

Trade openness, technological spillovers, and income inequality in Latin America: A panel data analysis (2000–2022)

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Abstract--- This paper investigates the relationship between trade openness, technological spillovers, and income inequality in Latin America using panel data from 15 countries over the period 2000–2022. It explores how globalization dynamics—specifically trade integration and R&D imports—interact with human capital and institutional quality to shape inequality outcomes. Employing fixed effects and system GMM estimations, the study finds that trade openness tends to increase income inequality in countries with weak educational systems, while technology diffusion may reduce inequality when governance institutions are strong. Interaction effects highlight the critical role of national absorptive capacities in mediating globalization’s distributive impacts. Robustness checks support the reliability of these results. A comparative lens incorporating MENA, East Asia, and Eastern Europe further underscores the importance of policy sequencing, institutional scaffolding, and inclusive investment. The paper concludes with region-specific policy recommendations to enhance equity through education, innovation, and institutional reform.

Keywords--- Latin America, trade openness, inequality, technological spillovers, GMM, governance, education, panel data.

How to Cite:

CHEHAOUI, L., BOUKLIA, N., & TOUITOU, M. (2025). Trade openness, technological spillovers, and income inequality in Latin America: A panel data analysis (2000–2022). *The International Tax Journal*, 52(6), 3802–3822. Retrieved from <https://internationaltaxjournal.online/index.php/itj/article/view/370>

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2025

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Submitted: 5 February 2025 | Revised: 10 November 2025 | Accepted: 20 November 2025

1. Introduction

Latin America has long struggled with persistent income inequality, despite periods of rapid economic growth and deepening integration into the global economy. According to ECLAC (2023), the region's average Gini coefficient remains above 0.45, making it one of the most unequal in the world. Structural inequalities rooted in segmented labor markets, uneven education systems, and fragile institutions continue to shape the distributional outcomes of economic reforms. In this context, the dual forces of trade liberalization and technological change—while central to growth strategies—have generated mixed and often paradoxical effects on inequality.

Over the past two decades, Latin American countries have actively pursued trade openness and imported advanced technologies, especially through global value chains and foreign direct investment. These transformations were expected to improve productivity and create new opportunities. However, their social outcomes have diverged significantly across countries and time. While countries like Chile and Costa Rica have seen some inclusive growth, others have witnessed rising wage dispersion and informal employment (ILO, 2023; Esquivel, 2021). The literature remains divided on whether globalization is a force for convergence or divergence in developing economies (Goldberg & Pavcnik, 2007; Helpman, 2018).

Crucially, the distributional effects of trade and technology are not uniform. Their impact depends on domestic factors such as education levels, labor market structure, and institutional quality. Recent studies emphasize the role of “absorptive capacities”—particularly human capital and governance institutions—in mediating the inequality effects of globalization (Aghion et al., 2019; Lustig & Martinez Pabon, 2023). However, few empirical studies in Latin America have jointly tested these conditional effects using robust, regionally focused data and modern econometric tools.

This paper fills that gap by examining the relationship between trade openness, technological spillovers, and income inequality in 15 Latin American countries between 2000 and 2022. Using a panel dataset and system GMM estimation, we test whether the inequality effects of trade and technology are contingent on education and institutional performance. The study offers a nuanced analysis of globalization's distributional consequences in a region where inequality reduction remains a central development goal. The findings aim to inform more inclusive integration strategies aligned with the Sustainable Development Goals (SDGs), particularly SDG 10 on reduced inequalities and SDG 9 on inclusive industrialization.

The paper is organized as follows: Section 2 reviews the relevant literature and theoretical frameworks. Section 3 presents the conceptual model and hypotheses. Section 4 outlines the data sources and econometric methodology. Section 5 presents the empirical results. Section 6 discusses the implications for inequality theory and policy. Section 7 concludes with policy recommendations and future research directions.

2. Literature Review

This section reviews recent theoretical and empirical literature on the links between trade openness, technological spillovers, and income inequality, with a particular focus on Latin America. The review is organized into four subsections: (1) trade openness and inequality, which assesses the classical and recent evidence on globalization's distributional impacts; (2) technological spillovers and distributional effects, highlighting the dual nature of innovation diffusion in developing economies; (3) the moderating role of human capital and institutional quality; and (4) identified gaps in the literature that this paper seeks to address. This structure allows us to situate the study within both the global theoretical debate and the regional empirical context.

2.1 Trade Openness and Inequality

The theoretical link between trade and inequality has long been debated. Classical trade theory, particularly the Stolper–Samuelson theorem, predicts that trade liberalization benefits abundant factors in developing countries, thereby reducing inequality (Stolper & Samuelson, 1941). However, empirical evidence from Latin America has frequently contradicted this view. Studies such as Goldberg and Pavcnik (2007) and Berman et al. (2022) show that trade openness often increases wage dispersion, especially when it accelerates skill-biased technological change without corresponding educational upgrades.

Recent country-specific studies echo these patterns. Guimarães and Silva (2021) find that trade liberalization widened wage inequality in Brazil's manufacturing sector. Esquivel (2021) reports that trade integration in Mexico raised spatial and sectoral inequality post-NAFTA. These findings underscore that trade's effects are mediated by domestic structural conditions, not automatic convergence.

2.2 Technological Spillovers and Distributional Effects

Technological change—especially through imported R&D, FDI, and integration into global value chains—has the potential to increase productivity but may exacerbate inequality if benefits are captured by a narrow segment of the labor market. The “innovation paradox” highlights that developing countries often fail to convert technology inflows into broad-based growth due to weak absorptive capacities (Cirera & Maloney, 2017).

In Latin America, Gonzáles et al. (2023) find that technological spillovers tend to benefit larger and more connected firms, while leaving SMEs and informal workers behind. Lustig and Martínez Pabon (2023) argue that absent redistributive policies, digitalization risks amplifying inequality. Yet, there is also evidence that when paired with quality governance, technology adoption can reduce inequality by creating formal jobs and increasing productivity (González, Salazar, & Peña, 2023; Maloney & Taskin, 2022).

2.3 The Role of Human Capital and Institutions

Human capital and institutional quality have emerged as key moderators of globalization's effects. Aghion et al. (2019) show that countries with strong education systems are better equipped to absorb and diffuse technology equitably. Similarly, Dollar and Kraay (2004) argue that institutions shape how trade and investment flows translate into welfare outcomes.

For Latin America, López-Calva and Lustig (2010) emphasize that inequality declined during the 2000s in countries that combined trade openness with proactive redistributive and educational reforms. In contrast, UNDP (2023) documents how inequality persists in countries with stagnant human capital investment and weak rule of law.

