

Issue Paper



2024 – The Year of Pending: Navigating Global Uncertainty

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Discrepancies between Economic Growth and Political Instability in Peru

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The Persistent Shade of Gray: Addressing Informality in Latin America from a Labor Perspective

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Issue Paper

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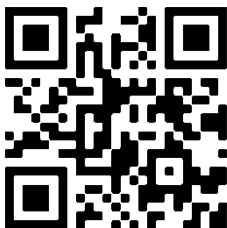
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Editorial

2024 – The Year of Pending: Navigating Global Uncertainty

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This year, 40 countries and nearly half of the world population¹ will host national elections. Such significant shifts in political power in such a short time have not been seen since the end of WWII. New leaders and parliaments must face pressing issues, ranging from the current dynamic geopolitical climate to the regionalized international economy, to the rise of global populism. The potential change in leadership will shift the direction of these issues for the next decade.

A Tale of Two Cities

With the current polarization of domestic politics, the changing of leaders often brings a shift in foreign policy. In 2023, the Biden administration provided more than 70 billion dollars of aid to Ukraine (a majority comprised of military and financial aid).² This could all change, however, as former president and current favorite for the Republican nomination, Donald Trump, wants to reduce or halt all aid to the war-torn nation³ – a thought also held by many of his supporters⁴. Although currently individual

1. <https://foreignpolicy.com/2023/12/26/right-wing-populism-are-set-to-sweep-the-west-in-2024/>
2. <https://www.cfr.org/article/how-much-aid-has-us-sent-ukraine-here-are-six-charts#:~:text=The%20Joe%20Biden%20administration%20and,Economy%2C%20a%20German%20research%20institute.>
3. <https://www.washingtonpost.com/opinions/2023/12/05/trump-ukraine-europe-arms-congress/>
4. <https://globalaffairs.org/research/public-opinion-survey/majority-non-trump-republicans-support-continued-aid-ukraine>



countries such as Germany and the northern European nations have strengthened their support of Ukraine, with Germany's total military commitments now exceeding 17 billion euros⁵, if future U.S. support to Ukraine were to stop, it is unlikely any other country could and would be willing to fill in the gap. Perhaps more devastating is the symbolic meaning of the withdrawal of U.S. support; the majority of Ukraine military and financial support comes from U.S. allies, if the U.S. were to pull out, it could lead to a potential domino effect.

A second issue facing either candidate's future term is Israel's current military operation within the Gaza Strip. Unlike Ukraine, many see both Trump and Biden on the same side of the fence, favoring the Israeli side⁶, with both proclaiming their support for Israel regarding Hamas's attack. From this angle, it seems that a potential change in the White House would not see a considerable change in U.S. foreign policy toward one of its closest allies in the Middle East. However, a potential Trump victory could see a slight change; unlike Biden who has urged Israel to show restraint more privately, it would not be hard to imagine Trump to be more outspoken of excessive military action by Israel.

Halfway across the world, Taiwan faces an old challenge with new characteristics. Throughout the early 2010s, China has bet that further engagement and interdependence with Taiwan would eventually lead to a peaceful reunification. However, China now faces a staunchly pro-independent president-elect and the first election where a DPP candidate has won consecutive presidential terms. China has always claimed its right to use force if peaceful reunification seems impossible and the result of this election seems to send signals to China that reunification is quickly drifting out of reach. Even more troublesome is that the 2024 U.S. presidential election is a potential wildcard for both sides of the Taiwan Strait due to Trump's unorthodox method of diplomacy. Though the result of Taiwan's presidential election does not directly spell crisis in the Strait, the U.S. must tread even more carefully than before to convince China that Taiwan will not declare independence, and maintain Taiwanese autonomy while giving China hope that a peaceful reunification is still on the table.

5. <https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/>

6. <https://today.yougov.com/politics/articles/48226-who-americans-think-biden-and-trump-favor-russia-ukraine-israeli-palestinian>



Isolation on All Sides of the Atlantic

If there is one issue that both sides of the aisle agree on, it is the potential threat of China to the U.S. led international order. Under Biden, the U.S. has continued implementing most of Trump's tariffs on China, is adding more restrictions on key semiconductor technology, and may be seeking to add further restrictions on EV imports⁷. Although Biden has continued most of Mr. Trump's trade policy with China, Trump in his 2024 presidential campaign has proposed an implementation of a universal 10% tariff on all imports into the U.S. and to revoke China's most-favored-nation trading status.⁸ Apart from the legal and economic ramifications, potential retaliatory tariffs, increased supply cost, and whether or not it will be verified by Congress, this move coupled with the U.S. blocking of the dispute settlement body within the WTO (WTO's Appellate Body crisis⁹) would essentially damage the U.S.'s credibility within a rules-based, free-trade economic order that it helped to create. If that were to happen, a trade war with China would be the last of Trump's worries.

