particularly in agriculture and small-scale activities (OECD, 2023[109]; OECD, 2024[112]; ILO, 2024[111]).

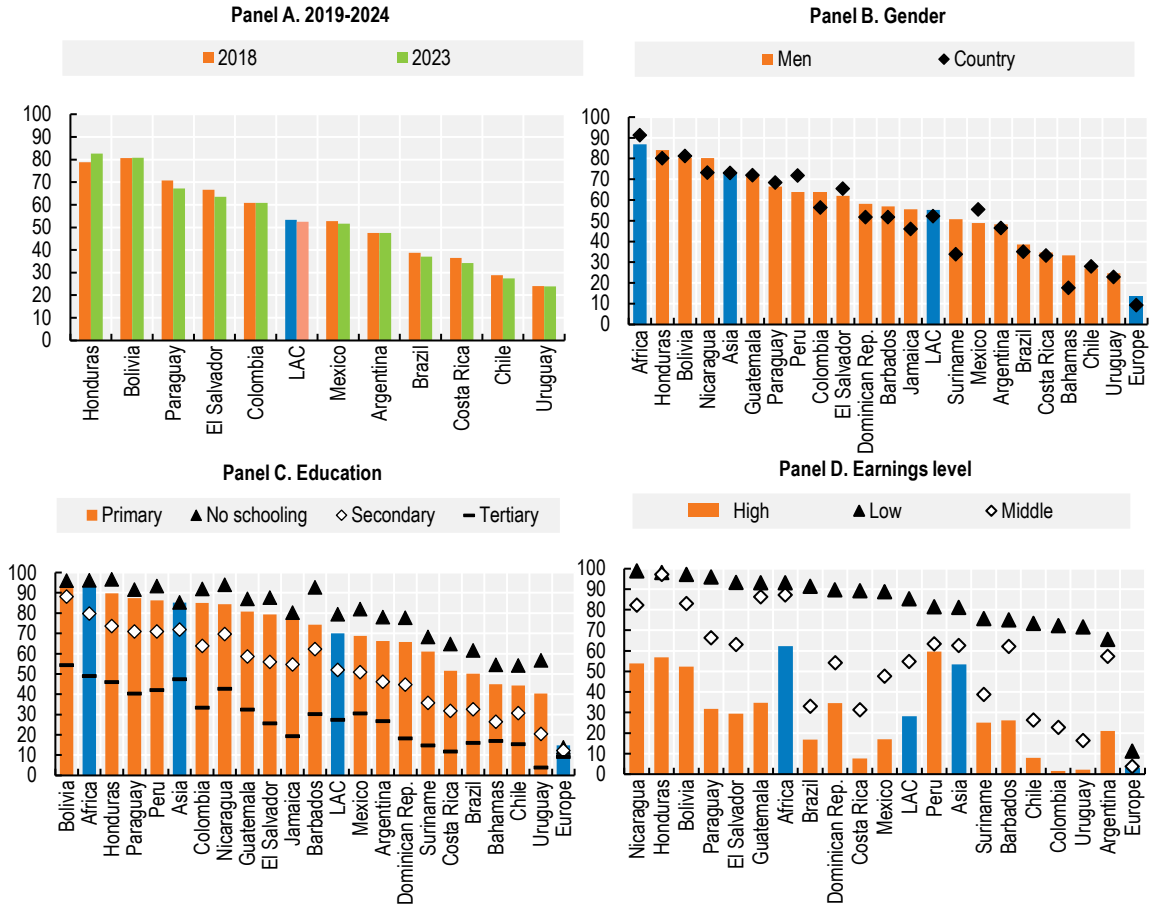
Although in slight decline, informality is widespread and leaves many groups of workers vulnerable

In the LAC region, the informality rate remains high and declined only modestly between 2018 and 2023 – from 53.3% to 52.4%, a reduction of less than one percentage point (Figure 1.27, Panel A). Consequently, more than half of workers in the region remain employed in jobs with limited access to social insurance and

formal protections. This leaves LAC trapped in a development pattern characterised by high inequality, low social mobility and weak social cohesion (ECLAC, 2023[108]; ECLAC, 2025[113]; OECD et al., 2025[2]).

Figure 1.27. Informality rate by selected socio-economic characteristics, 2023 or latest available years

Percentages of workers aged 15 or more in each group



Source: Estimates based on OECD (2026[107]) (2026[107]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://data-explorer.oecd.org/s/55m.

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Informality trends have evolved unevenly across countries, reflecting important differences in labour market structures and policy frameworks. During the five-year period 2019-2024, measured in percentage points, informality fell in Paraguay by 3.5 points, in El Salvador by 3.1 points, in Costa Rica by 2.3 points, in Brazil by 1.7 points and in Chile by 1.4 points. Meanwhile, informality increased by 3.8 percentage points in Honduras and remained broadly unchanged in Bolivia, Guatemala, Argentina, Colombia and Uruguay. This heterogeneity indicates that informality is not simply a mechanical by-product of income levels. It also depends on labour regulation, enforcement capacity, the cost and design of contributory systems, the sectoral composition of employment, and the ability of firms to scale up and hire formally (OECD/OISS, 2024[114]).

Gender differences in informality are smaller than those observed in employment, but they remain important and vary across countries. At the regional level, informality stands at 52.5% for men and 51.4% for women, implying broad parity. Educational achievements are strongly correlated with the likelihood of holding an informal job (Figure 1.27, Panel C). In 2023, seven out of ten workers in LAC aged 15 or more with no schooling were informal, versus six among those with primary education, four among those with secondary education and three among workers with tertiary education.

Education alone cannot eliminate informality as other production and policy factors are at play. Informality is shaped not only by workers' human capital, but also by labour demand, firm structure and the organisation of production. Where productive structures remain highly fragmented and dominated by small firms or own-account work, better education improves outcomes. However, better education does not fully substitute for broader structural transformation.

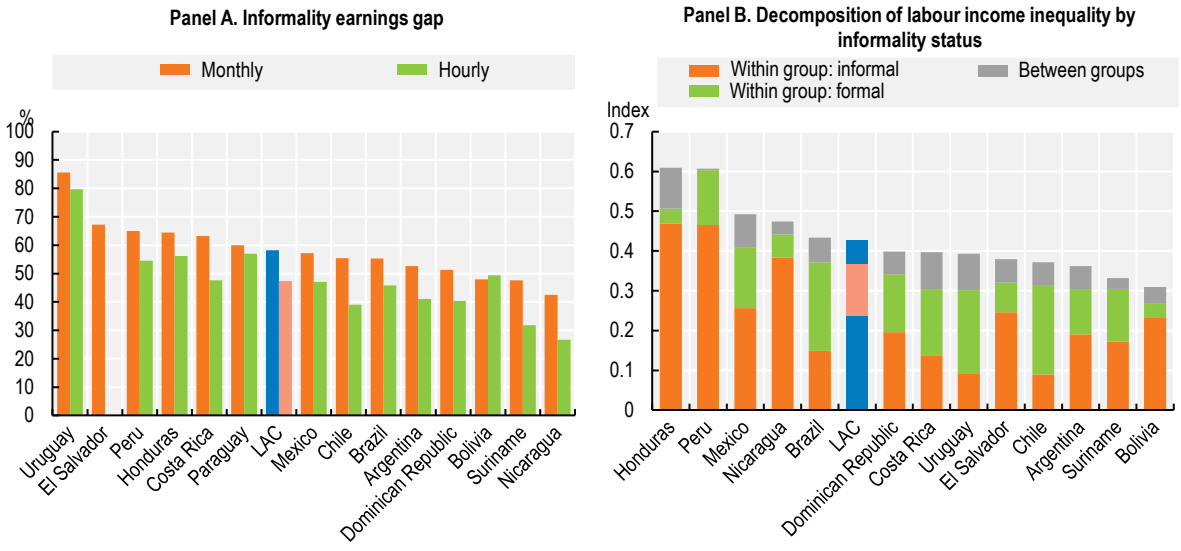
Informality is prevalent among low-paid occupations (Figure 1.27, Panel D). In LAC, informality is 58.8% among low earners and 44.4% among middle earners. Nearly one-third of high earners also work informally (31.2%). Thus, informality is strongly associated with low pay, but it is not confined to the bottom of the distribution. Indeed, in some countries, informality remains high even among high earners (59.6% in Peru) (OECD/OISS, 2024[114]; OECD, 2026[115]).

In LAC, informality is associated with a substantial earnings penalty and remains an important source of labour income inequality. In 2023, informal workers earned less than formal workers both in monthly (58%) and hourly terms (47%), indicating the gap does not reflect working time alone (Figure 1.28, Panel A). The penalty persists even after controlling for the number of hours worked, pointing to lower returns to work among informal workers. This pattern is consistent with the concentration of informal employment in low productivity activities. Such activities include own-account work and small-scale firms, where wages are lower, income is more volatile and coverage by labour institutions is limited (ECLAC, 2023[108]; ECLAC, 2023[108]).

Income inequality in LAC is driven more strongly by disparities within labour market segments than by the divide between formal and informal employment. A decomposition of the Theil-L index of monthly labour income in the primary job into within-group and between-group components provides an important distributional perspective (Figure 1.28, Panel B). The results show that overall inequality is driven mainly by income dispersion within informal employment. By contrast, the gap between formal and informal workers is generally smaller. This confirms that, although segmentation between formal and informal employment is an important source of inequality, it is not the dominant one (ECLAC, 2025[113]).

A non-negligible between-group component means that transitions from informal to formal employment can reduce income gaps directly by moving workers into better-remunerated and better-protected jobs. At the same time, the large within-group component means that formalisation alone will not be enough: inequality also reflects differences in skills, sectors, firm productivity and labour market institutions within each segment. There is growing emphasis on a dual agenda centred on formalisation and productivity upgrading, rather than on incremental marginal interventions in tax regimes or labour regulations (OECD et al., 2023[16]; ILO, 2024[111]; OECD, 2024[116]; OECD et al., 2024[76]; ECLAC, 2025[113]).

Figure 1.28. Informality earnings gap, 2023 or latest available year



Note: The earnings' gap between formal and informal workers is computed as the difference between the mean monthly (hourly) earnings of formal workers and the mean monthly (hourly) earnings of informal workers in their main job, expressed as a share of the mean monthly (hourly) earnings of formal workers in their main job. A positive value means that formal workers earn more than informal workers; a negative value means that informal workers earn more than formal workers. Monthly earnings refer to gross wages and salaries for employees, and income for own-account workers; they include bonuses and in-kind payments; and in some surveys, earnings are reported net of social security contributions and taxes. Hourly earnings refer to gross hourly wages and salaries for employees; they include bonuses and in-kind payments; and in some surveys, earnings are reported net of social security contributions and taxes. Hourly rates are calculated by dividing monthly figures by the actual numbers of hours worked in a week multiplied by 4.33 – the mean numbers of week in a month. If actual figures are missing, usual hours worked in a week are used. Data are presented for the latest year available. LAC average is calculated as simple unweighted average of countries for which data are available.
Panel B shows the Theil-L index of monthly labour income for workers. The Theil-L index decomposes inequality into two components: (i) the between-group component isolates the portion of inequality attributable exclusively to differences in the average labour monthly income of formal workers and informal workers; (ii) for each group, the within-group component measures separately the dispersion of income within each group (formal and informal workers). Data are presented for the latest year available. KIIbIH and regional averages are calculated as simple unweighted averages of countries for which data are available.
Source: OECD (2026[107]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://data-explorer.oecd.org/s/55m.

StatLink https://stat.link/7fqzwa

Economic growth has remained insufficient to significantly reduce poverty and inequality

Despite recent improvements, social progress in LAC remains fragile and uneven. While social conditions improved in 2024, the recovery remained incomplete. Income poverty declined to 25.5% of the population. This was down 2.2 percentage points from 2023 and more than 7 percentage points below the pandemic peak in 2020, representing the lowest regional poverty rate since comparable records began. Extreme poverty also fell to 9.8% but at a slower pace. It stayed at 2.1 percentage points above its 2014 low, suggesting that it remains persistent (ECLAC, 2025[113]; OECD et al., 2025[2]).

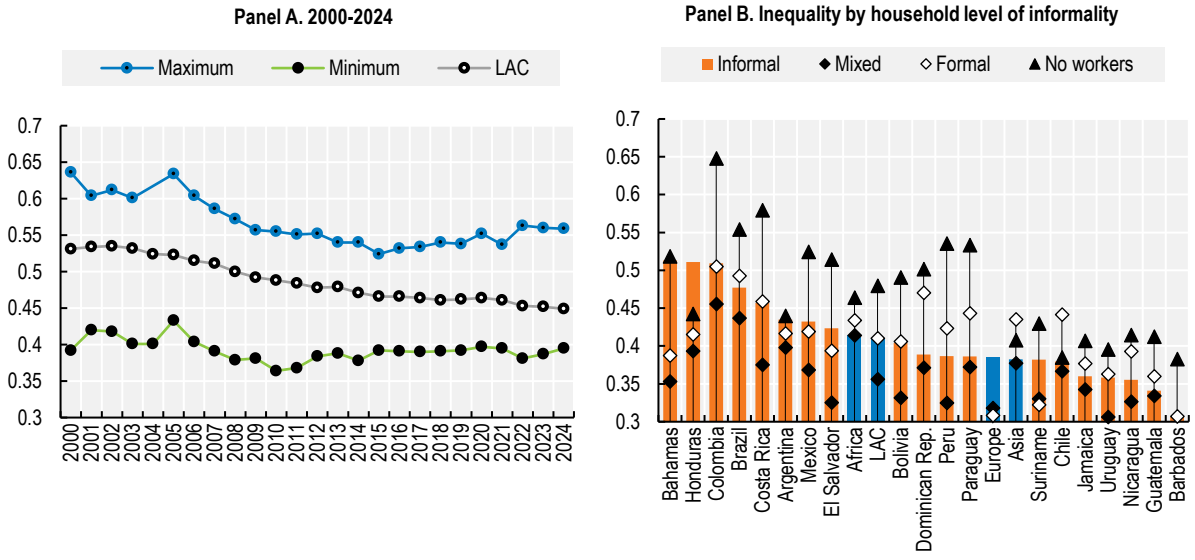
Poverty has disproportionately affected groups already exposed to long-standing inequality traps. Children and adolescents continue to face the highest incidence of multi-dimensional poverty. At the same time, rural populations remain disproportionately affected and women experience higher levels of individual deprivation than men; for every 100 men in multi-dimensional deprivation, 122 women are in the same situation. These disparities are reinforced by persistent disadvantages associated with household characteristics, territory, gender, socio-economic origin, disability, migrant status and Indigenous identity (ECLAC, 2025[113]; OECD et al., 2025[2]).

Progress in reducing non-monetary deprivation has also been accompanied by persistent structural vulnerabilities. Multi-dimensional poverty measure fell from 34.4% in 2014 to 20.9% in 2024, reflecting sustained gains in housing and access to basic services. However, these improvements have not fully addressed underlying challenges linked to weak labour incomes, high informality and unequal opportunities. As a result, while living conditions have improved across the region, broad-based economic security remains elusive (ECLAC, 2025[113]; OECD et al., 2025[2]).

Income inequality in LAC remains among the highest in the world despite gradual improvements over recent decades. Inequality has followed only a slow downward trend and remains well above levels in OECD Member countries. This reflects persistent structural weaknesses in labour markets, social mobility and social protection systems (OECD et al., 2024[76]; ECLAC, 2025[113]). The regional Gini coefficient declined markedly from 0.53 in 2000 to 0.45 in 2024 (Figure 1.29, Panel A), with most progress taking place during the 2000s and early 2010s. Since then, improvements have slowed considerably, with the regional Gini hovering around 0.46 before resuming a mild decline after 2021. Overall, while inequality has eased, the region continues to face a persistent "high-inequality trap" rooted in segmented labour markets, unequal opportunities and weak social mobility. Inequality levels across LAC countries have become less dispersed over time, although convergence has been partial and uneven (Figure 1.29, Panel B). The gap between the countries with the highest and lowest Gini coefficients narrowed from around 0.24 points in 2000 to 0.16 points in 2024.

Figure 1.29. Inequality measures, 2023 or latest available year

Gini coefficients



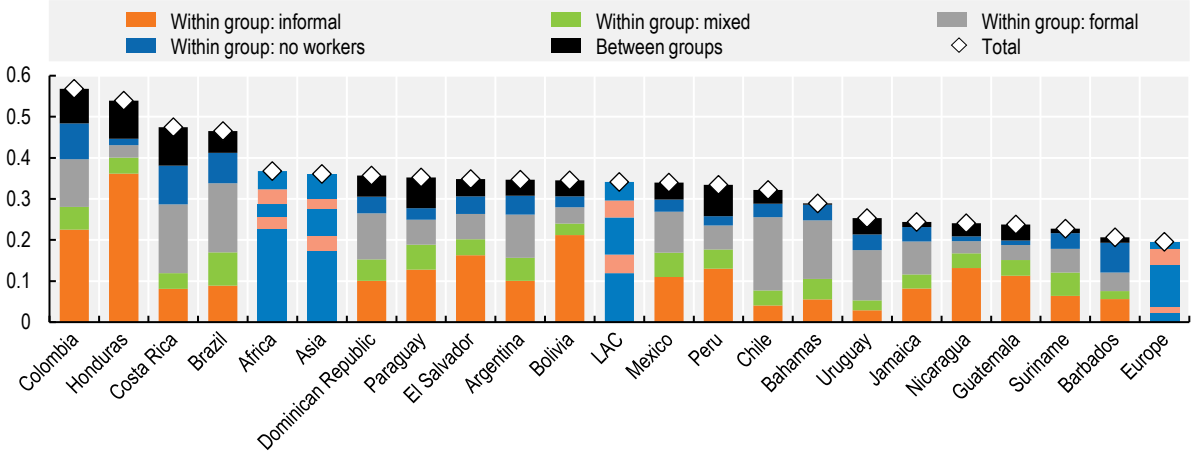
Note: Households' level of informality is based on the earners' conditions. If all workers are informal (formal), they are categorised as informal (formal); if some are formal and some informal, they are categorised as mixed; households with no workers are a specific category.
Source: Estimates based on OECD (2026[107]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://data-explorer.oecd.org/s/55m.

StatLink https://stat.link/wk0l6t

Income inequality in LAC is associated with household labour-market status, and most inequality arises from differences within household types rather than between them. At the regional level, the Theil-L index of per capita household income is 0.34. About 87% of total inequality is explained by income dispersion within formal, informal, mixed and no-worker households, and only 13% attributable to differences between

these groups (Figure 1.30). Informal households account for the largest share of overall inequality, contributing around 35% of the regional total, followed by formal households (26%). The contributions of mixed households, no-worker households and differences between household types are comparatively smaller. This pattern suggests that while labour informality matters for income distribution, inequality is driven primarily by substantial heterogeneity among households with similar labour market attachment.

Figure 1.30. Decomposition of Theil-L indexes of per capita monthly household income, 2023 or latest available year



Note: The Theil-L index decomposes inequality of per capita monthly income (or consumption, depending on the country's survey) into two components: (i) the between-group component isolates the portion of inequality attributable exclusively to differences in the average labour monthly income of formal workers and informal workers; (ii) for each group, the within-group component measures separately the dispersion of income within each group (formal, mixed, informal and no-worker households). Households' level of informality is based on the earners' conditions. If all workers are informal (formal), they are categorised as informal (formal); if some are formal and some informal, they are categorised as mixed; households with no workers are a specific category. Data are presented for the latest year available. KIIbIH and regional averages are calculated as simple unweighted averages of countries for which data are available.
Source: *Estimates based on Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://data-explorer.oecd.org/s/55m.

StatLink https://stat.link/539jeq

Overall, LAC income inequality reflects both labour market segmentation across household types and, even more strongly, high income dispersion within each type. This implies that policies aimed at reducing inequality need to combine stronger labour inclusion and formalisation with measures that raise earnings quality and reduce dispersion within both formal and informal segments (OECD, 2023[109]; OECD/OISS, 2024[114]; OECD, 2024[112]). These findings reinforce the policy message that formalisation alone does not automatically produce lower inequality. In many countries, inequality among formal-only households is similar to, or even higher than, inequality among informal-only households. This suggests that LAC inequality is shaped not only by the divide between formal and informal work, but also by wide dispersion within each segment. In turn, reducing inequality for the long term will require not only more formal jobs but also higher productivity, better earnings quality and stronger protection for households with weak labour market attachment or working with informal arrangements (Amarante and Arim, 2023[117]; ECLAC, 2025[113]).

Conclusion and policy messages

LAC is navigating a period of profound global transformation. The green transition, digitalisation and AI, demographic change, food security, and evolving forms of international co-operation are reshaping the global economy and creating new opportunities for development. The region is well positioned to benefit from these trends, given its abundant renewable energy resources, critical mineral reserves, biodiversity, growing digital capabilities and long-standing commitment to international co-operation. These assets provide a foundation for attracting investment, creating quality jobs, advancing productive transformation and strengthening the region's role in emerging global value chains and global governance.

Yet opportunities alone will not be sufficient to accelerate development. The region continues to face persistent structural constraints, including low productivity growth, limited investment, restricted fiscal space, high financing costs and external vulnerabilities. Social challenges also remain significant. Informality continues to affect more than half of workers, while poverty, inequality and unequal access to opportunities limit both economic dynamism and social mobility. Although LAC has demonstrated resilience to recent global shocks, these constraints continue to hamper its ability to translate growth into sustained improvements in well-being and income convergence.

Harnessing the opportunities created by global transformations will therefore require a comprehensive policy agenda that combines productive transformation, social inclusion and sustainability. Strengthening capabilities, fostering innovation, expanding access to quality jobs, mobilising investment and deepening regional and international co-operation will be essential to ensure these global shifts translate into stronger productivity growth, greater resilience and more inclusive development. The following key policy messages highlight priorities for turning these opportunities into tangible development outcomes for the region.

Box 1.1. Key policy messages

Global opportunities for development and production transformation

- The green transition, digital transformation and AI, demographic change and evolving international partnerships are creating new opportunities for LAC to accelerate productive transformation and sustainable development.
- LAC's renewable energy potential, critical mineral endowments and clean electricity matrix provide a strong basis for developing new industries, attracting investment and creating quality jobs.
- Capturing greater value from the green transition will require moving beyond resource extraction towards higher value-added activities, including processing, manufacturing and innovation-intensive services.
- Digital transformation and AI can support productivity growth, innovation and economic diversification but require stronger digital infrastructure, computing capacity, digital skills and governance frameworks.
- LAC can strengthen its role as a global food security provider by boosting sustainable agricultural productivity, climate resilience and agrifood value addition, while strengthening domestic and global food security.
- Demographic change creates opportunities in the care and silver economies, which can support employment creation, greater labour force participation and more inclusive growth.
- Regional integration and international partnerships such as the Global Gateway Investment Agenda of the EU for LAC should increasingly support productive transformation through investment mobilisation, technology transfer, skills development and stronger domestic productive capabilities.

Current macroeconomic and social conditions in Latin America and the Caribbean

Macroeconomic context and structural economic challenges

- LAC's growth remains insufficient to achieve meaningful income convergence with advanced economies, reflecting weak productivity dynamics, low investment and limited structural transformation.
- Stronger macroeconomic frameworks have increased resilience to external shocks, but limited fiscal space, high debt-servicing costs and tight financing conditions continue to constrain development prospects.
- Expanding fiscal space will require stronger domestic resource mobilisation, more efficient public spending and sustainable debt management to finance productive and social investments.
- Mobilising long-term finance and deepening financial markets are essential to support infrastructure, innovation, and the green and digital transitions.
- Greater resilience to geopolitical tensions, external shocks and climate-related risks should be accompanied by policies that support long-term productivity growth and competitiveness.

Social context

- Persistent labour informality remains a major obstacle to productivity growth, quality job creation, social protection coverage and inclusive development.
- Policies to promote formalisation should be combined with productive development strategies that raise firm productivity and expand access to better quality employment.
- Expanding women's labour force participation will require stronger care systems and policies that address barriers linked to unpaid care work and unequal opportunities.
- Reducing poverty and inequality will require a combination of stronger labour market outcomes, higher productivity, effective redistribution and more comprehensive social protection systems.
- Social protection systems should adapt to an ageing population, evolving labour market realities and growing care needs while ensuring broader and more equitable coverage.

Notes

[1] Throughout this report, the terms critical raw materials (CRMs) and critical minerals are used interchangeably. Both refer to minerals and metals that are essential for economic activity and strategic technologies, including the energy transition, and whose supply may be subject to elevated risks due to factors such as geographic concentration, market dynamics or geopolitical constraints. The specific list of materials covered may vary across jurisdictions and policy frameworks.

[2] Low-emissions fuels refer to fuels with substantially lower lifecycle greenhouse gas emissions than conventional fossil fuels, including sustainable biofuels, biomethane, low-emissions hydrogen and hydrogen-derived fuels such as ammonia, methanol and e-fuels (IEA, 2024[118]).

[3] Low-emissions hydrogen refers to hydrogen produced through water electrolysis using electricity generated from low-emissions sources, including renewable energy and nuclear power. It also includes hydrogen produced from biomass and from fossil fuels coupled with carbon capture, utilisation and storage (CCUS), provided that upstream emissions are minimised, CO_2 capture rates are high across all emission streams, and the captured CO_2 is permanently stored (IEA, 2023[14]).

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2 Seizing the opportunities of a changing context through deeper integration within and beyond the region

This chapter examines how Latin America and the Caribbean can strengthen its positioning in the global economy through deeper integration. It explores how greater participation and upgrading in global value chains can support export diversification, domestic value creation and productive upgrading, including the role of foreign direct investment in supporting these processes. The chapter examines regional integration as a platform for this transformation, helping firms reach greater scale and building on existing capabilities to deepen regional value chains. It also considers the role of productive development policies and intraregional investment, together with financial, digital and electricity integration, to reinforce productive capabilities and support long-term development.

Introduction

In a changing global context, stronger integration into the global economy can support long-term development in Latin America and the Caribbean (LAC). While the region has become increasingly open, its integration has yet to deliver sufficient diversification, domestic value creation and productive upgrading. Stronger regional integration, underpinned by effective partnership agreements, can help LAC economies strengthen productive linkages, move up value chains and compete more effectively in global markets.

Increasing LAC's participation and upgrading into higher-value segments of global value chains (GVCs) can support this transformation. GVC participation can connect firms to international markets, capital, technology and knowledge, creating opportunities to diversify exports, strengthen productive capabilities and generate more productive and higher-quality employment. Yet LAC remains weakly integrated into GVCs, and its participation is concentrated in commodities and upstream activities, with limited domestic linkages and value addition. Foreign direct investment (FDI) can support GVC participation by strengthening connections with international production networks and facilitating access to knowledge, technology and markets.

Regional integration can provide a platform for stronger participation and upgrading in the global economy. Regional markets can help firms reach greater scale, internationalise and develop capabilities before competing globally. Although intraregional trade within LAC remains limited, it is more diversified and manufacturing-intensive than trade with external partners and trade potential exists. Yet limited productive integration constrains the scope for deeper regional integration. Strengthening productive connections across countries is therefore key to realising this potential.

A more catalytic form of regional integration can build on existing capabilities to develop production networks in strategic sectors. Existing patterns of intra-industry trade reveal networks and activities where productive linkages and opportunities for cross-border specialisation are already present. Deepening and extending these networks could integrate more SMEs and local suppliers, spread technology and productivity gains, and strengthen LAC's participation in global value chains. There is also significant potential to deepen regional value chains and increase the value generated within LAC and embodied in its exports. Greater intraregional investment and better co-ordination of productive development policies (PDPs) can support these processes by strengthening productive linkages and directing investment towards strategic sectors and regional production networks.

Deeper integration also extends beyond trade and investment. Greater financial integration can facilitate cross-border investment and access to finance, while digital and electricity integration can expand regional markets, improve connectivity and support cross-border production. Together, these dimensions can reinforce LAC's integration into the global economy.

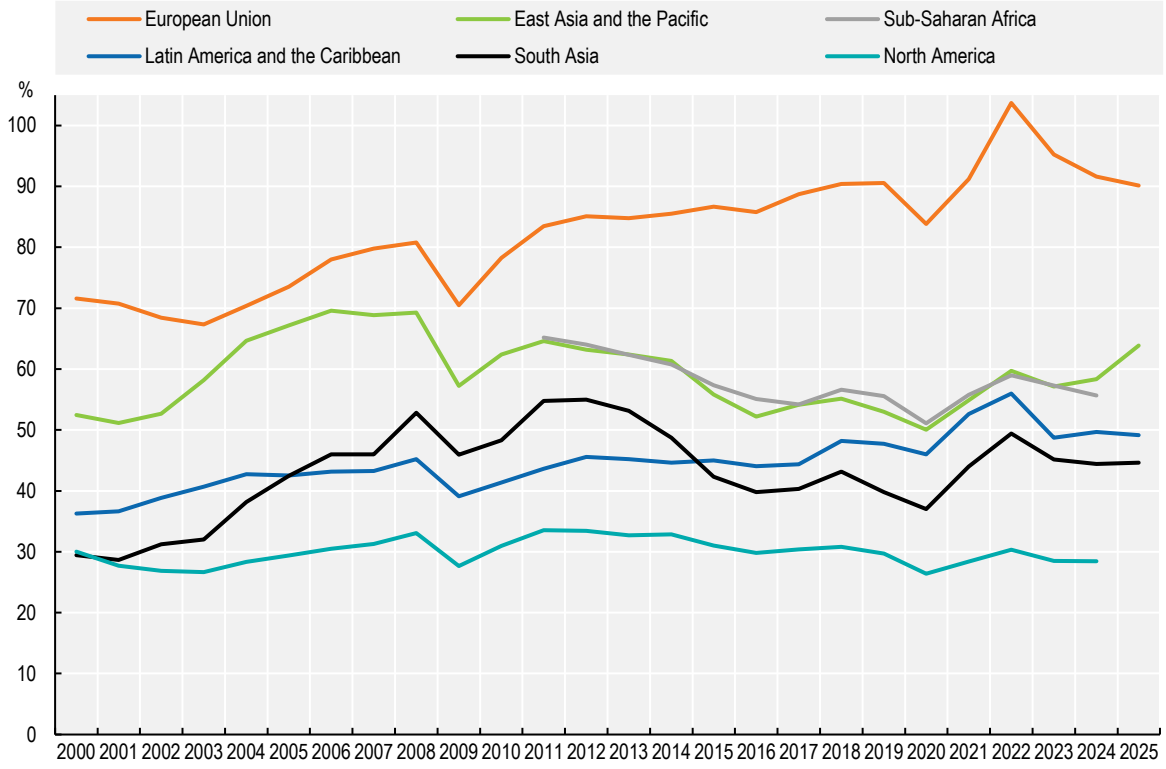
This chapter is structured in four sections. The first examines LAC's integration into the global economy. The second explores how stronger participation and upgrading in GVCs can support domestic value creation, including the role of FDI. The third examines regional integration as a platform for stronger global positioning, focusing on the potential of regional markets, production networks and regional value chains, as well as the role of investment and PDPs in supporting these processes. The final section considers broader dimensions of regional integration, focusing on financial, digital and electricity integration.

Key trade dynamics within and beyond the region

LAC is increasingly integrated into global markets, but diversification and productive upgrading remain limited

LAC has deepened its integration into global trade over the past two decades. Trade openness, measured as total trade as a share of gross domestic product (GDP), rose from 39% in 2000 to 50% in 2024, reflecting the region's growing participation in international markets (Figure 2.1). This progress has been supported by trade liberalisation measures, including reduction of average tariff rates from 10% to 6% from 2002 to 2022 (World Bank, 2026[1]), and an expanding network of preferential trade agreements that have improved market access. Nevertheless, LAC's trade openness remains below that of East Asia and the Pacific (58%), sub-Saharan Africa (55%), and the European Union (EU) (92%). Important heterogeneity persists across countries, reflecting differences in export composition, productive capabilities and integration into global markets. For many LAC economies, significant room remains to expand trade and capture greater benefits from it. This greater openness can promote competition, expand market size, facilitate technology transfer and allow firms to benefit from economies of scale, thereby improving efficiency and productivity (IMF, 2017[2]; Onafowora and Owoye, 2024[3]). However, the development benefits of trade ultimately depend on what countries trade and on whether their export structures foster diversification, value creation and movement towards more productive activities.

Figure 2.1. Trade as percentage of GDP, 2000-2025



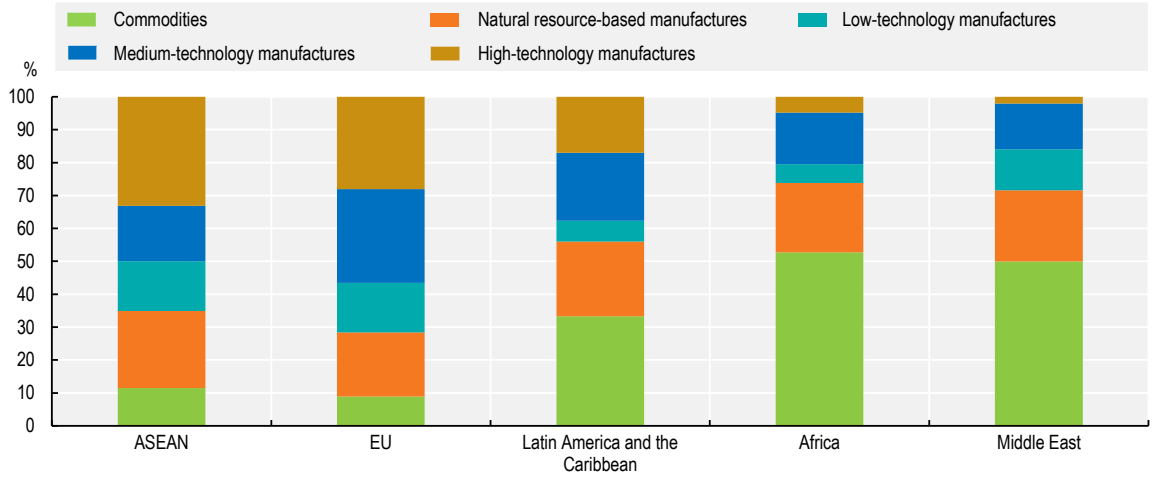
Source: Authors' elaboration based on World Bank (2026[1]), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators.

StatLink https://stat.link/tublgz

Limited export basket diversification constrains productivity and growth

Low diversification and limited technological upgrading shape LAC's export profile of goods. The region's export basket remains concentrated in commodities, as well as resource-based and low-technology manufactures. Between 2022 and 2024, these products accounted for 62% of total exports of goods, reflecting persistent challenges in industrial upgrading, technological adoption and participation in more sophisticated segments of global production networks (OECD et al., 2025[4]). In contrast, high-technology manufactures represented only 17% of goods exports in the region, well below the shares observed in members of the Association of Southeast Asian Nations (ASEAN) (33%) and the European Union (28%) (Figure 2.2).

Figure 2.2. Structure of goods exports by technology intensity, selected regions, 2022-2024 average



Note: ASEAN = Association of Southeast Asian Nations; EU = European Union.
Source: Authors' elaboration based on UN Comtrade (2024[5]), *UN Comtrade*, https://comtradeplus.un.org/.

StatLink https://stat.link/hpfr7l

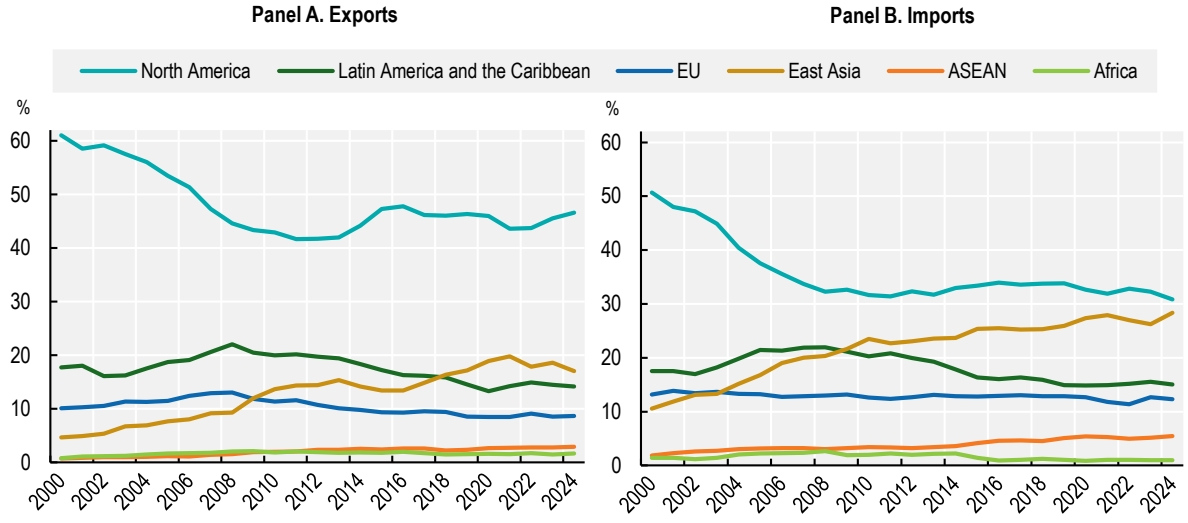
Limited export diversification remains a key constraint on productivity growth and competitiveness in LAC. Upgrading production and diversifying export structures are key for stronger growth and competitiveness. Strengthening diversification and upgrading production therefore require increasing value added, knowledge content and productivity across both existing and emerging sectors. This involves expanding technologically sophisticated manufacturing and modern services, while strengthening innovation and productive capabilities in areas where the region already has competitive advantages. Goods and services with higher technological and skill content can support productivity gains, innovation spillovers, higher-quality employment and faster income growth, particularly in economies below the technological frontier (Hausmann, Hwang and Rodrik, 2007[6]; OECD, 2025[7]).

Trade in goods has gradually shifted towards new partners

LAC's export destinations reflect both growing diversification and significant heterogeneity across subregions over the past two decades. North America remains the region's main export market, representing 47% of its exports in 2024, although its share declined from 61% in the year 2000 (Figure 2.3, Panel A). Trade with this market remains particularly important for Mexico and Central America, reflecting their strong integration into North American production networks (UN Comtrade, 2024[5]). The European Union has remained a key trading partner for the region, accounting for around 9% of LAC's exports. These

comprise primary and resource-based products, alongside manufactured goods such as machinery and transport equipment (European Commission, 2026[8]). At the same time, Eastern Asia, including the People's Republic of China (hereafter "China"), increased its share from 5% to 17% (Figure 2.3, Panel A), becoming LAC's second-largest export market and surpassing intraregional trade (ECLAC, 2025[9]). China has become the largest single trading partner for South American countries such as Chile, Peru and Brazil. China accounts for 13% of the region's total exports with LAC supplying primarily commodities such as copper, soybeans and iron ore (UN Comtrade, 2024[5]; Zhang, 2024[10]). ASEAN and Africa accounted for only 2.9% and 1.7% of LAC's goods exports, respectively. By contrast, intraregional trade declined from 18% of total exports in 2000 to 14% in 2024, highlighting the growing importance of extraregional markets. Import patterns have also shifted. North America remains the region's main supplier, accounting for 31% of total imports, although its share declined from 51% in 2000 (Figure 2.3, Panel B). The European Union has maintained a stable import share of around 12%, supplying mainly pharmaceuticals, machinery and capital goods. Eastern Asia increased its share in LAC's imports from 10% in 2000 to 28% in 2024, mainly driven by the expansion of imports from China, which rose from 2% to 21% over the same period. This reflects the region's growing imports of manufactured goods from Asia, including electronics, vehicles and industrial machinery (UN Comtrade, 2024[5]).

Figure 2.3. Main LAC trading partners for goods, 2000-2024



Note: North America comprises Canada and the United States.
Source: Authors' calculation based on UN Comtrade (2024[5]), *UN Comtrade*, https://comtradeplus.un.org.

StatLink https://stat.link/nzq0w3

Asia has emerged as a key trading partner for LAC. Since 2005, China has signed and brought into force free trade agreements in the region with Chile, Peru, Costa Rica, Ecuador and Nicaragua, while negotiations are ongoing with Honduras and El Salvador (Orbach, 2024[11]). Economic ties have also expanded beyond merchandise trade to include infrastructure investment, digital services and financing (Prazeres, Bohl and Zhang, 2021[12]; Zhang, 2024[10]). Other Asian partners have also strengthened their bilateral ties. The Republic of Korea (hereafter "Korea") has free trade agreements with Chile, Peru, Colombia and Costa Rica, while Japan has agreements with Chile, Mexico and Peru (Ministry of Foreign Affairs of Japan, 2005[13]; Japan Customs, 2012[14]). Chile, Mexico and Peru also participate in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), further deepening the region's institutional integration with Asia-Pacific economies (Murakami, 2025[15]). The CPTPP already includes Japan, Australia, New Zealand, Singapore, Viet Nam and Malaysia. Within the LAC region Ecuador and Uruguay are in the process of joining.

The European Union has strengthened economic ties with LAC, primarily through the EU-MERCOSUR interim trade agreement (provisionally applied from May 2026 following approval). The trade agreement, between the European Union and Argentina, Brazil, Paraguay and Uruguay, creates one of the world's largest free trade areas and extends preferential access of EU countries to economies representing around 95% of LAC's GDP (Banco de España, 2026[16]). The agreement includes the gradual elimination of tariffs on over 90% of bilateral trade, in line with agreed implementation schedules, and extends beyond trade in goods to include services and investment. As such, it is set to enhance the competitive position of both EU and MERCOSUR countries relative to other global partners.

The European Union has also deepened its bilateral ties with other partners in the region. In May 2026, it signed a modernised global agreement with Mexico, updating their trade and investment framework after more than two decades (European Commission, 2026[17]). Its association agreement with Central America, covering Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, has been fully in force since 2024 (EEAS, 2024[18]). In addition, exports from LAC to the European Union are associated with more skilled employment compared to other destinations, suggesting further benefits in terms of job quality and human capital development (Banco de España, 2026[16]; ECLAC, 2026[19]).

Services exports are concentrated in less skill- and knowledge-intensive activities, with gradual modernisation

Services exports offer significant opportunities for LAC to diversify its export basket, strengthen competitiveness and support long-term growth. Beyond generating an additional source of foreign demand, services play a critical role in enhancing the competitiveness of goods exports. Efficient transport, logistics, finance, telecommunications, engineering, software and business services facilitate participation in GVCs, improve firms' productivity and support the production and export of more sophisticated goods (Nordås and Kim, 2013[20]; Heuser and Mattoo, 2017[21]). Services are also increasingly embodied in manufactured exports, contributing value through activities such as design, research and development, engineering, marketing, data processing and after-sales support. As a result, economies with stronger services sectors tend to be better positioned to diversify exports, move into activities with higher value added and capture a larger share of value within global production networks (Nordås and Kim, 2013[20]; Miroudot and Cadestin, 2017[22]).

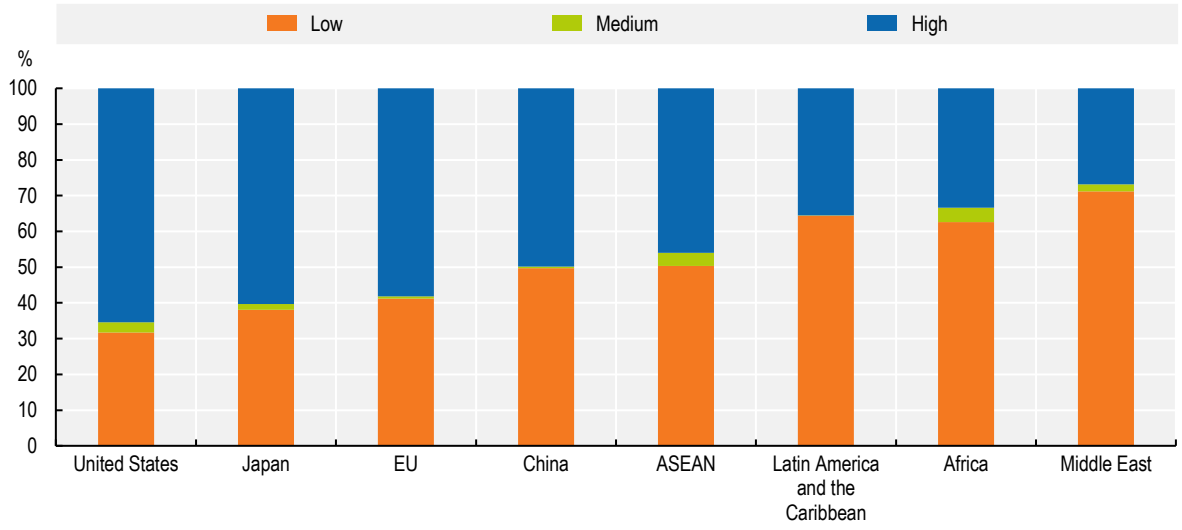
Digital technologies have further expanded opportunities in knowledge-intensive and digitally deliverable services. Software, business, professional and financial services, and other digital technologies have created avenues for export diversification and productivity growth (Giordano and Ortiz de Mendívil, 2021[23]; ECLAC, 2026[24]). These activities tend to rely more intensively on skilled labour, creating opportunities for higher-quality employment and productivity gains through greater knowledge and technology intensity (ECLAC, 2025[25]). Costa Rica illustrates this potential, with digitally enabled services accounting for around 27% of total exports and 10% of GDP in 2023, well above regional averages (Giordano et al., 2024[26]). Expanding both the export of services and their use as inputs into goods production could therefore help LAC diversify its export structure, increase domestic value creation and strengthen resilience to external shocks.

Services exports are growing in the LAC region, although they remain a relatively small component of external trade. Services exports accounted for around 4.1% of GDP in 2025, up from 3.3% in 2005. This share has remained broadly unchanged over the past two decades. LAC's services exports remain below those of Africa (5.8%), ASEAN (16.7%) and the European Union (17.4%). This contrast points to scope for services to play a greater role in diversifying LAC's export base and complementing its integration through merchandise trade (UNCTAD, 2026[27]).

Services exports in LAC remain less skill-intensive than in other regions. Skill-intensive services, including telecommunications, computer and information services, and professional business services, account for just over one-third of the region's total services exports (Figure 2.4). This remains well below the shares

observed in global leaders in modern services, where these activities represent 65% of services exports in the United States, 60% in Japan and 58% in the European Union. By contrast, 64% of LAC's services exports remain concentrated in activities demanding lower skill levels. Such activities, such as travel and transport, are more vulnerable to external shocks and offer fewer opportunities for productivity gains and knowledge spillovers (ECLAC, 2026[24]).

Figure 2.4. Structure of services exports by skill intensity, selected regions, 2022-2024 average



Source: Authors' calculation based on OECD-WTO (2025[28]), *The OECD-WTO Balanced Trade in Services (BaTIS)*, https://www.oecd.org/en/data/datasets/oecd-balanced-trade-statistics.html.

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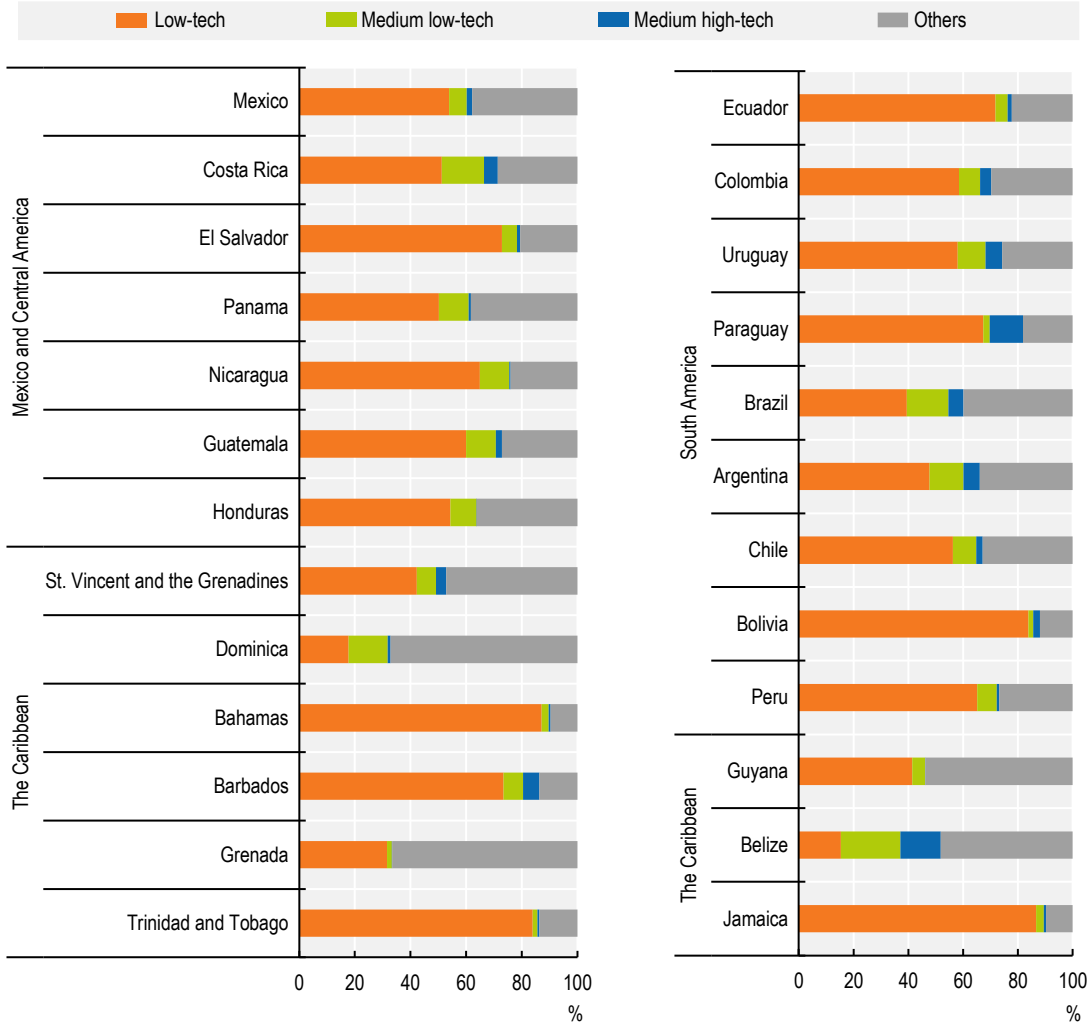
LAC's services export basket is highly heterogeneous across economies, reflecting diverse specialisation patterns. Low-tech activities, particularly travel and transport, dominate in most countries, accounting on average for 57% of total services exports. However, the composition varies significantly across country groups. Commodity-based economies show the widest variation. Activities requiring low levels of tech account for over 84% of service exports in the Plurinational State of Bolivia (hereafter "Bolivia") and 87% in Jamaica, while Belize stands out for its relatively stronger presence in knowledge-intensive services (Figure 2.5). Services-oriented economies such as Grenada and Dominica are largely concentrated in tourism-related exports, reflected in the large share of activities classified in the "other" category. Among more diversified economies, Costa Rica and Mexico have a stronger presence of services requiring medium and high levels of tech, while Honduras, Guatemala and Nicaragua remain heavily concentrated in services requiring lower levels.

Figure 2.5. Services export composition in LAC, by service technology type, 2024



Source: Authors' calculation based on OECD-WTO (2025[28]), *The OECD-WTO Balanced Trade in Services (BaTIS)*, https://www.oecd.org/en/data/datasets/oecd-balanced-trade-statistics.html; Galindo-Rueda and Verger (2016[29]), *OECD Taxonomy of Economic Activities Based on R&D Intensity*, https://doi.org/10.1787/5jlv73sqqp8r-en, mapped from EBOPS 2010 to ISIC Rev. 4.

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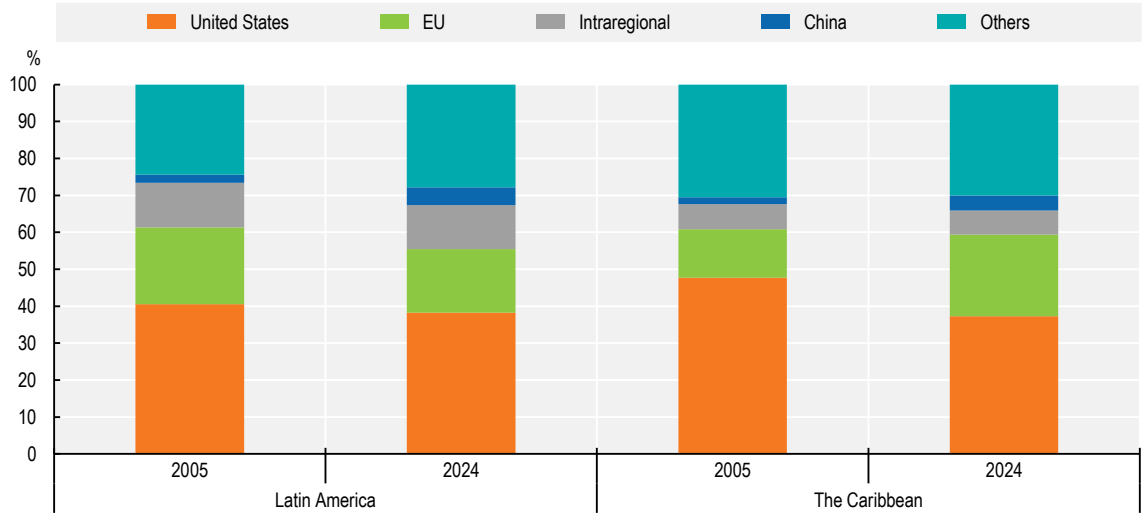
Realising the potential of services exports requires strengthening the region's capacity to produce and export competitive modern services. Priorities include stronger science, technology and innovation systems, digital infrastructure, skilled human capital, trade promotion and FDI, supported by effective PDPs and institutional capacities (ECLAC, 2026[24]). Reducing regulatory restrictions and promoting greater regulatory convergence would also facilitate cross-border services trade and improve the competitiveness of firms that use these services as production inputs (Blyde, 2026[30]).

Diversification of services export markets has changed little over time

Services export markets have changed little over time. The United States remains the main destination for services exports from LAC, although its share declined slightly from 41% to 38% in Latin America and more markedly from 48% to 37% in the Caribbean (Figure 2.6). The European Union gained importance as a destination for Caribbean services exports, with its share rising from 13% to 22%. Meanwhile, its role

in Latin America declined slightly from 21% to 17%. China expanded its presence, with its share rising from around 2% to 5% over the period. At the same time, the share of other destinations increased from 24% to 28%, reflecting only gradual diversification of export markets for Latin America. Intraregional services exports remain limited and broadly stable, accounting for 12% of exports in Latin America and 7% in the Caribbean in 2024.

Figure 2.6. Main services export destinations (as a share of total services exports), 2005 and 2024



Source: Authors' calculation based on OECD-WTO (2025[28]), *The OECD-WTO Balanced Trade in Services (BaTIS)*, https://www.oecd.org/en/data/datasets/oecd-balanced-trade-statistics.html.

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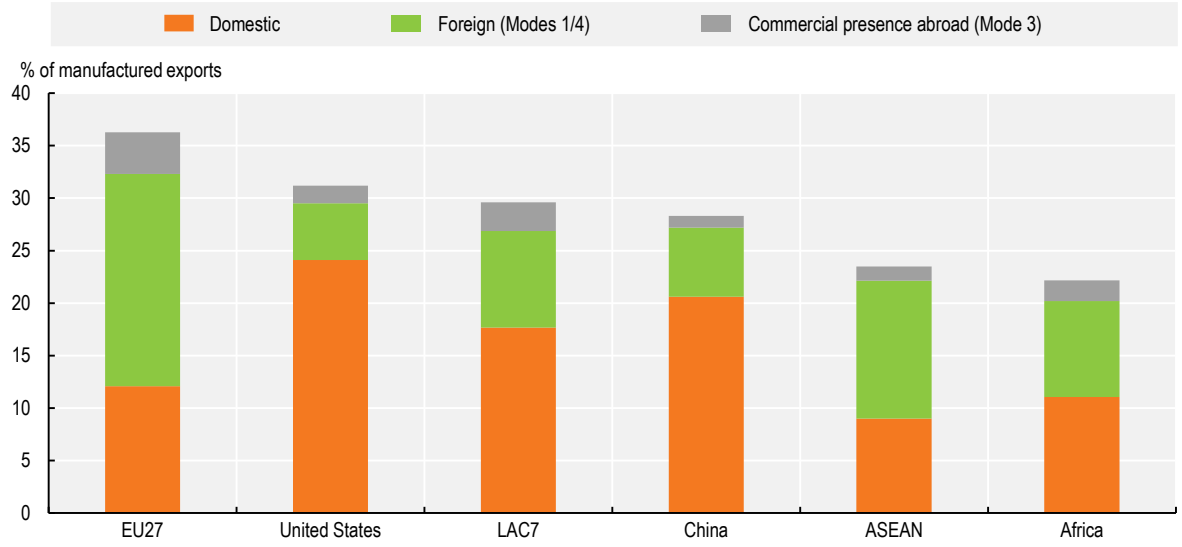
Services are a driver of value creation in manufacturing trade

Services contribute to shaping manufacturing competitiveness. As goods and services become more intertwined, activities such as transport, logistics, finance, information and communication technology, and professional services contribute value at multiple stages of production. In particular, services such as research and development, licensing and digital support the effective integration of physical production of high value added activities (ECLAC, 2026[24]). As a result, a substantial share of the value embodied in manufacturing exports originates in services. In LAC countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru), services account for almost 30% of the value embodied in manufactured exports, in line with US and EU levels (31% and 36%, respectively) (Figure 2.7). Most of this contribution comes from domestic services (18%), followed by foreign services (9%) and commercial presence abroad (3%). As services become more deeply embedded in manufacturing, competitiveness in goods increasingly depends on the quality and efficiency of supporting service activities. Better services can improve product quality, support differentiation and facilitate access to international markets, particularly in technology-intensive industries (Miroudot and Cadestin, 2017[22]; OECD, 2024[31]).

