

# Economic Relations between the European Union and Latin America and the Caribbean

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## EXECUTIVE SUMMARY

Despite the fact that a certain level of dissatisfaction is frequently expressed on both sides of the Atlantic, economic relations between the European Union (EU) and the countries of Latin America and the Caribbean (LAC) have grown stronger over recent decades, although the momentum has slowed in more recent years, because of the trade between LAC and China. The signing of partnership agreements between the EU and most of the countries of LAC has led to an increase in external trade between the two regions, while at the same time the EU countries have remained the main source of direct foreign investment in LAC.

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There has also been an increase in investment by companies in LAC in countries of the EU. Nevertheless, the agreement between the EU and Mercosur, the largest market in LAC, is still awaiting ratification.

The COVID-19 pandemic and the growing impacts of climate change have renewed the momentum behind the need for close cooperation between both regions. The EU and its Member States have provided 3 billion euros of immediate medical aid to LAC. The EU has exported more than 130 million doses of vaccine to LAC countries, and is one of the principal contributors to the COVAX facility, which has given the region 50 million doses. The Member States of the EU have donated a further 10 million doses to almost half the LAC countries.

As for climate change, the two regions have been closely aligned since the Paris Agreement on Climate Change was negotiated at COP21 (December 2015). Europe has prioritised the ecological transition, the digital transformation and sustainable development in its regional and bilateral cooperation programmes, and the LAC countries are receptive to the means of implementation (climate finance, technology transfer and capacity development) to stimulate climate change mitigation and adaptation. These two regions are perhaps those which have given greatest political support to the implementation of the Paris Agreement, along with groups of countries such as the Small Island Developing States (SIDS) and the Low-Income Countries (LIC).

3.4 billion euros will be made available to LAC as part of the multi-annual programming (2021-2027) of NDICI-Global Europe, to support a green and sustainable recovery from the pandemic. In addition, the EU intends to raise over 12 billion euros of public and private investment in the region through the European Fund for Sustainable Development Plus (EFSD+). The Regional Multi-Annual Indicative Programme (MIP) of the EU for LAC (2021-27) will support the green transition, the digital transformation, the sustainable and inclusive economy, democratic government, security and migration, as well as social cohesion and the fight against inequality. Human development and education will play a leading role in these areas. Achieving greater growth, stability and security in the LAC countries makes their markets more attractive to EU companies, both for trade and for investment.

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**3.4 BILLION EUROS WILL BE MADE AVAILABLE TO LAC AS PART OF THE MULTI-ANNUAL PROGRAMMING (2021-2027) OF NDICI-GLOBAL EUROPE, TO SUPPORT A GREEN AND SUSTAINABLE RECOVERY FROM THE PANDEMIC. IN ADDITION, THE EU INTENDS TO RAISE OVER 12 BILLION EUROS OF PUBLIC AND PRIVATE INVESTMENT IN THE REGION THROUGH THE EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT PLUS (EFSD+).**

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# ECONOMIC SITUATION

## OF THE EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN

The COVID-19 pandemic provoked a severe economic recession from March 2020, causing a significant fall in the Gross Domestic Product (GDP) of both regions, with greater impact in those countries linked to tourism and the production of certain raw materials (including the countries of the Caribbean, the south of Europe, and the exporters of hydrocarbons). In Latin America and the Caribbean this was the largest economic contraction ever recorded.

Table 1 shows the GDP growth rates estimated by the International Monetary Fund, along with a comparison of the GDP of 2022 and 2019.

While the world will have seen an accumulated growth rate of 7.13% between 2019 and 2022, there are marked differences between regions and countries (this is based on the projections of the International Monetary Fund – IMF – for 2022, produced in January 2022, before the Russian invasion of Ukraine). So, for example, China and India will have seen growth of 15.9% and 10.1%, respectively, continuing their growth trend from before the pandemic (although growing at a somewhat slower rate in the case of China).

Among the developed countries, the United States stands out with a 6.1% growth compared with 2019, recovering its pre-pandemic growth trajectory. But other countries such as Japan, Italy and Germany in 2022 will hardly reach their 2019 level, and Spain will see a slight fall. We should remember that these countries have low demographic growth (or in some cases the population is decreasing).

Latin America and the Caribbean as a whole will have very weak growth, with an accumulated average of 1.8% between 2019 and 2022, which, translated into per capita terms, represents a contraction over this period.

Ecuador and Mexico, exporters of hydrocarbons, are experiencing the weakest recovery, to the extent that they will not reach 2019 levels until 2022. This may, of course, change given the evolution in the price of crude oil, gas and other raw materials as a result of the Russian invasion of Ukraine. The conflict in Ukraine will also affect agricultural production. For example, Brazil

**TABLE 1.**  
**GDP GROWTH RATE**

	2020	2021	2022	2022/2019 (p) (2019=100)
<b>World</b>	-3.1	5.9	4.4	107.1
<b>Advanced Economies</b>	-4.5	5.0	3.9	104.2
EEUU	-3.4	5.6	4.0	106.1
Eurozone	-6.4	5.2	3.9	102.3
- Germany	-4.6	2.7	3.8	101.7
- France	-8.0	6.7	3.5	101.6
- Italy	-8.9	6.2	3.8	100.4
- Spain	-10.8	4.9	5.8	99.0
United Kingdom	-9.4	7.2	4.7	101.7
Japan	-4.5	1.6	3.3	100.2
<b>Emerging and Developing Countries</b>	-2.0	6.5	4.8	109.4
- China	2.3	8.1	4.8	115.9
- India	-7.3	9.0	9.0	110.1
<b>Latin America and the Caribbean</b>	-6.9	6.8	2.4	101.8
- Argentina	-9.9	10.0	3.0	102.1
- Brazil	-3.9	4.7	0.3	100.9
- Chile	-5.9	12.0	1.9	107.4
- Colombia	-6.8	10.2	4.5	107.3
- Ecuador	-7.8	2.8	3.5	98.1
- Mexico	-8.2	5.3	2.8	99.4
- Peru	-11.0	13.3	2.8	103.7