Facing the election of a new European parliament and national elections within several EU states (Romania, Belgium, Portugal, Austria, Slovakia, Finland, etc.), the EU faces a series of internal challenges. Currently, right-wing political parties in several EU states are gaining ground in their national parliaments.¹⁰ This is followed by recent polling by Europe Elects that believes that the far-right Identity and Democracy (ID) group and the European Conservatives and Reformists (ECR) group could potentially match the current largest group in the EU parliament, the center-right European People's Party (EPP)¹¹. Although polls indicate that the current coalition between the center-right European People's Party (EPP), the center-left Socialists and Democrats (S&D), and centrist-liberal Renew Europe (RE) will still maintain the majority of the 705 seats, the potential rise of the two far-right parties within the EU parliament could bring significant changes. Firstly, there might be a partnership between the center-right and far-right parties within the EU parliament and a subsequent shift in EU policy particularly in regards to issues such as migration and climate change. Secondly, the new right-wing-led states may seek more autonomy from the EU as countries put their individual interests above common goods. A future of an inward oriented and fragile EU would not be a big surprise to anyone.

7. <https://www.reuters.com/world/us/biden-administration-explores-raising-tariffs-chinese-evs-wsj-2023-12-21/>
8. <https://www.reuters.com/business/energy/yellen-says-trumps-tariff-plan-would-hike-costs-us-consumers-2024-01-10/>
9. <https://www.csis.org/programs/scholl-chair-international-business/world-trade-organization-appellate-body-crisis#:~:text=For%20roughly%20two%20years%2C%20the,and%20concerns%20over%20U.S.%20sovereignty.>
10. <https://www.theguardian.com/world/2023/jun/30/far-right-on-the-march-europe-growing-taste-for-control-and-order>
11. <https://www.euronews.com/my-europe/2024/01/04/eu-elections-could-be-major-turning-point-for-europes-far-right>



Biden's Indo-Pacific Economic Framework for Prosperity (IPEF) took off in 2022 and comprises of four pillars—fair and resilient trade, supply chain resilience, infrastructure, and clean energy and decarbonization. It currently faces challenges on two fronts. Firstly, while negotiation for the latter 3 pillars have gone relatively smoothly, there have been issues regarding the first pillar with chances of a successful negotiation growing dimmer by the day; secondly, many view IPEF as a response to China's Regional Comprehensive Economic Partnership (RCEP), and as a chance for the U.S. to reestablish its economic presence in the region, a viewpoint that China undoubtedly holds¹². However, a bigger challenge is on the horizon as Trump, who withdrew from the Trans-Pacific Partnership (TPP), has promised to "knock out" "TPP Two" if he were to be elected¹³. The continuation of Biden's IPEF economic initiative therefore lies upon the 2024 U.S. presidential election. If Trump were to win and follow up on his promises to withdraw from IPEF, the repercussions are far from just another failed economic initiative. The continued failure of both TPP and IPEF would send a clear message to U.S. partners in the region that any U.S. economic policy is bound by the U.S. political cycle. This not only damages the credibility of U.S. economic commitment in the region, but could also lead countries, who looked to the U.S. to balance against China's economic power, to bandwagon; they view the U.S. as a powerful, but not reliable actor. Where China has the hometown advantage, it is the U.S. who must bear the burden to show its commitment.

The Silent Pendulum

The current domestic political climate across the globe is one of polarization. Western democracies have seen a resurgence of right-wing movements and populism, ranging from the MAGA movement in the U.S. to the resurgence of right-wing parties in Europe. Part of the issue lies within the current governments themselves, with their suboptimal handling of the immigration crisis; part of it lies with COVID and the poor economic growth during that period; some of the blame is with the traditional media who vilify their political opponents and social media which creates echo chambers leading to radicalization. Voters who are disillusioned by the promises of big government seek the alternative, thus leading to a rise in global populism from South Europe (Giorgia Meloni in Italy) to South America (Javier Milei in Argentina's).

12. <https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/U.S.-politics-turn-against-trade-leaving-IPEF-talks-in-limbo>

13. <https://www.reuters.com/world/us/trump-vows-kill-asia-trade-deal-being-pursued-by-biden-if-elected-2023-11-19/>



The result of this growing divide is that elections are now a potential pendulum, swinging from the left to the potentially far right. Whereas in previous party change elections, new leaders more or less continued the trend; as it currently stands, many democracies face the possibility of political outliers, who seek to uproot the system and cause massive shifts in their domestic political landscape. If Trump were to win, it could accelerate the right-wing movements within the EU, and symbolize a return to small government and “great” leaders. Returning to a perspective favoring small government and emphasizing “great” leadership will undoubtedly reshape the relationship between the state and society, as well as redefine the roles of the government and the free market. The result is weak governments, strong societal institutions, and robust market forces.