Figure 2.7. Services embedded in manufactured exports by mode of supply, 2020

Percentage of gross manufacturing exports



Note: ASEAN = Association of Southeast Asian Nations. Domestic refers to services value added of domestic origin embedded in manufactured exports, capturing the services content generated within the exporting economy itself. Mode 1/4 (MOS1/4) covers services supplied cross-border or through the movement of natural persons, corresponding to Modes 1 and 4 of the General Agreement on Trade in Services classification. Mode 3 (MOS3) refers to services supplied through commercial presence abroad, i.e. value added generated by foreign affiliates established in the exporting economy. Values represent simple averages across available countries within each group. LAC7 countries are Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

Source: Authors' calculations based on OECD (2025[32]), *Trade in Value Added (TiVA): Services Value Added Embodied in Manufacturing Exports*, https://www.oecd.org/content/dam/oecd/en/data/datasets/trade-in-value-added-indicators-for-services-by-mode-of-supply/MFG_EXGR_SVC_VA.csv.

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Towards stronger integration into the global economy

Deepening integration and reaping its benefits require greater diversification, domestic value creation and productive upgrading

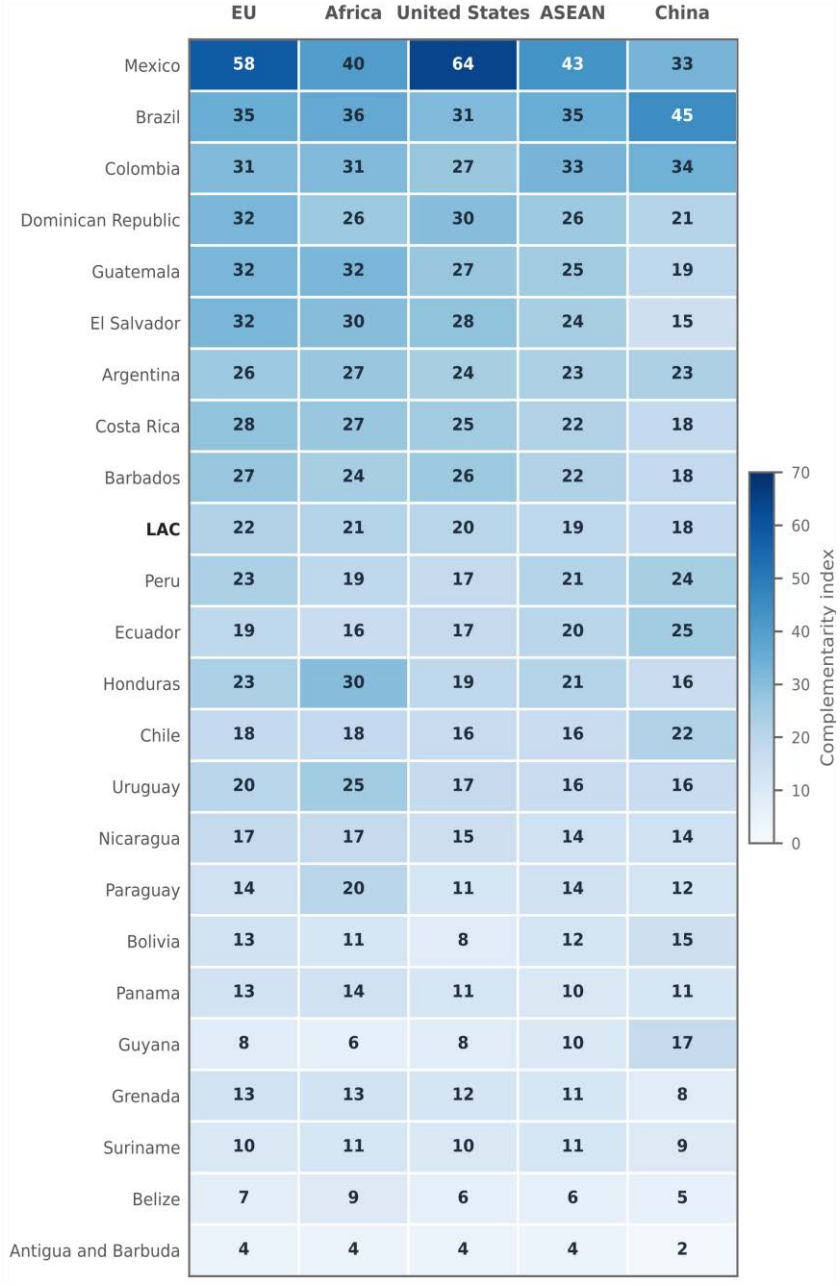
Increasing participation and moving into higher-value segments of GVCs can help LAC diversify its exports, strengthen productive capabilities and increase domestic value creation. By connecting firms to new markets, technologies, knowledge and production networks, GVC participation can support the development of more sophisticated activities and facilitate productive upgrading. Moving into higher-value segments can also support more productive and higher-quality employment, contributing to stronger productivity and long-term economic growth (Hausmann, Hwang and Rodrik, 2007[6]; Kozul-Wright and Fortunato, 2020[33]).

More diversified export structures broaden opportunities across global markets

Greater export diversification can broaden opportunities for integration across global markets. As countries diversify exports and upgrade technologically, they develop production structures that are better aligned with global demand, supporting participation in value chains and deeper industrial integration (Hausmann, Hwang and Rodrik, 2007[6]; UNCTAD, 2023[34]). By contrast, countries with similar export baskets, particularly those concentrated in primary commodities and low-technology manufactures, tend to compete in the same markets rather than trade complementary products (Bhattacharya and Pienknagura, 2024[35]; ECLAC, 2026[24]). Greater complementarity across export structures can create opportunities to expand

extraregional and intraregional trade and develop regional value chains. However, realising this potential requires adequate productive capabilities, connectivity and infrastructure (Bhattacharya and Pienknagura, 2024[35]; Murakami, 2025[15]).

Figure 2.8. Export complementarity of LAC economies with external economies, 2020 to 2024 average



Note: ASEAN = Association of Southeast Asian Nations. Each cell reports the export complementarity index between a regional economy's export basket and the import needs of the external economy, averaged over 2020 to 2024. The index captures the structural alignment between export and import baskets rather than actual trade flows; countries with broader and more diversified export baskets tend to exhibit higher complementarity across multiple partners.

Source: Authors' calculations based on World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org/.

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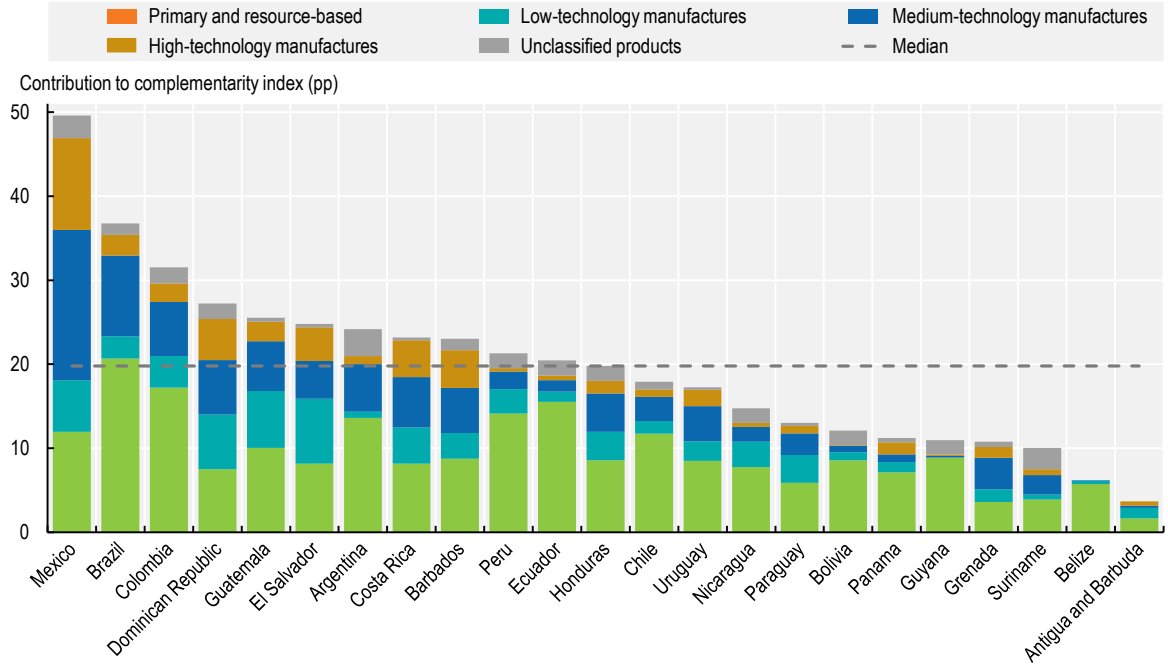
Trade complementarity points to opportunities for LAC to deepen trade with established partners and expand into markets with untapped potential. On average LAC's export basket matches 22% of import demand in the European Union, 20% in the United States and 18% in China, which are already major trading partners for the region. Complementarity levels are similar with ASEAN (19%) and Africa (21%), despite much weaker trade ties, pointing to opportunities to expand into these markets (Figure 2.8). These opportunities span agrifood, critical minerals, industrial inputs, digital services and more technologically sophisticated manufacturing, including vehicles, machinery, chemicals, pharmaceuticals and medical devices (Acosta et al., 2026[37]; Giordano and Ortiz de Mendívil, 2019[38]). Strengthening trade with these partners could support export diversification and productive upgrading, particularly in economies with more diversified manufacturing capabilities.

Export complementarity with major external partners varies across LAC. Mexico records the highest complementarity scores with the United States (64) and the European Union (58), reflecting its deep integration into North American and global manufacturing networks (Figure 2.8). Brazil also displays relatively strong complementarities, particularly with China (45), consistent with its role as a major supplier of commodities. Several Central American economies, Colombia and the Dominican Republic exhibit intermediate levels. Conversely, most South American and smaller economies show lower scores, reflecting narrower export baskets (Figure 2.8). Overall, countries with more diversified export structures tend to display stronger complementarities across a wider range of trading partners. This suggests that export capabilities are a key determinant of trade integration potential.

Figure 2.9. Sectoral composition of LAC countries' export complementarity with external economies, 2020 to 2024 average



Note: Stacked bars sum to the export complementarity index between each regional economy's exports and the import needs of external economies, averaged over the four external partners. The trade complementarity index (Michaely, 1996[39]) measures the degree to which country j's export structure matches country i's import needs. Letting m_{ik} denote sector k's share in country i's total imports from the world and x^{j}_{k} its share in country j's total exports to the world, the index is defined as $c^{ij} = 100\ [1 - \Sigma_k |m_{ik} - x^{j}_{k}| / 2]$. Calculated values range from 0 (no complementarity) to 100 (perfect match). The dashed line marks the median.
Source: Authors' elaboration based on UN Comtrade (2024[5]), *UN Comtrade*, https://comtradeplus.un.org/.

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The composition of export complementarity matters for the type of integration it can support. For most economies in the region, complementarity with external markets is driven mostly by primary and resource-based products (Figure 2.9). Mexico stands out, with medium- and high-technology manufactures accounting for the largest share of its complementarity, reflecting its diversified manufacturing base and integration into GVCs. The Dominican Republic, Guatemala, El Salvador and Costa Rica also display a relatively stronger manufacturing contribution, albeit at lower overall levels of complementarity. By contrast, Brazil's comparatively high complementarity is largely supported by primary and resource-based exports.

Strengthening participation and upgrading in global value chains

GVC participation can support diversification, productive upgrading and greater domestic value creation

GVCs reflect the increasing international fragmentation of production, whereby the production of a good or service is divided into multiple stages carried out across different countries. Rather than producing an entire final product domestically, countries and firms can specialise in specific tasks within the production process, linked through cross-border trade in intermediate goods and services. At each stage, inputs are transformed and additional value is created before moving to the next phase of production until the final good or service is completed. Countries participate in these networks through backward and forward linkages. Backward participation reflects the extent to which exports rely on imported inputs, while forward participation captures the contribution of domestic value added to other countries' exports through intermediate goods and services. Both forms of participation can support upgrading and productivity growth, although their relative contribution depends on countries' productive capabilities, sectoral specialisation and stage of development (Turan, Yanıkkaya and Özer, 2026[40]).

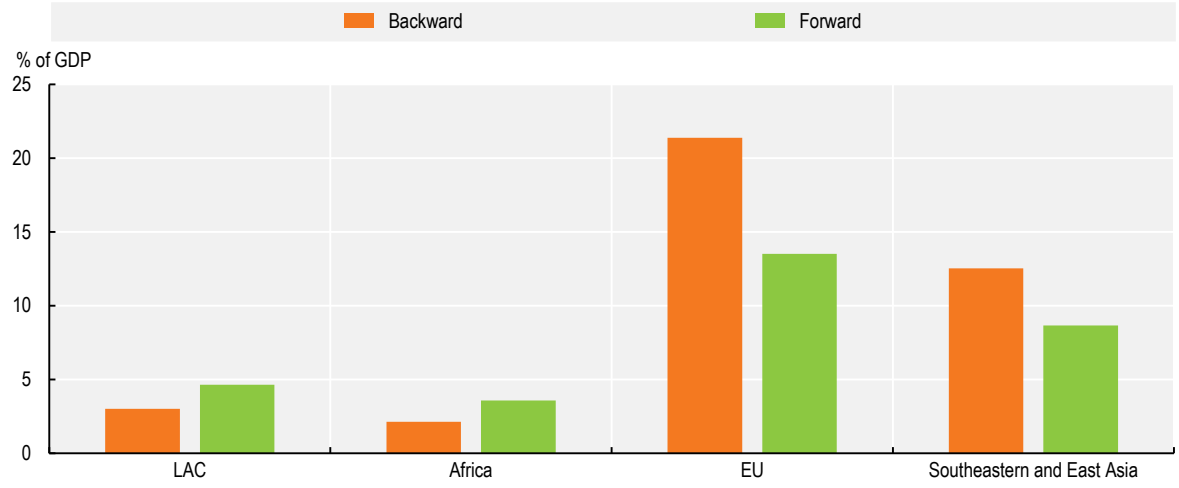
Participation in GVCs can generate significant economic benefits, although these are not automatic. Integration into GVCs is associated with higher productivity, increased income per capita, export diversification, technology transfer and job creation, while also supporting learning, innovation and industrial upgrading (Montalbano, Nenci and Pietrobelli, 2018[41]; Raei and Ignatenko, 2019[42]). However, the extent of these gains varies across countries and depends on domestic conditions. Factors such as the quality of infrastructure, effective contract enforcement, efficient logistics, and policies that promote trade and investment openness play a critical role (Fernandes, Kee and Winkler, 2020[43]) (see Chapter 3). Strong industrial capacity, access to finance and a supportive innovation environment further enhance the ability of firms to benefit from GVC participation. Ultimately, the objective is not participation alone, but rather participation that enables upgrading and increases the share of domestic value added.

GVC participation can also support more productive employment, although labour-market gains depend on how countries and firms integrate into production networks. GVCs can generate more productive jobs through productivity and scale effects as firms expand output and employment, although these gains can be unevenly distributed across and within countries, including between skilled and unskilled workers and between men and women (World Bank, 2020[44]). Evidence for seven LAC countries shows that GVC-linked activities generate stronger domestic employment linkages than traditional trade, with an estimated 1.5 indirect domestic jobs associated with each direct job, compared with 0.5 in traditional export activities. GVC-linked jobs also record higher average wages than employment associated with domestic demand across all seven countries analysed, although greater GVC participation is not associated with higher average wages once differences across countries and sectors are considered. Employment outcomes also vary according to the sectors, occupations and modes through which countries integrate into GVCs (Lalanne, 2025[45]).

LAC's participation in GVCs remains below that of other regions

LAC remains less integrated into GVCs than other regions. The region's backward and forward participation stand at 3% and 5% of GDP, respectively, below East and Southeastern Asia (13% and 9%) and the European Union (21% and 14%) (Figure 2.10). This reflects the region's specialisation in commodities, limited presence in complex manufacturing activities, weak regional productive linkages that constrain the development of nearby supplier networks, and fragmented trade policies and non-tariff measures that continue to limit market integration (Blyde and Trachtenberg, 2020[46]; Fernandes, Nievas Offidani and Winkler, 2021[47]).

Figure 2.10. GVC backward and forward participation by region, 2018



Note: LAC comprises 28 countries for which data are available: Argentina, Antigua and Barbuda, the Bahamas, Barbados, Belize, the Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela. Africa comprises 48 countries for which data are available. The European Union comprises the United Kingdom (EU member in 2018). East and Southeastern includes ASEAN-10 economies plus China, Japan, Republic of Korea, Hong Kong (China), Macau (China), Chinese Taipei and Mongolia.

Source: Authors' calculations based on Casella et al. (2019[48]), *UNCTAD insights: Improving the analysis of global value chains: The UNCTAD-Eora Database*, https://doi.org/10.18356/3aad0f6a-en; World Bank (2026[1]) *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators.

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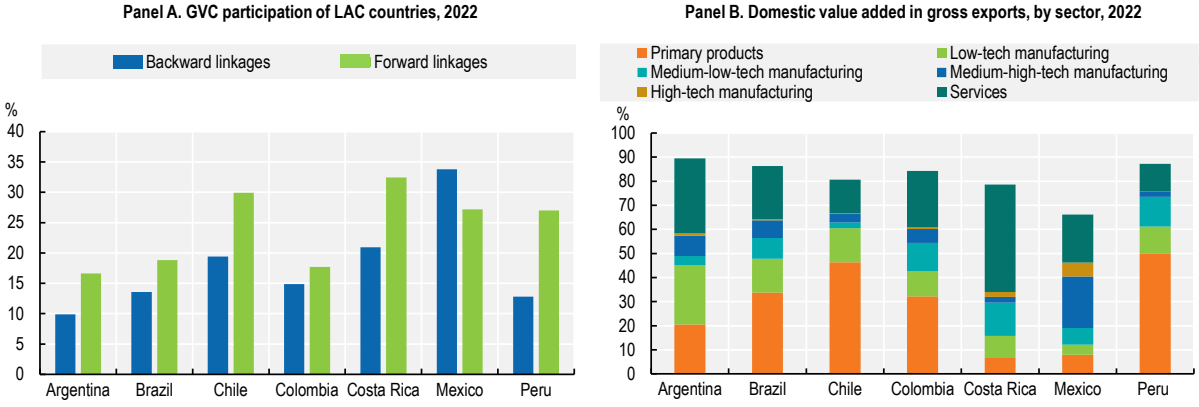
GVC participation patterns in LAC vary across countries in both linkages and sectoral composition. In economies such as Argentina, Chile, Peru and Colombia, forward linkages are more prominent than backward linkages. This reflects the role of these countries as suppliers of primary and intermediate inputs into other countries' exports. By contrast, Mexico exhibits stronger backward linkages, consistent with deeper integration into manufacturing value chains (Figure 2.11, Panel A). The sectoral composition also differs markedly. The participation in GVCs of Chile, Peru, Brazil and Colombia is largely driven by primary sectors, while medium- and high-technology manufacturing plays a more important role in Mexico and Costa Rica, supporting more diversified integration. Services are also significant, particularly in Costa Rica and Argentina, where they contribute to a broader engagement in GVCs (Figure 2.11, Panel B).

Figure 2.11. GVC participation of LAC countries by type and sector, 2022

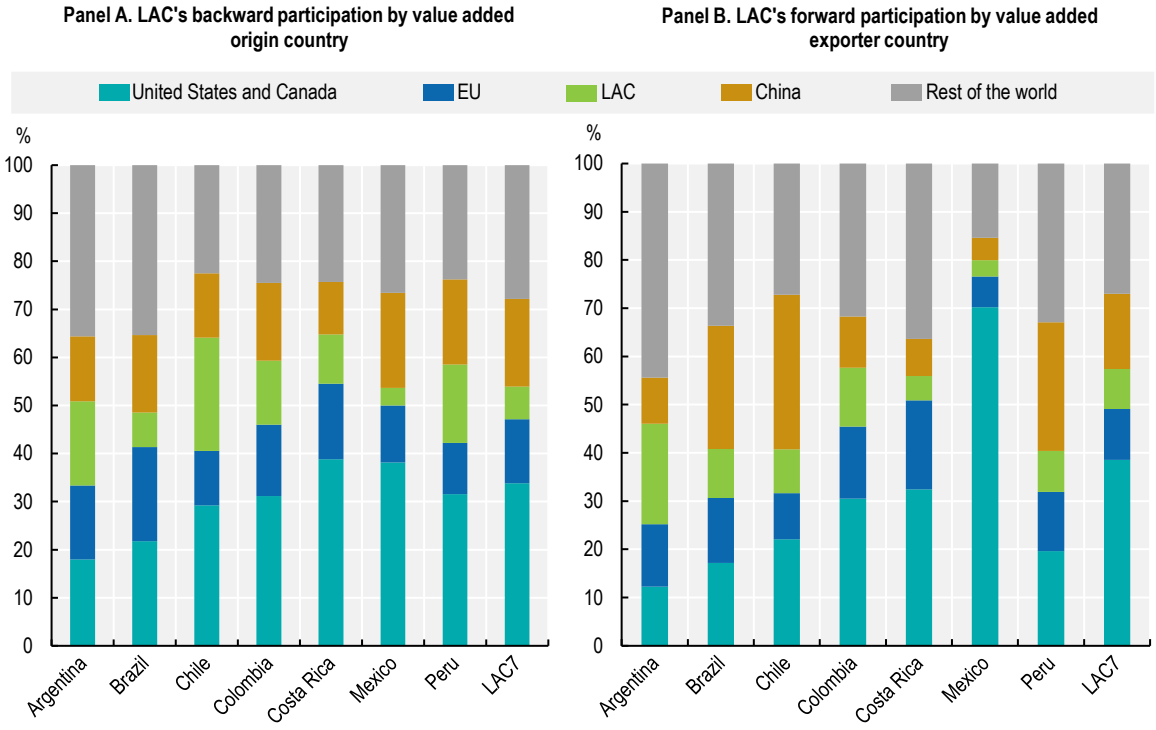


Note: Panel A: Backward linkages refer to foreign value added as percentage of gross exports and forward linkages to domestic value added in foreign final demand. Panel B shows domestic value added as a percentage of gross exports. The remaining share, up to 100%, corresponds to foreign value added embodied in exports.
Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

LAC's GVC participation is oriented towards extraregional partners

LAC's participation in GVCs is mainly oriented towards extraregional partners, with limited intraregional integration. In backward participation, the United States, Canada and the European Union are the main sources of intermediate inputs, while inputs sourced from within LAC account for a relatively small share across countries (Figure 2.12, Panel A). In forward participation, patterns are more varied. China plays a stronger role for several countries, largely reflecting the region's exports of commodities and other intermediates that are further processed abroad and embodied in other countries' exports. LAC also plays a limited role as a destination for domestic value added embodied in other countries' exports, although its importance varies across countries. Mexico stands out for its deep integration with the United States and Canada through North American production networks (Figure 2.12, Panel B). The region's strong orientation towards external partners highlights both its openness and the limited development of regional value chains that could better support domestic linkages and value-added generation.

Figure 2.12. LAC's main GVC partners, 2022



Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

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FDI can support GVC participation and productive upgrading

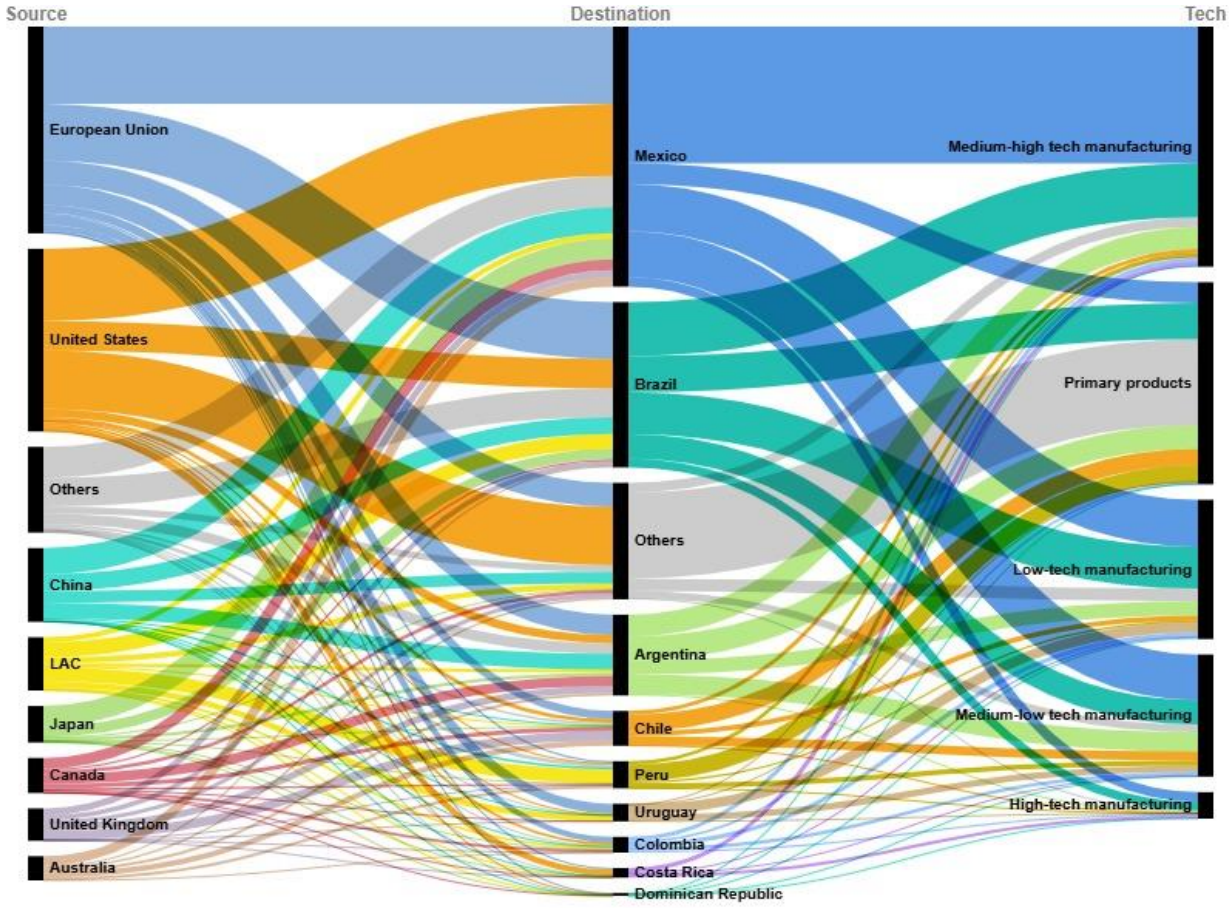
FDI supports global value chain integration by connecting host economies to international production and distribution networks. Multinational enterprises provide capital, technology, management expertise and access to foreign markets that domestic firms often lack, enabling their participation in fragmented production processes (OECD, 2025[7]). Through direct linkages with local suppliers, FDI increases demand for domestic inputs and encourages firms to upgrade their operations to meet international standards (OECD et al., 2022[49]). These interactions facilitate the transfer of knowledge and technology, which improves productivity, product quality and compliance with global requirements (IMF, 2017[50]). Exposure to more demanding markets and competition further drives learning and adaptation, as firms adjust to the expectations of global lead companies (Sanfilippo et al., 2018[51]). As a result, FDI helps firms integrate into GVCs and can also support their progression towards more sophisticated and higher value-added activities within these networks.

LAC remains one of the world's most attractive destinations for FDI. In 2025, FDI net inflows represented 2.7% of the region's GDP, compared to 0.9% in South Asia and 1.3% in East Asia and the Pacific (World Bank, 2026[1]). Reinvested earnings remained the largest component of inflows, accounting for 51% of the total in 2025, followed by equity capital (34%) and intercompany loans (15%) (ECLAC, 2026[52]). The region's ability to sustain investment inflows amid heightened global uncertainty highlights its resilience and reinforces its role as an important destination (ECLAC, 2026[52]).

FDI in LAC remains concentrated, both in terms of source economies and destination countries. Enterprises from the European Union and the United States are the main sources of greenfield FDI in LAC. Over 2015-2025, enterprises from the European Union (28.3%) and the United States (25.0%) accounted for more

than half of total announced greenfield investment in primary and manufacturing sectors. They were followed by China (10.1%), Japan (5.0%), Canada (4.8%) and the United Kingdom (4.4%) (Figure 2.13). Intraregional investment represented only 7.3% of total greenfield FDI, underscoring the limited role of intraregional flows into the productive sector. On the destination side, concentration was even more pronounced: Mexico and Brazil alone absorbed more than half of the region's FDI inflows (35.6% and 22.6%, respectively), followed by Argentina (11.1%), Chile (4.8%) and Peru (3.7%) (Figure 2.13).

Figure 2.13. Inward greenfield FDI announcements to LAC in primary and manufacturing sectors, by origin, destination and technology intensity, 2015-2025



Note: Foreign direct investment (FDI) refers to announced greenfield investment projects measured by capital expenditure. Other source economies include Algeria, Belarus, Egypt, Hong Kong (China), Iceland, India, Indonesia, Iran, Israel, Jordan, Republic of Korea, Liechtenstein, Malaysia, Monaco, Morocco, New Zealand, Norway, Pakistan, Russian Federation, Saudi Arabia, Singapore, South Africa, Sri Lanka, Switzerland, Chinese Taipei, Thailand, Tunisia, Türkiye, Ukraine, United Arab Emirates, Vanuatu and Viet Nam. Other LAC destinations comprise Antigua and Barbuda, the Bahamas, Barbados, Belize, Plurinational State of Bolivia, Cuba, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago, and Venezuela. Capital investment corresponds to ISIC Rev.4 Divisions A-C, covering the primary sector and manufacturing industries. Tech-intensity manufacturing groups are based on the OECD Technology Classification in ISIC Rev.4.
Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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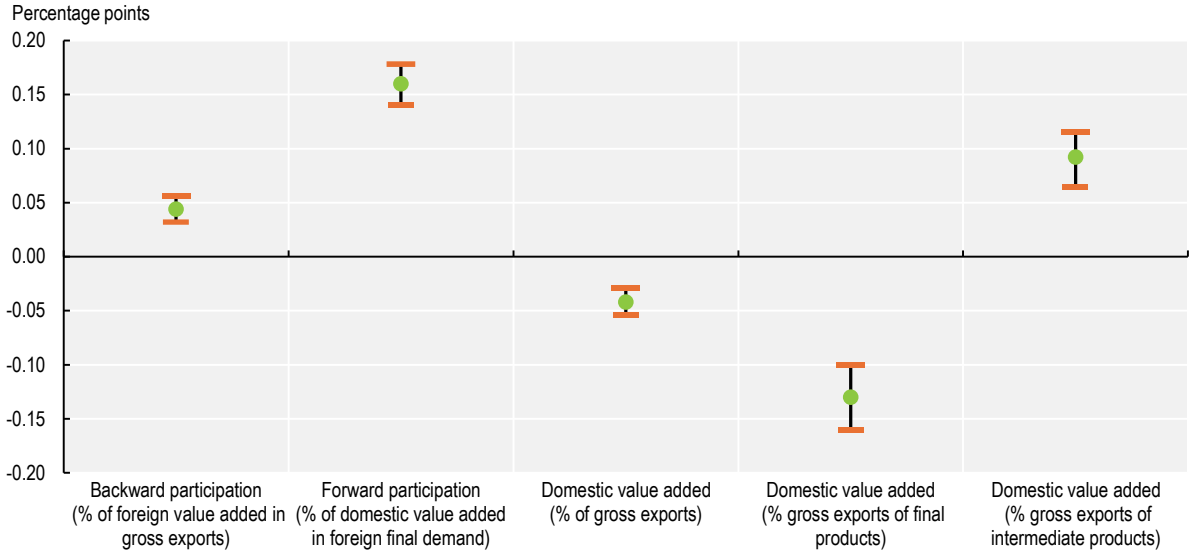
The sectoral composition of FDI varies across LAC economies. Between 2015 and 2025, some countries attracted a substantial share of announced greenfield investment in medium-high and high-technology activities. In Costa Rica, these segments represented 78.9% of inflows and Mexico accounted for more

than half of its inflows (56.3%), while Brazil (38.1%) and Colombia (36.5%) also recorded sizeable shares (Figure 2.13). By contrast, investment in several South American economies remained oriented towards primary and low-technology activities, which together accounted for 46.7% of total FDI. Meanwhile, high-technology activities represented 3.6% of FDI inflows.

The role of FDI in integrating LAC into global value chains

FDI is a key driver of global value chain participation in LAC, but its effects on domestic value added vary across production stages. FDI is positively associated with both backward and forward participation in GVCs. This indicates that sectors receiving more FDI are more integrated into international production networks, both as users of foreign inputs and as suppliers of value to other countries' exports. Empirical evidence suggests that a 10% increase in FDI is associated to a 0.045 percentage-point rise in backward participation and a 0.16 percentage-point increase in domestic value added embodied in foreign final demand (Figure 2.14). However, stronger GVC participation does not automatically translate into domestic value creation across all export activities. While FDI is linked to higher domestic value added in intermediate exports, it is not associated with a higher domestic value-added share in total exports. This suggests that FDI mainly supports upgrading in upstream segments, through stronger local sourcing and supplier linkages, but has limited effects on final production stages (Kee, Xie and Xu, 2025[54]). In these stages, exports remain more dependent on imported inputs and foreign-controlled activities. These require capabilities such as advanced manufacturing, branding and distribution that are less developed locally (Del Gatto and Delgado, 2025[55]).

Figure 2.14. Foreign direct investment impact on GVC participation and domestic value added



Note: The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced greenfield FDI projects. For methodology, please refer to Box 2.1.
Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html; Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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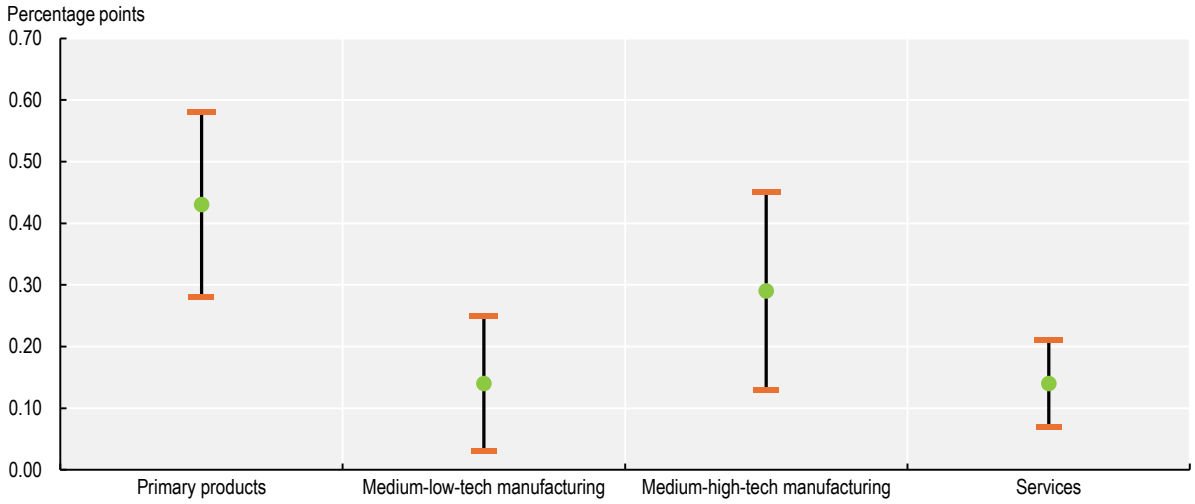
FDI contributes to increasing domestic value added reaching global markets. Empirical evidence shows that a 10% increase in FDI is associated with higher domestic value added in foreign final demand across several sectors. This includes primary industries by 0.45 percentage points, medium-low technology

manufacturing by 0.14, medium-high technology manufacturing by 0.29 and services by 0.14 (Figure 2.15). The particularly strong effects in medium-technology manufacturing suggest that FDI generates larger upgrading gains in more sophisticated activities. This indicates that FDI can strengthen domestic linkages by encouraging foreign firms to source more inputs locally and by supporting local firms in becoming suppliers within regional and global production networks. These stronger supplier linkages help host economies become more competitive in supplying inputs to GVCs.

Figure 2.15. Foreign direct investment impact on domestic value added in final foreign demand by tech-intensity level



Note: The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced greenfield FDI projects. For methodology, please refer to Box 2.1.
Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html; Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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The benefits of FDI for GVC integration are not automatic and depend on key enabling conditions. Countries may attract foreign investors and expand exports while capturing only a limited share of value added. They may also remain concentrated in low value assembly activities with weak linkages to the local economy (Bénétrix, Pallan and Panizza, 2026[56]). The extent to which FDI translates into upgrading is shaped by policies that create its enabling environment. A positive enabling environment is characterised by quality institutions, skilled labour, adequate infrastructure, and measures that support firm capabilities and facilitate connections with multinational enterprises (OECD, 2022[57]). A sound investment climate is also essential. Openness to FDI, investor protection and investment promotion can enhance the positive relationship between GVC participation and FDI spillovers (OECD, 2015[58]). Investment facilitation is particularly important, as it refers to the services and support provided to investors after they establish operations in the host economy. Facilitation may include assistance with regulatory procedures, supplier matchmaking, workforce development and other aftercare services that help firms expand their operations and strengthen linkages with the local economy. At the same time, the characteristics of foreign investors also matter, including type of investment, sector, motivation of the firm, and the firm's reliance on local sourcing (IMF, 2017[50]; Crescenzi and Harman, 2022[59]). When domestic conditions and investor behaviour are aligned, the potential for productivity gains and knowledge diffusion is significantly higher. Conversely, in the absence of such an alignment, FDI may remain enclave in nature with limited integration into the local economy.

Box 2.1. Empirical model to estimate the impact of FDI on GVC participation and domestic upgrading

This analysis draws on sector-level fixed-effects panel regressions to evaluate the impact of capital investment from announced greenfield FDI projects on two key outcomes and countries' integration into global value chains, as well as its implications for domestic value added across sectors. The model covers seven LAC countries over 2003-2022 and is specified as follows:

$$\boldsymbol{y_{it}} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} \cdot \mathbf{ln}(\text{capital investment}_{\boldsymbol{ist-1}}) + \boldsymbol{\gamma} \cdot \text{controls}_{\boldsymbol{it}} + \boldsymbol{\delta} \cdot \text{FE}_{\boldsymbol{it}} + \boldsymbol{\epsilon_{ist}}$$

Where $yist$ is one of the following dependent variables for country i, sector s, in year t:

Backward participation: a measure of the share of foreign value added embodied in gross exports. It captures the extent to which domestic production relies on imported inputs.

Forward participation: a measure of the share domestic value added embodied in foreign final demand. It captures the extent to which domestic sectors contribute inputs to production processes abroad.

Domestic value added in gross exports: a measure of the share of domestic value added embodied in total gross exports. It captures the overall extent to which export activity reflects domestic production rather than foreign inputs.

Domestic value added in final products: a measure of the share of domestic value added embodied in exports of final goods. It captures domestic value in downstream stages of production, closer to final consumption.

Domestic value added in intermediate products: a measure of the share of domestic value added embodied in exports of intermediate goods and services. It captures domestic participation in upstream segments of global value chains, where countries supply inputs used in further production abroad.

All dependent variables are sourced from the *OECD Trade in Value Added (TiVA)* dataset.

The analysis covers all LAC economies available in the *OECD Trade in Value Added (TiVA)* dataset: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

The explanatory variable is the one-year lagged capital investment from announced greenfield FDI projects, capturing the delayed effect of project implementation. Data are sourced from *fDi Markets*, a *Financial Times* dataset.

Control variables include GDP per capita, trade openness (trade as percentage of GDP) and financial development (private sector credit as percentage of GDP). Regressions include country and year fixed-effects, and standard errors are clustered.

To assess heterogeneity across sectors, the model is extended to include interaction terms between FDI and sectoral classifications based on the OECD Technology Classification (low-tech manufacturing, medium-high technology manufacturing, services and primary sectors). Marginal effects are computed to evaluate how the relationship between FDI and domestic value added varies across sector groups.

Regressions include country and year fixed-effects. Country fixed-effects control for time-invariant structural differences across countries, while year fixed-effects capture global shocks common to all observations. Standard errors are clustered at the country level.

Countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. The results reflect robust empirical associations but do not establish causal relationships.

Regional integration to harness domestic potential and as a platform for stronger global positioning

Regional markets can support scale, diversification and firm internationalisation

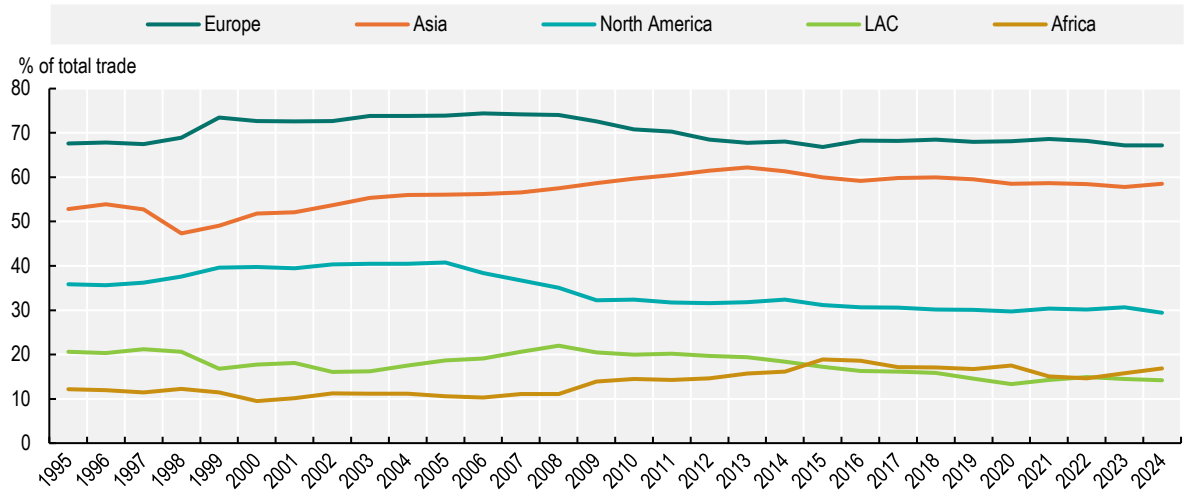
Regional trade integration can support diversification and productive upgrading while strengthening LAC's integration into global markets. Deeper integration expands market access, allowing firms to serve larger regional markets, exploit economies of scale and develop more sophisticated productive capabilities (DiCaprio, Santos-Paulino and Sokolova, 2017[60]; Vigninou, 2021[61]). It can also accelerate structural transformation through knowledge diffusion, technology transfer and learning, while helping firms diversify exports and move into activities with higher value added (World Bank, 2021[62]). By creating demand for a broader range of products than individual domestic markets, regional integration can support productive and export diversification and facilitate the internationalisation of small and medium-sized enterprises (SMEs) (ECLAC, 2026[19]). Stronger regional linkages can also enhance resilience to external shocks and support development of cross-border value chains, reinforcing PDPs at the regional level (Vargas, 2021[63]; ECLAC, 2024[64]; UNCTAD, 2024[65]).

Intraregional trade remains limited, although more diversified and manufacturing-intensive than extraregional trade

Intraregional trade in LAC remains limited. In 2024, intraregional exports accounted for 14% of total regional exports, down from 18% in 2000. This remains well below the levels observed in Africa (17%), Asia (59%) and Europe (67%) (Figure 2.16). LAC also records the lowest level of intraregional trade among the regions considered. This gap has persisted over the last three decades, suggesting that regional trade integration has advanced more slowly than elsewhere.

Regional integration remains hindered by persistent trade and structural barriers. Despite a dense network of regional trade agreements and declining tariff barriers, trade costs within the region remain high. Tariffs persist in some sectors, while non-tariff barriers, customs inefficiencies, regulatory frictions, and infrastructure and logistics gaps continue to raise the cost of trading across borders (see Chapter 3). Also, factors such as a fragmented regional economy and weak institutional support further constrain regional integration (Bhattacharya and Pienknagura, 2024[35]; ECLAC, 2026[24]). Limited export diversification and overlapping export structures reduce complementarities between countries, while weak regional production networks limit opportunities for cross-border specialisation and value chain development (OECD et al., 2025[4]).

Figure 2.16. Intraregional exports as a share of total exports by world region, 1995-2024



Note: Regional groupings follow the United Nations Statistics Division's M49 standard, as adopted by UNCTAD. Africa (UNCTAD code 5100) comprises all 54 African economies, including Northern, sub-Saharan, Eastern, Central, Southern and Western Africa. Asia (5300) includes Central, Eastern, Southeastern, Southern and Western Asia (the latter comprising the Middle East), as well as Japan, Israel and the Republic of Korea. Europe (5400) comprises Eastern, Northern, Southern and Western Europe (including all EU member states, the United Kingdom and non-EU European economies such as Switzerland, Norway and the Western Balkans). Latin America and the Caribbean (part of Americas, 5200) covers Central America, South America and the Caribbean. North America (part of Americas, 5200) comprises Canada, the United States, Bermuda and Greenland. Intraregional trade share is calculated as the value of merchandise exports from economies within a region to other economies within the same region, divided by that region's total exports to the world, in current USD.
Source: Authors' calculations based on UNCTAD (2024[66]), *UNCTADstat data centre*, https://unctadstat.unctad.org/datacentre/dataviewer/.

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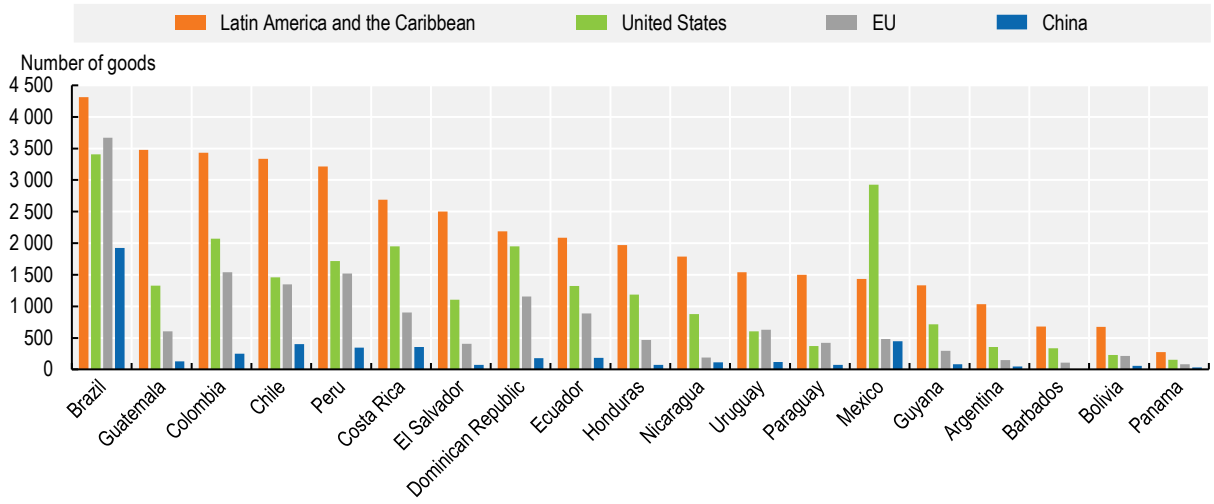
The regional market plays a critical role in the productive and export diversification of LAC. For nearly all countries in the region, except for Mexico, the basket of products exported to the regional market is significantly more diverse than the basket sent to major global partners like China, the United States or the European Union (Figure 2.17). This pattern holds true for all countries in LAC (except Mexico) regardless of a country's size or its export specialisation (ECLAC, 2026[19]) . This underscores the region's unique capacity to absorb a wider variety of goods, particularly those with higher value added, compared to the more commodity-heavy exports typically sent to extraregional markets. Manufacturing is particularly important in intraregional trade, accounting for an average of 47% of exports among LAC countries (excluding Mexico) (ECLAC, 2026[19]).

Figure 2.17. Number of goods exported to selected destinations, 2024

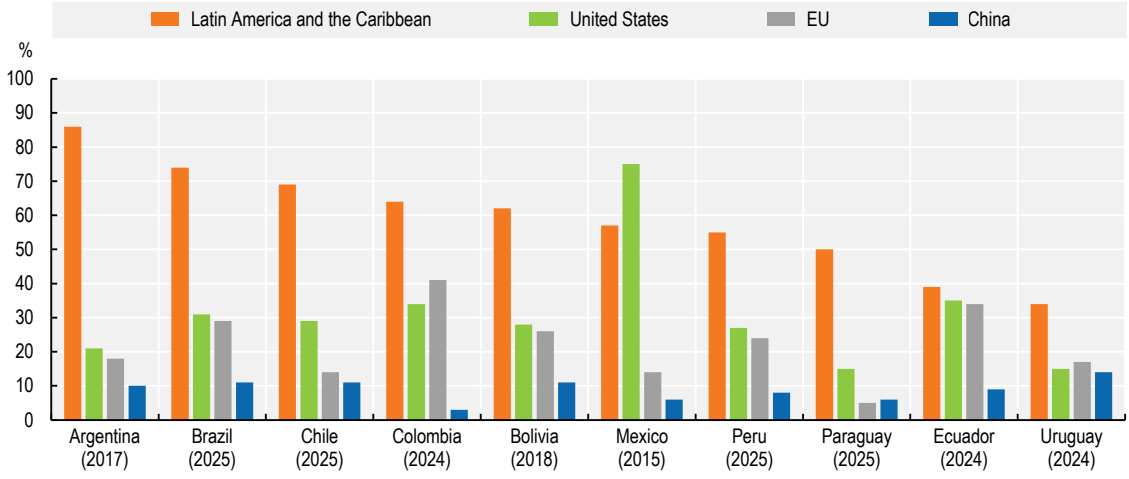


Source: Authors' elaboration based on (ECLAC, 2026[19]), *Managing Transformations in an Era of Ruptures.*

StatLink https://stat.link/ywck23

The regional market is the most accessible destination for LAC firms, particularly smaller enterprises seeking to internationalise for the first time. In nine out of ten LAC countries analysed, the number of firms exporting within the region exceeds those exporting to the United States, China or the European Union (Figure 2.18). This pattern reflects structural advantages of regional trade, including shorter distances, shared language and cultural ties, and lower administrative and compliance costs. These factors make regional markets more accessible entry points, particularly for smaller firms. By contrast, exports to extraregional markets, especially in Asia, remain concentrated among a small number of large firms focussed primarily on natural resources. The regional market thus functions both as a destination for more diversified goods, and as a platform through which a broader universe of firms, including SMEs, can begin to internationalise and build the capabilities needed to compete in global markets (ECLAC, 2026[19]).

Figure 2.18. Share of the total number of exporting firms exporting to selected destinations (latest year available)



Source: Authors' elaboration based on (ECLAC, 2026[19]), *Managing Transformations in an Era of Ruptures.*

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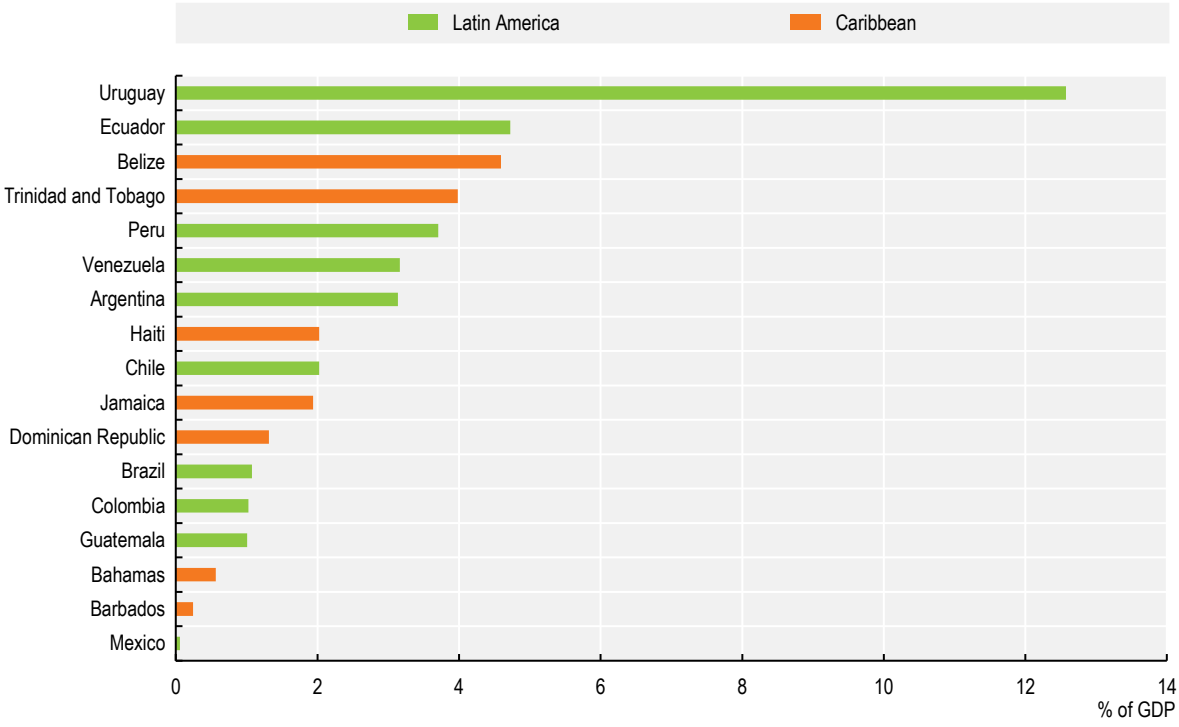
Intraregional trade in LAC remains below its potential

LAC's trade structure suggests potential for stronger intraregional trade integration. On average, observed intraregional trade over the past two decades has remained six percentage points of GDP below its estimated structural potential. These estimates suggest that current productive structures and regional demand could support higher levels of trade within the region. However, this potential should not be interpreted as an outcome that will materialise automatically or in the short term. Rather, it reflects the level of trade predicted by a gravity model based on countries' economic size, income levels, geographic proximity and trade structures (Box 2.2). The gap with respect to expected levels of intraregional trade varies across countries. Economies such as Uruguay, Ecuador and Belize show the largest opportunities relative to GDP, with gaps averaging between 4% and 13% of their GDP. By contrast, Mexico's intraregional trade is already relatively close to the level predicted by its current structural characteristics. Further gains in regional integration would therefore likely require changes in productive structures, export specialisation and diversification, and deeper regional value chain linkages (Figure 2.19).

Figure 2.19. Gap between observed and expected intraregional trade in LAC, by country

Percentage of GDP average 2002-2024, primary and manufacturing sectors



Note: Values indicate under-trading relative to countries' GDP. Please refer to methodology Box 2.2.
Source: Authors' calculations based on CEPII (2022[67]), *CEPII Gravity Database*, http://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=8; CEPII (2025[68]), *BACI: International Trade Database at the Product Level*, http://www.cepii.fr/CEPII.

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Policy barriers help explain part of the gap between actual and expected intraregional trade. Although the institutional foundations for regional integration are largely in place, implementation remains fragmented. LAC has more than 33 trade agreements covering a large share of intraregional trade, including MERCOSUR, Pacific Alliance and the Caribbean Community (CARICOM) (World Trade Organization, 2024[69]). However, overlapping agreements and differing rules of origin increase compliance costs, limit

input cumulation across markets and reduce incentives to build regional value chains. Missing trade links between key subregions, together with infrastructure, logistics and connectivity gaps, further raise trade costs and constrain the development of integrated regional production networks (Blyde, 2018[70]; Bhattacharya and Pienknagura, 2024[35]; Estevadeordal, Talvi and Werner, 2025[71]) (see Chapter 3).