2.4 Gaps in the Literature

Despite the growing recognition of the complex dynamics linking globalization, technology, and inequality, the existing literature still lacks a comprehensive empirical analysis that jointly examines the distinct and interactive effects of trade openness and technological spillovers on income distribution. Few studies have systematically assessed how these two dimensions—trade integration and technology diffusion—operate both independently and in combination to influence inequality outcomes across developing economies. Moreover, there remains a significant gap in understanding how these effects are conditioned by national factors such as education and governance, particularly within the Latin American context. The majority of prior research has either treated these variables in isolation or relied on cross-sectional frameworks that overlook temporal heterogeneity and endogeneity issues.

To address these limitations, the present study applies advanced panel data techniques to a sample of 15 Latin American countries over the period 2000–2022. By incorporating interaction effects and employing system GMM estimation to correct for endogeneity, the paper provides a rigorous and regionally grounded investigation of the mechanisms through which globalization and technological diffusion affect inequality. This approach contributes to a more nuanced understanding of inequality drivers in the context of structural transformation, emphasizing how domestic absorptive capacities—particularly human capital and institutional quality—mediate the distributional consequences of global integration.

3. Conceptual Framework and Hypotheses

This section develops the theoretical foundation of the study by presenting a structured framework that links trade openness, technological spillovers, and income inequality. It also outlines the core hypotheses that will be tested empirically in subsequent sections.

3.1 Theoretical Underpinnings

This study draws upon three complementary theoretical traditions to conceptualize the relationship between trade openness, technological spillovers, and income inequality. The first is the Heckscher–Ohlin–Stolper–Samuelson (HOSS) framework, which suggests that trade liberalization in developing countries tends to benefit unskilled labor by reallocating production toward labor-intensive sectors. According to this view, openness should lead to a more equitable income distribution, as the relative demand for abundant factors—typically unskilled labor—rises in the post-liberalization period (Stolper & Samuelson, 1941).

The second theoretical strand stems from the literature on Skill-Biased Technological Change (SBTC). This perspective contends that the diffusion of new technologies disproportionately favors skilled labor, thereby widening wage disparities between skilled and unskilled workers. Unless accompanied by policies that promote widespread skill upgrading, technological progress may exacerbate inequality by concentrating gains among those with higher educational attainment and digital competencies (Acemoglu, 2002).

The third tradition is rooted in Endogenous Growth Models, which highlight the crucial role of innovation systems, education quality, and institutional capacity in converting global integration into sustainable and inclusive growth. These models emphasize that openness alone does not guarantee equitable outcomes; rather, the absorptive capacity of domestic institutions determines whether external integration fosters convergence or divergence in income distribution (Romer, 1990; Aghion & Howitt, 2006).

In the Latin American context, these theoretical mechanisms interact within a landscape characterized by widespread labor informality, persistent educational inequality, and limited institutional absorption capacity. The case of Mexico illustrates this complexity: trade liberalization under NAFTA intensified wage polarization by favoring high-skilled urban workers while marginalizing rural and informal labor (Esquivel, 2021). Similarly, in Chile, foreign direct investment–driven innovation enhanced firm-level productivity but generated regionally uneven benefits due to disparities in infrastructure, education, and institutional effectiveness (González et al., 2023). Collectively, these theoretical and empirical insights provide the conceptual foundation for examining how globalization and technological change shape inequality outcomes across Latin America.

3.2 Conceptual Model

Figure 1 presents a multi-layered framework linking globalization, technological spillovers, and income inequality through both direct and mediated channels:

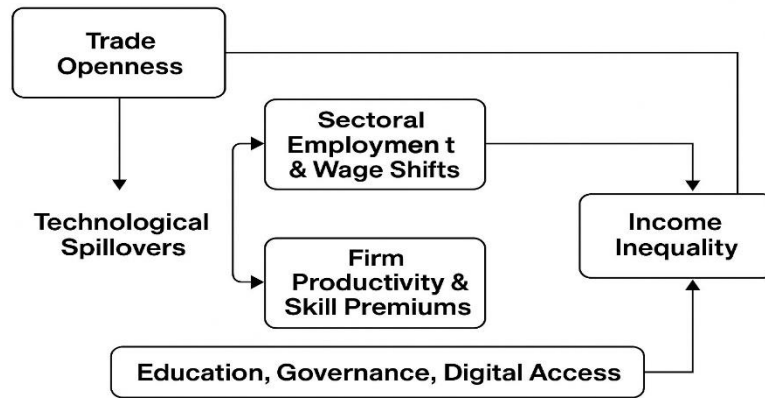


Figure 1. Conceptual Framework Linking Trade, Technology, and Inequality

The conceptual framework identifies three interrelated mechanisms through which globalization and technological spillovers influence income inequality. The first mechanism concerns the direct effects of these processes. Trade openness alters production structures and sectoral composition, reshaping wage distributions across different skill levels and regions. At the same time, technological spillovers—transmitted through foreign direct investment (FDI) and the importation of R&D-intensive capital goods—enhance firm efficiency and productivity. However, these gains tend to accrue disproportionately to high-skilled labor and capital-intensive sectors, thereby widening the income gap between skilled and unskilled workers.

The second mechanism involves a set of moderating variables that mediate the extent to which globalization translates into inclusive or unequal outcomes. Human capital, reflected in secondary and tertiary education enrollment rates, determines how broadly populations can benefit from integration into global markets. Institutional quality, including governance effectiveness and the rule of law, influences a country's capacity for redistribution and its ability to foster an equitable investment climate. Digital infrastructure further shapes the diffusion, localization, and societal reach of technological innovation, affecting whether new technologies generate broad-based or exclusive benefits.

Finally, the framework incorporates feedback loops that highlight the dynamic and reciprocal nature of inequality. Persistent income disparities can weaken institutional performance, erode social cohesion, and provoke political backlash against globalization, ultimately constraining long-term development prospects (Rodrik, 2018). Together, these mechanisms underscore that the relationship between globalization and inequality is neither automatic nor unidirectional but depends critically on domestic absorptive capacities and institutional resilience.

3.3 Hypotheses

Building upon the conceptual framework, this study formulates four interrelated hypotheses that guide the empirical analysis. The first hypothesis (H1) posits that trade openness tends to increase income inequality in Latin America, particularly in countries characterized by low levels of human capital and weak institutional environments. In such contexts, trade liberalization has often favored capital-intensive export sectors while contributing to the expansion of informal labor markets, as observed in economies such as Honduras and Bolivia (ILO, 2023). This suggests that openness without complementary social and institutional reforms can exacerbate disparities between formal and informal workers.