The Continuity of Discontinuity

While the elections in 2024 represent nearly half of the global populace,¹⁴ it is arguable that the outcome of a single election, involving slightly over 4% of the global population, will be the deciding factor for the next four years of global order. Despite COVID, Ukraine and Gaza, the victory of Joe Biden in 2020 symbolized the return of a traditional statesman in Washington, and has steered U.S. foreign policy back to its more cohesive and diplomatic norm. The potential victory of Trump, coupled with the rise of the right-wing movement in Europe could spell an overhaul of the rules, institutions, and values that have stayed in place for decades. Only until the final votes are cast and the winner is declared, will the year of pending end. The coming elections in 2024 thus symbolize not only a potential swing from the politically left to the right, but also the potential continuity of discontinuity.

14. <https://www.bloomberg.com/news/newsletters/2023-11-01/2024-is-election-year-in-40-countries-and-podcast-elon-inc-launches-next-week>



1. Introduction

In light of the trade tensions between the United States and China, Latin America, notably Mexico and Brazil, has emerged as a destination for companies seeking to relocate and diversify their supply chains away from China. This trend is driven by regional integration efforts and shifts in global supply chain dynamics, prompting multinational companies to reevaluate Latin American countries as attractive investment destinations. The role of Latin American countries thus play an increasingly important role in international supply chains. Hence, it is necessary for us to understand the current political, economic and social aspects of Latin America to better assess subsequent developments.

In this volume, we invited Dr. Yin-Zu Chen, Adjunct associate professor of the Department of Sociology, National Taipei University, to share her insight into the political situation, economic development and social inequality in Peru, which is hosting the APEC this year; then Dr. Pei-Hsuan Lin, Associate Research Fellow of the CTPECC, explores the persistent issue of informality in Latin America's economy, where unregulated economic activities and employment relationships prevail, leading to lower wages, precarious conditions, and limited social protections.



Visit of Secretary of State Antony J. Blinken to Argentina on February 22-23, 2024.
Source: U.S. Embassy in Argentina



2-1. Discrepancies between Economic Growth and Political Instability in Peru

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Peru will host the upcoming Asia-Pacific Economic Cooperation (APEC) meeting this year. After previous conferences in 2008 and 2016, this is the third occasion on which APEC members will convene in this South American country to celebrate their meeting. Situated on the western coast of the subcontinent, Peru has experienced significant economic growth over the past two decades. However, this upward trajectory came to a halt in 2020, and the future projections indicating a downward trend. This article examines the economic developments in Peru over the last twenty years from a historical perspective, discuss the rise and the flow of its economic miracle. Furthermore, it delves into the structural weaknesses and instabilities within Peru's economic landscape.

Economic Growth in Peru and the APEC

In 1998, Peru joined APEC, becoming the third economic entity from the Latin America to do so, following Mexico (1993) and Chile (1994). Since then, the economic ties between Peru and APEC members were strengthened. Peru's international trade with the economies of the APEC members has been a significant contributor to its economic well-being, with 68% of its exports directed towards APEC economies, resulting in a trade surplus.



Between 2016 and 2021, APEC provided substantial support, totaling 2.8 million US dollars, for 36 development projects in Peru. These initiatives encompassed various areas such as promoting health services, advancing science and technology, assisting small and medium-sized enterprises, and investing in food security and transportation infrastructure, among other sectors.

Peru's decision to join APEC emerged within the context of neoliberal reforms implemented during the presidency of Alberto Fujimori from 1990 to 2000. However, this period was marked by turbulence and controversy, characterized by economic liberalization, anti-terrorism efforts, and allegations of authoritarianism and corruption.

Before the 1990s Peru has grappled with the conflict initiated by the Sendero Luminoso (Shining Path) against the government. The Shining Path, a communist guerrilla group, gained notoriety for its involvement in numerous violent acts, establishing itself as one of the most persistent terrorist organizations. A turning point occurred in 1992 when the leader, Abimael Guzmán, was captured under the presidency of Fujimori. However, remnants of the group persisted in some regions, albeit with diminished activity.

The conflict between the government and the guerrilla forces resulted in significant social and economic disruptions. Both sides faced accusations of severe human rights violations. In a bid to maintain control, Fujimori dissolved the Congress and proclaimed a new constitution in 1993, ushering in an authoritarian regime that lasted until he fled to Japan in 2000 amidst corruption scandals.