Source: World Economic Outlook, IMF, January 2022; IMF projections  
(p) Projection in January 2022 (before the Russian invasion of Ukraine)

is the fourth world consumer of fertiliser (after China, India and the United States) and the biggest importer of these inputs. Soya is the principal crop that uses fertiliser in the country. Together with maize, cane sugar and cotton, these four crops use over 90% of the fertiliser produced or imported by Brazil. Brazil imports 85% of the fertiliser it uses, and Russia represents 23% of these imports.

Although it is rather soon to be able to estimate the macroeconomic impacts of the conflict on Eastern Europe, it will also result in the loss of markets for certain products exported by LAC (for example, flowers and bananas). The impact on the EU countries will no doubt be more significant, including the influx of refugees and the loss of markets and investments (as well hydrocarbons, fertilisers, minerals and food becoming more expensive).

In Latin America and the Caribbean, the group of countries which suffered the biggest contraction were those which are highly dependent on tourism. The Caribbean countries dependent on tourism fell by an average of 9.5% in 2020, and only recovered by 2.3 % in 2021, according to IMF estimates (IMF, 2021, p.10). ECLAC highlights the problem of interrupted global supply chains, which particularly affects the larger economies of LAC, such as Brazil, Mexico and even Argentina, which have the most extensive manufacturing facilities.

The crisis also led to an increase in unemployment and underemployment in both regions. The number of people living in extreme poverty in Latin America increased from 81 to 86 million as a result of the social and health crisis caused by the ravages of the Covid-19 pandemic. The rate of extreme poverty in Latin America rose from 13.1 per cent of the population in 2020 to 13.8 per cent in 2021, a regression of 27 years. (ECLAC, 2022).

One factor to be borne in mind is the unequal impact of the pandemic on different countries and regions. The most reliable indicator (as it does not depend on the availability of proof) is perhaps excess deaths, which affected some European and Latin American countries particularly severely. According to estimates made by The Economist (based on deaths recorded and population projections), the countries worst affected were those in Table 2.

Among the 12 countries most affected are four member countries of the European Union (Bulgaria, Lithuania, Romania and Poland) and two in Latin America (Peru and Mexico). Other countries which were previously at the top of the table no longer feature in it thanks to effective vaccination campaigns (for example, Ecuador).

**TABLE 2.**  
**EXCESS DEATHS PER 100,000 PEOPLE**

(latest available figures from 4 March 2022)

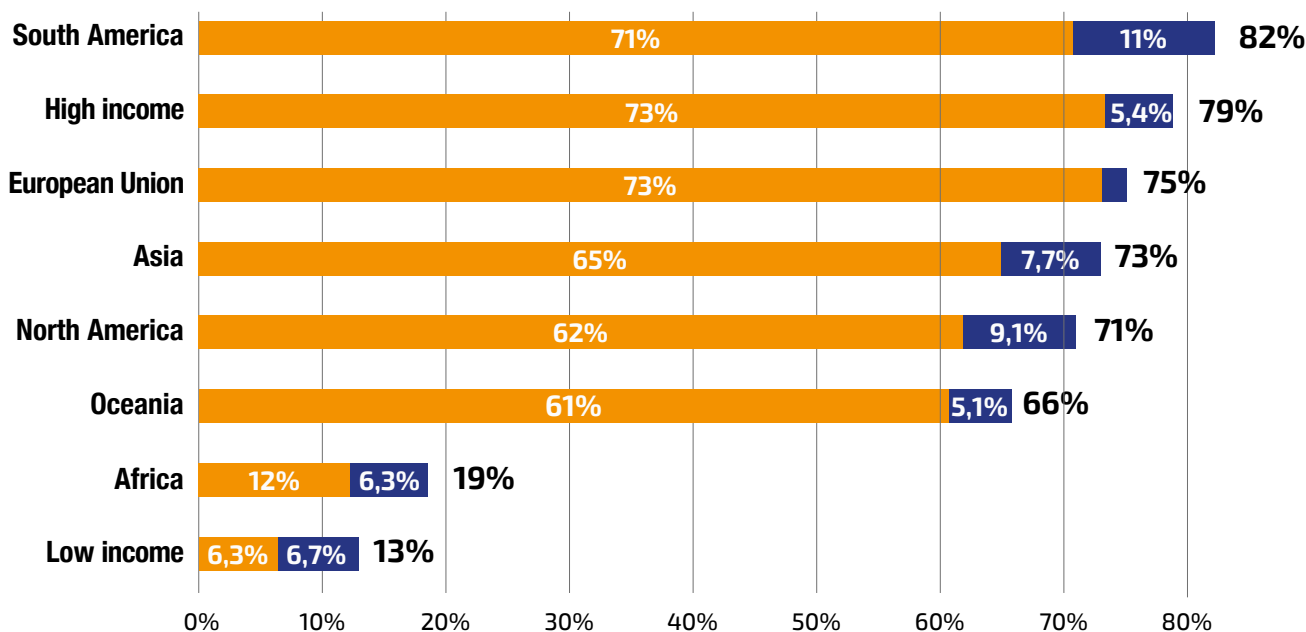
Bulgaria	972
Serbia	779
Russia	748
North Macedonia	736
Lithuania	669
Peru	649
Romania	613
Albania	521
Bosnia and Herzegovina	515
Poland	482
Montenegro	476
Mexico	471
Ecuador	403
Bolivia	390

