

► Policy Brief

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Work, Institutions and Democracy: Five Interconnected Structural Trends Reshaping the World of Work in Latin America and the Caribbean

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Key points

- Five structural trends are transforming work in Latin America and the Caribbean.
- Outcomes are not predetermined: they depend on institutional quality.
- Artificial intelligence and the green transition create opportunities, but also risks of greater polarization.
- Informality remains the main structural barrier to labour market performance and productivity.
- Social dialogue is the central mechanism for achieving a legitimate and sustainable transformation.

Summary

This article examines the main policy messages and orientations derived from an analysis of five structural dimensions transforming the world of work in Latin America and the Caribbean: demographic transition; technological change and artificial intelligence (AI); climate change, productive transformation and green jobs; informality and sustainable enterprises; and fiscal capacity, governance and democracy in the world of work. The analysis is framed in line with the mandate and priorities of the International Labour Organization (ILO), particularly the commitments undertaken in the Punta Cana Declaration (ILO, 2025a), which underscores the centrality of democracy, social dialogue and institutional strengthening as pillars for advancing towards a world of

work grounded in sustainable development and social justice.

Introduction

Latin America and the Caribbean (LAC) enters the second half of the 2020s having achieved important advances yet still facing persistent structural fragilities. Following the unprecedented shock of the COVID-19 pandemic, employment levels have broadly recovered and unemployment rates have declined in much of the region, partly reflecting slower growth in labour force participation. However, this recovery has not translated into sustained productivity growth, widespread formalization or stronger social cohesion.

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Recent regional evidence confirms this dual reality. The ILO's Labour Overview 2025 indicates that, while aggregate labour market indicators have improved, nearly half of all workers remain in informal employment, productivity growth continues to lag behind other regions and inequalities across gender, age and territory persist (ILO, 2025b). These outcomes reflect long-standing structural characteristics rather than short-term cyclical dynamics.

At the same time, the region is being reshaped by a convergence of powerful transitions—demographic, technological, environmental and institutional—that will redefine the world of work over the coming decades. Although these forces are global in nature, their effects in LAC are mediated by specific labour market institutions, social protection systems and democratic governance arrangements. Outcomes are therefore not predetermined: institutions, social dialogue and public policy remain decisive.

Demographic transition: ageing amid structural informality and social protection gaps

Latin America and the Caribbean is rapidly ageing under economic and labour market conditions that differ markedly from those observed in advanced economies. Fertility rates have declined sharply, and life expectancy has increased, yet labour markets remain highly segmented and social protection systems partially inclusive.

Several countries in the region are entering advanced stages of demographic ageing at income levels significantly below those at which OECD countries experienced similar transitions (Fietz et al., 2025). This generates structural tensions: rising demand for pensions, health care and long-term care coincides with a limited contributory base and constrained fiscal capacity.

The core challenge is not ageing per se but ageing in the context of high informality and incomplete social protection coverage. Many workers reach older age with insufficient contribution histories, obliging them either to remain economically active or to rely on non-contributory transfers—or both (ILO, 2025b). This pattern places pressure on households, labour markets and public finances alike.

Population ageing is also uneven across the region. While Uruguay, Chile and Cuba are experiencing advanced

demographic transitions, other countries—particularly in Central America—remain comparatively young. This heterogeneity may create opportunities for managed labour mobility within the region; however, institutional frameworks for regional labour migration remain limited.

Policy responses must therefore adopt an integrated approach linking labour, social protection and care policies. Expanding women's labour force participation, adapting working conditions to the needs of older workers, strengthening contributory and non-contributory pension systems, and investing in care systems are central to managing demographic change in an inclusive and sustainable manner.

Technological change and artificial intelligence: opportunities conditioned by institutions

Rapid technological advances, particularly since the early 2010s, have intensified debate regarding the impact of automation and digitalization on employment. Initial studies sought to identify occupations at high risk of technological substitution. Among the most influential contributions was Frey and Osborne (2013), who argued that not only highly routine occupations, but also certain cognitive tasks could be susceptible to automation. However, the large-scale job destruction anticipated in some early projections did not materialize.