The second hypothesis (H2) asserts that technological spillovers amplify inequality by disproportionately benefiting skilled labor and firms with superior access to capital and technological resources. Evidence from Brazil and Argentina indicates that the adoption of information and communication technologies (ICT) is strongly correlated with educational and regional infrastructure gaps, revealing how technology diffusion can reinforce existing structural divides (IADB, 2023).

The third hypothesis (H3) emphasizes that the distributional consequences of trade and technology are conditioned by a country's level of human capital, institutional quality, and digital infrastructure. Where education systems are robust and governance mechanisms are effective, globalization's inequality-enhancing effects can be mitigated. Uruguay provides a notable example, as strong public education and redistributive policies have contained social polarization, in contrast to the more fragmented systems of Guatemala and Paraguay (UNDP, 2023).

Finally, the fourth hypothesis (H4) proposes that the interaction between trade openness and technological diffusion produces a non-linear effect on inequality. At low levels of technological absorption, trade tends to exert only modest distributive effects. However, as economies move toward greater technological sophistication—particularly with the spread of automation and platform-based industries—inequality may intensify unless mitigated by inclusive institutions and active workforce reskilling initiatives (Maloney & Taskin, 2022). Together, these hypotheses establish a comprehensive analytical foundation for assessing how globalization dynamics, mediated by domestic capacities, shape inequality trajectories across Latin American economies.

4. Methodology and Data

This section details the empirical strategy used to examine the impact of trade openness and technological spillovers on income inequality in Latin America over the period 2000–2022. The analysis is grounded in a robust panel data econometric framework that accounts for time dynamics, structural heterogeneity, and endogeneity. All estimations are implemented using country-level macroeconomic and institutional data from authoritative international sources.

4.1 Empirical Strategy Overview

Given the structure of the dataset and the theoretical relationships developed in Section 3, the study employs a two-stage econometric strategy designed to capture both static and dynamic dimensions of inequality. The first stage uses a static fixed effects (FE) estimation to control for unobserved heterogeneity across countries and to account for common time-specific shocks that may simultaneously affect all economies in the sample. This approach isolates within-country variations and mitigates omitted variable bias linked to unobservable country characteristics.

The second stage employs a dynamic panel estimation using the System Generalized Method of Moments (System GMM), which is particularly suited to address endogeneity, autocorrelation, and potential reverse causality—issues that frequently arise when analyzing relationships between inequality, trade openness, and technological diffusion. The dynamic specification captures the persistence of inequality over time and corrects for simultaneity bias by instrumenting endogenous variables with their own lagged levels and differences. This two-tiered empirical framework aligns with best practices in contemporary inequality research (De Hoyos & Bussolo, 2013; Lustig & Martinez Pabon, 2023), ensuring both methodological rigor and policy relevance.

4.2 Data Sources and Panel Construction

The empirical analysis is based on an unbalanced panel dataset covering fifteen Latin American countries over the period 2000–2022. The sample includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, and Uruguay. The selection of these countries is primarily guided by data availability for the key

variables of interest—income inequality, trade openness, R&D imports, education, and governance—and by their relevance to regional policy debates concerning inequality and globalization. The sample encompasses countries with diverse structural profiles in terms of openness, human capital, and institutional strength, allowing for robust cross-country comparison.

Although the panel is unbalanced due to occasional data gaps, particularly in governance and technological indicators, each country contributes at least fifteen years of complete observations, ensuring the statistical validity and representativeness of the results. The dataset integrates information from multiple authoritative sources, including the World Bank's *World Development Indicators* (WDI), the United Nations Conference on Trade and Development (UNCTAD), UNESCO, and the International Telecommunication Union (ITU).

4.2.1 Dependent Variable

The dependent variable, income inequality, is primarily measured using the Gini coefficient, obtained from the World Bank's WDI and the Standardized World Income Inequality Database (SWIID v9.3). To assess robustness and ensure that results are not sensitive to the choice of inequality metric, two alternative measures are employed: the Palma ratio (defined as the ratio of income held by the top 10 percent to that of the bottom 40 percent) and the income share of the bottom 40 percent. Together, these complementary measures provide a multidimensional understanding of inequality dynamics across countries and over time.

4.2.2 Main Explanatory Variables

The core explanatory variables capture the degree of economic integration and technological diffusion. Trade openness is measured as the ratio of total trade—exports plus imports—to gross domestic product (GDP), as reported in the World Bank's WDI. This indicator reflects the extent to which each economy is integrated into global markets and exposed to international competition and capital flows. Technological spillovers are proxied by two complementary indicators: (1) the share of R&D capital goods imports as a percentage of GDP, sourced from UNCTAD, and (2) foreign direct investment (FDI) inflows, also expressed as a share of GDP and obtained from the World Bank WDI. These proxies capture both embodied technology transfer—through the importation of high-tech equipment—and disembodied knowledge transfer, as FDI often introduces new management practices, skills, and innovation capacity. The use of these variables follows recent empirical literature linking technology diffusion to productivity growth and inequality outcomes (Cirera & Maloney, 2017; Maloney & Taskin, 2022). Their inclusion is particularly relevant for Latin American economies, where domestic R&D capacity remains limited and foreign technology serves as a primary source of innovation.

4.2.3 Control Variables

To isolate the specific effects of trade and technological factors, several control variables are included. Human capital is measured using two complementary indicators: average years of schooling, derived from the Barro-Lee dataset, and secondary school enrollment rates from UNESCO. Governance quality is represented by a composite index combining the Control of Corruption and Regulatory Quality dimensions from the World Bank's Worldwide Governance Indicators (WGI). Digital infrastructure is proxied by internet penetration, measured as the percentage of the population with internet access, based on data from ITU and the Inter-American Development Bank (IADB). Finally, GDP per capita, expressed in constant 2015 U.S. dollars and logged to reduce skewness, is included to control for income effects associated with different levels of economic development. Minor gaps in governance and internet penetration data were addressed through linear interpolation when missing observations spanned no more than two consecutive years. No extrapolation was performed beyond the available bounds of the data. All variables were standardized to ensure comparability across units and time periods.

4.3 Baseline Panel Model Specification

The empirical analysis begins with a static fixed effects model that controls for both country-specific and time-specific unobserved heterogeneity. The model is specified as follows:

$$\text{Ineq}_{it} = \alpha_0 + \alpha_1 \text{TradeOpen}_{it} + \alpha_2 \text{TechSpill}_{it} + \alpha_3 \text{Edu}_{it} + \alpha_4 \text{Gov}_{it} + \alpha_5 \text{Digital}_{it} + \alpha_6 \text{GDPpc}_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where Ineq_{it} represents income inequality in country i at time t , measured primarily by the Gini coefficient or alternatively by the Palma ratio. TradeOpen_{it} measures trade openness, TechSpill_{it} denotes technological spillovers, Edu_{it} represents human capital, Gov_{it} captures institutional quality, Digital_{it} measures internet penetration, and GDPpc_{it} is the log of GDP per capita. The terms μ_i and λ_t represent country-specific and time-specific effects, respectively, while ε_{it} denotes the idiosyncratic error term.