Source: The Economist, [www.economist.com/graphic-detail/coronavirus-excess-deaths-tracker](https://www.economist.com/graphic-detail/coronavirus-excess-deaths-tracker)

Vaccination rates are themselves a significant indicator, as they have reduced levels of hospitalisations and deaths, and have also helped the economic recovery.

We should point out here that South America currently has the highest average level of vaccination amongst its population, whereas the European Union is in second place; on the other hand, it is deplorable that many low-income countries, especially in Africa, continue to have low levels of vaccination (two years after the start of the pandemic, and over one year since vaccines became available).

Share of people vaccinated against COVID-19. Mar 4, 2022



Source: Official data collated by Our World in Data

■ Share of people with a complete initial protocol  
■ Share of people only partly vaccinated

The pandemic has exacerbated existing structural challenges, including inequality, informal employment, gender-based violence and insecurity. Over 30 million jobs were lost in LAC because of the pandemic (including 8 million in the formal sector), and things had not returned to pre-pandemic levels by 2022 (EU-LAC Foundation, 2022, p. 15). In Europe it was possible to implement policies of guarantees, loans and support with cash flow, making it possible to preserve more jobs.

**THE SOCIAL UNREST AND POLITICAL INSTABILITY WHICH HAVE BEEN A FEATURE OF LAC IN RECENT YEARS COULD BECOME WORSE AS ECONOMIC DIFFICULTIES CONTINUE, ESPECIALLY FOR WOMEN, THEREBY UNDERMINING SOCIAL COHESION, DEMOCRACY, RESPECT FOR HUMAN RIGHTS AND THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS (SDGS).**



# ECONOMIC POLICIES

## ADOPTED BY COUNTRIES TO DEAL WITH THE ECONOMIC RECESSION

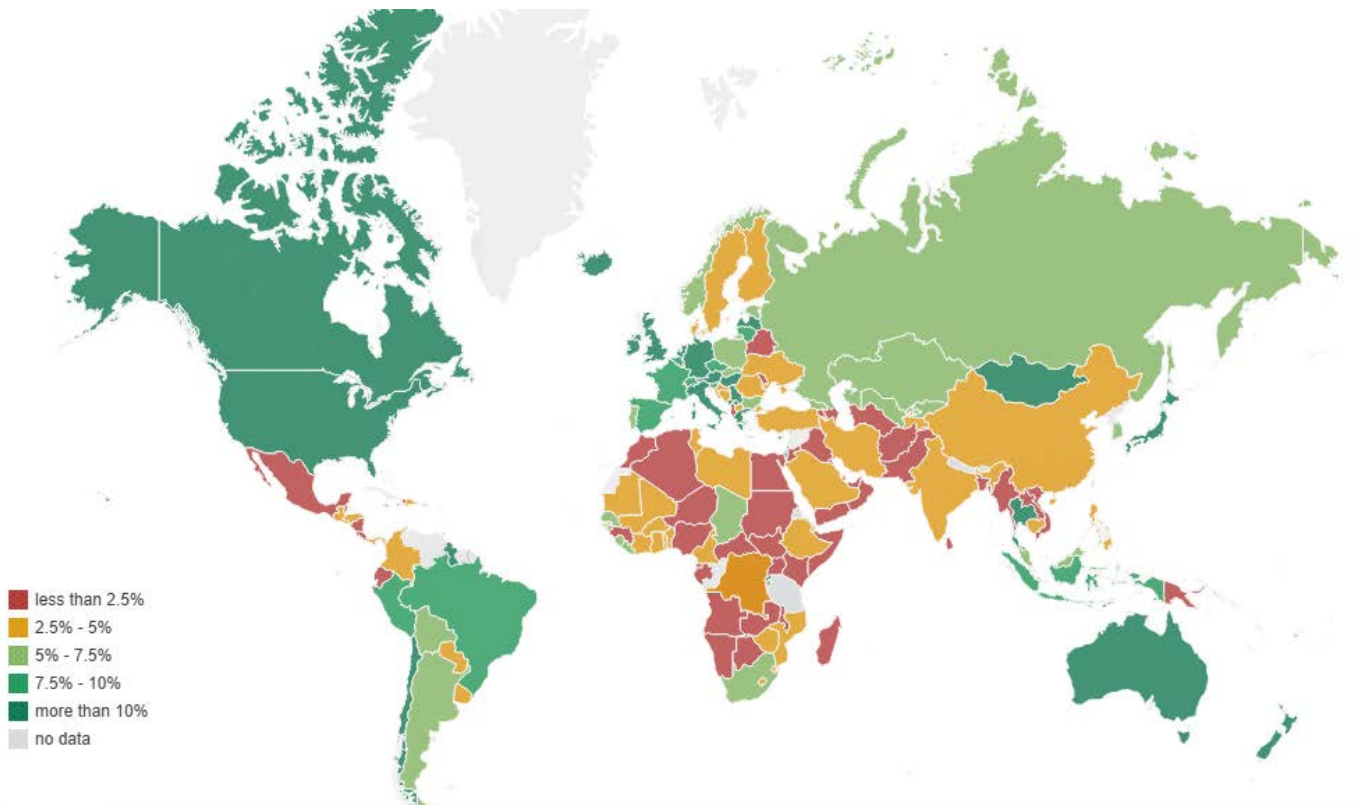
The COVID-19 pandemic has dealt a blow to the world economy and also raised a series of huge challenges on both sides of the Atlantic. The health crisis arose at a time when the multilateral system of economic governance had become weaker and protectionism had increased after the global financial crisis of 2008-9 (exacerbated by the election of Donald Trump as President of the United States).

