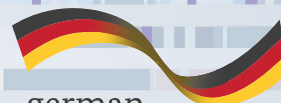


The European Union and Latin America and the Caribbean in the new economic and social context



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EUROPEAN UNION

Alicia Bárcena
Executive Secretary

Antonio Prado
Deputy Executive Secretary

Mario Cimoli
Chief, Division of Production, Productivity and Management

Ricardo Pérez
Chief, Publications and Web Services Division

This document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) for the Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union, to be held in Brussels on 10 and 11 June 2015.

Álvaro Calderón of the Division of Production, Productivity and Management of ECLAC was responsible for the overall coordination of the document. The following staff members contributed to its preparation: Laura Palacios, Wilson Peres, Miguel Pérez Ludeña, Gabriel Porcile, Laura Poveda, Edwin Fernando Rojas, Sebastián Rovira, Stephany Scotto and Fernando Sossdorf, of the Division of Production, Productivity and Management; Jürgen Weller, of the Economic Development Division; José Durán and Sebastián Herreros, of the International Trade and Integration Division; Simone Cecchini, of the Social Development Division; and José Eduardo Alatorre, of the Sustainable Development and Human Settlements Division.

Part of the document was prepared on the basis of inputs received from initiatives such as “@LIS 2 - Inclusive political dialogue and exchange of experiences” (a project carried out jointly by ECLAC and the Alliance for the Information Society) and the EUROCLIMA programme, both co-financed by the European Commission, as well as “Innovations for sustainable structural change”, a project co-financed by the German Agency for International Cooperation (GIZ).

The opinions expressed in this document do not necessarily reflect the official views of the European Union or the German Agency for International Cooperation (GIZ).

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Foreword

This document is a contribution by the Economic Commission for Latin America and the Caribbean (ECLAC) to the Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union (EU), which will be held in Brussels on 10 and 11 June 2015. The Second CELAC-EU Summit and the Eighth EU-LAC Summit will take place under the theme “Shaping our common future: working for prosperous, cohesive and sustainable societies for our citizens”.

ECLAC fully shares this vision, along with the belief that we must adhere to the strategy of driving structural change for equality, as encapsulated by the maxim of “growth for equality and equality for growth”, if we are to complete the task of building prosperous, cohesive and sustainable societies.

The policy dialogue between the most representative institutions of European and Latin American and Caribbean countries will address a full agenda of biregional and global issues and presents an opportunity to emphasize the importance of cooperation between the European Union and CELAC, considering the pace and complexity of ongoing technological, economic, social, environmental and cultural changes. It will also be an opportune moment for strengthening the shared values of both regions. We are certain that this dialogue will lead to citizen-oriented initiatives designed to foster innovation for sustainable growth, ensure quality education for all, guarantee security and combat climate change.

Part of this document was prepared on the basis of valuable inputs received from cooperation projects with Europe, notably “@LIS 2 - Inclusive political dialogue and exchange of experiences” (a project carried out jointly by ECLAC and the Alliance for the Information Society) and the EUROCLIMA programme, both co-financed by the European Commission, as well as “Innovations for sustainable structural change”, a project co-financed by the German Agency for International Cooperation (GIZ).

Relations between the two regions exist in a rapidly changing international context, characterized by a technology revolution, the globalization of consumption patterns, the reorganization of the world

economy into large blocs —with Asian economies playing a more prominent role— and growing environmental pressures. Against this backdrop of shifting circumstances, bilateral relations must respond to new challenges and opportunities.

Sixty-one countries will be attending the Summit, representing one third of United Nations Member States and almost half of the members of the Group of Twenty (G20), making the event one of the largest global forums to be held before the international community adopts the sustainable development goals (SDGs). Consequently, the outcomes of consensus-building between the two regions will be extremely important when it comes to discussing new ways of shaping our States, economies and societies.

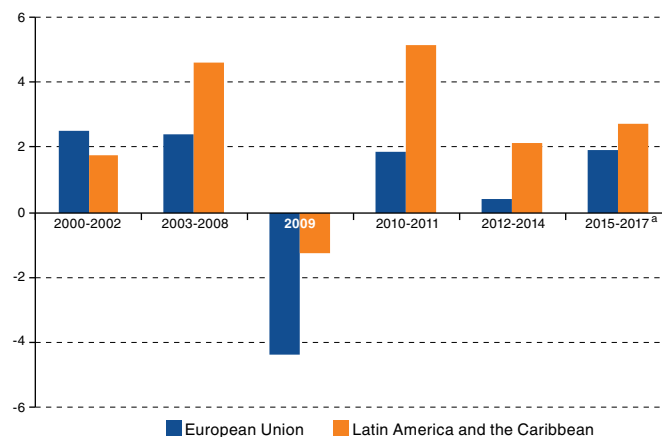
Alicia Bárcena
Executive Secretary
Economic Commission for Latin America
and the Caribbean (ECLAC)

I. Introduction

A. The economies and societies of the European Union and the Community of Latin American and Caribbean States (CELAC) in a changing context

- Many structural elements in the long-standing economic, political and cultural relations between Europe and Latin America and the Caribbean evolve slowly, as is only to be expected. The European Union countries have been the region's largest donors, as well as important direct investors and trade partners. Corporate relations between the two regions are especially solid in sectors such as automobile manufacturing, energy generation, financial services and telecommunications operations. Over the past 10 years, these relations have deepened with the rising participation of transnational companies based in Latin America (the "trans-Latins") in European Union markets. In several areas, including social rights and environmental sustainability, many European countries continue to serve as models for the countries of Latin America and the Caribbean to follow.
- Relations between the two regions are unfolding against a global backdrop of rapid changes in four areas: the technological revolution, the globalization of consumption patterns, the organization of the global economy into large blocs, with a growing share going to the Asian economies, and increasing pressure on the environment.
- The technological revolution involves changes, often convergent, in information and communications technologies (ICTs), biotechnologies, new materials and nanotechnologies. Both regions are experiencing the effects of technological changes and the need to constantly adapt to the globalization of consumption patterns, albeit from very different positions. Whereas the countries of the European Union are near or at the technological frontier for several advanced technologies, e.g. in the chemical-pharmaceutical and engineering sectors, the countries of Latin America and the Caribbean have few companies with the capacity to produce cutting-edge technology. Notwithstanding this gap between them, neither of the two regions approaches the productivity levels of the United States or the growth rate for this variable of the most robust economies in Asia. This characteristic in common necessarily comes into play in major international trade negotiations, particularly those with a trans-Atlantic or trans-Pacific scope.
- With this dynamic international scenario as the backdrop, structural relations between the two regions are subject to significant changes in the current environment, which present new opportunities and challenges.
- The first change has to do with the pace of economic growth. Between 2003 and 2014, the countries of Latin America and the Caribbean grew much faster than countries in the European Union. Even in 2009, when both regions saw a drop in GDP, the decline was much smaller in Latin America and the Caribbean (see figure I.1). This remarkable growth in the Latin American economies was driven by a cyclical boom in export prices for a number of bulk and semi-processed commodities (hydrocarbons, metals, soybeans and fruits, mainly). Moreover, per capita income levels converged between the two regions during this period.

■ **Figure I.1** ■
Latin America and the Caribbean and European Union:
GDP growth, 2000-2017
(Percentages)

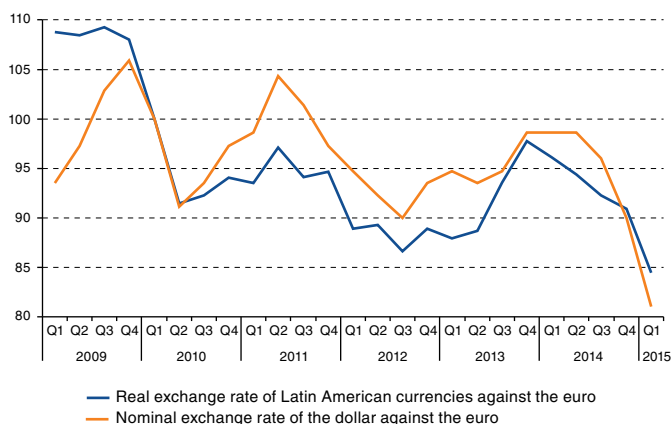


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the International Monetary Fund (IMF) and the World Bank.
^a Corresponds to estimates made in the first half of 2015.

- Considering the end of the price boom, along with the reversal in the financial flows that the region had been receiving and serious internal problems in several of the large economies, growth rates in Latin America and the Caribbean are expected to be significantly lower in 2015-2017 and much closer to the rates in the European countries. This suggests that both regions are entering an indeterminate period of slow growth and facing renewed pressure to increase their competitiveness. Given the narrowing gap in growth rates, the income convergence process is unlikely to continue.
- However, given the diversity of countries in the region, growth forecasts by the Economic Commission for Latin America and the Caribbean (ECLAC) for 2015 put the economies at three speeds, with expected growth of 3.2% in Mexico and Central America, 1.9% in the Caribbean, in sharp contrast with the weak performance of the previous decade, and near 0% in South America. Even in this subregion, there are two distinct realities: negative growth rates in Argentina, the Bolivarian Republic of Venezuela and Brazil and rates above 2% in the rest of the economies.
- The second change is the heavy depreciation of the euro against the dollar and, to a lesser extent, against the major currencies of Latin America (see figure I.2). The real exchange rate index of these currencies with respect to the euro, after remaining near 90 or 95 between 2010 and the first half of 2014, fell in the first quarter of 2015 to slightly below 85, the lowest level in over six years.
- If it persists over the medium term, this shift in the value of the euro will naturally have adverse effects on the region's trade balance with the European Union countries, though the magnitude of such impacts is hard to predict. With respect to direct investments, the cost of capital for investments in the region would rise, but so too would the value in euros of earnings and royalties repatriated from the region to Europe. European exports that are more competitive, coupled with smaller inflows of direct

investment, could produce balance-of-payment deficits in Latin America and the Caribbean. If these trends were to materialize, tensions could arise in trade and investment relations between the two regions, which might in turn be exacerbated by the region's specialization in products with low growth in the global market.

Figure I.2
Real exchange rate of currencies in selected countries of Latin America^a against the euro and nominal exchange rate of the dollar against the euro, 2009-first quarter of 2015
(Rates, first quarter of 2010=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data provided by the countries and the International Monetary Fund (IMF).

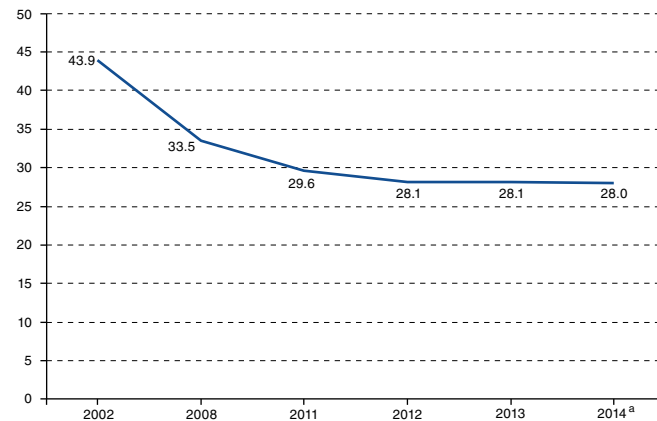
^a Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico, Panama, Peru and Uruguay.

- The third factor that should be considered is the significant reduction in poverty that has taken place in Latin America since the early 2000s. The population living in poverty fell from nearly 44% in 2002 to just over 28% in 2014 (see figure I.3). Although the trend slowed in 2012-2014, its magnitude has been such that broad sectors of society have joined the ranks of the middle class for the first time, a development attended by social and economic impacts.

■ **Figure I.3** ■

Latin America: poverty trends, 2002-2014

(Percentage of the total population)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

^a Projections.

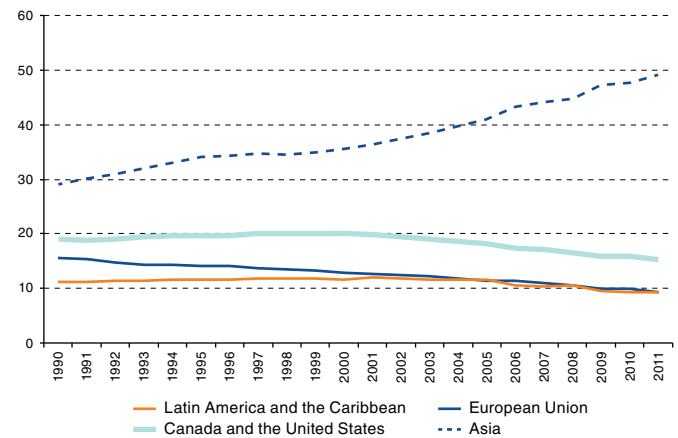
- The middle class in Latin America and the Caribbean added 82 million people between 2000 and 2014, swelling from 21% to 34% of the population. This expansion of the middle class comes with significant challenges in terms of the new needs and expectations that must be met in areas such as education, infrastructure, security and health care. But it also creates opportunities for stronger growth in domestic markets and for social inclusion, owing to the role of the middle class as consumers of products and services, or as producers of services and creators of new businesses. Likewise, in order to train a more skilled work force that has greater opportunities, a conducive production scenario must be developed with the active participation of micro-, small and medium-sized enterprises.
- One of the main tasks for Europe and Latin America and the Caribbean is to lock in the progress made thus far in inclusion and in reducing inequality, though these areas are embedded in very different contexts and realities in the two regions.

- The fourth variable to consider is pressure on the environment. As a region, Latin America and the Caribbean has already attained annual levels of greenhouse gas emissions similar to those in the European Union, despite being less developed (see figure I.4). In fact, greenhouse gas emissions in the European Union have fallen by 0.9% every year on average since 1990 while steadily increasing in Latin America and the Caribbean at an annual rate of 0.6%, which is nevertheless far below the rate in Asia.

■ **Figure I.4** ■

World (selected regions): share of all greenhouse gas emissions, 1990-2011

(Percentage of worldwide total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Resources Institute (WRI), Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C. [online] <http://cait2.wri.org>.

