

# LAC-EUROPE

Latin America and the  
Caribbean–European Union Relations:  
strengthening a strategic alliance



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# Latin America and the Caribbean-European Union Relations

**On July 17, 2023, the European Union (EU) and the Community of Latin American and Caribbean States (CELAC) decided to continue building a strategic relationship between the two regions. The meeting between EU heads of state in Brussels helped reactivate a process of dialogue and high-level political cooperation.** The presence of representatives and dignitaries from the two regions' 60 countries, signing a joint declaration, and launching important investment projects are proof of the interest of and historic opportunity for the two regions.

Historically, the EU has been a key player in the region's development, as the main provider of Official Development Assistance (ODA). It is set to be an essential partner in Latin America and the Caribbean's efforts to comply with the Sustainable Development Goals (SDGs). The current geopolitical, economic and social context and the challenges of the 21st century open up a new opportunity for collaboration in which post-pandemic recovery, the food and energy crisis, climate change, digital transformation, weakening institutional systems and democracies, human rights and the multilateral order must be at the center of the common agenda.

The EU's plans are clear. Its commitment to the 2030 Agenda, the important agreements reached through the European Green Deal, Next Generation EU, and the Global Gateway initiative, are evidence that the EU is focused on advancing the post-pandemic recovery through a green, digital and social transformation of its economy and boosting its relationships and positioning with the rest of the world through a significant political and financial commitment.

LAC is a vital region for the planet's ecological stability, accounting for more than 50% of the world's biodiversity. It is also a major food supplier, with 14% of world production and 45% of net international trade in agri-food products. It is also a major powerhouse in renewable energy. In fact, its generation mix has the highest share of renewable energy in the world, at 61% in 2021. In addition, the region has significant key natural resources for the energy transition and digital transformation.

The natural alignment that has occurred in most countries' vision of development, focused on an ecological, digital and socioeconomic transition, makes this the ideal time to design plans and investment packages jointly. Integrating these can generate significant benefits and advantages on a local level, as well as interesting positive externalities towards other sectors, markets, countries and regions. In the specific case of LAC-EU relations, progress could be made in developing a joint investment program under the "Global Gateway" program, focusing on the opportunities and needs existing in both regions. More particularly, friend-shoring initiatives could yield significant benefits.

Specifically, to achieve its objective of strengthening its strategic relationship with Latin America, the European Union has made up to EUR 45 billion in investments available through a Team Europe approach, which brings together the EU, its Member States and its financial and development institutions around 136 initiatives for the LAC region.

These investments are part of the New Agenda for LAC -EU Relations, which proposes a modernized and stronger strategic partnership through strengthened political dialogue, stimulating trade and investment and fostering more sustainable, just and interconnected societies through the investments of the Global Gateway strategy.

The EU and LAC are two of the most urbanized regions on the planet, with rates of 74% and 81%, respectively. With vast experience in urban regeneration, European cities are great partners when it comes to promoting a vision of sustainable development in cities in Latin American and Caribbean, as well as maximizing the potential of initiatives by multilateral organizations, such as the CAF -development bank of Latin America and the Caribbean- (BiodiverCities Network).

Swapping foreign debt for climate action can be an excellent initiative, redirecting debt service payments (interest and principal) to projects focused on the 2030 Agenda, with a special emphasis on biodiversity protection and the fight against climate change. A particularly successful area in LAC-EU relations has been academic cooperation. Programs, such as Erasmus+ 2023 or BELLA (Building the Europe Link with Latin America) contribute to building long-term bonds between the European and Latin American research and education communities. ■





# Three key areas of work for the EU's new investment agenda in Latin America and the Caribbean: digital transformation, green transition, and human development.

## Opportunities for ALC-UE collaboration to accelerate digital transformation



Complete digital version

Global Gateway offers a singularly valuable seal of identity for the productive transformation of LAC. Digital convergence emerges as a great diagonal of investment and financing and as a key accelerator for the consolidation of a competitive, equitable and green digital economy. Food security, energy security, and attention to the Sustainable Development Goals and Paris Agreement commitments require a digital approach to accelerate their achievement.

Although LAC has made notable progress in digital transformation in the last decade, internal gaps compared to other emerging economies are significant. Improvements were observed in broadband connectivity in households, 4G coverage and the development of 5G networks, the digitization of government procedures, and e-commerce and fintech. However, progress in the digitization of companies was slower, and the green digital economy (in which new technology supports climate, environmental sustainability and biodiversity objectives) remains stagnant. In particular, the digital divide between the urban and rural sectors increased, with a notable social impact.

The above offers ample opportunities for partnerships between LAC and the EU. The presence of European companies in leading sectors in digitization for decades (telecommunications, banking, infrastructure, energy and trade) is reflected in the leadership of European Foreign Direct Investment (FDI) in the region. LAC countries would benefit greatly from increased investment in these areas, in strategic sectors with a high impact on the new economy. At the same time, European countries would be strengthening their partnerships with States with which they have historical ties and that represent a large market, establishing rules and agreements that generate an institutional framework for current and future relationships.