Subsequent research therefore shifted the analytical focus from occupations as homogeneous units to the specific tasks performed within them. This task-based approach emphasizes that technological change affects particular activities rather than entire jobs. Moreover, workers within the same occupation may perform different combinations of tasks under diverse economic and institutional conditions. Assessing the employment impact of technological change thus requires careful consideration of task heterogeneity and institutional context (Arntz, Gregory and Zierahn, 2016; Nedelkoska and Quintini, 2018).

More recently, the emergence of generative artificial intelligence (GenAI), combined with the rapid diffusion of related applications, has reinvigorated the debate and underscored the need to reassess the potential implications for labour markets. Despite important methodological challenges, available evidence suggests that while increasingly complex cognitive tasks may be

subject to partial automation, human oversight and complementary capabilities remain essential (Lassébie and Quintini, 2022). In this regard, GenAI should be understood primarily as a complement to, rather than a substitute for highly cognitive work (Gmyrek, Berg and Bescond, 2023). At the same time, for many occupations the magnitude and distribution of potential impacts remain uncertain. This uncertainty calls for greater attention to the digital context in which work is organized and performed, as well as to emerging risks related to work intensity, occupational health and safety, workers' well-being and the potential widening of inequalities (Lane, Williams and Broecke, 2023).

Digitalization and artificial intelligence (AI) are transforming production systems, services and work organization globally. For Latin America and the Caribbean, these technologies offer a potential pathway to higher productivity and structural transformation. However, they also pose significant risks of labour market polarization if institutional and policy frameworks fail to adapt. Evidence generated in the region confirms that automation and AI are more likely to transform tasks than eliminate jobs outright; nevertheless, gains are unlikely to be equitably distributed without active policy intervention (Ripani et al., 2020). Workers with higher levels of education and better access to training are more likely to benefit, while those in routine, low-skilled and informal occupations face greater exposure to displacement or deterioration in job quality.

Recent developments in generative AI introduce a qualitatively new dynamic. Unlike previous waves of automation, GenAI directly affects non-routine, cognitive and knowledge-intensive tasks, including those performed by professionals, technicians and managers. Occupations that rely heavily on writing, analysis, coding, design, research and complex decision-making are increasingly exposed to task reconfiguration, even where they require advanced education and specialized expertise (Gmyrek et al., 2023; OECD, 2023).

Emerging evidence suggests that a substantial share of employment in the region is exposed to AI-related transformation, particularly in services, commerce and administrative activities. Importantly, exposure is no longer confined to the lower end of the skills distribution. High-skilled occupations may experience productivity gains, but also increased work intensity, evolving occupational boundaries and new forms of task fragmentation as generative AI reshapes how professional

work is organized, monitored and evaluated (Gmyrek et al., 2023; Acemoglu and Johnson, 2023).

At the same time, Latin America and the Caribbean enters this transition with fragmented technical and vocational education and training (TVET) systems, limited opportunities for lifelong learning and incomplete unemployment protection. These structural gaps may constrain the capacity of workers and enterprises to adapt to rapidly changing skill demands.

The policy implication is clear: technology alone does not determine labour market outcomes. The distribution of productivity gains depends fundamentally on labour market institutions and policies, including collective bargaining frameworks, skills development systems and social protection mechanisms. In the context of generative AI, such institutions are critical not only to protect vulnerable workers but also to guide the transformation of professional and high-skilled occupations in ways that augment, rather than displace, human capabilities (Gmyrek et al., 2025). Where institutional frameworks are weak, technological change risks exacerbating inequality and informality instead of contributing to inclusive development.