- Inasmuch as the upward trend in greenhouse gas emissions in the region will certainly continue in the near future given its economic expansion, the evolution of the sectoral structure of production and demographic growth, environmental pressures are likely to intensify. Meanwhile, the European Union should continue with its successful efforts in this regard. The sustainable production models that it has

- developed could serve as a solid base for new experiences in Latin America and the Caribbean.
- This document analyses the aforementioned changes in four chapters that compare and contrast the realities of the two regions. Following this introduction, the second chapter takes a look at three key issues related to sustainable development: the short- and medium-term dynamics of economic growth, productivity and employment; the progress made in the area of social inclusion and on the path to greater equality; and the challenges related to environmental protection. The third chapter discusses trade relations and investments between the two blocs, looking first at the recent evolution of international trade and second at bilateral flows of direct investment. Lastly, the fourth chapter examines the dynamics of the major sectors receiving European investment in the region, the problems faced by micro-, small and medium-sized enterprises and the sharp narrowing of gaps in the digital economy.
 - In conclusion, the information presented in this paper shows that although some promising developments—such as converging income levels— will stall if slow growth continues in much of the region, some favourable conditions have emerged too. The magnitude of the middle-class expansion in Latin America will create growth opportunities for European companies that invest in Latin America and the Caribbean, which remain among the region’s leading investors, despite China’s advance.
- Increasing awareness about the need to move quickly on environmental sustainability is creating new demand for “green” technologies and products that can be provided by European companies. The preponderance of European investment in the sectors analysed here in depth (automobile manufacturing and financial services), which include activities involving advanced and even frontier technologies, will help supply large markets, both at the mass consumer and the specialized niche ends of the spectrum. Meanwhile, rising investments by trans-Latin companies in Europe are creating or sustaining jobs and strengthening opportunities to expand intra-industry trade.
 - Of course, investments made in the region must be increasingly channelled into more technologically advanced activities with (global and local) production chains, with efforts to engage more small and medium-sized enterprises. As a result of European cooperation efforts, real achievements have been made with the business development and labour productivity of many small firms, but that progress is still far from the type of sweeping transformation that would be needed to alter the aggregate variables of the region’s economies.
 - In this new context of opportunities, despite some adverse cyclical conditions, this document is in line with the theme of the second EU-CELAC Summit and eighth EU-LAC Summit: “Shaping our common future: working for prosperous, cohesive and sustainable societies for our citizens”. The joint efforts of the two regions will help keep them on the path of sustainable development with greater equality.

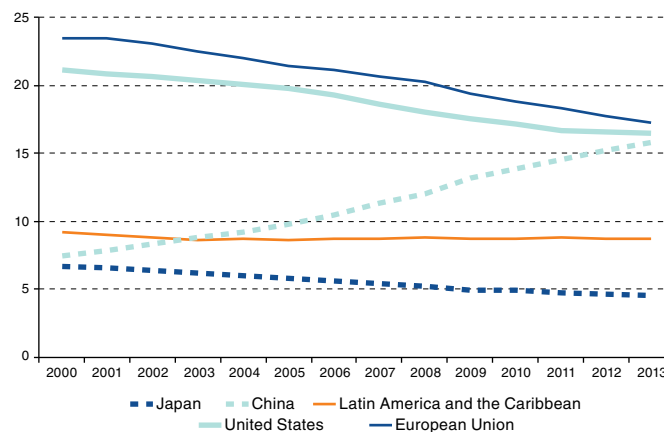
II. Development and sustainability

A. Economic growth, productivity and employment

1. Emerging economies, particularly the most dynamic among them in Asia, are superseding developed countries in the global economy

- The structure of the world economy has undergone significant changes, heightened in recent years by the global financial crisis that struck the developed economies with full force. Like the United States and Japan, the 28 member States of the European Union have seen their share in the world economy decline, to the benefit of emerging economies.
- Between 2000 and 2013, emerging and developing Asia increased its share of world GDP from 17.0% to 28.7% (measured at purchasing power parity). China alone increased its share from 7.4% to 15.8% —a level close to that of the European Union.
- On the whole, Latin America and the Caribbean has held its ground in the world economy, stabilizing after a slight decline in the early 2000s.

■ **Figure II.1** ■
Selected countries and regions: share of world GDP, 2000-2013
(Percentages)

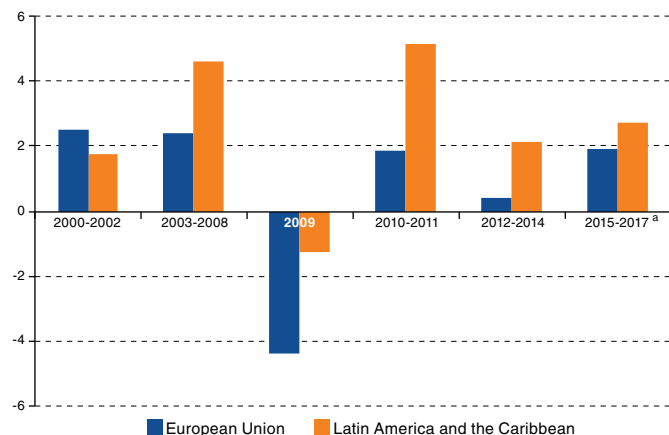


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

2. Despite its recent slowdown, Latin America and the Caribbean is growing faster than the European Union

- Since 2003, Latin America and the Caribbean has outperformed the European Union in terms of GDP growth. The effect of the 2008-2009 global financial crisis was more pronounced in Europe (-4.4%) than in Latin America and the Caribbean (-1.3%), and Europe's recovery has been slower and more uncertain.
- Less favourable external conditions and domestic problems in some economies in Latin America and the Caribbean have dampened the region's growth. Although something of a recovery is expected in the medium term, a return to the rates of growth seen before and immediately after the global financial crisis is unlikely.
- Nonetheless, owing to lingering uncertainty, the economies of Latin America and the Caribbean are expected to expand slightly more quickly than those of the European Union.

■ **Figure II.2**
European Union and Latin America and the Caribbean:
GDP growth, 2000-2017
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) and World Bank.

^a Estimates calculated in the first half of 2015.

■ **Table II.1**
European Union (8 countries) and Latin America and the Caribbean (10 countries): GDP growth, 2000-2017
(Percentages)

	2000-2002	2003-2008	2009	2010-2011	2012-2014	2015-2017 ^a
European Union	2.5	2.4	-4.4	1.9	0.4	1.9
Belgium	1.9	2.1	-2.8	2.0	0.3	1.4
France	2.3	1.7	-2.9	2.0	0.3	1.4
Germany	1.7	1.5	-5.1	3.6	0.9	1.6
Italy	2.0	0.9	-5.5	1.1	-1.5	1.1
Netherlands	1.8	2.4	-3.3	1.4	-0.6	1.5
Poland	2.3	5.2	1.6	4.2	2.3	3.4
Spain	3.8	3.1	-3.8	-0.1	-0.5	1.8
United Kingdom	2.9	2.6	-5.2	1.4	1.7	2.5
Latin America and the Caribbean	1.8	4.6	-1.3	5.2	2.2	2.7
Argentina	-5.4	7.8	0.1	8.8	0.7	...
Brazil	2.8	4.2	-0.3	5.1	1.3	2.1
Chile	3.3	5.1	-1.0	5.8	3.9	3.9
Colombia	2.4	5.2	1.7	5.3	4.5	4.5
Ecuador	3.1	4.9	0.6	5.7	4.5	4.7
Guatemala	2.9	4.0	0.5	3.5	3.4	3.6
Mexico	1.6	3.1	-4.7	4.6	2.5	3.7
Peru	3.1	6.5	1.0	7.5	5.1	5.4
Uruguay	-4.1	5.3	2.4	7.9	3.6	3.0
Venezuela (Bolivarian Republic of)	-0.6	7.5	-3.2	1.3	1.3	-0.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) and World Bank.

^a Estimates calculated in the first half of 2015.

3. Inflationary trends persist in Latin America and the Caribbean, while the European Union has recently been threatened by deflation

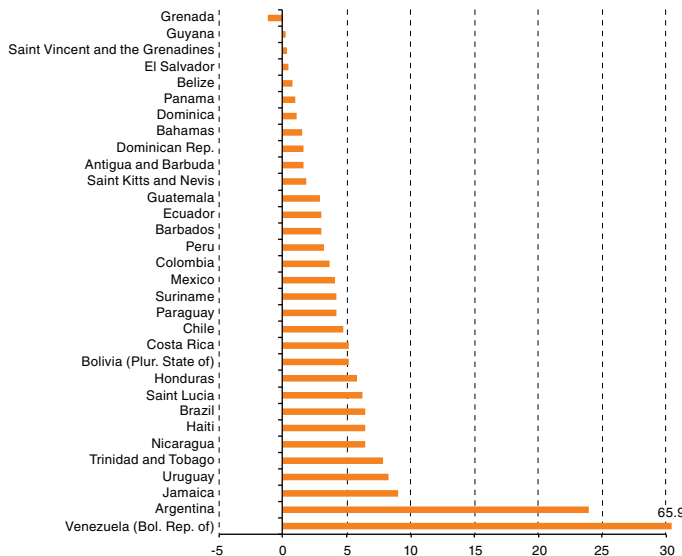
- Inflation was higher in Latin America and the Caribbean than in the European Union in 2014. In no European Union country did inflation exceed 1%, and there were even worries that weak domestic demand and falling oil prices could lead to deflation. At the end of 2014, consumer prices in 10 countries of the European Union were below levels recorded 12 months earlier.
- The rate of inflation in Latin America and the Caribbean was 6.2% (simple average), with double-digit rates seen in Argentina and the Bolivarian Republic of Venezuela. The median regional rate was, however, much lower —only 3.9%— and most countries faced no inflationary pressures.
- Lower commodity prices, dimmer growth prospects and changes in international markets put a brake on the currency

appreciation that had prevailed in many countries in the region, particularly those most financially integrated into the global market (Brazil, Chile, Colombia, Mexico and Peru). In several of these countries the trend reversed and currencies depreciated, with repercussions for inflation as the cost of imported goods rose. The slump in international oil prices eased inflationary pressures. This fall in prices and sluggish economic activity also helped depress inflation in the European Union.

- This context attenuated the strong build-up of reserves in Latin America and the Caribbean seen from the mid-2000s. Reserves remained, however, at historic levels.

■ Figure II.3 ■

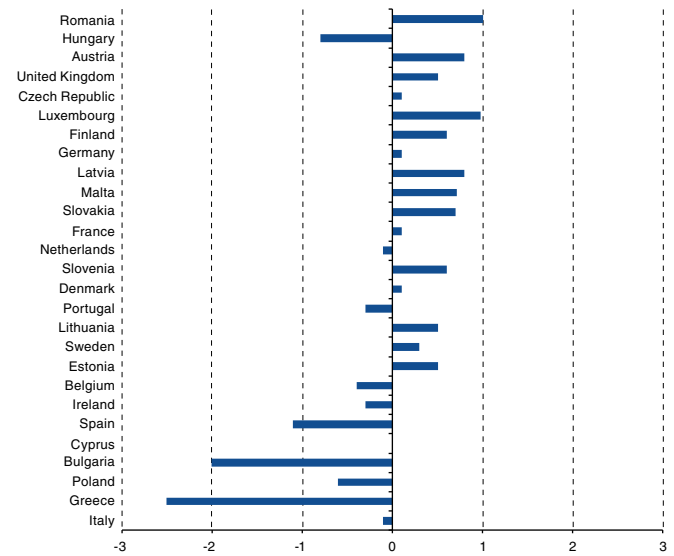
**Latin America and the Caribbean (32 countries):
12-month inflation to December 2014**
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

■ Figure II.4 ■

**European Union (27 countries):
12-month inflation to December 2014**
(Percentages)

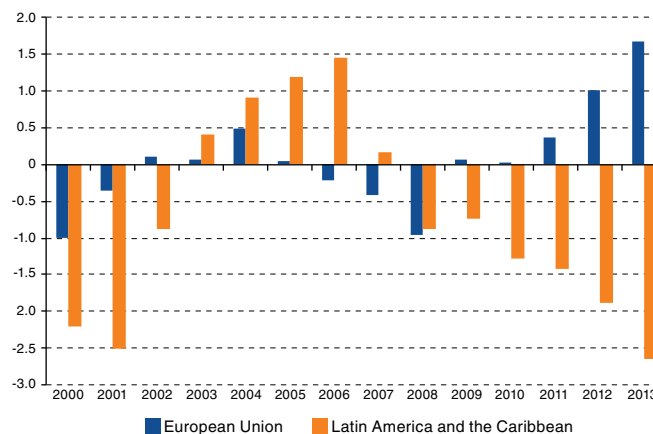


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

4. Increasing exposure to the international economy has made it harder for Latin America and the Caribbean to deal with current account volatility

- Latin America and the Caribbean steadily improved its current account balance between 2000 and 2006, after long periods of deficit. As a percentage of GDP, this balance shifted from -2.6% to just over 1.6% between 2001 and 2006. This performance was then sharply reversed, owing to a decline in the trade surplus that was attributable to strong import growth. This was a result partly of international raw materials prices dropping back from their mid-2008 peaks, and partly of continuing strong growth in goods imports, reflecting an upturn in domestic demand. The current account deficit widened gradually up to 2013, then slowly began to narrow in 2014.
- The European Union improved its current account balance with the rest of the world between 2000 and 2004, but this subsequently turned into a deficit that widened steadily until 2008. Then, reflecting the deterioration in domestic demand resulting from the crisis that took hold in several of the region's countries, the deficit began to shrink quickly, and by 2013 it had become a considerable surplus.
- Nonetheless, both regions remain very heterogeneous at the country level. In 2012, 4 of the 33 countries in the Community of Latin American and Caribbean States (CELAC) recorded current account surpluses. A large number of countries, mostly in the English-speaking Caribbean and Central America, recorded deficits of over 10%. Only a handful of the European Union member States posted current account surpluses, with the majority running deficits.

■ **Figure II.5** ■
European Union and Latin America and the Caribbean:
current account balances, 2000-2013
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

5. The fiscal burden in the European Union is twice that of Latin America and the Caribbean

- The fiscal burden in Latin America is around 20% of GDP, and in the Caribbean it is a little higher. This is heavier than the fiscal burden in the Asian and African subregions. The European Union (15) has the highest fiscal burdens, averaging just under 40% of GDP, somewhat above the average for the Organization for Economic Cooperation and Development (OECD) countries (34%). The fiscal burden in the United States is about 25% of GDP.
- One difference in the composition of the fiscal burden in Latin America and the Caribbean in respect of the

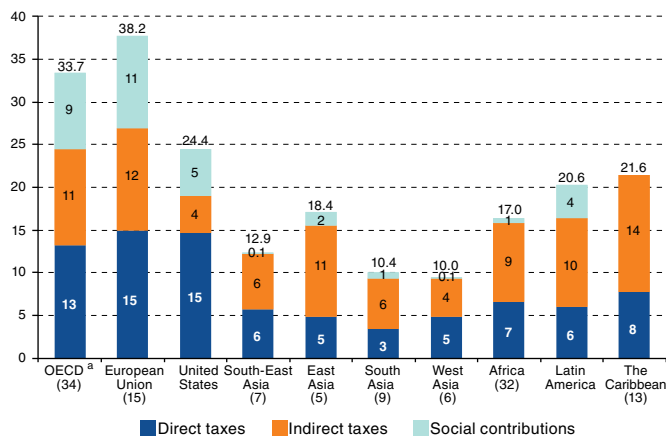
European Union (15) and the OECD is the greater share represented by indirect taxation. This is a characteristic shared with almost all other developing regions, with the exception of West and South-East Asia.

- Total fiscal revenues (as a simple average) represent a little over 20% of GDP in the countries of Latin America and the Caribbean and about 45% of GDP in the European Union. In both regions, however, figures vary greatly from country to country.