Most of the member countries of the Organization for Economic Cooperation and Development (OECD) implemented fiscal policies to support individuals and companies in dealing with the pandemic. The advanced

countries used an average of 17% of GDP on additional costs or tax reductions; in addition, they offered a further 10% of GDP to help companies with cash flow (capital investment, loans or guarantees).

The United States stands out in particular, having increased public expenditure by 25.4% of GDP, and also offered guarantees and loans of 2.4% of GDP. Among the EU countries, Germany stands out (increased expenditure of 13.6% of GDP, guarantees and other cash flow support of 27.8% of GDP) and Italy (increased expenditure of 10.9% of GDP, guarantees and loans of 35.3% of GDP).

**Additional spending and forgone revenue in response to the COVID-19**  
(percent of 2020 GDP)



Source: FMI, 2021b

Budgetary fiscal support to people and firms has varied widely across countries.

In the emerging countries, the level of fiscal stimulus was generally much lower, with an average of 5% of additional expenditure (or tax reductions), and 3% in guarantees or loans. Among the emerging countries with the highest levels of fiscal stimulus were Chile (14.1% of GDP), Brazil (9.2% of GDP) and South Africa, while Mexico only had a 0.7 % increase in expenditure.

Some Latin American countries had little or very low fiscal stimulus (Belize, Ecuador). The same can generally be said of low-income countries (Haiti, for example, only increased public expenditure by 0.1 % of GDP, and offered loans and guarantees of 0.6% of GDP).

In some countries, more expansive monetary policies were put into effect, including reductions in interest rates. However, by the end of 2021, some of these expansive policies were reversed because of rising inflation in several countries.

Excluding energy and food, there was a rapid increase in underlying inflation in Brazil (7.2%), Chile (6.4%) and Mexico (5.9%), which suggests inflation may be more widespread, although great variation can be seen among the different countries. Several factors have contributed to this situation: an increase in the price of raw materials and imports (partly attributable to fluctuations in global supply), exchange rate depreciation, the activation of pent-up consumer demand and a shift in spending from services to goods. (Goldfajn et al., 2022).

The increase in public expenditure, within the context of lower tax revenues, translated into an expansion of the fiscal deficit and a substantial increase in public debt. Central government deficits reached an average of 6.9% of GDP in 2020, and then reduced to 5.0% of GDP in 2021 in Latin America (ECLAC, 2022).

The average gross public debt of central government in Latin America reached 54.7% of GDP in September 2021; at country level, Argentina reached a level of public debt of 91.1% of GDP, followed by Brazil with 83% of GDP. In Barbados, Belize, Jamaica and Surinam, debt levels were close to or higher than 100% of PIB. In the European Union they reached an average of 93.1% of GDP (98.9% of GDP for Eurozone countries).

LAC is the region which services the largest external debt measured as a proportion of its exports of goods and services (59% in 2020). Restrictions in cash flow and finance also affected the manufacturing sector: the debt of the region's non-financial corporate sector increased from 38.7% to 43.7% of GDP between the last quarter of 2019 and the last quarter of 2020 (IIF, 2021).

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**WITH THE ECONOMIC REACTIVATION (NOW CHALLENGED BY THE CONFLICT IN EASTERN EUROPE) AND THE REDUCTION IN DEATH RATES CAUSED BY THE PANDEMIC (THANKS TO VACCINATION), IT IS HOPED THAT FISCAL DEFICITS WILL GRADUALLY REDUCE, AND THAT PUBLIC DEBT WILL RETURN TO SUSTAINABLE LEVELS AT THE SAME TIME. USING FISCAL AND MONETARY CONTRACTION TO DEAL WITH INFLATION COULD HAVE RECESSIONARY EFFECTS, THEREFORE MAINTAINING MULTILATERAL AND BILATERAL LEVELS OF FINANCE FOR PRIORITY AREAS (FOR EXAMPLE, THE ECOLOGICAL TRANSITION) COULD HELP BRING ABOUT A MORE GRADUAL ADJUSTMENT.**

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# BI-REGIONAL TRADE RELATIONS, PARTNERSHIP AGREEMENTS

Trade flows between the two regions have increased. The EU is the third biggest trading partner of LAC, after the USA and China, whereas the LAC countries are the fifth source of imports to the EU, after China, the United States, the United Kingdom and Switzerland. On the other hand, bi-regional trade continues to be concentrated in a small number of countries in each region and trade relations are asymmetric.<sup>2</sup>

Trade agreements are in place with 27 of the 33 countries in LAC. In the case of Chile and Mexico, processes are being set up to modernise the agreements in force.