Box 2.2. Measuring trade potential in LAC: A gravity-model approach

This analysis uses a gravity model to identify sectors and country pairs where intraregional merchandise trade in LAC remains below its structural potential, given countries' economic size (annual GDP), geographic proximity and bilateral characteristics. The model covers 28 sectors over 2002-2024 and is specified as follows:

$$X_{ijt} = \alpha + \beta_1 \ln(RTA_{ijt}) + \beta_2 \ln(Distance_{ij}) + \beta_3 Contiguity_{ij} + \beta_4 CommonLanguage_{ij} + \beta_5 ColonialTies_{ij} + \beta_6 \ln(GDP_{it}) + \beta_7 \ln(GDP_{jt}) + \beta_8 \ln(RemotenessExporter_{it}) + \beta_9 \ln(RemotenessImporter_{jt}) + \beta_{10} ResourceRich_i + \beta_{11} ResourceRich_j + \beta_{12} \ln\left(\frac{K}{L_{it}}\right) + \beta_{13} \ln\left(\frac{K}{L_{jt}}\right) + \varepsilon_{ijt}$$

Where $\hat{X}_{ij,k}$ is the predicted bilateral trade flow for exporter i, importer j, during year t and sector k, estimated separately for each sector using Poisson Pseudo Maximum Likelihood.

Then, predicted ($\hat{X}$) and observed (X) trade flows are compared to compute the gap at the country-pair and sector level. This measure expresses the gap between observed trade and its expected structural potential as a share of that potential.

$$GAP\ relative\ to\ predicted = \frac{(\hat{X}_{ijt,k} - X_{ijt,k})}{\hat{X}_{ijt,k}} \times 100$$

Trade data: product-level bilateral trade flows are sourced from the BACI dataset (CEPII, 2025[68]) and are classified into ISIC Rev4 sectors at the 2-digit level based on the UN correspondence table. Sectors are grouped by technology intensity according to the OECD Technology Classification.

Gravity variables: structural determinants of trade are sourced from diverse databases – bilateral distance, contiguity, common language, colonial ties and regional trade agreements (CEPII, 2022[67]); GDP and GDP per capita from *World Development Indicators* (World Bank, 2026[1]) measured in current US dollars for each year of the panel; capital stock per worker from *Penn World Tables 11.0* (University of Groningen/ University of California Davis, 2024[72]); and a resource-rich dummy (mineral rents >10% of GDP) (World Bank, 2026[1]).

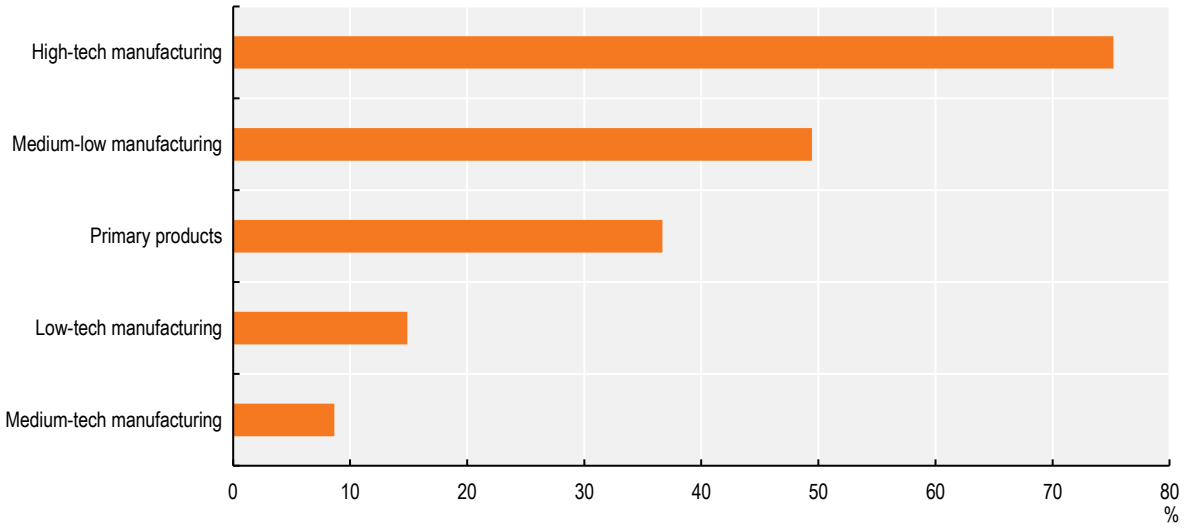
Multilateral resistance: trade between two countries depends not only on their bilateral relationship but also on how easily each of them can trade with everyone else, a concept known as multilateral resistance. A country geographically remote from the rest of the world, for example, will tend to trade more with its immediate neighbours simply because alternatives are more costly. The model accounts for this by constructing a GDP-weighted remoteness index for each exporter and importer (Baier and Bergstrand, 2007[73]), capturing the distance of each country, on average, from all its potential trading partners. This approach avoids using country-year fixed-effects, which would absorb the very differences between observed and predicted trade that the model aims to identify (Fally, 2015[74]).

The analysis is based on Mulabdic and Yasar (2021[75]) and extends the standard gravity framework to bilateral trade at the sector level (Egger and Larch, 2008[76]). Other references include Estimator: PPML by Silva and Tenreyro (2006[77]) and multilateral resistance: Baier and Bergstrand (2007[73]).

The largest untapped opportunities for intraregional trade are concentrated in more technology-intensive sectors. Between 2002 and 2024, intraregional exports of high-technology manufactures were around 75% below the level predicted by the gravity model, while medium-low technology manufactures recorded a gap of about 45%. By contrast, low-technology manufactures were much closer to predicted levels, with a gap of around 15% (Figure 2.20). These results suggest that the greatest scope for expanding intraregional trade lies in activities with higher value added, where stronger regional trade linkages could support industrial upgrading and development of regional value chains.

Figure 2.20. Gap between observed and expected intraregional trade in LAC, by technology level

Percentage below predicted exports, 2002-2024



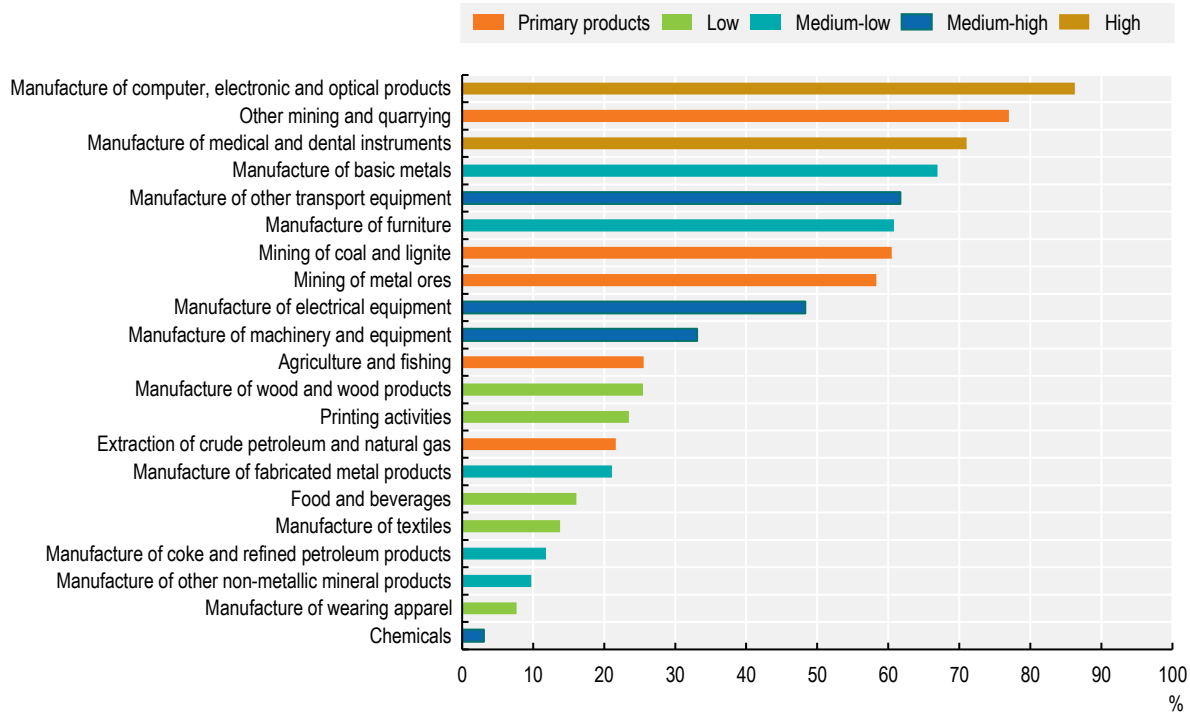
Note: Sectors specified by ISIC Rev.4, 2-digit sectors and OECD's technology classification. Please refer to methodology Box 2.2.
Source: Authors' calculations based on CEPII (2022[67]), *CEPII Gravity Database*, http://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=8; CEPII (2025[68]), BACI: *International Trade Database at the Product Level*, http://www.cepii.fr/CEPII.

StatLink https://stat.link/xczjqa

Several technology-intensive sectors point to untapped regional trade potential. Over the past two decades, technology-intensive manufacturing sectors have shown significant scope to expand intraregional trade. Intraregional exports in sectors such as computers, electronics and optical equipment, medical instruments and machinery, and transport equipment were 33-86% below expected levels. Expanding regional trade in higher-technology manufactures could generate large gains, as these sectors support learning, innovation and industrial upgrading, helping firms adopt new technologies and move into activities with higher value added (OECD et al., 2025[4]). Opportunities also extend to critical minerals, with intraregional exports of metal ores around 60% below expected levels (Figure 2.21). These inputs are increasingly central to the green and digital transitions, areas in which LAC holds some of the world's largest reserves (see Chapter 1).

Figure 2.21. Gap between observed and expected trade in LAC by sector and technology level

Percentage below predicted exports, 2002-2024



Note: Sectors specified by ISIC Rev.4, 2-digit sectors, sections A, B and C. Values indicate the percentage of trade gap relative to their structural potential. Please refer to methodology Box 2.2.

Source: Authors' calculations based on CEPII (2022[67]), *CEPII Gravity Database*, http://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=8; CEPII (2025[68]), *BACI: International Trade Database at the Product Level*, http://www.cepii.fr/CEPII.

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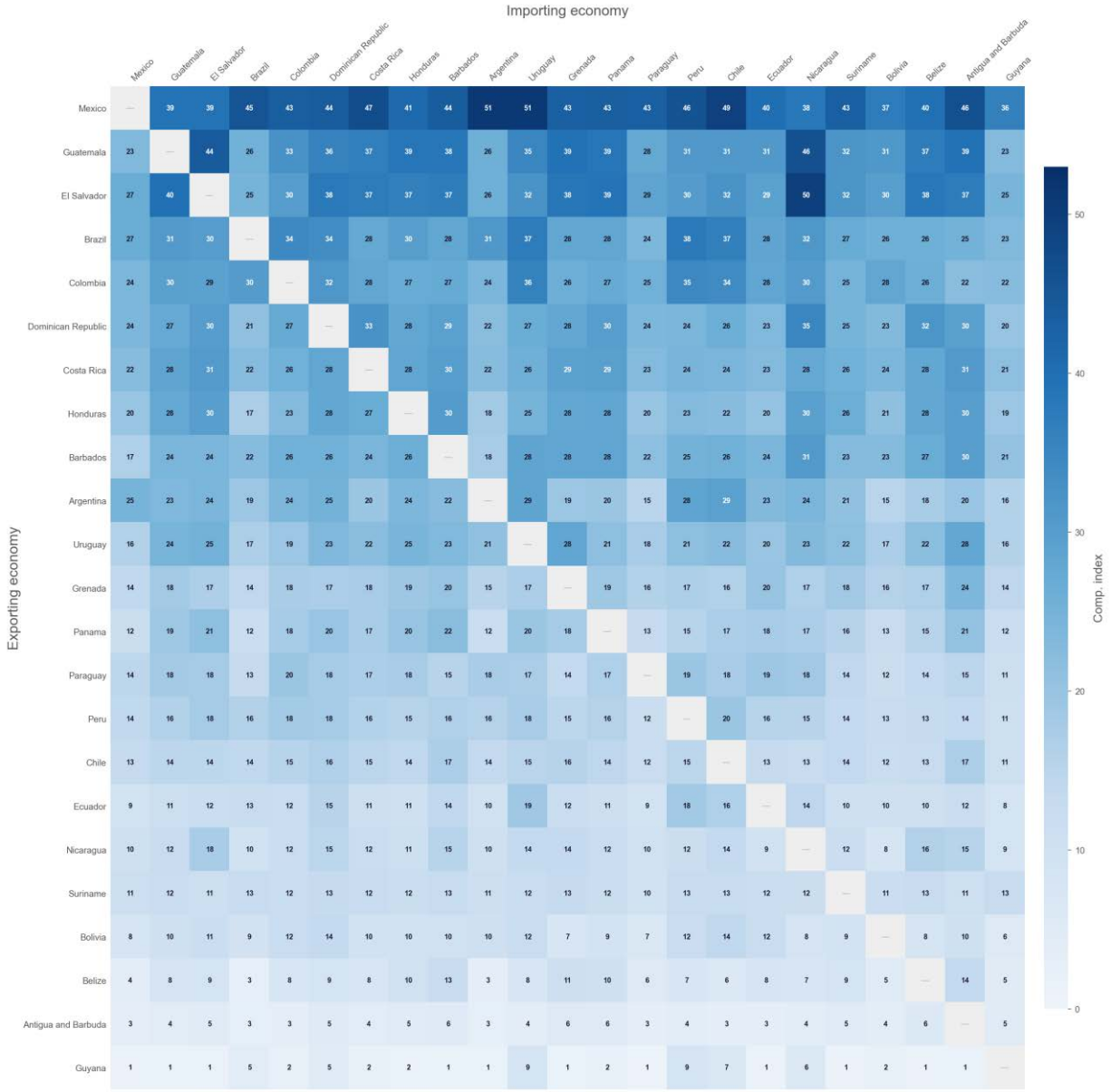
Trade complementarity can support stronger intraregional trade, but it remains modest and uneven across countries

Trade complementarity is an important determinant of intraregional trade. The extent to which countries can expand trade within the region depends on whether their export structures match the import demand of regional partners. By measuring the alignment between exports and imports, trade complementarity indicates the scope for deeper trade integration. Higher complementarity can facilitate specialisation, trade in intermediate inputs and development of regional value chains. In so doing, it can strengthen productive linkages and enable countries to benefit from economies of scale, productivity gains and comparative advantage (WTO, OECD and WB, 2019[78]). As productive structures become more complementary, improvements in connectivity and infrastructure can further unlock trade potential by reducing the costs of cross-border production and exchange.

Trade complementarities across LAC remain modest. In 2024, the export basket of a typical country matched less than one-fifth of the region's import demand (Figure 2.22). As a result, opportunities for mutually beneficial trade remain limited, as countries often compete in external markets rather than supply goods demanded by regional partners. This limited differentiation in export structures reduces the scope for expanding regional trade and for developing stronger productive linkages across the region (Bhattacharya and Pienknagura, 2024[35]; ECLAC, 2026[24]).

Figure 2.22. Pairwise export complementarity in LAC, 2024



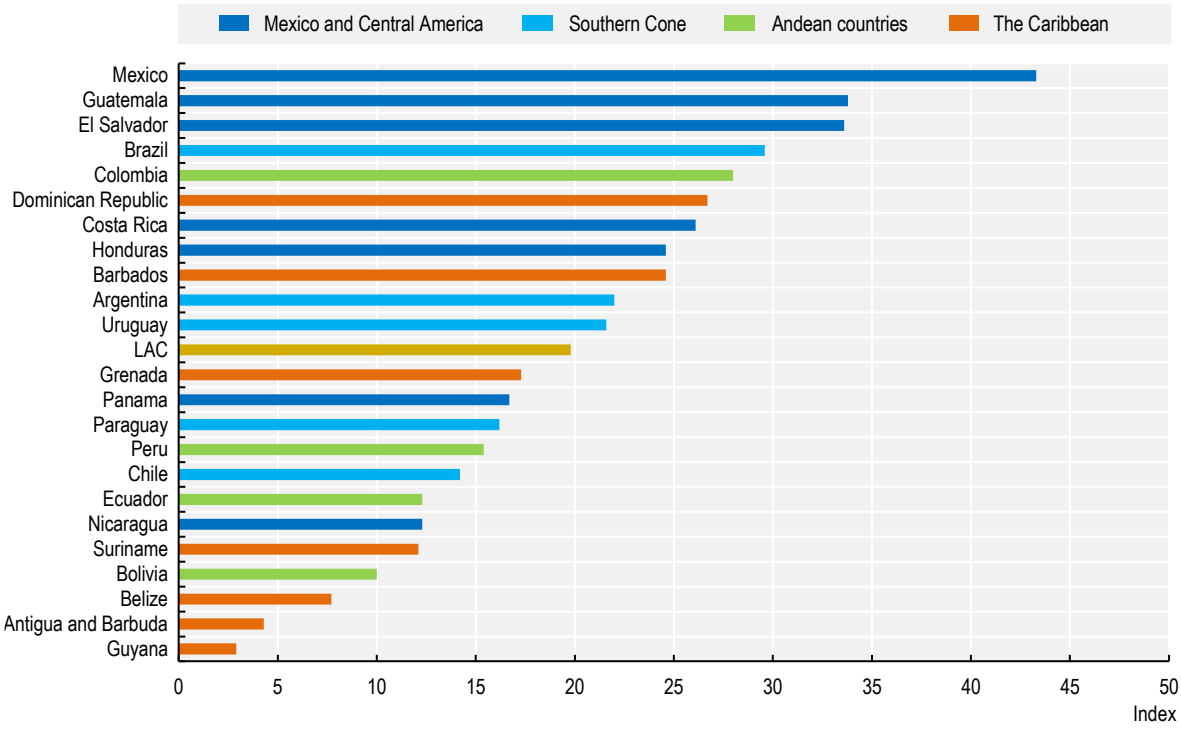
Note: Darker shades indicate higher values of the trade complementarity index between two countries. The trade complementarity index (Michaely, 1996[39]) measures the degree to which country j's export structure matches country i's import needs. Letting m_{ik} denote sector k's share in country i's total imports from the world and x^{j}_{k} its share in country j's total exports to the world, the index is defined as $c^{ij} = 100\ [1 - \Sigma_k |m_{ik} - x^{j}_{k}| / 2]$. Calculated values range from 0 (no complementarity) to 100 (perfect match).
The analysis uses 3-digit SITC product levels and the Lall (2000[79]) technological intensity classification.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

StatLink https://stat.link/8mgcn9

Trade complementarity varies significantly across countries. Economies with more diversified export structures, particularly those with a stronger presence in medium- and high-technology manufacturing, tend to exhibit greater complementarity with regional partners (Figure 2.23). Mexico stands out as the most complementary economy, reflecting its diversified manufacturing base in sectors such as automotive, electronics and machinery. Several Central American economies also show relatively high

complementarity, supported by export baskets that combine manufacturing and agro-processing activities. By contrast, economies specialised in primary products tend to exhibit much lower complementarity, as their export baskets often overlap with those of neighbouring countries, limiting opportunities for mutually beneficial and deeper intraregional trade.

Figure 2.23. Average export complementarity in LAC, 2024

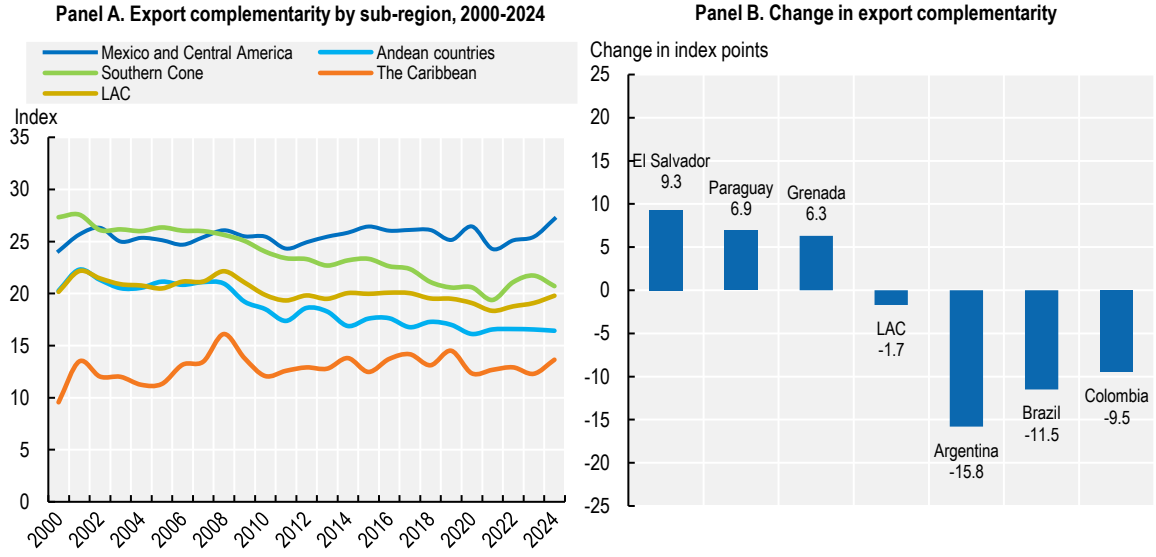


Note: Each country is averaged across all partners, yielding a summary measure of how well a country's export structure fits the representative regional importer.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

StatLink https://stat.link/08ymfs

Trade complementarity has evolved unevenly across LAC, reflecting changes in export structures. While the regional average has remained broadly stable, individual countries and subregional blocs have followed markedly different trajectories over time (Figure 2.24). Increases in trade complementarity have generally accompanied export diversification and the expansion of manufacturing activities, particularly in several Central American economies that have broadened their export base and deepened participation in light manufacturing and assembly activities. In contrast, complementarity has declined in several South American economies as exports became increasingly concentrated in primary commodities. In the region's larger commodity exporters, the commodity boom reinforced specialisation in raw materials, reducing alignment between their export baskets and regional demand. These divergent trajectories suggest that changes in export composition and productive diversification play an important role in shaping regional trade complementarities over time.

Figure 2.24. Export complementarity index, 2000-2024



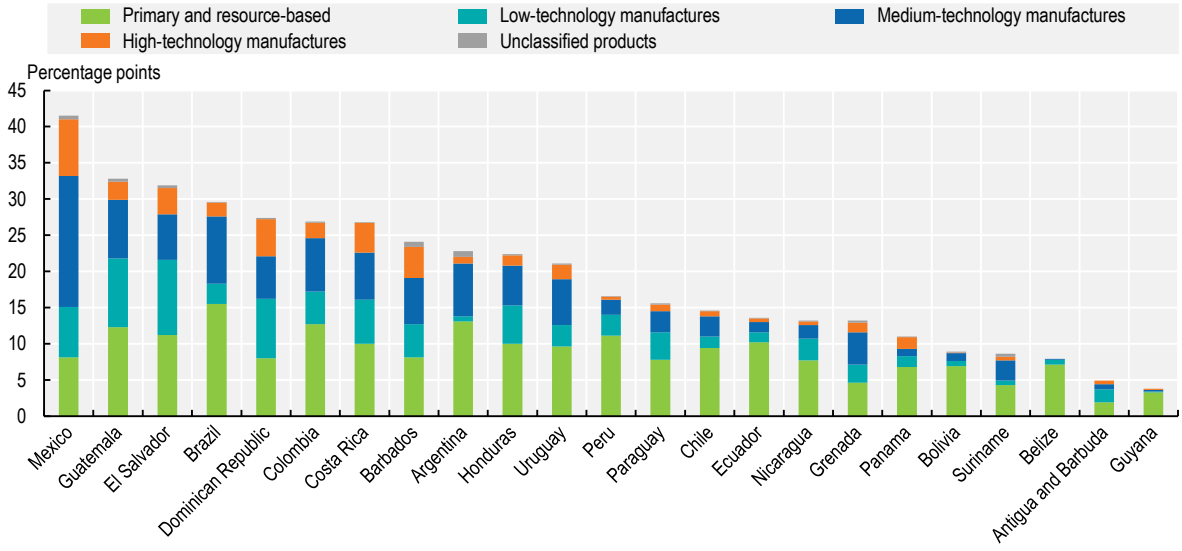
Note: Panel A shows the evolution of average export complementarity between each country and the other LAC countries. The LAC average represents the simple average across all countries and their regional partners. Subregional averages are calculated as the simple average of each country's average complementarity with all other countries in the region, including countries within the same subregion. Mexico and Central America include Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama. Andean countries include Bolivia, Colombia, Ecuador and Peru. The Southern Cone includes Argentina, Brazil, Chile, Paraguay and Uruguay. The Caribbean includes Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana and Suriname. In Panel B, changes are calculated between the periods 2001-2005 and 2020-2024.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

StatLink https://stat.link/p59glk

The sectoral composition of complementarity points to where opportunities for deeper regional trade may be strongest. Manufacturing sectors, particularly those with medium and high technological intensity, account for the greatest share of the complementarity observed across the region (Figure 2.25). This contrasts with primary products, where most countries export similar goods simultaneously, leaving limited scope for mutually beneficial trade. Medium- and high-technology manufactures tend to be more closely aligned with regional demand and are less widely supplied across countries, creating greater opportunities for complementary trade and regional production linkages. By contrast, low-technology manufacturing contributes less consistently, as production in these sectors often overlaps across economies. As a result, countries with a stronger presence in medium- and high-technology manufacturing tend to exhibit greater complementarity with regional partners. This is the case even when these sectors account for a relatively small share of total exports.

This finding suggests that what matters is not the size of the manufacturing sector per se, but rather the productive capabilities that diversify export structures and make them more responsive to regional demand. Economies with these capabilities are therefore better positioned to act as anchors for regional production networks. Broadening these capabilities across a wider set of countries and sectors would strengthen the region's capacity to transform trade complementarities into deeper productive integration. Whether these complementarities have translated into such integration effectively, however, remains an empirical question.

Figure 2.25. Sectoral contribution to the export complementarity index with LAC, 2024



Note: Stacked bars sum to the export complementarity index.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

StatLink https://stat.link/hfvnq4

A more catalytic form of regional integration can build on existing capabilities to develop production networks in strategic sectors

Regional value chains can support productive upgrading and better integration into global value chains

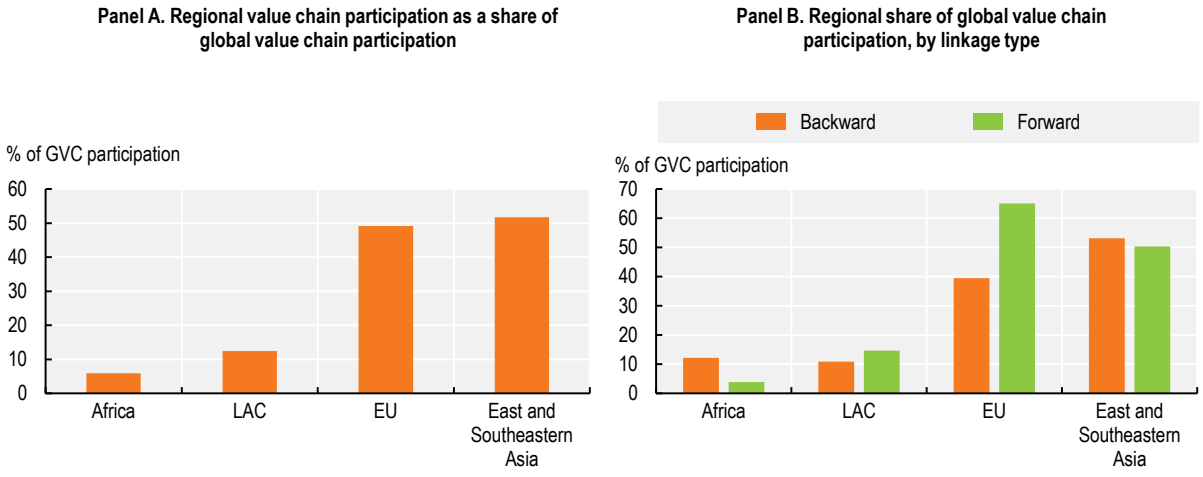
Stronger regional production integration can help LAC move into higher-value segments of GVCs. Stronger regional value chains can keep a larger share of the supply chain, inputs and production stages within the region, while providing a stepping stone towards greater participation in global value chains (OECD et al., 2025[4]; WTO, 2025[80]). By strengthening regional production networks, firms can develop productive capabilities, benefit from larger markets and gain access to inputs, technology and supplier networks that support upgrading (Brondino, Lucero and Roitbarg, 2023[81]). Regional value chains can also generate learning spillovers and facilitate specialisation in more complex activities, increasing domestic value added and enhancing competitiveness in global markets (ECLAC, 2025[82]; Hernández-Rodríguez, 2025[83]). In addition, stronger regional linkages can improve resilience by reducing supply chain complexity (ADB, 2025[84]). The experience of the European Union, North America, and East and Southeast Asia highlights how regional integration can serve as a platform for deeper participation in GVCs (Sanguinetti et al., 2021[85]).

LAC's integration into regional value chains remains limited compared with other regions. Regional value chain participation accounts for only 13% of the region's total global value chain participation, well below the European Union (49%), and East and Southeast Asia (52%) (Figure 2.26, Panel A). By type of linkage, regional backward participation represents 11% of total backward participation, while regional forward participation accounts for 15% of total forward participation. These shares remain far below those observed in the European Union (40% and 65%, respectively) and East and Southeast Asia (53% and 50%) (Figure 2.26, Panel B).

LAC's low participation in regional value chains reflects weak productive linkages and fragmented regional integration. Firms in the region source the majority of their intermediate inputs from outside the region, while intraregional trade remains concentrated in final goods. This contrasts with Europe and East and Southeast Asia, where regional value chains are more deeply integrated. LAC also lacks a strong regional production hub capable of anchoring supplier networks and scaling cross-border production linkages (Fernandes, Nievas Offidani and Winkler, 2021[47]). Despite a dense network of trade agreements, regional integration remains shallow, as overlapping rules, regulatory misalignment and complex rules of origin increase compliance costs and make multi-country supply chains difficult to organise (Blyde and Trachtenberg, 2020[46]). High transport and logistics costs further constrain regional sourcing, as infrastructure gaps, weak connectivity and border inefficiencies reduce the benefits of geographic proximity (see Chapter 3).

Several countries have begun to embed regional integration explicitly into their national productive development strategies. Colombia's *Política Nacional de Reindustrialización* and Mexico's *Plan México* both identify deeper regional integration as a strategic objective. This suggests that the institutional basis for co-ordinating productive agendas at the regional level is already emerging (ECLAC, 2025[82]).

Figure 2.26. Share of participation in regional value chains as a percentage of participation in global value chains by region, 2022



Note: LAC comprises 28 countries for which data are available: Argentina, Antigua and Barbuda, the Bahamas, Barbados, Belize, the Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela. Africa comprises 48 countries for which data are available. East and Southeastern Asia comprise ASEAN-10 economies plus China, Japan, Republic of Korea, Hong Kong (China), Macau (China), Chinese Taipei and Mongolia.
Source: Authors' calculations based on Casella et al. (2019[48]), *UNCTAD insights: Improving the analysis of global value chains: The UNCTAD-Eora Database,* https://doi.org/10.18356/3aad0f6a-en.

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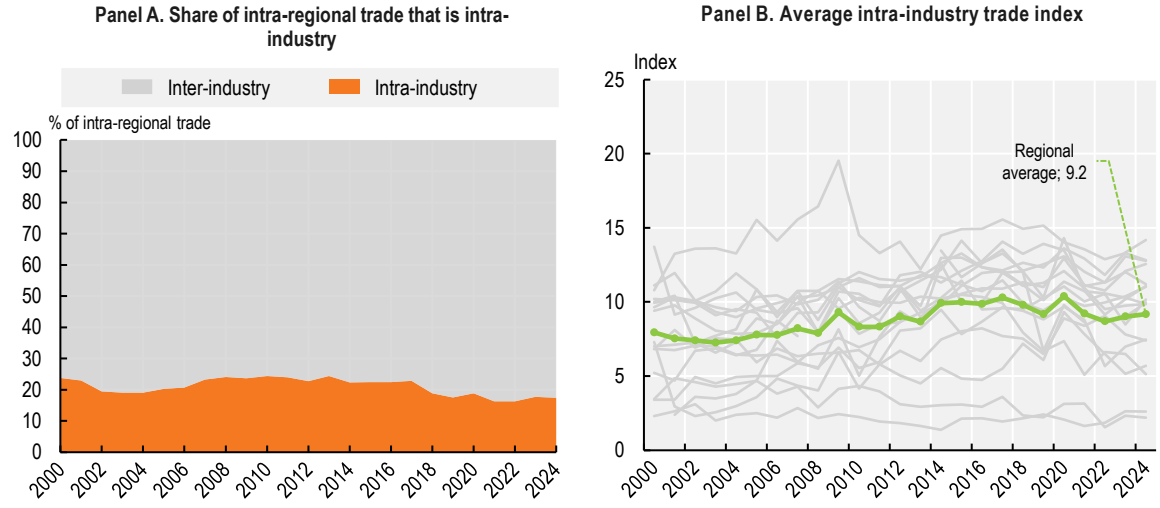
Existing intra-industry trade provides a basis for deeper regional production networks

Intra-industry trade can help identify existing capabilities on which deeper regional production networks can be built. It provides an important indication of the depth and sophistication of regional economic integration. Higher levels of two-way trade within the same industries suggest that countries are both trading on the basis of different factor endowments and sectoral specialisation, and participating in more integrated production systems and exchanging differentiated products.

Intra-industry trade remains limited across LAC. Between 2020 and 2024, around 17% of intraregional trade consisted of two-way exchanges within the same industry (Figure 2.27, Panel A). This share has remained broadly unchanged over the past two decades, suggesting limited progress in deepening productive integration across the region. Most intraregional trade continues to reflect inter-industry specialisation, whereby countries exchange goods from different sectors rather than participate in integrated production processes. Consistent with this pattern, the Grubel-Lloyd index, which measures the extent of intra-industry trade, has remained low over time (Figure 2.27, Panel B).

Figure 2.27. Intra-industry trade in Latin America and the Caribbean, 2000-2024



Note: Panel A shows intra-industry trade as a share of total bilateral trade within the region. Panel B shows the simple average of the Grubel-Lloyd index across LAC economies, with individual economies in grey. The analysis covers 17 Latin American and Caribbean economies for which bilateral product-level trade data are available throughout the period. The Grubel-Lloyd index measures the share of bilateral trade that consists of two-way exchange within the same product category. For each pair of economies, it is computed as GL = 1 − Σ|X−M| / Σ(X+M), where X and M are exports and imports of each product, and is multiplied by 100. It ranges from 0, when all trade flows in one direction, to 100, when exports and imports match exactly in every product. Products are defined at the three-digit level of the Standard International Trade Classification. Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

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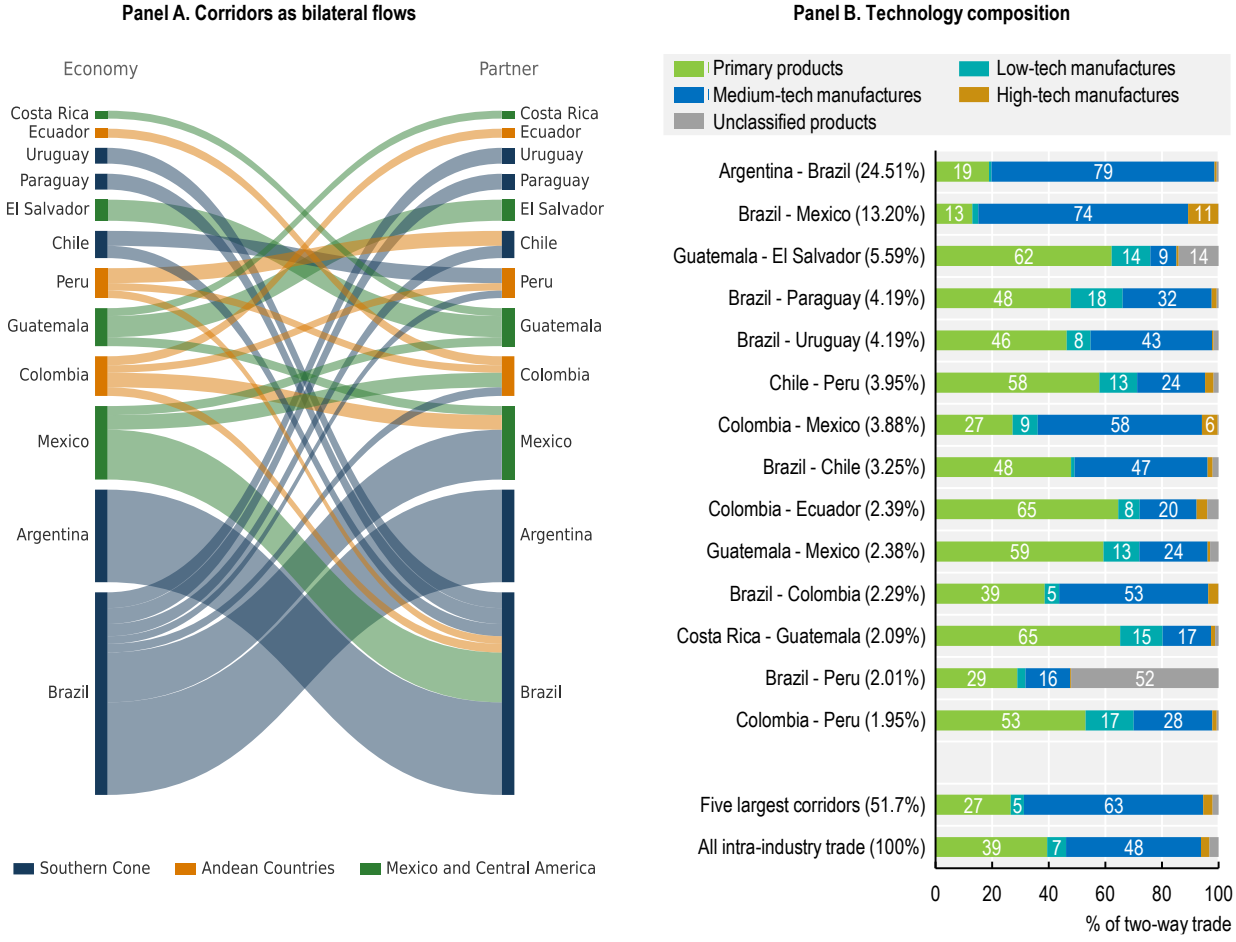
Existing productive linkages are concentrated in a relatively small number of bilateral relationships that provide a basis for deeper regional production networks. Regional productive integration is highly concentrated rather than evenly distributed across the region. A relatively small number of bilateral corridors account for nearly 80% of regional intra-industry trade, including Argentina-Brazil, Brazil-Mexico and Guatemala-El Salvador (Figure 2.28, Panel A). This concentration suggests that regional production networks are anchored by a small number of economies with stronger manufacturing capabilities, while most bilateral relationships remain weakly integrated. Deepening and extending these networks could integrate more SMEs and local suppliers, spread technology and productivity gains, and strengthen LAC's participation in global value chains.

The sectoral composition of intra-industry trade differs across bilateral networks. Manufactures account for close to 60% of two-way trade across the region. However, their share rises substantially in the leading corridors, where they represent more than 70% of intra-industry trade (Figure 2.28, Panel B). Medium-technology manufactures alone account for close to two-thirds of trade within the five largest corridors. Deeper productive integration is concentrated in corridors where stronger manufacturing capabilities are already in place. The leading intra-industry trade corridors are not uniform. Argentina-Brazil and Brazil-

Mexico are overwhelmingly manufacturing corridors, reflecting their stronger industrial bases and deeper production linkages. By contrast, Guatemala-El Salvador exhibits a different pattern, with intra-industry trade concentrated in primary products and resource-based manufactures, consistent with the agro-processing and light manufacturing activities common to both economies.

Figure 2.28. Corridors of intra-industry trade in Latin America and the Caribbean, 2020-2024



Note: Panel A shows the 14 largest bilateral corridors; each corridor appears on both sides with half its value, so that ribbon widths are proportional to two-way trade. Panel B decomposes each corridor by technology intensity, and figures in brackets indicate the corridor's share in the regional total. The analysis covers 17 Latin American and Caribbean economies for which bilateral product-level trade data are available throughout the period.

Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

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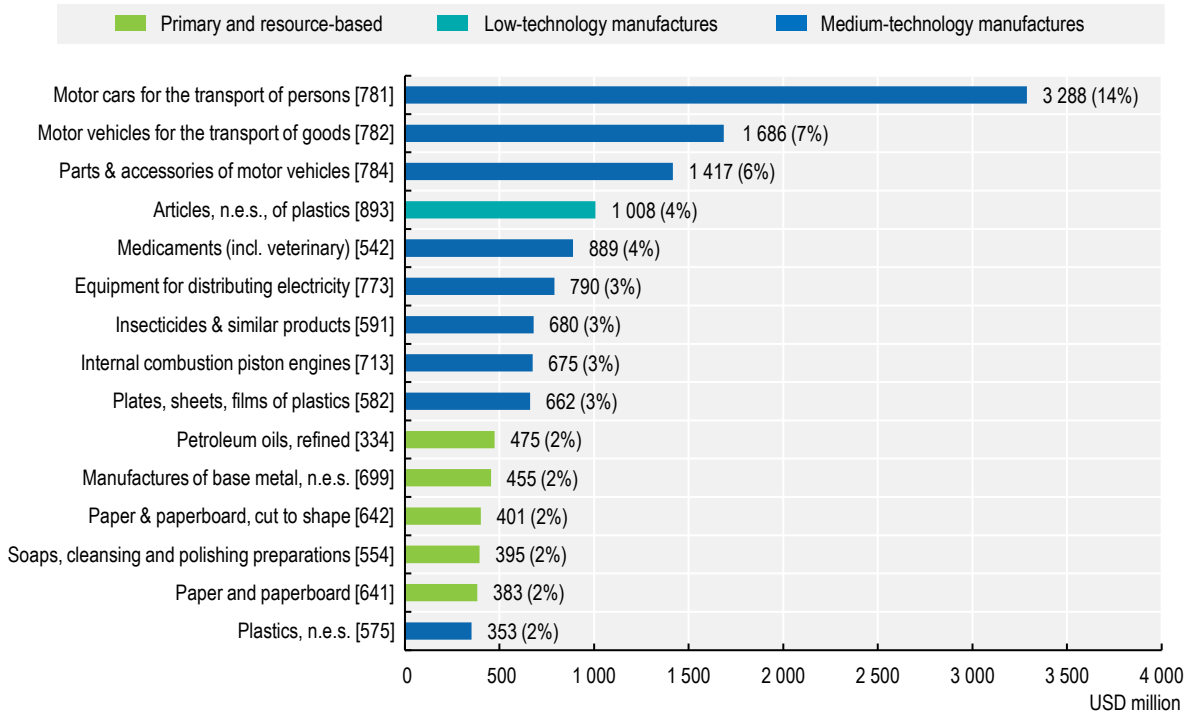
At the product level, intra-industry trade points to specific activities where deeper regional production networks could build. The three products with the largest two-way trade belong to the automotive complex, while plastics, pharmaceuticals, electricity distribution equipment and internal combustion engines also feature prominently (Figure 2.29). These products share characteristics that support regional production networks, including product differentiation, economies of scale and production processes that lend themselves to fragmentation across countries. Their prominence suggests that regional productive integration has developed primarily in activities where cross-border specialisation is technologically and economically feasible.

Figure 2.29. Products with the largest two-way trade in Latin America and the Caribbean, 2020-2024



Note: n.e.s. = not elsewhere specified. The 15 three-digit products of the Standard International Trade Classification have the largest two-way trade across all bilateral relationships, annual average of the period; percentages correspond to shares in the regional total. The analysis covers 17 Latin American and Caribbean economies for which bilateral product-level trade data are available throughout the period.
Source: Authors' calculations based on UN Comtrade via World Bank (2025[36]), *World Integrated Trade Solution*, https://wits.worldbank.org.

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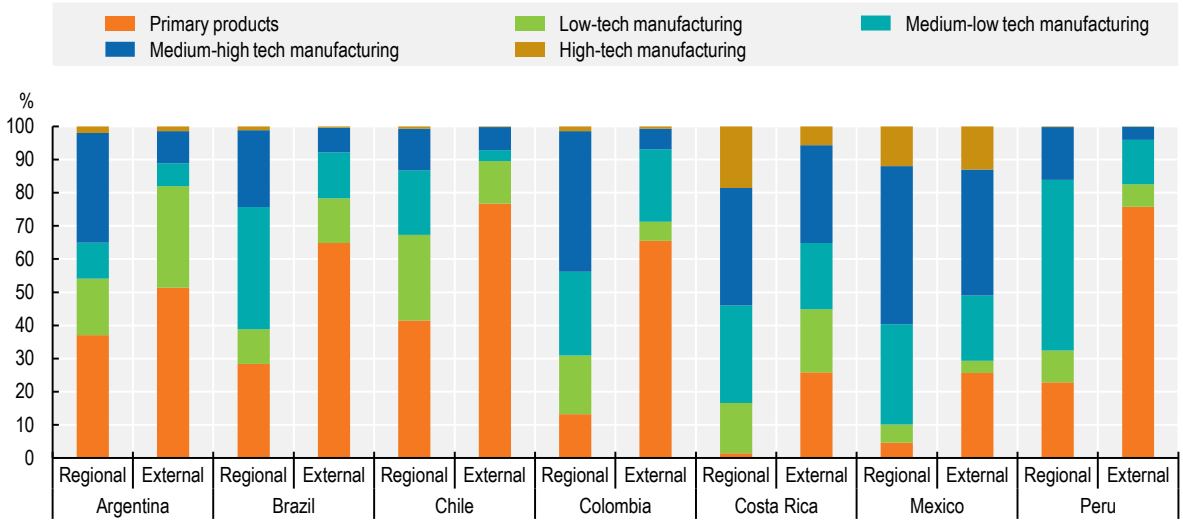
There is potential to deepen regional value chains and increase value added within the region

Intraregional trade in intermediate goods is more diversified and sophisticated than extraregional trade, offering opportunities for value chain upgrading in LAC. Value chains are driven by cross-border trade in intermediate inputs, which can generate both backward and forward linkages by drawing on inputs from multiple sectors and supplying goods and services used by other industries. Across seven LAC economies, intermediate trade within the region has a stronger manufacturing and medium-technology component than trade with extraregional partners. In Brazil, primary products account for 65% of extraregional intermediate exports, while medium-low and medium-high technology manufactures represent 60% of intraregional trade (Figure 2.30). A similar pattern is observed in Colombia, where primary products account for 66% of extraregional intermediate exports, compared with 68% of intraregional trade in medium-low and medium-high technology manufactures. In Peru, primary products represent 75% of extraregional intermediate exports, while medium-low technology manufacturing accounts for 51% of intraregional trade. Costa Rica has a more diversified export structure, but the regional market still has a stronger technology component. Medium-high technology manufactures account for 35% of intraregional intermediate exports compared with 30% of extraregional exports, while the corresponding shares for high-technology manufacturing are 19% and 6%.

Figure 2.30. Intraregional and extraregional exports of intermediate goods, 2022



Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

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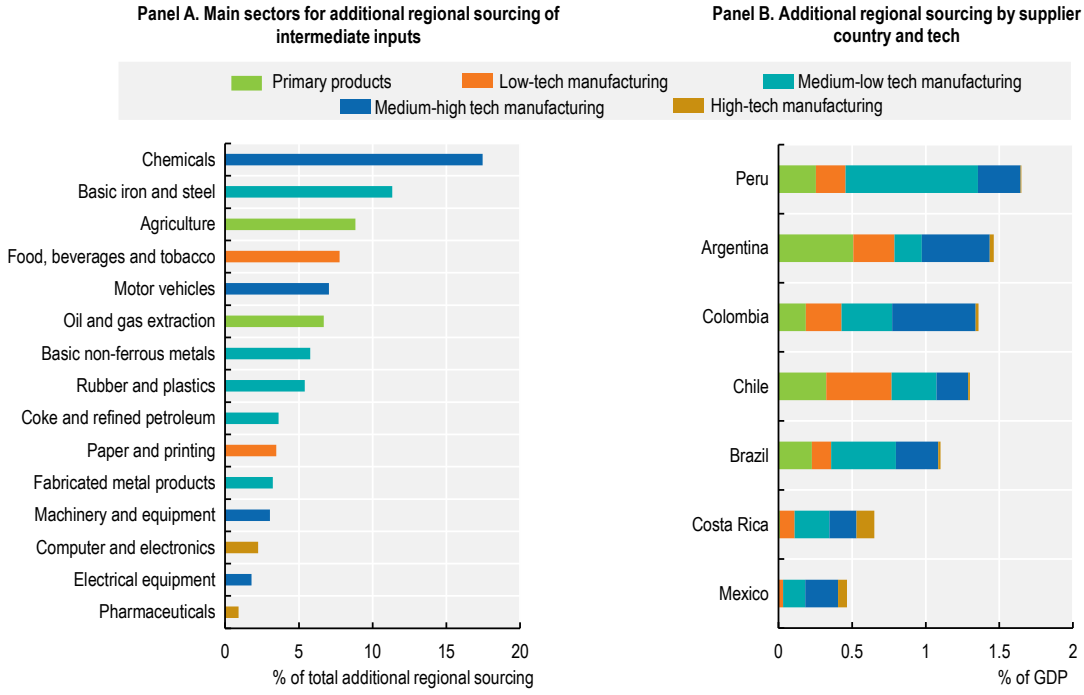
There is scope for expanding regional trade of intermediate inputs, although its scale and composition vary across sectors and countries. Analysis covering seven LAC economies estimates that up to USD 46.4 billion in intermediate inputs currently sourced outside the region could instead be sourced regionally (Box 2.3). This represents around 9% of LAC's current imports of these goods from extra-regional partners. Chemicals account for the largest share of this additional regional sourcing, at 18% of the total, followed by basic iron and steel (11%), agriculture (9%) and food, beverages and tobacco (8%) (Figure 2.31, Panel A). The opportunities also extend to more technology-intensive manufacturing, including motor vehicles (7%), machinery and equipment (3%), computers and electronics (2%) and electrical equipment (2%). The scale and technological composition of this additional sourcing also vary across supplier countries. The scope for additional regional sourcing from Peru is equivalent to 1.6% of Peru's GDP, compared with 1.5% of GDP in Argentina, 1.4% in Colombia and 1.3% in Chile (Figure 2.31, Panel B). In Peru, this sourcing is concentrated in medium-low-technology activities, while medium-high-technology manufacturing plays a larger role in Colombia, Argentina and Brazil. Costa Rica and Mexico present smaller figures relative to their economic size, at 0.65% and 0.47% of GDP respectively, but with a relatively greater contribution from medium high and high technology-intensive activities.

Figure 2.31. Opportunities for expanding regional sourcing of intermediate inputs across sectors and countries



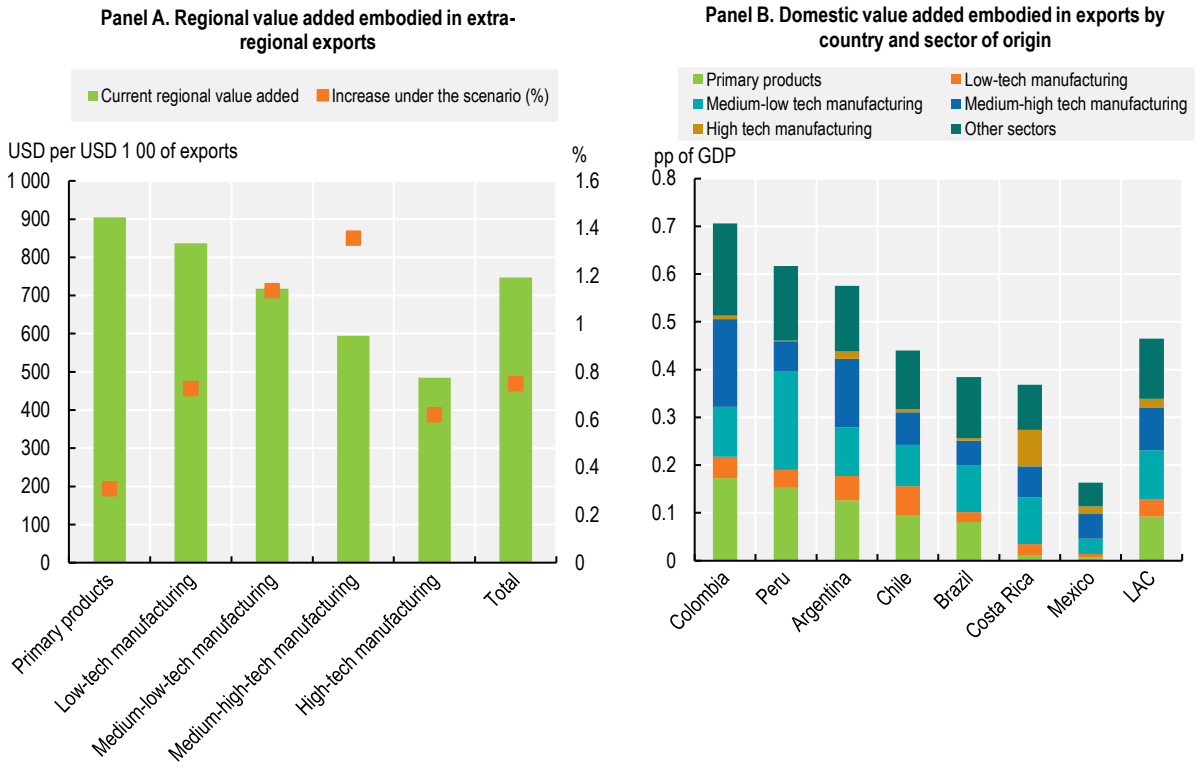
Note: Additional regional sourcing is estimated by scaling up existing regional sourcing relationships according to the methodology described in Box 2.3.
Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

StatLink https://stat.link/ahtbk1

Deeper regional value chains could increase the value added generated within LAC and embodied in its exports. A simulation reallocating up to 10% of extraregional intermediate sourcing towards regional suppliers increases regional value-added content across all technological groups, with the largest relative increases in medium-high-technology (1.4%) and medium-low-technology manufacturing (1.14%) (Figure 2.32, Panel A). Domestic value-added gains also vary across countries. On average in LAC, the reallocation increases domestic value added embodied in exports by 0.47 percentage points of GDP, ranging from 0.71 percentage points in Colombia, 0.62 in Peru and 0.58 in Argentina to 0.44 in Chile, 0.39 in Brazil, 0.37 in Costa Rica and 0.16 in Mexico (Figure 2.32, Panel B). Medium-high-technology manufacturing contributes more to these gains in Colombia and Argentina, while medium-low-technology manufacturing plays a larger role in Peru. Gains also extend to other sectors, including services, reflecting the production linkages that connect exporting industries with upstream activities such as transport, logistics, finance, ICT and other business services (Miroudot and Cadestin, 2017[22]).

Figure 2.32. Effects on value added of increasing regional sourcing of intermediate inputs

Scenario reallocating up to 10% of extraregional intermediate sourcing towards regional suppliers



Note: For methodology, please refer to Box 2.3.
Source: Authors' calculations based on OECD (2024[31]), *Trade in Value Added (TiVA)*, https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html.

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Box 2.3. Assessing the effects of increased intraregional sourcing of intermediate inputs

This exercise assesses the scope for increasing intraregional sourcing of intermediate inputs and its effects on value added generated within LAC. It first identifies the sectors where regional sourcing could increase and how this additional sourcing is allocated across supplier countries and then simulates the regional and domestic value-added effects of increasing regional sourcing.

The analysis builds on the hypothetical extraction approach used by Brondino et al. (2023[81]), which reallocates intermediate inputs sourced outside the region towards regional suppliers within an input-output framework. The analysis adapts this approach to seven LAC economies and introduces additional importer and supplier-side constraints based on observed trade patterns.

1) Identifying the scope for additional regional sourcing. For each importing country-sector, the exercise compares the value of intermediate inputs sourced within LAC with those sourced outside the region and identifies the regional suppliers already serving that market. It then estimates the USD value of extraregional sourcing that could be reallocated to these existing regional suppliers, based on their observed regional and extraregional trade. This amount is subject to two constraints:

- **Importer-side constraint:** additional regional sourcing cannot exceed either the value already sourced regionally or the value currently sourced outside the region.
- **Supplier-side constraint:** additional sales allocated to each supplier-sector across all regional buyers cannot exceed the value that the supplier-sector currently exports outside the region.

The resulting amount of additional regional sourcing is decomposed by sector to estimate each sector's share of the total. It is also allocated across the existing regional supplier countries, in proportion to their current shares in each importing country-sector's regional sourcing.

2) Simulating the value-added effects. The simulation assumes that LAC countries reallocate 10% of their extraregional intermediate sourcing towards regional suppliers.

The resulting increases in value added are estimated using the input-output framework underlying the OECD TiVA methodology:

- **Regional value added embodied in extraregional exports** measures the value added generated across the seven LAC economies and embodied in their exports outside the region.
- **Domestic value added embodied in exports** measures the value added generated within each country each country and sector of origin, including through domestic production linkages.

The analysis uses the OECD Inter-Country Input-Output (ICIO) tables underlying the 2025 edition of the OECD Trade in Value Added (TiVA) database and covers Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru in 2022.

The OECD Trade in Value Added (TiVA) database measures the value added by each country in the production of goods and services traded internationally, providing a more accurate picture of global trade flows and countries' participation in global value chains than conventional trade statistics.