■ Figure II.6 ■

Selected countries and regions: structure of the fiscal burden, 2012-2013

(Percentages of GDP)

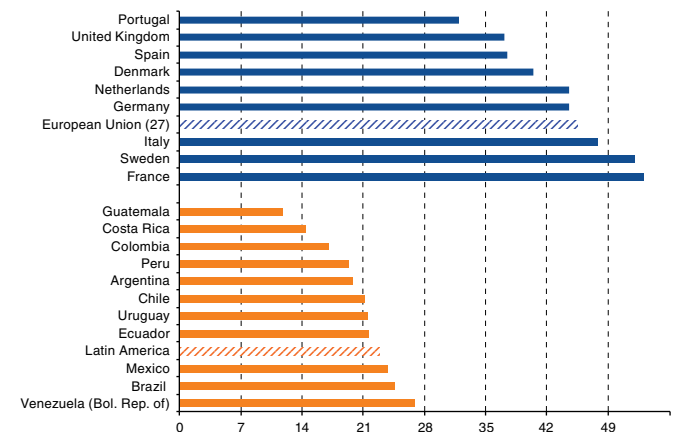


Source: Economic Commission for Latin America and the Caribbean (ECLAC).
^aOrganization for Economic Cooperation and Development.

■ Figure II.7 ■

European Union and Latin America (selected countries): fiscal revenue, 2013

(Percentages of GDP)

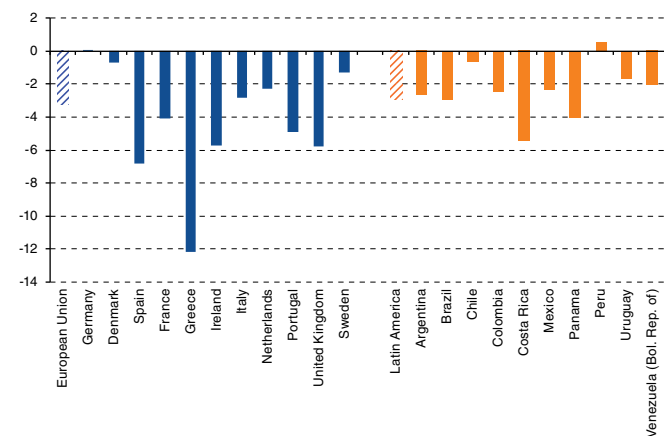


Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Eurostat.

6. The countries of the European Union and Latin America and the Caribbean have similar levels of fiscal deficit, but the former average higher debt levels

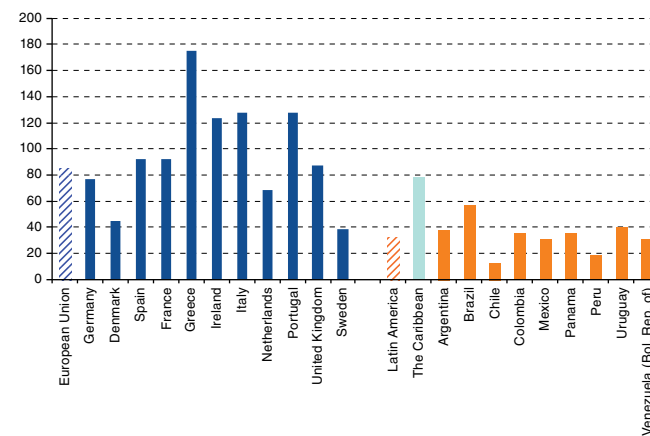
- The average fiscal deficit in the countries of Latin America and the Caribbean has widened in recent years. In 2013 it was 2.9% of GDP, with significant differences between countries. In the European Union, many of whose member States implemented deficit reduction policies, the average was a little higher (3.2% of GDP). Differences between countries are more pronounced in the European Union, with some running high deficits in 2013, in a bid to avoid worsening the crisis through more contractionary fiscal policies.
- The public debt situation differs greatly between the two regions. In 2013, public debt was about 85% of GDP in the countries of the European Union, as against 50% in the countries of Latin America and the Caribbean. However, even within the latter region two starkly different situations are apparent: in the countries of Latin America public debt averages slightly above 30% of GDP, whereas the Caribbean countries have higher debt levels, averaging some 78% of GDP, which is much closer to the European Union figure. Some Caribbean economies have debt levels approaching or even exceeding 100% of GDP.

■ **Figure II.8** ■
European Union (27 countries) and Latin America (10 countries): overall central government fiscal balance, 2013
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Eurostat.

■ **Figure II.9** ■
European Union (27 countries) and Latin America and the Caribbean (9 countries): gross debt, 2013
(Percentages of GDP)



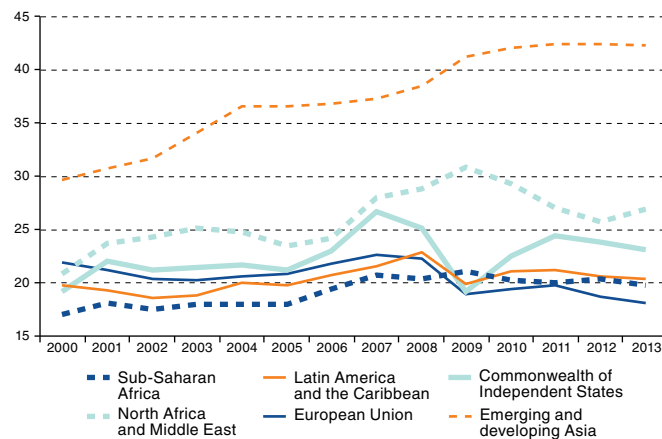
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

7. The investment rate in Latin America and the Caribbean is higher than in the European Union, but much lower than in developing Asia

- Levels of investment in Latin America and the Caribbean and the European Union are lower than in other regions and the global average (24.5% of GDP in 2013).
- The international crisis which began in 2008 and culminated in 2009 forced down investment levels in both regions. Although the two presented similar investment rates up until 2007, gross fixed capital formation, as a share of GDP, began to decline in the European Union that year, falling to under 20%. Although this indicator recovered slightly in 2010 and 2011, it has since deteriorated further owing to slow growth in the eurozone.
- In Latin America and the Caribbean, investment grew steadily between 2003 and 2008. Once the negative impact of the international financial crisis had been absorbed there was a slight recovery, but slower economic growth, a more complex global climate and less optimistic forecasts resulted in an investment rate that was only slightly higher than in the early 2000s.
- In both regions, levels of investment vary greatly between countries. France in the European Union, and Peru and Panama in Latin America and the Caribbean have notably high rates of investment.

■ **Figure II.10** ■
Selected regions and subregions: gross fixed capital formation, 2000-2013

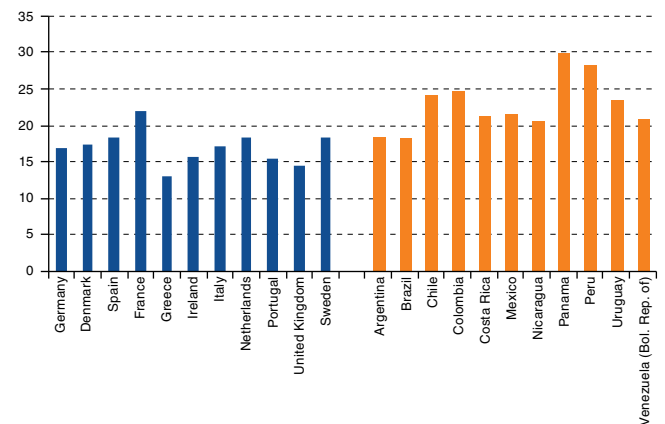
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

■ **Figure II.11** ■
European Union (11 countries) and Latin America (11 countries): gross fixed capital formation, 2013

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

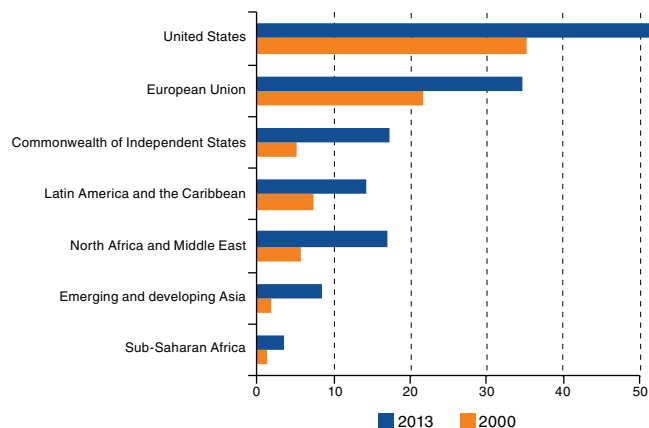
8. The per capita income gap is not closing

- In 2013, per capita income in the European Union, measured at purchasing power parity, was around US\$ 34,700, well above the Latin American and Caribbean figure of US\$ 14,900. In 2000, the figures were US\$ 23,500 and US\$ 8,900, respectively. Thus, despite the greater rise in Latin America and the Caribbean in relative terms, the income gap between the two regions has widened in absolute terms.
- Latin America and the Caribbean has the highest per capita GDP of the developing regions, followed very closely by North Africa and the Middle East. It exceeds the level of emerging and developing Asia by 75%, and is more than three times that of sub-Saharan Africa. The advantage of Latin America and the Caribbean has, however, been eroding in recent years.

■ Figure II.12 ■

Selected regions and countries: per capita GDP at purchasing power parity, 2000-2013

(Thousands of dollars at purchasing power parity)

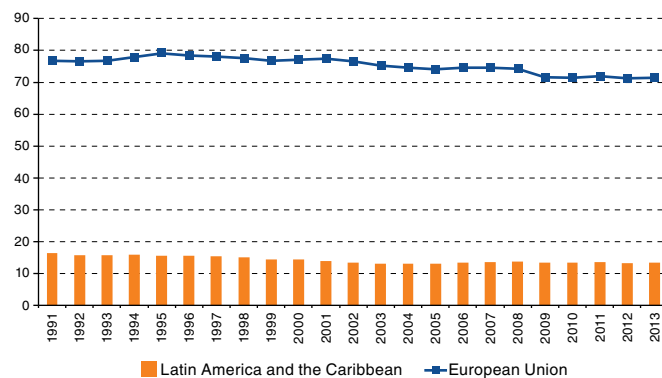


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

9. Neither the European Union nor Latin America and the Caribbean is closing its productivity gap with the United States

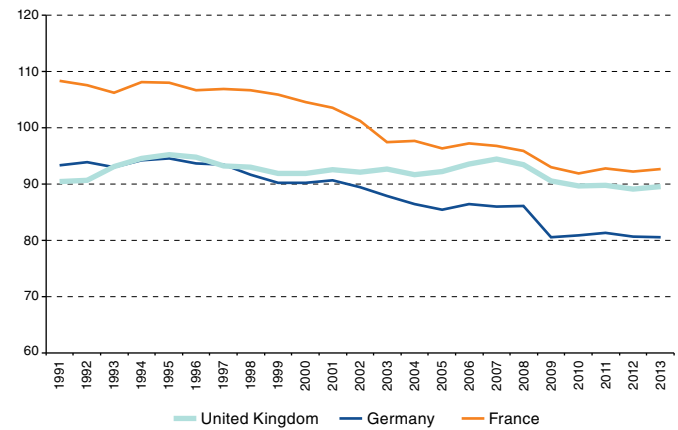
- The two regions and their largest economies have lost ground to the United States in terms of productivity, although relative productivity has fallen more steeply in Europe.
- Latin America and the Caribbean succeeded in reducing productivity gaps during its boom years, when higher growth rates boosted investment and fostered the spread of technology. However, several factors entered into play to reverse this trend at the end of the boom period. The combination of a lack of industrial and technological policies, erratic growth and the subsequent slowdown, together with the incentives against more knowledge-intensive activity and in favour of trade in the commodities in demand in the international market put a brake on progress in terms of learning and productivity.
- Europe's productivity gap is attributable to the inability of its economies to assume a leading role in the new technological paradigms that have revolutionized production systems. The recession that has overshadowed the decade and uncertainties in the wake of the financial crisis have also been decisive factors.

Figure II.13
European Union and Latin America and the Caribbean: relative productivity in respect of the United States, 1991-2013
(Percentages)



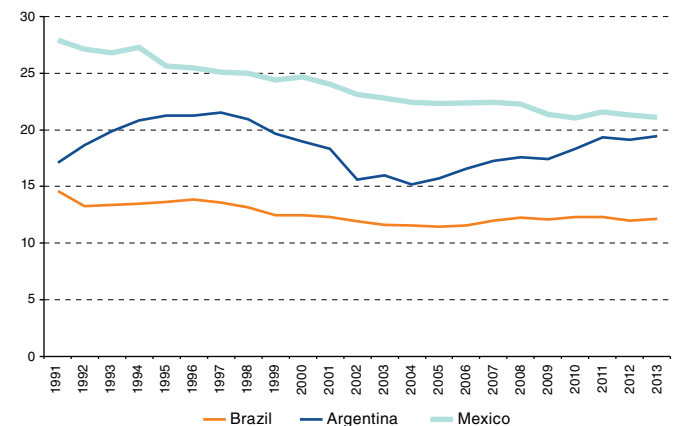
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.14
Germany, France and United Kingdom: relative productivity in respect of the United States, 1991-2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.15
Argentina, Brazil and Mexico: relative productivity in respect of the United States, 1991-2013
(Percentages)

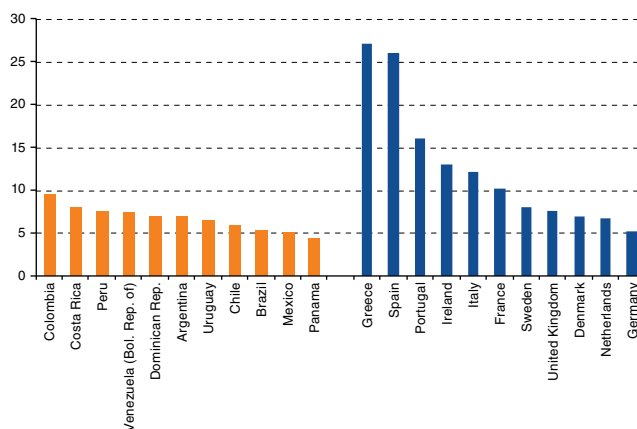


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

10. Unemployment in Latin America is lower than in the European Union

- In the countries of Latin America and the Caribbean, unemployment rates were below 10% in 2013, and sluggish growth had yet to affect this variable. Unemployment is generally higher in the European Union, particularly in the countries hardest hit by the crisis where rates exceeded 15%, and even 25% in some cases.
- The open unemployment rate is not the only relevant indicator of labour market conditions. Indeed, around half of the labour force in Latin America and the Caribbean works in informal jobs, generally on low wages, with neither social protection nor job security.