There are four relevant sectors in terms of financing, investment and digital cooperation, which are cross-cutting to the *Global Gateway* roadmap. A set of actions have been identified that could be virtuous for public-private convergence between LAC and the EU:

- 1) Inclusive and secure connectivity to close the urban-rural and coverage gap with 4G, 5G, optical fiber and satellite technologies for remote areas, coordinated with progress in cybersecurity:
  - a. Support for public-private connectivity initiatives in rural and remote areas
  - b. Technical support for 5G bids
  - c. Submarine cables
  - d. Cloud infrastructure
  - e. Good practices and standards
- 2) The 4.0 digitization of production processes, particularly in small and medium-sized enterprises and traditional and modern sectors with a comparative advantage:
  - a. Transportation logistics: 5G and IoT in ports
  - b. Smart factories in critical industrial sectors: automobiles, pharmaceuticals
  - c. Semiconductor strategy: nearshoring and friendshoring
  - d. Incentive for creating companies and supply chains related to sustainable mobility. Lithium, batteries, and materials for electromobility
  - e. Promoting datacenters and the cloud to boost services
  - f. The digitization of tourism.
  - g. Solutions for the digitization and sustainable development of MSMEs
  - h. A technological confluence for generating developments in quantum computing
- 3) Agile and connected States and investment in digital skills to prepare human talent for the future of work:
  - a. The digitization of tax and customs services
  - b. The digitization of health care services, including electronic medical records
  - c. The digitization of domestic and foreign justice and migration services
  - d. Citizen authentication with *blockchain*, facial recognition and digital identification
  - e. Smart cities and territories.
  - f. Open data strategy with an impact on digital commerce
  - g. The interoperability of public and private systems and promoting a unique digital market.
  - h. Training human talent for the future with state-of-the-art technologies.
- 4) Smart and ethical digital regulation, specifically when it comes to data privacy, market competition, responsible artificial intelligence, and digital services taxation. These are all areas where Europe is shaping global standards:
  - a. Support for Artificial Intelligence implementation strategies
  - b. Regulation: GDPR, DMA, DSA, regulation and digital rights
  - c. Taxes on digital services and financial inclusion
  - d. Crypto assets, digital currencies, and MICA regulations



The Global Digital Gateway initiative would be strengthened if it deepens its interaction with the social and green transition. In the social realm, policies for future work training and fully activating all female human capital stand out, as well as technological innovation in healthcare, pharmaceuticals, and vaccine production, or even in food production. On the environmental front, technological innovations are key to driving smart cities, the circular economy, and industries such as electromobility, green hydrogen, and clean energy supply chains.

## LAC-EU Opportunities for collaboration on the environment



Complete digital version

LAC is one of the regions of the world most exposed to climate change due to its geographical location closer to the tropics and with higher average temperatures. As a consequence, the frequency of extreme weather events has increased more there than in other regions on the planet. Although LAC countries have a better capacity to adapt to climate change than the average emerging and low-income countries, institutional weaknesses hinder more decisive public policy actions for adaptation compared to the EU.

Both LAC and the EU share a strong commitment to the fight against climate change and the green transition. However, the EU has managed to materialize this commitment in specific public policies within a binding legal framework, while actions in LAC have not been coordinated on a regional level. This has been reflected in differences in countries' levels of commitment, as well as in decarbonization strategies. This brings about challenges and opportunities for cooperation between the two regions.

Creating a mutually beneficial joint climate agenda between LAC and the EU can consider the following areas of collaboration for investment, trade and technical cooperation:

- a. Electrifying transportation, including the production of electric vehicles and their components in LAC.
- b. Producing green hydrogen from renewable energy sources and taking advantage of the comparative advantages of LAC.

- c. Increasing production and exports of Liquefied Natural Gas (LNG) from LAC during the energy transition and increasing fertilizer production in the region for the global market.
- d. Making investments and cooperating to increase the production of other renewable energies in LAC, such as solar and wind energy, in which the EU has extensive experience.

The EU plays a key role as a provider of capital and financing and can contribute to reducing the cost of capital in LAC through the increased involvement of European development banks. In addition, EU countries have a significant influence on the decisions of multilateral banks, which require more capital to support middle-income countries - the majority in LAC.

Both regions can make progress in designing and implementing joint plans to reduce deforestation in LAC, with an emphasis on the Amazon and other tropical forests. In this way, opportunities for sustainable forest management and nature restoration practices can be leveraged between the two regions, which is crucial because of the capital and technological needs of LAC, and the EU's growing commitment to mitigate climate change and the loss of biodiversity.