Liberalization and Economic Dependency

Despite the political corruption and abuse of human rights the economy of Peru flourished with the neoliberal policy introduced in the 1990s. The commonly referred "Fujishock," encompassed a series of reforms aimed at dismantling price controls, privatizing state-owned enterprises, opening the national economy to foreign investment, reducing trade barriers, and implementing structural adjustments. Rooted in the Washington Consensus model, these neoliberal policies, under the leadership of Fujimori, successfully curtailed hyperinflation and attracted foreign investment to Peru.



The neoliberal policy facilitated Peru's integration into the global market, presenting opportunities to export raw materials to other countries. The primary sector, such as fishery, agriculture experience a new growth. Due to the external investment, the mining developed in scale. Extraction of silver, copper, and minerals was the main goal of Spaniard conquest in Peru in the XVI century. After centuries of mining exploitation, Peru remains a major global producer of metals like copper, gold, silver, zinc and lead. The mining contributes for an average of 15 percent Peru's GDP each year from 2017 through 2021, it is one of the more lucrative resources in Peru.

Furthermore, Peru presents several attractions favorable for its tourist industry. Machu Picchu, one of the New Seven Wonders of the World, has consistently been a major draw for tourists to Peru. The country has also invested in promoting other attractions, such as the Amazon rainforest, the Nazca Lines, and its vibrant cities. Since the reduction of conflict with guerrilla group Shining Path, the gradually increasing of tourists brings foreign divisas into the country. The tourism presents another economic source beside of the rich natural resources.

Active participation in the global economy, exemplified by becoming a member of APEC, further underscored Peru's engagement on the international. Closer ties between Peru and Far Eastern were fostered by the immigrants from Asia, which represent approximately 0.2% of the population. Although Japanese and Chinese immigration had distinct origins, both communities have histories spanning over a century. Their influences extended from commercial activities to Peruvian cuisine and several cultural aspects. This previous cultural exchange through immigration facilitate the cooperation between Peru and countries on the other side of the Ocean Pacific.

Peru's full embrace of foreign investment and integration into the global economy since the 1990s led to a noticeable rise in GDP. The country exhibited an average annual growth rate of 6%, surpassing that of other Latin American nations since 2000. Peru underwent significant economic transformations marked by stabilization, reduced inflation, and increased foreign investment. Privatization initiatives, trade liberalization, and market-oriented policies were implemented to attract foreign capital, stimulate economic growth, and diminish the state's role in various sectors.



However, these economic changes brought forth social and political challenges. There are also concerns arose about the impact of liberalization on vulnerable populations and the persistence of income inequality, issues such as poverty, inequality, and informal employment persisted.¹ Subsequent administrations adopted a range of policies, including social programs, to address the challenges.

The economic growth based on the exportation of raw materials and the exploitation of natural resources by foreign capital inherently heightens the vulnerability of this economic development. The year 2020 witnessed a drastic decline in economic growth. The COVID-19 pandemic affected the global economy,² but Peru on one hand suffered serious consequences, because of the deficit of health system; on the other hand, the reduced demand of export caused by international recession impacted negatively the Peruvian economy.

Furthermore, the warming of sea surface temperatures in the equatorial Pacific, caused by the phenomenon El Niño, impacted the productivity of fisheries, the key species for the country's fisheries, the Peruvian anchovy decreased drastically. The combination of flooding, landslides, and agriculture disruptions can have severe economic and social consequences. Infrastructure, including roads and bridges, may be damaged, and communities may face challenges in terms of displacement and recovery.

Despite these natural catastrophes and international pandemic, the roots of the economic downturn in Peru can be traced back to its structural problems. These two fundamental aspects that restrict further economic development will be addressed below: the Instability of political institutions and the persistent social inequalities.

1. Instituto Nacional de Estadística e Informática (INEI), 2020, Producción y empleo informal en el Perú.

2. Olivera Cáceres, Jesús Amadeo, and Loza Ticona, Renzi Marilu, 2021, Efecto de la pandemia de COVID-19 en el comportamiento de la economía del Perú, 2020, in *Economía & Negocios*, 3(2): 39-46.



Political Instability and Corruption

The strong dependence of national development on international markets and global capital exposes political elites to corruption. The opening to foreign enterprises without institutional regulation creates a gray zone conducive to corruption.

The process of liberalization under the authoritarian regime of Fujimori has heightened corruption, involving politicians, public officials, and private entities. Unresolved corruption scandals and pervasive distrust towards political institutions have become defining features of the political landscape.³ Over the last decade, the Operation Lava Jato corruption scandal, originating in Brazil and involving bribes and kickbacks related to construction contracts, has implicated numerous high-ranking politicians and business figures across various countries, including Peru. Corporate influence on the electoral process through campaign financing has exacerbated the issue. Additional scandals, such as "Vacunagate," wherein government officials received preferential access to COVID-19 vaccines in exchange for political favors, have further eroded public trust. In this context, political institutions are unable to fulfill their roles as regulators or mediators in times of crisis.