From this perspective, AI represents less a predetermined technological trajectory than an institutional transformative challenge. Countries that invest in continuous training, portable skills certification, effective worker representation and robust social dialogue are better positioned to harness technological change for inclusive growth, ensuring that the diffusion of generative AI complements skilled work, supports learning in the workplace and sustains quality employment across the skills spectrum.

Climate change, productive transformation and green jobs

Climate change is already reshaping labour markets, with some sectors contracting, others expanding and many occupations undergoing significant transformation (OECD, 2025). Latin America and the Caribbean is particularly vulnerable to climate-related shocks, as many countries in the region are experiencing the adverse effects of extreme weather events, rising temperatures and environmental degradation. These dynamics are disrupting key sectors such as agriculture, forestry, fisheries, tourism and infrastructure with direct implications for employment, productivity and working

conditions. The OECD Latin American Economic Outlook: Towards a Green and Just Transition, estimates that climate-related losses could amount to as much as 4 per cent of GDP annually in some developing countries in the absence of adequate adaptation measures. At the same time, the region possesses strategic assets that position it as a key actor in the global green transition, including substantial renewable energy potential, rich biodiversity and reserves of critical minerals (ILO, 2025; OECD et al., 2022). Harnessing these opportunities will require aligning environmental sustainability objectives with productive transformation and decent work strategies.

From the perspective of the International Labour Organization, the transition to environmentally sustainable economies must be guided by a just transition framework. The ILO Guidelines for a Just Transition emphasize that environmental sustainability, economic development and social inclusion are mutually reinforcing objectives and that climate policies must be designed in ways that promote decent work, social protection and rights at work (ILO, 2015). The Guidelines, updated to reflect current contexts and expanded in 2023, underscore the importance of social dialogue, active labour market policies, skills development, enterprise support—particularly for micro, small and medium-sized enterprises—and adequate income protection for workers and communities affected by structural transformation. Without such an integrated and participatory approach, the green transition risks reproducing or even deepening existing patterns of informality, inequality and exclusion. The Punta Cana Declaration (ILO, 2025a) reinforces this normative framework by explicitly linking climate action with decent work and calling for transitions that combine environmental sustainability with productive transformation, employment creation and strong social dialogue. In Latin America and the Caribbean—where climate vulnerability overlaps with structural inequality and high levels of informality—embedding climate policy within a just transition and institutional framework is therefore essential for ensuring that environmental transformation translates into inclusive and sustainable development.

Informality and sustainable enterprises: addressing structural heterogeneity

Informality remains one of the most persistent structural constraints on inclusive development in Latin America and the Caribbean. Despite cyclical improvements in labour market indicators, informal employment continues to affect approximately half of the workforce, thereby constraining productivity growth, weakening fiscal

capacity and limiting access to social protection (ILO, 2018).

Recent ILO evidence points to modest reductions in informality since 2021; however, progress has been slow and uneven across countries and sectors (ILO, 2025b). Informality is deeply embedded in the region's structural heterogeneity, characterized by a productive structure dominated by low-productivity firms and a high incidence of own-account work and micro-enterprise employment. In this context, the promotion of sustainable enterprises is central to comprehensive formalization strategies. The Punta Cana Declaration underscores the importance of strengthening micro, small and medium-sized enterprises (MSMEs), fostering innovation, improving access to finance and facilitating integration into value chains as key components of a coherent formalization agenda (ILO, 2025a; 2025b).

While effective enforcement remains indispensable, evidence from international organizations and multilateral financial institutions indicates that formalization requires complementary measures. Successful strategies combine simplified regulatory and tax regimes, expanded access to social security for independent workers, targeted productivity support and strengthened labour inspection systems. Digital technologies, including recent advances in artificial intelligence, can further enhance institutional capacity, improve compliance mechanisms and facilitate access to public services, thereby supporting transitions to formality.

Formalization should therefore be understood as a gradual and multidimensional process rather than a binary outcome. Policies that enable progressive entry into formality are more likely to generate sustainable results than all-or-nothing approaches.