The results represent a stylised scenario based on observed trade relationships. The exercise does not account for changes in production capacity, prices, product characteristics, trade costs or other factors that may affect sourcing decisions.

Emerging opportunities in high-technology niches and critical minerals can support diversification into higher value-added activities

High-technology exports in LAC are concentrated in a few economies. In 2024, Mexico accounted for 85% of the region's high-technology exports and led in 18 of its 20 main high-technology export products. Light vehicles represented the largest export category, reaching USD 25 billion (Table 2.1). Brazil remained the region's second-largest high-technology exporter. Although its share of regional high-technology exports declined from 15% in 2005 to 7% in 2024, the country continues to maintain a sophisticated industrial base, with successful examples such as Embraer, the world's third-largest manufacturer of commercial aircraft, which showcases high-technology production chains in the global aerospace industry.

Several countries have also developed competitive niches in activities with high value added, highlighting the region's potential for productive transformation. Costa Rica and the Dominican Republic have leveraged strategic investment attraction and free trade zones to become global leaders in medical devices. In Costa Rica, the proactive co-ordination between the government and multinational firms has allowed for a transition from simple assembly to the production of high-precision cardiovascular and orthopaedic equipment. In terms of modern services exports, Brazil is the regional leader (33%), followed by Argentina (10%) and the rapid emergence of Costa Rica, which reached a 10% share in 2024 (Table 2.1). These pockets of excellence demonstrate that with active productive development and trade policies, regional economies can insert themselves effectively into high value-added segments.

Shifts in global demand and technology could create further opportunities to build on these capabilities (see Chapter 1). Growing demand associated with artificial intelligence (AI) and semiconductors could provide opportunities for countries such as Mexico and Costa Rica to move beyond assembly into higher-value activities, including testing, packaging and design services. At the same time, greater regional co-operation around lithium value chains in Argentina, Bolivia and Chile, and emerging green hydrogen activities in Chile and Colombia, could support development of new high-technology activities linked to electromobility and sustainable energy. Realising these opportunities will require addressing persistent technological gaps and strengthening local suppliers, specialised human capital, and the capacity to adopt and develop advanced technologies.

Table 2.1. Latin America and the Caribbean: Main exporting countries of the region's leading high-technology goods exports, 2024

	Harmonised commodity description and coding system (HS) code	Product name	Main exporting countries and value exported (*USD million*)
1	870431	Gasoline vehicles ≤5 t	Mexico (25 354), Brazil (900), Argentina (35)
2	847150	Digital processors	Mexico (20 122), Brazil (24)
3	870120	Road tractors	Mexico (12 171), Brazil (1 167)
4	852520	Transmitters with reception and recording or reproducing apparatus	Mexico (12 631), Brazil (175), Dominican Republic(80), Chile (57)
5	852812	Colour television with radio or recording apparatus	Mexico (10 753), Chile (18), Colombia (14)
6	901890	Medical or dental instruments	Mexico (6 957), Costa Rica (2 309), Dominican Republic (1 104), Brazil (54)
7	870421	Diesel vehicles ≤5 t	Argentina (4 282), Mexico (3 728), Brazil (320), Uruguay (287)
8	853710	Electrical panels ≤1 000 V	Mexico (7 963), Brazil (157), Colombia (20), Costa Rica (12)
9	870390	Passenger vehicles	Mexico (5 785), Brazil (463)
10	870422	Diesel vehicles 5-20 t	Mexico (5 034), Brazil (362), Colombia (49), Guatemala (11)
11	847149	Non-portable digital systems	Mexico (4 711)
12	300490	Medicines n.e.s.	Mexico (1 510), Brazil (466), Argentina (377), Guatemala (318)
13	854213	Metal oxide semiconductor (MOS) integrated circuits	Mexico (3 398), Brazil (106), Costa Rica (75), Colombia (18)
14	854389	Specialised electrical equipment	Mexico (3 331), Brazil (58), Costa Rica (16)
15	850440	Electrical static converters	Mexico (3 163), Brazil (137)
16	851220	Vehicle lights or signals	Mexico (2 697), Brazil (132), Costa Rica (46)
17	880240	Aircraft >15 t	Brazil (2 215), Trinidad and Tobago (30), Bolivia (Plurinational State of) (27), Colombia (23)
18	870423	Diesel vehicles >20 t	Mexico (1 632), Brazil (562), Chile (51), Colombia (10)
19	903289	Automatic controlling instruments, excluding hydraulic or pneumatic instruments	Mexico (1 948), Brazil (190)
20	847330	Parts and accessories for data processing equipment and readers	Mexico (2 068), Costa Rica (39), Brazil (24)

Note: n.e.s. = not elsewhere specified.
Source: Authors' elaboration based on UN Comtrade (2024[5]), *UN Comtrade*, https://comtradeplus.un.org/.

Opportunities for upgrading also extend to critical minerals. Intraregional exports of metal ores remain around 60% below their estimated structural potential, pointing to considerable scope for stronger regional

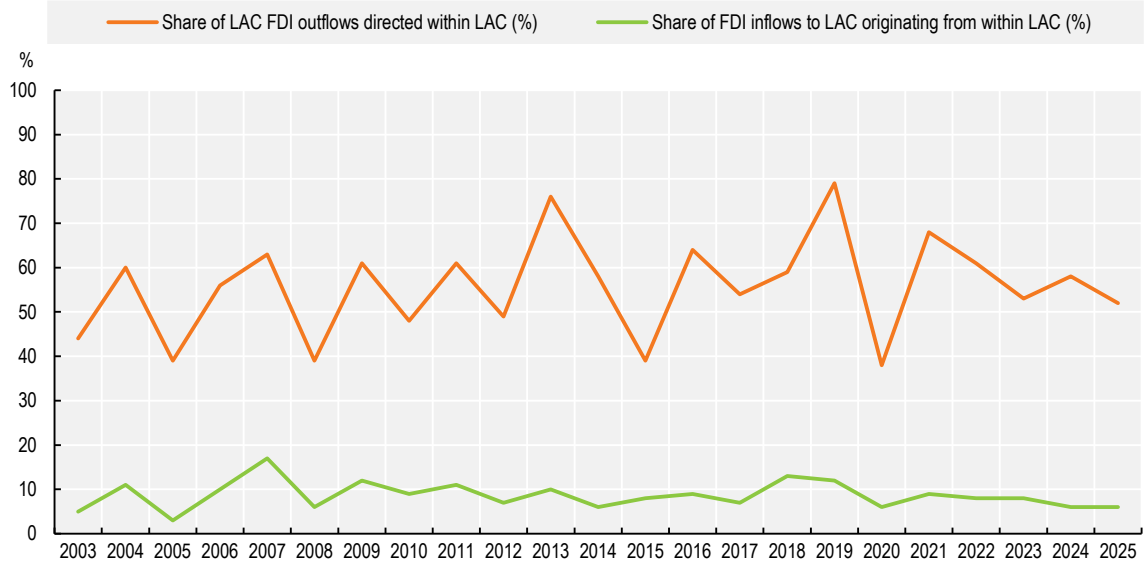
trade and productive linkages. At the same time, 62% of LAC's critical-mineral exports between 2019 and 2023 consisted of unprocessed or only basically refined products, highlighting the limited value currently retained in the region (ECLAC, 2025[86]). By connecting complementary capabilities in extraction, processing, manufacturing and related services across countries, regional integration could support local suppliers and strengthen LAC's position in critical-mineral value chains (UNCTAD, 2025[87]; UNCTAD, 2025[88]). (see Chapter 1).

Intraregional investment is key to increase productive regional integration

Intraregional FDI can play an important role in strengthening the region's productive integration and global competitiveness. Beyond providing capital, FDI between countries within the region helps build cross-border supplier networks, supports the development of regional value chains, and increases trade in intermediate goods and services (Comotti, Crescenzi and Iammarino, 2020[89]). By linking production across neighbouring economies, intraregional FDI can deepen regional economic integration while improving resilience to global disruptions through shorter and more diversified supply chains (World Bank, 2020[90]). It can also facilitate the transfer of technology, managerial know-how and skills, helping domestic firms upgrade capabilities and move into activities with higher value added (OECD, 2022[57]; OECD, 2023[91]). In this way, stronger intraregional investment can help the region both trade more within itself and also compete more effectively in global markets (ADB, 2017[92]).

LAC firms invest a substantial share of their outward FDI within the region, yet most FDI received by LAC continues to originate from extraregional sources. Over 2003-2025, on average, 56% of greenfield FDI announcements originating from LAC was invested elsewhere within the region. By contrast, only 9% of total FDI inward greenfield announcements into LAC originated from other LAC economies (Figure 2.33). This means that, while LAC firms allocate a large share of their outward investment within the region, these flows remain small relative to the much larger volumes of extraregional capital entering LAC.

Figure 2.33. Intraregional shares of FDI in LAC, 2003-2025



Note: FDI refers to announced greenfield investment projects measured by capital expenditure (capex). The share of LAC FDI outflows is defined as the proportion of total FDI originating from LAC economies that is invested within the region as a percentage of total investment. The share of FDI inflows to LAC is defined as the proportion of total FDI received by LAC economies that originates from within the region as a percentage of total investment.

Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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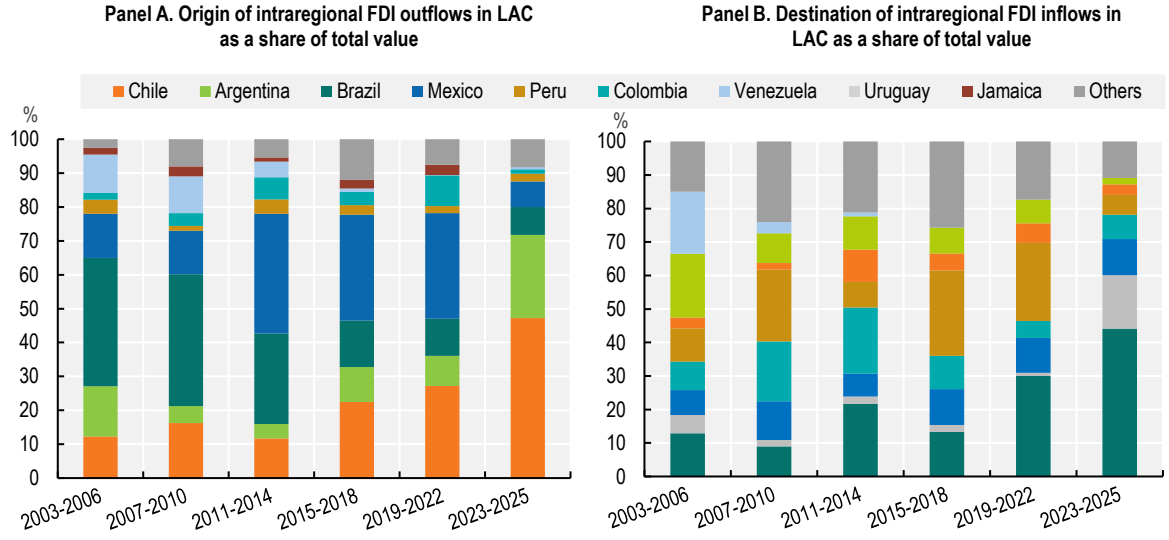
Intraregional FDI in LAC remains concentrated in a few economies

Intraregional investment in LAC remains concentrated among a small number of economies, although the composition of leading investors and recipients has shifted over time (Figure 2.34). On the outward side, Chile has recently become the largest source of intraregional greenfield FDI announcements (47.2% of outflows in 2023-2025), with Argentina emerging as the second largest (24.6%). Chile has long been one of the region's main intraregional investors, directed mainly to Brazil; its outward FDI rebounded strongly in 2025 after declining the previous year (ECLAC, 2026[52]). This marks a shift from earlier periods, when Brazil and Mexico were the main regional investors (Figure 2.34, Panel A). On the receiving side, Brazil has emerged as the main recipient of intraregional inflows (44.1% in 2023-2025), followed by Uruguay (16%), whereas in earlier periods the leading destination rotated among Argentina, Peru and Colombia (Figure 2.34, Panel B). Considering FDI inflows, Central America stands out as the subregion with the strongest investment-based integration, with approximately 35% of its FDI inflows originating from LAC (ECLAC, 2026[52]).

Figure 2.34. Origin and destination of intraregional FDI in LAC, 2003-2025



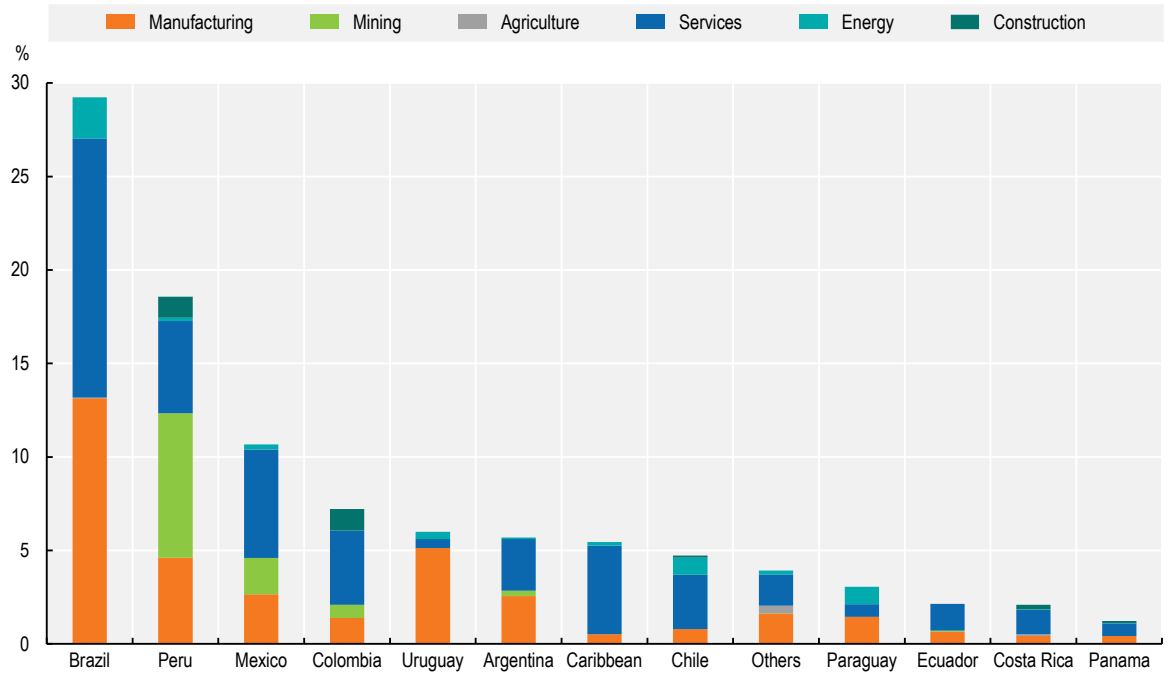
Note: Foreign direct investment (FDI) refers to announced greenfield investment projects measured by capital expenditure (capex). The figure shows the distribution of the main economies involved in intraregional FDI flows. In Panel A, "Others" comprises Antigua and Barbuda, the Bahamas, Barbados, the Plurinational State of Bolivia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, Saint Kitts and Nevis, Saint Lucia, Trinidad and Tobago, and Uruguay. In Panel B, "Others" comprises the Bahamas, Barbados, Belize, the Plurinational State of Bolivia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Saint Lucia, Suriname, and Trinidad and Tobago.
Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

StatLink https://stat.link/8ejpw3

The sectoral profile of intraregional FDI varies considerably across LAC economies

Intraregional FDI reflects different patterns of economic specialisation across LAC economies. Over the 2015-2025 period, manufacturing and primary activities together accounted for 46.6% of total intraregional inward announcements, and services for a further 45.2%. The remaining 8.1% of activities were directed to the energy and construction sectors (Figure 2.35). Structural profiles nonetheless vary considerably across the region. They range from economies with diversified flows between manufacturing and services, (such as Brazil and Mexico) to others more specialised (such as Uruguay in manufacturing and the Caribbean in services).

Figure 2.35. Sectoral composition of intraregional greenfield FDI inflows in LAC, 2015-2025 (as a percentage of total intraregional FDI inflows)



Note: Foreign direct investment (FDI) refers to announced greenfield investment projects measured by capital expenditure. The "Others" category includes the Plurinational State of Bolivia, El Salvador, Guatemala, Honduras, Nicaragua and Venezuela. The Caribbean aggregate comprises the Bahamas, Barbados, Belize, Cuba, Dominica, the Dominican Republic, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Suriname, and Trinidad and Tobago.
Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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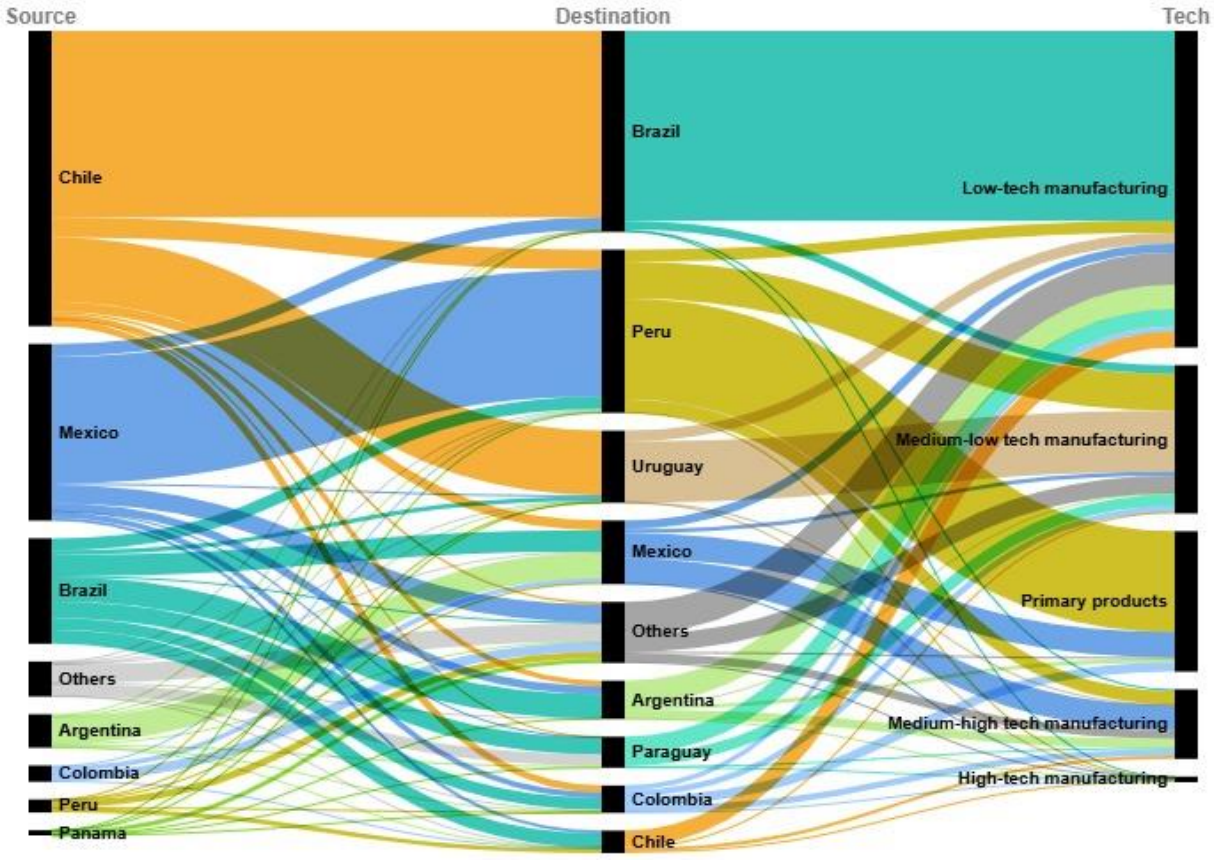
Intraregional FDI remains concentrated in lower-technology and lower R&D-intensity activities

Within manufacturing and primary sectors, inflows of intraregional announced greenfield FDI is concentrated in activities with lower value added. Over 2015-2025, low-technology manufacturing accounted for 46.5% of intraregional inflows of capital investment in manufacturing and primary activities. This was followed by medium-low technology manufacturing (21.8%) and primary products (20.6%). Together, these lower-value activities represented 89% of intraregional announced inflows in manufacturing and primary activities. In contrast, medium-high technology manufacturing represented 10.2% of investment in these sectors, while high-technology manufacturing remained marginal (0.8%) (Figure 2.36). This concentration reflects a few large corridors rather than a broad regional pattern. In low-technology manufacturing, the Chile to Brazil investment corridor accounts for 58% of all low-technology manufacturing intraregional investment. In primary activities, the concentration was even higher, with 90% of investment driven by two bilateral relationships: Mexico investing in Peru and Argentina investing in Mexico (Figure 2.36).

Figure 2.36. Intraregional greenfield FDI flows in primary and manufacturing sectors in LAC, by origin, destination and technology intensity, 2015-2025



Note: Foreign direct investment (FDI) refers to announced greenfield investment projects measured by capital expenditure. Capital investment corresponds to ISIC Rev.4 Divisions A-C, covering the primary sector and manufacturing industries. Manufacturing sectors are classified by technology intensity and services by R&D intensity, following the OECD Technology Classification (ISIC Rev.4).
Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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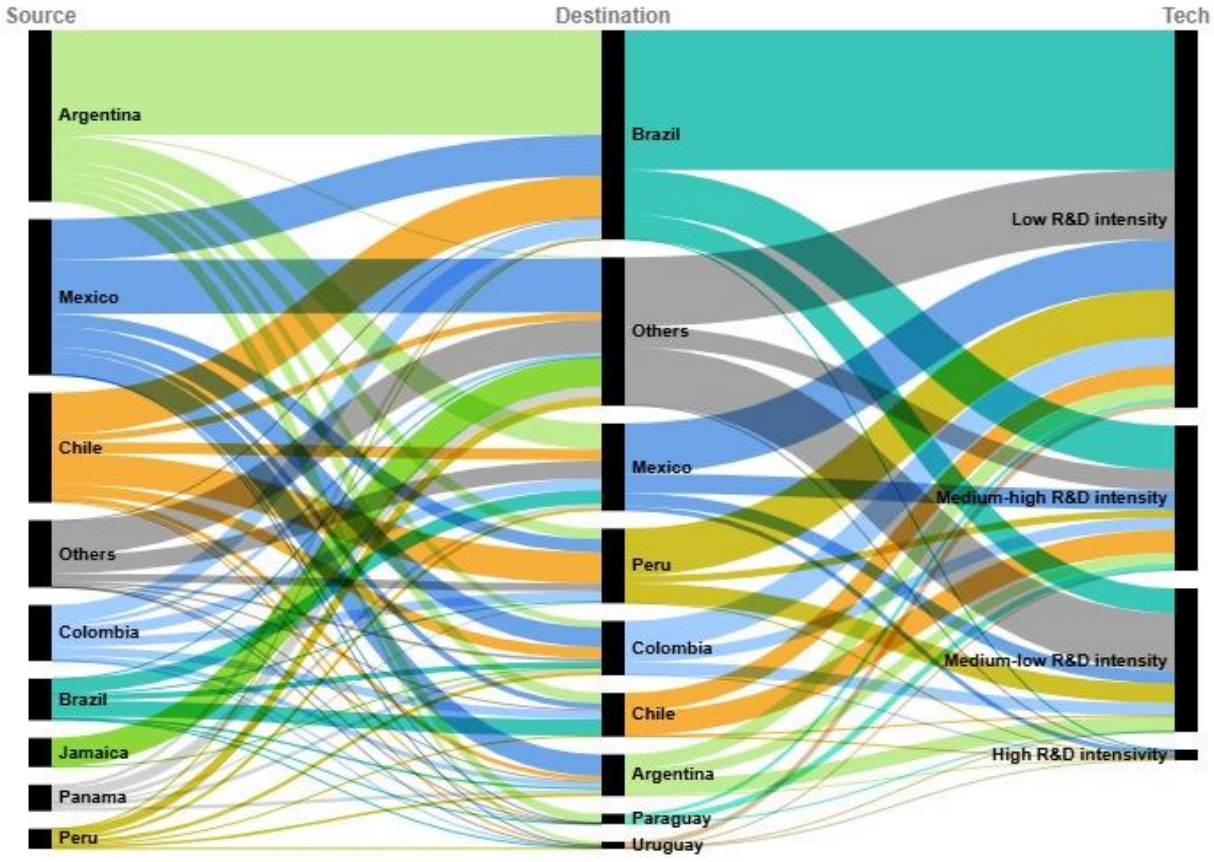
In services, intraregional announced greenfield FDI shows a similar pattern, with intraregional investment concentrated in lower R&D-intensity activities. Over 2015-2025, low R&D-intensity services accounted for 55.8% of intraregional FDI inflows in services, followed by medium-high (21.4%) and medium-low R&D-intensity services (21.2%). High R&D-intensity services remained marginal, representing 1.6% of intraregional inflows in services (Figure 2.37). Brazil stands out as the main hub for higher-value services; it is both the largest recipient and, as a source, the most technology-oriented investor. More than 80% of its outward services investment is in medium-high and high R&D-intensity activities, directed mainly to Chile and Mexico (Figure 2.37).

Figure 2.37. Intraregional greenfield FDI flows in services in LAC, by origin, destination and technology intensity, 2015-2025



Note: Foreign direct investment (FDI) refers to announced greenfield investment projects measured by capital expenditure. Capital investment corresponds to ISIC Rev.4 Divisions G-J, covering the services sectors. Services sectors are classified by R&D intensity, following the OECD Technology Classification (ISIC Rev.4). The "Others" category includes the Bahamas, Barbados, Belize, Cuba, Dominica, the Dominican Republic, Guyana, Haiti, Jamaica (destination panel), Saint Kitts and Nevis, Saint Lucia, Suriname, Trinidad and Tobago, and other LAC economies that are not shown individually for readability.
Source: Authors' calculations based on Financial Times (2026[53]), *fDi Markets*, http://www.ftlocations.com/products-and-services/fdi-markets.

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Productive development policies can foster regional integration and stronger global positioning

PDPs can play a central role in strengthening regional integration and enhancing the region's position in global markets. By combining horizontal and vertical interventions that support productivity growth, structural transformation and innovation, PDPs can help firms connect more effectively to regional and GVCs, foster cross-border productive linkages, and promote more inclusive and sustainable development patterns. In this way, they provide a critical policy framework for translating emerging economic opportunities into deeper regional integration and greater international competitiveness (Llinás and Salazar-Xirinachs, 2023[93]; ECLAC, 2024[64]; ECLAC, 2026[94]; OECD et al., 2025[4]).

The PDPs and regional integration can reinforce each other. Regional markets provide the scale and complementarities needed to support the development of strategic sectors, including clean-energy technologies, semiconductors, pharmaceutical inputs, digital services and advanced manufacturing

(ECLAC, 2026[94]). In turn, PDPs with a regional orientation can foster deeper productive integration by encouraging cross-border value chains through co-ordinated cluster initiatives, common standards, regional content requirements and joint public procurement mechanisms (ECLAC, 2024[64]). Together, these policies can strengthen regional productive capacities, boost competitiveness and enhance the region's global positioning.

Regional integration also expands the scope of internationalisation within PDPs. Beyond promoting exports or attracting foreign investment, regional integration enables countries to connect regional productive structures with external sources of technology, knowledge and innovation, while facilitating engagement with the productive development strategies of other regions (ECLAC, 2025[9]). In this context, the investments, standards, demand signals and learning spillovers generated by the PDPs of leading regional economies can accelerate the productive upgrading of smaller or less diversified economies (ECLAC, 2024[64]). Regional integration provides the institutional framework and market conditions needed to unlock these spillovers and strengthen collective productive development.

Emerging national strategies suggest that this regional approach to productive development is already taking shape. Brazil's *Nova Indústria Brasil*, Colombia's *Política Nacional de Reindustrialización*, Mexico's *Plan México* and Peru's *Política Nacional de Desarrollo Industrial* reflect a new generation of PDPs. These are characterised by sector prioritisation, high-level political leadership, territorial approaches and productive articulation initiatives, with some also incorporating regional integration as a strategic objective (ECLAC, 2025[9]). Colombia's reindustrialisation policy explicitly identifies deeper integration with Latin America and the Caribbean as a policy goal, while Mexico's *Plan México* highlights continental integration as a driver of industrial upgrading. Together, these initiatives demonstrate that the foundations for a regional productive development agenda already exist. This creates opportunities to build on national strategies through greater regional co-ordination and co-operation.

The main obstacle to regional integration is no longer the absence of national strategies, but rather the lack of regional co-ordination among them. Most PDPs in LAC continue to operate in isolation, with weak articulation between national industrial strategies and regional integration mechanisms, limiting opportunities to build regional value chains and exploit economies of scale. The region's intraregional trade share remains among the lowest globally. Regional value chains in LAC are shallow compared to those of East Asia or the European Union, where deep integration has historically amplified the productivity gains from PDPs (OECD et al., 2025[4]). Overcoming this fragmentation will require stronger regional productive agendas in areas of common interest, greater policy learning across countries, more effective use of regional platforms and stronger governance arrangements to support PDPs with a regional scope (ECLAC, 2026[94]). Developing the technical, operational, political and prospective capacities needed to sustain this agenda will be critical for translating national productive strategies into a coherent regional development project (ECLAC, 2024[64]; ECLAC, 2026[94]; OECD et al., 2025[4]).

Escaping the low-productivity, low-growth trap that constrains the region will require moving beyond this fragmentation. Key priorities include:

- building regional productive agendas in sectors with convergence among the productive priorities established by countries and territories under their PDPs (e.g. sectors related to the energy transition)
- exchanging good – and bad – practices in PDP design and implementation across countries
- strengthening regional platforms and instruments such as REDEPRO (the Network of Subnational Governments for Productive Development), the IAP Platform (which already brings together more than 475 cluster and productive articulation initiatives from 20 countries) and the CELAC Food Security Plan
- addressing the governance gap, given that the region may be lacking adequate institutional arrangements to co-ordinate a truly regional productive development agenda (ECLAC, 2026[94]).

Building these governance foundations – alongside the technical, operational, political and prospective state capacities needed to design, implement and evaluate PDPs with a regional scope – represents one of the most significant institutional challenges and opportunities on LAC's development horizon (ECLAC, 2024[64]; ECLAC, 2026[94]; OECD et al., 2025[4]).

Beyond trade and investment: Broader dimensions of regional integration

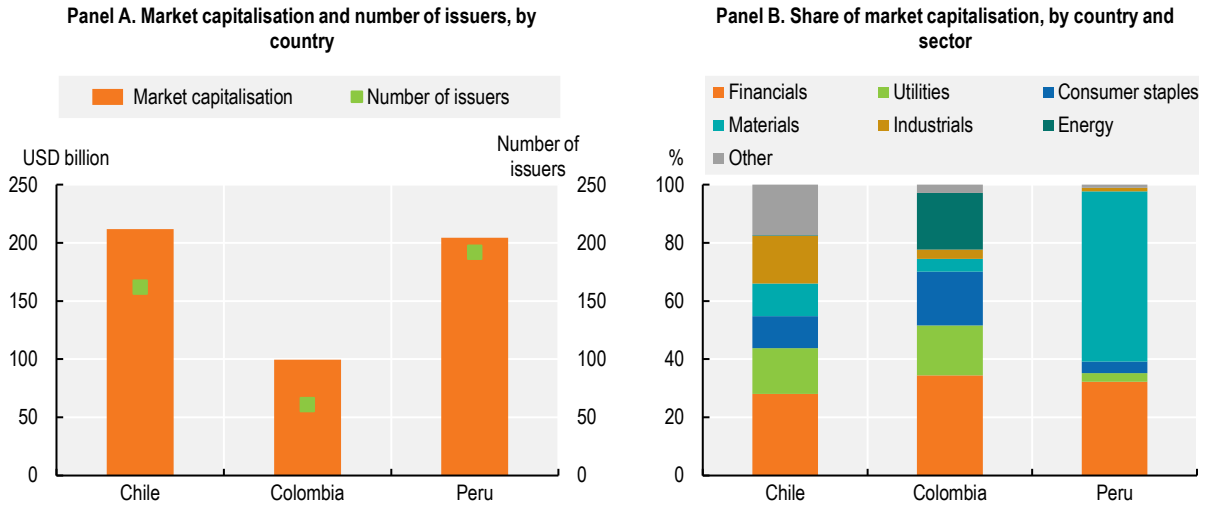
Financial markets in LAC have expanded significantly over the past three decades, but further efforts are needed to deepen and integrate them

Financial sector development in LAC has been uneven, supporting large firms while leaving smaller enterprises constrained. The expansion of financial systems across the region has contributed to the growth and consolidation of large companies, which are better positioned to access formal financing. However, micro-, small- and medium-sized enterprises (MSMEs) continue to face significant barriers to accessing financial markets, and LAC exhibits one of the largest MSME financing gaps among developing regions. At the same time, while domestic capital markets remain relatively shallow and offer limited access for private firms, the region has increased its integration into international financial markets. This has occurred especially through debt issuance and the use of depositary receipts (OECD et al., 2025[4]).

Regional financial integration in LAC offers significant potential to deepen capital markets, although structural barriers remain. Greater integration can broaden investor access, increase liquidity, reduce transaction costs and attract a more diverse pool of foreign investors, while expanding the range of issuers and lowering borrowing costs. However, progress is constrained by macroeconomic asymmetries, shallow domestic markets, fragmented regulatory frameworks and incompatible infrastructures across countries.

A key initiative is the Nuam exchange, which aims to integrate the stock exchanges of Colombia, Lima, and Santiago into a single platform. As of August 2025, these markets had a combined capitalisation exceeding USD 500 billion – USD 212 billion in Chile, USD 100 billion in Colombia, and USD 204 billion in Peru – with 162, 61 and 192 companies listed in the three countries, respectively (Figure 2.38, Panel A). While still operating separately, they now share a common trading system, laying the groundwork for deeper integration. International experiences such as Euronext demonstrate the potential of this model, though further steps – such as regulatory alignment and interoperability of clearing systems – remain essential (OECD et al., 2025[4]). Sectorally, financial institutions dominate across the three markets, representing 24-32% of capitalisation (Figure 2.38, Panel B). Other sectors, including industrials and utilities, also play important roles, while Peru remains highly concentrated in materials (69%). This composition highlights both complementarities and the need for greater diversification, suggesting that deeper regional integration could support more balanced economic transformation and enhanced investment opportunities.

Figure 2.38. Market capitalisation, number of issuers and sectoral composition in countries integrating Nuam exchange, 2025



Note: 2025 data refer to information available up to 31 August 2025. Panel B: "Other" includes consumer discretionary, communication services, healthcare, information technology and real estate. Sector classification follows the MSCI Global Industry Classification Standard.
Source: Authors' elaboration based on Nuam (2025[95]), *Market Capitalization*, https://www.nuam.com/en/stock-market-bulletin-reports.

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Digital regional integration offers significant yet underexplored opportunities for LAC

The digital dimension of regional integration represents a critical and underexplored frontier (see Chapter 1). The region's capacity to leverage digital transformation as a driver of productive development depends both on what individual countries do domestically, and on the degree to which they can build a genuinely integrated digital space. Scale is a defining feature of the digital economy: the value of digital platforms, data ecosystems and technology investments grows with the size of the market they serve. For most LAC firms, national markets alone are too small to reach the critical mass needed to compete in the digital economy, invest in frontier technologies, or attract the talent and capital that digital transformation demands. A more digitally integrated regional market could fundamentally change this equation (ECLAC, 2025).

Realising this potential requires deliberate convergence around several key dimensions. First, frameworks for cross-border digital trade and e-commerce need to be harmonised to reduce fragmentation and transaction costs for firms operating across borders. Second, common rules are needed for data flows and data governance, which are increasingly the lifeblood of digital business models and AI applications. Third, paperless trade and digital customs procedures should be advanced to reduce trade costs and facilitate the participation of SMEs in regional markets. Fourth, regulatory standards must be aligned for digital financial services and electronic transactions, which are essential for development of integrated digital payments ecosystems. Progress on these fronts would benefit firms and consumers within the region and also strengthen LAC's collective capacity to shape global digital governance in ways that reflect its own development priorities (ECLAC, 2025; OECD et al., 2025).

Existing regional co-operation frameworks are crucial to advance this agenda. The eLAC Digital Agenda, a ministerial process co-ordinated by ECLAC, provides the primary regional platform for policy dialogue and convergence among LAC governments on digital priorities. It covers digital infrastructure, digital government, the digital economy, digital skills and emerging technologies, including AI. Strengthening

eLAC with an explicit productive development dimension – connecting it more deliberately to value chain initiatives of regional productive development agendas – could serve as the regional institutional backbone for the integration of digital and productive policies (ECLAC, 2025; Calderon et al., 2021). This would require giving eLAC a more prominent and operational role in the architecture of regional integration. To that end, it would move from being a space for policy dialogue to becoming a driver of convergence in regulatory frameworks, digital public infrastructure and shared technological standards.

Box 2.4. The eLAC Digital Agenda: Supporting regional digital integration

The **eLAC Digital Agenda for Latin America and the Caribbean** provides a regional platform to advance digitally enabled integration. Its work is organised around three mutually reinforcing areas that connect evidence generation, regional co-operation and implementation.

1. **Knowledge and monitoring.** ECLAC supports evidence-based digital policies through tools such as the **Digital Development Observatory** and the **Latin American Artificial Intelligence Index (ILIA)**, developed with the National Center for Artificial Intelligence (CENIA). Together, these initiatives monitor more than 80 indicators covering connectivity, digital government, artificial intelligence (AI) adoption, productive digitalisation and digital skills. This evidence helps countries identify gaps, prioritise investments and assess progress, including in the context of the WSIS+20 process and the Global Digital Compact.
2. **Regional policy dialogue.** Through the **eLAC Ministerial Conferences** and thematic working groups, ECLAC brings governments together around shared priorities in areas such as meaningful connectivity, digital government, AI governance and the digital economy. These mechanisms help build common regional positions and strengthen the participation of Latin America and the Caribbean in global digital governance processes.
3. **Practical tools and technical assistance.** ECLAC also supports implementation through the **Digital Transformation Lab (dLAB)**, the **School of Digital Transformation** and direct technical assistance to member states. These initiatives translate regional agreements into practical instruments, including **SimTDP, RESMA and the Guide on Data and AI for Governments**, while strengthening the institutional capabilities required for productive digital transformation.

Together, these three areas allow eLAC to connect regional priorities with concrete national action, while supporting greater policy co-ordination and capacity building across Latin America and the Caribbean.

Achieving digital regional integration also requires addressing the digital skills dimension at a regional scale. The depth of the skills gap, with more than 70% of the LAC population lacking basic digital competencies, calls for shared frameworks that allow countries to converge on common standards while adapting to their diverse institutional and socio-economic contexts. The Regional Digital Competencies Framework for Latin America and the Caribbean (DigCompALC), co-produced by ECLAC with GIZ and Cetic.br under the EU-LAC Digital Alliance (see Chapter 1 and Chapter 3), can serve as this shared reference at the regional level. It could be the common foundation for curricula design, skills policy and assessment instruments. In so doing, it would ensure that expansion of digital markets and AI adoption generates inclusive outcomes across the region rather than deepening inequalities (ECLAC, 2026).

Regional digital integration cannot be treated as a single, homogeneous process across LAC. Subregional spaces, with distinct structural conditions, institutional architectures and digital readiness levels, require tailored approaches that build upward towards a broader regional agenda rather than being driven top-down from it. The Caribbean is an important case in point as its small island developing states (SIDS)

face structural digital constraints that differ qualitatively from those of larger continental economies: extremely small domestic markets, high dependence on a narrow set of export activities, acute vulnerability to external shocks and climate disasters, and severe limitations in public institutional capacity and fiscal space. These conditions mean that regional and subregional co-operation are not merely beneficial; they are also necessary for any meaningful digital transformation strategy (ECLAC/OECS, 2026).

One innovative response to these structural constraints is the concept of data embassies. Under this arrangement, a country stores critical public data and digital infrastructure in a trusted foreign jurisdiction under its own legal sovereignty, reducing dependence on fragile or exposed local infrastructure. Originally developed in Estonia and adapted to small-state contexts, data embassies respond directly to the Caribbean SIDS condition: limited physical infrastructure resilience; high exposure to hurricanes and natural disasters that can destroy or interrupt critical government systems; and insufficient local capacity to ensure continuity of essential digital services. For Caribbean governments, a data embassy arrangement – built on the basis of bilateral or subregional agreements and aligned with CARICOM's digital agenda – could allow the secure hosting of core government data and services in partner jurisdictions while retaining full legal sovereignty over those systems. ECLAC has supported initial policy dialogues on this approach with Caribbean member states, including a pilot discussion in Belize City in 2026, and identified data embassies as a priority area for subregional digital co-operation in the Caribbean (ECLAC, 2026). More broadly, the Caribbean experience illustrates a key principle for LAC digital integration: the most effective regional frameworks are those that are built on, and respond to, the concrete structural heterogeneity of the countries they seek to connect.

Regional electricity integration remains an untapped opportunity for LAC

Regional electricity integration could enhance the benefits of LAC's diverse and abundant renewable resources (see Chapter 1). By connecting national electricity systems and enabling cross-border electricity exchanges, integration allows countries to share generation resources and make more efficient use of transmission and generation infrastructure. The region's diverse electricity mix combines large-scale hydropower with rapidly growing wind and solar capacity spread across different climatic zones and subregions. In so doing, it creates opportunities for countries to complement each other's generation profiles and share variability. Differences in available generation capacity, renewable-resource endowments, generation technologies, and hourly and seasonal demand profiles create opportunities for greater complementarity across electricity systems (OECD, 2014[96]; Timilsina, Deluque Curiel and Chattopadhyay, 2024[97]). Connecting systems with different generation profiles can therefore lower reserve-capacity requirements, improve reliability and facilitate integration of larger shares of variable renewable energy (OECD, 2014[96]; IEA, 2023[98]).

Regional electricity integration could generate economic gains through two main mechanisms. First, cross-border trade allows countries to draw on generation available in neighbouring systems when domestic supply is constrained. This reduces the amount of reserve capacity that each country needs to maintain independently and allows generation assets to be used more efficiently. Second, pooling supply and demand across countries increases the effective size of electricity markets, enabling lower-cost or under-used generation to serve demand beyond national borders and creating economies of scale. More interconnected electricity systems could help countries respond to these emerging demands by drawing on generation beyond domestic markets, while improving conditions for electricity-intensive productive investment. Integration can also strengthen energy security by expanding access to regionally generated renewable electricity, helping economies that import fossil fuels to reduce their dependence, as well as their exposure to volatility in international energy markets (OECD, 2023[99]). Model-based estimates for 20 LAC countries suggest that unconstrained trade could raise cross-border exchanges from around 4% of regional electricity generation to 29% under a fully regional market, generating gross annual benefits of nearly USD 1.9 billion. Around 80% of these benefits could already be captured through subregional trade. The remaining gains would arise from further integration across subregional markets close to 80%, which

could already be captured through subregional trade alone (Timilsina, Deluque Curiel and Chattopadhyay, 2024[97]).

The opportunities from deeper electricity integration differ across LAC economies, making regional heterogeneity a potential source of gains rather than only a constraint. Economies with abundant renewable resources but relatively small domestic markets, such as Paraguay and Uruguay, could reach larger markets and economies of scale. Importers of fossil fuels could reduce their exposure to external energy shocks. The share of fossil fuels generated in Central America, for example, fell from 37% to 23% between 2014 and 2022. This period combined regional trade under the Central American Electrical Interconnection System (SIEPAC) with substantial domestic renewable investment (Valenzuela and Tesfaye, 2024[100]). Larger economies such as Brazil, Colombia and Mexico can benefit from additional system flexibility and opportunities to trade temporary electricity surpluses (Timilsina, Deluque Curiel and Chattopadhyay, 2024[97]).

The relevance of regional electricity integration is likely to grow further as rising electricity demand, energy-security concerns and climate-related risks place increasing pressure on LAC's power systems. Transport electrification, industrial decarbonisation and expanding digital infrastructure are increasing electricity needs, with data centres, cloud computing and AI in particular requiring large and reliable electricity supplies (IEA, 2026[101]). These benefits have become more salient amid geopolitical tensions and supply disruptions. Climate change further increases the value of more resilient and geographically diversified electricity systems. Greater geographical diversification can help manage variations in renewable generation. Meanwhile, more frequent droughts, heatwaves and extreme weather events make historical patterns of electricity supply and demand less predictable (IEA, 2023[98]). This increases the importance of resilient grids, diversified generation and co-ordinated regional planning.

Regional electricity integration has advanced across LAC but remains fragmented. These initiatives cover electricity trade in general, not only renewable energy. However, they have become more relevant as renewable generation has expanded. The most advanced initiative is the Central American Electrical Interconnection System (SIEPAC). Launched in 1996 by Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, SIEPAC combines a physical transmission line with the Regional Electricity Market (MER), a wholesale market that functions as a seventh market superimposed on the six national systems. It is governed by its own regional regulator, operator and policy council (Echeverría et al., 2017[102]). Elsewhere, the Andean Electrical Interconnection System (SINEA) links Bolivia, Chile, Colombia, Ecuador and Peru; the Southern Cone Energy Integration System (SIESUR) involves Argentina, Brazil, Chile, Paraguay and Uruguay; and the Arco Norte initiative would connect Brazil's northern states with Guyana, Suriname and French Guiana (OECD et al., 2025). These arrangements sit at different stages. SINEA countries adopted common operational and commercial regulations in 2024. For its part, SIESUR has an approved 2023-2032 roadmap with continuing technical dialogue among member countries. Meanwhile, Arco Norte remains at an earlier planning stage (ECLAC, 2025[103]).

Regional electricity integration in LAC continues to face substantial infrastructure, distributional and governance barriers. Cross-border generation and transmission projects require large and long-lived investments. However, their financial, environmental and social costs and benefits may be distributed unevenly across participating countries and communities (IEA, 2019[104]). This raises difficult questions over who finances the infrastructure, who carries construction and operating risk, and how the resulting revenues and benefits are shared. Electricity compounds the difficulty because cross-border trade depends on dedicated assets that cannot easily be redeployed. This makes stable institutional relationships among the parties more important than for most other traded goods.

In addressing the challenge of regional electricity integration, LAC could potentially learn from the experience of South America. Concerns over security of supply and limited mutual trust have favoured national self-supply strategies and predominantly bilateral forms of exchange in the continent (Flôres Junior, 2016[105]). Paraguay illustrates how bilateral contractual arrangements can shape the distribution

of gains from electricity integration. Under the Itaipú Treaty, electricity from Paraguay's share that is not used domestically has historically been contracted by Brazil at near-cost prices. Meanwhile, the agreement has restricted the sale of this surplus to alternative markets (Che, 2021[106]). Technical differences between national systems can create additional infrastructure requirements. Differences in operating frequency, for example, require frequency-conversion facilities at interconnections between Brazil and Argentina, Uruguay and Paraguay (OECD, 2014[96]). The long-planned Colombia-Panama interconnection, which would join the Andean and Central American systems, has been deferred repeatedly despite decades of study (Interconexión Eléctrica Colombia-Panamá, 2026[107]). Differences in pricing, subsidies, market structures and regulatory frameworks compound these constraints. Regulation can discourage cross-border trade even where transmission capacity already exists (Timilsina, Deluque Curiel and Chattopadhyay, 2024[97]).

Effective regional electricity integration requires institutional arrangements as much as physical interconnection. SIEPAC shows how cross-border transmission can be underpinned by a regional market, regulator and system operator, an institutional depth that other arrangements in LAC have not yet reached (OECD, 2014[96]). Greater compatibility in technical standards, market rules and cross-border capacity allocation would allow existing infrastructure to be used more fully. Co-ordinated regional planning would help identify investments whose benefits extend across national borders and address the uneven distribution of their costs and benefits (IEA, 2019[104]). Financing remains an important constraint, particularly where large upfront requirements and regulatory uncertainty limit private participation (Global Solutions Initiative, 2023[108]). Deeper integration therefore need not begin with a single regional market. Strengthening existing subregional arrangements and progressively improving interoperability between them offers a more feasible path. Such a path would be better suited to the differences in market structure, resource endowment and institutional capacity that the region contains. African countries have faced similar challenges in their efforts to advance regional electricity markets. For example, the Southern African Power Pool, the most successful of the five existent power pools in the region, which links more than a dozen countries, operates a competitive regional electricity trading platform and facilitates cross-border electricity trade among member utilities. However, cross-border electricity exchanges still account for a relatively small share of total electricity demand, underscoring the importance of complementing physical interconnection with strong governance arrangements, effective market frameworks and adequate transmission infrastructure (Energy Transition Africa, 2026[109]).

Conclusions

In a changing global context, deeper and more diversified integration can help LAC strengthen its position in the global economy and support long-term development. While the region has become increasingly open, low diversification, limited domestic value creation and weak productive linkages continue to constrain the benefits of integration. Increasing participation and moving into higher-value segments of global value chains can help address these challenges by supporting productive upgrading, strengthening domestic capabilities and creating more productive and higher-quality employment. FDI can reinforce these processes by connecting firms to capital, technology, knowledge and international production networks.

Regional integration can provide a platform for this upgrading and stronger global positioning. Regional markets can help firms achieve scale, internationalise and develop productive capabilities, while existing patterns of intra-industry trade show that the region already has productive linkages on which deeper production networks can be built. Yet regional productive integration remains shallow. Deepening and extending existing networks, strengthening regional value chains and increasing regional sourcing can generate more value within LAC and support stronger participation in global value chains. Greater intraregional investment and stronger co-ordination of productive development policies can reinforce these

linkages by directing investment towards strategic sectors and connecting productive capabilities across countries.

Realising this potential requires going beyond trade and investment to strengthen the conditions that enable deeper productive integration. Greater financial, digital and electricity integration can improve connectivity, expand markets and facilitate cross-border production, while closing gaps in infrastructure, skills, financing and regulatory co-ordination can strengthen firms' capacity to participate and upgrade in regional and global markets. Ultimately, integration is not an objective in itself, but a means to foster productive transformation, strengthen resilience and support more sustainable and inclusive long-term growth. The following key policy messages highlight priority areas for translating deeper integration into stronger development outcomes.

Box 2.5. Key policy messages

Towards stronger integration into the global economy

- LAC has become an increasingly open region, but opportunities remain to deepen regional and global integration and derive greater benefits from it.
- Export baskets remain concentrated in primary commodities and low-technology goods and services, limiting productivity growth, diversification and resilience.
- Services exports are growing but remain concentrated in lower-skill activities and traditional destination markets, pointing to greater scope for further diversification and upgrading.
- Participation in GVCs remains below that of other regions and concentrated in commodities and upstream activities, with limited domestic linkages and value addition.
- Increasing participation and moving into higher-value segments of GVCs can support export diversification, domestic value creation and more productive and higher-quality employment.
- FDI is an important driver of participation in GVCs and can support technology transfer, productive upgrading and domestic value creation.
- The benefits of FDI are not automatic and depend on productive capabilities, local supplier linkages and the capacity to absorb knowledge and technology.

Regional integration as a platform for stronger global positioning

- Regional integration can strengthen LAC's participation in global markets by helping firms build capabilities, achieve scale and participate in more sophisticated value chains.
- Although intraregional trade remains limited, regional markets are more diversified and manufacturing-intensive than extraregional markets, making them an important platform for productive upgrading, SME internationalisation and export diversification.
- Potential remains to expand integration, particularly in technology-intensive sectors. To realise it, strengthening productive capabilities and trade complementarity across the region is key.

Deepening regional productive integration

- Existing intra-industry trade reveals sectors and corridors where LAC can build on existing capabilities to develop regional production networks, integrate more SMEs and local suppliers.
- Regional value chains can serve as a platform for upgrading, helping firms strengthen productive capabilities, increase domestic value added and integrate into more sophisticated segments of global production networks.

- Greater regional sourcing of intermediate inputs can increase the value generated within LAC and embodied in its exports, particularly in medium-technology manufacturing.
- The digital and green transitions create opportunities to develop new regional and global value chain linkages in areas such as critical minerals, renewable energy, modern services and selected high-technology industries.
- Intraregional investment remains limited despite its potential to strengthen regional production networks, productive integration and regional competitiveness.
- Stronger regional co-ordination of productive development policies can help translate integration into greater productive capabilities, innovation and value creation.

Broader dimensions of regional integration

- Financial, digital and electricity integration can complement trade and investment integration by expanding market opportunities, improving connectivity and strengthening resilience.

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3 Enabling conditions to unlock stronger regional integration and enhance participation in the global economy

This chapter examines the enabling conditions that Latin America and the Caribbean must strengthen to deepen regional integration and enhance its participation in the global economy. It explores how closing infrastructure and connectivity gaps, advancing regulatory convergence and reducing non-tariff barriers can support the development of larger and more integrated regional markets. The chapter also considers how stronger skills systems, labour-market institutions and strategic financing instruments can help workers and firms adapt to technological change, invest and move into higher value-added activities. Finally, it examines how regional co-operation and strategic international partnerships can expand access to markets, technology, knowledge and finance, supporting a more competitive, resilient, inclusive and sustainable integration into the global economy.

Introduction

Integrating into a rapidly changing global economy requires Latin America and the Caribbean (LAC) to strengthen a set of enabling conditions that shape the ability of workers, firms and governments to compete, innovate and adapt. Digitalisation, artificial intelligence (AI), the green transition, demographic change and geopolitical tensions are reshaping production systems, labour demand and sources of competitiveness worldwide, creating new opportunities for productivity growth, technological upgrading and economic diversification (see Chapter 1). At the same time, deeper regional integration, stronger participation in global value chains and greater investment linkages can help the region strengthen productive capabilities, reduce vulnerability to global shocks, and support long-term growth (see Chapter 2).

Capturing these opportunities in ways that generate sustainable and inclusive development will depend on the region's ability to strengthen key enabling conditions and address persistent structural constraints. Infrastructure gaps and high transport costs continue to weaken connectivity across countries and subregions. Regulatory fragmentation limits the emergence of larger and more integrated regional markets. Persistent skills deficits, high informality and limited access to financing constrain technological adoption, innovation, investment and productivity growth. At the same time, access to technology, financing, knowledge, investment and markets increasingly depends on engagement with both traditional and emerging partners. Consequently, fully realising the region's potential will require stronger international co-operation and strategic partnerships.

This chapter focuses on five enabling dimensions that are particularly relevant for strengthening LAC's integration into the global economy. It first examines infrastructure and connectivity challenges that continue to constrain trade and economic integration. It then analyses opportunities to deepen regional integration through greater regulatory convergence and reduction of non-tariff barriers. The chapter subsequently explores how skills systems can help workers and firms adapt to technological change and participate in increasingly knowledge-intensive activities. It also assesses the role of strategic financing instruments and institutions in mobilising investment for integration and productive development. Finally, it examines how strategic partnerships can support access to markets, technology, knowledge and finance.

Bridging infrastructure and connectivity gaps

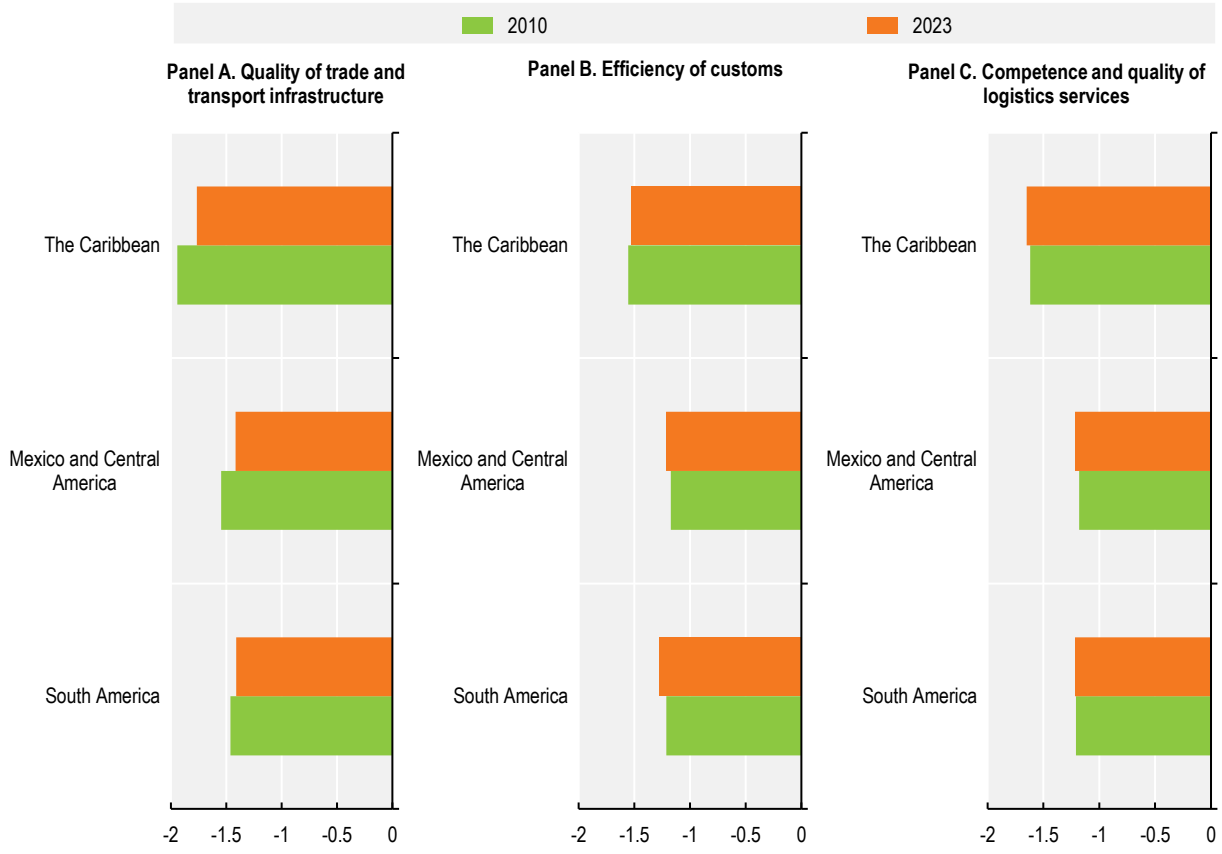
Infrastructure gaps and high transport costs constrain trade

Quality infrastructure and efficient logistics are essential for strengthening both intraregional and extraregional trade in LAC. By reducing transport costs, improving connectivity and increasing reliability, sound infrastructure and logistics enhance export competitiveness and facilitate integration into regional and global markets. Regional integration depends not only on trade agreements, but also on efficient customs systems, well-functioning cross-border logistics, and reliable physical and digital connectivity (Martínez-Moya et al., 2025[1]). In an increasingly uncertain geopolitical environment, resilient transport and logistics systems have become as important as infrastructure itself, allowing supply chains to absorb disruptions while maintaining access to regional and global markets.