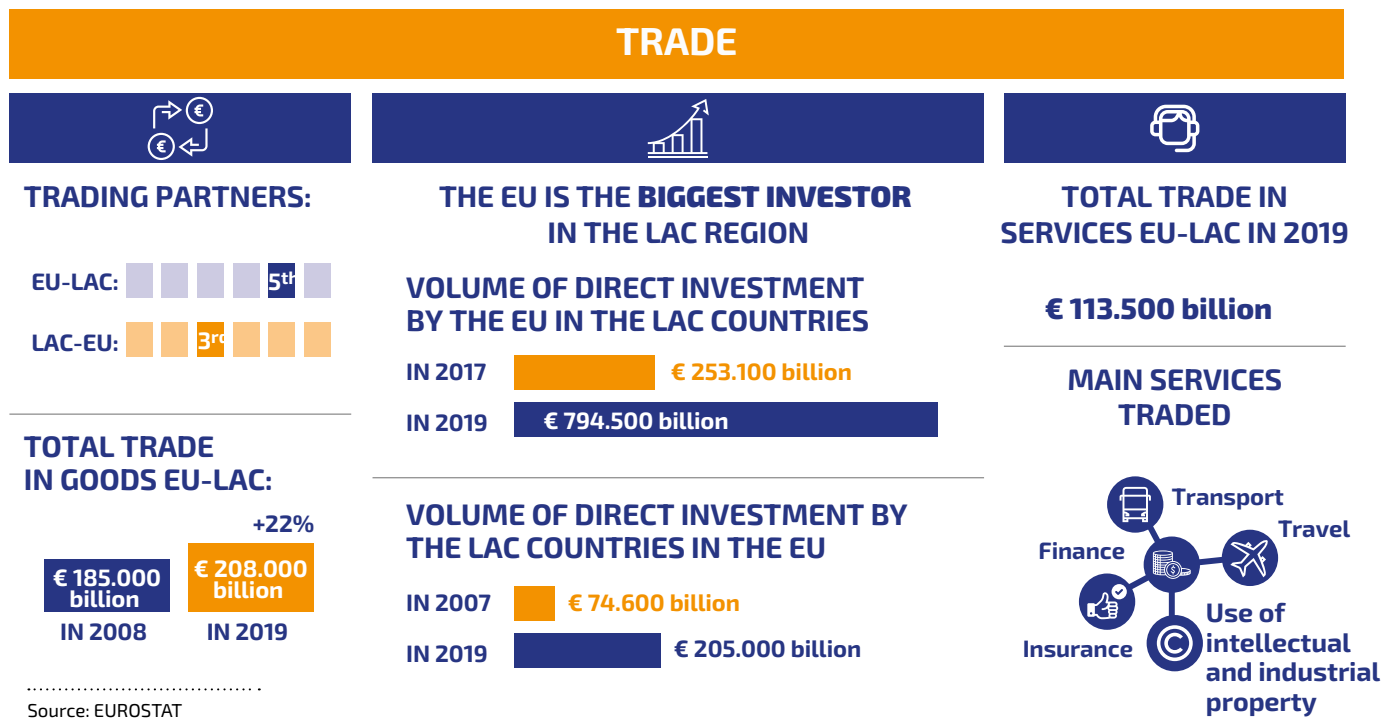
Other agreements are still under negotiation, in particular the EU-MERCOSUR agreement; a preliminary agreement was reached in June 2019, although there have been difficulties with the ratification process in both regions. When it is ratified, it will reach a total of 31 LAC countries with trade agreements and the partnership with the European Union.

There is a trade agreement under negotiation between the EU and Bolivia; a partnership agreement has not

been established with Venezuela; in the case of Cuba, there is a cooperation and political dialogue agreement.

The total amount of trade in goods between the EU and the countries of LAC was 176 billion euros in 2020, or 4.8% of the total trade of the EU with the world. Trade between the EU and LAC fell by almost 16% in 2020, owing to the COVID-19 pandemic, whereas LAC recorded its worst performance since the global financial crisis, with a fall in exports and imports of 13% and 20% respectively (EEAS, 2021).

In the case of Central America, according to EUROSTAT data, the trade flow between the EU and Central America has risen to 10.7 billion euros in 2020. The trade balance of the EU with Central America showed a deficit (for the EU) of 900 million euros in 2019 (the previous year there was a surplus of 400 million euros). In particular, there was a fall in exports of mineral oil, machinery and chemical products from the EU to the sub-region. Bilateral trade with Central America was particularly affected by the COVID-19 pandemic in 2020.



2. There are agreements with Mexico (2000) and Chile (2002), which are in the process of modernisation (negotiations with Mexico concluded in 2020); with Peru (2012), Colombia (2012), Ecuador (2017), Central America (2012); with Mercosur (2019), pending ratification after twenty years of negotiations, and with the countries of the ACP group – Economic Partnership Agreement (EPA) EU-Cariforum currently in the process of being updated post-Cotonou.



The EU is the third trading partner of the Andean countries and a major investor in them. In 2020, the total trade of the EU with the Andean countries rose to around 21 billion euros. The Andean countries export to the EU agricultural products (50.1%), fish products (14.5%) and mineral products (18.6%). The EU mainly exports manufactured products to the Andean countries (90%), especially machinery and transport equipment (34%) and chemical products (24.7%).

According to the assessment made by the Economic Partnership Agreement between the EU and the Caribbean countries, carried out by the EC in 2021, the value of trade in goods between the Cariforum and the EU reduced from 9.5 billion euros in 2008 to 8.828 billion euros in 2020. This decrease may be largely attributed to the decrease in exports from the CARIFORUM to the EU, while exports from the EU to the CARIFORUM increased in the same period.

