Executive summary

The pace of Latin American economic growth will be the slowest in the past five years. According to forecasts, the region's economy will grow by 1-1.5% in 2014 (compared with 2.5% in 2013 and 2.9% in 2012), before recovering slightly in 2015 to 2-2.5%. External factors contribute to this slowdown, including lower commodity prices, mainly due to the economic slowdown in the People's Republic of China, as well as the rising cost of external financing and more restrained capital inflow prospects. Although growth levels vary from one country to another, partly because of different economic management strategies, these projections signal the end of a ten-year period during which Latin America has seen higher growth than the OECD average.

Structural reforms must continue in order to boost potential output and equity. Productivity growth remains modest compared to that of the OECD countries and other emerging economies and, despite recent improvements, Latin America remains the world's most unequal region. Most significantly, commodity booms and short-term capital flow booms have not raised the region's growth potential. **Reforms to strengthen education, skills and innovation must foster higher growth potential and higher productivity by improving workers' skills.** They must also ensure equal opportunities in access to high-quality training. The current political context presents an excellent window of opportunity, with 14 presidential elections having been held in Latin America in the three years from 2012 to 2014. The region's well-being, especially in the long run, will depend on whether governments make the most of this opportunity.

These reforms are essential to escape the *middle-income trap* and better position the region within the shifting wealth process towards the emerging countries. Unlike certain European and Asian countries that have achieved high incomes in recent decades, the countries in the region have not made considerable progress in closing the income gap with the advanced economies, with the exception of Chile, Uruguay and some Caribbean economies. For the region to integrate better into the shifting wealth process, it will need more skills, including soft skills, so it can adapt better and find competitive niches more efficiently in the changing economic environment. Currently, Latin American firms in the formal economy are 3 times more likely than South Asian firms and 13 times more likely than Pacific-Asian firms to face serious operational problems due to a shortage of human capital. This problem is compounded by the high informality among workers and in the business community.

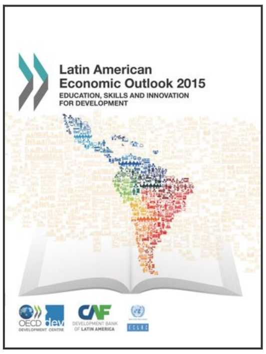
Various courses of action are needed in both mainstream education and technical training in order to improve job skills. In addition to the high proportion of low-skilled workers in jobs requiring basic skills, returns to education have been in decline for more than ten years. Investment must be made in improving education programmes and technical and professional training. Courses related to general or soft skills are particularly important, since they assist in labour-market access at the end of the training period and allow current workers to adapt to a changing labour market by updating their skills. National and regional qualifications frameworks are needed for the recognition and transferability of skills acquired in formal and informal settings. Co-ordinated public-private sector co-operation is essential to achieve these goals.

Education should be seen as a driver of economic growth, but also of social inclusion and greater equality. Latin America needs to understand education as a vector for greater social cohesion and more inclusive growth, because the region's development will be shaped largely by the policies it adopts in this area. Greater and better investment in education is therefore a priority for the countries in the region to continue to drive up enrolment and boost quality.

Latin America has taken great strides in education investment, but is still faced with the big challenges of increasing the provision of good-quality education at most levels. Public investment in education in the region has risen considerably in recent years and now accounts for more than 5% of GDP on average (vs. 5.6% average for the OECD countries). As a result, there is now almost universal access to primary education. However, enrolment remains low in pre-primary education (66% of the pre-primary aged population in Latin America in 2012, compared with 83% in the OECD countries), as well as in secondary education (74% vs. 91% in the OECD countries) and tertiary education (42% vs. 71% in the OECD countries). The quality of education is also poorer. In secondary education, the gulf between the performance of Latin American students and that of students in the OECD countries is equivalent to more than two years of schooling according to the 2012 PISA tests.

A combination of policies could improve the quality of education for all students. Early education must continue to expand its coverage, thus fostering the development of soft skills such as interpersonal skills and perseverance, which are central to the future labour market. Governments should bolster policies that provide incentives to retain and motivate high-quality educators by introducing stringent recruitment procedures. School policies, which do not necessarily require large-scale resources, have proved to be effective, so it is important to promote a learner-friendly disciplinary environment and provide opportunities for all students through pedagogical factors such as classroom hours and teachers' expectations of students' performance. Education resources must foster better performance by students from poorer socio-economic backgrounds. Finally, it is essential to improve schools' evaluation and accreditation systems.

Efforts to improve education and job skills must be accompanied by greater innovation. The stock of innovation capital – an additional measure of skills – is far lower in Latin America (13% of GDP) than in OECD countries (30% of GDP). Furthermore, in Latin America it consists mainly of the stock of tertiary education, whereas in the OECD countries it consists mainly of R&D expenditure. R&D expenditure is generally much lower in Latin America than in the OECD countries, with little support from the business sector. It is of paramount importance to strengthen developments in governance for science and technology institutions so that an efficient, comprehensive institutional framework can be developed to disseminate technology and innovation. To promote additional resources, attracting foreign direct investment would provide an opportunity to develop skills and innovation in Latin America, but only if the investment flows are more closely tied to policies on innovation and structural change.



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