Despite the importance of infrastructure and logistics, significant gaps continue to constrain connectivity across the region. Transport networks remain fragmented, multimodal integration is limited, and connectivity between countries and subregions faces persistent bottlenecks. These physical constraints are compounded by institutional and operational weaknesses that affect the efficiency of customs procedures and logistics services, limiting the capacity of firms to access regional and international markets. The impact of all these shortcomings is compounded by the region's vast size: about 20 million square kilometres.

LAC records lower scores than North America across key dimensions of infrastructure and logistics performance. Although some improvements have been observed since 2010, progress has been modest. Performance gaps remain sizeable compared with the United States and Canada across infrastructure quality, customs efficiency and logistics services, highlighting the persistence of both physical and institutional barriers to trade (Figure 3.1). These shortcomings weaken connectivity, increase trade frictions and limit the region's integration into regional and global markets.

Figure 3.1. Logistics Performance Index scores by region relative to the US-Canada average, 2010 and 2023



Note: The graph shows the gap in three components of the Logistic Performance Index for each region as a gap relative to the value for the Canada-US average, for years 2010 and 2023. The index and its components are measured on a scale from 1 to 5. Levels for the Canada-US average for infrastructure, customs and logistics are 4.09, 3.69 and 3.95 for 2010, and 4.10, 3.85 and 4.05 for 2023. Regional groupings are defined as follows: The Caribbean includes Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Cuba, Curaçao, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the Turks and Caicos Islands; South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela; and Mexico and Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama.
Source: Authors' elaboration based on World Bank (2025[2]), *Logistic Performance Index*, https://lpi.worldbank.org/en/home.

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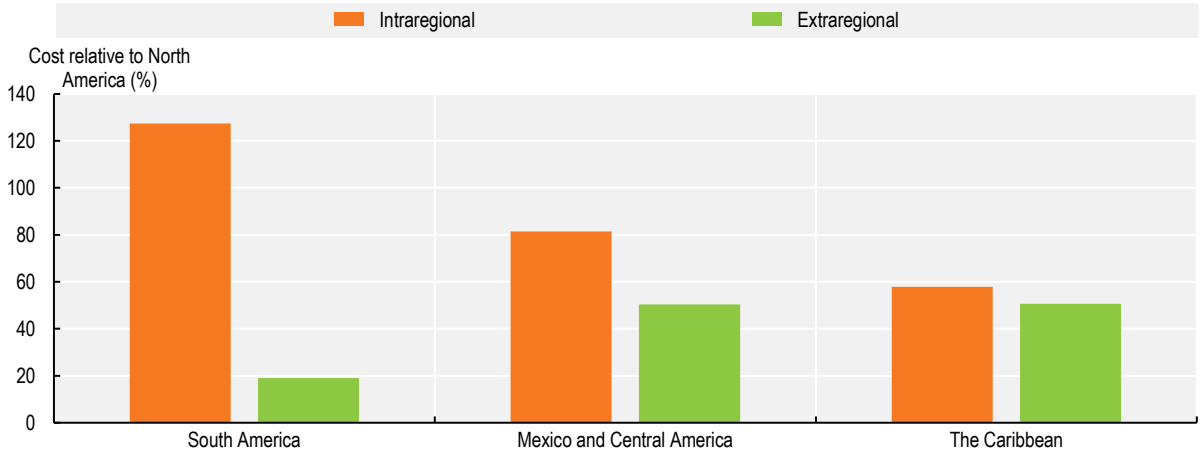
One of the most tangible consequences is persistently high transport costs. Weak transport networks, poor intermodal connections and inefficiencies at critical nodes such as ports, airports and border crossings increase both the cost and the time required to move goods. Limited complementarities between transport modes further reduce efficiency, constraining cost-effective long-distance transport and last-mile delivery.

The organisation and quality of logistics services also affect prices and reliability, reinforcing the region's connectivity challenges (Cont et al., 2024[3]).

International transport and insurance costs are also significantly higher in LAC than in North America, when measured relative to the value of traded goods. These costs, measured by CIF–FOB margins, remain elevated for both intraregional and extraregional trade (Figure 3.2). While trade within the region is relatively more costly than trade with external partners, costs remain elevated across all subregions. The gap is particularly pronounced in South America, as this region exhibits the highest intraregional cost and the largest gap between intra- and extra-regional costs. Similar, although less marked, patterns are evident in Mexico and Central America and the Caribbean. These high transport costs reduce competitiveness, discourage participation in regional and global value chains, and constrain the potential for deeper regional and extraregional integration.

Figure 3.2. Transport costs relative to North America for intraregional and extraregional exports, 2024



Note: Bars indicate the relative percentage difference in transport costs for each region compared to North America (US and Canada). Estimates are derived from a semi-logarithmic regression of the cost, insurance and freight – free on board (CIF-FOB) margin on regional fixed effects, controlling for product categories (CAF, 2026[4]). Coefficients βˆwere transformed via (e^βˆ-1) to represent the percentage change relative to the base category. Regional groupings are defined as follows: The Caribbean includes Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Cuba, Curaçao, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the Turks and Caicos Islands; South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela; and Mexico and Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama.
Source: Authors' elaboration based on OECD (2026[5]), *International transport and insurance costs of merchandise trade* (ITIC).

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Closing these infrastructure and logistics gaps could generate substantial trade gains. Estimates suggest that narrowing half of the infrastructure gap with advanced economies could increase exports by up to 30% (Machado and Moreau, 2024[6]). Achieving these gains will require a significant scaling up of infrastructure investment. Recent estimates indicate that LAC should invest around 3.1% of gross domestic product (GDP) annually in infrastructure through 2030 to meet its development needs. However, actual investment stood at only 1.5% of GDP in 2023 (ECLAC, 2026[7]). Bridging this investment gap, while simultaneously improving logistics performance and trade facilitation systems, is essential for strengthening competitiveness, expanding market access and advancing regional integration. This will demand substantial investments over extended periods, in a context of limited fiscal space. Therefore, the involvement of regional and national development banks is crucial, as is exploring innovative financing sources.

Limited integration of transport modes reduces efficiency and market access

Transport mode composition varies across LAC. South America relies predominantly on maritime transport, which accounts for around 95% of its total extraregional trade, while Mexico and Central America exhibit a more balanced distribution between maritime and road transport. The picture changes for trade within the region, where road transport plays a more prominent role. In South America, for example, road transport accounts for nearly half of trade with neighbouring countries, although this remains below levels observed in North America (CAF, 2026[4]). The effectiveness of road transport in the region, however, is often constrained by inadequate infrastructure, low network density and congestion. These limitations increase travel times and logistics costs, reducing market access and weakening supply chain reliability, particularly for time-sensitive goods and production processes (Hummels, 2007[8]; Pascual et al., 2025[9]).

At the same time, the limited development of alternative transport modes restricts opportunities to improve efficiency and connectivity. Rail networks remain underdeveloped across much of the region, with low coverage and a limited role in freight transport. This reduces competitiveness for long-distance and bulk shipments. Air connectivity also lags behind advanced economies, constraining both passenger mobility and high-value cargo flows. As a result, firms face fewer transport options and reduced flexibility in organising supply chains (Haar, 2023[10]).

These challenges are compounded by weak integration between transport modes. Efficient multimodal systems can combine the advantages of different modes, such as rail for long-distance transport and road for last-mile delivery, lowering costs and improving reliability. However, complementarities between modes remain largely underexploited in LAC due to insufficient infrastructure connections, operational bottlenecks and co-ordination failures. This limits the potential efficiency gains from multimodal transport, particularly for remote and dispersed producers, and constrains firms' participation in regional and global value chains (Martínez-Moya et al., 2025[1]). Strengthening intermodal connectivity would therefore play a key role in reducing transport costs, expanding market access and supporting deeper regional integration.

Integrated connectivity strategies can unlock trade potential

Integrated connectivity strategies can unlock trade potential by facilitating deeper integration into regional and global markets. Realising this potential, however, requires moving beyond standalone infrastructure projects toward a more co-ordinated approach to transport and logistics. Expanding transport networks alone is insufficient. Larger gains depend on strengthening intermodal linkages, improving border management and deploying digital systems that enhance the efficiency, reliability and resilience of supply chains (OECD, 2018[11]).

In Latin America and the Caribbean (LAC), advancing integrated connectivity requires a subregional approach. The region comprises highly heterogeneous subregions with distinct geographic, economic and institutional characteristics, which call for differentiated transport and logistics strategies. Strengthening connectivity within and across Mexico and Central America, the Caribbean and South America is therefore a necessary step toward building a more integrated regional market (ECLAC, 2026[12]; Saade Hazin, 2026[13]).

In practice, integrated connectivity requires aligning transport infrastructure investments with logistics, trade facilitation and digital connectivity policies and prioritising investments to address bottlenecks along strategic corridors. Such an approach extends the role of infrastructure beyond the efficient movement of goods to the promotion of productive integration. By connecting industrial clusters, logistics platforms, ports, border crossings and consumer markets, and by complementing physical infrastructure with efficient logistics services and digital solutions, countries can strengthen regional value chains and productive complementarities rather than operating through fragmented national systems (ECLAC, 2026[12]; Saade Hazin, 2026[13]).

Logistics corridor-based planning has emerged as an important tool for implementing integrated connectivity strategies. By co-ordinating infrastructure investment, logistics services and trade facilitation measures along strategic transport axes, corridor approaches can help address bottlenecks and connect production centres with domestic and international markets. Their purpose extends beyond improving physical connectivity to fostering productive integration, strengthening regional value chains and facilitating trade across territories.

Several initiatives across the region already illustrate the application of logistics corridor approaches. Central America's Regional Mobility and Logistics Master Plan 2035 combines multimodal infrastructure development with co-ordinated border management, digital logistics information systems and regional co-operation. Similarly, the Brazil-led South American Integration Routes project seeks to strengthen connectivity through five multinational multimodal corridors which combine infrastructure investments, institutional co-ordination and logistics development. Mexico's Interoceanic Corridor of the Isthmus of Tehuantepec follows a comparable strategy by integrating ports, railways, industrial development and logistics services to improve connectivity between the Pacific and Atlantic oceans while promoting regional value chains (ECLAC, 2026[12]; Saade Hazin, 2026[13]; CAF, 2026[14]).

Given its insular geography, the Caribbean illustrates a different model of integrated connectivity, centred on maritime gateways and regional logistics hubs. Countries such as Jamaica, Barbados and Trinidad and Tobago are investing in port modernisation, logistics services and economic zones to strengthen their positions as regional logistics hubs. Combined with improvements in digital port infrastructure, these initiatives aim to improve maritime connectivity, reduce transport costs and deepen the region's integration into global trade routes (OECD/IDB, 2024[15]; Saade Hazin, 2025[16]).

Across these different approaches, digital connectivity plays an increasingly important role in integrating transport networks and improving logistics performance. Digital infrastructure and interoperable logistics platforms have become critical components of modern transport systems. Port community systems facilitate real-time information exchange among customs authorities, ports, shipping lines and logistics operators, reducing transaction costs and improving co-ordination. Digital twins further support efficiency by enabling ports to simulate operations, anticipate disruptions, and optimize infrastructure use. Together, these technologies can strengthen supply chain resilience, improve trade facilitation, and support multimodal integration (Saade Hazin, 2025[16]; UNCTAD, 2021[17])

Building an integrated regional market through regulatory convergence

Regional integration in LAC has produced an extensive network of institutions, agreements and co-operation mechanisms. Over six decades, integration efforts have evolved in response to changing economic conditions, political priorities and external shocks. While these initiatives have progressively expanded market access and established regulatory frameworks across a range of policy areas, they have not yet translated into a fully integrated regional market. Today, the principal challenge is no longer tariff liberalisation, but reducing the regulatory and procedural fragmentation that continues to impede cross-border economic activity.

Six decades of regional integration (1960-2026)

The current landscape of regional integration in LAC is the result of successive phases of regionalism, each reflecting the region's evolving economic priorities, political dynamics and engagement with the global economy (Table 3.1) (ECLAC, 2020[18]). The first wave of regionalism, spanning from 1960 to 1980, was driven by the objective of overcoming the limitations of small domestic markets through state-led industrialisation. During this period, countries established the main building blocks of the regional architecture, including the Latin American Free Trade Association (LAFTA), the Central American Common

Market (CACM), the Andean Pact and the Caribbean Community (CARICOM). These initiatives sought to promote industrial development, expand regional markets and reduce development asymmetries among member countries.

Following the debt crisis of the 1980s, regional integration entered a phase of "open regionalism" between 1990 and 2005. Integration efforts became increasingly oriented towards improving the region's participation in the global economy through trade liberalisation and market-oriented reforms. Major developments included the creation of the Southern Common Market (MERCOSUR), the Andean Free Trade Area, the entry into force of the North American Free Trade Agreement (NAFTA) and the transformation of the Andean Pact into the Andean Community. These developments viewed regional integration as a complement to the opening of global markets rather than as an alternative to it.

Between 2005 and 2015, integration agendas broadened beyond trade and market access. The emergence of the Union of South American Nations, the Community of Latin American and Caribbean States (CELAC), and the Pacific Alliance reflected efforts to strengthen regional political and economic autonomy while expanding co-operation into areas such as infrastructure, energy and social development. At the same time, growing political and economic diversity across the region contributed to the proliferation of overlapping initiatives and institutional arrangements.

The period between 2015 and 2019 was characterised by growing recognition of the costs associated with this increasingly fragmented landscape. Against a backdrop of slowing growth following the end of the commodity supercycle, several initiatives sought to promote convergence among existing mechanisms. This included dialogue between MERCOSUR and the Pacific Alliance, renewed efforts through the Latin American Integration Association and initiatives aimed at strengthening regional production integration. While these efforts reflected a shared recognition that fragmentation was limiting the benefits of integration, they produced limited institutional consolidation. Political polarisation, divergent development strategies and the declining salience of regional integration as a collective policy priority constrained progress towards greater coherence.

From 2020 onwards, regional integration has evolved under the pressure of successive global shocks. The COVID-19 pandemic redirected attention towards crisis management, logistics and trade facilitation. Meanwhile, growing geopolitical tensions, supply chain disruptions and concerns over economic security reshaped the external environment. Existing regional mechanisms continued to provide platforms for dialogue and co-operation. However, integration increasingly took the form of pragmatic and issue-specific co-ordination rather than ambitious institution-building. At the same time, the emergence of "weaponised interdependence" (Farrell and Newman, 2019[19]; 2025[20]) has renewed interest in regional integration as a means of strengthening resilience, reducing external vulnerabilities and supporting a more secure insertion into the global economy.

The cumulative result of these successive waves of regionalism is a dense but fragmented institutional landscape. Multiple integration mechanisms coexist, often with overlapping memberships, objectives and regulatory frameworks. While this architecture has generated significant progress in market opening and regulatory co-operation, important barriers to regional economic integration remain. Assessing progress across the main integration mechanisms helps identify both the achievements and the remaining obstacles to a more integrated regional market.

Table 3.1. Phases of regional economic integration in Latin America and the Caribbean, 1960-2026

Phase	Main institutional developments	Main emphasis	Main contextual elements
First wave of regionalism (1960-1980)	• Latin American Free Trade Association (LAFTA) (1960) • Central American Common Market (CACM) (1960) • Andean Pact (1969) • Caribbean Community (CARICOM) (1973) • Latin American Integration Association (ALADI) (1980)	• Overcome limitations imposed by the small domestic markets of several countries • Achieve an equitable distribution of production activities to reduce development asymmetries between countries	• State-led industrialisation strategy • Creation of the European Economic Community (EEC) • Military dictatorships followed by processes to restore democracy as from the 1980s
Open regionalism, new regionalism (1990-2005)	• Relaunch of Central American integration • Creation of the Southern Common Market (MERCOSUR) (1991) • Creation of the Andean Free Trade Zone (1993) • Creation of North American Free Trade Agreement (NAFTA) (1994) • Creation of Andean Community (CAN) (1996) • Launch and failure of the Free Trade Area of the Americas (FTAA)	• Improve the region's participation in a globalised economy by simultaneously reducing barriers to both intraregional trade and extraregional trade	• End of the East-West division • Adoption of Washington Consensus • Creation of the World Trade Organization (WTO) • Acceleration of globalisation • First North-South free trade agreements • Entry of People's Republic of China (hereafter "China") into the world economy
Post-liberal regionalism, post-hegemonic regionalism (2005-2015)	• Bolivarian Alliance for the Peoples of Our America – People's Trade Agreement (ALBA-TCP) (2004) • The Bolivarian Republic of Venezuela leaves CAN (2006) and joins MERCOSUR (2012) • Latin American Pacific Arc (2006-2010) • Union of South American Nations (UNASUR) (2008) • Community of Latin American and Caribbean States (CELAC) (2010) • Pacific Alliance (2011)	• Increase the region's political and economic autonomy • Expand the integration agenda to include non-commercial political, social and economic issues such as infrastructure and energy	• Changes in political orientation in various countries • China's emergence as a trading partner, investor and source of financing • Commodity supercycle (2003-2013) • Global financial crisis • Failure of the World Trade Organization Doha Round • Deceleration of world trade following the global financial crisis
Unfulfilled convergence under emerging fragmentation (2015-2019)	• Dialogue between MERCOSUR and the Pacific Alliance • Multiple dialogue and co-operation initiatives (convergence efforts of Latin American Integration Association, MERCOSUR-CAN rapprochement, regional production integration agendas)	• Promote regional value chains and production linkages through pragmatic co-operation	• Acceleration of the fourth industrial revolution • Increasing competition between the United States and China • Weakening of multilateralism, increasing protectionism and economic nationalism • Sharp growth slowdown in the region
Crisis-driven integration under global shocks and "weaponised interdependence" (2020 onwards)	• Functional reactivation of CELAC as a forum for political dialogue and crisis co-ordination • Greater reliance on ad hoc, issue-based co-operation without binding commitments • The MERCOSUR-EU agreement (2026) • Ecuador-Colombia trade conflict (2026)	• Shift towards crisis management and resilience-building • Growing attention to supply chain resilience, nearshoring, digital transformation and energy transition • Diversification of partnerships with consolidated partners (China, EU) and emerging actors (India, Association of Southeast Asian Nations and African nations) to overcome the volatile trade environment • Rising importance of intraregional convergence and trade facilitation	• COVID-19 pandemic causing severe economic contraction and trade disruptions • Acceleration of geopolitical fragmentation and strategic rivalry among major economies, especially China and US. • The war of aggression of the Russia Federation against Ukraine and geopolitical conflicts in the Middle East. • A rupture in the rules-based multilateral system and traditional free trade agreements, characterised by weaponised interdependence • Increased volatility and uncertainty in prices, currencies and financial markets

Source: Authors' elaboration based on ECLAC (2021), table II.1.

From market access to market integration: Reducing regulatory fragmentation

Reducing regulatory fragmentation can increase the effective size and attractiveness of regional markets. While formal market access is a necessary condition for regional integration, it is not sufficient. Divergent regulations, technical requirements and administrative procedures can prevent firms from scaling up operations, sourcing inputs regionally and managing supply chains efficiently across countries. Greater regulatory compatibility, together with improved connectivity, can create a larger and more predictable operating environment, reduce transaction costs, facilitate cross-border production and investment, and allow firms to exploit economies of scale across a broader regional market (OECD et al., 2025[26]).

Countries can address regulatory fragmentation through different forms of international regulatory co-operation (IRC). These range from information exchange and co-ordination among regulators to equivalence, mutual recognition and, where appropriate, harmonisation (OECD, 2021[13]). The objective is not necessarily to establish uniform regulations across countries, but to reduce unnecessary regulatory differences and improve compatibility among regulatory systems (OECD, 2021[21]). The OECD supports these efforts through policy standards, technical assistance and co-operation with regional integration mechanisms, including the Pacific Alliance and SIECA (OECD, 2026[22]).

The institutional landscape of regional integration in LAC reflects substantial progress. The Andean Community, the Central American Common Market (CACM), MERCOSUR, CARICOM and the Pacific Alliance have all achieved high or very high levels of liberalisation in trade in goods. Beyond tariff reduction, these integration mechanisms have established regulatory frameworks in a wide range of areas, including services, investment, trade facilitation, technical standards and, increasingly, digital trade. These developments show that regional integration in LAC has evolved beyond preferential tariff arrangements to encompass several of the regulatory dimensions required for deeper economic integration (Table 3.2).

Table 3.2. Latin America and the Caribbean: Progress on selected issues in the main economic integration mechanisms, April 2026

Topic	Andean Community	Central American Common Market (CACM)	Southern Common Market (MERCOSUR)	Caribbean Community (CARICOM)	Pacific Alliance
Degree of liberalisation of goods trade	Very high	Very high	High	Very high	Very high
Regulatory framework for trade in services	Yes	Yes	Yes	Yes	Yes
Regulatory framework for foreign investment	Yes	Yes	Yes [i]	Yes	Yes
Regulatory framework for public procurement	Partial [ii]	Yes	Partial [iii]	Pending [iv]	Yes
Regulatory framework for trade facilitation	Yes	Yes	Partial [v]	Yes	Yes
Harmonisation or mutual recognition of technical standards	Partial	Partial	Partial	Partial	Partial
Regulatory framework for e-commerce	No	Yes	Yes [vi]	Under negotiation	Yes
Mechanisms to reduce asymmetries	Yes	Yes	Yes	Yes	No

Note: i) Protocol on intra-MERCOSUR Investment Cooperation and Facilitation; ii) National treatment applies to the procurement of services by government agencies or public entities (Andean Community, "Decision 439: General Framework of Principles and Rules and for Liberalizing the Trade in Services in the Andean Community", 1998 [online] http://www.sice.oas.org/Trade/Junac/decisiones/dec439e.asp. No commitments on goods have been negotiated; iii) MERCOSUR Public Procurement Protocol signed in December 2017, entered into force for Brazil and Uruguay (2024) and Argentina (2026); iv) Protocol Procurement for the Caribbean Community signed in February 2019, not yet in force; v) MERCOSUR Agreement on Trade Facilitation (Decision CMC No. 29/19) signed in December 2019, in force between Argentina and Brazil (February 2026); vi) Agreement on Electronic Commerce of MERCOSUR (Decision CMC No. 15/21) entered into force in January 2026.
Source: Authors' elaboration based on official information from the respective mechanisms for integration.

Progress in some regulatory areas has continued over the past decade. The Pacific Alliance and CACM maintain established regulatory frameworks for public procurement. In MERCOSUR, the Public Procurement Protocol signed in 2017 has entered into force partially, initially between Brazil and Uruguay in 2024 and for Argentina as of January 2026. Progress has also been observed in trade facilitation. The Andean Community, CACM, CARICOM and the Pacific Alliance operate established regulatory frameworks in this area. In MERCOSUR, the Agreement on Trade Facilitation signed in 2019 entered into force bilaterally between Argentina and Brazil in February 2026. The MERCOSUR Agreement on Electronic Commerce, signed in 2021, also officially entered into force in January 2026.

Remaining regulatory differences are particularly costly in sectors characterised by cross-border production processes. Differences in sanitary and phytosanitary requirements, technical regulations, conformity assessment procedures and labelling requirements increase compliance costs, limit regional sourcing opportunities and constrain the development of regional value chains. These barriers tend to affect SMEs disproportionately, as they often lack the resources required to comply with multiple regulatory regimes across markets (ECLAC, 2020[18]).

Despite progress, the existence of regional regulatory frameworks does not necessarily translate into effective regulatory integration. Although the main integration mechanisms have established arrangements covering services, investment, trade facilitation and technical standards, economic outcomes have not always kept pace with these institutional advances (OECD et al., 2025[23]). Implementation remains uneven, and firms can continue to face different national requirements, certification procedures and administrative processes even where regional frameworks formally exist. Closing the gap between the formal establishment of regulatory frameworks and their implementation in practice is therefore essential for moving from regulatory co-operation towards a regional market in which firms can operate more seamlessly across borders (ECLAC, 2020[18]).

Regulatory frictions become particularly costly when production is distributed across countries, especially in LAC. Intermediate inputs can cross borders at different stages of production, causing trade and regulatory costs to accumulate along value chains. Differences in technical standards, certification procedures and conformity assessment requirements can therefore affect not only trade in final goods, but also firms' decisions about where to source inputs and how to organise production. In LAC, overlapping rules and standards can reduce the benefits of existing preferential trade arrangements and constrain participation in cross-border production networks. Reducing these frictions can facilitate regional sourcing, strengthen production linkages across countries, and create more favourable conditions for the development of regional value chains (Cadestin, Gourdon and Kowalski, 2016[24]; OECD et al., 2025[23]).

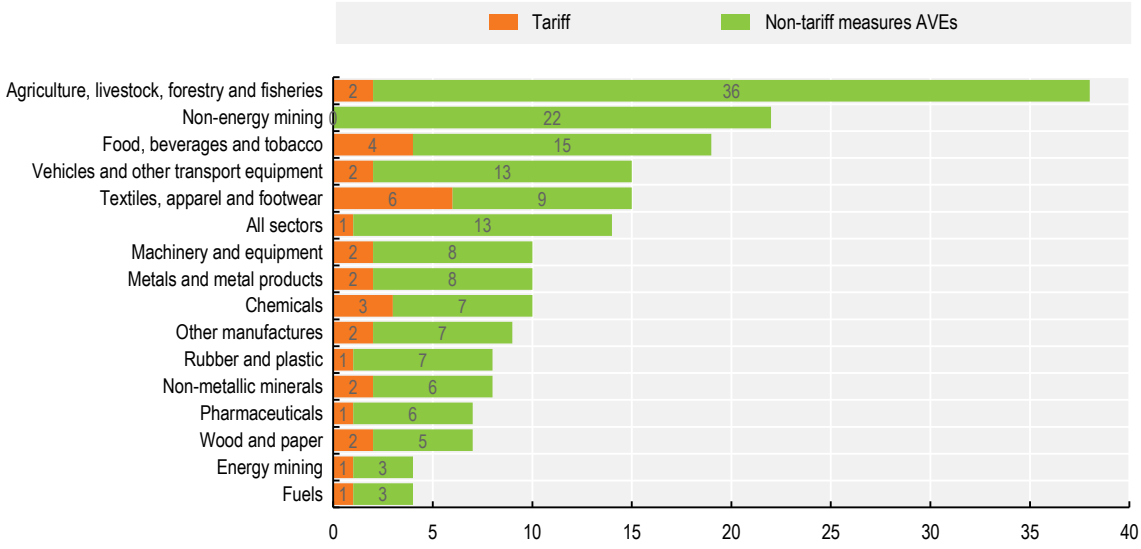
Moving from market access to effective market integration requires a pragmatic approach to regulatory convergence. The appropriate form of regulatory co-operation will depend on the sectors and countries involved, as information exchange, regulatory co-ordination, equivalence, mutual recognition and harmonisation entail different institutional requirements and costs (Blyde, 2024[25]). The objective should not necessarily be regulatory uniformity, but rather to reduce unnecessary differences, improve compatibility across regulatory systems and strengthen the practical implementation of existing regional frameworks. Regional convergence should also remain compatible with global markets, including through the use of international standards where appropriate, so that deeper regional integration complements rather than constrains LAC's global integration (Blyde, 2024[25]).

Beyond tariffs: Reducing non-tariff barriers to deepen regional integration

As tariffs within LAC have declined, non-tariff measures (NTMs) have become an increasingly important source of trade costs and one of the main obstacles to deeper regional integration. Recent estimates indicate that the average ad valorem equivalent (AVE) of NTM protection reaches 13% across all sectors in the region (ECLAC, 2026[7]). These barriers are particularly restrictive in agricultural and livestock products, where the AVE reaches 36%, and in non-energy mining, where it stands at 22%. Significant

levels of protection also persist in food and beverages (15%), transport equipment (13%) and chemicals (7%) (Figure 3.3).

Figure 3.3. Average tariff applied to intraregional trade in LAC and ad valorem equivalents of non-tariff measures, 2023



Note: Ad valorem equivalents (AVEs) are expressed as a percentage of intraregional imports. Latin America and the Caribbean comprises 20 countries. AVE values for bilateral trade were re-estimated using, as a weighting measure, the sectoral trade structure from the GTAP 12 database, which uses 2023 as its reference year. The GTAP 12 database and the Non-Tariff Measures database are included in GTAP 11.
Source: Estimates are based on Nicita and Koloskova (2025[26]), *Non-tariff measures at the border, a GTAP level analysis*, https://unctad.org/publication/non-tariff-measures-border-gtap-level-analysis.

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Many of these costs stem from sanitary and phytosanitary requirements, technical regulations, conformity assessment procedures and labelling requirements. While often pursuing legitimate public policy objectives, differences in their design and implementation can increase compliance costs and limit firms' ability to serve multiple markets from a single production platform. These burdens tend to affect SMEs disproportionately, given their more limited capacity to comply with multiple regulatory regimes across countries (ECLAC, 2020[18]).

Reducing these barriers requires a gradual process of regulatory convergence and trade facilitation. Simulation exercises suggest that a modest reduction scenario that removed 30% of the total level of protection (tariffs plus NTMs) would reduce average regional protection by 4.3 percentage points (Table 3.3). A more ambitious intermediate scenario involving a 60% reduction in the total level of protection would reduce average regional protection by 8.7 percentage points (ECLAC, 2026[7]). Achieving such reductions could require moving beyond information-sharing towards mutual recognition and regulatory equivalence arrangements, where appropriate.

Table 3.3. Latin America and the Caribbean: Tariff cuts and estimated level of protection for intraregional trade in simulated scenarios (in ad valorem percentages)

Economic sectors	Scenario 1 (tariff reduction only)	Scenario 2 Modest (-30% total level of protection)	Scenario 3 Intermediate (-60% total level of protection)	Scenario 4 Ambitious (-80% total level of protection)
A. Simulated cuts				
Agricultural and livestock	-2.0	-11.4	-22.8	-30.4
Energy mining	-1.0	-1.2	-2.4	-3.2
Non-energy mining	0.0	-6.6	-13.2	-17.6
Food, beverages and tobacco	-3.7	-5.6	-11.2	-15.0
Textiles, apparel and footwear	-6.0	-4.5	-9.0	-12.0
Wood and paper	-1.6	-2.0	-3.9	-5.3
Combustibles	-1.0	-1.2	-2.4	-3.2
Chemicals	-2.6	-2.9	-5.8	-7.7
Pharmaceuticals	-1.0	-2.1	-4.2	-5.6
Rubber and plastic	-1.0	-2.4	-4.8	-6.4
Non-metallic minerals	-4.0	-2.3	-4.7	-6.2
Metals and metal products	-2.1	-3.0	-6.1	-8.1
Machinery and equipment	-2.1	-3.0	-6.1	-8.1
Transport vehicles and equipment	-1.5	-4.4	-8.7	-11.6
Other manufactured goods	-2.4	-2.8	-5.7	-7.5
All sectors	**-1.4**	**-4.3**	**-8.7**	**-11.6**
B. Observed level of protection				
Agricultural and livestock	36.0	26.6	15.2	7.6
Energy mining	3.0	2.8	1.6	0.8
Non-energy mining	22.0	15.4	8.8	4.4
Food, beverages and tobacco	15.0	13.1	7.5	3.7
Textiles, apparel and footwear	9.0	10.5	6.0	3.0
Wood and paper	5.0	4.6	2.6	1.3
Combustibles	3.0	2.8	1.6	0.8
Chemicals	7.0	6.7	3.8	1.9
Pharmaceuticals	6.0	4.9	2.8	1.4
Rubber and plastic	7.0	5.6	3.2	1.6
Non-metallic minerals	3.8	5.4	3.1	1.6
Metals and metal products	8.0	7.1	4.1	2.0
Machinery and equipment	8.0	7.1	4.0	2.0
Transport vehicles and equipment	13.0	10.2	5.8	2.9
Other manufactured goods	7.0	6.6	3.8	1.9
All sectors	**13.0**	**10.1**	**5.8**	**2.9**

Source: Elaboration on (ECLAC, 2026[7]).

Building the skills needed for greater participation in a changing global economy

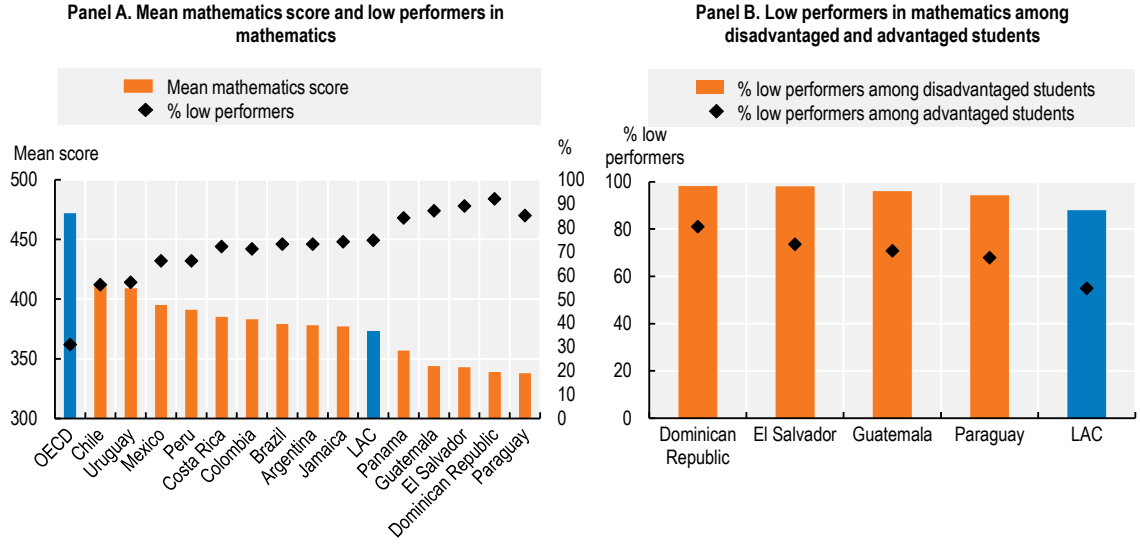
Successful integration into the global economy depends on adequate skills, productive firms and labour-market institutions that support both adaptability and protection. In LAC, unequal access to quality education and training, high informality and low productivity continue to constrain the region's capacity to adopt new technologies and move into higher value-added activities. Strengthening skills, upgrading firms and adapting social protection systems are therefore essential for ensuring that productive transformation translates into better jobs, higher productivity and more inclusive growth. As Generative Artificial Intelligence (GenAI) reshapes labour markets, countries in the region must invest in human capital and

digital skills while ensuring adequate protection for workers in emerging forms of employment (ILO, 2022[27]; OECD, 2023[28]).

LAC labour markets are characterised by unequal low skills and low-productivity traps

LAC workers often lack the skills required to thrive in increasingly knowledge-intensive, digital and technology-driven labour markets. Using the Programme for International Student Assessment (PISA) as a proxy for foundational skills, the evidence points to large and persistent human-capital deficits that constrain productive transformation and adoption of new technologies across LAC economies. Within the region, 14 countries participated in PISA 2022. Results placed LAC in the lower half of the global distribution in mathematics, reading and science. On average, students in the region lagged behind the OECD average in mathematics by the equivalent of around five years of schooling. Meanwhile, all participating LAC countries, except Chile in reading, scored below OECD benchmarks. These outcomes confirm that weak foundational skills are not a marginal issue, but rather a structural constraint on productivity, social mobility and future labour-market inclusion (Arias Ortiz et al., 2023[29]; OECD, 2023[30]; Saavedra and Regalia, 2023[31]).

Figure 3.4. Skills and equity deficits in LAC, 2022



Note: Panel A uses OECD Education GPS / PISA 2022 country-note data for the 14 Latin American and Caribbean (LAC) participants in PISA 2022. The mean mathematics score is the average PISA mathematics score for 15-year-old students on the common PISA proficiency scale. In PISA, Level 2 is the baseline level of proficiency in mathematics; students scoring at or below Level 1 are considered low performers. The simple LAC average shown in Panel A is the unweighted average across the 14 LAC countries.

Panel B reports the share of low performers in mathematics among socio-economically disadvantaged students (bars) and socio-economically advantaged students (diamonds). In the PISA framework, socio-economic background is captured by the PISA Index of Economic, Social and Cultural Status (ESCS), a composite index built from information on parental education, parental occupations and home possessions, and resources related to learning and family wealth. Advantaged students generally refer to students in the top quarter and disadvantaged students to those in the bottom quarter of socio-economic status.

Definitions: low performers are students proficient at or below Level 1 of the assessment; top performers are students at Levels 5 or 6; resilient students are disadvantaged students who perform in the top quarter internationally after accounting for socio-economic status.

Source: Estimates based on OECD (2019[32]), *PISA 2018*, https://www.oecd.org/en/data/datasets/pisa-2018-database.html; OECD (2023[33]), *PISA 2022*, https://www.oecd.org/en/data/datasets/pisa-2022-database.html.

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The region's skills challenge is reflected not only in low average performance, but also in large cross-country disparities and slow improvement in learning outcomes. Performance levels vary widely across countries in the region. Chile and Uruguay are among the best performers. Several others, including Mexico, Peru, Brazil, Colombia and the Dominican Republic, recorded substantially lower scores across mathematics, reading and science (Figure 3.4, Panel A). Yet even the strongest performers remain significantly below OECD benchmarks. Moreover, recent trends suggest the region is not closing these gaps. Between 2018 and 2022, the share of students below minimum proficiency in mathematics increased in most participating LAC countries. Although Peru has recorded notable improvements over time, progress elsewhere has often stalled or reversed. This highlights the persistence of foundational skills deficits across the region (OECD, 2023[30]).

Inequalities in skills acquisition are a defining feature of the region's overall skills deficit. Socio-economic background remains one of the strongest predictors of learning outcomes across LAC. On average, 88% of disadvantaged students are low performers in mathematics, compared with 55% among their more advantaged peers (Figure 3.4, Panel B). Socio-economic gaps in performance are substantial across countries, although somewhat below the OECD average in several cases. However, narrower gaps in some countries should not be interpreted as greater equity; rather, they often reflect uniformly low performance across the distribution. While a small share of disadvantaged students demonstrate academic resilience, these proportions remain too limited to offset the region's broader learning deficits (OECD, 2023[30]).

Persistent gender and school-system differences continue to shape skills acquisition and learning outcomes in LAC. Boys tend to outperform girls in mathematics, while girls outperform boys in reading across the region. In Chile, boys scored 16 points higher than girls in mathematics; the gap was more than 10 points in Mexico, Peru and Uruguay. Reading gaps run in the opposite direction. At the same time, several LAC systems combine weak performance with institutional fragilities: grade repetition remains high in Uruguay (24%), Brazil (22.1%), Chile (17%) and Peru (13%). Meanwhile, countries such as Brazil, Chile, Peru and Uruguay were reported as being poorly prepared for remote instruction before the pandemic. In Mexico, Peru and Brazil, the gap in preparedness for digital learning between public and private schools was especially large.

Evidence from adult skills reinforces the diagnosis that LAC lags behind in the information-processing skills that underpin productivity, employability and wages. Results from the first cycle of the Programme for the International Assessment of Adult Competencies (PIAAC), conducted between 2014 and 2018 in Chile, Ecuador, Mexico and Peru, placed these countries near the bottom of the participating-country distribution. In the 2022-23 cycle, in which Chile was the only participating LAC country, its adult skills scores remained below the OECD average. Meanwhile, Peru recorded particularly low proficiency levels, with more than half of adults either opting out of the digital problem-solving assessment or being unable to take it because they lacked basic readiness in information and communication technologies (ICTs). Adult skills data also reveal strong educational and intergenerational inequalities, suggesting that weaknesses in education systems continue to constrain social mobility and lock many workers into low-productivity trajectories (ECLAC, 2025[34]). In Chile, according to the 2023 assessment, tertiary-educated adults scored 39 points higher in literacy than adults with upper secondary education, while those with upper secondary education scored 49 points higher than adults who had not completed that level. In Ecuador, Mexico and Peru, proficiency declines steadily with age, reflecting the relatively recent expansion of secondary and tertiary education. In Peru, gaps associated with educational attainment and parental background are particularly large (OECD, 2023[35]; OECD, 2024[36]).

Overall, the evidence suggests that skills deficits remain a major constraint on productive transformation in LAC. Weak foundational skills, low adult proficiency and persistent inequalities limit the capacity of workers and firms to adopt new technologies and participate in higher value-added activities. These shortcomings are becoming increasingly costly as digitalisation, automation and AI raise demand for

cognitive, technical and adaptive skills. Without stronger investments in human capital and technology adoption, the region risks remaining trapped in a cycle of low skills, low productivity and high informality that constrains growth and competitiveness (Gmyrek, Winkler and Garganta, 2024[37]; OECD, 2026[38]).

Skill requirements are changing as technology reshapes labour demand

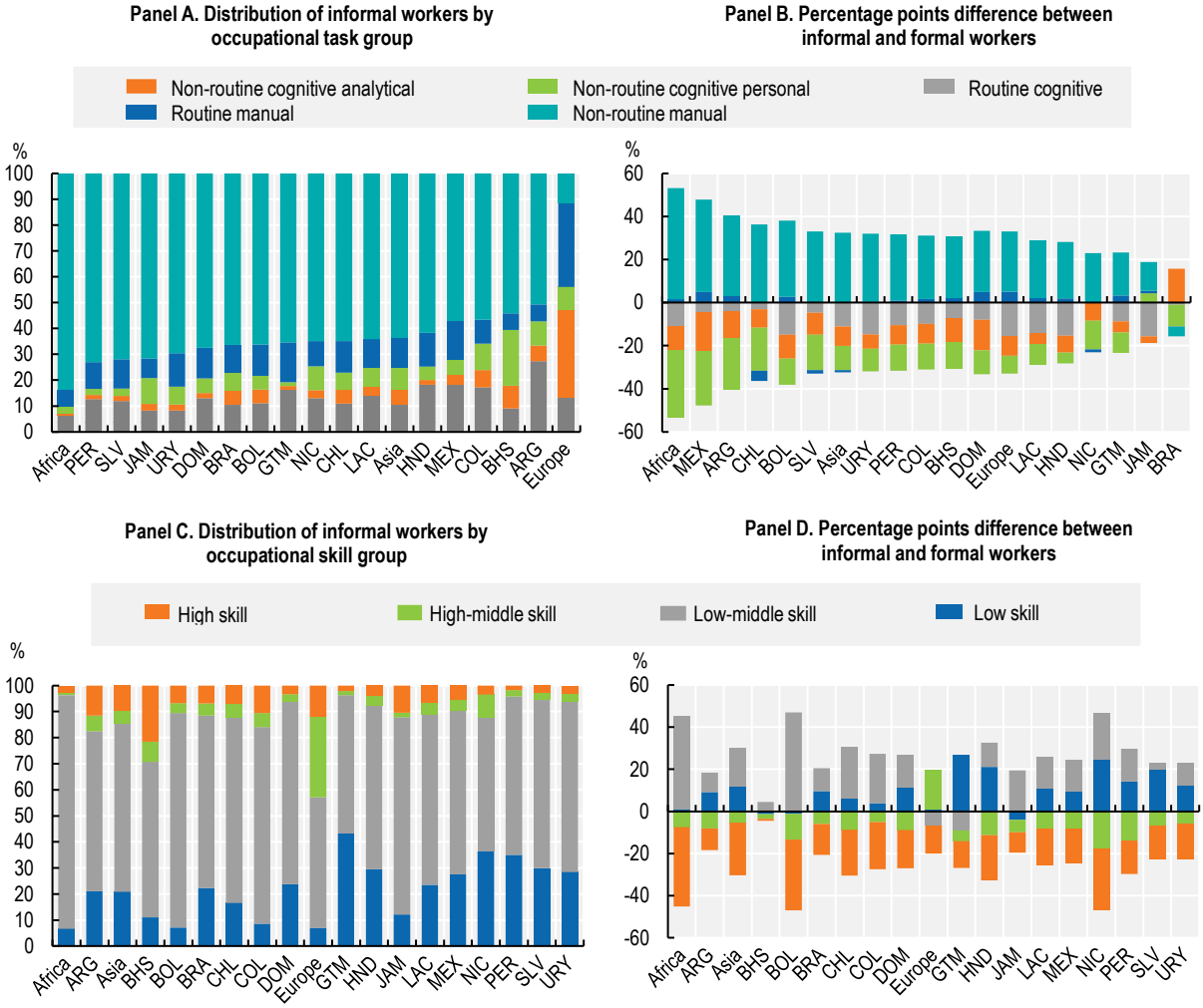
As LAC countries seek to strengthen their participation in regional and global value chains, the skills required in labour markets are evolving. Digitalisation, automation and AI are increasing demand for workers capable of performing cognitive, analytical and non-routine tasks, while routine and manual activities are becoming relatively less important. Workers equipped with strong foundational, digital and adaptive skills are more likely to benefit from technological change and access higher value-added activities. These capabilities are increasingly important not only for productivity growth, but also for firms' ability to innovate, upgrade and compete in more sophisticated segments of production (OECD, 2023[39]; OECD et al., 2025[23]).

LAC countries need to develop the skills demanded by new technologies and ensure that workers and firms can adopt and use them effectively. Recent advances in GenAI reinforce the growing importance of cognitive, digital and adaptive skills. While previous waves of automation primarily affected routine tasks, newer technologies increasingly complement information-processing and cognitive activities. This raises the premium on workers who can combine technical knowledge with problem-solving, communication and digital skills (Noy and Zhang, 2023[40]; OECD, 2023[41]; Autor, 2024[42]). In LAC, jobs with high digital-task content remain relatively scarce and digital adoption by firms is uneven (OECD et al., 2025[23]). As a result, almost half of the jobs that could potentially benefit from GenAI-related productivity gains are constrained by insufficient use of digital technologies in the workplace (Gmyrek, Winkler and Garganta, 2024[37]). The digital divide therefore acts as a bottleneck, slowing the diffusion of new technologies and limiting their contribution to productivity growth, productive upgrading and participation in higher value-added activities (OECD, 2026[38]).

The structure of employment further shapes the region's capacity to benefit from technological change. Workers in informal employment remain disproportionately concentrated in occupations characterised by manual tasks and lower skill requirements. Routine and non-routine manual tasks account for 64% of jobs among informal workers, compared with 36% among formal workers. Meanwhile, cognitive tasks represent only 24% of employment among informal workers and 53% among formal workers (Figure 3.5). Informal workers are also heavily concentrated in low- and medium-low-skill occupations, particularly in countries such as El Salvador, Guatemala and Peru (Lewandowski et al., 2020[43]; OECD, 2025[44]). These patterns reflect the persistence of production structures characterised by lower productivity and fewer opportunities for technological upgrading.

Figure 3.5. Distribution of workers by informality status and occupational groups

Percentage of workers aged 15 or more in each group



Note: The definition of informality follows the guidelines of ILO (2018[45]). Data are presented for the latest year available (see Annex 2.A for more details). "Non-routine cognitive analytical" refers to jobs requiring creative, problem-solving tasks; "non-routine cognitive personal" refers to jobs requiring interpersonal tasks requiring judgement; "routine cognitive" refers to jobs requiring codifiable, repetitive information-processing tasks; "routine tasks" refers to jobs with repetitive physical tasks in structured, machine-paced environments; "non-routine manual" refers to jobs requiring physical tasks in changing environments requiring dexterity, adaptation or spatial judgement.
Source: Estimates based on Lewandowski et al. (2020[43]), *Aging of routine jobs in Europe*, https://doi.org/10.1016/j.ecosys.2020.100816; OECD (2025[44]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://www.oecd.org/en/data/datasets/main-informality-indicators.html.

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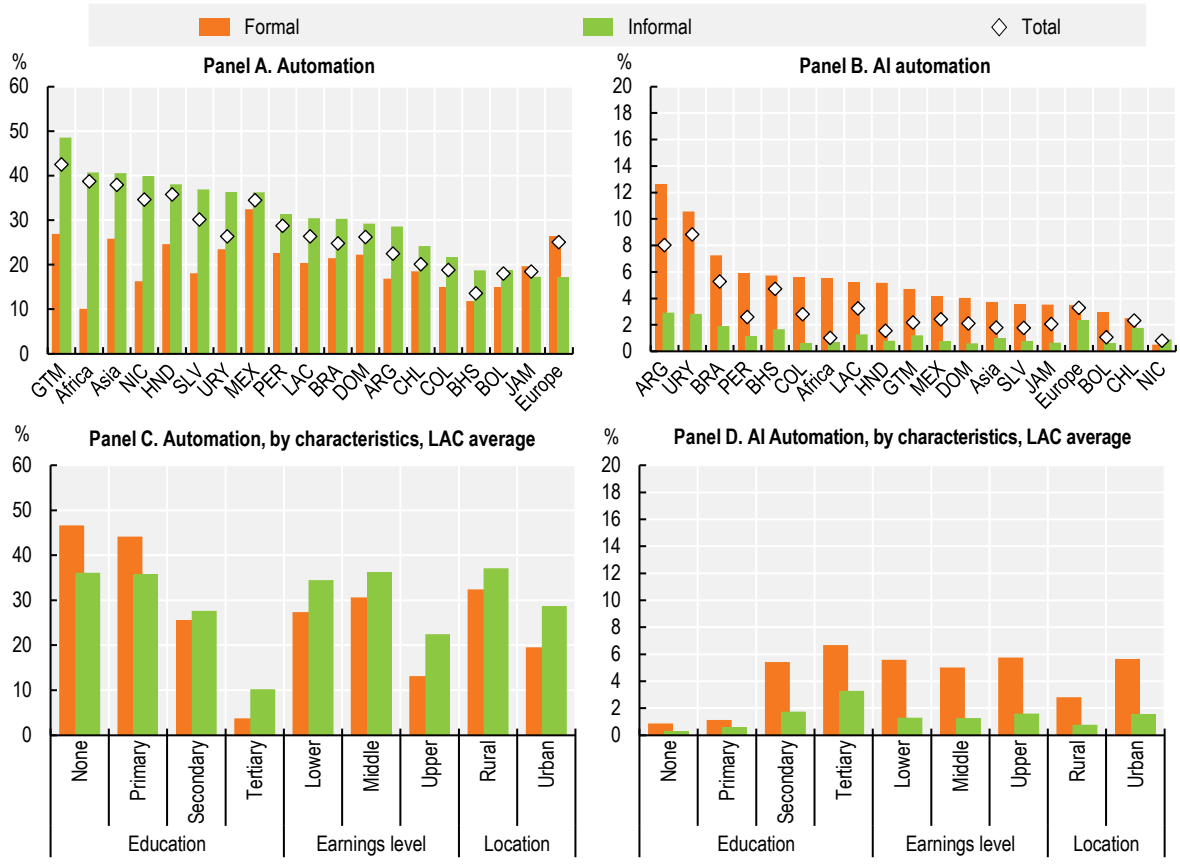
The distribution of tasks and skills across workers has important implications for exposure to technological change. Occupations relying heavily on routine and manual work tend to be more exposed to traditional automation, while occupations involving cognitive and information-processing tasks are more likely to be affected by recent advances in AI technologies (Acemoglu and Restrepo, 2019[46]; Acemoglu and Restrepo, 2020[47]; Agrawal, Gans and Goldfarb, 2019[48]). Estimates distinguish between these two forms of technological exposure (Box 3.1). Overall, around 27% of workers in LAC are employed in occupations facing high traditional automation risks compared with only 3% exposed to high AI-related displacement risks. Traditional automation risks are particularly concentrated among informal workers, with 32%

employed in occupations at high risk compared with 21% among formal workers. Exposure to AI, by contrast, is concentrated among more educated, formal and urban workers, reflecting their greater participation in cognitive and technology-intensive activities (Lassébie and Quintini, 2022[49]; OECD, 2023[28]; Gmyrek, Winkler and Garganta, 2024[37]).

Figure 3.6. Workers at high risk of automation, LAC countries, 2023 or latest available year

Percentage of workers aged 15 or more in each group



Note: Occupations considered to be at high risk of automation if they have a significant share of important skills and abilities (more than 25%) that are highly automatable, following Lassébie and Quintini (2022[49]). Occupations are considered to be at high risk of AI automation if they fall within the highest exposure gradient (Gradient 4), characterised by high average task exposure and relatively low variability in exposure across tasks, following Gmyrek et al. (2025[50]). The definition of informality follows the guidelines of ILO (2018[45]). Data are presented for the latest year available.
Source: Estimates based on Lassébie and Quintini (2022[49]), *What skills and abilities can automation technologies replicate and what does it mean for workers?: New evidence*, https://doi.org/10.1787/646aad77-en; Gmyrek et al. (2025[50]), *Generative AI and Jobs: A Refined Global Index of Occupational Exposure*, https://doi.org/10.54394/hetp0387; OECD (2025[44]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)*, https://www.oecd.org/en/data/datasets/main-informality-indicators.html.

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The main challenge facing LAC is not widespread displacement by AI, but rather the limited availability of workers and firms capable of fully benefitting from technological change. Traditional automation remains a greater source of risk for workers concentrated in routine and manual activities, many of whom also face higher levels of informality, vulnerability and weaker social protection (OECD/ILO, 2019[51]; Aleksynska and Kolev, 2021[52]; OECD et al., 2023[53]). At the same time, the productivity gains associated with AI are more likely to accrue to workers possessing stronger foundational, digital and cognitive skills (Autor, 2024[42]; Brynjolfsson, Li and Raymond, 2025[54]; Dell'Acqua et al., 2026[55]).

Box 3.1. Measuring the risk of automation

The risk of automation can be assessed based on a wide range of methodological choices.

This chapter assesses two types of technical exposure (or susceptibility) to automation that relate to different waves of technical innovations. They are both relevant for LAC labour markets, which are basically hit by two different mega trends in innovation, affecting different occupations and sectors.

The first type aims at capturing the extent to which specific tasks required for a job can be fully substituted by the waves of automation occurring up to the early 2020s. This includes innovations of industrial robots and AI technologies based on data computations, predictions and technical assistance in decision making.

The second is focussed on the frontier of generative AI technologies. It explicitly considers the expanding capabilities of these systems beyond text and large language models. This includes voice, image and video generation, which increase the potential exposure of some occupations, especially in media- and web-related work.

For the first exercise, the chapter follows the methodology of Lassébie and Quintini (2022[49]), which was further replicated in the OECD Employment Outlook. It allows to compute, for each occupation, the share of important skills and abilities that are highly automatable and the share that remain bottlenecks to automation. The resulting occupation-level indicators are subsequently used to assess which jobs are most exposed to automation and which groups of workers are most at risk (the latter group comprises those workers with at least 25% of tasks that can be technically automated).

For the second, the chapter follows the statistical approach of Gmyrek et al. (2025[50]), which measures the risk of AI displacement at the task level within each occupation code. It combines task-level information for nearly 30 000 tasks at the six-digit ISCO-08 level with human expert input and AI-based predictions. In this way, it can estimate the extent to which generative AI can perform the tasks that make up each occupation. Occupations are then classified into four exposure gradients based on their mean exposure score and the degree of task variability within the occupation. This reflects the idea that task automation does not automatically translate into full job displacement because some important tasks may remain non-automatable or require substantial human involvement. The last gradient – the one classifying occupations with high average task exposure, and sufficiently widespread across its tasks – is then considered to classify occupations at high risk of AI technical displacement potential.