As a consequence of the changes at global level, and of Asian markets becoming drivers of international trade, the EU has lost market share in recent decades, mainly to the benefit of China.

Consolidating the LAC-EU architecture of integration is coming up against a series of challenges in political economy, which help explain the difficulties of, for example, concluding the Agreement between the EU and Mercosur. Firstly, on the European side, powerful agricultural lobbies have opposed giving greater access to the European market to some sectors where LAC has a comparative advantage. Some organisations in EU civil society also influence free trade agreements, criticising them for offering the possibility of diluting European standards in areas such as environmental protection, employment rights, genetically modified foods and, more recently, privacy and the processing of personal data.

On the LAC side, there is resistance to liberalising strategic manufacturing industries in some countries and protectionist instincts in areas such as government purchasing, aspects which are increasingly important in trade negotiations. All these matters have come up during the EU-Mercosur negotiations, which have been going on for 20 years – and they have become obstacles to the agreement being ratified by national legislatures.

On the other hand, certain factors have favoured the resolution of these issues. Firstly, the importance of the European market, especially for LAC's agricultural exporters, has created incentives for governments of the region to reinforce protection in areas of great importance such as the environment and employment rights. The fact that the EU negotiates trade policy on behalf of its member States only reinforces this dynamic. Furthermore, EU agreements and cooperation have become more attractive because of the contrast with the occasionally protectionist and unstable trade policy of the United States, and the growing caution of some actors in the region towards the influence of China.

Nevertheless, there is still high trade dependence on China in the countries producing raw materials, hydrocarbons and agri-food products; there is increasing Chinese investment in infrastructure, technology and the extractive industry, as well as a certain dependence on medical inputs, as seen in the pandemic.

Growing trade liberalisation under the WTO may help overcome institutional obstacles and provide opportunities to reduce trade barriers and improve medium-term convergence. At the same time, the potential long-term benefits of free-trade agreements are becoming increasingly clear.<sup>3</sup>

The pandemic and the resulting economic recession have highlighted the importance of access to international markets and of the need to strengthen logistics chains for international trade. In particular, we need to reinforce the participation of micro, small and medium-sized businesses (MSMEs) in external trade, which also acts as a mechanism for greater social inclusion.

To this we can add the initiatives aligned with the "Global Gateway" which seek to overcome the logistical restrictions that have affected the process of integration. Finance is being sought for ports, airports, roads, railways and other infrastructure to facilitate trade integration, in addition to information and communications technology.

Bilateral and sub-regional trade agreements should be better linked to the programmes of technical and financial cooperation that should support these agreements, a link which is not always clear (Jung, 2021, p. 11).

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3. EU agreements with Chile and Mexico are being modernised, and the agreements with the Caribbean and MERCOSUR are in the process of ratification.

## INVESTMENT RELATIONS, BILATERAL INVESTMENT TREATIES

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The EU is the principal source of foreign direct investment (FDI) in LAC, with an estimated volume of some 794 billion euros in 2019.

Moreover, these are investments of greater quality and technological content, especially in renewable energies and key sectors for the ecological transition, as well as in information and communications technology (ICT), infrastructure, and the automotive and aeronautics industry. They are important promoters of a more sustainable and digital economic model in the region.

Meanwhile, there are considerable investments from LAC into the EU; in recent years these have increased to around 205 billion euros in 2019 (concentrated in infrastructure, construction, cement, and information and communications technology).

These investment streams have been helped by the existence of bilateral investment treaties between the EU countries and some countries in LAC.

European Foreign Direct Investment (FDI) has concentrated on the following sectors:

- Information and communications technology
- Infrastructure (including electricity, water and sanitation)
- Renewable energy
- Extractive industries
- Automotive and aeronautics industry
- Chemical and pharmaceutical industry
- Transport and logistics
- Financial services
- Consumer goods

European cooperation should provide a favourable environment for attracting private investment by indirect means (taxation systems, debt reduction/exchange) and direct means (blending, guarantees, donations, etc.) to help finance a green, digital, sustainable and inclusive recovery.

The new European Fund for Sustainable Development (EFSD+) will play an important role in this area, along with the various financial instruments that have been considered: "budgetary guarantees, mixed financing and debt reduction programmes. Guarantees could cover risks associated with loans, counter-guarantees, capital market instruments and any other form of financing or credit enhancement, and capital or quasi-capital shareholdings" (Jung, 2021, p. 21). Another aspect that could be promoted is the issuing of green or sustainable bonds (which have the support of European financial institutions such as the EIB, KfW/DEG and AFD/Proparco).

We must promote a better investment climate and access to finance for a circular economy approach, which could facilitate a favourable business environment for integrating green and circular business models (European Commission, 2021, p. 15).

Both regions are working together on the multilateral trade agenda. The countries of the EU and LAC are interested in strengthening the World Trade Organization (WTO), the heart of the multilateral rules-based trading system, and in working jointly towards a reform of this organisation, to the mutual benefit of both parties.

## EU POLICIES TO SUPPORT THE ECOLOGICAL TRANSITION IN LAC

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Both regions have brought forward efforts to direct the economic recovery towards a low-emissions strategy that will be more resilient to climate change.

The EU has promoted several regional programmes to deal with climate change in LAC and other developing countries, including Euroclima+, the Support Facility for Nationally Determined Contributions (EU NDC Facility), and the GCCA+ Global Alliance.