The cumulative impact of these corruption scandals has led to social unrest and heightened political instability. In a brief period from 2018 to the present, Peru has witnessed the removal of five presidents, and the current government leader, Dina Boluarte, faces widespread protests against her administration. The ongoing political crisis and unstable institutions have spilled over into the economic domain, impeding the state's ability to execute economic plans and fulfill its regulatory role. Instances such as the excessive exploitation of ecosystems and the failure to adequately safeguard public health during the pandemic underscore systemic weaknesses.⁴

3. Norris, Alfonso Quiroz, 2012, La corrupción y el desarrollo económico del Perú contemporáneo, in García, Henry Pease and Torriani, Gioianni Peirano (ed.) La Lucha Anticorrupción como Política de Estado. Pp. 109-127, Fondo Editorial.

4. Lynch, Nicolas, 2023, Perú en crisis: la difícil búsqueda de su destino, in Barcelona Centre for International Affairs Notes Internationals, 287:1-5.



Persistent Social Inequalities

While economic growth has taken place, the utilization of natural resources by foreign enterprises and the exploitation of national resources have failed to benefit all segments of the population. A recent study addressing the potential for social mobility amid economic prosperity and the emergence of a "new middle class" in Peru indicates ambivalent results. Although migrant entrepreneurs from rural and Andean regions could send their children or grandchildren to universities, the cultural capital and restricted access to private universities still create class boundaries.⁵ Social inequality persists despite economic advancements, leading to social protests emerging as an important political actor in Peru. Rooted in European colonization, racial conflicts, and class struggles persist in contemporary society. Class inequality is revealed in a huge informal employment sector, and integrating informal labor forces into the social welfare system remains a concern for the Peruvian government. Consequently, social protests have evolved over the course of economic growth.

Around 2000, several protests arose against the concession of mining to foreign companies, expressing concerns about environmental impact, indigenous rights, and community displacement. The 2009 protest in Bagua, the Amazon area was a response to government's attempt to facilitate natural resource extraction in indigenous territories, and reflecting similar anxieties. This conflict resulted in the death of more than 40 civilians and police officers and over a hundred people wounded. In addition to social discontent about extractive industries, political corruption and a weak government also mobilized civil groups in 2018 to express both support and opposition to changes in the presidency. Furthermore, protests have emerged addressing healthcare shortcomings during the pandemic and advocating for improved working conditions for teachers.

These protests collectively highlight three concerns within Peruvian society: the need for political stability, the imperative to preserve the ecosystem, and, most importantly, the ongoing struggle against social inequalities.

5. Montero-Diaz, Fiorella, and Franka Winter, Abingdon ed., 2019, *Citizenship in the Latin American upper and middle classes: Ethnographic perspectives on culture and politics*, Routledge.



In the face of political instability and social protests, an immediate solution would be the promotion of a more inclusive economy. This entails trade policies benefiting all segments of society, including incorporating informal employment into social security, not only redistributing economic resources but also ensuring inclusion in water supply, healthcare, education, and digital services for vulnerable sectors. Another key aspect is adopting sustainable and eco-friendly practices in economic development, preserving indigenous culture and the natural environment while mitigating the impact of climate change. In this uncertain economic development landscape, the main challenge for Peru is how the political system can regain stability, and the government can restore its credibility.



Peruvian President Dina Boluarte participated in the APEC Leaders Week in 2023.
Source: Presidencia del Perú



2-2. The Persistent Shade of Gray: Addressing Informality in Latin America from a Labor Perspective

Pei-Hsuan Lin

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Introduction

Across the world, about 2 billion people are working in the informal economy, which is also known as gray economy or shadow economy and represents a significant portion of the world's economic activities and workforce.¹ While the informal economy is ubiquitous, it is much more pervasive and persistent in developing economies. Characterized by unregulated economic activities and employment relationships, informality has been a persistent feature in Latin American economies, accounting for nearly 40% of the official GDP in the region in the past three decades.² Despite efforts to formalize and integrate these activities into the formal economy, informality remains a pervasive reality, reflecting deep-rooted structural challenges and socioeconomic disparities. While informal economy has provided income opportunities for many as a better alternative to unemployment, it has also been

1. International Labour Office, Women and men in the informal economy: A statistical update, (ILO: Geneva, 2023).
2. Franziska Ohnsorge and Shu Yu, The Long Shadow of Informality: Challenges and Policies, (World Bank Publications, 2022), 221-222.



associated with lower wages, precarious working conditions, and lack of social, legal and financial protections. Workers in the informal economy frequently face poor wages, limited access to healthcare and social security, and higher risks in case of contingency. Moreover, informality can perpetuate inequality, as those engaged in informal activities often lack access to quality education, skills development, and upward mobility opportunities. Despite efforts to address informality, it remains a significant challenge in Latin America, tinting the economy with a persistent shade of gray and hindering efforts to achieve sustainable and inclusive growth.