■ **Figure II.16 ■**
European Union (11 countries) and Latin America (11 countries):
unemployment rates, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

B. Social inclusion and equality

1. Latin America and the Caribbean has succeeded in reducing its high levels of income inequality, while levels in the European Union, though much lower, have not changed

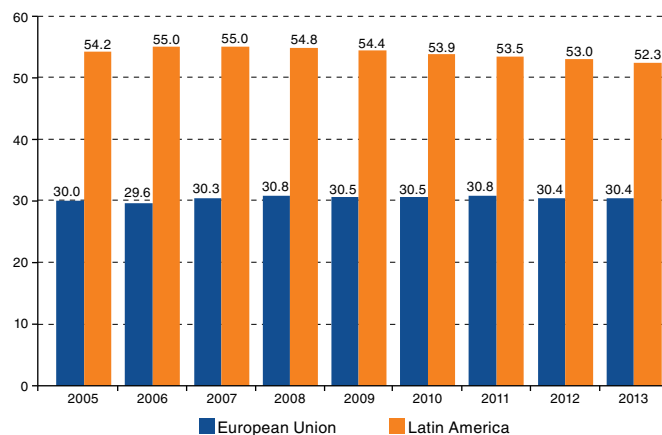
- Inequality in Latin America and the Caribbean is among the highest in the world, which is detrimental to the well-being of its people and curtails its potential for economic and social development. In around 2000, many countries in the region began efforts to combat this inequality which continue to this day.
- In 2013, the Gini index value for Latin America averaged 1.7 times that for the European Union. Within Latin America, Gini values ranged from 38.2 in Uruguay to 57.5 in Honduras. The 15 countries of the European Union included in figure II.17 have lower scores, the lowest value

being that of Sweden (24.9) and the highest Italy (32.5), Spain (33.7), Portugal (34.2) and Greece (34.4).

- Between 2002 and 2013, the average Gini index value for the countries in Latin America decreased by 10%, from 54.2 to 48.6. This trend gathered pace after 2008, especially in Argentina, the Plurinational State of Bolivia, Brazil, Colombia and Mexico.¹
- The Gini index for Latin America as a whole, calculated on the basis of equivalent per capita income, fell by 3.3% between 2005 and 2013, while that of the European Union rose by 1.3%.

■ Figure II.17 ■

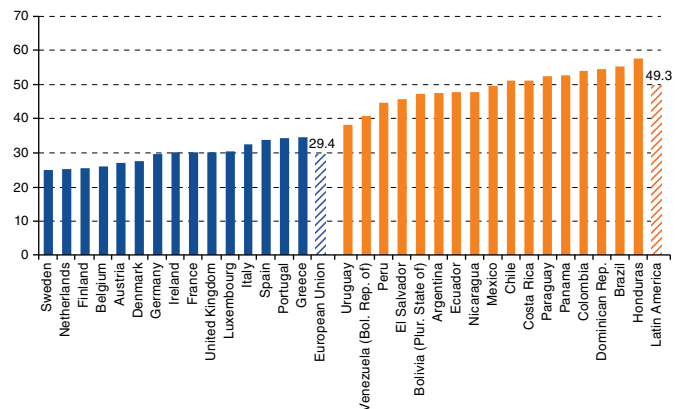
European Union (15 countries) and Latin America (17 countries): Gini index,^a 2005-2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special processing of household surveys conducted in the relevant countries; and Eurostat.
^a Calculated on the basis of equivalent per capita income (modified Organization for Economic Cooperation and Development (OECD) scale).

■ Figure II.18 ■

European Union (15 countries) and Latin America (17 countries): Gini index,^a around 2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special processing of household surveys conducted in the relevant countries; and Eurostat.
^a Calculated on the basis of equivalent per capita income (modified Organization for Economic Cooperation and Development (OECD) scale).

¹ See ECLAC, *Social Panorama of Latin America 2014* (LC/G.2635-P), Santiago, November 2014.

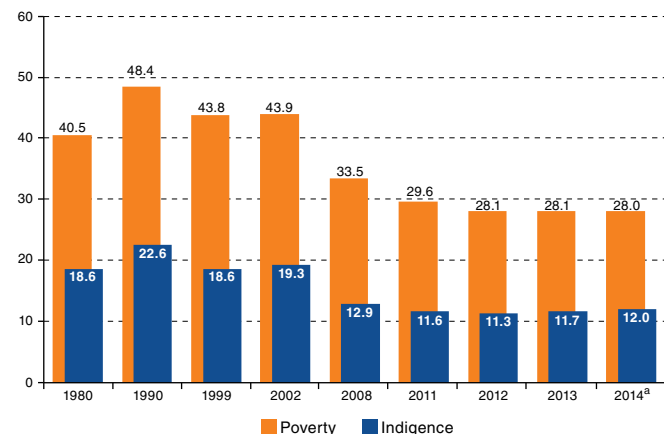
2. In Latin America and the Caribbean, progress made in reducing absolute poverty has ground to a halt in the last three years

- Unlike in the European Union, poverty and indigence in Latin America have traditionally been measured using the cost of basic needs method, which compares the per capita income of each household with the value of the indigence line (the value of a basic basket of foodstuffs) or the poverty line (the minimum amount needed to meet essential needs). Trends in these indicators since 1990 have been highly favourable, with poverty falling by 20 percentage points and indigence by 10 percentage points.
- In 2013, 28.1% of the region's population, or 165 million people, were poor. Of these, 69 million lived in conditions of indigence. No significant changes are expected in the level of poverty in 2014, while projections point to a slight increase in the indigence rate.
- Of the 12 countries for which data are available for 2012 or 2013, six (Paraguay, El Salvador, Colombia, Peru, Chile and Argentina) recorded significant decreases in both poverty and indigence on 2011 levels. In Brazil, the Dominican Republic and Ecuador, the rate of poverty fell but the level of indigence rose, while in Mexico and, to an even greater extent, the Bolivian Republic of Venezuela, both rates increased.
- These figures are attributable to factors such as labour income, which rose in 10 of the 14 countries covered in figure II.20 between 2008 and 2013, as a result of increases in earnings per worker and in overall employment. Pensions, allowances and other transfers also contributed to reductions in poverty in 12 of these countries.

■ Figure II.19 ■

Latin America and the Caribbean (19 countries): poverty and indigence, 1980-2014

(Percentages and millions of people)

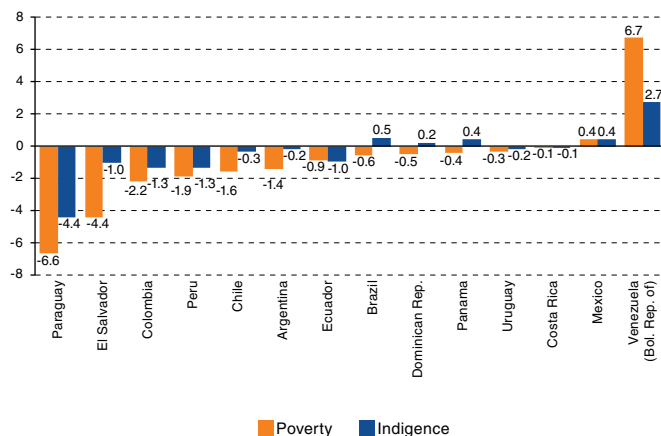


Source: Economic Commission for Latin America and the Caribbean (ECLAC).
^a Projections.

■ Figure II.20 ■

Latin America (14 countries): annual variation in poverty and indigence rates, 2011-2012/2013

(Percentage points)

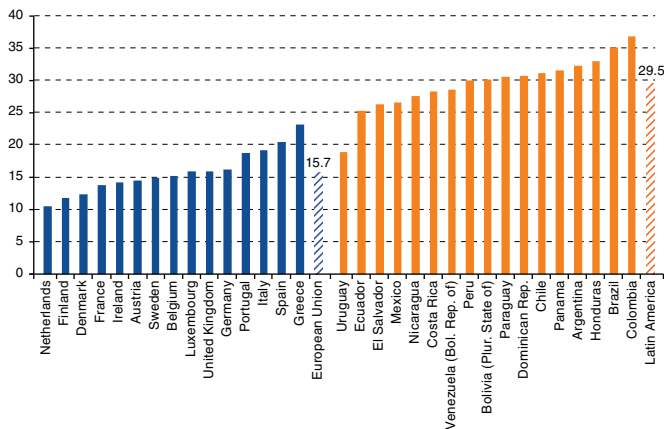


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

3. The European Union has half as much relative poverty as Latin America

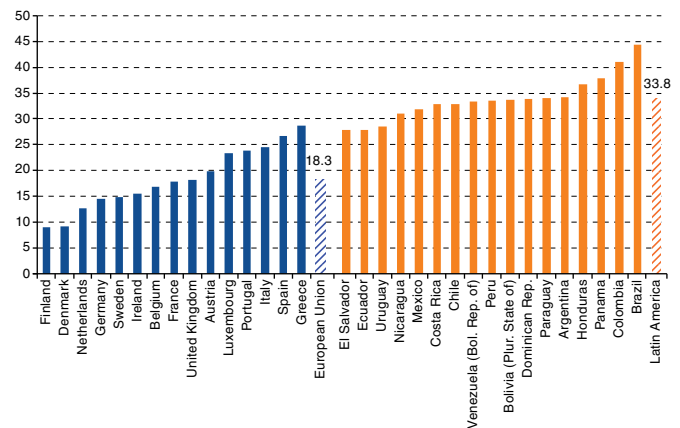
- In the European Union, poverty is measured by a relative yardstick, taking a threshold of 60% of the median income in the economy. A comparable calculation for the countries of Latin America and the Caribbean reveals that the region's relative poverty level (29.5%) was almost double that of the 15 countries of the European Union under consideration (15.7%) in around 2013. Only Uruguay has levels similar to or below certain European Union member States, namely Portugal, Italy, Spain and Greece.
- In these four countries, relative poverty has increased by 1.2 percentage points since the 2009 crisis, while in Latin America and the Caribbean it has fallen slightly.
- On average, relative poverty of children under 16 is also higher in the Latin American countries (33.8% versus 18.3%).

Figure II.21
European Union (15 countries) and Latin America (17 countries): incidence of relative poverty, around 2013 (Percentages)



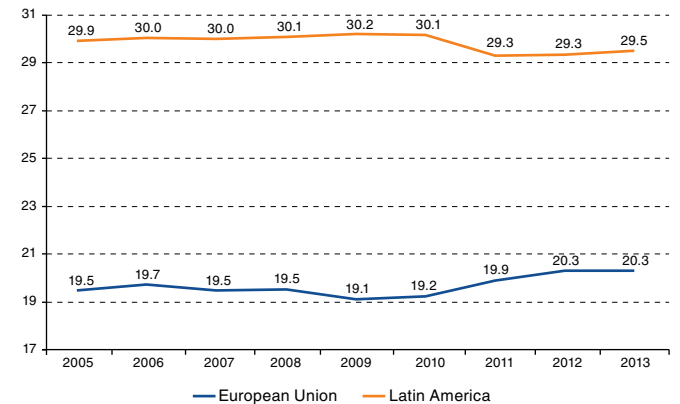
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of time-use surveys of the respective countries; and Eurostat.

Figure II.22
European Union (15 countries) and Latin America (17 countries): incidence of relative child poverty, around 2013 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of time-use surveys of the respective countries; and Eurostat.

Figure II.23
European Union (4 countries)^a and Latin America (17 countries): incidence of relative poverty, 2005-2013 (Percentages)



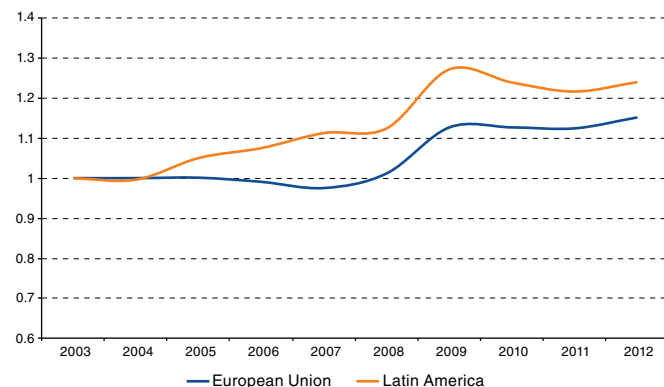
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special processing of household surveys conducted in the relevant countries, and Eurostat.
^a Greece, Italy, Portugal and Spain.

4. The social protection gap between Latin America and the European Union remains very wide

- Social protection spending increased in both the European Union and Latin America in the last decade.
- Between 2003 and 2012, average spending on social protection increased by 24% in Latin America and by 15% in the European Union. Spending in Latin America rose fairly steadily from 2003, and began to climb much faster in 2009. In the European countries it contracted slightly in the years up to 2007, before bouncing back strongly in 2008 and 2009. Despite the strict adjustment policies implemented, levels of investment in social protection in the European Union remained practically unchanged in the three subsequent years.
- Notwithstanding this upward trend, social protection spending as a percentage of GDP remains much lower in Latin America than in the European Union. While social protection spending in the former represented 6.2% of GDP in 2012, in the 15 European Union countries considered here the average was almost five times that (29.1% of GDP)
- Within Latin America and the Caribbean there are substantial differences from country to country: investment in social security and assistance varies from 1.6% of GDP in Ecuador to 11.6% of GDP in Uruguay. Within the European Union (15 countries) there is less of a disparity, with spending ranging from 23% of GDP in Luxembourg to 33.1% of GDP in Denmark.

■ **Figure II.24** ■

European Union (15 countries) and Latin America (17 countries): changes in social protection spending as a share of GDP, 2003-2012^a
(2003 = 1)

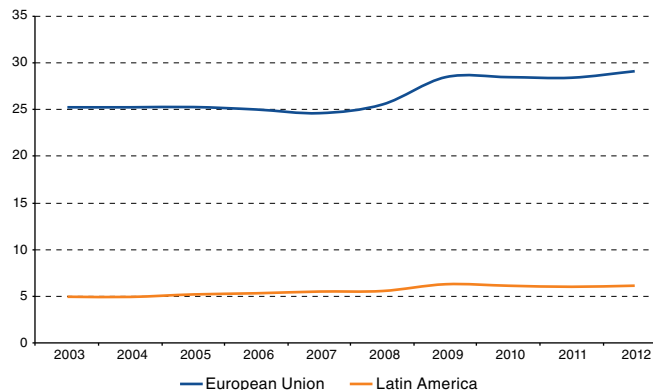


Source: Economic Commission for Latin America and the Caribbean (ECLAC), social expenditure database; and Eurostat.

^a Simple average.

■ **Figure II.25** ■

European Union (15 countries) and Latin America (17 countries): social protection spending as a share of GDP, 2003-2012^a
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from CEPALSTAT and Eurostat.