Source: Lassébie and Quintini (2022[49]), *What skills and abilities can automation technologies replicate and what does it mean for workers?: New evidence*, https://doi.org/10.1787/646aad77-en; Gmyrek et al. (2025[50]), *Generative AI and Jobs: A Refined Global Index of Occupational Exposure*, https://doi.org/10.54394/hetp0387.

Prioritising sectors and industrial clusters with high growth and quality job potential for integration into a changing global economy

Successfully integrating into a rapidly changing global economy will depend on LAC's ability to develop the skills demanded by high-growth, technology-intensive sectors. As global production systems are reshaped by digitalisation, AI, decarbonisation and demographic change, the skills needed for regional integration and participation in higher value-added activities are evolving rapidly. Prioritising investment in sectors and industrial clusters with strong growth prospects and the potential to generate better-quality employment should therefore be at the core of efforts to strengthen economic integration and productive upgrading (OECD et al., 2024[56]; OECD et al., 2025[23]) (see Chapter 2).

Identifying these sectors is not straightforward. From a skills and integration perspective, they should ideally combine three characteristics: i) strong growth potential; ii) increasing technological and digital intensity, including AI, automation, data, Internet of Things (IoT), digital platforms, traceability, smart infrastructure and tele-services; and iii) greater potential to generate productive, formal and higher-quality employment.

A comparison of evidence from multiple sources highlights several sectors that combine strong growth prospects, rising technological intensity and the capacity to generate better-quality jobs. Three broad conclusions emerge (Table 3.4). First, the sectors with the strongest potential for regional integration and participation in higher value-added activities are those linked to the green transition, digitalisation and knowledge-intensive production. These include energy, transport, batteries and critical minerals, agribusiness and the bioeconomy, health services, life sciences and ICT-enabled services. Second, technological upgrading is reshaping traditionally digital sectors, as AI, automation, data and other technologies become embedded in activities ranging from energy and mining to tourism. Third, capturing these opportunities requires skills beyond technological expertise, combining technical and digital capabilities with transversal skills such as problem solving, adaptability, teamwork and communication (ECLAC, 2023[57]; ECLAC, 2024[58]; IDB, 2023[59]; IDB, 2023[60]).

Table 3.4. Matrix of industrial sectors with high technological growth and high-quality jobs potential

Sector	Technology and digital content	Representative occupations in demand	Skills needed
Renewable electricity, grids and storage	Very high: AI, automation, big data, IoT, smart grids, forecasting, digital monitoring; rising importance of storage and green hydrogen.	Renewable energy engineers; electricians; grid technicians; operations and maintenance technicians; project managers; data analysts; logistics and supply chain managers.	Electrical, mechanical and civil engineering; grid systems; OSH; digital troubleshooting; robotics/AI/data analysis; project management; teamwork and adaptability.
Critical minerals, batteries and electromobility value chains	Very high: digital mining, process control, battery chemistry, advanced manufacturing, traceability, energy systems and industrial R&D.	Mining and process engineers; electrochemists; materials scientists; battery technicians; environmental and community-relations specialists; quality and operations managers.	Chemistry and materials science; process engineering; environmental governance; ESG and social dialogue; digital monitoring; industrial quality; R&D and problem solving.
Health services, life sciences and medtech	Very high: AI, automation, big data, IoT, telemedicine, robotics, interoperability, cybersecurity.	Clinicians using digital tools; health information managers; telehealth co-ordinators; biomedical engineers; health data analysts; cybersecurity specialists; medtech technicians.	Health information management; telehealth; data governance and privacy; cybersecurity; interoperability; digital clinical literacy; evidence-based implementation.
ICT-enabled services	Very high: software, cloud, AI, data, cybersecurity, e-commerce, online service delivery.	Software developers; AI/ML specialists; cloud engineers; data analysts; cybersecurity specialists; product managers; digital service operations leads.	Coding; cloud tools; data analytics; cybersecurity; English and communication; remote collaboration; problem solving; continuous learning.
Agribusiness and sustainable bioeconomy	High to very high: AI, automation, big data, IoT, traceability, climate-smart inputs, bio-based innovation.	Agronomists; precision-agriculture technicians; irrigation and sensor specialists; food-process engineers; traceability and compliance specialists; bioprocess technicians.	Precision agriculture; traceability; water management; climate resilience; food safety; data use; environmental services; problem solving.
Sustainable transport, logistics and smart mobility	High to very high: AI, automation, big data, IoT, smart fleets, EV maintenance, route optimisation, digital mobility systems.	Logistics analysts; fleet managers; EV and bus maintenance technicians; charging-infrastructure technicians; transport operations managers; systems-integration specialists.	Data-driven logistics; systems integration; EV maintenance; smart mobility operations; customer operations; OSH; communication and adaptive skills.
Fintech and digital financial services	Very high: AI, automation, big data, fintech, insurtech, regtech,	Software engineers; data scientists; cybersecurity analysts; digital product managers; compliance and regtech	Data analytics; cybersecurity; regulatory compliance; AI and automation; customer-centric design;

	embedded finance, cybersecurity.	specialists; risk analysts; UX specialists.	digital product skills; communication.
Circular economy, waste recovery and remanufacturing	Medium-high and rising: digital tracking, redesign, repair, sorting and treatment technologies, platform-enabled re-use, recycling data.	Waste sorting and treatment operators; recycling technicians; repair and remanufacturing technicians; environmental engineers; circular-product designers; operations managers.	Waste management; repair and remanufacturing; materials handling; product redesign; digital traceability; OSH; teamwork.
Care economy	Medium-high: less frontier-tech intensive than ICT or fintech, but increasingly digital through care-management systems, scheduling, tele-support and hybrid service delivery.	Childcare workers; eldercare workers; nurses and therapists; care co-ordinators; supervisors and trainers; social-care administrators.	Care competencies; pedagogy and geriatrics; care management; communication; labour standards; digital service use; co-responsibility frameworks.
Sustainable tourism and digital tourism services	Medium-high and rising: AI, automation, big data, IoT, digital booking, e-payments, online sales, CRM and personalisation.	Digital marketing managers; reservation and revenue managers; customer-experience analysts; sustainability managers; tourism entrepreneurs; online sales specialists.	Digital marketing; booking and payment systems; customer analytics; languages; business innovation; entrepreneurship; resilience and sustainability skills.

Note: AI/ML = artificial intelligence/machine learning; CRM = customer relationship management; ESG = environment, social and governance; EV = electric vehicle; ICT = information and communication technology; IoT = Internet of Things; OSH = occupational safety and health; R&D = research and development. This matrix was built by i) taking ECLAC's strategic sectors as the initial long list; ii) cross-checking them with ILO and IDB evidence on employment creation, job quality and skills; iii) assessing technological and digital intensity using IDB Invest and OECD material; and iv) selecting the final ten sectors only when they combine growth potential, digital/technological upgrading and stronger prospects for job quality. The occupations listed in the matrix are representative roles likely to face stronger demand if these sectors expand under the transition pathways described in the literature; they are not vacancy counts. They were inferred from the occupational and skills signals explicitly mentioned in the source material (e.g. telehealth and health information management in health; environmental services and green skills in agribusiness and green sectors; EV maintenance and systems integration in transport; digital operations and data roles in energy and ICT-enabled services). The skills column combines three layers of evidence: technical/domain skills specific to the sector; digital and information-processing skills; and transversal skills such as problem solving, adaptability, teamwork and communication, which OECD and ILO repeatedly identify as critical for the digital and green transitions. The table is a regional analytical matrix. It does not imply that all sectors are equally relevant in every LAC country, nor that job quality is automatically high in all of them.

Source: ECLAC (2019[61]), *Towards a sustainable bioeconomy in Latin America and the Caribbean: Elements for a regional vision*, https://www.cepal.org/en/publications/44994-towards-sustainable-bioeconomy-latin-america-and-caribbean-elements-regional; ECLAC (2022[62]), *The Care Society: A Horizon for Sustainable Recovery with Gender Equality*, https://www.cepal.org/en/publications/48362-care-society-horizon-sustainable-recovery-gender-equality; ECLAC (2023[57]), *Economic Commission for Latin America and the Caribbean (ECLAC)*, https://sdgs.un.org/un-system-sdg-implementation/economic-commission-latin-america-and-caribbean-eclac-54128; Alfonso, Azuara and Mondragón (2022[63]), *Green jobs and skills in Latin America: A look at LinkedIn data*, https://publications.iadb.org/publications/english/document/Green-jobs-and-skills-in-Latin-America-A-look-at-the-LinkedIn-data.pdf; IDB (2023[60]), *How New Technologies Are Transforming Energy in Latin America and the Caribbean*, https://idbinvest.org/en/publications/how-new-technologies-are-transforming-energy-latin-america-and-caribbean; IDB (2023[59]), *How New Technologies Are Transforming Transport in Latin America and the Caribbean*, https://idbinvest.org/en/publications/how-new-technologies-are-transforming-transport-latin-america-and-caribbean; OECD (2023[39]), *OECD Skills Outlook 2023: Skills for a Resilient Green and Digital Transition*, https://doi.org/10.1787/27452f29-en; ILO (2024[64]), *Navigating the Future: Skills and Jobs in the Green and Digital Transitions*, https://doi.org/10.54394/VGNR3350; ILO/ECLAC (2025[65]) *The Care Economy and Decent Work: Scenarios and Recommendations for Latin America and the Caribbean*, https://www.ilo.org/es/publications/economia-del-cuidado-y-trabajo-decente-escenarios-y-recomendaciones-para-america-latina-y-el-caribe; Manca and Eslava (2025[66]), *Digital and AI skills in health occupations: What do we know about new demand?*, https://oecd.ai/en/ai-publications/digital-and-ai-skills-in-health-occupations.

The skills required in these sectors extend well beyond science, technology, engineering and mathematics (STEM) disciplines alone. Activities increasingly shaped by AI, digitalisation and decarbonisation demand a combination of technical skills. These include skills in engineering, coding, digital tools and process control; information-processing skills, such as data analysis, cybersecurity, interoperability and traceability; and transversal skills, such as problem solving, communication, teamwork, adaptability and lifelong learning. In practice, successful participation in increasingly technology-intensive regional and global value chains will depend on both technical expertise, and on workers' ability to combine domain knowledge with digital fluency and continuous learning (OECD et al., 2021[67]; ILO, 2024[64]).

Improvements in job quality are not automatic. Several sectors with strong growth potential, particularly the circular economy, tourism, agribusiness and the care economy, can either become engines of productive and inclusive employment or remain characterised by high levels of informality and low productivity. Outcomes depend on a range of enabling factors identified throughout the literature, including effective productive-development policies, strong skills systems, adequate digital and physical infrastructure, well-functioning labour institutions and financing mechanisms that can support domestic capacity building rather than enclave-type growth.

Aligning sectoral development strategies with skills policies is therefore essential. Preparing workers for emerging opportunities requires action at three complementary levels: strengthening foundational, digital and STEM skills through initial education; expanding high-quality technical and vocational education and training that responds to sector-specific demand; and scaling up work-based learning and on-the-job training so that firms can adopt new technologies while upgrading their workforce. Green, digital and AI-intensive sectors require increasingly sophisticated combinations of technical, digital and transversal competencies. Meeting this demand also depends on institutions capable of anticipating changing skills needs and translating them into relevant curricula, certification systems and lifelong learning opportunities (ECLAC, 2022[68]; IDB, 2024[69]).

The growing importance of these sectors also highlights the need to strengthen lifelong learning systems across the region. As digitalisation, AI, demographic ageing and the green transition reshape labour markets, LAC faces less an AI-specific skills shortage than a broader lifelong learning challenge. Such a challenge is characterised by unequal access, fragmented systems, inadequate financing and weak integration between skills policies and economic development strategies. AI-related competencies are increasingly valuable, but they generate the greatest benefits when complemented by strong foundational cognitive and socio-emotional skills, recognised qualifications and inclusive lifelong learning institutions (ILO, 2026[70]).

Access to quality learning opportunities remains highly unequal, with participation concentrated among workers in formal employment, higher-skilled individuals and employees of larger firms, while informal, low-skilled and vulnerable workers have significantly fewer opportunities to upskill or reskill. Evidence from the region also indicates that employers are increasingly demanding “rounded” skills profiles rather than narrow technical expertise. Analysis of online vacancy data from Brazil and Uruguay shows that digital and AI-related competencies are most valued when combined with foundational cognitive and socio-emotional skills such as problem solving, critical thinking, communication, teamwork and adaptability. As a result, the principal challenge for LAC is twofold. On the one hand, it must develop advanced digital capabilities. On the other, it needs to create inclusive lifelong learning systems that can equip workers with a balanced mix of technical, cognitive and behavioural skills throughout their working lives.

Skills policies alone will be insufficient if firms face weak incentives to formalise, train and hire. A comprehensive approach is needed that combines targeted financial incentives, such as hiring and training subsidies, innovation support, and blended-finance and risk-sharing instruments for early-stage investment. In addition, labour regulations should facilitate job creation in emerging sectors while safeguarding workers’ rights. This is particularly important for non-standard forms of work, which are expanding in digital, care and platform-based activities. In such areas, legal uncertainty around employment status, social protection coverage and training obligations can discourage both investment and job quality.

Other policy domains are also critical. These include digital and logistics infrastructure, standards and certification systems, competition and regulatory frameworks, local supplier development and stronger co-ordination across ministries of economy, labour, education, energy, transport and social development. Investment is most likely to scale when sector strategies are embedded in a whole-of-government approach. This should reduce business uncertainty, build capabilities and ensure that new jobs are productive, formal and adaptable to technological change (OECD, 2024[71]; OECD et al., 2025[23]).

Building the skills needed for regional integration and participation in a changing global economy

Building the skills needed for regional integration and participation in a changing global economy requires more than education policies alone. As labour demand evolves alongside the digital and green transitions, education, labour-market and productive-development policies need to become more closely aligned. Strengthening technical and vocational education and training; expanding lifelong learning opportunities; and improving links between training systems and employers can help workers acquire the capabilities needed to access emerging sectors and more knowledge-intensive activities (ECLAC, 2023[72]; ECLAC, 2024[58]; ILO, 2024[64]).

Skills development is also closely linked to the structure of labour markets. High levels of informality continue to limit workers' access to training opportunities, career progression and social protection, while reducing firms' incentives to invest in human capital. In many cases, workers remain trapped in low-productivity activities with limited opportunities to acquire new competencies, making it harder to adapt to technological change or benefit from deeper economic integration. Expanding access to formal, productive and protected employment therefore remains essential for developing the skills base required in a more integrated and competitive economy (IDB, 2024[69]; OECD, 2024[73]; ECLAC, 2025[34]).

At the same time, skills policies need to be connected to broader economic opportunities. Strategic sectors such as renewable energy, electromobility, the bioeconomy, ICT-enabled services, life sciences, medical devices, sustainable tourism and the care economy offer significant potential for productivity growth, technological upgrading and job creation. Many of these activities are closely linked to regional and global value chains and are expected to experience growing demand as the global economy adapts to climate change, demographic shifts and digitalisation (ECLAC, 2022[62]; ECLAC, 2024[58]; IDB/ILO, 2020[74]; IDB, 2023[75]; OECD et al., 2022[76]; OECD et al., 2024[56]). Ensuring that workers possess the skills required in these sectors will be critical for enabling the region to capture new opportunities for investment and trade.

Skills development must also be accompanied by labour-market institutions that support worker mobility and adaptation. As digital, platform-based and other non-standard forms of employment expand, workers increasingly require opportunities to update their skills throughout their careers while maintaining access to training and social protection. Policies that promote skills recognition, apprenticeships, labour intermediation services and portable benefits can help workers adapt to technological change while facilitating transitions towards more productive and formal employment (ECLAC, 2023[72]). Targeted hiring incentives, training subsidies and measures supporting women's labour-market participation through childcare and care systems can further broaden access to better-quality employment and expanding economic opportunities (ECLAC, 2022[62]; OECD et al., 2025[23]).

Expanding the supply of skills alone is unlikely to generate substantial gains unless firms also have incentives and capabilities to innovate, adopt technologies and integrate into more sophisticated regional and global production networks. Skills policies therefore need to be complemented by investments in infrastructure, digital connectivity, innovation, supplier development and access to finance. Stronger co-ordination across ministries responsible for education, labour, innovation, infrastructure and productive development can help ensure that skills investments translate into productivity gains and greater participation in regional and global value chains (IDB, 2014[77]; ECLAC, 2025[34]; OECD et al., 2025[23]).

Finally, social protection systems play an important role in supporting labour-market adaptation. The prevalence of informal and mixed households means that a significant share of the population remains weakly connected to contributory protection systems, while labour markets alone do not provide adequate security for many workers. As economic integration, technological change and labour-market transitions accelerate, social protection systems will need to provide effective coverage across diverse employment situations. These should combine contributory and non-contributory instruments while supporting incentives for skills upgrading and formalisation (ECLAC, 2023[72]; OECD, 2024[73]; OECD/OISS, 2024[78]).

Such systems can help workers manage periods of transition while reducing the risks associated with structural change.

Ultimately, the challenge for LAC is not simply to create more jobs, but to equip workers and firms with the skills and capabilities to participate in a changing global economy. Labour inclusion will increasingly depend on the region's capacity to move workers and firms from low-skill, low-productivity and informal activities into more knowledge-intensive, technology-enabled and internationally connected activities. Achieving this objective requires a combined agenda of skills development, labour-market adaptation, technological adoption and social protection. This, in turn, should enable a broader share of workers and firms to benefit from deeper regional integration and participation in higher value-added segments of regional and global value chains (ECLAC, 2024[58]; ECLAC, 2025[79]; OECD et al., 2025[23]).

Mobilising strategic sources of financing to support regional and global integration

LAC has an opportunity to strengthen both its regional integration and its positioning within the changing global economy by mobilising new sources of financing aligned with emerging development priorities. Traditional financing channels – including domestic resource mobilisation, capital market development and international public finance – remain essential. However, new financing opportunities are emerging in response to global trends such as the green and digital transitions, the changing landscape of official development assistance (ODA) and the growing role of private capital in sustainable development. Within this broader context, innovative thematic debt instruments and the co-ordinated action of development banks and export credit agencies are becoming increasingly important in mobilising investment across borders. These instruments not only help address financing constraints but also create incentives to support shared regional priorities, including climate action, infrastructure and sustainable development. At the same time, they strengthen LAC's capacity to engage with evolving global investment and financing dynamics.

Thematic debt instruments can align investments with regional integration objectives

Debt-for-nature and resilience swaps can help unlock financing for shared public goods and support co-ordinated resilience investments

Innovative debt swaps are emerging as powerful tools to mobilise investment in sustainable activities and shared public goods. Recent debt-for-nature swaps illustrate how large-scale operations can generate both national and regional environmental benefits. Ecuador's 2023 Galápagos transaction converted USD 1.6 billion of debt into a structure that channels around USD 12 million annually to marine conservation (GGGI, 2023[80]). As part of the Eastern Tropical Pacific marine corridor, the Galápagos ecosystems support migratory species shared with neighbouring countries, generating regional ecological spillovers (OECD et al., 2023[53]; OECD et al., 2024[56]). In 2023, Peru's debt-for-nature swaps – such as the USD 20 million agreement focussed on Amazon conservation –channel resources into forest protection, biodiversity and sustainable land use, with implications for the wider Amazon basin shared by multiple countries (WWF, 2023[81]).

In the Caribbean alone, debt-for-nature swaps have mobilised over USD 450 million for marine conservation, highlighting their growing role as catalysts for sustainable investment (OECD/IDB, 2026[82]). Country-level operations such as Belize's 2021 debt-for-nature swap – restructuring around USD 550 million (about 30% of GDP) and unlocking roughly USD 180 million for marine conservation. By protecting the Belize Barrier Reef, part of the wider Mesoamerican Reef system, the operation supports biodiversity, fisheries and tourism value chains beyond national borders. The Caribbean Debt-for-

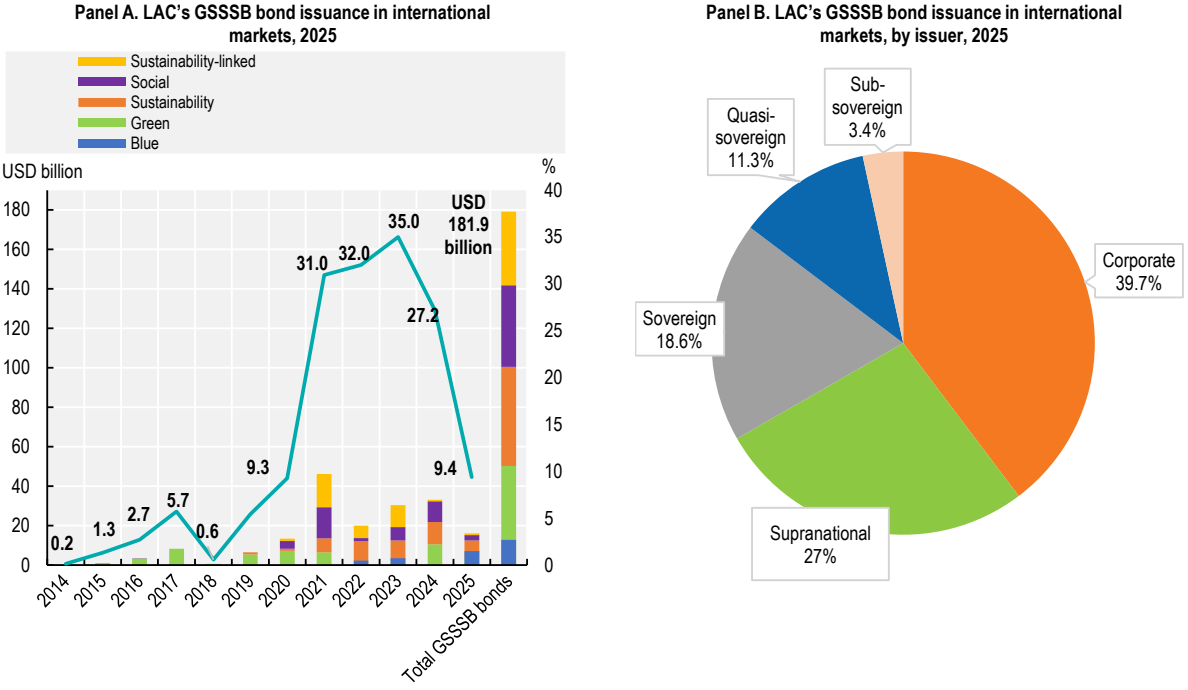
Resilience Initiative is led by institutions such as the Inter-American Development Bank (IDB), Development Bank of Latin America and the Caribbean (CAF) and the Caribbean Development Bank (CDB). It uses multi-guarantor structures to scale up debt-for-resilience operations, generate fiscal space and channel financing towards climate resilience and disaster risk management (OECD/IDB, 2026[82]). By aligning multiple stakeholders and embedding a regional public goods component in each transaction, the initiative aims to mobilise private capital, lower financing costs and support co-ordinated resilience investments across countries (CDB, 2025[83]).

Despite their growing potential, debt-for-nature swaps face important limitations that should be considered when assessing their scalability and applicability across different country contexts. These transactions are inherently complex, involving multiple stakeholders, legal arrangements and financial instruments. This can make them costly and time-consuming to structure (OECD et al., 2023[53]; OECD et al., 2024[56]). Their success also depends on the availability of a credible credit enhancement or guarantor instrumental in making the transactions viable. In addition, debt-for-nature swaps require strong institutional co-ordination among international and domestic actors, including governments, creditors, the private sector and civil society, to ensure effective design and implementation. Finally, because environmental commitments extend over lengthy time horizons, these operations depend on sustained political commitment, institutional continuity and sound fiscal management to deliver their intended conservation and development outcomes. Effective supervision and monitoring of these commitments, supported by robust sustainable finance frameworks, are therefore also crucial.

GSSSB bonds can mobilise large-scale capital for infrastructure and regional public goods and value chains, while aligning investments with sustainability objectives

Between 2014 and 2025, the international green, social, sustainability, sustainability-linked and blue (GSSSB) bond market in LAC reached a cumulative value of USD 181.9 billion, underscoring its rapid expansion as a key source of sustainable finance in the region (Figure 3.7, Panel A) (OECD, 2024[84]; OECD et al., 2025[23]; ECLAC, 2026[85]). In 2025, corporate GSSSB bond issuance in international markets led with 39.7%, followed by supranationals at 27%, sovereigns at 18.6%, quasi-sovereigns at 11.3% and sub-sovereigns at 3.4% (Figure 3.7, Panel B). Issuance trends have been volatile: the share of GSSSB bonds rose from 9.3% of total LAC issuance in 2020 to a peak of 35.0% in 2023, before declining sharply to 9.4% in 2025. This recent contraction reflects reduced sovereign participation, alongside a shift towards plain-vanilla instruments amid macroeconomic uncertainty, volatile US Treasury yields and tariff-related risks. Additional factors include transitional adjustments to sustainable finance taxonomies and reporting standards, as well as heightened investor scrutiny of sustainability-linked bonds (SLBs) (ECLAC, 2026[85]).

Figure 3.7. LAC's GSSSB bond issuance in international markets



Note: Panel A: GSSSB = green, social, sustainability, sustainability-linked and blue. Panel B: the sub-sovereign category includes a single GSSSB bond issuance by the city of Bogotá, a USD 598 million green bond. The quasi-sovereign category includes state-owned entities.
Source: Authors' elaboration based on Velloso and Perotti (2023[86]), *Sustainable bond issuances in international markets, 2014-2022: Characteristics, trends and greenium in Latin America and the Caribbean*, https://www.cepal.org/en/publications/68789-sustainable-bond-issuances-international-markets-2014-2022-characteristics-trends; OECD et al. (2025[23]), *Latin American Economic Outlook 2025: Promoting and Financing Production Transformation*, https://doi.org/10.1787/80e48de5-en; ECLAC (2026[85]), *Capital Flows to Latin America and the Caribbean: 2025 Year-in-Review and Early 2026 Developments*, https://repositorio.cepal.org/server/api/core/bitstreams/bf9d91c9-2bdb-4bf5-b270-276b33203eec/content.

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Despite a decline in issuance in 2025, GSSSB bonds have consolidated their role as a key instrument for sustainable finance mobilisation in the region. Rather than indicating a structural weakening of sustainable finance in LAC, this recent decline reflects a cyclical shift in priorities. Sovereigns and corporates are expected to return to GSSSB bond markets as conditions stabilise (ECLAC, 2025[87]).

GSSSB bonds can become important tools for financing large-scale infrastructure in transport, energy and digital connectivity, helping to reduce connectivity barriers and support more integrated economies. Use-of-proceeds bonds, including green, social and sustainability bonds, can earmark funds for eligible infrastructure projects, while SLBs can link financing conditions to sustainability targets that support more sustainable and connected regional economies (OECD, 2024[84]). Multilateral development banks such as CAF demonstrate the potential of these instruments by mobilising resources through green and sustainable finance frameworks for projects across the region in areas such as railway modernisation, clean transport and renewable energy. This helps reduce logistics costs and strengthen connectivity across LAC. Similarly, Chile's pioneering issuance of green and sustainability-linked sovereign bonds has supported transport and energy investments that contribute to improved connectivity (Velloso and Perroti, 2023[86]). However, further efforts are needed to scale up these instruments and promote greater co-ordination across countries, ensuring that sustainable finance can support cross-border infrastructure networks.

Beyond infrastructure, GSSSB bonds also have the potential to strengthen regional value chains in sectors such as agro-industry, manufacturing and renewable energy by expanding productive capacity, enhancing climate resilience and promoting standards harmonisation. In LAC, these bonds have already financed a broad range of productive activities. This shows they can do more than fund isolated green projects: they can also support the assets, technologies and firms that anchor cross-border production networks (OECD et al., 2025[23]). By channelling long-term capital into sectors with strong regional linkages, GSSSB bonds can help suppliers upgrade, improve resilience to climate shocks, and meet common environmental and reporting standards across markets. This can lower co-ordination costs and further strengthen investor confidence (Velloso, Perrotti and Sobreira, 2025[88]).

Scaling up GSSSB bond issuance and mobilising development finance through these instruments will require broader market access. Improving market access involves addressing key barriers faced by potential issuers, particularly those with limited capacity. These barriers include gaps in technical knowledge, difficulties in developing eligible green project pipelines and the absence of standardised monitoring frameworks (Velloso and Perroti, 2023[86]; OECD, 2024[84]). In addition, complex issuance procedures (including definitions of sustainability), as well as demanding reporting and impact measurement requirements, continue to constrain participation. Strengthening cross-border co-ordination, in turn, will depend on aligning GSSSB bond issuances more closely with regional strategies that identify shared bottlenecks, link complementary sectors and support investments with cross-border impact. International co-operation will be key to addressing these challenges. Initiatives such as the EU's Global Green Bond Initiative Fund will be instrumental in supporting issuers in designing and issuing bonds in the region. The Fund is a new public-private investment tool to mobilise up to EUR 20 billion in private capital for sustainable infrastructure projects in low- and middle-income countries (European Commission, 2026[89]).

National and multilateral development banks, including export credit agencies, can play a key role in financing intraregional trade, integrating service markets and supporting project preparation

Trade finance institutions in LAC form a fragmented but increasingly interconnected ecosystem that blends traditional export credit agencies, development banks, and specialised guarantee and insurance providers to support regional and international trade. Rather than operating as isolated actors, these institutions collectively address different segments of the trade finance chain. These range from pre- and post-shipment credit and working capital support to risk mitigation through guarantees and export insurance. They also include targeted financing for strategic sectors such as agro-industry and infrastructure. A small number of entities (notably Bancomext, Bancóldex and Banco de Inversión y Comercio Exterior) function as core export credit agencies. Meanwhile, a broader set of development finance institutions – such as national development banks (NDBs) in Brazil, Colombia, Ecuador and Peru – play hybrid roles that combine long-term investment financing with trade-related instruments. Complementing these institutions are specialised guarantee agencies, including the Brazilian Agency for Guarantee Funds and Guarantees and Trust Funds for Rural Development (FIRA) in Mexico, which help crowd in private capital by absorbing commercial and political risk. Taken together, this ecosystem reflects both functional complementarity and institutional overlap. It has significant potential to deepen regional value chains if co-ordination, instrument coverage and transparency practices are further strengthened.

The financial and technical capacity of NDBs in LAC varies considerably across countries and institutions, as do the mandates, resources and mobilisation capacity of multilateral development banks (MDBs). The largest NDBs, particularly in Mexico and Brazil, hold assets equivalent to around 7% of GDP, while the smallest represent less than 0.2% of GDP; disparities in equity and lending capacity are equally wide (OECD et al., 2025[23]). Regional MDBs also differ substantially in their mandates, financial resources and ability to mobilise financing. This highlights the importance of accounting for institutional heterogeneity

when assessing their contribution to regional integration and development finance. Drawing on their distinct mandates and institutional capacities, MDBs, including CAF and the IDB, can complement national efforts by providing trade finance instruments, risk-sharing mechanisms and project-level guarantees across countries.

Table 3.5. National development banks and other development finance institutions that function like export credit agencies in LAC

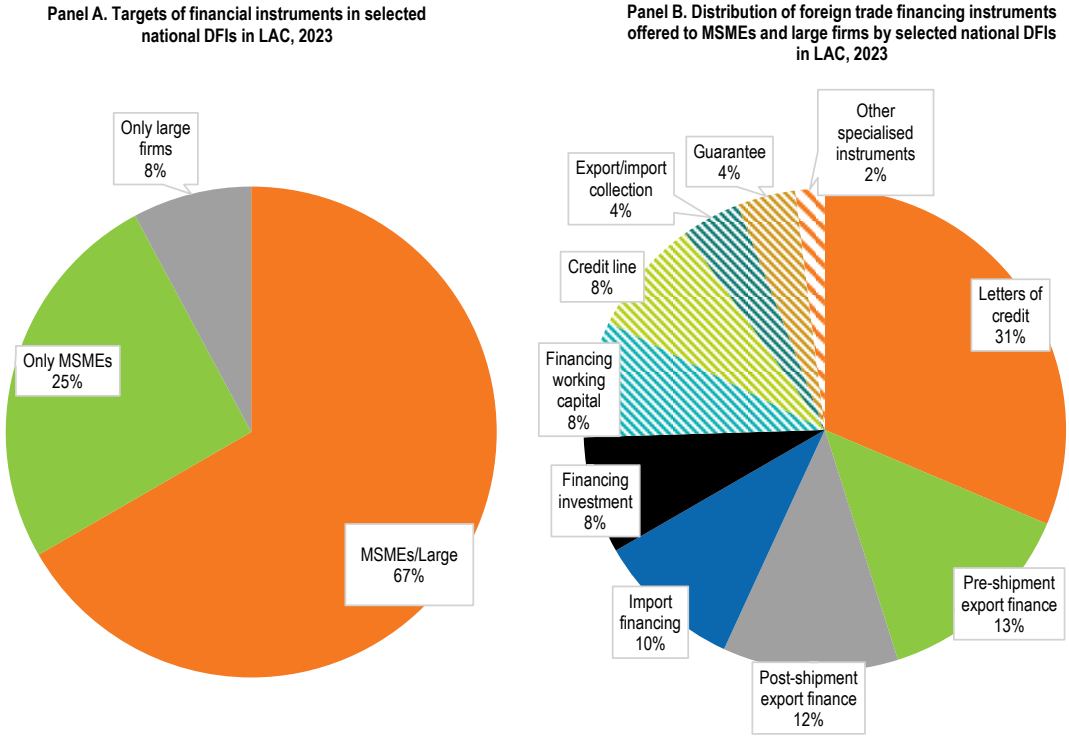
Institution	Country	Type of entity	ECA-like roles/functions	Notes
Bancomext	Mexico	National development bank & ECA	Export financing, guarantees, credit facilities for exports and foreign trade	Mexico's formal export credit agency, supporting exporters with credit and guarantees
Bancóldex	Colombia	National development bank & ECA	Foreign trade finance, buyer credit facilities, export credit lines, guarantees	Colombian development and export-import bank supporting exports and internationalisation
FDN (Financiera de Desarrollo Nacional)	Colombia	National development bank - infrastructure development finance institution (DFI)	Infrastructure finance with indirect trade facilitation effects; guarantees and structuring for logistics/transport	Focuses on infrastructure and PPP structuring, including transport and logistics enabling trade flows
Banco de Inversión y Comercio Exterior (BICE)	Argentina	National bank & ECA	Export credit, pre- and post-shipment finance, guarantees	Recognised in international ECA lists as Argentina's official export credit provider
ABGF (Agência Brasileira Gestora de Fundos Garantidores e Garantias)	Brazil	Export credit guarantee agency	Export credit insurance (SCE), guarantees for export transactions	Operates Brazil's export credit insurance programme covering commercial and political risk
BNDES (with Exim functions)	Brazil	National development bank	Export credit (BNDES-Exim), buyer credit, project finance linked to exports	Not a standalone ECA but plays a central export finance role through Exim programmes and co-financing
Bandex (Banco de Desarrollo y Exportaciones)	Dominican Republic	National development bank	Export-import finance, working capital for exporters, credit lines	Supports export development and the internationalisation of Dominican firms, including SMEs
CORFO	Chile	National development bank	Indirect export support via credit lines, guarantees, innovation and productive-development financing	Focus on productive development; supports export capacity through innovation and SME financing
CFN (Corporación Financiera Nacional)	Ecuador	National development bank	Export-oriented credit, guarantees, SME and productive sector financing	Supports productive sectors and exporters through credit and guarantee instruments
COFIDE	Peru	National development bank	Trade finance, SME export support, credit guarantees via intermediaries	Peru's development bank channelling credit through financial intermediaries
AFD (Agencia Financiera de Desarrollo)	Paraguay	National development bank	Export credit, SME finance, guarantees for productive investment	Paraguay's main development finance institution supporting productive and export sectors
FIRA (Fideicomisos Instituidos en Relación con la Agricultura)	Mexico	Public development trust	Agro-export support, rural credit, supply chain finance	Specialised in agricultural and agro-industrial finance, including export-oriented production
NAFINSA (Nacional Financiera)	Mexico	National development bank	SME export finance, supply chain finance, factoring, guarantees	Key Mexican DFI supporting SMEs and export chains through factoring and guarantees
EXIM Bank Jamaica	Jamaica	National development bank	Export credit, trade finance, SME export support, guarantees	Provides trade financing solutions to support Jamaican exporters, including working capital and export credit facilities
EXIM Bank Trinidad and Tobago	Trinidad and Tobago	National development bank	Export credit, guarantees, trade finance, SME support	Supports export development and diversification through financing, guarantees and business advisory services

Note: ECA = export credit agencies; EXIM = export-import banks; PPP = public-private partnership; SME = small and medium-sized enterprise.
Source: Authors' own elaboration.

NDBs and MDBs can enhance intraregional trade and strengthen regional value chains by deploying targeted financial instruments

Across LAC, NDBs and other national development finance institutions (DFIs) use a layered mix of trade finance and credit instruments across the export-import cycle, including pre- and post-shipment financing, letters of credit, import financing, working capital and investment loans, guarantees, and factoring (Figure 3.8). In terms of target beneficiaries, 67% of these instruments serve both MSMEs and large firms, while 25% are targeted exclusively at MSMEs. Pre-shipment finance – provided by institutions such as Banco de Inversión y Comercio Exterior in Argentina (BICE), Banco do Nordeste do Brasil S.A (BNB) and Banco de la República Oriental del Uruguay (BROU) – supports production and input acquisition. Meanwhile, post-shipment instruments – including export financing, forfaiting and discounting of shipping documents (notably Banco de la Nación Argentina) – help exporters manage liquidity and payment delays. Letters of credit (L/Cs), widely used by Banco de la Pampa (Argentina), Bancóldex (Colombia) and Bancomext (Mexico), reduce counterparty risk and facilitate transactions, particularly for micro-, small- and medium-sized enterprises (MSMEs). Import financing from entities such as Banco de la Nación Argentina and BanReservas (Dominican Republic) ensures access to foreign inputs. Complementing these instruments are working capital and investment loans (e.g. Bancóldex, BANDEX, BNB) and guarantees (e.g. Bancóldex, Institute for Agricultural Development [INDAP] in Chile). Factoring services are also widely offered across the region, which collectively provide liquidity, mitigate risk and strengthen firms' export capacity. Examples include BICE and Banco de la Nación Argentina (Argentina); Bancóldex and Fondo para el Financiamiento del Sector Agropecuario (Colombia); BANDEX (Dominican Republic); and the National Development Bank, Bancomext and FIRA (Mexico).

Figure 3.8. Foreign trade financial instruments in selected national DFIs in LAC, 2023



Note: The database covers 38 national and subnational public DFIs in 13 LAC countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Paraguay, Panama, Peru and Uruguay.
Source: Authors' elaboration based on public data (annual and sustainability reports) accessed in 2023 from 38 public DFIs in 13 LAC countries.

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Different trade finance instruments can complement one another to strengthen regional integration by reducing risks, enabling firm participation in value chains, and facilitating access to inputs and scaling capacity across countries. Letters of credit and export credit can be particularly effective in mitigating transaction and counterparty risk, thereby facilitating regional trade, especially for MSMEs. Pre- and post-export financing instruments can support firms throughout the production and payment cycle. This is critical for sectors such as agro-industry and light manufacturing, where inputs and outputs move across borders. Import financing can further enable access to intermediate and capital goods, reinforcing vertical integration across countries. Investment finance and working capital loans can allow firms to scale production and upgrade capabilities. Guarantees, while less widely used, can play an important role in crowding in private finance and expanding intraregional trade if applied more systematically. Finally, factoring and regional confirming mechanisms can help address liquidity constraints by enabling firms to receive immediate payment on cross-border receivables. For example, a Colombian exporter selling to Peru can access early payment despite longer buyer terms, thereby reducing cash flow risks and supporting SME participation in regional markets.

MDBs play a critical complementary role in strengthening trade finance ecosystems in LAC by expanding risk-sharing capacity, providing cross-border instruments and reinforcing the work of NDBs and export credit agencies (ECAs). Institutions such as CAF and the IDB operate at a regional scale, offering trade finance instruments, guarantees, and sovereign and private sector lending that support integration across multiple countries. Through mechanisms such as the IDB's Trade Finance Facilitation Program (TFFP), MDBs help de-risk transactions and indirectly enhance the capacity of national ECAs in LAC (IDB, 2006[90]). IDB Invest further extends this role by providing structured guarantees and private-sector trade finance instruments, while CDB fills a critical gap for small island developing states with limited or no domestic capacity as ECAs. At the subregional level, institutions such as the Central American Bank for Economic Integration and the Plata Basin Financial Development Fund (FONPLATA)complement these efforts by financing integration infrastructure, offering political risk mitigation, and supporting production investment across Central America and the Southern Cone. Collectively, these MDBs function as system-level anchors that crowd in private capital, reduce cross-border risk, and enhance the effectiveness of national and subregional trade finance institutions.

A growing frontier in regional finance lies in the structured co-ordination between MDBs, commercial banks, institutional investors and capital markets. Together, these institutions enable mobilisation of large-scale capital for cross-border development and trade-enabling infrastructure. In practice, syndicated financing structures allow MDBs to anchor long-term infrastructure investments – such as ports, corridors and logistics hubs – by sharing risk with commercial lenders and thereby improving bankability. For example, CAF and the IDB have participated in syndicated and co-financed operations for transport corridors and port modernisation projects that facilitate regional trade flows across the Andes and the Southern Cone. Similarly, blended-finance mechanisms – combining concessional funding, guarantees and commercial lending – have become central to making high-risk regional investments viable, particularly in energy integration and climate adaptation. The IDB's "Amazonia Forever" programme and CAF's climate-aligned infrastructure financing illustrate how grants and concessional resources can be layered with sovereign and private lending to support cross-border renewable energy grids, resilient transport systems and adaptation infrastructure (IDB, 2023[91]; CAF, 2026[14]). These approaches are further reinforced by commercial banks participating under MDB risk umbrellas, which reduces perceived credit risk and expands lending capacity. Collectively, these instruments demonstrate how co-ordinated financing structures can transform fragmented national investments into integrated regional development platforms.

NDBs and MDBs can also support the integration of service markets and the development of regional payment systems

NDBs can play an important role in advancing the integration of service markets by financing domestic firms and digital ecosystems that support cross-border payments, e-commerce and fintech innovation. Currently, fintech activity remains concentrated in a few of the region's larger economies, while digital banking services are predominantly consumer-oriented, with a more limited focus on businesses. Through targeted credit lines, venture support and technical assistance, NDBs help scale local fintechs and digital service providers so they can operate regionally and connect to broader payment platforms. They can also contribute to improving technical interoperability by aligning domestic financial infrastructure with regional standards. For example, Bancóldex in Colombia has supported fintech expansion into regional digital payments in collaboration with multilateral partners. For its part, Bancomext in Mexico finances digital exporters seeking to access cross-border markets. Looking ahead, the growing use of AI in banking operations is likely to create opportunities to improve service delivery, risk assessment and operational efficiency, while also raising challenges related to data governance, cybersecurity and regulatory compliance. NDBs can help promote responsible AI adoption while managing these risks, ensuring that digital financial innovation supports more integrated and inclusive regional service markets.

MDBs, in turn, act as system-level enablers by providing cross-border infrastructure, risk-sharing mechanisms and co-ordination frameworks that connect national markets. The IDB, for instance, supports the development of regional digital payment ecosystems. Examples include its work on fast payment systems and cross-border interoperability, as well as IDB Invest financing for fintech companies operating across Latin America (Marajh and Gallagher, 2023[92]; IDB Invest, 2025[93]). It also provides guarantees and technical assistance to reduce risks in cross-border digital transactions. Similarly, CAF has financed digital infrastructure and regional connectivity projects, including broadband expansion and digital ecosystem development, while co-financing regional digital hubs with NDBs to support innovation and e-commerce integration (CAF, 2020[94]). In the Caribbean, CDB has supported digital transformation and payment system modernisation projects to facilitate remittances and financial inclusion in small island developing states (CDB, 2025[95]). By combining financing, guarantees and policy support, MDBs play a central role in linking fragmented domestic systems into integrated regional service markets.

NDBs and MDBs can also support bankable projects through project preparation

NDBs and MDBs can also play a crucial role in making projects viable by providing financing, risk mitigation and technical support for high-impact initiatives. Turning investment into tangible development outcomes requires stronger institutional capacity, better data systems and improved project preparation. Across Latin America and the Caribbean, the IDB's Project Preparation Facility (PPF) supports governments in developing, structuring and de-risking projects to make them more attractive to private investors. The ONE Caribbean Project Preparation Coordination Mechanism further illustrates this approach, providing support throughout the project cycle, from early-stage planning and feasibility studies to financial structuring and risk mitigation (IDB, 2025[96]; OECD/IDB, 2026[82]). Similar approaches are used by other MDBs in co-operation with NDBs. In Colombia, CAF provided non-reimbursable technical assistance to Financiera de Desarrollo Nacional under the PAPIC programme to support pre-feasibility studies and project preparation for infrastructure concessions (OECD/AFD, forthcoming[97]). Together, these initiatives illustrate how development finance institutions can help transform project ideas into bankable, investment-ready operations.

Leveraging strategic partnerships for deeper integration into the global economy

The Global Gateway Investment Agenda (GGIA) advances EU-LAC economic integration through investment in strategic sectors

LAC is a key partner within the Global Gateway

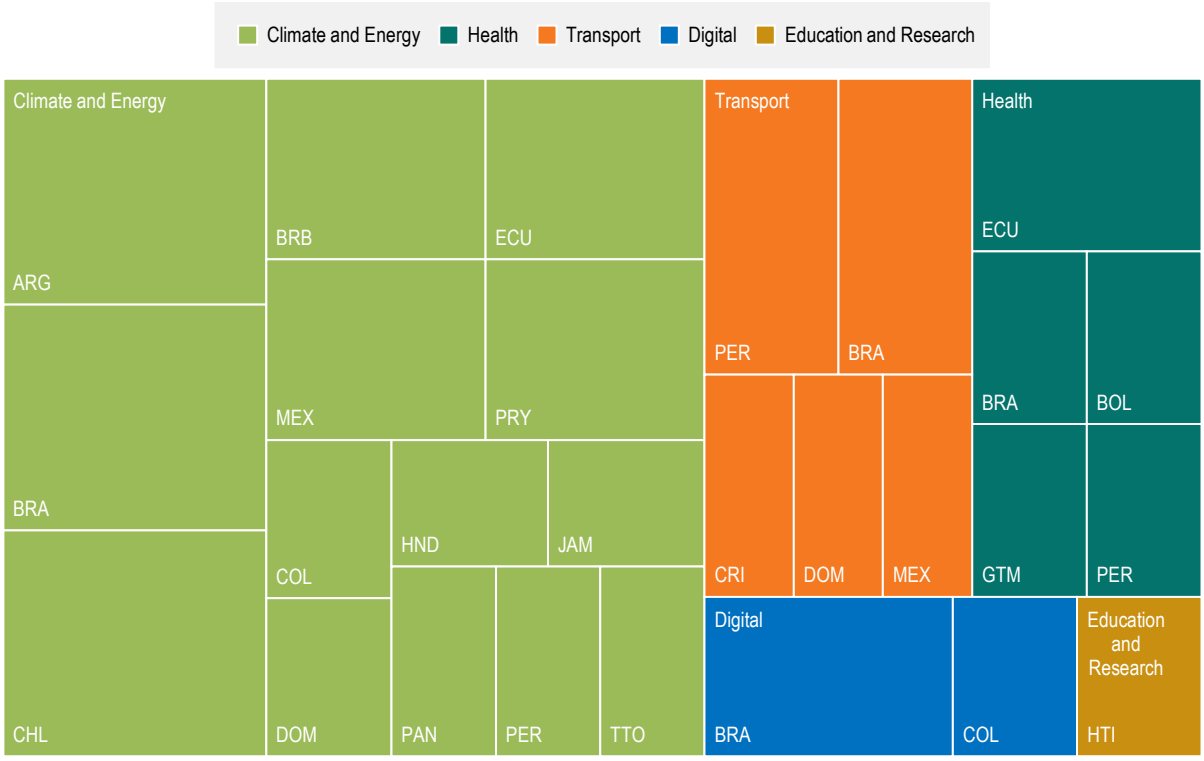
The EU Global Gateway strategy represents a shift in the bi-regional EU-LAC co-operation towards investment, economic transformation and strategic partnerships. Deeper integration into the global economy will require not only stronger domestic capabilities and regional integration, but also strategic partnerships capable of mobilising investment, technology, expertise and market access. In this context, the EU Global Gateway provides an overarching framework for combining co-operation, trade and investment to support production transformation and regional integration in LAC. Operationalised through the Global Gateway Investment Agenda in LAC, it moves beyond traditional donor recipient models towards an investment-based partnership model centred on mutual self-interest, economic transformation and the EU's pursuit of strategic autonomy (European Commission, 2026[98]; Da Costa, 2025[99]; Manservisi and Pezzini, 2025[100]).

The EU Global Gateway Strategy is particularly relevant for LAC. Development challenges coexist in the region with strong market potential and a growing strategic role in areas such as climate action, biodiversity, critical raw materials and digital infrastructure (OECD et al., 2023[53]; OECD et al., 2024[56]). In LAC, the Global Gateway has focused on sectors closely linked to Europe's green and digital transitions, including renewable energy, green hydrogen, critical raw materials, digital connectivity, transport corridors and health resilience (European Commission, 2026[98]).

LAC is an important destination within the Global Gateway strategy. Between 2021 and 2024, the initiative mobilised around EUR 31.5 billion (bn) in the region, placing LAC in the middle tier of regions in terms of total Global Gateway investment mobilisation. The region was below sub-Saharan Africa (EUR 80.0 bn) and Middle East and North Africa (EUR 77.2 bn), and somewhat behind Asia-Pacific (EUR 47.9 bn). However, it was broadly in line with the Eastern Neighbourhood (EUR 28.5 bn) and the Western Balkans (EUR 27.0 bn) (European Commission, 2024[101]). Countries such as Brazil, Mexico, Colombia, Chile, Argentina and several Caribbean economies feature prominently due to their market size, geopolitical relevance and concentration of projects with regional spillovers, particularly in energy, logistics, digital infrastructure and health (European Commission, 2024[101]; OECD et al., 2025[23]). Of the 46 flagship projects endorsed for 2025, around one-quarter are directly linked to LAC. These include initiatives focused on digital connectivity, green hydrogen, regional energy integration, sustainable transport and health resilience (Council of the European Union, 2024[102]; European Commission, 2026[103]).

The composition of flagship projects also reflects the strategic priorities underpinning the EU-LAC Global Gateway Investment Agenda (Figure 3.9). Projects are concentrated in sectors directly linked to production transformation. Climate and energy account for the largest share, alongside significant investments in transport, health, digital connectivity, and education and research.

Figure 3.9. EU-Latin America and the Caribbean Global Gateway flagship projects, 2026



Note: The size of each rectangle is proportional to the number of flagship projects identified. Projects are classified according to their primary area of focus. The figure presents project counts only and does not reflect the financial value of projects. The flagship projects presented do not capture the full extent of Team Europe engagement in the region.
Source: Authors' elaboration based on European Commission (2026[103]), *Global Gateway – EU-Latin America and the Caribbean flagship projects*, https://international-partnerships.ec.europa.eu/publications-library/global-gateway-flagship-projects-infographics_en.

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The Global Gateway Investment Agenda enhances regional integration and production transformation

The Global Gateway Investment Agenda has increasingly prioritised regional integration and cross-border connectivity in LAC. This shift reflects a broader recognition that production transformation in the region depends not only on national investments but also on stronger regional markets, infrastructure networks and value chains. Tangible achievements include the scaling-up of blended finance through the European Fund for Sustainable Development Plus (EFSD+), support to regional value chains (e.g. renewable hydrogen, pharmaceuticals, digital infrastructure) and a clearer push towards regionalisation rather than fragmented bilateral projects – an important corrective to LAC's long-standing integration deficits (OECD et al., 2023[53]; OECD et al., 2025[23]). Recent initiatives explicitly target regional public goods, including the EllaLink submarine cable extension, Andean electricity interconnections (Peru-Chile), Central American power market integration, green maritime corridors, and regional mechanisms for vaccine production and procurement. These investments go beyond national infrastructure by fostering shared standards, interoperable systems and economies of scale, emphasising regional co-operation as a lever for productivity, resilience and inclusion (OECD et al., 2025[23]). In this respect, LAC represents a testing ground for the Global Gateway Strategy to operationalise regionalisation with concrete investments.

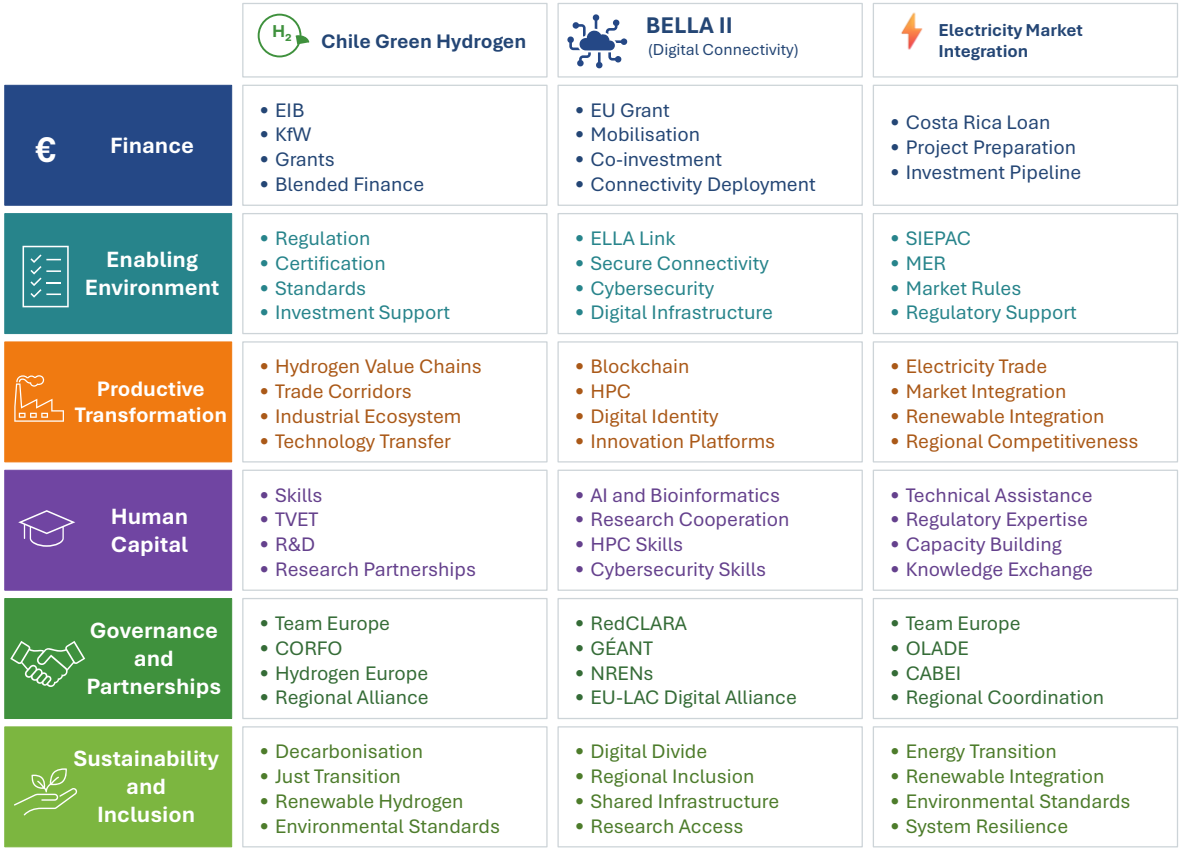
The approach has generated additional benefits. It has contributed to repositioning the European Union as a long-term strategic partner in the region, while raising the profile of Europe as a long-term partner offering an alternative to more transactional or primarily debt-intensive investment models (CONCORD, 2025[104]; European Parliament, 2026[105]). It has also encouraged co-ordination across EU institutions, member states, DFIs and MDBs under the Team Europe approach and helped shift co-operation towards economic sectors critical for structural change rather than stand-alone projects (European Commission, 2024[101]; OECD et al., 2024[56]). Importantly, Global Gateway has reinforced a narrative of mutually beneficial partnerships and co-investment, resonating with many LAC governments seeking alternatives to shrinking ODA while avoiding over-dependence on single external actors (Da Costa, 2025[99]; OECD et al., 2025[23]). The emphasis on standards; environment, social and governance (ESG) principles and local value-added content is also a differentiating element. If fully implemented, this can support more inclusive and sustainable development pathways in the region (CONCORD, 2025[104]; European Parliament, 2026[105]). For LAC countries, maximising the benefits of these investments will depend on their ability to support technology transfer, skills development, stronger local supplier linkages and institutional strengthening. In this way, the investments would contribute more effectively to production transformation and long-term development outcomes.

Strengthening implementation can scale up the impact of the Global Gateway Investment Agenda in LAC

The Global Gateway has established a solid strategic framework and a credible investment platform for re-engaging with LAC, while recent political discussions have identified areas where implementation could be further strengthened (European Parliament, 2026[105]). Awareness of the Global Gateway among partner-country stakeholders in LAC remains uneven. Access to information on project pipelines, implementation status and development impacts could be improved to better demonstrate results and development impact on the ground (CONCORD, 2025[104]; European Parliament, 2026[105]).