Fiscal capacity, governance and democracy in the world of work

Fiscal constraints are frequently cited as the principal obstacle to expanding social protection and labour market policies in Latin America and the Caribbean. Although limited tax capacity is a genuine concern, the underlying challenge extends beyond resource mobilization to issues of governance, legitimacy and institutional coherence.

Fietz et al. (2025) observe that tax revenues in the region remain significantly below those of advanced economies, while public debt levels have increased in the aftermath of the pandemic. However, the central issue is not solely the volume of revenue collected, but also the quality of fiscal governance—namely, how policy decisions are formulated, implemented and sustained over time within credible and transparent institutional frameworks.

In this context, rising levels of violent crime and citizen insecurity represent an additional and often underappreciated constraint on economic performance and the realization of decent work. Recent analyses by the International Monetary Fund and the World Bank highlight the significant macroeconomic costs associated with organized crime and violence, including lower investment, reduced productivity, weakened business confidence and the diversion of public resources towards security-related expenditures (IMF, 2024; World Bank, 2025). Crime and insecurity also disproportionately affect small and medium-sized enterprises and informal workers, disrupt local labour markets and undermine trust in institutions, thereby constraining job creation and the expansion of formal employment. Strengthening the rule of law and institutional capacity is therefore not only a matter of public security but also a prerequisite for sustainable governance, growth, fiscal resilience and the advancement of decent work.

Institutionalised and sustainable social dialogue is a pillar of democratic governance and inclusive development, grounded in structured interaction between governments, employers and workers (ILO, 2025c). However, it faces obstacles such as political instability, shrinking democratic space, institutional weaknesses, and limited representation and collective bargaining coverage, particularly among informal workers. Its effectiveness requires strong and representative organisations, clear mandates, political commitment, inclusive participation and adequate institutional infrastructure.

In Latin America and the Caribbean, strengthening social dialogue can foster inclusive growth and social cohesion, provided it is underpinned by resilient legal frameworks, adequate financing, sustained institutional support and mechanisms that broaden the participation of traditionally excluded groups, alongside capacity-building and the strategic use of technology (ILO, 2025c).

The Punta Cana Declaration places democracy, the rule of law and social dialogue at the core of the regional decent work agenda, emphasizing that only through robust democratic institutions and effective tripartite dialogue can societies navigate structural transformations in a legitimate and sustainable manner (ILO, 2025a). Labour institutions—including minimum wage-setting mechanisms, collective bargaining systems, labour inspection and structured social dialogue—should therefore be understood not merely as technical instruments of labour regulation, but as essential

components of democratic governance. When they function effectively, they contribute to building trust, mitigating social conflict and ensuring policy continuity across economic and political cycles.

Conclusions: Shaping the Future of Work through Stronger Institutions and Social Dialogue

A long-term perspective reinforces this conclusion. Over the past three decades, improvements in employment quality and social inclusion in Latin America and the Caribbean have been closely associated with periods characterized by stronger labour institutions, expanded social protection systems and active social dialogue. Conversely, setbacks have tended to coincide with the weakening of these pillars. This institutional perspective helps explain why episodes of economic growth alone have seldom resulted in sustained reductions in informality or inequality (Bertranou and Gontero, 2025).

Looking ahead, ongoing structural transitions—demographic, technological, environmental and institutional—are likely to intensify these dynamics. Whether such transitions act as catalysts for inclusive transformation or instead contribute to renewed labour market fragmentation will ultimately depend on institutional capacity, policy coherence and the quality of democratic governance.

Latin America and the Caribbean faces a demanding decade. Structural trends are reshaping the world of work, but they do not prescribe a single trajectory. The region's future will depend on whether institutions are strengthened, sustainable enterprises promoted, social protection expanded and democratic governance renewed.

International evidence converges on a consistent message: inclusive growth requires institutions that place work, dialogue and social justice at the centre of development strategies. The central question is not whether the future of work will transform the region, but whether the region will shape that future in ways that are productive, democratic and socially legitimate.

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