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Latin America and the Caribbean is facing what ECLAC has termed a development crisis characterized by three development traps: low capacity for growth; high inequality and low social mobility and cohesion; and weak institutional capacities and governance. These traps pose significant obstacles to a more productive, inclusive and sustainable future. Added to these traps are the challenges of climate change and fostering environmentally sustainable development.

Over the past 10 years, the economies of Latin America and the Caribbean have registered feeble growth. Between 2015 and 2023, the region's GDP grew at a weighted average annual rate of 0.9%, less than the level seen during the "lost decade" of the 1980s —when annual growth averaged 2.3%. Per capita GDP increased by just 0.2% per year between 2015 and 2023. The trap of low capacity for growth is primarily associated with low productivity growth-- average labour productivity in the region was slightly lower in 2023 than in 1980; insufficient investment in the region -- investment levels have declined in recent decades; a perverse process of structural and productive change, resulting in most jobs shifting towards lower-productivity sectors.

Over the past 30 years, the region has consistently recorded the highest level of income inequality in the world, as measured by the Gini index. Inequality is multidimensional, both in terms of its manifestations and the factors that create and perpetuate it. In the region, it extends beyond income to the exercise of rights, capacity development and access to power and decision-making. These aspects, in turn, are associated with limited social mobility and cohesion, resulting in a vicious circle. Weakened social cohesion is reflected in high levels of interpersonal and institutional distrust, which can undermine governance, erode the sense of belonging, and weaken attachment to democracy, among other effects. Limited social mobility in the region is reflected in rigid social stratification, with large segments of the population living in precarious conditions and highly vulnerable to multiple risks — especially poverty. The region's occupational structure has also remained largely unchanged over time."

The third trap is that of weak institutional capacities and ineffective governance. It is cross-cutting in nature as it is linked to the various development gaps in Latin America and the Caribbean. Institutional capacities in the region, in general, are insufficient, hence the need for improvements in administrative efficiency, technical, operational, political and prospective (TOPP) capabilities of public institutions, and spaces for social dialogue to build broadly shared visions of development policies.

This development crisis coincides and is interwoven with an international context that has changed considerably in the last decade—both on the geoeconomic and geopolitical fronts—and which is shifting towards a new set of rules for trade and investment. This new context presents challenges and opportunities for the countries of the region. This new context presents both challenges and opportunities for the countries in the region. The convergence of the reshaping of globalization — along with its associated technological, demographic, climate-related, and geopolitical trends — and the persistence of development traps and unaddressed gaps underscores the need for innovative and creative approaches to break free from these traps and close these gaps."

The Economic Commission for Latin America and the Caribbean (ECLAC), recognizes that the region needs to undertake profound transformations to overcome the development crisis it is immersed in and identifies eleven great transformations deemed vital for moving towards more productive, inclusive and sustainable development are suggested: 1) Rapid, sustained, sustainable and inclusive growth, with emphasis on productive development, productivity and employment; 2) Reduced inequality and increased mobility and social cohesion; 3) Expansion of social protection and the welfare State; 4) Effective education for all and wide access to vocational training; 5) Progress towards gender equality and the care society; 6) Environmental big push to promote sustainability and address climate change; 7) Digital transformation; 8) Safe, orderly and regular migration; 9) Progress towards greater regional and global economic integration; 10) Sound and strong taxation; and 11) Strengthened capacities of the State: institutions, governance and social dialogue.

Latin American and Caribbean countries have a long history of reforms designed to transform different aspects of their development patterns, from State-led strategies to strategies relying more on markets, deregulation and economic opening. Instead of a discussion centred on the State-market dichotomy, ECLAC is encouraging a more pragmatic conversation on how to manage transformations, looking at the forms and characteristics of governance of the transformation in each area; the technical, operational, political and prospective capabilities of the institutions leading these transformations; the spaces for social dialogue; and the political economy of the reforms. International experience shows that the process whereby policies are designed, adopted and implemented is as important as their content, since they are formulated and implemented in specific contexts with certain institutional capacities shaped by the challenges posed by global economic and geopolitical conditions. Therefore, States' institutional capacities and the interaction and dialogue between State and non-State actors affect the efficacy of policies and the success of transformations.

Central to the analysis of how to successfully carry out the proposed great transformations is the question of how to mobilize the financing required to achieve the region's development objectives. The region cannot wait for further progress in or completion of reforms in the international financial architecture to meet its financing needs and satisfy the legitimate aspirations of its population. Supporting these reforms is a key strategic objective, but while negotiations are ongoing, the region must take decisive, integrated, and coordinated action to overcome development traps and promote the transformative changes outlined above.