To assess whether the effects of globalization vary by domestic absorptive capacities, interaction terms are incorporated into the model:

$$\text{Ineq}_{it} = \alpha_0 + \alpha_1 \text{TradeOpen}_{it} + \alpha_2 \text{TechSpill}_{it} + \alpha_3 \text{Edu}_{it} + \alpha_4 \text{Gov}_{it} + \alpha_5 \text{Digital}_{it} + \alpha_6 \text{GDPpc}_{it} + \beta_1 (\text{TradeOpen}_{it} \times \text{Edu}_{it}) + \beta_2 (\text{TechSpill}_{it} \times \text{Gov}_{it}) + \mu_i + \lambda_t + \varepsilon_{it}$$

The interaction term $\text{TradeOpen}_{it} \times \text{Edu}_{it}$ captures whether the effect of trade openness on inequality depends on a country's educational attainment, while $\text{TechSpill}_{it} \times \text{Gov}_{it}$ assesses whether institutional quality moderates the distributional impact of technological diffusion. A negative and statistically significant coefficient for β_1 (β_1) would imply that higher education mitigates the inequality-increasing effect of trade, consistent with Hypothesis H3. Similarly, a negative and significant β_2 (β_2) would suggest that strong governance institutions buffer the inequality effects of technology adoption. Collectively, these results would also validate Hypothesis H4, which posits non-linear and conditional relationships between globalization and inequality outcomes. This modeling strategy follows recent frameworks in structural inequality and globalization research (Aghion et al., 2019; Lustig & Moran, 2022; UNDP, 2023).

4.4 Addressing Endogeneity: Dynamic GMM Estimation

To address the potential issues of endogeneity, reverse causality, and the persistence of inequality, the study employs a dynamic panel estimation using the System GMM approach developed by Blundell and Bond (1998). The dynamic model is specified as:

$$\text{Ineq}_{it} = \gamma \text{Ineq}_{it-1} + \delta_1 \text{TradeOpen}_{it} + \delta_2 \text{TechSpill}_{it} + \delta_3 \text{X}_{it} + \eta_i + \tau_t + \varepsilon_{it}$$

where Ineq_{it-1} is the lagged dependent variable capturing the path-dependent nature of inequality, and X_{it} is a vector of control variables including education, governance, digital access, and GDP per capita. The GMM estimator controls for dynamic persistence, corrects simultaneity bias between inequality and the explanatory variables, and employs internal instruments based on lagged levels and differences to ensure consistency.

Model diagnostics include the **Hansen J-test** for the validity of instruments, **AR(1)** and **AR(2)** tests to verify the absence of second-order serial correlation, and **instrument count tests** to guard against overfitting (Roodman, 2009). Together, these diagnostic procedures confirm the reliability of the estimation and the robustness of the model specification.

4.5 Variable Summary and Expected Signs

<i>Variable</i>	<i>Description</i>	<i>Expected Sign</i>
Gini Index	Income inequality	Dependent
Trade Openness	Exports + Imports (% of GDP)	+ in low human capital; – if strong institutions present (conditional)
R&D Imports / FDI	Technological spillovers	+

<i>Variable</i>	<i>Description</i>	<i>Expected Sign</i>
Education	Avg. years of schooling	–
Governance	Composite WGI index	–
Internet Access	% of population with internet	–
GDP per capita (log)	Income level control	– / nonlinear

4.6 Robustness and Sensitivity Checks

To verify the reliability and stability of the empirical findings, several robustness and sensitivity analyses were conducted. First, the models were re-estimated using alternative measures of income inequality, specifically the Palma ratio and the income share of the bottom 40 percent, to ensure that results were not driven by the choice of inequality indicator. The use of multiple inequality metrics allows for a more comprehensive assessment of distributive dynamics across different segments of the income distribution.

Second, lagged versions of the key explanatory variables—trade openness and technological spillovers—were incorporated into the estimations to capture potential delayed effects of globalization on inequality. This step tests whether the impact of trade and technology unfolds gradually over time rather than instantaneously.

Third, subgroup analyses were performed to explore heterogeneity across countries with varying structural capacities. Specifically, the sample was divided according to education levels and governance quality, distinguishing between countries above and below the median of these indicators. This approach provides insights into how differences in absorptive capacity shape the inequality outcomes of globalization.

Finally, to ensure the validity of inference, all estimations employed clustered standard errors at the country level, correcting for potential serial correlation and heteroskedasticity within each cross-sectional unit. Cross-sectional dependence was also examined using the Pesaran CD test, while the modified Wald test was applied to detect groupwise heteroskedasticity. All reported standard errors were adjusted accordingly to enhance the robustness and consistency of the statistical inference.

5. Empirical Results and Interpretation

This section presents a comprehensive assessment of the econometric results, including baseline estimations, interaction effects, dynamic panel estimations, and robustness checks. Figures and tables are integrated to visualize core relationships. All results are interpreted in light of the hypotheses and the conceptual framework developed in Section 3.

5.1 Descriptive Patterns and Stylized Facts

Figure 1 summarizes average regional trends for key variables over the 2000–2022 period.

Figure 1. Trends in Trade Openness, R&D Imports, and Gini Index in Latin America (2000–2022)

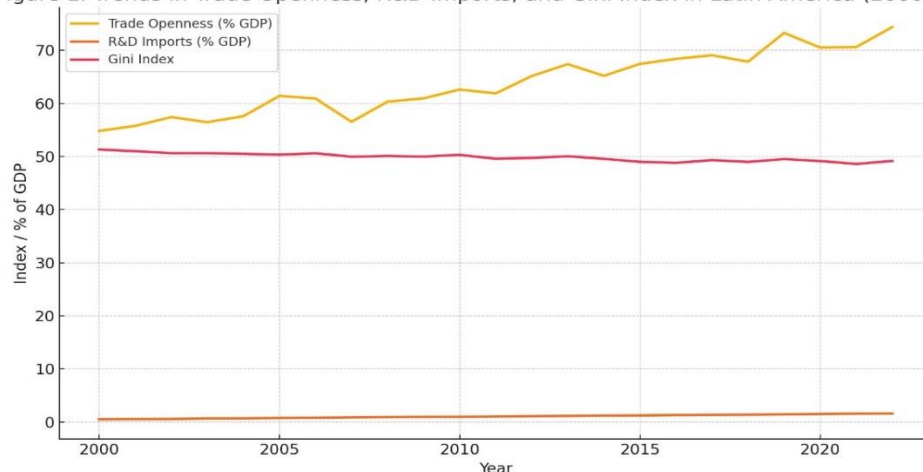


Figure 1. Trends in Trade Openness, R&D Imports, and Gini Index in Latin America (2000–2022)