The Global Gateway 360-degree approach seeks to combine investment with policy reform, regulatory co-operation, social inclusion, skills development and governance. However, the integration of these dimensions remains uneven in practice, with social sectors, inequality reduction and local capacity building often receiving relatively less emphasis than large-scale infrastructure investments (OECD et al., 2024[56]; CONCORD, 2025[104]). Yet, several flagship initiatives illustrate the potential of a more integrated approach. The Renewable Hydrogen initiative in Chile, BELLA II and the Central America Electricity Market Integration initiative, for instance, demonstrate how financial support can be complemented with measures to strengthen enabling conditions, productive capabilities, human capital, institutional partnerships, and sustainability and inclusion (Figure 3.10). While the mix of instruments varies according to each initiative's sectoral focus, these three experiences extend beyond infrastructure financing to incorporate regulatory and technical assistance, skills development, knowledge exchange and regional co-operation. This underscores the importance of aligning investment with the institutional, social and environmental conditions needed to advance sustainable and inclusive development.

Figure 3.10. Selected Global Gateway flagship initiatives across key dimensions of intervention



Note: The figure provides an illustrative mapping of intervention instruments identified across three selected Global Gateway flagship initiatives, based on publicly available project and programme documentation from European institutions, implementing partners, national authorities and regional organisations. It does not assess performance or compare projects. The dimensions are informed by, but do not reproduce, an official classification of the Global Gateway 360-degree approach.
Source: Authors' elaboration based on multiple sources including (BELLA II, 2026[106]); (Delegation of the European Union in Chile, 2026[107]); (European Commission, 2025[108]).

Governance and financing arrangements can be strengthened. From a governance perspective, existing mechanisms for joint priority-setting, including through the EU-CELAC frameworks, could be further reinforced to strengthen country ownership and ensure that Global Gateway initiatives are designed and implemented in close partnership with LAC stakeholders throughout the project cycle. This would enhance the alignment of investments with national and regional development priorities, while supporting broader civil society participation, which currently varies significantly across countries (Da Costa, 2025[99]; European Parliament, 2026[105]). Regarding financing, Global Gateway investments in LAC could build on progress made through guarantees and blended finance under EFSD+. Simplifying instruments, clarifying additionality, strengthening monitoring of development outcomes and improving accessibility for partner countries could all help scale up the impact of financing (OECD et al., 2023[53]).

The next phase of implementation and scaling up of Global Gateway offers an opportunity to increase the quality, targeting and development impact of Global Gateway investments in LAC. Placing a stronger focus on the systematic measurement of development impact, including job creation, skills upgrading, territorial cohesion and environmental outcomes, would help better align investment choices with LAC's structural transformation priorities. At the same time, greater transparency on leverage effects, stronger monitoring of development outcomes and enhanced participation of local actors in project identification and design,

would help ensure that Global Gateway delivers both strategic assets for Europe, and also measurable social, economic and environmental returns for LAC societies (Da Costa, 2025[99]; OECD et al., 2025[23]). Taken together, these elements point to three main areas of action to strengthen the impact of the Global Gateway Investment Agenda in LAC, notably: deepening implementation of its integrated development approach, strengthening local ownership and participation, and enhancing the transparency, measurement and communication of development results.

The EU-MERCOSUR trade agreement deepens economic integration between Europe and South America

The EU-MERCOSUR trade agreement marks a major step in strengthening economic integration between Europe and South America. The agreement, between the European Union and several MERCOSUR members (Argentina, Brazil, Paraguay and Uruguay), creates one of the world's largest free trade areas. To that end, it covers more than 700 million consumers and a combined GDP of around USD 25 trillion, with bilateral trade exceeding USD 100 billion annually (Di Sario, 2026[109]). MERCOSUR alone represents around 60% of South America's GDP and more than 300 million people (ECLAC, 2025[110]). The agreement comprises two separate instruments: an interim Trade Agreement (iTA), provisionally applied since 1 May 2026, and a broader EU–MERCOSUR Partnership Agreement (EMPA), which also covers political dialogue and co-operation and is subject to a separate ratification process. The iTA aims to increase trade and investment flows by reducing tariff and non-tariff barriers, while creating more stable and predictable rules for trade and investment. Tariff reductions follow product-specific implementation schedules, while preferential access for certain sensitive agricultural products is subject to limited tariff-rate quotas. The agreements also include provisions on intellectual property, food safety, competition, regulatory practices, labour rights, environmental protection, climate action, critical raw materials and responsible business conduct (European Commission, 2026[111]).

The partnership expands market access and deepens economic integration between both blocs. The agreement eliminates over 90% of tariffs on bilateral trade and extends beyond goods to include services, investment, public procurement and regulatory co-operation. Before the agreement, the European Union applied an average tariff of around 4% on MERCOSUR imports, while MERCOSUR imposed tariffs close to 11% on EU goods. Under the new framework, these are expected to fall to around 2% and 1%, respectively (Banco de España, 2026[112]). MERCOSUR will liberalise broadly across sectors, while the European Union maintains higher protection in sensitive agricultural products.

The agreement is expected to generate strong gains in manufacturing, as well as improved access to agriculture products, critical minerals and key public procurement markets. European exporters will benefit from near zero tariffs in sectors such as machinery, pharmaceuticals, aerospace components and vehicles, while competitors from third countries continue facing tariffs of 15-25% (Banco de España, 2026[112]). MERCOSUR exporters are also expected to gain improved access for agricultural products and critical raw materials, including lithium, copper, nickel and niobium, which are increasingly important for the green and digital transitions. In addition, expanded access to public procurement markets in infrastructure, energy and digital projects is expected to strengthen investment and business opportunities across both regions (Capuzzi, 2025[113]).

Estimates point to significant trade and growth gains from the EU-MERCOSUR agreement. Analysis suggest that bilateral trade flows could increase by around 37%, with gains potentially reaching 70% under deeper regulatory alignment (Berganza et al., 2025[114]). Economic gains are projected across both regions, with GDP increases ranging from 0.61% in Uruguay to 0.26% in Argentina and 0.13% in Brazil over the implementation period (Latorre and Suárez-Cuesta, 2025[115]). At the aggregate level, the European Union is expected to experience a GDP increase of around 0.1%, while European firms could collectively save an estimated EUR 4 billion per year in import duties (LSE, 2021[116]).

Investment flows are expected to strengthen under the new framework. European multinationals, already among the main foreign investors in sectors such as banking, telecommunications, energy and infrastructure, are likely to expand their presence under a more transparent and predictable legal environment. Together with the updated agreements with Mexico and Chile, the framework extends preferential investment protections to economies representing around 95% of Latin American GDP, reinforcing incentives for long-term investment and regional business integration (Banco de España, 2026[112]).

Closer economic ties with the European Union are associated with higher-quality employment and skills development. Exports from six major Latin American economies to the European Union generate an estimated 4.3 million jobs. This represents around 11.4% of total export linked employment in those countries. In addition, exports directed to the European Union are associated with a higher share of skilled employment than exports to other major partners. Around 16.1% of jobs linked to EU-bound exports are classified as high skilled, compared with 15.4% for exports to the United States, 14.7% to the Association of Southeast Asian Nations and 13.9% to China (Banco de España, 2026[112]). This reflects the stronger presence of services and more advanced manufacturing activities in trade flows with the European Union.

The agreement could also support broader regional integration beyond MERCOSUR members. By encouraging regulatory convergence, greater alignment across rules of origin regimes and lower trade barriers, the agreement may strengthen incentives for deeper regional integration and development of complementary value chains across Latin America. This could also encourage stronger links with Pacific Alliance economies and support greater integration across subregions (Estevadeordal and Talvi, 2025[117]). For non-MERCOSUR economies, the agreement creates both competitive pressures and new opportunities. Improved access for MERCOSUR exports to the European Union may allow greater specialisation in manufacturing and services within the region, opening space for stronger regional complementarities. Countries such as Chile and Mexico, which already have updated agreements with the European Union, are well positioned to benefit from stronger EU-LAC linkages, while Caribbean and Central American economies could expand opportunities in services exports, including tourism and professional services.

The EU-MERCOSUR agreement has faced substantial criticism, primarily centred on environmental risks, uneven regulatory standards and potential impacts on agriculture. Critics argue the deal could exacerbate deforestation, while exposing European farmers to unfair competition from producers operating under less stringent environmental and sanitary regulations. Concerns have also been raised about the non-binding nature of sustainability provisions and the risk that the agreement may undermine broader climate objectives in the European Union (Capuzzi, 2025[113]). In this context, the EU Deforestation Regulation (EUDR) is a landmark EU law that requires companies to ensure that certain products placed on or exported from the EU market are deforestation-free, legally produced, and traceable throughout their supply chains. The EUDR is a major initiative to reduce the environmental footprint of global supply chains and promote more sustainable trade.

However, recent analyses challenge several of these claims. They emphasise that the incremental trade effects of the agreement are likely to be limited. Notably, key commodities such as soy are already largely liberalised and beef imports are constrained by relatively small quotas, representing a marginal share of EU consumption and MERCOSUR production. From this perspective, the agreement is unlikely to be a major driver of deforestation or structural change in land use (Capuzzi, 2026[118]). Moreover, calls for strict regulatory “mirror clauses” are questioned on two grounds. First, production conditions differ across regions. Second, imposing identical standards may be neither economically efficient nor environmentally effective. Overall, these analyses suggest that environmental and distributional concerns are legitimate. However, they also argue the scale and mechanisms of the agreement are often overstated in public debate. Its actual impacts may be more limited and context-dependent than critics assume (Capuzzi, 2025[113]).

Ibero-American co-operation is advancing a shared agenda for regional development

The Ibero-American Community comprises 22 Spanish- and Portuguese-speaking countries, including 19 from Latin America and 3 from Europe: Andorra, Portugal and Spain. The Ibero-American Community holds large strategic potential. The region's renewable energy potential, biodiversity, food production capacity and critical mineral reserves create opportunities to attract investment, strengthen sustainable value chains and participate more competitively in international markets. At the same time, its role in climate action and natural-resource conservation gives Ibero-America growing influence in multilateral negotiations on sustainable development, biodiversity and climate change. These conditions also make Ibero-America a potential key actor for technological transformation, and for the development of AI and data centres (SEGIB, 2026[119]; SEGIB, 2026[120]). The region also benefits from strong cultural and linguistic ties, with Spanish and Portuguese facilitating technical, political and economic co-operation across countries (SEGIB, 2026[119]).

Fully harnessing the potential of the Ibero-American Community requires enabling conditions to close structural gaps, strengthen institutional capacities and improve co-ordination among countries. This is where Ibero-American Cooperation plays a distinctive role. Based on the principle of horizontality, it provides a unique regional mechanism for policy dialogue, shared public-policy agendas and collective solutions to common challenges. In doing so, it helps build trust, deepen regional integration and improve countries' ability to participate in an increasingly interdependent global economy.

Ibero-American Cooperation contributes to sustainable development by building consensus around shared values such as peace, human rights, multilateralism, gender equality and environmental sustainability. These principles strengthen regional cohesion; provide a common normative framework for economic co-operation and social inclusion; and enable co-ordinated action on emerging challenges such as digital transformation, AI, the care economy and adaptation to climate change.

Ibero-American Cooperation operates primarily through its Programmes, Initiatives and Associated Projects (PIPA) and through Ibero-American Networks. These instruments support capacity building, knowledge transfer, innovation, regulatory convergence and public policy co-ordination. They help reduce asymmetries among countries, generate economies of scale and create more favourable conditions for productive development, investment and regional competitiveness.

Within the PIPA framework, initiatives such as *Programa Iberoamericano de Ciencia y Tecnología para el Desarrollo* (CYTED), *Programa Iberoamericano de propiedad industrial y Desarrollo* (IBEPI) and the Programme for the Strengthening of South-South Cooperation promote knowledge generation, innovation, scientific and technological capacity building and co-operation among countries and institutions. By doing so, they strengthen regional innovation ecosystems, support productivity growth, foster economic diversification and improve the region's integration into global value chains (SEGIB, 2026[121]).

Ibero-American Networks complement these efforts by facilitating specialised technical co-operation and knowledge exchange in strategic areas for sustainable development. They also contribute to greater legal certainty, lower regulatory barriers and stronger enabling conditions for regional integration. Relevant examples include the Ibero-American Conference of Water Directors, which supports sustainable water-resource management and resilience to climate change. Other key networks include the Ibero-American Register Network, the Ibero-American Guarantee Network and the Ibero-American Data Protection Network.

The strength of Ibero-American Cooperation also rests on an institutional architecture that provides continuity, predictability and long-term sustainability. The Ibero-American General Secretariat (SEGIB), together with the Organization of Ibero-American States, the Ibero-American Social Security Organization, the Conference of Ministers of Justice of Ibero-American Countries and the International Youth Organization for Ibero-America, helps co-ordinate efforts, monitor commitments and promote long-term regional agendas.

The Ibero-American Summit of Heads of State and Government, organised and co-ordinated by SEGIB, represents a strategic platform to co-ordinate common responses and strengthen co-operation among the 22 member countries of the Ibero-American Community. The Summit constitutes a key forum for transforming regional consensus into concrete initiatives. In so doing, it strengthens the region's capacity to respond jointly to shared challenges and seize new opportunities for sustainable development (CEOE, 2026[122]; SEGIB, 2026[120]).

A further strength of Ibero-American Cooperation is its ability to translate high-level political mandates into concrete action. A clear example is the implementation of the *Ibero-American Charter of Principles and Rights in Digital Environments*, adopted at the XXVIII Ibero-American Summit in Santo Domingo in March 2023. The Charter promotes a people-centred, rights-based digital transformation aimed at reducing gaps in access to and use of technology, while strengthening the institutional foundations for more inclusive, innovative and competitive digital economies (SEGIB, 2026[123]).

Priorities advanced through the Ibero-American Summits have also supported progress in youth employment, mobility, inclusion and social protection. Initiatives such as the Ibero-American Youth Card and the Ibero-American Disability Card facilitate mobility, access to services and opportunities across the region, thereby strengthening social and economic integration.

Through its multi-stakeholder approach, Ibero-American Cooperation broadens participation beyond national governments. It brings together companies, universities, research centres, foundations, local governments, civil society organisations and parliamentary bodies. Platforms such as the Ibero-American Business Meeting, the Union of Ibero-American Capital Cities, the Ibero-American Civic Meeting and the Parliamentary Forum foster dialogue, partnerships, resource mobilisation and regional governance. This multi-actor architecture supports innovation, entrepreneurship and economic opportunity while building the trust networks needed for deeper regional integration.

A notable initiative is the adoption of the 4T Model – Talent, Territory, Transformation and Traction – aimed at improving competitiveness and integrating firms, particularly MSMEs, into more dynamic global value chains. This model provides a strategic framework to co-ordinate actors, align public policies and guide investment towards shared objectives. Its value lies in addressing, in an integrated manner, some of the structural constraints that continue to limit regional development. These include informality, low productivity, financing gaps, weak business-support ecosystems and difficulties in joining regional and global value chains (SEGIB, 2025[124]).

In 2026, the XXX Ibero-American Summit in Madrid seeks to deepen co-operation around strategic priorities for sustainable development. Key areas under discussion include the creation of an Ibero-American Network for Disaster Risk Reduction and Civil Protection; the development of an Ibero-American Digital Forum; a regional initiative on AI; the creation of AI models in Spanish and Portuguese; progress on the recognition of qualifications and academic mobility; and the preparation of an Ibero-American Charter on the Rights of Care. In parallel, work is under way on a new Ibero-American Cooperation Strategy to provide the system with a more strategic, co-ordinated and globally oriented vision. Together, these initiatives aim to strengthen human capital, accelerate digital transformation, improve regional resilience and foster innovation, all essential to building a more integrated, competitive and globally engaged Ibero-America.

Conclusions

LAC faces a window of opportunity to strengthen its position in the global economy at a time when the green transition, digitalisation and growing geopolitical fragmentation are reshaping production networks, trade patterns and investment flows. However, benefitting from these shifts requires more than market access alone. Successful integration into regional and global value chains depends on a set of enabling

conditions that allow firms to compete, innovate and upgrade into higher value-added activities. Despite important advances, persistent gaps in skills, infrastructure, financing and regulatory coherence continue to limit the region's competitiveness. This constrains development of deeper and more integrated regional markets.

The analysis in this chapter highlights how these constraints are closely interconnected. Weak skills systems, low productivity and high informality limit the capacity of workers and firms to adopt new technologies and participate in emerging sectors linked to the digital and green transitions. Infrastructure and logistics bottlenecks continue to raise trade costs and reduce connectivity, while financing gaps constrain investment in productive transformation and regional public goods. At the same time, regulatory fragmentation and incomplete implementation of regional agreements continue to hinder the emergence of larger and more integrated markets that can support regional value chains and attract investment.

Addressing these challenges requires a comprehensive approach that combines domestic reforms with stronger regional co-operation and strategic international partnerships. Investments in human capital, infrastructure and innovation must be complemented by efforts to mobilise long-term financing, advance regulatory convergence, and strengthen regional and extraregional partnerships. Together, these actions can help create more integrated, resilient and competitive economies, enabling the region to expand productive opportunities, strengthen its participation in regional and global value chains, and achieve more inclusive and sustainable growth. Realising this potential will require policy action across multiple dimensions and stronger co-ordination among governments, regional institutions, development finance actors and international partners. The following key policy messages highlight priority areas for strengthening the enabling conditions that can support deeper regional integration and a more competitive, resilient and sustainable insertion of LAC into the global economy.

Box 3.2. Key policy messages

Skills and human capital for productive transformation

- Strengthening foundational, digital and socio-emotional skills is essential for enabling workers and firms to benefit from the green and digital transitions.
- Lifelong learning systems should become more inclusive and better aligned with evolving labour-market and productive-development needs.
- Expanding access to quality technical and vocational education and training, apprenticeships and work-based learning can help address skills shortages in high-growth sectors.
- Policies should promote adoption of new technologies while supporting workers through labour-market transitions and reducing the risks associated with displacement.
- Reducing informality requires combining skills development with productive transformation, stronger labour-market institutions and expanded access to social protection.

Infrastructure and connectivity

- Closing infrastructure gaps is critical for reducing trade costs, strengthening competitiveness and supporting regional value chains.
- Investment strategies should prioritise multimodal transport systems, logistics services and digital infrastructure that improve regional connectivity.
- Infrastructure planning should move beyond isolated projects towards integrated logistics corridors connecting production centres, transport networks, border crossings and markets.
- Digital technologies, including interoperable logistics platforms and port community systems, can improve trade facilitation, efficiency and supply chain resilience.

- Stronger regional co-operation is needed to address cross-border infrastructure bottlenecks and support greater market integration.

Financing regional integration

- Innovative financing instruments, including GSSSB bonds and debt-for-nature or resilience swaps, can mobilise resources for infrastructure, sustainability and regional public goods.
- National and multilateral development banks should play a stronger role in supporting trade finance, productive transformation and regional integration projects.
- Blended-finance instruments and risk-sharing mechanisms can help crowd in private investment and improve access to long-term financing.
- Strengthening project-preparation capabilities is essential to transform regional priorities into bankable investment opportunities.
- Financial instruments should be better aligned with regional development objectives and cross-border investment needs.

Regulatory convergence and market integration

- Reducing non-tariff barriers should become a priority for deepening regional integration and strengthening intraregional trade.
- Regulatory convergence, mutual recognition arrangements and harmonised standards can lower compliance costs and facilitate regional value chains.
- Trade facilitation reforms and digitalisation of customs and border procedures can improve connectivity and reduce transaction costs.
- Greater implementation and co-ordination across regional agreements can help reduce fragmentation and create larger and more attractive regional markets.
- Stronger regional integration can provide a platform for diversification, resilience and productive upgrading in an increasingly fragmented global economy.

Strategic partnerships for global integration

- Strategic partnerships can complement regional integration by expanding access to markets, technology, finance and knowledge.
- Initiatives such as the Global Gateway can support regional connectivity, productive transformation and development of strategic sectors linked to the green and digital transitions.
- Trade and investment agreements should be leveraged to strengthen regional value chains, encourage technology transfer and support productive upgrading.
- International partnerships should promote local capability building, skills development and stronger linkages with domestic suppliers.
- Diversifying economic partnerships can enhance resilience to external shocks and support a more competitive integration of LAC into the global economy.

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4 Country notes

Reader's guide

The statistical tables follow key areas identified in the *Latin American Economic Outlook (LEO)*: i) social development; ii) productivity, innovation and international integration; iii) investment and private financing; iv) citizens' perceptions and institutions; v) digital and green transition; and vi) fiscal position.

The Latin America and the Caribbean (LAC) average is a simple average of the largest set of LAC countries for which latest data were available as of July 2026.

The Organisation for Economic Co-operation and Development (OECD) average is a simple average of the largest set of all OECD Member countries for which latest data were available as of July 2026.

To ensure comparability between years, countries for which data are not available for both years of comparison have been excluded from the averages. Exceptions to this are mentioned in the notes.

Applying the same criteria as in previous LEO editions, data selection from international sources prioritise comparability across LAC countries and show the latest comparable data available at the report's publication date. For this reason, discrepancies with national data may occur.

Social development

Extreme poverty[1] refers to the share (percentage) of the population whose average per capita income is below the extreme poverty line, as specified by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Method of computation: "n" is defined as the total number of persons, and "i" is the number of people whose per capita income is below the extreme poverty line; the percentage of people living in extreme poverty is expressed as I=(i/n)x100 (known as "headcount index"). The average per capita income is calculated by dividing the total income of each household by the number of people forming it. Data from *CEPALSTAT: Statistical Data Portal and Publications*, https://statistics.cepal.org/portal/cepalstat/.

Poverty[1] refers to the share (percentage) of the population whose average per capita income is below the poverty line, as specified by ECLAC. Method of computation: "n" is the total number of people, and "p" is the number of people whose per capita income is below the poverty line; the percentage of people living in poverty is expressed as P=(p/n)x100. This indicator includes people under the extreme poverty line, by definition. The average per capita income is calculated by dividing the total income of each household by the number of people forming it. Data from *CEPALSTAT: Statistical Data Portal and Publications*, https://statistics.cepal.org/portal/cepalstat/.

Gini index[2] measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality; an index of 100 represents perfect inequality. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/SI.POV.GINI.

Share of total population in informal households[3] provides the distribution of the total population living in informal households. An informal household has all its workers in informal work. Data from OECD, *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* (dataset), www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm.

Share of total population in mixed households provides the distribution of the total population living in mixed households. A mixed household has both formal and informal workers. Data from OECD, *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* (dataset), www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm.

Social Institutions and Gender Index (SIGI) measures discrimination against women in social institutions (e.g. formal and informal laws, social norms and practices). Lower values indicate lower levels of discrimination in social institutions: the SIGI ranges from 0% for no discrimination to 100% for very high discrimination. Data from *OECD Data Explorer*, https://stats.oecd.org/Index.aspx?DataSetCode=SIGI2023.

PISA score in science[4] indicates the mean score in science performance as measured by the Programme for International Student Assessment (PISA) for each country. Scientific performance measures the scientific literacy of a 15-year-old in the use of scientific knowledge to identify questions, acquire new knowledge, explain scientific phenomena, and draw evidence-based conclusions about science-related issues. Data from *Science performance* (indicator), https://data.oecd.org/pisa/science-performance-pisa.htm#indicator-chart.

Productivity, innovation and international integration

Trade openness[5] measures the sum of exports and imports of goods and services as a percentage of gross domestic product (GDP). Data from *World Bank Open Data*, https://databank.worldbank.org/metadataglossary/world-development-indicators/series/NE.TRD.GNFS.ZS.

Export complexity measures the diversity and sophistication of a country's exports to assess its productive capabilities. The indicator used reflects a country's ranking on the global scale of export complexity, where 1 = most complex economy. Lower rankings suggest reliance on basic or undifferentiated exports; higher rankings indicate diversified, high-value export structures. Data from Harvard Growth Lab, *The Atlas of Economic Complexity*.

Labour productivity estimates measure output per person employed as a percentage of OECD output per person employed (in 2025 international dollars, converted using purchasing power parity). Data from the Conference Board, *Total Economy Database*, http://www.conference-board.org/data/economydatabase/total-economy-database-productivity.

High-technology exports[6] measure exports of products with high research and development intensity as a percentage of total manufactured exports. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS.

Patent applications per million people measure worldwide patent applications filed through the Patent Cooperation Treaty procedure or with a national patent office for exclusive rights for an invention, expressed per million people. Authors' calculations are based on data from *World Bank Open Data*, https://data.worldbank.org/indicator/IP.PAT.RESD.

Research and development expenditure (R&D)[7] measure capital and current expenditures as a percentage of GDP in four main sectors: business enterprise, government, higher education and private non-profit. R&D covers basic research, applied research and experimental development. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS.

Investment and private financing

Total investment[8] measures gross fixed capital formation (GFCF) as a percentage of GDP. GFCF includes land improvements; plants, machinery and equipment purchases; and the construction of roads, railways and the like (including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings). According to the 1993 SNA, net acquisitions of valuables are also considered capital formation. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS.

Foreign direct investment net inflows as a percentage of GDP measures the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor as a percentage of GDP. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors and is divided by GDP. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS.

Domestic credit to private sector by banks (percentage of GDP) measures financial resources, as a percentage of GDP, provided to the private sector by other depository corporations (deposit-taking corporations except central banks), such as through loans, purchases of nonequity securities and trade credits, and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS.

Citizens' perceptions and institutions

Satisfaction with educational system measures the percentage of the population satisfied with the educational system or schools in the city or area where they live. This metric responds to the question: "Are you satisfied or dissatisfied with the educational system or the schools in the city or area where you live?". Data from Gallup Analytics, *Education and families, Educational System,* https://ga.gallup.com/Charts/.

Satisfaction with healthcare system measures the percentage of the population satisfied with the availability of quality healthcare in the city or area where they live. This metric responds to the question: "Are you satisfied or dissatisfied with the availability of quality healthcare in the city or area where you live?". Data from Gallup Analytics, *Health, City: Quality Healthcare* https://ga.gallup.com/Charts/.

Satisfaction with standard of living measures the percentage of people satisfied with their standard of living. This metric responds to the question: "Are you satisfied or dissatisfied with your standard of living, all the things you can buy and do?". Data from Gallup Analytics, *Business and Economics, Standard of Living,* https://ga.gallup.com/Charts/.

Confidence in judicial system measures the percentage of the population that expresses confidence in the judicial system and courts within their country. This metric responds to the survey question: "In this country, do you have confidence in each of the following, or not? How about the judicial system and courts?". Data from Gallup Analytics, *Law and order, Confidence in Judicial System,* https://ga.gallup.com/Charts/.

Corruption Perception Index measures citizens' perceptions of the levels of local corruption in their country, where 0 is completely corrupt and 100 is totally clean. Data from Transparency International, *Corruption Perception Index*, https://www.transparency.org/en/cpi/2025.

Tax morale measures the share (percentage) of the adult population who find some degree of justification in evading taxes, excluding those who believe tax evasion is not justifiable at all. Data from Latinobarómetro, *Opinión Pública Latinoamericana*, www.latinobarometro.org/latOnline.jsp.

Intentional homicide per 100 000 inhabitants: measures the number of unlawful deaths caused upon a person with the intent to cause death or serious injury per one hundred thousand inhabitants. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/VC.IHR.PSRC.P5

Digital and green transition

Share of Internet users[9] measures the percentage of the population who have used the Internet (from any location) in the last three months. The Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV, etc. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/IT.NET.USER.ZS.

Fixed broadband subscriptions[10] measure fixed subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to or greater than 256 kbit/s. This includes cable modem, DSL, fibre-to-the-home/building, other fixed (wired) broadband subscriptions, satellite broadband and terrestrial fixed wireless broadband. This total is measured irrespective of the method of payment. It excludes subscriptions that have access to data communications (including the Internet) via mobile-cellular networks. It should include fixed WiMAX and any other fixed wireless technologies. It includes both residential subscriptions and subscriptions for organisations. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/IT.NET.BBND.P2.

Environmentally related tax revenue[11] measures the revenues from environmentally related taxes as a percentage of GDP. It includes taxes on greenhouse gas (GHG) emissions, fuel taxes, taxes on road use, forestry taxes and revenue from auctioned permits of emissions trading systems for GHGs. Data from OECD Data Explorer, *Environmentally related tax revenue*, https://stats.oecd.org/Index.aspx?DataSetCode=ERTR.

Per capita GHGs (excluding land-use changes) (t CO_2e/capita) measures the total annual emissions of six GHGs (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6) from energy, industry, waste and agriculture, adjusted to carbon dioxide equivalents and divided by the population. It excludes emissions from land-use changes and forestry due to higher uncertainties. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/EN.GHG.ALL.PC.CE.AR5.

Renewable energy consumption measures the share of renewable energy sources within total final energy consumption, expressed as a percentage. Data from *World Bank Open Data*, https://data.worldbank.org/indicator/EG.FEC.RNEW.ZS.

Fiscal position

Total tax revenues[12] measure total tax revenues as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2026*, Revenue Statistics in Latin America and the Caribbean 2026 | OECD.

Share of VAT (value added tax)[12] measures VAT as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2026*, Revenue Statistics in Latin America and the Caribbean 2026 | OECD.

Share of PIT (personal income tax)[12] measures taxes on the income, profits and capital gains of individuals as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2026*, Revenue Statistics in Latin America and the Caribbean 2026 | OECD.

Share of CIT (corporate income tax)[12] measures taxes on the income, profits and capital gains of corporations as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2026*, Revenue Statistics in Latin America and the Caribbean 2026 | OECD.

Public debt service measures public debt service as a percentage of tax revenue. Public debt service is calculated as general government primary lending/borrowing minus general government net lending/borrowing. Authors' calculations are based on data from International Monetary Fund, *World Economic Outlook Database* https://data.imf.org/en/datasets/IMF.RES:WEO and OECD, *Revenue Statistics in Latin America and the Caribbean 2026*, Revenue Statistics in Latin America and the Caribbean 2026 | OECD.

Social expenditure[13] measures public social spending as a percentage of GDP. The main social policy areas are old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing and other social policy areas. For OECD countries, data refer to *Social Expenditure* from *OECD Data Explorer*, https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG; for LAC countries, data refer to *CEPALSTAT Statistical Data Portal and Publications*, "Social public expenditure" https://statistics.cepal.org/portal/cepalstat/dashboard.html.

Notes

[1] Poverty and extreme poverty: all data are national-level data, except for Argentina, for which only urban-level data are available (as such, Argentina is excluded from the LAC averages). For the LAC average in 2016, data for Chile are from 2015. For the LAC average in 2024, data for Bolivia and El Salvador are from 2023. Chile is excluded from the LAC averages (latest available data are from 2022, with no observation for the recent reference year). Weighted LAC averages for poverty and extreme poverty can be consulted in Chapter 1.

[2] Gini index: for the OECD and LAC averages in 2016, data for Chile are from 2015. For the LAC average in 2024, data for El Salvador are from 2023; data for Costa Rica and Ecuador are from 2025. For the OECD average in 2023, data for Australia and Japan are from 2020; data for Korea, the Netherlands and the United Kingdom are from 2021; data for Canada, Germany, Israel and Switzerland are from 2022; data for Colombia, Mexico and the United States are from 2024; data for Costa Rica are from 2025.

[3] Informality indicators: for the averages of informality: in 2009, data for Argentina, Costa Rica, Colombia, Mexico and Peru are from 2010; data for El Salvador and Honduras are from 2014; and data for Uruguay is from 2008. For the averages in 2023, data for Chile, Guatemala, Mexico and Suriname are from 2022. Countries for which data are not available for both years of comparison have not been excluded from the averages for the indicators on the share of total population in informal households.

[4] PISA score in science: average for LAC and OECD Member countries is simple and not weighted.

[5] Trade (percentage of GDP): for the LAC average in 2025, data for Antigua and Barbuda are from 2022; data for the Bahamas, Belize, Bolivia, Cuba and Panama are from 2024. For the OECD average in 2025, data for Japan, New Zealand and the United States are from 2024.

[6] High-technology exports: for the LAC average in 2016; data for Belize are from 2017. For the LAC average in 2024, data for St. Lucia are from 2020; data for Cuba are from 2022; data for Dominica, Jamaica and St. Vincent and the Grenadines are from 2023.

[7] Research and development expenditure: for the OECD average in 2016, data for Australia, Switzerland and New Zealand are from 2017. For the OECD average in 2023, data for Colombia are from 2020; data for Chile are from 2022; data for Canada and Mexico are from 2024. For the LAC average in 2023, data for Colombia are from 2020; data for Chile, and Trinidad and Tobago, are from 2022; data for Cuba, Mexico and Panama are from 2024.

[8] Total investment: for the LAC average in 2025, data for Trinidad and Tobago are from 2023; data for the Bahamas, Belize, Bolivia, Cuba and Panama are from 2024. For the OECD average in 2025, data for Japan, New Zealand and the United States are from 2024.

[9] Share of Internet users: for the OECD and LAC averages in 2016, data for Chile are from 2015. For the LAC average in 2024, data for Suriname are from 2023. For the OECD average in 2024, data for Austria, Luxembourg, Sweden, Switzerland and Türkiye are from 2025.

[10] Fixed broadband subscriptions: for the LAC average in 2024, data for Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis and St. Lucia are from 2022; data for Panama and Paraguay are from 2023. For the OECD average in 2024, data for Japan are from 2023.

[11] Environmental tax revenue: for the LAC average, data for Colombia are from 2020. For the OECD average, data for Colombia, Greece and Switzerland are from 2020.

[12] Tax revenues: for the OECD averages of the shares of VAT/PIT/CIT, data for Australia, Greece and Japan are from 2019 (OECD VAT/PIT/CIT averages are retained from the previous edition). No year substitutions apply to the LAC averages of total tax revenues, VAT, PIT and CIT for the reference year 2024.

[13] Social expenditure: for the LAC average in 2021, data for Bolivia, Cuba and Panama are from 2020. For the OECD average in 2021, data for Australia, Mexico and Türkiye are from 2019, and data for Canada, Costa Rica and Japan are from 2020.

Argentina

Argentina is expanding private investment, export capacity and productive integration. Fiscal consolidation, investment incentives and trade agreements underpin this agenda, while energy, mining and transport infrastructure are emerging as key drivers of participation in regional and global value chains.

Investment attraction is centred on the Régimen de Incentivos para Grandes Inversiones (RIGI). It provides 30-year tax, customs and foreign-exchange stability and lowers the corporate income tax rate for projects exceeding USD 200 million. By September 2026, 23 projects worth USD 49.7 billion had been approved and another 24 worth USD 160 billion were under evaluation. Priority sectors include infrastructure, energy, oil and gas, mining, forestry, tourism, technology and steel. Complementary reforms submitted to Congress in 2026 seek to liberalise capital markets, modernise the labour market, reform the Central Bank's charter and establish a permanent fiscal rule. These reforms are complemented with measures to deepen domestic capital markets aimed at channeling private savings towards productive investment. Trade policy focuses on expanding market access while strengthening productive integration and export diversification. The provisional application of the EU-MERCOSUR Partnership Agreement in May 2026 and the signing of the MERCOSUR-EFTA Free Trade Agreement in September 2025 deepen Argentina's integration with key international markets. Regionally, Argentina and Brazil brought MERCOSUR's Public Procurement Protocol into force in February 2026, while Argentina co-sponsors the World Trade Organization Investment Facilitation for Development Agreement to simplify and increase the transparency of investment procedures. Export promotion is increasingly directed towards higher value-added activities, supported by the internationalisation programme for strategic sectors of the Argentine Investment and Trade Promotion Agency (PromArgentina). Knowledge-based services, the country's third-largest export complex, reached in 2025 a record USD 9.6 billion, up 8.1% from 2024.

Argentina is also strengthening the enabling conditions for deeper integration through strategic infrastructure, regional connectivity and skills development. The Vaca Muerta Sur pipeline secured a USD 2 billion syndicated loan in 2025, the largest private infrastructure financing in the country's history. The pipeline is expected to begin operations in late 2026. The government awarded a 25-year concession for the Paraná-Paraguay Waterway, which handles around 80% of Argentina's exports, with projected investments exceeding USD 10 billion, while a tender for the Belgrano Cargas freight railway is under way. On skills, Argentina's Formando Capital Humano initiative provides training to strengthen labour market skills and employability. Argentina Trade Net connects exporters with international market intelligence. In addition, a joint initiative by the International Finance Corporation and Universidad Siglo 21 is developing specialised talent for the mining and energy sectors.

Argentina: Key indicators

	Argentina				LAC				OECD					
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Poverty (Extreme poverty)	21.5	2.9	31.2	4.0	25.8	8.0	22.1	7.3	N/A		N/A			
Gini index	42.3		42.4		46.3		44.3		33.9		33.1			
Share of total population in informal households (%)	34.5 (2010)		35.5 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A			
Share of total population in mixed households (%)	26.1 (2010)		26.3 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A			
Social Institutions & Gender Index (SIGI)	N/A		17.7 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)			
PISA score in science	404 (2018)		393 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)			
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Trade openness (% of GDP)	26.1		30.4 (2025)		60.6		66.6		99		103.2			
Export complexity (SITC ranking, 1 = most complex economy)	79		95		81		87		28		29			
Labour productivity (% of OECD)	57.7		48.7 (2025)		40.7		39.0 (2025)		100		100			
High-tech exports (% of manufactured exports)	9		3.9		8.5		7		16.5		19.8			
Patent applications per million people	20.3		8.9 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)			
R&D expenditures (% of GDP)	0.6		0.6 (2023)		0.3		0.3		1.8		2.1			
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**			
Total investment, gross fixed capital formation (% of GDP)	14.3		16		20.7		19.6		21.9		22.4			
Foreign direct investment (FDI), net capital inflow (% of GDP)	0.6		0.5		4.4		5.7		N/A		N/A			
Domestic credit to private sector (% of GDP)	13.5		15.8		44.6		44.0		84.0		74.2			
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**			
Satisfaction with educational system (% of population)	66		57		67		67		66		65			
Satisfaction with healthcare system (% of population)	65		49		55		54		70		64			
Share of people satisfied with their standard of living (%)	75		66		70		73		73		77			
Confidence in judicial system (% of population)	40		31		33		39.3		50		56			
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	36 (2016)		36 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)			
Tax morale (% tax evasion justification)	36.1		55.2 (2023)		50.6		55.3 (2023)		N/A		N/A			
Intentional homicides (per 100 000 inhabitants)	6.0 (2016)		4.5 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)			
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Share of internet users (% of population)	71		89.7		54.5		77.9		81.8		92.4			
Fixed broadband subscriptions (per 100 inhabitants)	16.5		26.1		11.2		18		30.6		36.2			
Environmentally related tax revenue (% of GDP)	1.2		0.7		1		0.9		1.7		1.3			
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	8.6		8.2		5.3		5		10.7		8.6			
Renewable energy consumption (% of total final energy consumption)	9.4		9.2 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)			
Fiscal position	**2016**				**2024**				**2016**				**2024**	
Total tax revenues (% of GDP)	30.7				27.6				20.9				21.7	
Share of VAT I PIT I CIT	7.1	2.1	2.9		7.4	1.5	2.7		5.9	2	3		6.4	2.1	3.7		6.6	7.8	2.9		7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	6.2				5.9				11.3				13.6	
Social expenditure (% of GDP)	14.2				12.6 (2023)				11				11.5 (2023)	

Note: See the Reader's guide for definitions and sources.

Barbados

Barbados is strengthening its integration into regional and global markets through investment mobilisation, resilient infrastructure and innovative finance, while addressing climate vulnerability. Through the Bridgetown Initiative, the government has become a leading international voice for reforming the global financial architecture to better serve small island states pursuing sustainable growth.

Invest Barbados, the national investment promotion agency, has headed efforts to attract and retain foreign direct investment. In June 2026, Invest Barbados served as premier partner of the inaugural Caribbean Economic Forum in Bridgetown. It convened around 150 curated participants including global investors and development finance institutions around four priority sectors. Priority initiatives include the Sustainable Energy Investment Programme and the Ocean Innovation Challenge, supporting sargassum-to-biogas projects. Domestically, the government is mobilising savings and diaspora capital through BOSS+ retail bonds and USD-denominated issuances, part of the Barbados Economic Recovery and Transformation Plan 2026 (BERT). That same month, the IMF approved a precautionary Stand-By Arrangement, reinforcing confidence in this Plan in which public debt has fallen to 93.7% of GDP.

Regarding trade integration into regional and global value chains, Barbados pursues its trade agenda collectively through the Caribbean Community (CARICOM) and CARIFORUM, using these regional blocs as its main vehicles for preferential market access. The CARIFORUM-EU Economic Partnership Agreement, signed in Bridgetown in October 2008, is being progressively implemented through 2033. It underpinned a two-way EU-CARIFORUM trade worth EUR 37.5 billion in 2024, more than double its 2021 level. At the Fifth Joint CARIFORUM-EU Council in June 2026, the two sides reaffirmed their commitment to full implementation of the agreement. This agreement is complemented by the EU-LAC Global Gateway Investment Agenda, whose current projects in Barbados focus on water resilience, renewable energy and pharmaceutical manufacturing.

Barbados is strengthening its enabling conditions for integration through resilient infrastructure, digital connectivity and skills development. The South Coast Water Reclamation Project aims to support water security and climate resilience by expanding water re-use and reducing pressure on freshwater resources. It is supported by the 2024 debt-for-climate swap, part of the Bridgetown Initiative approach to climate finance. The swap is estimated to generate USD 220 million in interest savings, alongside financing from the Inter-American Development Bank (IDB) and the Green Climate Fund. The government has expanded the Port of Bridgetown with a new berth and more container yard, and is rebuilding infrastructure through the World Bank-financed Beryl Emergency Response and Recovery Project. It also participates in the IDB-backed Caribbean Regional Digital Infrastructure Plan to strengthen regional digital connectivity, expand digital infrastructure, and support greater integration of Caribbean digital networks. In addition, Barbados is piloting the CARICOM Payments and Settlement System, which completed its first cross-border payment with the Bahamas in local currencies. On skills, the Technical and Vocational Education and Training Council issues Caribbean Vocational Qualifications, which facilitate labour mobility and mutual recognition of competencies across CARICOM member states.

Barbados: Key indicators

	Barbados						LAC						OECD					
Social development	**2016**			**2024**			**2016**			**2024**			**2016**			**2024**		
Poverty (Extreme poverty)	N/A	N/A		N/A	N/A		25.8	8.0		22.1	7.3		N/A			N/A		
Gini index	34.1			N/A			46.3			44.3			33.9			33.1		
Share of total population in informal households (%)	43.2			N/A			47.9 (2009)			42.3 (2023)			N/A			N/A		
Share of total population in mixed households (%)	21.8			N/A			23.2 (2009)			24.0 (2023)			N/A			N/A		
Social Institutions & Gender Index (SIGI)	N/A			N/A			25.4 (2019)			21.2 (2023)			17.5 (2019)			15.3 (2023)		
PISA score in science	N/A			N/A			408 (2015)			414 (2025)			489 (2015)			482 (2025)		
Productivity, innovation and international integration	**2019**			**2025**			**2016**			**2025**			**2016**			**2025**		
Trade openness (% of GDP)	N/A			N/A			60.6			66.6			99			103.2		
Export complexity (SITC ranking, 1 = most complex economy)	N/A			N/A			81			87			28			29		
Labour productivity (% of OECD)	N/A			N/A			40.7			39.0 (2025)			100			100		
High-tech exports (% of manufactured exports)	13.7			19.9 (2024)			8.5			7			16.5			19.8		
Patent applications per million people	3.6(2014)			258.7 (2021)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)	N/A			N/A			0.3			0.3			1.8			2.1		
Investment and private financing	**2016**			**2024**			**2016**			**2024**			**2016**			**2024**		
Total investment, gross fixed capital formation (% of GDP)	N/A			N/A			20.7			19.6			21.9			22.4		
Foreign direct investment (FDI), net capital inflow (% of GDP)	9.8			4.0			4.4			5.7			N/A			N/A		
Domestic credit to private sector (% of GDP)	69.8			59.6 (2023)			44.6			44.0			84.0			74.2		
Citizens' perceptions and institutions	**2016**			**2024**			**2011**			**2024**			**2011**			**2024**		
Satisfaction with educational system (% of population)	N/A			N/A			67			67			66			65		
Satisfaction with healthcare system (% of population)	N/A			N/A			55			54			70			64		
Share of people satisfied with their standard of living (%)	N/A			N/A			70			73			73			77		
Confidence in judicial system (% of population)	N/A			N/A			33			39.3			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	61 (2016)			68 (2025)			41.2 (2016)			39.4 (2025)			67.3 (2016)			64.7 (2025)		
Tax morale (% tax evasion justification)	N/A			N/A			50.6			55.3 (2023)			N/A			N/A		
Intentional homicides (per 100 000 inhabitants)	7.9 (2016)			7.4 (2023)			19.6 (2023)			23.4 (2023)			3.2 (2016)			3.4 (2023)		
Digital and green transition	**2016**			**2024**			**2016**			**2024**			**2016**			**2024**		
Share of internet users (% of population)	72.2			70.4			54.5			77.9			81.8			92.4		
Fixed broadband subscriptions (per 100 inhabitants)	31.1			37.5 (2022)			11.2			18			30.6			36.2		
Environmentally related tax revenue (% of GDP)	0			0.6			1			0.9			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	3.4			3.2			5.3			5			10.7			8.6		
Renewable energy consumption (% of total final energy consumption)	2.8			5.5 (2022)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position	**2016**			**2024**			**2016**			**2024**			**2016**			**2024**		
Total tax revenues (% of GDP)	28.1			30.7			20.9			21.7			33.5			34.1		
Share of VAT I PIT I CIT	8.4	4.6	2.3	7.9	3.3	7.2	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	11.2 (2018)			15.8			11.3			13.7			5.4			4.1		
Social expenditure (% of GDP)	15.5			13.6 (2023)			11			11.5 (2023)			20.2			21.2		

Note: See the Reader's guide for definitions and sources.

Brazil

Brazil is strengthening its integration into regional and global markets through three mutually reinforcing pillars: attracting investment into strategic sectors, deepening trade integration and value-chain participation, and enhancing the enabling conditions for competitiveness through infrastructure and skills development.

Investment policy is centred on New Industry Brazil (Nova Indústria Brasil – NIB), launched in 2024 as the country's long-term industrial policy framework. Led by the Ministry of Development, Industry, Trade and Services, the strategy promotes production transformation, technological upgrading, innovation, digitalisation and decarbonisation through co-ordinated public and private investment. It is complemented by the Ecological Transformation Plan, co-ordinated by the Ministry of Finance, which aligns economic development with climate objectives and provides the overarching framework for sustainable investment. Two supporting initiatives are noteworthy. The Eco Invest Brazil Programme mobilises domestic and international private capital through blended-finance and risk-mitigation instruments. For its part, the Brazil Investment Platform for Climate and Ecological Transformation connects investors with projects aligned with the country's sustainability priorities.

Priority investment sectors include sustainable agro-industrial value chains, healthcare and life sciences, digital transformation, renewable energy, resilient infrastructure, bioeconomy, low-carbon agriculture, green hydrogen and the circular economy. Investment policies also incorporate a territorial dimension by promoting opportunities linked to local comparative advantages, including the Amazon bioeconomy, renewable energy, logistics corridors and digital infrastructure.

Brazil is diversifying its trade partnerships to strengthen regional and extra-regional integration. Recent milestones include the MERCOSUR-European Union, MERCOSUR-EFTA and MERCOSUR-Singapore agreements, while negotiations continue with Canada and Japan. Efforts to facilitate participation in regional and global value chains also include updates to the MERCOSUR Common Nomenclature and rules of origin. The agreements with the European Union and the European Free Trade Association (EFTA) are expected to eliminate tariffs across the industrial sector and expand access to services and government procurement markets in much of Europe.

Infrastructure initiatives aim to improve regional and global connectivity and reduce trade costs. Brazil is developing five South American Integration and Development Routes, including the Capricorn Bioceanic Corridor, which will connect Brazilian production centres with Pacific ports through Paraguay and Argentina. The country is also expanding concessions and public-private partnerships in highways, ports, airports, waterways and urban infrastructure to strengthen logistics and facilitate trade.

Human capital development supports competitiveness in strategic sectors. Brazil is expanding technical and vocational education through the Federal Network of Professional, Scientific and Technological Education and promoting educational attainment through the *Pé-de-Meia* Programme. Initiatives to strengthen digital skills, including the use of artificial intelligence in education, and the Brazil-Germany co-operation project on professional education for the green economy aim to align workforce capabilities with emerging labour-market needs. At the regional level, Brazil also participates in MERCOSUR initiatives promoting labour mobility, professional training and digital integration, including agreements on electronic identification, digital signatures and the elimination of international roaming charges.

Brazil: Key indicators

	Brazil				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	20.9	5.3	14.2	2.9	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	53.4		50.3		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	37.7 (2009)		25.7 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	28.3 (2009)		28.5 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	21.2 (2019)		21.6 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	401 (2015)		409 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	24.5		35.3 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	53		78		81		87		28		29	
Labour productivity (% of OECD)	37.3		38.0 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	16		11.1		8.5		7		16.5		19.8	
Patent applications per million people	25.1		21.8 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	1.2		1.2 (2023)		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	15.5		16.8		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	4.1		3.4		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	62.2		75.1		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	55		66 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	36		48 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	77		79 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	46		44 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	40 (2016)		35 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	45.4		44.8 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	30.1 (2016)		19.3 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	60.9		84.5		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	13.2		24.1		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	0.9		0.9		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	6.2		6.1		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	45.4		46.5 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**				**2024**				**2016**		**2024**	
Total tax revenues (% of GDP)	31.6				33.7				20.9		21.7	
Share of VAT I PIT I CIT	6.6	2.6	3.2		6.8	3.3	3.7		5.9	2.0	3.0	
Public debt service (% of total tax revenue)	20.5				17.7				11.3		13.7	
Social expenditure (% of GDP)	16.7				16.1 (2023)				11		11.5 (2023)	

	OECD		
Social development	**2016**		**2024**
Poverty (Extreme poverty)	N/A		N/A
Gini index	33.9		33.1
Share of total population in informal households (%)	N/A		N/A
Share of total population in mixed households (%)	N/A		N/A
Social Institutions & Gender Index (SIGI)	17.5 (2019)		15.3 (2023)
PISA score in science	489 (2015)		482 (2025)
Productivity, innovation and international integration	**2016**		**2024**
Trade openness (% of GDP)	99		103.2
Export complexity (SITC ranking, 1 = most complex economy)	28		29
Labour productivity (% of OECD)	100		100
High-tech exports (% of manufactured exports)	16.5		19.8
Patent applications per million people	631.2		572.8 (2021)
R&D expenditures (% of GDP)	1.8		2.1
Investment and private financing	**2016**		**2025**
Total investment, gross fixed capital formation (% of GDP)	21.9		22.4
Foreign direct investment (FDI), net capital inflow (% of GDP)	N/A		N/A
Domestic credit to private sector (% of GDP)	84.0		74.2
Citizens' perceptions and institutions	**2011**		**2024**
Satisfaction with educational system (% of population)	66		65
Satisfaction with healthcare system (% of population)	70		64
Share of people satisfied with their standard of living (%)	73		77
Confidence in judicial system (% of population)	50		56
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	67.3 (2016)		64.7 (2025)
Tax morale (% tax evasion justification)	N/A		N/A
Intentional homicides (per 100 000 inhabitants)	3.2 (2016)		3.4 (2023)
Digital and green transition	**2016**		**2024**
Share of internet users (% of population)	81.8		92.4
Fixed broadband subscriptions (per 100 inhabitants)	30.6		36.2
Environmentally related tax revenue (% of GDP)	1.7		1.3
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	10.7		8.6
Renewable energy consumption (% of total final energy consumption)	12.5		14.9 (2021)
Fiscal position	**2016**		**2024**
Total tax revenues (% of GDP)	33.5		34.1
Share of VAT I PIT I CIT	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	5.4		4.1
Social expenditure (% of GDP)	20.2		21.2

Note: See the Reader's guide for definitions and sources.

Chile

Chile is strengthening its global integration through strategic investment, productive integration and participation in regional and global value chains (RVCs and GVCs), supported by investments in infrastructure, digitalisation and skills. Since 2026, these efforts have been consolidated under *Choose Chile*, led by the Ministry of Foreign Affairs to attract global talent and investment and foster growth through stronger human capital, FDI and diversified exports.

Within this framework, investment attraction is guided by the National Strategy for the Promotion and Attraction of FDI, implemented by InvestChile, which prioritises high-impact projects in digital services, critical minerals, sustainable mining and clean energy. In the second quarter of 2026, authorities advanced investment projects worth USD 13.9 billion, and approved 85 projects worth over USD 16 billion. The Framework Law on Sectoral Authorizations modernises permits' system by simplifying procedures, greater inter-agency co-ordination, digitalisation and more certainty for investors. The Law, approved in 2026 (Boletín N°18.216-05), provides further permitting reforms, including a single administrative appeal with fixed deadlines in environmental assessment and a shorter period for invalidating sectoral authorisations already granted, and with a tax stability regime for investments. Chile also promotes responsible investment through a national sustainable finance taxonomy.

Trade policy, led by the Undersecretariat of International Economic Relations (SUBREI), increasingly focuses on strengthening productive integration and participation in RVCs and GVCs, leveraging Chile's trade and investment agreements, which cover 89% of world's GDP. Recent initiatives emphasise regulatory co-operation, digital trade, resilient supply chains and participation of SMEs. A significant progress was the approval of the Fourth Amending Protocol to the Additional Protocol to the Pacific Alliance Framework Agreement, which incorporates the chapters on MSMEs and Regional and GCVs, strengthening productive integration and participation of firms in RCVs. At the regional level, Chile's agreements with MERCOSUR countries, and the *Corredor Bioceánico Vial* with Argentina, Brazil and Paraguay, strengthen regional integration and connectivity. Strategic sectors include mining suppliers, battery-grade lithium and AgTech. To diversify exports beyond mining, the Law (Boletín N°18.216-05) introduces a tax credit for hiring by firms that export knowledge-based services.

Chile is strengthening the conditions for integration in several fronts. The Ministry of Public Works is advancing several connectivity projects, led by the *Puerto Exterior de San Antonio*, a USD 4.45 billion project expected to triple port cargo capacity by 2036. The Humboldt submarine cable will link Chile with Australia to strengthen Asia-Pacific connectivity, while large-scale battery storage and the Kimal-Lo Aguirre transmission line will integrate renewable generation from the Atacama Desert. Chile also advances financial integration through Nuam Exchange, integrating the stock exchanges of Chile, Colombia and Peru to expand access to regional capital markets. In September 2026, the government submitted to Congress a capital market reform bill that seeks to deepen domestic capital markets and long-term financing, including for housing. The Production Development Corporation (CORFO) supports strategic sectors, while ProChile promotes firms' internationalisation. Through ChileValora, Chile leads the Pacific Alliance's Expert Group on Labour Competency Certification, which in May 2026 resulted in a MoU with Colombia, Costa Rica, Mexico and Peru for mutual recognition of labour competencies in mining, lithium, green hydrogen and digital technologies.

Chile: Key indicators

		Chile				LAC				OECD					
Social development		**2015**		**2024**		**2016**		**2024**		**2016**		**2024**			
Poverty	(Extreme poverty)	13.2	1.7	8.1 (2023)	2.1 (2023)	25.8	8.0	22.1	7.3	N/A		N/A			
Gini index		45.3		43 .0		46.3		44.3		33.9		33.1			
Share of total population in informal households (%)		24.5 (2009)		18.3 (2022)		47.9 (2009)		42.3 (2023)		N/A		N/A			
Share of total population in mixed households (%)		23.6 (2009)		19.7 (2022)		23.2 (2009)		24.0 (2023)		N/A		N/A			
Social Institutions & Gender Index (SIGI)		36.1 (2019)		27.2 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)			
PISA score in science		447		442 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)			
Productivity, innovation and international integration		**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Trade openness (% of GDP)		56.1		65 (2025)		60.6		66.6		99		103.2			
Export complexity (SITC ranking, 1 = most complex economy)		82		86		81		87		28		29			
Labour productivity (% of OECD)		60.8		60.6 (2025)		40.7		39.0 (2025)		100		100			
High-tech exports (% of manufactured exports)		8.4		8.3		8.5		7		16.5		19.8			
Patent applications per million people		21.3		20.6 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)			
R&D expenditures (% of GDP)		0.4		0.4 (2022)		0.3		0.3		1.8		2.1			
Investment and private financing		**2016**		**2025**		**2016**		**2025**		**2016**		**2025**			
Total investment, gross fixed capital formation (% of GDP)		24.1		24.1		20.7		19.6		21.9		22.4			
Foreign direct investment (FDI), net capital inflow (% of GDP)		4.6		4.1		4.4		5.7		N/A		N/A			
Domestic credit to private sector (% of GDP)		80.0		70.1		44.6		44.0		84.0		74.2			
Citizens' perceptions and institutions		**2011**		**2024**		**2011**		**2024**		**2011**		**2024**			
Satisfaction with educational system (% of population)		44		56 (2023)		67		67		66		65			
Satisfaction with healthcare system (% of population)		39		44 (2023)		55		54		70		64			
Share of people satisfied with their standard of living (%)		69		74 (2023)		70		73		73		77			
Confidence in judicial system (% of population)		24		26 (2023)		33		39.3		50		56			
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])		66 (2016)		63 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)			
Tax morale (% tax evasion justification)		41.3		40.9 (2023)		50.6		55.3 (2023)		N/A		N/A			
Intentional homicides (per 100 000 inhabitants)		3.4 (2016)		6.3 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)			
Digital and green transition		**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Share of internet users (% of population)		83.6		95.6		54.5		77.9		81.8		92.4			
Fixed broadband subscriptions (per 100 inhabitants)		15.9		23.7		11.2		18		30.6		36.2			
Environmentally related tax revenue (% of GDP)		1.2		1.2		1		0.9		1.7		1.3			
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)		7		6		5.3		5		10.7		8.6			
Renewable energy consumption (% of total final energy consumption)		24.6		24.2 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)			
Fiscal position		**2016**		**2024**		**2016**		**2024**		**2016**		**2024**			
Total tax revenues (% of GDP)		20.2		20.5		20.9		21.7		33.5		34.1			
Share of VAT I PIT I CIT		8.3	1.8	4.2	8.6	2.3	4.3	5.9	2.0	3.0	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)		1.4		3.7		11.3		13.7		5.4		4.1			
Social expenditure (% of GDP)		16.2		18.3 (2023)		11		11.5 (2023)		20.2		21.2			

Note: See the Reader's guide for definitions and sources.