The EU supports sustainable development through the European Investment Bank (EIB), one of the principal providers of climate finance, with a wide portfolio of projects in LAC (and from 2022 a branch has been set up for external operations, EIB Global).

In addition there are the development banks and bilateral development agencies, including the German Development Bank (KfW) and its private sector wing DEG<sup>4</sup>; the French Development Agency, and its support wing for the private sector Proparco; the Spanish Agency for International Development Cooperation (AECID); and the Nordic Investment Bank and its Nordic Development Fund, among others. All these bodies have set the ecological and digital transition as the principal aspects of their financing.

The European Fund for Sustainable Development plus (EFSD+) offers the opportunity to implement green actions through both hybrid finance (blending), and guarantees (sovereign, sub-sovereign and private), and hopes to bring over 12 billion euros of public and private investment to the region. At least 800 million euros will be reserved to support the Caribbean and the application of the post-Cotonou agreement. Areas with great potential include renewable energy, energy efficiency, urban mobility, water and sanitation, climate action, the circular economy and the preservation of the natural capital.

Although LAC as a region does not contribute very largely to greenhouse gas emissions, it is highly

vulnerable to the effects of climate change, especially in the Caribbean and Central America. Droughts, floods, landslides, earthquakes and volcanic eruptions regularly affect the infrastructure, causing significant loss of life and livelihoods and negatively impacting economic growth.

The EU has supported and invested in projects to prepare for and mitigate disasters in the region. The Central American Bank for Economic Integration (BCIE) and the European Union (EU) recently signed an agreement of over 5.5 million dollars to prepare projects to adapt to climate change and manage natural disasters in the region. The EU plans to continue the positive experience of the Euroclima+ programme through the initiatives of Team Europe with the aim of supporting the LAC countries in the transition to a decentralised economy that is inclusive and respectful of the environment, building on the experience of the public and private sectors.

In both Europe and Latin America, the first concrete steps are being taken to incorporate green hydrogen in the energy matrix. Chile and Germany have already published roadmaps for the development of their national markets in green hydrogen, and they are both seeking to cooperate with other countries to optimise the supply and demand of low-carbon hydrogen, and therefore jointly contribute to the decarbonisation of global economies.

An increasing proportion of Official Development Aid (ODA) and of the concessional finance streams provided by the EU to governments of the region has a strong focus on climate change, representing around one third of bilateral aid in recent years. However, as in recent years some countries (Bahamas, Barbados, Chile, Saint Kitts and Nevis, Trinidad and Tobago, and Uruguay) have "graduated" from ODA by becoming high-income countries, and others are about to achieve this status, such as Antigua and Barbuda and Panama (2022), hybrid regional programmes and finance

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4. LAGreen is the first green bond fund in Latin America. It was established as an initiative of the German Development Bank (KfW), with initial capital (449 million Euros) provided by the EU and the German Federal Ministry for Economic Cooperation and Development (BMZ), with the objective of financing investment respecting the climate and natural resources and raising private capital locally and internationally to issue more green bonds in Latin America.

instruments have been promoted, crystallising in the Latin American Investment Facility or LAIF) and the Caribbean Investment Facility (CIF).

Finally, we should mention that the EU is exploring the possibility of imposing a Carbon Border Adjustment Mechanism (CBAM), which could affect LAC exports involving high greenhouse gas (GHG) production. These levies would above all affect the import of goods where a high level of emissions is generated in their production (for example, steel, aluminium, cement, iron and fertilisers).

## SUPPORT FOR THE DIGITAL TRANSITION

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Technological change is evolving at unprecedented speed, and has produced the fourth industrial revolution, which presents us with new questions on how to resolve global challenges.

The EU has played an important role as a source of external finance and technology to expand the digital infrastructure in LAC, and European companies such as Nokia and Ericsson are among the principal operators to develop 5G networks. Major telecommunications companies such as Telefónica (Spain), Deutsche Telekom (Germany), Orange (France) and TIM (Italy) are also involved.

However, there is also expertise in this area in multi-Latin companies such as América Móvil (Mexico) and Oi (Brazil).

The EU is promoting digital transition efforts as part of "Global Gateway", to ensure greater broadband connectivity.

Greater connectivity made remote working possible for those jobs where this type of working was feasible, just

like distance learning and e-commerce. In countries with a large digital divide, on the other hand, low-income students suffered serious harm because they were not able to attend classes digitally.

According to the study Latin America Economic Outlook - LEO 2021, "The majority of students in LAC do not have the resources to connect to or use an electronic device, and there is a clear difference between centres of education in privileged and disadvantaged areas, giving rise to greater educational inequalities between students from different socio-economic backgrounds... From March 2020 to May 2021, centres of education all over the world closed completely for an average of 19 weeks. In LAC, this figure was 26 weeks, which makes it the region that has on average lost most school days (OECD, 2021, p. 18).

Greater development of information and communications technology would also help increase productivity, where LAC is lagging behind compared to the advanced economies, including South East Asia.

The digital transformation can underpin sustainable recovery in the LAC region, tackle development pitfalls and increase productivity, accelerate the change to sustainable models of production and consumption, and improve knowledge of natural resources, including critical raw materials.

From summer 2021, the EU and LAC have been directly connected by the EllaLink high-speed submarine cable, 6,000 km long, jointly financed by the EU as part of the BELLA network; with its terrestrial links it will connect some 12,000 research and education institutions and 65 million people in various countries of South America.