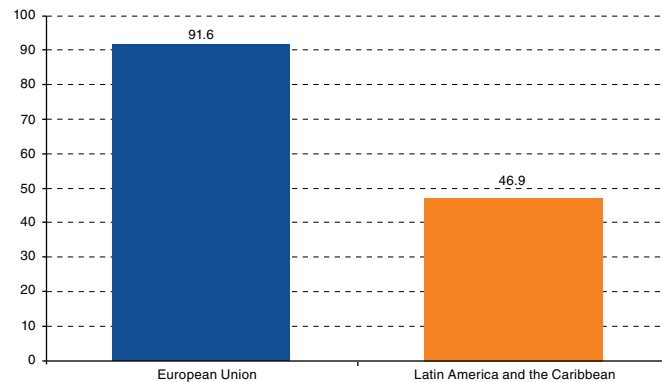
^a Spending on health not included; simple averages.

5. Coverage varies greatly between the two regions' social security systems, for both the economically active population and retirees

- Around 2010, nearly all of the economically active population was enrolled in social protection systems guaranteeing a pension in the 15 European Union countries considered (91.6%), compared with under half of that population in Latin America and the Caribbean (46.9%).
- A similar gap can be observed in respect of the proportion of the retirement-age population receiving a pension or retirement benefits: 92.8% of people of retirement age do so in the European Union, compared with only around half (51.7%) in Latin America and the Caribbean.

■ Figure II.26 ■

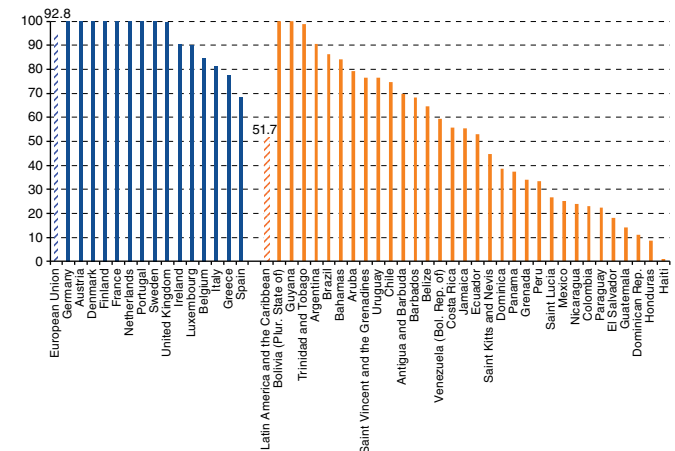
European Union (15 countries) and Latin America and the Caribbean (28 countries): economically active population aged 15 years or over enrolled in social security systems with a pension entitlement, around 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), *World Social Protection Report 2014/15. Building economic recovery, inclusive development and social justice*, Geneva, 2014.4.

■ Figure II.27 ■

European Union (15 countries) and Latin America and the Caribbean (32 countries): retirement-age population in receipt of a pension, around 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), *World Social Protection Report 2014/15. Building economic recovery, inclusive development and social justice*, Geneva, 2014.

6. Latin America and the Caribbean continues to lag behind the European Union on education

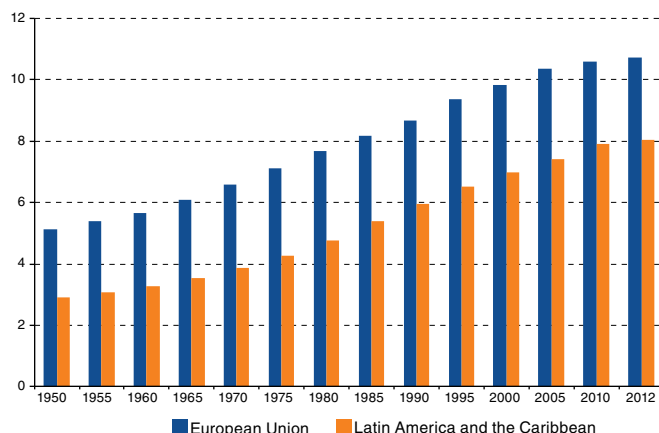
- Capacity-building via the formal education system is one of the primary avenues for the social inclusion of young people.
- Although the countries of Latin America and the Caribbean have achieved substantial improvements in education in recent decades, they still lag well behind their counterparts in the European Union, where very substantial progress has been made.
- The average number of years of education completed by the population aged 25 and over in the countries of Latin America and the Caribbean rose from 2.9 years in 1950 to 8.0 in 2012. This indicator also rose strongly in the countries of the European Union over the same period, from 5.1 years to 10.7 years. The ratio of the average length of education in the European Union to the average in Latin America

and the Caribbean therefore narrowed from 1.8 times to 1.3 times in 62 years.

- The average number of years of education of adults aged 25 years and over in certain English-speaking Caribbean countries, such as Belize (10.5 years) and Trinidad and Tobago (10.8 years) exceeds that of some European countries (Portugal: 8.2 years; Spain: 9.6 years; Italy: 9.9 years; and Greece: 10.2 years).
- In Latin America and the Caribbean there is a high degree of heterogeneity in education, with differences between urban and rural areas, between students from different socioeconomic strata and between indigenous and non-indigenous people, as well as discrimination on the basis of other factors.

■ Figure II.28 ■

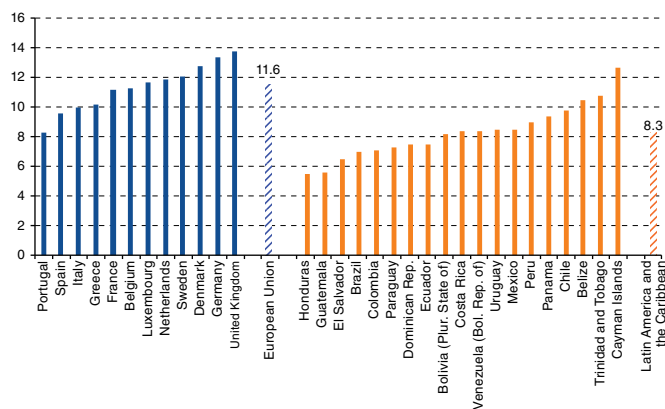
European Union and Latin America and the Caribbean: average years of education of population aged 25 and over, 1950-2012
(Years of education)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*, various years.

■ Figure II.29 ■

European Union (12 countries) and Latin America and the Caribbean (19 countries): average years of education of population aged 25 and over, 2008-2012
(Years of education)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*, various years.

7. The percentage of adolescents outside the education system has been reduced in both the European Union and Latin America and the Caribbean, but large gaps between the two regions remain

- The proportion of adolescents outside the formal education system in the countries of Latin America and the Caribbean is more than three times as great as in the European Union. The proportions were significantly reduced in both regions between 2000 and 2006, but since then, progress has stagnated, and the proportion in the European Union has increased slightly.
- In respect of educational outcomes, students in European Union countries perform better across the board. On average, European students perform 21% better on the

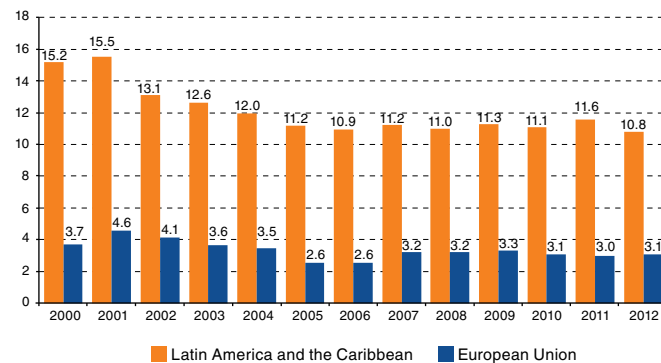
standardized tests of the Programme for International Student Assessment (PISA). The largest difference was in mathematics (24%), followed by science (22%) and lastly reading (19%).

- The gap between the two regions in mathematics and reading narrowed between 2003 and 2012, but there has been no major variation in the overall averages.
- In Latin America, results vary according to students' socioeconomic status, with those from poor families failing to attain minimal levels of competency.

■ Figure II.30 ■

European Union (13 countries) and Latin America and the Caribbean (36 countries): school-age children and adolescents outside the education system, 2000-2012

(Percentages)

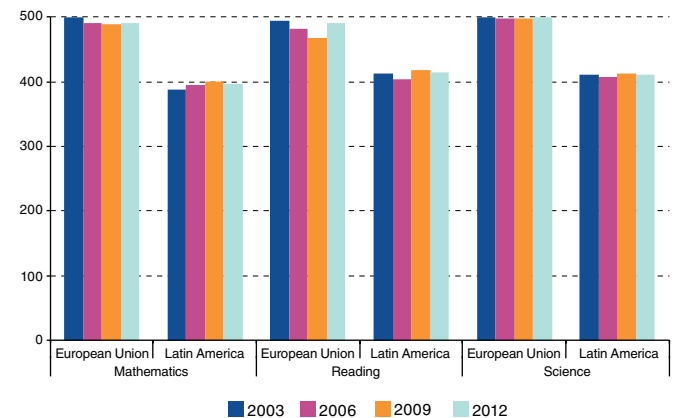


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*, various years.

■ Figure II.31 ■

European Union and Latin America: test results for the Programme for International Student Assessment, 2003, 2006, 2009 and 2012

(Standardized test scores)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development (OECD), Programme for International Student Assessment (PISA).

8. Youth unemployment increased much more in the European Union than in Latin America in the wake of the 2008-2009 crisis

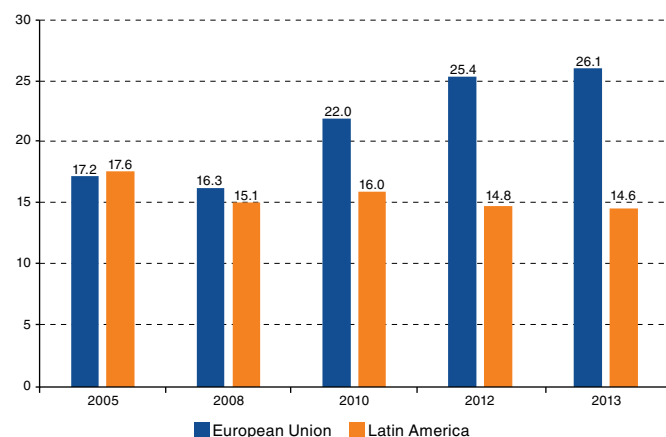
- Alongside formal education, job opportunities for young people constitute a pillar of social inclusion.
- As a result of the 2008-2009 crisis, trends in youth unemployment in Latin America and the Caribbean and the European Union have diverged. In the former, the urban youth unemployment rate remained relatively steady (15.1% in 2008 and 14.6% in 2013), while in the latter it climbed sharply from 16.3% in 2008 to 26.1% in 2013.
- In the European Union (15 countries), the States that bore the brunt of the crisis are those with the highest

youth unemployment: Portugal (38.1%), Italy (40.0%), Spain (55.5%) and Greece (58.3%).

- In Latin America and the Caribbean, Colombia has the highest rate of youth unemployment (21.3%). The highest rates of unemployment within the region are to be found among the lowest income sectors of the population. Young women face higher unemployment rates and more precarious employment conditions, which are then perpetuated when they reach adulthood.

■ Figure II.32 ■

European Union (15 countries) and Latin America (18 countries): urban youth unemployment,^a 2005-2013
(Percentages)

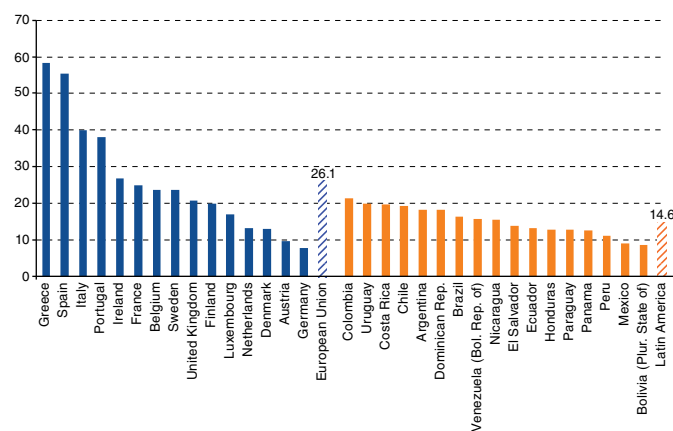


Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT database and Eurostat.

^a Young persons aged under 25 years.

■ Figure II.33 ■

European Union (15 countries) and Latin America (18 countries): urban youth unemployment,^a around 2013
(Percentages)



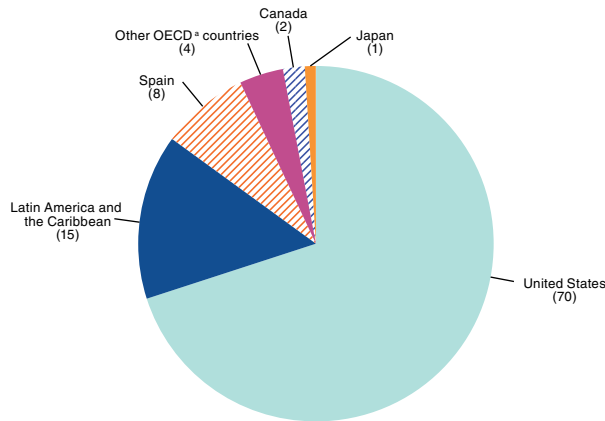
Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT database and Eurostat.

^a Young persons aged under 25 years.

9. Intraregional migration flows have risen within Latin America and the Caribbean

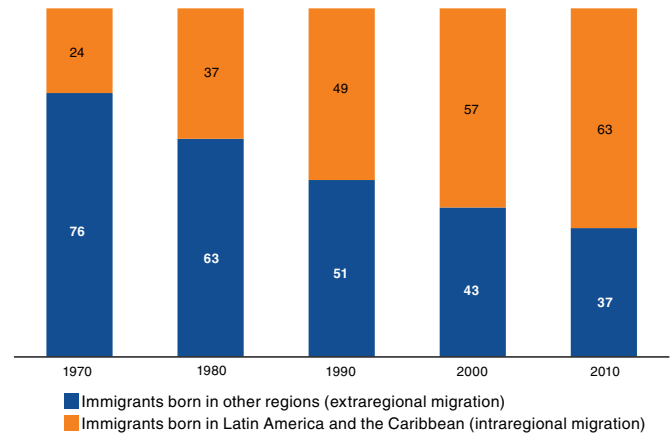
- Flows of both emigration from Latin America and the Caribbean to the main extraregional destinations and immigration into the region from overseas have decreased. Meanwhile, intraregional migration —usually associated with better economic conditions and employment opportunities in the destination country— has risen.
- Spain remains the most popular destination in the European Union for migrants from Latin America and the Caribbean. In 2010, remittances from Spain to the Plurinational State of Bolivia, Colombia and Ecuador were among the highest from the European Union. Remittance flows, have however, been hit by the high rate of unemployment in Spain.

■ **Figure II.34** ■
Latin America and the Caribbean: main destinations for emigrants, 2010
(Percentages)



Source: Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, on the basis of the latest recent census information available.
 * Organization for Economic Cooperation and Development.