Regional development banks play a key role in collaboration between LAC and the EU through its ability to catalyze sources of green financing, including low-cost co-financing. These promote initiatives that encourage more equitable economic development based on conservation, the enhancement and sustainable use of biodiversity and responsible climate action. ■

## LAC-EU opportunities for collaboration on social matters



Complete digital version

LAC faces two major problems. First, it is one of the most unequal regions in the world. It is not only a matter of income; inequality extends to other dimensions, such as education and health, among others. Second, there is a huge per capita income gap with respect to more developed countries. There is a strong connection between high inequality and low absolute and relative social mobility, which perpetuates the region's high levels of inequality and makes individual well-being highly dependent on social origin.

The region is among those with the world's highest absolute educational mobility. In the 20th century, 6 out of 10 people surpassed their parents' educational level. However, paradoxically, the region is among those with the world's lowest relative mobility: years of education completed by children is very strongly associated with their parents'. These mobility problems are reflected in four dimensions:

- a. Educational mobility is profoundly marked by quality. This persistent deficiency partly explains why the increase in educational coverage has not translated into a generalized increase in better skills for access to good jobs.
- b. Occupational mobility, another mechanism of inequality, has barely changed in the last five decades. The children of parents with low complexity occupations only have an 11% probability of moving up to high complexity occupations, while that figure is almost 60% for children of parents with complex occupations.
- c. The informality of labor is extensively linked to inequality. Differences in formality trajectories in the life cycle of employees play a critical role in two dimensions: access to social security, including the possibility of accumulating enough time in a formal job to access a pension upon retirement; and access to learning opportunities and skills acquisition on the job.
- d. The income earned by children in the region is more strongly linked to the income earned by their parents compared to other regions in the world. Ninety percent of the income differences in the parents' generation are transferred to the children's generation, compared to Europe or North America, where these differences are only 40%.





In addition to these deficiencies, CAF studies have identified three groups with acute mobility problems:

- a. **Gender:** women's participation in labor is 30% lower than that of men, one of the world's largest gaps, and their income is 35% lower. Part of these gaps could arise from differences in productive characteristics between men and women. However, these persist and even grow larger when conditioned by characteristics, such as age, education and place of residence.
- b. **Belonging to an ethnic group:** gaps in educational mobility are amplified in these groups. Coupled with other job market barriers, this means skin color is negatively associated with key outcomes, such as unemployment, self-employment, the likelihood of having a business that employs others, and access to formal employment.
- c. **Populations in underprivileged areas:** nearly a quarter of Latin Americans live in informal settlements, and they receive the worst health, education and transportation services. They are also the most exposed to environmental pollution. This urban segregation also makes daily commuting difficult to areas with a high concentration of quality jobs, which are usually located far from the most disadvantaged areas. The possibilities for new generations to reside in areas of the city that are closer to formal jobs are lower than those of workers with families in lower socioeconomic strata. In addition, according to surveys, area of residence can be a barrier to employment.



There are two groups of public policies that, in addition to contributing to reducing inequality, accelerate growth. On one hand are systemic policies, or general policies, aimed at the entire population. This group includes training human capital and improvements in the structure of social protection spending. On the other hand, are policies focused on disadvantaged groups (gender, place of residence and ethnic-racial), with the clarification that these groups would also benefit from systemic policies.

LAC-EU opportunities for collaboration on social matters are wide-ranging, cover a variety of areas, and may include both sets of public policies. Both regions have different experiences and approaches to addressing social issues, and can mutually benefit from sharing knowledge, resources and best practices. Some of the collaborative areas could include:

- **Development Assistance.** Collaboration could focus on SDG implementation through technical cooperation and targeted social projects. The two regions could work together to address challenges, such as poverty, hunger, health, education and access to clean water and sanitation.
- **Human Rights.** Promoting and protecting human rights is an important area for collaboration. The regions can share experiences in strengthening justice and gender equality, fighting discrimination, and promoting diversity.
- **Health.** Cooperation in health care could range from medical research to health crisis management and social security management in aging societies. Exchanging knowledge on health care systems, communicable and non-communicable diseases, and access to medicine could be beneficial for both parties.
- **The quality of job markets, employment and social protection.** The two regions can establish a close synergy, both through cooperation and partnership agreements, that will lead to strengthening these three fundamental dimensions for LAC to overcome its structural gaps. ■
- **Education and Training.** Academic exchanges and training programs could strengthen capacities on both continents. Student mobility, faculty exchanges and collaborative research programs could enrich educational systems and foster innovation.
- **Rural Development and Sustainable Agriculture.** Collaboration in this area could address issues, such as food security, sustainable natural resource management and strengthening rural communities.
- **Good Practices.** Promoting reforms that take advantage of experiences in progressive taxation and the efficient and impactful use of social spending.



# EU-CAF Investment Projects Map



# EU-CAF

Agenda of initiatives included in the Global Gateway Investment Agenda in which the CAF is participating or is interested in participating.