The EU will strengthen its digital commitment to LAC through an EU-LAC Digital Alliance, a comprehensive cooperation framework that will combine the interests, strengths and capacities of both regions, to jointly tackle the digital divide and achieve an inclusive digital transformation. The digital cooperation will take account of the transversal and inter-sectoral nature of the digital transformation. This priority area is a major part of the Global Gateway connectivity strategy of the EU.

## CONCLUSIONS AND RECOMMENDATIONS

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The EU and LAC could progress to a more robust bi-regional economic relationship. Given the geopolitical difficulties (which have been exacerbated by the Russian invasion of Ukraine in February 2022), the two regions may derive more benefit from their vast markets in light of their common interest and shared values, such as respect for the rules-based multilateral trading system, democratic governance and the need to tackle climate change. Both regions share an interest in promoting multilateral commitments, including Agenda 2030 and its 17 SDGs, the Paris Agreement on Climate Change, the Sendai Framework for Disaster Risk Reduction, and the Convention on Biological Diversity. Bearing in mind the vital importance of open, fair and sustainable trade, both regions must work together towards reform of the WTO.

Strengthening economic and trade relations between the EU and LAC can help both regions overcome the effects of the pandemic and establish the conditions for a sustainable and inclusive recovery, using the technological knowledge and experience of the EU in matters such as renewable energy, the digital transformation and social inclusion.

To this end it is also important to make the most of the opportunities offered by the extensive network of trade and partnership agreements between the EU and partners in LAC. Using the full potential of these agreements will help attract investment and boost the economic recovery on both sides of the Atlantic.

One key element is ensuring that finance streams (from multilateral and bilateral development bodies) are increasingly channelled towards activities with low emissions and greater resilience to climate change, and that they contribute to mitigation and adaptation efforts. Fossil fuel subsidies must be eliminated and in their place taxes must be levied on greenhouse gas emissions, especially in some LAC countries, on the one hand, to boost the ecological transition, and also so that tax benefits remain in those countries and not in the countries importing goods and services.

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**WE MUST BOOST THE BI-REGIONAL DIALOGUE ON THE GREEN DEAL AND JUST TRANSITION, BASED ON THE EXPERIENCE OF THE EUROCLIMA+ PROGRAMME (INCLUDING A FUTURE PROGRAMME FROM TEAM EUROPE FOR AMAZONIA), WHICH MUST ALSO BE BASED ON REINFORCING THE CAPACITY OF NATIONAL AND SUB-NATIONAL GOVERNMENTS TO PROMOTE PUBLIC POLICIES ON THE ECOLOGICAL TRANSITION (JUNG, 2021, P. 20).**

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This may include reinforcing and updating the Nationally Determined Contributions (NDC), National Adaptation Plans (NAP), Long-Term Strategies (LTS) for low-emission development, and other climate action strategies and policies. It will also involve seeking finance for the prevention and mitigation of the risks of natural disasters, including insurance mechanisms and contingency bonds.

It is essential to boost bi-regional cooperation for the management and sustainable use of terrestrial and marine ecosystems. Initiatives to boost renewable energy, energy efficiency, electric transport, urban mobility, the circular economy and the availability of broadband digital connections must all be supported and strengthened.



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**GREATER ATTENTION SHOULD BE PAID TO DEVELOPING RESILIENT INFRASTRUCTURE, AND TO FINANCING MECHANISMS TO DEAL WITH NATURAL DISASTERS, SUCH AS INSURANCE, CATASTROPHE BONDS AND CONTINGENCY FINANCE. THERE IS SOME GOOD SUB-REGIONAL EXPERIENCE (IN THE CARIBBEAN AND CENTRAL AMERICA), WITH THE CCRIF (CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY).**

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In particular, participation of micro, small and medium-sized businesses (MSMEs) in external trade needs to be reinforced; this also constitutes a mechanism for greater social inclusion. It is therefore important to continue the programmes of bi-regional cooperation such as AL-INVEST (which has been going for over 26 years) and whose green AL-INVEST phase is intended to promote sustainable growth and job creation by supporting the transition towards a low-carbon economy, efficient in its use of resources and more circular in LA.

The interests of micro, small and medium-sized businesses need to be increasingly integrated into trade agreements; we should facilitate the creation of technological start-ups that can reduce the economic and digital divides between the two regions, and better align these trade agreements with cooperation actions. We also need to tackle the issue of digital transformation from the social point of view, especially

regarding the continuing difficulties of access for some groups, in particular low-income, rural and ethnic minority groups. Additional efforts are needed to ensure these groups can have the advantages of the technological transformation and digital integration.

One aspect to take into account is the increasing level of problems in LAC in terms of security and governance, because of the effect of organised crime, which in the end has a negative effect on investment and impacts the region's economies. Greater efforts must be made to professionalise and democratise the security forces in LAC, which can have a positive effect, especially in the fight against multinational organised crime.

It is also essential to build more inclusive economies and societies to strengthen the participation of women in all areas.

We need to reinforce the skills of young people, to increase their employability and political participation, with the general objective of helping to achieve more sustainable, digital and inclusive societies.

As regards cooperation, it is important to strengthen the bi-regional dialogue, within the concept of "development in transition", on the design of instruments of cooperation according to the needs of the countries, using new alliances to facilitate integrated production and access to new technologies, as well as the creation of decent employment.

This dialogue must take account of the interests of the LAC countries, and determine how cooperation can also benefit the countries of the European Union, in order to establish a true association or partnership. Promoting sustainable development, with careful attention paid to climate change, and resulting in two regions that are more prosperous and resilient will be of mutual benefit.

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