■ **Figure II.35** ■
Latin America and the Caribbean: immigrant population by place of origin, 1970-2010
(Percentages)



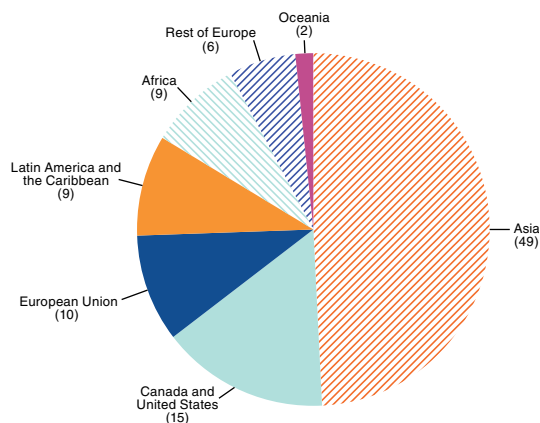
Source: Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, on the basis of the latest census information available.

C. Environmental protection

1. Annual greenhouse gas emissions in Latin America and the Caribbean have reached levels similar to those in the European Union

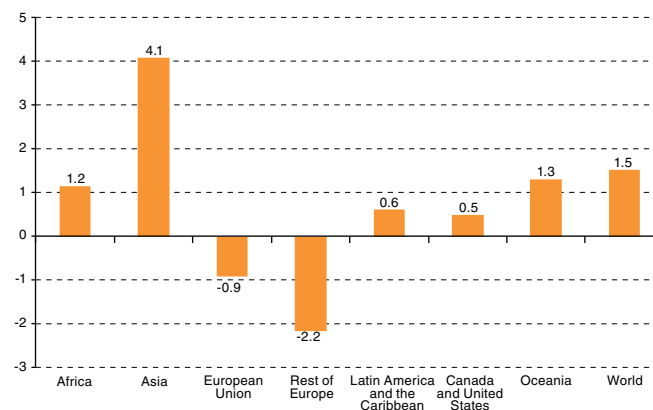
- In 2011, global greenhouse gas emissions amounted to 45.4 gigatons of CO₂-equivalent (GtCO₂-eq), with Asia accounting for half of this total. Latin America emitted 4.2 GtCO₂-eq (9% of the global total) and the European Union 4.3 GtCO₂-eq (10% of the global total).
- The European Union's greenhouse gas emissions have decreased by an average of 0.9% per year since 1990. In contrast, emissions from Latin America and the Caribbean have increased steadily by 0.6% each year, which is, nonetheless, the lowest rate of growth among the emerging regions.
- This trend will continue into the foreseeable future, chiefly as a result of future economic growth, sectoral developments and population dynamics.

■ **Figure II.36** ■
Global greenhouse gas emissions by region, 2011
(Percentages of global total)



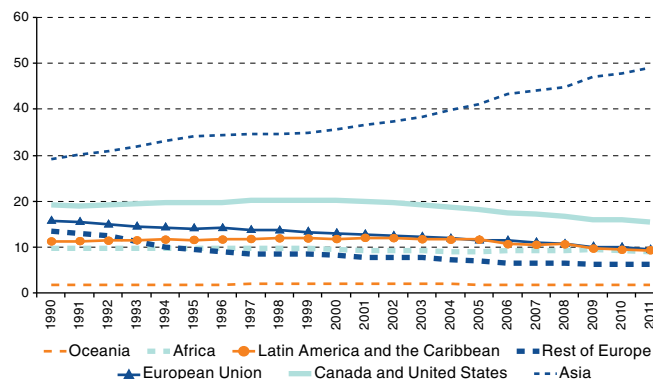
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., [online] <http://cait2.wri.org>.

■ **Figure II.37** ■
Growth in greenhouse gas emissions by region, 1990-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., [online] <http://cait2.wri.org>.

■ **Figure II.38** ■
Share of global greenhouse gas emissions, 1990-2011
(Percentages)

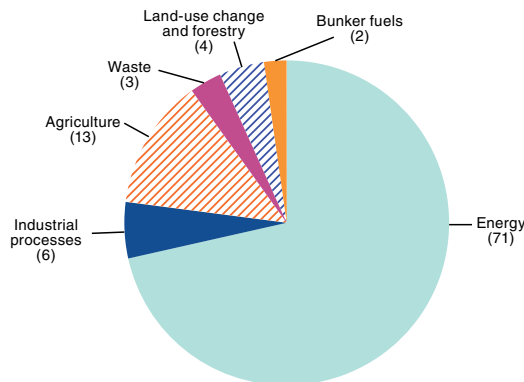


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., see [online] <http://cait2.wri.org>.

2. The bulk of the European Union's emissions come from the energy sector, whereas agriculture and activities associated with land-use change continue to account for a large proportion in Latin America and the Caribbean

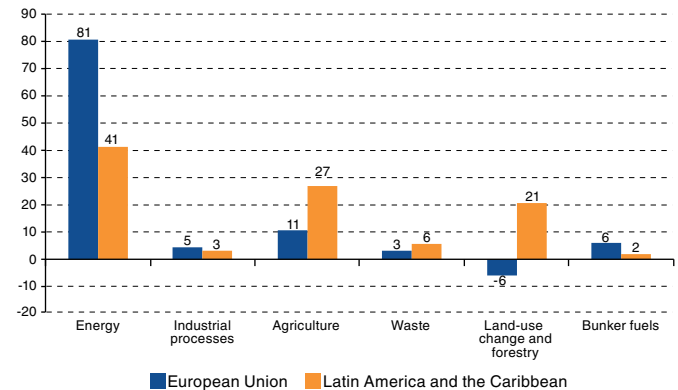
- Emissions from the energy sector account for almost three quarters of global greenhouse gas emissions. The burning of fossil fuels is the main source of emissions worldwide.
- According to a breakdown by sector, the primary source of emissions in Latin America and the Caribbean is the energy sector (electricity and heating, manufacturing and construction, transportation, other fossil fuels and fugitive emissions), which accounts for 41% of total emissions, followed by agriculture (27%) and land-use change and forestry (21%). In the European Union, the energy sector is responsible for 81% of emissions and agriculture 11%; emissions from land-use change and forestry are falling.
- In absolute terms, the European Union's energy sector generates about double the volume of emissions of the energy sector in Latin America and the Caribbean (3.7 GtCO₂-eq versus 1.8 GtCO₂-eq, respectively).

■ **Figure II.39** ■
Share of global greenhouse gas emissions by sector, 2011
(Percentages)



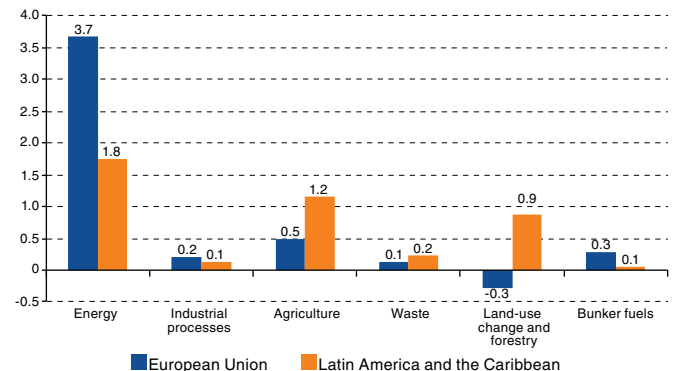
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., [online] <http://cait2.wri.org>.

■ **Figure II.40** ■
European Union and Latin America and the Caribbean: share of greenhouse gas emissions by sector, 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., [online] <http://cait2.wri.org>.

■ **Figure II.41** ■
European Union and Latin America and the Caribbean: greenhouse gas emissions by sector, 2011
(Gigatons of CO₂-equivalent)

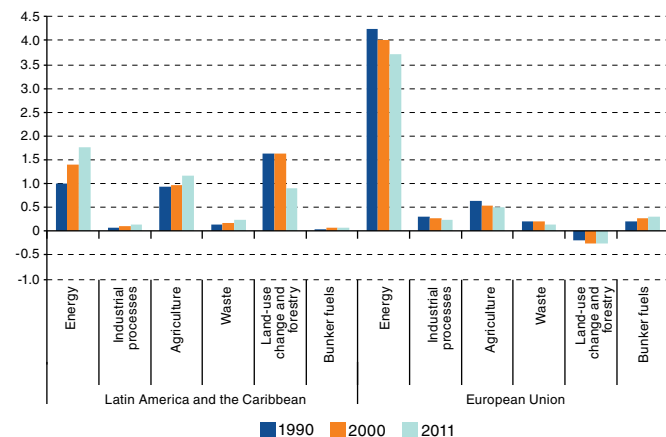


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0, Washington, D.C., [online] <http://cait2.wri.org>.

3. Emissions are on the rise in Latin America and the Caribbean and falling in the European Union

- Between 1990 and 2011, emissions increased in all sectors—with the exception of land-use change and forestry—in Latin America and the Caribbean, whereas they fell in most sectors in the European Union.
- By implementing policies consistent with the Kyoto Protocol targets, the European Union has cut its total greenhouse gas emissions and aims to achieve a 20% reduction on 1990 levels

Figure II.42
European Union and Latin America and the Caribbean: greenhouse gas emissions by sector, 1990, 2000 and 2011
(Gigatons of CO₂-equivalent)

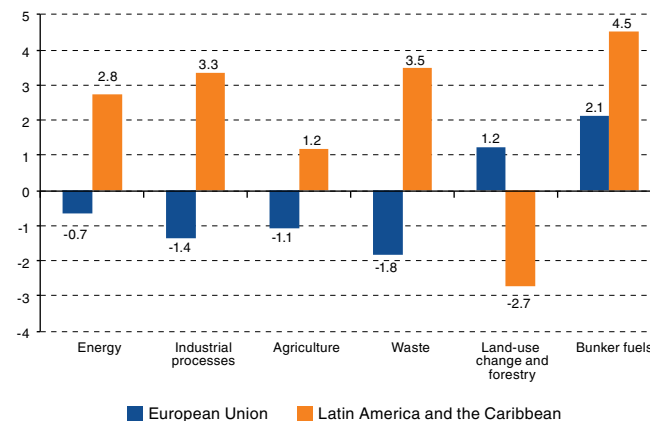


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0. Washington, D.C., [online] <http://cait2.wri.org>.

by 2020. Certain Latin American and Caribbean countries (Brazil, Chile, Costa Rica and Mexico) have set voluntary emissions reduction targets.

- Falls in emissions from land-use change and forestry in Latin America and the Caribbean are chiefly a result of reductions in the rate of deforestation. The European Union, meanwhile, is undergoing a process of reforestation.

Figure II.43
European Union and Latin America and the Caribbean: average annual growth in greenhouse gas emissions by sector, 1990-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0. Washington, D.C., [online] <http://cait2.wri.org>.

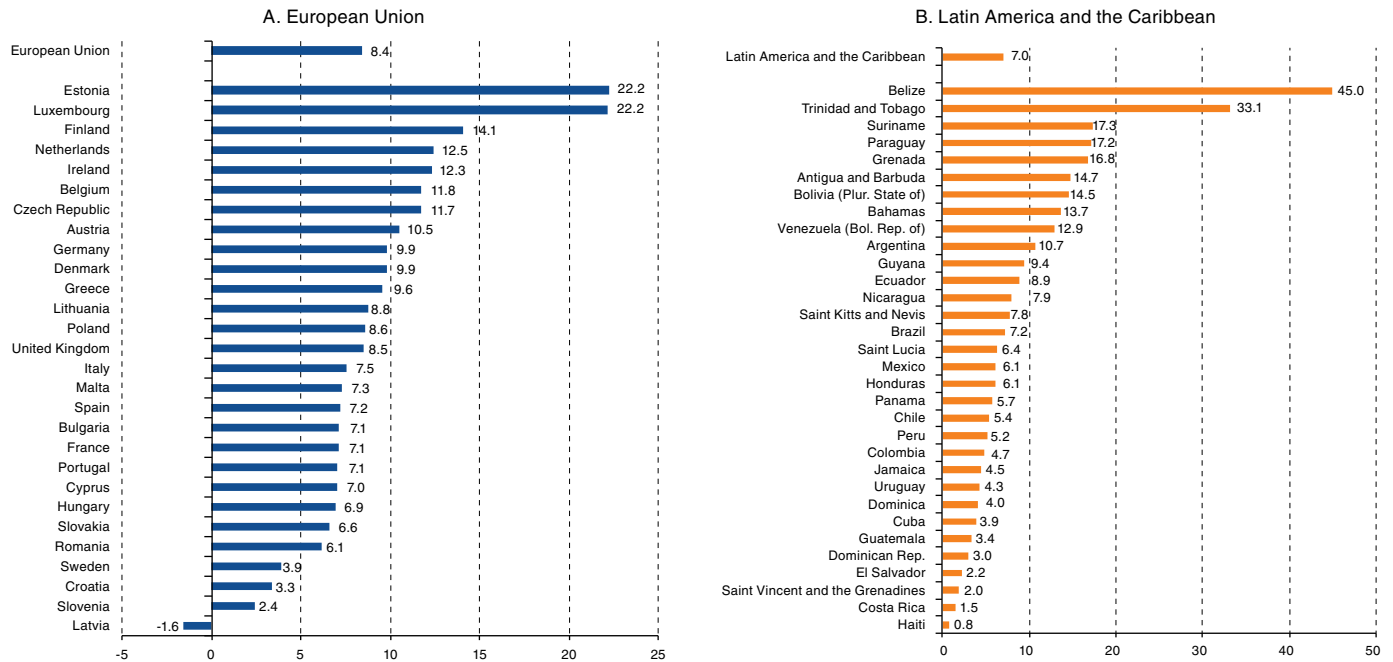
4. Not enough action is being taken worldwide to reach global emissions reduction targets

- Latin America and the Caribbean emits 7 tons of CO₂-equivalent per person per year, compared with 8 tons in the European Union.
- To avoid a catastrophic change in temperature, global emissions must be cut to a maximum of 2 tons per capita by 2050. By the end of the century, that must come down to 1 ton, or even to a level where emissions are being absorbed.
- At present, levels of around 2 tons of CO₂-equivalent per person per year are produced only in Costa Rica, El Salvador, Haiti and Saint Vincent and the Grenadines in Latin America and the Caribbean, and only in Latvia and Slovenia in the European Union.

■ Figure II.44 ■

European Union and Latin America and the Caribbean: greenhouse gas emissions per inhabitant, 2011

(Tons of CO₂-equivalent per person)

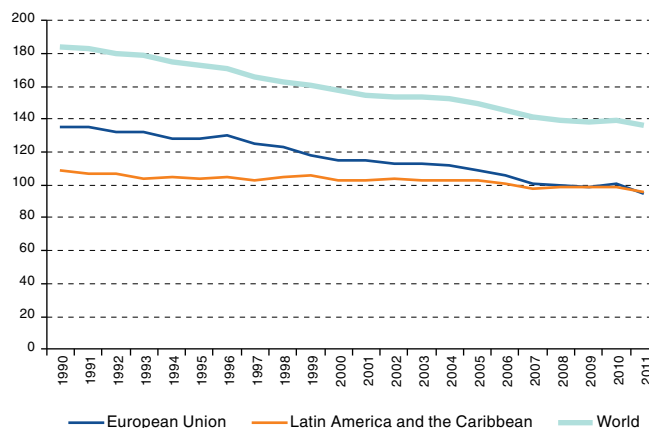


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Resources Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0. Washington, D.C., [online] <http://cait2.wri.org>.