This article seeks to elucidate the opaque concept of informality and its current challenges in Latin America. Due to the inherent conceptual fuzziness, the study of informal economy and the relevant concepts span across different disciplines, including economics, development studies, public policy, sociology and anthropology. As a result, it is difficult to gain a comprehensive understanding of informal economy and to address it requires more context-dependent research and measures. This paper argues that to understand the current challenges of informality in Latin America, a better approach is to view it from a labor perspective, namely the informal employment. It concludes with suggested policy recommendations that are more suited to Latin American countries.

What Is Informality? -A Historical Perspective

The concept of informal economy is expansive and highly ambiguous, encompassing heterogeneous components, including “informal jobs, informal economic units and informal productive activities.”³ Currently, the most cited definition, especially for statistical purposes, comes from the International Labour Organization, which defines informal economy to include “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” with the exception of “illicit activities.”⁴

3. International Labour Office, Women and men in the informal economy: A statistical update, (ILO: Geneva, 2023).
4. International Labour Office, Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy, (ILO: Geneva, 2023).



However, understanding how the concept of informal economy evolves could provide valuable insights that might be missing from the standard, ahistorical definition. As Anne McCants comments, economics, compared to other social sciences, “is perhaps the most likely to be characterized as ahistorical” and this is due to the impression that the basic economic relations, such as “demand, supply, and price”, commonly used by the “neoclassical model can be applied to seemingly any situation.”⁵ But as the paper aims to reveal, the underlying background history under which the concept develops has actually come to shape and even limit the way informal economy is studied. This presents further implications for policy response. To understand the complex phenomenon of informal economy in Latin America, and why it remains so persistent, a more comprehensive analysis of the concept is instrumental.

As Jan Breman argues, “a historical perspective is of overriding importance to comprehend the dynamics of informalization.”⁶ The article begins by providing a brief review of the prevailing approaches to informal economy and the underlying historical contexts. There are three dominant schools of thoughts on informality, including “the dualist, the structuralist (sometimes known as the neo-Marxist approach) and the legalist (sometimes known as the neoliberal approach).”⁷ The dualist school sees the informal sector as a distinct and relatively autonomous from the formal or modern capitalist sector.⁸ Back in the early twentieth century, the informal sector “represented a safety net for low-skilled rural-to-urban migrants seeking to earn a livelihood any way they could” in countries with low economic developments.⁹ The informal sector “was thought to be a waiting room for the labouring poor who, pushed out of the countryside, made their way to the towns and cities in the hope of finding a better existence.”¹⁰ The informal sector was thus expected to shrink as economic development takes off, creating more formal job opportunities in the manufacturing and service sectors to absorb the surplus labor coming from the rural areas.¹¹ The dualist school is largely based on the experiences of the Global North as countries industrialized in the early twentieth century, and reinforced to some extent by the rapid economic growths of the East Asian countries in the late twentieth century. However, this kind of

5. Anne E. C. McCants, “Economic History and the Historians,” *Journal of Interdisciplinary History*, no. 4 (February 1, 2020): 547-66, 547.

6. Jan Breman, “The bane of the labouring poor under globalised capitalism” in *The Informal Economy Revisited*, eds. Martha Chen and Françoise Carré, (London: Routledge, 2020), 31.

7. Tamar Diana Wilson, “Introduction: Approaches to The Informal Economy,” *Urban Anthropology and Studies of Cultural Systems and World Economic Development* 40, no. 3/4 (2011): 205-21, 205.

8. *Ibid.*

9. *Ibid.*

10. Breman, “The bane of the labouring poor under globalised capitalism”, 31.

11. James Heintz, “Informality and the dynamics of the structure of employment” in *The Informal Economy Revisited*, eds. Martha Chen and Françoise Carré, (London: Routledge, 2020), 84-86.



the structural economic change where industrialization helps to expand the manufacturing sector and subsequently the service sector, increasing average productivity and income, did not happen in Latin America. Therefore, the argument that industrialization and modernization would lead to decline in informal output and employment applies very limitedly to the region. It would also be misleading to continue to think of the informal sector in Latin America as transitory, on a path leading to formalization.