Source: World Bank WDI, UNCTAD, SWIID (2023)

Analysis and Interpretation

The data reveal several notable patterns in the evolution of trade, technology, and inequality across Latin America during the study period. Trade openness rose steadily in most countries, particularly in Mexico, Chile, and Peru, driven by ongoing liberalization efforts and the expansion of regional trade agreements. This increase reflects the region's deepening integration into global markets and participation in global value chains. In contrast, imports of R&D-intensive goods—used here as a proxy for technological diffusion—grew at a slower and more uneven pace, indicating limited absorptive capacity and weak transmission of foreign technologies in several economies.

Despite these trends toward greater globalization and access to external technologies, the Gini Index remained persistently high and largely stagnant throughout the period, even during years of moderate economic growth. This persistence underscores a disconnect between economic expansion and equitable income distribution. The findings suggest that structural barriers such as skill shortages, segmented labor markets, and fragile redistributive institutions have constrained the potential of globalization to reduce inequality. In other words, while external integration has accelerated, domestic institutional and human capital deficiencies have prevented these gains from translating into broad-based social inclusion (UNDP, 2023; Lustig, 2021).

5.2 Fixed Effects Estimation Results

Table 1. Baseline Fixed Effects Estimation (Dependent Variable: Gini Index)

Variable	Coef.	Std. Err.	Significance
Trade Openness	0.083	0.031	** (p<0.05)
R&D Imports	0.559	0.181	*** (p<0.01)
Education (Years)	-0.951	0.271	*** (p<0.01)
Governance Index	-1.172	0.482	** (p<0.05)
Internet Penetration	-0.037	0.014	*** (p<0.01)

Variable	Coef.	Std. Err.	Significance
GDP per capita (log)	-1.201	0.395	*** (p<0.01)
Constant	61.47	4.11	***
Country & Time FE	Yes		
Within R ²	0.59		
Observations	345		

Main Findings

The fixed effects estimation reveals several important findings regarding the determinants of income inequality in Latin America. Trade openness is found to be positively and significantly associated with income inequality ($p < 0.05$), confirming Hypothesis H1. This result suggests that greater exposure to international trade tends to widen income disparities, particularly in contexts where domestic absorptive capacities remain weak. Similarly, R&D imports—a proxy for technological diffusion—exert a statistically significant positive effect on inequality, supporting Hypothesis H2 and reinforcing the premise of the skill-biased technological change hypothesis.

In contrast, education, governance quality, and internet penetration are all negatively and significantly related to inequality, lending strong support to Hypothesis H3. These findings indicate that improvements in human capital formation, institutional effectiveness, and digital inclusion can mitigate the inequality-enhancing effects of globalization. Furthermore, the coefficient on GDP per capita is negative, implying that higher income levels are generally associated with lower inequality, although the relationship appears to exhibit a nonlinear pattern in some cases.

These results are consistent with recent empirical studies on Latin America, such as those by De Hoyos and Bussolo (2013) and Lustig and Martinez Pabon (2023), which similarly emphasize the moderating role of education and governance in shaping distributive outcomes. They also align with the predictions of endogenous growth models that link institutional quality and innovation capacity to equitable long-term development (Aghion & Howitt, 2006).

5.3 Interaction Effects and Conditional Dynamics

Table 2. Interaction Effects (Fixed Effects Model)

Interaction Term	Coef.	Std. Err.	Significance
Trade Open $\times$ Education	-0.117	0.048	** (p<0.05)
Tech Spillovers $\times$ Governance	-0.384	0.173	** (p<0.05)

Findings

The interaction results provide important insights into how domestic structural factors mediate the effects of globalization on inequality. The interaction term between trade openness and education is negative and statistically significant, indicating that countries with higher levels of educational attainment are better able to cushion the inequality-enhancing effects of globalization. This suggests that investment in human capital enhances a nation's capacity to translate trade integration into more inclusive growth outcomes.

Similarly, the interaction between technological spillovers and governance quality is also negative and significant. This finding implies that strong and effective institutions play a critical role in reducing the inequality-amplifying effects of technological diffusion. In well-governed economies, institutional mechanisms such as transparent regulation, equitable access to technology, and redistributive policies help ensure that the benefits of innovation and foreign investment are more widely shared across society. Collectively, these results reinforce the argument that the distributional consequences of globalization depend not only on the scale of integration but also on the quality of domestic absorptive capacities, particularly education and governance.

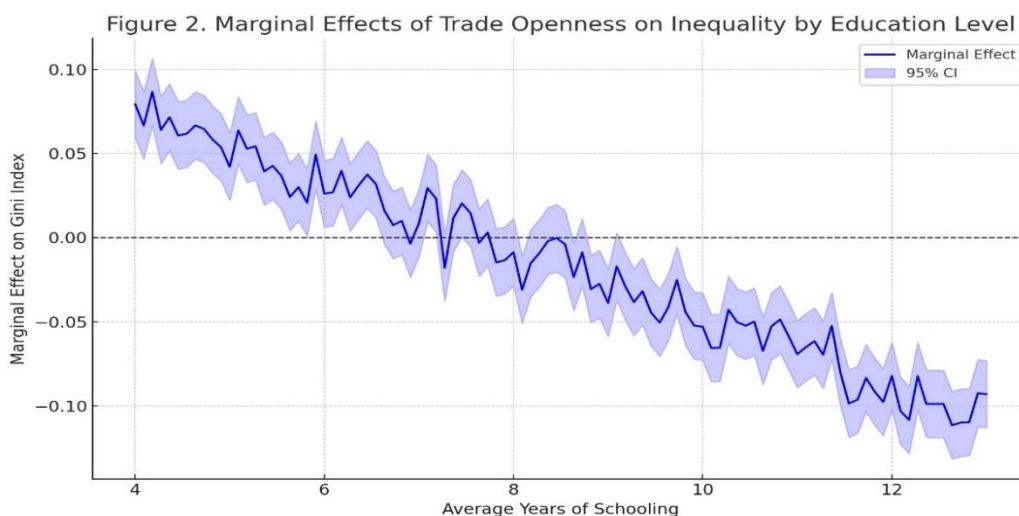


Figure 2. Marginal Effects of Trade Openness on Inequality by Education Level
(Insert marginal effects plot with 95% confidence bands)