5. The energy sector is key in the fight against climate change

- The rate of population expansion and economic growth, the intensity of energy use, the structure of the energy mix and the ratio of emissions to energy are determining factors in climate change.
- Worldwide, energy intensity is trending downward, falling 1.4% per year since 1990. Energy use in the European Union (in kilograms of oil equivalent) has declined from 135 kg per US\$ 1,000 of GDP in 1990 to 95 kg per US\$ 1,000 of GDP in 2011 (a fall of 1.7% per year). In Latin America and the Caribbean, energy use has remained relatively stable, contracting from 108 kg per US\$ 1,000 of GDP in 1990 to 96 kg in 2011. Compared with the global average of 136 kg per US\$ 1,000 of GDP, both regions make relatively efficient use of energy.
- The European Union has reduced the intensity of its energy use, reflecting progress towards its objective of increasing, by 2020, energy efficiency by 20% in respect of projections for that year.

■ **Figure II.45 ■**
Intensity of energy use, 1990-2011
(Kilograms of oil equivalent per US\$ 1000 of GDP)



Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

Note: GDP is measured in international dollars at purchasing power parity.

6. Fossil fuels make up a similar proportion of the energy mix in the European Union and Latin America and the Caribbean

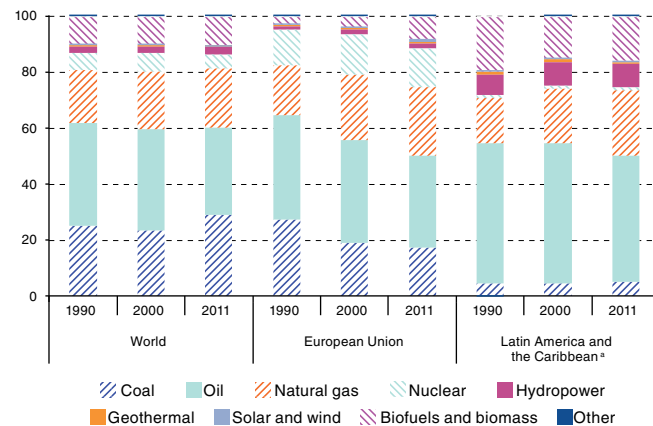
- The share of fossil fuels (coal, oil and natural gas) in the energy mix determines to a large extent the amount of greenhouse gas emissions. Fossil fuels account for 74% of the energy matrix in Latin America and the Caribbean (coal: 4.8%; oil: 45.3%; and natural gas: 23.4%) and 75% thereof in European Union (coal: 17.1%; oil: 33.3%; and natural gas: 24.3%). Fossil fuels generate 82% of the total energy supply worldwide, a figure that chiefly reflects their relative weight in Asia's energy mix.
- The proportion of the energy mix made up of fossil fuels determines the amount of CO₂ emissions generated per unit of energy consumed. In Latin America and the Caribbean,

emissions have held steady at about 2.1 kg of CO₂ per unit of energy (in kilograms of oil equivalent) since the 1990s. The European Union has reduced this indicator of emissions from 2.5 kg of CO₂ per unit of energy in 1990 to 2.2 kg in 2011.

- Changing the energy mix requires major long-term investment.
- The European Union has set itself the target of increasing the share of renewable energies in its energy mix to 20% by 2020. Hydroelectric, solar and wind power, together with biofuels and biomass, currently account for 13% of its energy mix, while in Latin America and the Caribbean they make up 25%.

■ Figure II.46 ■

Energy mix by region, 1990, 2000 and 2011
(Percentages)

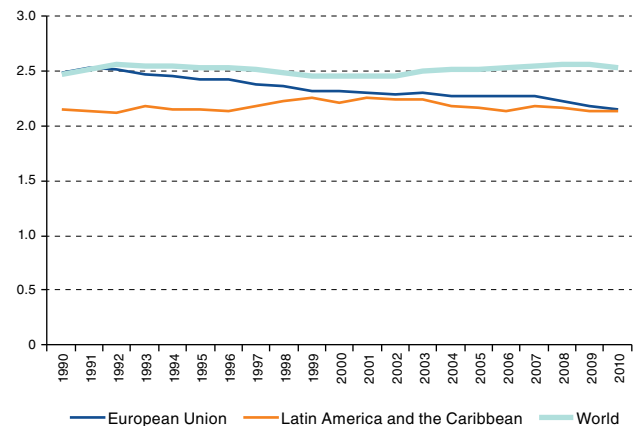


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the International Energy Agency (IEA).

*Includes 22 countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia, Trinidad and Tobago, and Uruguay.

■ Figure II.47 ■

CO₂ emissions per unit of energy consumed by region, 1990-2011
(Kg of CO₂ per kg of oil equivalent of energy consumed)



Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

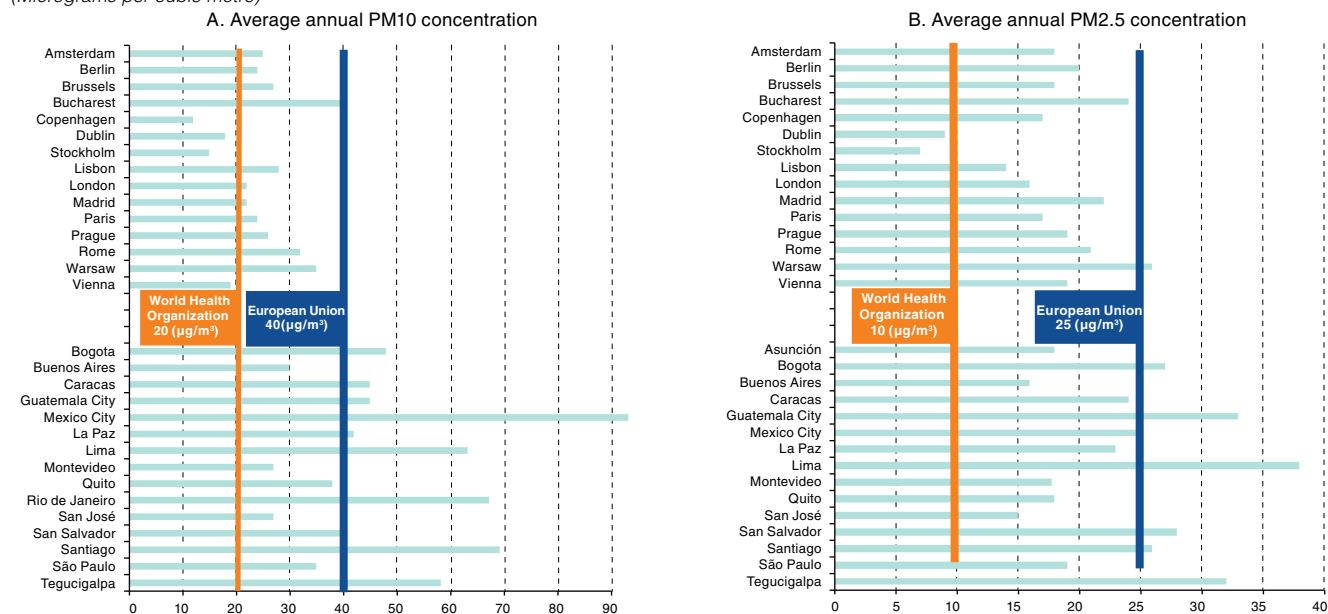
7. Air quality in Latin American cities is worse than in European cities

- Urban air pollution is worse in Latin America than in the European Union. This is shown by the number of cities exceeding the thresholds set by the World Health Organization (WHO) and the European Union for the concentration of airborne pollutants, such as PM10 and PM2.5 particulate matter.
- Poor air quality in cities is a further risk factor for the population's health. Children and adults aged over 65 years are at greatest risk of conditions including respiratory diseases, asthma, bronchitis and respiratory mortality.
- Climate change will aggravate the problems associated with poor air quality. Higher local surface temperatures in polluted regions will trigger regional chemical and emissions feedback loops that will drive up peak levels of ozone and PM2.5.
- The high levels of pollution, and their attendant effects on health, are an issue of greater concern in Latin America, where urban areas, the vehicle fleet and gasoline consumption are all growing rapidly. Furthermore, rates of car ownership in large cities are expected to increase as a result of stronger economic growth.

■ Figure II.48 ■

European Union and Latin America (selected cities): PM10 and PM2.5 concentrations and recommended thresholds, 2011

(Micrograms per cubic metre)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Health Organization (WHO), Ambient Air Pollution Database, May 2014.

Nota: Data on concentrations for Copenhagen, La Paz and Rio de Janeiro are from 2010. Data for Amsterdam, Berlin, Brussels, Bucharest, Caracas, Dublin, Lima, Lisbon, London, Madrid, Mexico City, Monterrey, Paris, Prague, Rome, San José, San Salvador, Santiago, Stockholm, Vienna and Warsaw are from 2011. Data for Bogota, Buenos Aires, Guatemala City, Montevideo, Quito and São Paulo are from 2012; and those for Tegucigalpa are from 2013.

8. Latin America and the Caribbean differs greatly from the European Union in terms of forestry management and forest coverage

- Latin America and the Caribbean is one of the most wooded regions in the world, with forest coverage of 955 million hectares, an average of 1.6 hectares per capita. Forest coverage in the European Union, by contrast, is 159 million hectares, or 0.3 hectares per inhabitant. The global average is 0.6 hectares per person.
- The forest coverage of Latin America and the Caribbean has declined over the past two decades, and the world as a whole suffered a net loss of 5.21 million hectares per year of forests between 2000 and 2010. This was, however, an improvement over the 1990s, when 8.33 million hectares were deforested each year. The average annual deforestation rate in Latin America and the Caribbean was 0.45% between 2000 and 2010, which added up to a loss of 4.39 million hectares. Forest areas in the European Union saw annual net growth of 521 million hectares, down from the nearly 736 million hectares a year in the 1990s.
- The loss of forests in Latin America and the Caribbean has, on the whole, slowed over the past two decades, but the picture varies from country to country. Of the countries with the largest forest areas in the region, Mexico's forest coverage shrank at a rate of 0.33%, resulting in an average loss of 195,000 hectares per year over the past 10 years, while Brazil lost an average of around 2.6 million hectares per year and Peru lost 122 million hectares in the last decade. The situation is vastly different in the European Union, where the forest area of member States increased between 2000 and 2010. The five countries with the most forest coverage (Sweden, Finland, Spain, France and Germany) all recorded positive rates of growth.

■ Table II.2 ■

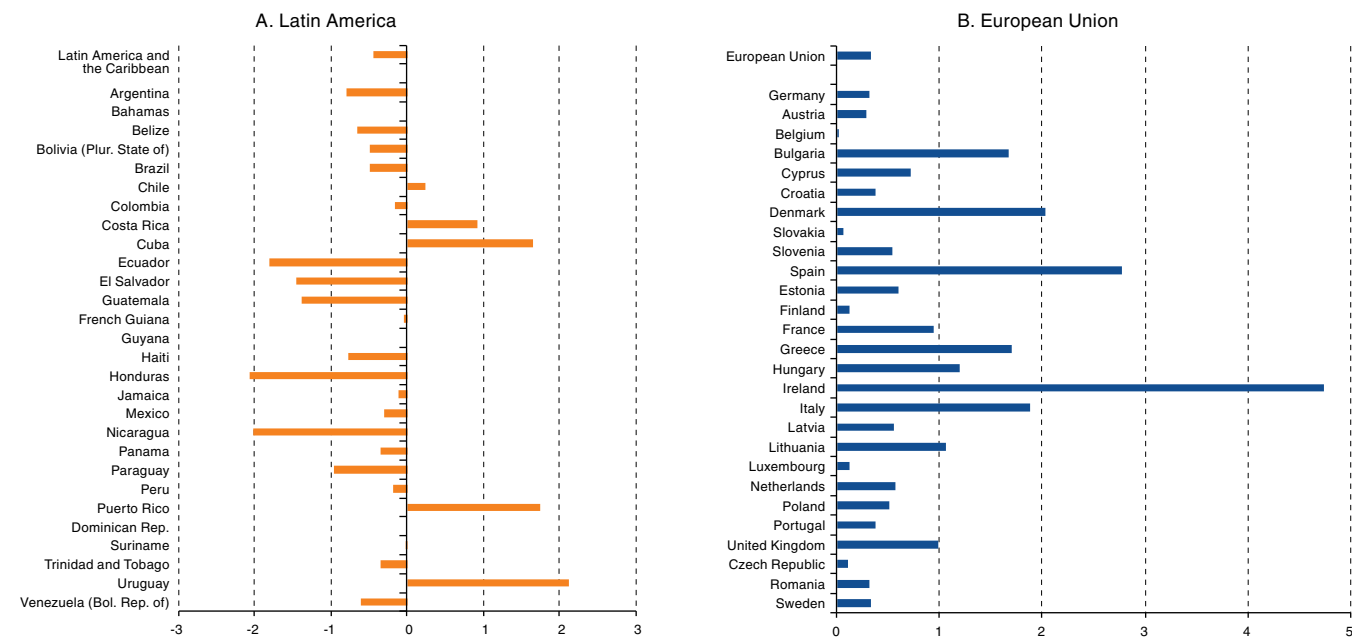
Forest coverage and trends by region, 1990-2010

Region	Number of countries and areas	Forest area (thousands of hectares)			Annual variation (thousands of hectares)	Rate of variation (percentages per year)
		1990	2000	2010	1990-2010	
Africa	58	749 238	708 554	674 419	-3 741	-0.52
Asia and the Pacific	72	774 723	768 373	783 724	451	0.06
Europe	50	989 632	998 412	1 005 174	777	0.08
European Union	28	146 225	153 580	158 785	628	0.41
Latin America and the Caribbean	49	1 048 363	999 486	955 584	-4 639	-0.46
Central America	8	96 008	88 731	84 301	-311	-1.37
South America	13	946 454	904 322	864 351	-4 105	-0.45
The Caribbean	27	5 901	6 433	6 932	52	0.81
North America	2	606 469	610 329	614 156	384	0.06
United States	1	296 335	300 195	304 022	384	0.13
Canada	1	310 134	310 134	310 134	0	0.00
Total	231	4 168 425	4 085 154	4 033 057	-6 768	-0.16

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), *State of the World's Forests, 2011*, Rome, 2011.