Rather, the experiences in the developing countries affirm, as Manuel Castells and Alejandro Portes argue, that informality has become a structural feature of modern capitalist development.¹² This is associated with the structuralist approach to informal economy. The structuralist approach, also called “the neo-Marxist approach” by some, emphasizes that the informal economy is subordinated to and exploited by the formal economy.¹³ The thought is that under the modern capitalist logic, firms seek ways to cut costs and increase profit in order to stay competitive by evading taxes and labor regulations. The large reserve of surplus labor in the developing countries enabled firms to hire workers on more flexible and cost-efficient terms. The inherent logic of capitalism that promotes cost-efficiency makes informality a permanent feature of the economy. Therefore, neoliberal capitalism has made informality the norm and primary principle that operates in the newly and rapidly globalized economy.¹⁴ Informality remains prevalent and persistent even as development grows in Latin America.

While the structuralist emphasizes how informal workers are exploited by the formal economy, the legalist approach, pioneered by Peruvian economist Hernando de Soto, justifies informality on the ground that “unnecessary, slanted, and superfluous” laws and regulations have constrained firms and entrepreneurs, impeding growths.¹⁵ They see informal firms are either “excluded” because of the burdensome regulations that prevent them from formalization or “exiting” the formal sector to avoid unnecessary constraints.¹⁶ This approach has gained wide popularity in Latin America for the region is particularly infamous for its onerous and burdensome regulatory environment. The legalist view may be attributed in part to weak or even bad governance that is prevalent in Latin America countries, and to protectionism fearing global competition after trade liberalization.¹⁷ Regardless of the approaches that

12. Manuel Castells and Alejandro Portes, “World Underneath: The Origins, Dynamics, and Effects of the Informal Economy” in *The Informal Economy: Studies in Advanced and Less Developed Countries*, eds. Alejandro Portes, Manuel Castells and Lauren A. Benton, (Baltimore: Johns Hopkins University Press, 1989), 12.

13. Wilson, “Introduction: Approaches to The Informal Economy,” 205-6.

14. Breman, “The bane of the labouring poor under globalised capitalism”, 32.

15. Wilson, “Introduction: Approaches to The Informal Economy,” 206. Hernando De Soto, *The Other Path: The Invisible Revolution in the Third World*, (New York: Harper & Row, 1989).

16. Guillermo Perry et al., *Informality: Exit and Exclusion*, (World Bank Publications, 2007).

17. Norman Loayza, *Informality: Why is it so Widespread and How Can it Be Reduced?* (World Bank, 2018).



reflect different causal mechanisms, to sum up, by and large, informality is “both a cause and a consequence of the lack of economic and institutional development” on account of “underdevelopment” and/or “bad governance”, as Norman Loayza puts it.¹⁸ Policy responses by the legalists typically ask for regulatory reforms that improve efficiency and reduce redundancy.

Because how heterogeneous informality can look in different countries, these different schools and theories are all valid. What the overview of the literature on informality with historical contexts means to draw out is the important yet often overlooked aspect, namely that the study of informality is “premised on the historical trajectory of today’s high-income countries.”¹⁹ To understand informality with the economic history helps us to realize that given the different structures of the economies with varied development levels, “informality is not a continuous variable.”²⁰ Efforts to address informality through “a unified framework without an appreciation of structural differences across countries’ economies is challenging and perhaps misguided”, as James Heintz cautions.²¹ To underscore the heterogeneity of informality, this paper suggests taking a labor perspective to understand the current challenges in the informal economy.

Why Informal Employment?

It may be argued that the formal/informal divide is entirely premised on the western experiences of economic development. The process of industrialization and modernization created numerous jobs at a rapid pace and “paid employees replaces forms of self-employment as the dominant employment arrangement.”²² Consequently, as wage employment rose, “employment relationships become increasingly regulated and formalised through processes of collective action at various levels – the firm-level, the industry-level, and the national-level.”²³ In the case of the Global North, the transformation of the labor market means the majority of informal workers were able to become formal employees working in the formal economy. However, this trajectory did not apply for the Global South. Instead, as Judy Fudge recounts, “once formal jobs have been informalised, with the result that the majority of

18.Ibid.

19.Martha Chen and Françoise Carré, “Introduction” in *The Informal Economy Revisited*, eds. Martha Chen and Françoise Carré, (London: Routledge, 2020), 6.

20.Heintz, “Informality and the dynamics of the structure of employment”, 87.

21.Ibid.

22.Ibid.