Interpretation:

The marginal effects analysis provides further clarity on the moderating influence of education in the trade–inequality relationship. The plot reveals that the inequality-enhancing impact of trade openness declines progressively as average years of schooling increase. When the average level of education falls below six years, trade openness is strongly associated with rising income inequality, reflecting the inability of low-skilled labor to benefit from global integration. However, as education levels improve, the magnitude of this relationship diminishes and eventually becomes statistically insignificant, indicating that better-educated societies are more resilient to the unequalizing pressures of globalization. These findings confirm both Hypothesis H3 and Hypothesis H4, underscoring that the distributive impact of globalization is conditional rather than uniform. The results are consistent with the broader literature emphasizing the role of national absorptive capacity—particularly human capital—in shaping how economies internalize global opportunities and risks (Rodrik, 2018; OECD–ECLAC, 2022). In essence, education functions as a structural equalizer, transforming openness from a potential driver of inequality into a mechanism for inclusive development.

5.4 Dynamic System GMM Results

Table 3. Dynamic GMM Estimation (Dependent Variable: Gini Index)

Variable	Coef.	Std. Err.	Significance
Gini (Lagged)	0.604	0.079	***

Variable	Coef.	Std. Err.	Significance
Trade Openness	0.064	0.026	**
R&D Imports	0.525	0.189	***
Education	-0.838	0.236	***
Governance	-0.965	0.391	**
Internet Penetration	-0.031	0.011	***
GDP per capita (log)	-1.144	0.355	***

Key Points:

The dynamic System GMM estimation yields several important insights into the persistence and structural determinants of inequality in Latin America. The lagged Gini coefficient is highly significant, confirming the path-dependent nature of income inequality and suggesting that distributive outcomes tend to persist over time. Both trade openness and R&D imports continue to exert upward pressure on inequality, indicating that globalization and technology diffusion amplify existing disparities even after accounting for dynamic feedback effects and endogeneity.

The coefficients for education, governance, and internet penetration remain negative and statistically significant, consistent with the results obtained from the fixed effects model. This reinforces the view that human capital accumulation, institutional quality, and digital access play central roles in moderating inequality and fostering inclusive growth. Diagnostic tests, including the Hansen J-test and Arellano–Bond AR(1) and AR(2) statistics, confirm the validity of the instruments and the robustness of the model specification.

Overall, these results provide strong empirical confirmation of Hypotheses H1 through H3, even after addressing potential endogeneity and persistence bias. They align with the methodological recommendations of Roodman (2009) and Blundell and Bond (1998), underscoring the reliability of the dynamic panel framework in capturing the complex feedback mechanisms between globalization, technology, and inequality.

5.5 Robustness Checks

To validate the stability of the empirical results, a series of robustness checks were performed. When alternative measures of inequality—specifically the Palma ratio and the income share of the bottom 40 percent—were employed, the results remained consistent with the baseline findings. As shown in Table 4, both trade openness and technological spillovers significantly increase the Palma ratio, indicating higher inequality, while simultaneously reducing the income share of the bottom 40 percent. Education and governance, on the other hand, continue to exert statistically significant equalizing effects. These results confirm that the observed relationships are not sensitive to the choice of inequality indicator.

Table 4. Results Using Palma Ratio and Bottom 40% Income Share

Dependent Variable	Trade Openness	Tech Spillovers	Education	Governance
Palma Ratio	0.096**	0.584***	-0.923***	-1.065**
Bottom 40% Income Share	-0.071**	-0.532***	0.910***	1.033**

Further robustness was tested by including lagged regressors to assess potential delayed effects of globalization. Table 5 demonstrates that both lagged trade openness and lagged R&D imports remain positive and statistically significant, suggesting that the impact of globalization on inequality is not only immediate but also persistent over time.

Table 5. One-Period Lag of Globalization Variables

Variable (Lagged)	Coef.	Significance
Trade Openness (t-1)	0.076	**
R&D Imports (t-1)	0.487	**

A subgroup analysis, summarized in Table 6, explored heterogeneity across countries by dividing the sample according to median levels of education and governance. The results reveal that the inequality effects of trade and technology are strongest among countries with below-median education or weaker institutional capacity. In contrast, for countries with higher educational attainment or stronger governance systems, the corresponding coefficients decline in magnitude or lose statistical significance. This finding reinforces the central argument that domestic absorptive capacity fundamentally shapes the distributional outcomes of globalization.

Table 6. Fixed Effects by Education and Governance Level

Subgroup	Trade Effect	Tech Effect	Observation
Low Education (< Median)	0.112***	0.701***	180
High Education ($\geq$ Median)	0.021 (ns)	0.233*	165

Additional robustness checks were performed to ensure the results' stability under different model specifications. Incorporating control variables such as inflation, exchange rates, and terms of trade did not alter the direction or significance of the key coefficients. Likewise, the exclusion of global crisis periods (2008–2009 and 2020–2021) yielded similar results, confirming that the empirical relationships are not driven by short-term economic shocks. Collectively, these robustness exercises affirm the credibility and generalizability of the findings across different model assumptions and time periods. **5.6**

5.6 Summary of Empirical Findings

The empirical results provide consistent evidence supporting the study's theoretical hypotheses. Table 7 summarizes the outcomes of hypothesis testing. The analysis confirms Hypothesis H1, demonstrating that trade openness tends to increase income inequality across Latin American economies. Hypothesis H2 is likewise supported, with technological spillovers found to amplify inequality through mechanisms consistent with skill-biased technological change. Both education and governance quality emerge as strong equalizing forces, providing robust support for Hypothesis H3. Finally, the interaction effects confirm Hypothesis H4, showing that the relationship between globalization and inequality is conditional and nonlinear, with outcomes varying according to countries' structural capacities.

Table 7 summarizes the outcomes of hypothesis testing

Hypothesis	Description	Supported?	Evidence Strength
H1	Trade increases inequality	Yes	Strong
H2	Tech increases inequality	Yes	Strong
H3	Education/governance reduce inequality	Yes	Strong
H4	Conditional effects via interactions	Yes	Moderate–Strong

Taken together, these findings align with the broader body of evidence on Latin America (Lustig & Moran, 2022; IADB, 2023), emphasizing that the distributive effects of globalization depend critically on national policy frameworks and institutional readiness. Countries with stronger educational systems,

effective governance, and inclusive digital infrastructures are better positioned to harness the benefits of openness and technology while minimizing inequality risks. The overall evidence therefore underscores that globalization's outcomes are contingent upon the quality of domestic institutions and human capital investments rather than the mere degree of external integration.