Colombia

Colombia has strengthened the structural foundations of its integration into regional and global markets through three mutually reinforcing pillars: mobilising investment towards strategic sectors, facilitating trade and participation in value chains, and improving the enabling conditions for competitiveness through infrastructure, digitalisation and skills development.

Trade integration is supported by Colombia's broad network of trade agreements and by structural policies aimed at reducing trade costs and strengthening productive capabilities. The country has agreements with partners including the United States, the European Union, the Andean Community, MERCOSUR, Mexico, Chile, Canada, the United Kingdom and Korea. Colombia has sought to maximise the benefits of these agreements through logistics reforms, trade facilitation, customs digitalisation and stronger productive capabilities. The National Logistics Policy, the Authorised Economic Operator programme and the continued digitalisation of customs procedures provide an institutional basis for improving supply-chain efficiency and facilitating cross-border trade. These measures are complemented by ProColombia's export promotion, investment attraction and market-intelligence activities, which support the internationalisation of Colombian firms.

To improve transport and digital connectivity, Colombia has been strengthening its long-term framework for infrastructure and connectivity. The Intermodal Transport Master Plan provides a strategic basis for integrating road, rail, river, maritime and air transport and for connecting cities and production centres with borders and ports. These efforts are complemented by the expansion of broadband and fibre-optic connectivity, particularly in rural and underserved areas, improving access to digital services and creating opportunities for digitally enabled trade.

Looking ahead, the 2026–2030 National Development Plan provides an opportunity to consolidate Colombia's structural foundations and position regional and international integration more firmly within its development strategy.

The preliminary framework prepared by the National Planning Department combines a territorial approach with an emphasis on investment, competitiveness and connectivity. In particular, the proposed "Colombia de las regiones" axis envisages macroprojects across 12 regional nodes, stronger territorial institutions and closer co-ordination between national and subnational governments.

The proposed "economic axis" prioritises private investment, infrastructure, digital transformation, connectivity, trade and international integration, as well as support for enterprises and SMEs. It also identifies mining and energy, housing and infrastructure, agro-industry, tourism, science, technology and innovation, and bioeconomy as strategic sectors. These priorities are expected to support export diversification, cross-border investment and regional value chains, while connecting Colombia's border regions and production centres more effectively with markets in LAC and beyond.

The Plan also emphasises multimodal and border connectivity, interoperable customs and digital systems, regional energy infrastructure, and agricultural, tourism and bioeconomy value chains. Its focus on regional macroprojects, public-private collaboration and measurable territorial results is intended to mobilise investment and facilitate projects connecting Colombia with Andean, Amazonian, Caribbean and Pacific markets. As the Plan remains under preparation, its final structure and implementation instruments will be defined after the publication of this report.

Colombia: Key indicators

	Colombia				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	29.7	11.4	31.8	15.8	25.8	8.0	22.1	7.3	N/A	N/A	N/A	N/A
Gini index	50.6		54.4		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	62.6 (2010)		53.0 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	21.1 (2010)		17.2 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	15.0 (2019)		23.5 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	416 (2015)		414 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	36.2		35.4 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	69		74		81		87		28		29	
Labour productivity (% of OECD)	37.4		38.9 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	10.2		9		8.5		7		16.5		19.8	
Patent applications per million people	11.4		8.4 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.3		0.3 (2020)		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	22.1		16		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	4.9		2.5		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	47.0		39.8		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	71		71 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	49		46 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	76		75 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	32		32 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	37 (2016)		37 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	53		61.1 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	26.1 (2016)		24.9 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	58.1		79.3		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	12.5		17.2		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	0.8		0.6		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	4.1		4.1		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	30.5		29.7 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	19.1		19.9		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	4.8	1.1	4.9	5.6	1.5	5.4	5.9	2.0	3.0	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	10.1		19.3		11.3		13.7		5.4		4	
Social expenditure (% of GDP)	12.5		12.2 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

Costa Rica

Costa Rica is strengthening its position in global markets by attracting investment in high-value-added sectors and expanding domestic firms' participation in global value chains. Its focus on life sciences, advanced manufacturing and digital technologies is complemented by efforts to expand trade opportunities, strengthen local suppliers and improve infrastructure and skills development.

Investment attraction is guided by the National Strategy for Foreign Direct Investment, which seeks to strengthen Costa Rica's competitiveness by attracting and retaining investment in high-value-added sectors. The strategy prioritises life sciences, advanced manufacturing, digital technologies, corporate services and seeks to leverage emerging opportunities, including the semiconductor industry. At the same time, it promotes supplier linkages, human capital development and sustainable investment. It also incorporates a territorial dimension by encouraging investment beyond the Greater Metropolitan Area to foster more balanced regional development and expand participation in global value chains. Complementary initiatives support domestic investment by strengthening small and medium-sized enterprises through improved access to finance; digital transformation; innovation; productive linkages; and greater integration into domestic and international markets, as well as global value chains.

Trade integration is supported through the continuous modernisation and expansion of Costa Rica's trade platform, which comprises 18 trade agreements covering 53 trading partners. Recent initiatives include the entry into force of the trade agreement with Ecuador and the Comprehensive Economic Partnership Agreement with the United Arab Emirates and Costa Rica's accession to the Digital Economy Partnership Agreement (DEPA) in September 2026.[1] To maximise the benefits of these agreements, PROCOMER's Integra programme strengthens domestic supplier capabilities and productive linkages in strategic sectors, facilitating the integration of domestic firms into multinational supply chains. Initiatives such as the Central American Trade Facilitation and Competitiveness Strategy, the Central American Digital Trade Platform and the Integrated Border Control Centre at Paso Canoas seek to simplify border procedures, digitalise trade processes, improve regional interoperability and reduce logistics costs.

Costa Rica is also strengthening the enabling conditions for greater integration into the global economy through investments in infrastructure, skills and digitalisation. On the one hand, the Border Integration Programme has modernised the Paso Canoas and Peñas Blancas border crossings through upgraded infrastructure, digital systems and co-ordinated border management. On the other hand, the modernisation of Puerto Caldera aims to improve logistics capacity and strengthen connectivity with global markets. At the regional level, Costa Rica participates in the Regional Mobility and Logistics Master Plan 2035 to improve transport connectivity across Central America. In parallel, the Human Talent Development Strategy for Competitiveness aligns training with the needs of export-oriented and foreign-invested firms through skills development and labour matching. Complementary initiatives, including the National Policy for Technical and Vocational Education and Training, further strengthen technical and digital skills. Meanwhile, in 2026, the Ministry of Science, Innovation, Technology and Telecommunications (MICITT) launched 320 scholarships covering the full cost of international Microsoft certification exams in areas including artificial intelligence, cybersecurity, cloud computing and data analytics. In partnership with the National Training Institute (INA), it also offered 80 places in specialised programmes for SMEs and entrepreneurs, combining training and technical support to promote the adoption of AI, cybersecurity and other frontier technologies.

[1] CPTPP was not listed since Costa Rica pulled away from this initiative on 28 October 2026 pursuant to a presidential mandate.

Costa Rica: Key indicators

	Costa Rica				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	16.5	4.2	12.6	2.8	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	48.7		45.5 (2025)		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	26.9 (2010)		26.3 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	27.2 (2010)		19.0 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	27.9 (2019)		10.9 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	420 (2015)		424 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	62.2		71.5 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	65		57		81		87		28		29	
Labour productivity (% of OECD)	55.2		68.9 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	18.4		22.9		8.5		7		16.5		19.8	
Patent applications per million people	1.8		2.9 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.4		0.3 (2023)		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	18.8		16.2		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	4.5		5.4		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	57.8		50.0		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	79		79 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	63		70 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	79		84 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	32		49 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	58 (2016)		56 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	43.7		41.9 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	11.9 (2016)		17.7 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	65.9		87.2		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	13.1		23.3		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	2.4		1.9		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	3.2		3.3		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	34.1		34.2 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	23.5		24.8		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	4.4	1.3 2.3	4.9	1.5 2.3	5.9	2.0 3.0	6.0	2.0 3.8	6.6	7.8 2.9	7.0 (2022)	8.2 (2022) 3.9 (2022)
Public debt service (% of total tax revenue)	11.8		19.2		11.3		13.7		5.4		4.1	
Social expenditure (% of GDP)	11.9		10 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

Dominican Republic

The Dominican Republic is strengthening its integration into regional and global markets by leveraging its well-established free-zone model and preferential market access to promote higher-value manufacturing, technology-intensive services and logistics. This productive transformation, reflected in the government's Meta RD 2036, aims to raise productivity, attract strategic investment, and increase participation in regional and global value chains.

Investment attraction is led by ProDominicana, which promotes exports and foreign direct investment (FDI) as part of a broader strategy to strengthen the country's productive base and international competitiveness. In line with Meta RD 2036, recent efforts have shifted from attracting investment across sectors towards targeting higher-value activities. In March 2026, the government launched the FDI Attraction Plan far ICT Companies 2026-2036, prioritising semiconductors, software development, HealthTech and business process outsourcing to position the country within global technology value chains. The Dominican Republic received more than USD 5 billion in FDI in 2025. Meanwhile, free zones continued expanding, hosting over 850 companies, generating around 200 000 direct jobs and reinforcing the country's role as a regional manufacturing platform.

Trade policy focuses on leveraging preferential trade agreements and export promotion to diversify markets and increase participation in regional and global value chains. The National Export Promotion Plan of the Dominican Republic (PNFE-RD) 2020-2030 provides a ten-year roadmap to expand exports of goods and services and diversify international markets, while ProDominicana supports firms' internationalisation. The Dominican Republic also benefits from its free trade agreements with Central America and Caribbean Community (CARICOM) countries and the CARIFORUM-EU Economic Partnership Agreement (EPA). Together, they strengthen market access within the Caribbean and with major external markets. Export diversification increasingly relies on higher-value manufacturing. Medical devices and pharmaceuticals are becoming two of the country’s leading export sector within the free-zone regime, illustrating the shift towards more sophisticated manufacturing activities.

The Dominican Republic is strengthening the enabling conditions far greater regional and global integration through logistics, digital connectivity and skills development. The National Freight Logistics Plan 2025-2035, aligned with Meta RD 2036, seeks to consolidate the country as a regional logistics hub. To that end, it aims to modernise ports, logistics corridors and trade facilitation systems, while advancing rehabilitation of the Port of Manzanillo, strengthening cargo infrastructure and accelerating digitalisation of logistics and customs processes. Complementing these efforts, the government launched the Embajadores STEM programme to expand the supply of science, technology, engineering and mathematics (STEM) skills aligned with strategic sectors. Meanwhile, digital infrastructure initiatives, including new submarine cable investments and partnerships with global technology firms, aim to reinforce the country's role as a regional hub for digital services and technology-intensive investment. Implementation is supported by the Meta RD 2036 governance framework, which brings together public and private sector actors to identify, prioritise and implement reforms that strengthen productivity and competitiveness.

Dominican Republic: Key indicators

	Dominican Republic				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	26.7	7	14.9	4.1	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	45.7		39		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	N/A		42.3 (2018)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	N/A		25.2 (2018)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	18.2 (2019)		14.8 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	332 (2015)		361 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	51.7		51.5 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	66		59		81		87		28		29	
Labour productivity (% of OECD)	43.3		48.1 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	4.4		7.7		8.5		7		16.5		19.8	
Patent applications per million people	2.7		0.6 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	N/A		N/A		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	22.2		24.9		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	3.3		3.9		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	25.7		31.8		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	67		71 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	54		62 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	68		74 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	29		46 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	31 (2016)		37 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	53.4		62.6 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	15.3 (2016)		10.9 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	63.9		91		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	7.2		11.2		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	1.8		1.7		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	3.9		4.5		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	15.3		14.8 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	13		14.7		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	4.6	1.2 2	5.1	1.6 2.6	5.9	2.0 3.0	6.0	2.0 3.8	6.6	7.8 2.9	7.0 (2022)	8.2 (2022) 3.9 (2022)
Public debt service (% of total tax revenue)	19.5		23		11.3		13.7		5.4		4.1	
Social expenditure (% of GDP)	7.7		8.7 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

Ecuador

Ecuador is strengthening its integration into regional and global markets through three mutually reinforcing pillars: mobilising investment towards strategic sectors; improving trade and value-chain participation; and enhancing the enabling conditions for competitiveness through infrastructure, digitalisation and skills development.

Investment policies focus on mobilising private capital towards strategic sectors while strengthening fiscal sustainability. The Agenda de Crecimiento Ecuador 2040 provides the overarching framework. It identifies priority sectors such as mining, agriculture and livestock, agribusiness tourism, hydrocarbons, manufacturing and electricity, while addressing cross-cutting bottlenecks in competitiveness, labour markets, public finances, financial sector and connectivity. ProEcuador leads investment and export promotion through 23 trade offices in 20 countries, complemented by the Corporación Financiera Nacional, the national development bank for exporters and productive sectors. Investment contracts provide a 5% tax reduction for projects starting at USD 1 million and offer full tax stability for larger-scale investments exceeding USD 100 million. Sectoral prioritisation is particularly strong in mining, where the February 2026 Law for the Strengthening of the Strategic Mining and Energy Sectors updated the royalty framework and increased the share of revenues allocated to social investment in mining areas. Ecuador also leverages innovative climate finance through debt-for-nature and debt-for-climate swaps, mobilising over USD 450 million for the Galápagos Life Fund and USD 460 million for the Amazon Biocorridor.

Regarding trade integration into regional and global value chains, Ecuador signed a Reciprocal Trade Agreement with the United States in March 2026, lifting surtaxes on 53% of non-oil exports and opening access to financing through the US Exim Bank and the Development Finance Corporation. Ecuador also signed a Free Trade Agreement with Canada in July 2026, which will, once in force, grant duty-free access for 99.6% of exports, complementing an agreement with the People's Republic of China. Ecuador's broader trade agenda also includes a Strategic Economic Co-operation Agreement with Korea (in its final stage before taking effect) and its accession process to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which already includes Chile, Mexico and Peru.

Ecuador is strengthening its enabling conditions for integration through infrastructure and skills development. The country's Ministry of Infrastructure and Transport through its Vice-Ministry of Public-Private Partnerships, anchors Ecuador's institutional framework to drive infrastructure investment through public-private partnerships. Its registered pipeline includes nine road and three port projects, including the Puerto Comercial Esmeraldas, representing estimated investment of approximately USD 5.3 billion. The National Inclusive Circular Economy Strategy, backed by the Organic Law on Inclusive Circular Economy, sets measurable targets to 2035 and is being piloted with international co-operation support. On skills, the Growth Agenda 2040 prioritises a national labour-competency certification system to better align technical training with productive-sector needs, amid persistent challenges in filling available public technical-training places. The Violet Economy and Economic Equality Law introduces fiscal incentives, mandatory equality plans and corporate board targets, complemented by the Sello Violeta certification, to expand women's participation in the labour market and business leadership.

Ecuador: Key indicators

	Ecuador				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	24.3	7.5	26.3	7.5	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	45		45.9 (2025)		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	N/A		N/A		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	N/A		N/A		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	28.9 (2019)		17.0 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	N/A		393 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	40.5		59.4 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	109		114		81		87		28		29	
Labour productivity (% of OECD)	28.5		28.1 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	9.2		10		8.5		7		16.5		19.8	
Patent applications per million people	2.7		2 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	N/A		N/A		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	20.7		19.9		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	0.8		1.0		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	29.4		57.6		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	75		68 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	56		43 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	70		75 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	26		24 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	31 (2016)		33 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	53.5		53.6 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	5.8 (2016)		45.7 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	54.1		77.2		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	9.8		17.2		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	0.4		0.3		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	4.4		4.1		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	14.8		18.9 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	20.33		21.7		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	6.3	0.2 1.4	7.6	0.2 2.8	5.9	2.0 3.0	6.0	2.0 3.8	6.6	7.8 2.9	7.0 (2022)	8.2 (2022) 3.9 (2022)
Public debt service (% of total tax revenue)	7.7		5.1		11.3		13.7		5.4		4.1	
Social expenditure (% of GDP)	9		11.3 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

El Salvador

El Salvador is pursuing an integrated approach to strengthen its competitiveness and deepen its participation in regional and global value chains. Its efforts focus on attracting investment into higher-value-added activities, deepening regional trade integration, and improving the enabling conditions for competitiveness. Particular emphasis is placed on modernising the regulatory and administrative environment, developing strategic infrastructure and digital connectivity, and strengthening the skills needed to support entrepreneurship and export readiness. These efforts aim to create conditions for firms to scale up, diversify exports and participate more effectively in regional and global markets.

El Salvador has advanced a comprehensive investment agenda centred on regulatory modernisation, administrative simplification and digitalisation. More than 600 administrative procedures have been simplified and over 200 digitalised, while new legal frameworks have been approved to support emerging technologies and digital activities. These reforms are implemented through a co-ordinated effort involving the Ministry of Economy, investment promotion agencies, customs authorities and other relevant public institutions. In December 2025, El Salvador institutionalised the Investment Facilitation Committee (CFI) as a public-private coordination mechanism to improve the investment climate, streamline procedures and strengthen conditions for domestic and foreign investment.

Building on these reforms, investment promotion efforts focus on sectors with strong potential to generate value added, employment and exports, including digital services, digital assets, electrical and automotive components, pharmaceuticals and medical devices, food and beverages, and tourism infrastructure. The strategy also incorporates a territorial dimension through projects such as the Pacific Airport and the development of industrial parks and free zones in areas with manufacturing and logistics potential.

The most relevant regional integration initiative being implemented, together with the other Central American countries, is the Central American Trade Facilitation and Competitiveness Strategy with an Emphasis on Co-ordinated Border Management. This strategy seeks to reduce trade costs and border-crossing times through more effective co-ordinated controls, thereby improving regional logistics performance and competitiveness. Complementary initiatives under discussion include a Central American Intellectual Property Strategy and a Regional Digital Trade Work Plan, aimed at strengthening co-operation in emerging areas of economic integration.

At the national level, El Salvador has implemented action plans to maximise the benefits of trade agreements and strengthen firms' participation in regional and global value chains. These initiatives include identifying export opportunities; producing market studies and technical information for exporters; and implementing training programmes on market access conditions, rules of origin and other trade requirements. Trade agreements are also being updated through their institutional mechanisms to facilitate trade and adapt to evolving international trade dynamics.

Infrastructure, connectivity and human capital investments support this broader integration agenda. The country is modernising its port system through a USD 1.6 billion investment programme and has invested more than USD 620 million in strategic road infrastructure. Regionally, El Salvador participates in the Central American Mobility and Logistics Master Plan 2035, while digital integration has advanced through the Central American Digital Trade Platform (PDCC). The country has also strengthened cross-border integration through the Integrated Border Post at El Amatillo with Honduras and integrated customs and migration procedures with Guatemala. Human capital initiatives such as Up Digital, ALDEA, Emprende 503 and the regional EKO Bootcamp Agroindustrial programme support digital skills, entrepreneurship and export readiness.

El Salvador: Key indicators

	El Salvador				LAC				OECD	
Social development	**2016**		**2023**		**2016**		**2024**		**2016**	**2024**
Poverty (Extreme poverty)	40.4	10.7	27.9	8.6	25.8	8.0	22.1	7.3	N/A	N/A
Gini index	40		39.8		46.3		44.3		33.9	33.1
Share of total population in informal households (%)	52.4 (2015)		51.1		47.9 (2009)		42.3 (2023)		N/A	N/A
Share of total population in mixed households (%)	21.6 (2015)		23.8		23.2 (2009)		24.0 (2023)		N/A	N/A
Social Institutions & Gender Index (SIGI)	22.9 (2019)		19.6		25.4 (2019)		21.2 (2023)		17.5 (2019)	15.3
PISA score in science	N/A		385 (2025)		408 (2015)		414 (2025)		489 (2015)	482 (2025)
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Trade openness (% of GDP)	72.8		88.2 (2025)		60.6		66.6		99	103.2
Export complexity (SITC ranking, 1 = most complex economy)	60		49		81		87		28	29
Labour productivity (% of OECD)	N/A		N/A		42		39 (2025)		100	100
High-tech exports (% of manufactured exports)	5.4		5.5		8.5		7.0		16.5	19.8
Patent applications per million people	0.6		0.3 (2021)		13.8		12.8 (2021)		631.2	572.8 (2021)
R&D expenditures (% of GDP)	0.1		0.1 (2023)		0.3		0.3		1.8	2.1
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**	**2025**
Total investment, gross fixed capital formation (% of GDP)	15.5		27.2		20.7		19.6		21.9	22.4
Foreign direct investment (FDI), net capital inflow (% of GDP)	2.0		2.1		4.4		5.7		N/A	N/A
Domestic credit to private sector (% of GDP)	48.7		55.0		44.6		44.0		84.0	74.2
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**	**2024**
Satisfaction with educational system (% of population)	72		76 (2023)		67		67		66	65
Satisfaction with healthcare system (% of population)	61		61 (2023)		55		54		70	64
Share of people satisfied with their standard of living (%)	62		74 (2023)		70		73		73	77
Confidence in judicial system (% of population)	29		64 (2023)		33		39.3		50	56
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	36 (2016)		32 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)	64.7 (2025)
Tax morale (% tax evasion justification)	33.7		53.7 (2023)		50.6		55.3 (2023)		N/A	N/A
Intentional homicides (per 100 000 inhabitants)	85.1 (2016)		7.9 (2022)		19.6 (2023)		23.4 (2023)		3.2 (2016)	3.4 (2023)
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Share of internet users (% of population)	29		66.5		54.5		77.9		81.8	92.4
Fixed broadband subscriptions (per 100 inhabitants)	6.4		12.5		11.2		18		30.6	36.2
Environmentally related tax revenue (% of GDP)	0.6		0.5		1		0.9		1.7	1.3
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	2		2.3		5.3		5		10.7	8.6
Renewable energy consumption (% of total final energy consumption)	20.7		21.9 (2021)		28.9		33.9 (2021)		12.5	14.9 (2021)
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Total tax revenues (% of GDP)	20.5		23.6		20.9		21.7		33.5	34.1
Share of VAT I PIT I CIT	7.5	3	3.2	9.5	3.6	3.9	5.9	2.0	3.0	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	14.2		19.4		11.3		13.7		5.4	4.1
Social expenditure (% of GDP)	7.8		8.4 (2023)		11		11.5 (2023)		20.2	21.2

Note: See the Reader's guide for definitions and sources.

Guatemala

Guatemala is strengthening its integration into regional and global markets through three mutually reinforcing pillars: attracting investment into strategic sectors, deepening trade integration and value-chain participation, and developing the skills and productive capabilities needed to enhance competitiveness, diversify exports and generate greater value added.

Guatemala's investment framework combines legal certainty, investment facilitation and regulatory simplification. ProGuatemala, the foreign investment promotion agency under the Ministry of Economy, implements the National Foreign Direct Investment Attraction Strategy 2024-2027. The framework is supported by legislation governing foreign investment, free zones, export-oriented activities and special economic development zones, alongside efforts to simplify administrative procedures and improve the business environment.

Investment promotion prioritises sectors with potential to generate employment, increase exports and facilitate participation in regional and global value chains. These include processed foods and beverages, pharmaceuticals, textiles and apparel, information and communication technology (ICT) and software, business services, contact centres and business processing outsourcing, shared services, electronics (auto parts), medical devices, health services, biotechnology, tourism and advanced manufacturing technologies. The Guatemala Chip Route (La Ruta del Chip), a whole-of-country initiative, supports the electronics and semiconductor ecosystem through talent development, business ecosystem strengthening and international co-operation.

Regional integration efforts focus on the Deep Integration Process between Guatemala and Honduras, which aims to achieve the free movement of goods and people. The arrangement has been operational between the two countries since 2017. El Salvador formally joined the process in 2018, although operational implementation of its participation is still pending. Under the arrangement, approximately 95% of goods can circulate freely between Guatemala and Honduras through integrated border posts and the Central American Single Invoice and Declaration (FYDUCA). Guatemala also participates in regional efforts to modernise the customs framework, expand advanced goods declarations and improve information exchange among customs administrations. These measures seek to shorten clearance times, strengthen risk management and facilitate intraregional trade.

Internationally, Guatemala is pursuing market diversification and trade expansion. A Reciprocal Trade Agreement with the United States (ART), signed on 30 January 2026, complements the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). To that end, the former facilitates trade and modernises commercial procedures, while maintaining zero-tariff access for products that accounted for 75.8% of Guatemalan exports to the United States in 2025. Other initiatives include the Free Trade Agreement with Peru, which entered into force in July 2026, and negotiations towards a Comprehensive Economic Partnership Agreement with the United Arab Emirates. Trade fairs, business meetings and commercial missions promote exports in established destinations and high-growth markets across North America, Europe, Asia and Central America. Food and beverages and exportable services are prioritised to leverage trade agreements and strengthen participation in regional and global value chains.

Productivity and administrative simplification are also central to Guatemala's competitiveness agenda. Under the National Competitiveness Policy 2018–2032, the National Competitiveness Program (PRONACOM) works closely with public entities, technical training institutions, academia and the private sector on simplifying and streamlining administrative procedures to improve efficiency and reduce administrative burdens, as well as on skills gap analyses, technical training and strategic productive clusters, notably ICT and business services. These efforts seek to align workforce capabilities with labour-market needs in sectors with export and investment potential, support participation in regional and global value chains and strengthen Guatemala's business climate.

Guatemala: Key indicators

	Guatemala		LAC		OECD	
Social development	**2016**	**2023**	**2016**	**2024**	**2016**	**2024**
Poverty (Extreme poverty)	N/A	N/A	25.8 8.0	22.1 7.3	N/A	N/A
Gini index	N/A	45.2	46.3	44.3	33.9	33.1
Share of total population in informal households (%)	N/A	60.8 (2022)	47.9 (2009)	42.3 (2023)	N/A	N/A
Share of total population in mixed households (%)	N/A	21.3 (2022)	23.2 (2009)	24.0 (2023)	N/A	N/A
Social Institutions & Gender Index (SIGI)	28.6 (2019)	25.7	25.4 (2019)	21.2 (2023)	17.5 (2019)	15.3
PISA score in science	N/A	351 (2025)	408 (2015)	414 (2025)	489 (2015)	482 (2025)
Productivity, innovation and international integration	**2016**	**2024**	**2016**	**2024**	**2016**	**2024**
Trade openness (% of GDP)	46.4	46.5 (2025)	60.6	66.6	99	103.2
Export complexity (SITC ranking, 1 = most complex economy)	83	77	81	87	28	29
Labour productivity (% of OECD)	26.5	27.2 (2025)	40.7	39.0 (2025)	100	100
High-tech exports (% of manufactured exports)	5.8	5.4	8.5	7	16.5	19.8
Patent applications per million people	0.2	0.5 (2021)	13.8	12.8 (2021)	631.2	572.8 (2021)
R&D expenditures (% of GDP)	0	0 (2023)	0.3	0.3	1.8	2.1
Investment and private financing	**2016**	**2025**	**2016**	**2025**	**2016**	**2025**
Total investment, gross fixed capital formation (% of GDP)	13.9	16.7	20.7	19.6	21.9	22.4
Foreign direct investment (FDI), net capital inflow (% of GDP)	1.3	1.6 (2024)	4.4	5.7	N/A	N/A
Domestic credit to private sector (% of GDP)	35.1	36.7	44.6	44.0	84.0	74.2
Citizens' perceptions and institutions	**2011**	**2024**	**2011**	**2024**	**2011**	**2024**
Satisfaction with educational system (% of population)	72	73 (2023)	67	67	66	65
Satisfaction with healthcare system (% of population)	55	60 (2023)	55	54	70	64
Share of people satisfied with their standard of living (%)	70	80 (2023)	70	73	73	77
Confidence in judicial system (% of population)	38	50 (2023)	33	39.3	50	56
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	28 (2016)	26 (2025)	41.2 (2016)	39.4 (2025)	67.3 (2016)	64.7 (2025)
Tax morale (% tax evasion justification)	49.9	60.7 (2023)	50.6	55.3 (2023)	N/A	N/A
Intentional homicides (per 100 000 inhabitants)	32.8 (2017)	23.4 (2023)	19.6 (2023)	23.4 (2023)	3.2 (2016)	3.4 (2023)
Digital and green transition	**2016**	**2024**	**2016**	**2024**	**2016**	**2024**
Share of internet users (% of population)	34.5	60.2	54.5	77.9	81.8	92.4
Fixed broadband subscriptions (per 100 inhabitants)	3.1	5.3	11.2	18	30.6	36.2
Environmentally related tax revenue (% of GDP)	0.9	0.7	1	0.9	1.7	1.3
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	2.5	2.4	5.3	5	10.7	8.6
Renewable energy consumption (% of total final energy consumption)	63.2	62.1 (2021)	28.9	33.9 (2021)	12.5	14.9 (2021)
Fiscal position	**2016**	**2024**	**2016**	**2024**	**2016**	**2024**
Total tax revenues (% of GDP)	13.2	14.3	20.9	21.7	33.5	34.1
Share of VAT I PIT I CIT	4.8 0.4 2.9	5.6 0.5 3	5.9 2.0 3.0	6.0 2.0 3.8	6.6 7.8 2.9	7.0 (2022) 8.2 (2022) 3.9 (2022)
Public debt service (% of total tax revenue)	11.6	11.2	11.3	13.7	5.4	4.1
Social expenditure (% of GDP)	7.2	7.9 (2023)	11	11.5 (2023)	20.2	21.2

Note: See the Reader's guide for definitions and sources.

Mexico

Mexico is pursuing a strategy to deepen its integration into regional and global markets by attracting investment in strategic sectors, increasing domestic value added and expanding Mexican firms' participation in global value chains, while building out infrastructure and skills.

Plan México, the government's flagship industrial policy, provides the overarching framework, combining nearshoring, industrial development and greater domestic production with a place-based approach. Fifteen Development Hubs for Well-being across the country aim to attract investment and strengthen regional productive capabilities by building on each location's competitive advantages and productive specialisation, with a focus on strategic, high-value sectors such as semiconductors, electromobility, pharmaceuticals and medical devices, and aerospace. Firms located in the Hubs benefit from a 100% immediate tax deduction on new fixed assets and an additional 25% deduction on increased spending on training and innovation, complemented by administrative facilitation and state and local incentives tailored to each site. Plans for 100 new industrial parks along the United States border complement this approach, strengthening local supply and domestic content. Meanwhile, the *Sonora Plan* supports investment in the state of Sonora through logistics and connectivity, strategic minerals, skills and sustainable energy. Investment facilitation has also been strengthened. The Single Registry of Investment Projects (RUPI) supports domestic and foreign projects of at least USD 100 million, while recent measures simplify and digitalise administrative procedures. Separately, the government aims to mobilise around USD 320 billion in mixed public-private infrastructure investment over 2026-2030, with around 54% directed towards energy.

Trade integration builds on Mexico's extensive network of trade agreements, particularly the United States-Mexico-Canada Agreement, which underpins integration into North American production networks. The 2026 joint review focussed on strengthening regional supply chains and rules of origin. Firms' internationalisation is further supported through market intelligence and *Comercia MX*, a Ministry of Economy platform for identifying export opportunities. This is complemented by collaboration with the Inter-American Development Bank to strengthen domestic supplier linkages, including an import-substitution pilot. The pilot connects lead firms with Mexican suppliers in aerospace, electronics and household appliances to raise domestic content and attract higher-quality investment. Mexico also promotes regional co-operation through the Pacific Alliance on digitalisation, financial literacy, sustainable finance, gender and social inclusion, SME financing through the securities market and financial regulation.

Infrastructure and human capital policies support this broader integration agenda. The Interoceanic Corridor of the Isthmus of Tehuantepec combines logistics infrastructure with industrial development hubs to facilitate interoceanic trade and strengthen regional production chains. Skills policies are increasingly aligned with the needs of nearshoring and global value chains. *Plan México* links fiscal incentives to training and innovation; sectoral skills strategies are developed with the Inter-American Development Bank; and the private sector aligns training with emerging labour demand. Enrolment in technical programmes such as semiconductors, data science and artificial intelligence reached 184 000 students in 2024-2025, 15% more than the previous year. Lifelong learning is supported through *SaberesMx*, which offers stackable credentials linked to regional economic specialisations. For their part, *Nacional Financiera, S.N.C. (NAFIN)* and *Banco Nacional de Comercio Exterior (Bancomext)* provide business and export training to strengthen firms' integration into global value chains.

Mexico: Key indicators

	Mexico				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	37.6	8.4	22.5	5.0	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	46.9		42.6		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	41.6 (2010)		36.4 (2022)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	24.8 (2010)		27.5 (2022)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	29 (2019)		21.9 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	416 (2015)		414 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	75.7		79.9 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	20		20		81		87		28		29	
Labour productivity (% of OECD)	56.9		50.0 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	20.6		19.3		8.5		7		16.5		19.8	
Patent applications per million people	10.8		8.8 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.4		0.3		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	23.7		22.4		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	3.5		2.4		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	25.1		27.1		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	64		69 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	54		56 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	69		85 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	32		44 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	30 (2016)		27 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	62.6		66.9 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	20.1 (2016)		24.9 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	59.5		83.1		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	13		21.7		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	1.5		1.3		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	6.6		5.2		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	9.2		13 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**				**2024**				**2016**			
Total tax revenues (% of GDP)	16.6				18.3				33.5			
Share of VAT I PIT I CIT	3.9	3.3	3.4		4.2	3.9	3.7		5.9	2.0	3.0	
Public debt service (% of total tax revenue)	18.8				32.5				11.3			
Social expenditure (% of GDP)	9.6				10.3 (2023)				11			

	LAC				OECD			
2024				**2016**			**2024**	
6.0	2.0	3.8		6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
13.7				5.4			4.1	
11.5 (2023)				20.2			21.2	

Note: See the Reader's guide for definitions and sources.

Panama

Panama is strengthening its integration into regional and global markets through an investment strategy based on macroeconomic stability, an open trade regime, global connectivity and stronger productive capabilities. These efforts seek to diversify the economy, raise productivity, generate higher-quality employment and consolidate the country's role as a regional logistics and services hub.

Panama's investment framework combines fiscal sustainability, legal certainty, administrative simplification, public-service digitalisation, infrastructure and human capital development. Investment promotion and investor support involve the Ministry of Economy and Finance, the Ministry of Commerce and Industry, financial institutions and sectoral bodies. Special regimes, including the Headquarters of Multinational Companies (SEM), Multinational Companies for Manufacturing-related Services (EMMA) and free trade zones, complement efforts to compete through the quality of the business environment, connectivity, talent and institutions.

The Strategic Government Plan 2025–2029 prioritises logistics and international trade, global services, advanced manufacturing, agro-industry, sustainable tourism, the digital economy, financial services, energy infrastructure, innovation and technology. The National Strategy for the Export of Modern Services (ENESM PA 2026) and the National Semiconductor Strategy aim to develop capabilities in assembly, testing, design, engineering services and specialised talent. A territorial approach supports free zones, logistics and industrial parks, agro-industrial hubs and strategic infrastructure, while promoting investment outside the metropolitan area and a more balanced distribution of economic opportunities.

Panama's trade policy builds on its network of trade agreements and logistics platform. Its incorporation as an Associate State of MERCOSUR broadens opportunities for trade, investment and economic co-operation. Commercial diplomacy focuses on updating existing agreements, strengthening bilateral relations and identifying new opportunities, while the "Made in Panama" label promotes national products internationally. Customs modernisation, process digitalisation and institutional interoperability seek to reduce firms' logistics costs. Export competitiveness, local supplier development, technology transfer and productive linkages also support firms' integration into regional and global value chains, particularly in logistics, digital and business services, agro-industry, specialised manufacturing and emerging technologies. FINHUB Panama complements these efforts by promoting financial innovation, developing the fintech ecosystem and supporting financial-system modernisation.

Infrastructure investment centres on the Panama Canal and the wider multimodal platform of ports, airports, free zones and logistics corridors. The Río Indio multipurpose project aims to strengthen the water security required for Canal operations and supply water to the population. Additional investments cover roads, transport corridors, energy networks and digital connectivity, including projects implemented through public-private partnerships.

Human capital policies target logistics, advanced manufacturing, foreign trade, global services and digital technologies. The Ministry of Commerce and Industry, INADEH, universities and the private sector co-ordinate training with labour-market needs. A government programme with the Inter-American Development Bank and Google provides 10 000 scholarships for digital skills and international certifications in artificial intelligence, cloud computing, data analysis and cybersecurity.

Panama: Key indicators

	Panama				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	16.7	7.4	16.2	7.3	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	50.4		49.7		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	N/A		N/A		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	N/A		N/A		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	N/A		15.2 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	365 (2018)		388 (2022)		411 (2015)		408 (2022)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	84.4		83.7		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	31		81		81		87		28		29	
Labour productivity (% of OECD)	N/A		N/A		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	1.2		1.8		8.5		7		16.5		19.8	
Patent applications per million people	16.9		8 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.1		0.2		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	38.4		31.4 (2024)		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	8.8		1.0		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	76.7		66.8		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	73		61 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	65		47 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	77		82 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	32		45 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	38 (2016)		33 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	46.7		52.4 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	10.1 (2016)		11.7 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	54		72.8		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	10.7		18.1 (2023)		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	0.7		0.4		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	4.3		4.3		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	22.1		28 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	15.5		11.3		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	2.6	1.5 1.8	1.7	1.4 1.1	5.9	2.0 3.0	6.0	2.0 3.8	6.6	7.8 2.9	7.0 (2022)	8.2 (2022) 3.9 (2022)
Public debt service (% of total tax revenue)	10.5		25.7		11.3		13.7		5.4		4.1	
Social expenditure (% of GDP)	8.2		7.5 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

Paraguay

Paraguay is fostering greater regional and global integration through economic diversification, investment attraction and deeper trade integration. Given the country's open landlocked economy, these efforts aim to increase domestic value added, create formal employment and overcome logistical constraints through improved market access and connectivity.

Paraguay's investment and industrial policy is shaped by interinstitutional co-ordination, with the Ministry of Industry and Commerce leading policy efforts and the Investment and Export Network (REDIEX) promoting investment and providing tailored support for high-impact projects. Three laws enacted in 2025 renewed the general investment incentives regime, modernised the *maquila* framework and established a policy for producing and assembling electrical, electronic and digital equipment. These reforms are part of a broader industrialisation agenda focused on productive linkages, industrial clusters and skills. Investment promotion prioritises agro-industry and food, light manufacturing, information technology services, logistics and the integration of regional value chains, and renewable energy. The government seeks to consolidate this agenda through a new Industrial Development Plan. Territorial differentiation remains less developed, although agro-industry and industrial hubs create opportunities outside the metropolitan area. The Sistema Unificado de Apertura y Cierre de Empresas (SUACE) facilitates business formalisation through a one-stop shop and simplified procedures for company registration. For its part, the 2026 Paraguay Investor Pass provides qualifying foreign investors with direct access to permanent residence.

MERCOSUR remains Paraguay's principal platform for regional integration, providing access to an enlarged market and supporting regional value chains. Through MERCOSUR, Paraguay participates in trade negotiations and agreements with partners including the European Union, the European Free Trade Association and Singapore. These agreements are at different stages of legal processing and implementation and can broaden market access and support trade diversification. Paraguay is leveraging the *maquila* regime to strengthen productive integration within MERCOSUR, particularly in auto parts, electrical cables, textiles, metal products and pharmaceuticals. REDIEX's Paraguay Exporta programme complements these efforts by helping firms meet quality standards, identify market opportunities and address international logistics. The MERCOSUR–EU agreement could further support higher-value agro-industrial exports, including beef, rice, ethanol and sustainable forestry products.

Infrastructure investment focuses on the Paraguay-Paraná Waterway and the Bioceanic Road Corridor, which connects Paraguay with Brazil, Argentina and Chile and improves access to Atlantic and Pacific ports. Related investments include the Carmelo Peralta-Porto Murtinho bridge and other international crossings, while freight rail and electricity transmission projects strengthen regional logistics and energy connectivity. Digital infrastructure is expanding through fibre-optic and 5G networks and the State Data Centre, supporting Paraguay's digital transformation.

Human capital policies under Paraguay 2050 and the National Employment Plan 2022-2026 seek to align technical and vocational training with labour market needs. The National Professional Promotion Service (SNPP) and the National System of Labour Training (SINAFOCAL) support vocational training and competency certification, while BECAL scholarships promote advanced study abroad and talent return. Paraguay also participates in a regional mechanism for mutual recognition of labour competency certifications, supporting skills mobility across Latin America and the Caribbean. Financial integration is reinforced by capital-market and payment-system reforms; the Local Currency Payment System with Argentina, Brazil and Uruguay; and Project Lúmina, which seeks to interconnect national instant-payment systems.

Paraguay: Key indicators

	Paraguay				LAC				OECD	
Social development	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Poverty (Extreme poverty)	24	7.9	16.9	5.8	25.8	8.0	22.1	7.3	N/A	N/A
Gini index	47.9		44.2		46.3		44.3		33.9	33.1
Share of total population in informal households (%)	66.3 (2009)		51.6 (2023)		47.9 (2009)		42.3 (2023)		N/A	N/A
Share of total population in mixed households (%)	21.3 (2009)		31.1 (2023)		23.2 (2009)		24.0 (2023)		N/A	N/A
Social Institutions & Gender Index (SIGI)	32.8 (2019)		20.6 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)	15.3 (2023)
PISA score in science	N/A		355 (2025)		408 (2015)		414 (2025)		489 (2015)	482 (2025)
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Trade openness (% of GDP)	67.8		76.5 (2025)		60.6		66.6		99	103.2
Export complexity (SITC ranking, 1 = most complex economy)	106		94		81		87		28	29
Labour productivity (% of OECD)	33.3		35.6 (2025)		40.7		39.0 (2025)		100	100
High-tech exports (% of manufactured exports)	7.6		10.5		8.5		7		16.5	19.8
Patent applications per million people	5.4 (2018)		1.5 (2021)		13.8		12.8 (2021)		631.2	572.8 (2021)
R&D expenditures (% of GDP)	0.1		0.1 (2023)		0.3		0.3		1.8	2.1
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**	**2025**
Total investment, gross fixed capital formation (% of GDP)	19.1		21.7		20.7		19.6		21.9	22.4
Foreign direct investment (FDI), net capital inflow (% of GDP)	2.3		2.4		4.4		5.7		N/A	N/A
Domestic credit to private sector (% of GDP)	41.3		55.7		44.6		44.0		84.0	74.2
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**	**2024**
Satisfaction with educational system (% of population)	67		68 (2023)		67		67		66	65
Satisfaction with healthcare system (% of population)	63		50 (2023)		55		54		70	64
Share of people satisfied with their standard of living (%)	61		75 (2023)		70		73		73	77
Confidence in judicial system (% of population)	32		31 (2023)		33		39.3		50	56
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	30 (2016)		24 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)	64.7 (2025)
Tax morale (% tax evasion justification)	67.8		57.2 (2023)		50.6		55.3 (2023)		N/A	N/A
Intentional homicides (per 100 000 inhabitants)	10.7 (2016)		6.8 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)	3.4 (2023)
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Share of internet users (% of population)	53.4		81.6		54.5		77.9		81.8	92.4
Fixed broadband subscriptions (per 100 inhabitants)	3.9		12.9 (2023)		11.2		18		30.6	36.2
Environmentally related tax revenue (% of GDP)	1		0.9		1		0.9		1.7	1.3
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	6.6		6		5.3		5		10.7	8.6
Renewable energy consumption (% of total final energy consumption)	62.5		58.8 (2021)		28.9		33.9 (2021)		12.5	14.9 (2021)
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**	**2024**
Total tax revenues (% of GDP)	13.4		15.8		20.9		21.7		33.5	34.1
Share of VAT I PIT I CIT	5.1	0.2 2	5.8	0.2 3	5.9	2.0 3.0	6.0	2.0 3.8	6.6	7.8 2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	6.6		12.5		11.3		13.7		5.4	4.1
Social expenditure (% of GDP)	8.5		10 (2023)		11		11.5 (2023)		20.2	21.2

Note: See the Reader's guide for definitions and sources.

Peru

Peru is strengthening its integration into regional and global markets through three mutually reinforcing pillars: mobilising investment towards strategic sectors, improving trade and value-chain participation, and enhancing the enabling conditions for competitiveness through infrastructure, digitalisation and skills development.

Peru promotes private investment through investment facilitation mechanisms and a pipeline of public-private partnerships (PPPs) and projects in assets led by PROINVERSIÓN. Recent efforts have focused on the PPP 5.0 approach, which aims to improve project planning, structuring and implementation through stronger co-ordination across public institutions. The country also offers instruments such as legal stability agreements, advance VAT recovery for eligible projects and investor facilitation services. Peru does not have a sector-specific investment promotion strategy. However, its PPP portfolio prioritises transport, energy, sanitation, telecommunications, health and education, while incorporating a territorial approach that directs projects to regions according to their infrastructure needs and economic potential.

Trade integration is guided by the National Multisectoral Foreign Trade Policy to 2040, which seeks to expand market access, strengthen firms' internationalisation and increase participation in regional and global value chains. Peru pursues these objectives through a network of trade agreements, including the Andean Community, the Pacific Alliance, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Digital Economy Partnership Agreement. Meanwhile, it is modernising its agreement with the People's Republic of China; concluding the Comprehensive Economic Partnership Agreement with Indonesia and the Free Trade Agreement with Hong Kong, China; and maintaining regular dialogue with strategic partners such as the United States and the European Union. These efforts are complemented by Commercial Opportunities Programmes, market intelligence studies, updated Regional Export Plans (PERX), and trade facilitation measures such as the Single Window for Foreign Trade (VUCE 2.0). Together, they help firms access international markets and participate in regional and global value chains.

Infrastructure investment plays a central role in improving connectivity and competitiveness. The National Plan for Infrastructure 2026-2031 and the PPP portfolio prioritise investments in airports, ports, transport corridors, logistics and energy infrastructure. Strategic projects include Chinchero International Airport, the Chimbote and Matarani port terminals, the Juliaca Dry Port and logistics corridors linking Peru with Brazil and the Asia-Pacific region. These initiatives aim to reduce logistics costs, strengthen regional integration and position Peru as a regional logistics hub.

Peru complements these investment efforts through the National Competitiveness and Productivity Policy and Plan, the National Digital Transformation Policy, the National Labour Formalisation Strategy 2026-2040, and innovation programmes such as ProInnóvate and the network of Centres for Productive Innovation and Technology Transfer (CITEs). Together, they promote digital skills, innovation, technology transfer and closer links between workforce capabilities and business needs. Peru also engages in financial integration through NUAM Exchange, which integrates the Peruvian, Chilean and Colombian stock exchanges to deepen regional capital markets and improve access to finance.

Peru: Key indicators

	Peru				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	19.1	(5.2)	16.9	3.5	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	43.6		40.1		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	67.2 (2010)		53.3 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	24.2 (2010)		27.0 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	24.5 (2019)		18.6 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	397 (2015)		406 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	45.4		51.8 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	104		112		81		87		28		29	
Labour productivity (% of OECD)	27.6		28.9 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	4.8		5.2		8.5		7		16.5		19.8	
Patent applications per million people	2.3		2.8 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.1		0.2 (2023)		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	21.4		20.5		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	3.7		3.1		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	42.8		39.6 (2024)		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	50		52 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	41		34 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	62		67 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	15		17 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	35 (2016)		30 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	60.8		56.8 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	7.9 (2016)		8.6 (2021)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	45.5		82		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	6.9		11.7		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	0.4		0.4		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	3.2		3		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	27.2		30.6 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**				**2024**				**2016**			
Total tax revenues (% of GDP)	16.1				16.3				20.9			
Share of VAT I PIT I CIT	5.9	1.8	3.1		6.3	1.8	3.8		5.9	2.0	3.0	
Public debt service (% of total tax revenue)	5.8				8.7				11.3			
Social expenditure (% of GDP)	10.2				11.2 (2023)				11			

	OECD		
2016	**2024**		
21.7	33.5		
6.0	2.0	3.8	
6.6	7.8	2.9	
11.5 (2023)	5.4		
20.2	4.1		
	21.2		
	7.0 (2022)	8.2 (2022)	3.9 (2022)

Note: See the Reader's guide for definitions and sources.

Uruguay

Uruguay is pursuing a strategy to strengthen its integration into regional and global markets through three mutually reinforcing pillars: maintaining an open and predictable investment framework, deepening regional and international trade integration, and strengthening enabling conditions through infrastructure, digital connectivity and skills development.

Uruguay's investment agenda is centred on equal treatment for domestic and foreign investors, legal certainty and transparent incentives. The Investment Promotion Law grants tax benefits based on employment creation, exports, territorial decentralisation, research and innovation, clean technologies and productivity. Its implementation is co-ordinated by COMAP, while Uruguay XXI promotes investment, assists investors and provides aftercare. Free zones, free ports and airports, industrial and science and technology parks, and public-private partnerships complement this framework.

Investment promotion focuses on renewable energy and green hydrogen, information technology and global services, pharmaceuticals and biotechnology, audiovisual production, logistics, forestry and the bioeconomy, higher-value-added food, sustainable tourism and the circular economy. The strategy also incorporates a territorial dimension by granting greater benefits to projects outside metropolitan Montevideo and using free zones, industrial parks and logistics platforms to support productive decentralisation and regional development.

Regional integration efforts centre on MERCOSUR, which remains an important pillar of Uruguay's trade policy. Uruguay supports intraregional trade facilitation, lower non-tariff barriers and negotiations with external partners. The MERCOSUR Interim Trade Agreement with the European Union and the separate MERCOSUR–EFTA agreement broaden access to European markets. The MERCOSUR–Singapore Free Trade Agreement has applied between Uruguay and Singapore since March 2026, while negotiations continue with Canada, the United Arab Emirates, Korea, Indonesia and Viet Nam.

At the international level, Uruguay is pursuing accession to the CPTPP and has requested entry to RCEP to strengthen links with Asia-Pacific. Customs modernisation, the Single Window for Foreign Trade, co-ordinated border management, risk management and digitalised procedures seek to reduce trade costs, particularly for SMEs. Uruguay XXI is also developing a digital platform providing information on tariff preferences, rules of origin, market-access requirements and opportunities under trade agreements.

Infrastructure, connectivity and human capital policies support this integration agenda. The Port of Montevideo and the port system provide regular connections to Europe, Asia and the Americas, while transport corridors and border crossings link production centres to ports and neighbouring markets. Electricity interconnection with Brazil supports regional energy exchanges, and extensive fibre-optic coverage and digital public services facilitate global services and digital trade. UTU and INEFOP provide technical and vocational education, AGESIC and Plan Ceibal support digital skills, and ANII promotes advanced skills, research and links between academia and industry. Uruguay also participates in MERCOSUR mechanisms for labour mobility, residence and recognition of qualifications.

Uruguay: Key indicators

	Uruguay				LAC				OECD			
Social development	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Poverty (Extreme poverty)	3.6	0.2	4.0	0.3	25.8	8.0	22.1	7.3	N/A		N/A	
Gini index	39.7		40.0		46.3		44.3		33.9		33.1	
Share of total population in informal households (%)	28.5 (2008)		16.2 (2023)		47.9 (2009)		42.3 (2023)		N/A		N/A	
Share of total population in mixed households (%)	27.7 (2008)		18.0 (2023)		23.2 (2009)		24.0 (2023)		N/A		N/A	
Social Institutions & Gender Index (SIGI)	22.2 (2019)		19.4 (2023)		25.4 (2019)		21.2 (2023)		17.5 (2019)		15.3 (2023)	
PISA score in science	435 (2015)		445 (2025)		408 (2015)		414 (2025)		489 (2015)		482 (2025)	
Productivity, innovation and international integration	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Trade openness (% of GDP)	48.5		49.7 (2025)		60.6		66.6		99		103.2	
Export complexity (SITC ranking, 1 = most complex economy)	71		82		81		87		28		29	
Labour productivity (% of OECD)	56.7		56.9 (2025)		40.7		39.0 (2025)		100		100	
High-tech exports (% of manufactured exports)	10.6		9.8		8.5		7		16.5		19.8	
Patent applications per million people	7.6		6.7 (2017)		13.8		12.8 (2021)		631.2		572.8 (2021)	
R&D expenditures (% of GDP)	0.4		0.7 (2023)		0.3		0.3		1.8		2.1	
Investment and private financing	**2016**		**2025**		**2016**		**2025**		**2016**		**2025**	
Total investment, gross fixed capital formation (% of GDP)	16.9		15.8		20.7		19.6		21.9		22.4	
Foreign direct investment (FDI), net capital inflow (% of GDP)	-0.9		1.3		4.4		5.7		N/A		N/A	
Domestic credit to private sector (% of GDP)	25.7		30.7		44.6		44.0		84.0		74.2	
Citizens' perceptions and institutions	**2011**		**2024**		**2011**		**2024**		**2011**		**2024**	
Satisfaction with educational system (% of population)	62		65 (2023)		67		67		66		65	
Satisfaction with healthcare system (% of population)	75		68 (2023)		55		54		70		64	
Share of people satisfied with their standard of living (%)	74		75 (2023)		70		73		73		77	
Confidence in judicial system (% of population)	50		47 (2023)		33		39.3		50		56	
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])	71 (2016)		73 (2025)		41.2 (2016)		39.4 (2025)		67.3 (2016)		64.7 (2025)	
Tax morale (% tax evasion justification)	39.8		47.1 (2023)		50.6		55.3 (2023)		N/A		N/A	
Intentional homicides (per 100 000 inhabitants)	7.9 (2016)		11.2 (2023)		19.6 (2023)		23.4 (2023)		3.2 (2016)		3.4 (2023)	
Digital and green transition	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Share of internet users (% of population)	66.4		92		54.5		77.9		81.8		92.4	
Fixed broadband subscriptions (per 100 inhabitants)	27.3		33		11.2		18		30.6		36.2	
Environmentally related tax revenue (% of GDP)	1.6		1.5		1		0.9		1.7		1.3	
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)	12.3		13.2		5.3		5		10.7		8.6	
Renewable energy consumption (% of total final energy consumption)	60.3		57.8 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)	
Fiscal position	**2016**		**2024**		**2016**		**2024**		**2016**		**2024**	
Total tax revenues (% of GDP)	25.5		27.2		20.9		21.7		33.5		34.1	
Share of VAT I PIT I CIT	7.1	3	2.6	6.9	3.9	2.6	5.9	2.0	3.0	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)	9.5		8.1		11.3		13.7		5.4		4.1	
Social expenditure (% of GDP)	14.7		16 (2023)		11		11.5 (2023)		20.2		21.2	

Note: See the Reader's guide for definitions and sources.

Latin American Economic Outlook 2026

Deepening Integration into a Changing Global Economy

Latin America and the Caribbean (LAC) can harness major technological, environmental and geopolitical transformations through deeper and more diversified regional and global economic integration. The region's strengths in renewable energy, critical minerals, agrifood systems and artificial intelligence (AI) create opportunities to attract quality investment, expand and diversify trade, strengthen energy and food security, and move into higher-value activities in global value chains. Yet LAC remains insufficiently integrated into the global economy, while weak regional linkages, infrastructure gaps, regulatory barriers, limited financing and skills shortages constrain productivity and economic growth. Stronger regional integration, particularly in strategic sectors, can help the region connect more effectively to global markets. By strengthening infrastructure, finance, skills and regulatory frameworks, and by leveraging international partnerships for investment, technology and market access, LAC can translate its strategic assets into higher productivity, innovation, quality jobs, and more inclusive and sustainable growth.

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