23.Ibid.



workers are in low-skilled, poorly paid, intermittent and insecure employment” in the developing countries.²⁴ Informal employment persisted and, as Jan Breman concludes, “formal conditions of earning a livelihood had become the economic status of only a small and privileged segment of labouring men and women.”²⁵ Indeed, in lower-middle income countries, informal employment accounts for 81.6% of the total employment and in low income countries, the percentage climbs to 89%.²⁶

Informal Employment in Latin America

In Latin America and the Caribbean region, informal employment represents 53.6% of the total workforce.²⁷ While the percentage is not the highest across regions, it is noteworthy that the percentage of informal employment in informal enterprises is among the highest across regions. To some extent, this may weaken the legalist argument that informality is mostly driven by the unfavorable legal and regulatory environment that result in firms remaining in the informal economy. Rather, this may lend strength toward the structuralist view that informality is caused by the cost-efficiency and rent-seeking behaviors of enterprises in the modern capitalist economy as they avoid hiring worker under formal conditions. However, this is not to say that the informal workers are of the opportunist entrepreneurial class, who are competing unfairly through noncompliance to labor regulations and tax evasion. Rather, this leads to another alarming feature of informal employment in Latin America, namely very few of the informal workers are employers who hire others, only 5.3% of the total informal employment.²⁸ Most of the informal workers are working by the subsistence level with low educational level and low productivity.²⁹

24. Judy Fudge, “Revising labour law for work” in *The Informal Economy Revisited*, eds. Martha Chen and Françoise Carré, (London: Routledge, 2020), 106.

25. Breman, “The bane of the labouring poor under globalised capitalism”, 31.

26. International Labour Office, *Women and men in the informal economy: A statistical update*, (ILO: Geneva, 2023).

27. Ibid.

28. Ibid.

29. Ibid.



Policy Recommendations

As prefaced earlier, informal economy is highly heterogeneous across countries and lacks a one-size-fits-all solution. To address informality properly requires a more context-dependent approach. In the case of Latin America, based on the analysis of its informal employment, priority should go to capacity building and upskilling to raise the productivity level of informal workers. These may include providing education and skills training to the workers, as informal workers in the region tend to be lowly educated and lowly skilled. Due to the lower wage level and the lack of social, legal and financial protections of these informal workers, they are unlikely to raise their productivity level in the absence of intervention. While other measures, such as strengthening public service and infrastructure, streamlining the complex and onerous administration process regarding business and employment and reforms to improve the hostile and burdensome regulatory environment are helpful, in a region that is plagued by widespread and deep-rooted corruption, political instability, weak governance and the lack of public trust, these kinds of measure often take more time, resources and coordinated efforts to succeed. The urgent concern should be improving the living conditions of vast and struggling working poor, who are left with no choice but to work at the subsistence level with few protections. Empowering informal workers by improving their educational levels and skills would be conducive to formalization in the long-run and promotes more sustainable economic growth.

Conclusion

In conclusion, the informal economy represents a persistent and deeply entrenched reality across much of Latin America. While it has provided income opportunities as an alternative to unemployment, informality is also associated with lower wages, poor working conditions, and a lack of legal protections and social safety nets. Addressing this challenge requires a nuanced, contextualized approach that goes beyond one-size-fits-all solutions. By taking a labor perspective focused on informal employment, we can gain insights into the dynamics at play, such as the prevalence of subsistence-level informal workers with low skills and education levels. Policy efforts should prioritize capacity building, upskilling, and improving the productivity of this vulnerable workforce. Empowering informal workers through education and training can pave the way for sustainable formalization and more inclusive economic growth over the long term. While regulatory reforms and governance improvements are also important, immediate steps to lift up the informal working poor are crucial for achieving meaningful and lasting progress against the pervasive challenges of informality in Latin America.



3. Conclusion

The implementation of neoliberal policies in Peru enabled this country to integrate into the global market, leading to the expansion of its primary sectors such as fisheries and agriculture. Additionally, external investment spurred the growth of the mining industry, which has been a significant part of Peru's economy since the Spanish conquest in the 16th century. Despite centuries of mining exploitation, Peru continues to be a major global producer of metals including copper, gold, silver, zinc, and lead. However, economic growth brought Peru several challenges. Concerns emerged regarding the impact of liberalization on vulnerable populations and the persistence of income inequality, poverty, and informal employment.

Except for Peru, Latin American countries share the same challenge of income inequalities. To address this challenge, these countries should prioritize capacity building, upskilling, and improving the productivity of informal workers through education and training to pave the way for sustainable formalization and more inclusive economic growth in the long term. As for the informal economy, while regulatory reforms and governance improvements are important, the immediate focus should be on lifting up the informal working poor to achieve meaningful and lasting progress against the pervasive challenges of informality in Latin America. By adopting a comprehensive approach that addresses the root causes of informality, Latin American countries can work towards building more resilient and inclusive economies that benefit all segments of society.



Reader Survey