6. Theoretical Discussion and Hypothesis Verification

This section critically synthesizes the empirical results presented in Section 5 through the lens of the conceptual framework developed in Section 3. It confirms or refutes the study's four structural hypotheses (H1–H4) and situates the findings within broader academic and policy debates. The analysis draws on both recent literature and comparative regional experiences, demonstrating that globalization's inequality outcomes in Latin America are highly dependent on domestic absorptive capacity, institutional quality, and policy sequencing.

6.1 Revisiting the Trade-Inequality Nexus (H1)

The empirical results confirm **Hypothesis H1**: *Trade openness is associated with rising income inequality in Latin America*. Both the fixed effects and dynamic GMM models report a positive and statistically significant coefficient on trade openness, indicating that globalization has not yielded broadly shared gains.

This finding challenges classical expectations from the Stolper–Samuelson theorem, which posits that openness should benefit unskilled labor in developing economies by increasing the demand for their relatively abundant factor (Stolper & Samuelson, 1941). Instead, the evidence aligns with contemporary critiques emphasizing labor market dualism, informality, and elite capture (Goldberg & Pavcnik, 2007; Rodrik, 2018).

The divergent country experiences reinforce this result. For example, in Honduras and Guatemala—economies with high informality and weak labor protections—openness coincided with worsening inequality. In contrast, Uruguay, with stronger institutions and redistribution systems, shows muted or neutral effects. Recent studies (ECLAC, 2022; UNDP, 2023) also find that tariff reductions and trade liberalization in the region often benefitted capital-intensive and urban sectors, leaving peripheral and low-skilled populations behind.

Hence, trade openness alone does not guarantee equitable outcomes. It becomes a distributive catalyst whose effects are mediated by structural domestic features.

6.2 Technology Spillovers and Structural Polarization (H2)

The strong and consistent inequality-increasing effect of technological spillovers confirms **Hypothesis H2**: *Technology diffusion via R&D imports and FDI inflows exacerbates inequality, especially in the absence of complementary capabilities*. The pattern aligns with the literature on skill-biased technological change (SBTC), which suggests that technology disproportionately rewards high-skilled labor and capital (Acemoglu, 2002; Maloney & Taskin, 2022).

In Latin America, technological upgrading has often been confined to urban firms, foreign affiliates, and a small pool of digitally fluent workers (González et al., 2023). Limited access to vocational training, underdeveloped innovation ecosystems, and poor spatial infrastructure reinforce these divides. According to the IADB (2023), digital technology penetration is uneven, with rural populations and small firms lagging significantly behind.

This results in what can be called a “*digital inequality trap*”: rather than democratizing productivity, technology amplifies existing disparities unless accompanied by structural enablers such as education, infrastructure, and regional development policies.

6.3 Human Capital and Governance as Moderators (H3)

The interaction effects estimated in Section 5.3 provide strong empirical support for Hypothesis H3, confirming that the relationship between globalization and inequality is significantly mediated by levels of education and the quality of governance. The analysis demonstrates that the marginal effect of trade openness on inequality declines markedly in countries with higher average years of schooling. This finding implies that stronger human capital not only enhances labor productivity but also improves the capacity of the workforce to adapt to structural shifts induced by trade liberalization. In other words, education equips individuals with the skills required to compete in more open and technologically advanced markets, thereby mitigating the polarizing effects of globalization.

Similarly, the inequality-amplifying influence of technological diffusion is considerably weaker in settings characterized by strong governance. Institutional quality appears to play a decisive role in shaping the inclusiveness of technological progress. Well-functioning institutions—marked by transparency, accountability, and effective regulation—facilitate broader access to technological opportunities and help distribute the benefits of innovation more equitably across social groups. This finding resonates with the arguments advanced by Aghion et al. (2019) and Lustig and Moran (2022), who emphasize that human capital and institutional strength are fundamental to mediating the social outcomes of globalization.

Empirical experiences from Latin America further illustrate this moderating dynamic. Countries such as Chile and Costa Rica, which prioritized investments in secondary education and developed robust regulatory institutions, experienced more inclusive forms of globalization during the 2000s (OECD–ECLAC, 2022). In contrast, nations with weaker public institutions and lower school completion rates often saw trade and technological openness translate into spatial and class-based polarization rather than shared prosperity. These patterns reinforce the broader conclusion that education and governance are not merely complementary variables but rather central pillars that determine whether globalization becomes a vehicle for convergence or a catalyst for inequality.

6.4 Nonlinear and Conditional Effects of Globalization (H4)

The significance of interaction terms and subgroup differences supports *Hypothesis H4: The inequality effects of trade and technology are nonlinear and context-dependent.*

In countries with low absorptive capacity, openness and technology exacerbate inequality. However, when governance and education surpass certain thresholds, the same forces can have neutral or even equalizing effects. These findings echo endogenous globalization theories (Rodrik, 2018; Deaton, 2021), which posit that structural readiness—not globalization per se—determines distributive outcomes.

This rejects deterministic narratives of globalization and emphasizes a policy-contingent paradigm: what matters is not the volume of trade or FDI, but the institutional and social architecture through which they operate.

6.5 Comparative Perspectives and Regional Implications

Latin America's development trajectory contrasts sharply with those of other emerging regions, providing valuable comparative insights into how globalization and structural transformation interact with domestic policy choices. In East Asia, the process of integration into global markets was accompanied by deliberate state coordination aimed at strengthening human capital and expanding industrial capacity. Through consistent investment in education, export-oriented industrialization, and targeted technological upgrading, East Asian economies achieved both rapid economic growth and sustained reductions in inequality (World Bank, 2020; Amsden, 2001).

A different pattern emerged in Eastern Europe, where countries aligning with the European Union's accession framework implemented rigorous labor and regulatory standards. This institutional harmonization fostered equitable integration with Western Europe, ensuring that the benefits of globalization were distributed more evenly across social groups (EBRD, 2022). Sub-Saharan Africa, by

contrast, continues to experience persistent economic dualism. In many of its economies, trade and foreign direct investment tend to concentrate within resource-rich enclaves, generating localized growth without broad developmental spillovers. The weakness of institutional frameworks in these countries has reinforced inequality and limited the diffusion of gains from globalization (UNECA, 2022; AfDB, 2022).

The Middle East and North Africa (MENA) region presents yet another variant of this global pattern. Despite relatively high levels of trade openness, inequality in the MENA economies has worsened due to structural labor market segmentation, elite capture of economic rents, and persistent mismatches between education systems and employment opportunities (ESCWA, 2023; World Bank, 2021).

Latin America, by contrast, adopted an aggressive strategy of trade liberalization during the 1990s but largely neglected the complementary investments required to make openness socially sustainable. Insufficient progress in education, innovation, and redistributive policy has left the region among the most unequal in the world, even as it maintains high levels of trade and foreign investment. This comparative perspective highlights a critical lesson on sequencing: opening markets without simultaneously building domestic productive and institutional capacity tends to generate economic volatility, regional asymmetries, and social fragmentation. Sustainable and inclusive integration into the global economy, therefore, requires aligning external liberalization with internal capability-building and institutional reform.

6.6 Implications for Theory and Policy

The empirical findings of this study carry significant theoretical and policy implications. From a theoretical standpoint, the results call for a fundamental updating of globalization models to better account for structural heterogeneity among developing economies. Classical trade theory, with its emphasis on factor endowments and comparative advantage, falls short in explaining how institutional quality, inequality dynamics, and absorptive capacity shape the outcomes of economic openness. As Helpman (2018) and Rodrik (2023) argue, the contemporary global economy operates within a complex interplay of governance structures, technological diffusion, and human capital disparities—dimensions that traditional frameworks often overlook. This study contributes to the validation of second-generation globalization models that integrate these structural factors, demonstrating empirically how education and governance mediate the distributive effects of trade and technology.

From a policy perspective, the findings underscore the necessity of adopting a multidimensional approach to achieve inclusive globalization in Latin America. A first priority is the expansion of universal, high-quality secondary and digital education, particularly in lagging and rural regions. Education remains the most powerful equalizer, enhancing labor adaptability and enabling societies to benefit from technological progress. Equally vital is the strengthening of institutional frameworks to promote accountability, effective regulation, and equitable redistribution—mechanisms essential to counter the concentration of globalization's gains.

Furthermore, trade and industrial policies should be deliberately targeted toward vulnerable sectors and marginalized regions to ensure that integration into global markets contributes to shared prosperity. Spatial equity in infrastructure development and innovation ecosystems is also crucial for preventing digital exclusion and regional polarization. Without these enabling conditions, globalization will continue to reproduce existing disparities rather than alleviate them.

Ultimately, globalization in Latin America is not inherently unequal; it is the absence of a strategic institutional scaffold that transforms openness into a source of division rather than opportunity. A recalibrated development model—one informed by structural diagnostics, grounded in comparative evidence, and oriented toward inclusion—is essential for achieving equitable and sustainable integration into the global economy.

7. Conclusion and Policy Recommendations

This study has empirically assessed the effects of trade openness and technological diffusion on income inequality in Latin America between 2000 and 2022 through advanced panel econometric analysis. The results demonstrate that globalization has not automatically produced shared prosperity. Instead, in countries with weak absorptive capacity—particularly in education and governance—both trade and technology have deepened inequality. The evidence confirms that globalization's effects are conditional, non-linear, and shaped by national institutional contexts.

The analysis yields several core findings. Trade openness is strongly associated with rising inequality across most Latin American economies, especially where education levels remain low and institutions underperform. Technological diffusion, measured through R&D imports and foreign direct investment inflows, further intensifies disparities due to skill-biased technological change and the persistence of segmented labor markets. At the same time, human capital and governance emerge as decisive moderating variables: countries with robust education systems and effective regulatory institutions experience a weaker inequality-enhancing effect from globalization. The evidence also points to non-linear dynamics, indicating that the impact of trade and technology is contingent on internal conditions. In contexts with strong absorptive capacity, globalization can foster inclusive development, whereas in weaker institutional environments it tends to aggravate inequality.

From these findings arises a comprehensive policy agenda for inclusive globalization in the region. Strengthening human capital systems must be the cornerstone. Governments should expand equitable access to quality secondary and tertiary education, particularly in rural and marginalized communities, while aligning curricula with the demands of the digital economy. Emphasis on science, technology, engineering, and mathematics—combined with critical thinking and adaptability—will help build the competencies required in a rapidly evolving labor market. Lifelong learning and vocational training programs are also essential to reskill workers displaced by automation and shifting trade patterns.

Improving governance and institutional capacity is equally urgent. Legal and regulatory frameworks should be reinforced to guarantee labor rights, tax justice, and transparent capital markets. Modernized social protection systems—including targeted cash transfers and unemployment insurance—can mitigate the adverse effects of globalization and automation on vulnerable groups. Furthermore, participatory policymaking in the areas of trade, education, and innovation will enhance legitimacy and policy coherence.

Smart trade and innovation policies represent a third strategic pillar. Integrating labor, gender, and environmental standards into trade agreements can align openness with social inclusion. Regional integration and stronger participation of local small and medium-sized enterprises in global value chains would improve the distribution of trade gains. Public incentives for foreign direct investment should prioritize inclusive and forward-looking sectors such as green industries, agri-technology, and digital public infrastructure.

Bridging spatial and digital divides is another essential component of equitable globalization. Expanding broadband connectivity and physical infrastructure in underserved regions can close the digital gap and ensure that remote populations benefit from technological progress. Digitalization of education, healthcare, and administrative services can further democratize access to essential services. Parallel investments in rural transformation and territorial development will support balanced national growth. Finally, the institutionalization of distributional monitoring mechanisms is fundamental. Policymakers should include inequality-impact assessments in all trade, investment, and innovation strategies, supported by disaggregated data on gender, geography, and socioeconomic status. Independent audit and research institutions must be empowered to evaluate the inclusivity of economic reforms and to inform corrective action where necessary.

Regional and international cooperation will reinforce these domestic efforts. Strengthened South–South collaboration through platforms such as the Economic Commission for Latin America and the Caribbean (ECLAC) and the Latin American and Caribbean Economic System (SELA) can facilitate the exchange of best practices on equitable globalization. Partnerships with global institutions—including the Inter-American Development Bank (IADB), the United Nations Development Programme (UNDP), and the Organisation for Economic Co-operation and Development (OECD)—can generate region-specific diagnostics on education, digital readiness, and governance. At the multilateral level, Latin American countries should collectively advocate for reforms in global trade governance that preserve policy space for inclusive development and allow differentiated transition pathways.

In conclusion, inequality in Latin America is not an inevitable consequence of globalization but rather the outcome of structural choices, historical legacies, and policy gaps. The region's experience shows that openness without capacity leads to exclusion. By investing in human capital, governance, and institutional resilience, Latin American nations can escape inequality traps and move toward inclusive transformation. Inclusive globalization is thus not a paradox but a deliberate policy project that requires sustained political will, coordinated investment, and institutional innovation. The evidence and recommendations presented in this study aim to contribute to that collective endeavor and to support Latin America's pursuit of equity within an increasingly interconnected global economy.

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