■ Figure II.49 ■

European Union (22 countries) and Latin America and the Caribbean (11 countries): average growth in forest coverage, 2000-2010
(Percentages)

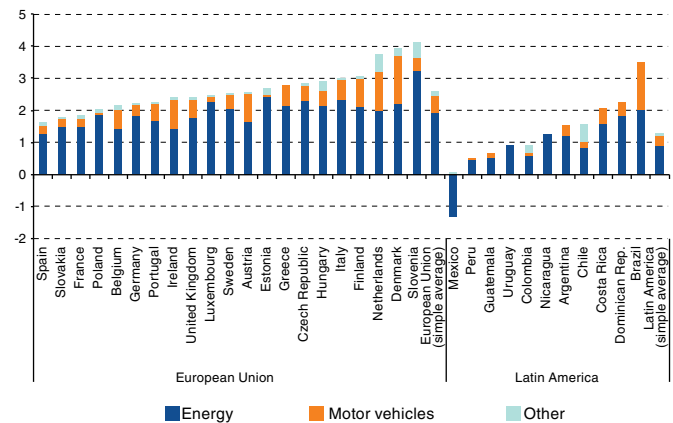


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), *State of the World's Forests, 2011*, Rome, 2011.

9. Environmental taxes in the European Union are double those in Latin America

- Environmental taxes—a key factor in reducing environmental damage—account for an average of 2.6% of GDP in the European Union, compared with only 1.3% of GDP in Latin America.
- Within the European Union environmental tax receipts range between a maximum of around 4% of GDP in Slovenia and a minimum of 1.6% of GDP in Spain. In Latin America, the highest rate is levied in Brazil, where these taxes account for 3.5% of GDP, and the lowest in Mexico, where fuel subsidies actually result in a loss of 1.3% of GDP.
- The energy sector accounts for the most receipts in both regions—making up on average around 2% of GDP in the European Union and 1% in Latin America—followed by taxes on motor vehicles.
- The experience of European Union countries in undertaking environmental tax reforms could serve as an example for the implementation of such measures in Latin America.

■ **Figure II.50** ■
European Union (21 countries) and Latin America and the Caribbean (11 countries): environmental tax receipts, 2012
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), Environmental Taxation Database, Environment Statistics Database.

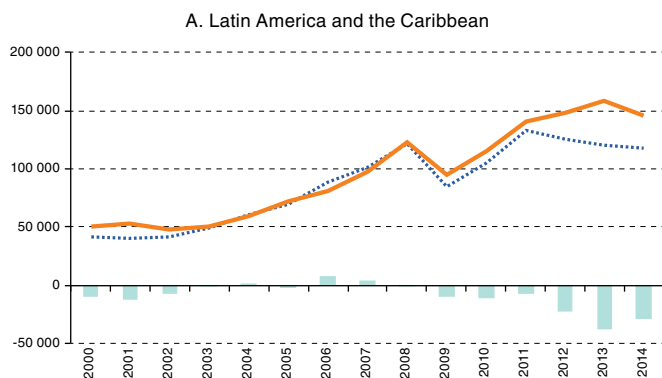
III. Trade and investment

A. International trade

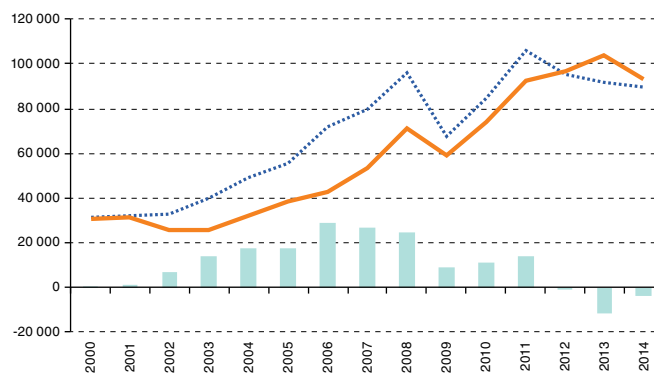
1. Trade in goods between Latin America and the Caribbean and the European Union nearly tripled between 2000 and 2014, although at a slightly slower pace than trade with the world

- Trade with the European Union came to nearly US\$ 265 billion in 2014 after hitting a historic high of US\$ 278 billion in 2013.
- In aggregate, trade with the European Union has been balanced since 2000. However, in 2012 and 2013, the region's deficit grew owing to falling exports. The contraction in exports, from more than US\$ 133 billion in 2011 to just over US\$ 118 billion in 2014, was the result of slow growth in most European Union countries since 2011.
- The drop in regional exports to the European Union can largely be attributed to a decline in exports from Brazil, the main exporter to that market (from US\$ 53 billion in 2011 to US\$ 42 billion in 2013), as well as to declines in exports from Argentina, Chile and Peru.
- Different patterns can be observed by subregion, with South America registering a significantly more favourable trade balance than Mexico, Central America and the Caribbean, largely due to commodity exports from the former.

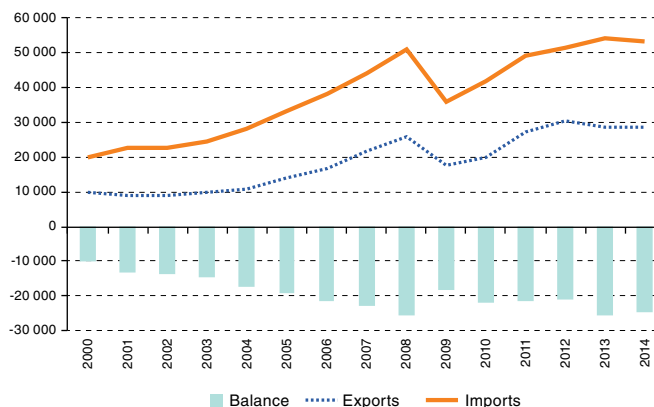
■ **Figure III.1** ■
Latin America and the Caribbean: trade in goods with the European Union, 2000-2014^a
 (Millions of dollars)



B. South America



C. Mexico, Central America and the Caribbean



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
^a The 2014 figures are preliminary.

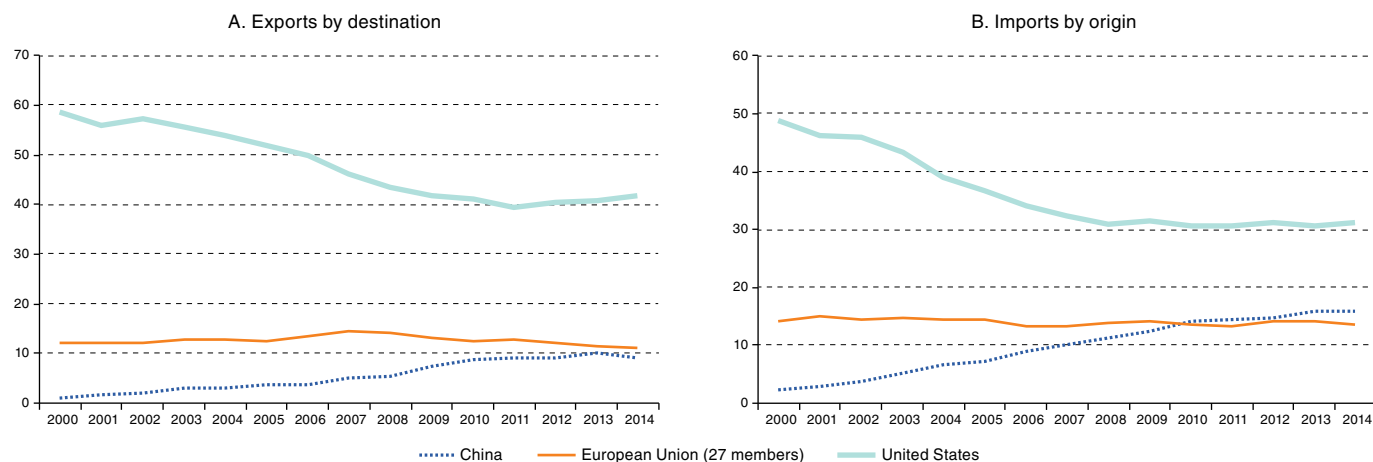
2. China is now on par with the European Union as a trade partner with Latin America and the Caribbean

- The volume of trade between the European Union and Latin America and the Caribbean has remained largely unchanged in this century. In 2000, the European market was the destination for 12% of the region's exports and the origin of 14% of its imports. In 2014, its share of the two flows was 11.1% and 13.6%, respectively.
- The European Union's stability as a trade partner with the region stands in contrast to the emergence of China during the same period. Between 2000 and 2014, China's share of regional exports grew from 1% to 9% (after peaking at 10% in 2013), and its share of imports rose from just over 2% to 16%.
- As a result of these different paths, in 2014 the European Union and China had virtually the same share of Latin America and the Caribbean's trade in goods with the world (12.4% and 12.5%, respectively). Although the European Union remains the second largest destination market for regional exports, after the United States, since 2010 it has been displaced by China as the second largest market of origin for its imports (also after the United States).

■ Figure III.2 ■

Latin America and the Caribbean: selected partners' share of trade in goods, 2000-2014^a

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

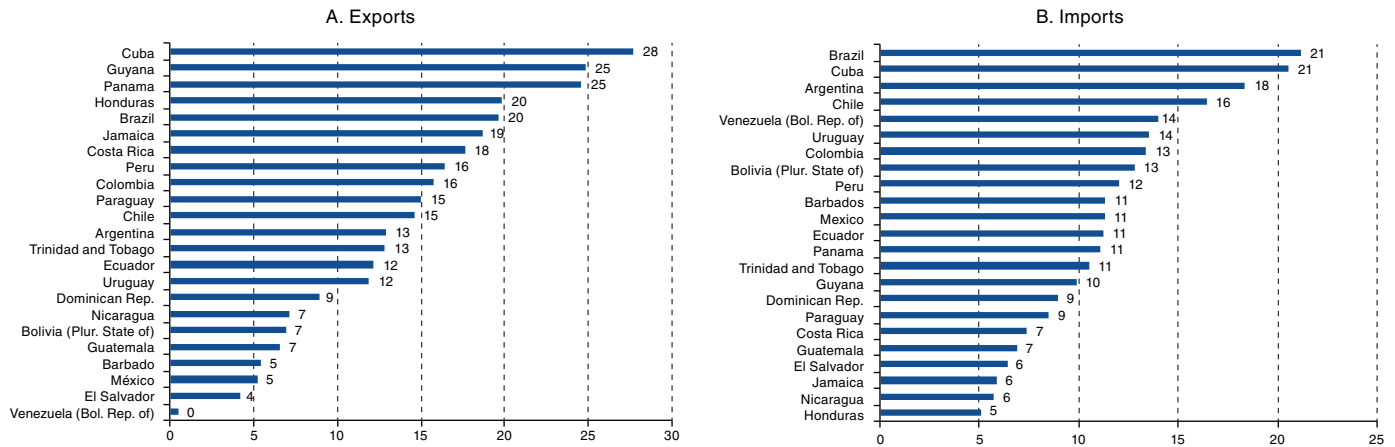
^aThe 2014 figures come from official sources in the region's countries and are preliminary.

3. The European Union's share of the foreign trade in goods, particularly exports, varies considerably by country in the region

■ Figure III.3 ■

Latin America and the Caribbean: European Union's share of foreign trade in goods, 2013

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE); for Cuba, Honduras and Trinidad and Tobago: calculations on the basis of International Monetary Fund, Direction of Trade Statistics.

4. Latin America and the Caribbean's share of the European Union's foreign trade, both in goods and services, continues to be very small

- The slow growth in many of the member countries of the European Union since the start of the global economic crisis in 2008 has translated into a considerable loss of momentum in intraregional trade. In effect, the European Union's share of total goods exports from its member countries, though close to 61%, fell by 6 percentage points between 2008 and 2013. Compared with its share of goods exports, the European Union's share of services exports from the region is smaller, but it has also fallen by a smaller margin since 2008 (just over 2 percentage points).
- In recent years, China has acquired a larger share of trade flows with the European Union, especially as a destination for its goods exports. The same has occurred with Asia and other developing regions. However, the increase in Latin America and the Caribbean's share of the European

Union's trade in goods and services over the last five years has been very modest.

- Excluding trade within the European Union, Latin America and the Caribbean was the destination for 6.6% of the European Union's exports of goods to the world and the origin of 5.7% of the bloc's imports of goods. Meanwhile, the region was the destination for 8.2% of the European Union's services exports to the world and the origin of 7.6% of its services imports from outside the bloc in 2012.
- Unlike what has happened in the trade in goods, in the case of both exports and imports of services, Latin America and the Caribbean continues to be a more important partner for the Union European than China, even when the Hong Kong Special Administrative Region is included, China's traditional platform for services.

■ Table III.1 ■

European Union: selected partners' trade shares, 2008 to 2013^a

(Percentages)

		A. Goods						B. Services							
	Partner	2008	2009	2010	2011	2012	2013		Partner	2008	2009	2010	2011	2012	2013 ^b
Exports	Latin America and the Caribbean	2.1	2.0	2.3	2.4	2.7	2.6	Exports	Latin America and the Caribbean	3.4	3.5	3.6	3.5	3.7	... ^c
	China	2.0	2.5	3.0	3.2	3.3	3.3		China	1.7	1.6	1.8	1.8	2.0	2.1
	United States	6.3	6.4	6.4	6.2	6.7	6.5		United States	10.9	10.9	10.8	10.8	11.2	10.5
	Japan	1.1	1.1	1.1	1.1	1.2	1.2		Japan	1.6	1.6	1.5	1.6	1.7	1.5
	European Union	66.4	65.8	64.2	63.0	61.2	60.5		European Union	57.4	56.5	56.3	56.2	55.0	55.2
	Rest of the world	22.1	22.1	23.0	24.0	24.9	25.9		Rest of the world	25.0	25.9	26.0	26.1	26.4	... ^c
Imports	Latin America and the Caribbean	2.6	2.4	2.5	2.6	2.6	2.4	Imports	Latin America and the Caribbean	3.5	3.6	3.5	3.5	3.7	... ^c
	China	6.5	7.2	8.0	7.5	7.2	7.2		China	1.4	1.3	1.5	1.5	1.6	1.6
	United States	5.1	5.6	5.2	5.0	5.3	5.2		United States	12.1	12.4	12.1	12.1	12.1	11.7
	Japan	2.2	2.1	2.1	2.0	1.8	1.6		Japan	1.5	1.3	1.3	1.3	1.2	1.1
	European Union	59.4	59.8	58.3	57.8	56.8	58.1		European Union	58.8	59.2	59.5	59.6	59.3	59.7
	Rest of the world	24.2	22.9	23.9	25.1	26.3	25.5		Rest of the world	22.7	22.2	22.1	22.0	22.1	... ^c

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE) for trade in goods and Eurostat for trade in services.

^a The figures on the trade in goods correspond to the 27-member European Union (EU-27). The figures on the trade in services for 2008 and 2009 correspond to the EU-27 and from 2010 on also include Croatia (EU-28).

^b Preliminary figures.

^c An ellipsis (...) indicates that there is no available data.

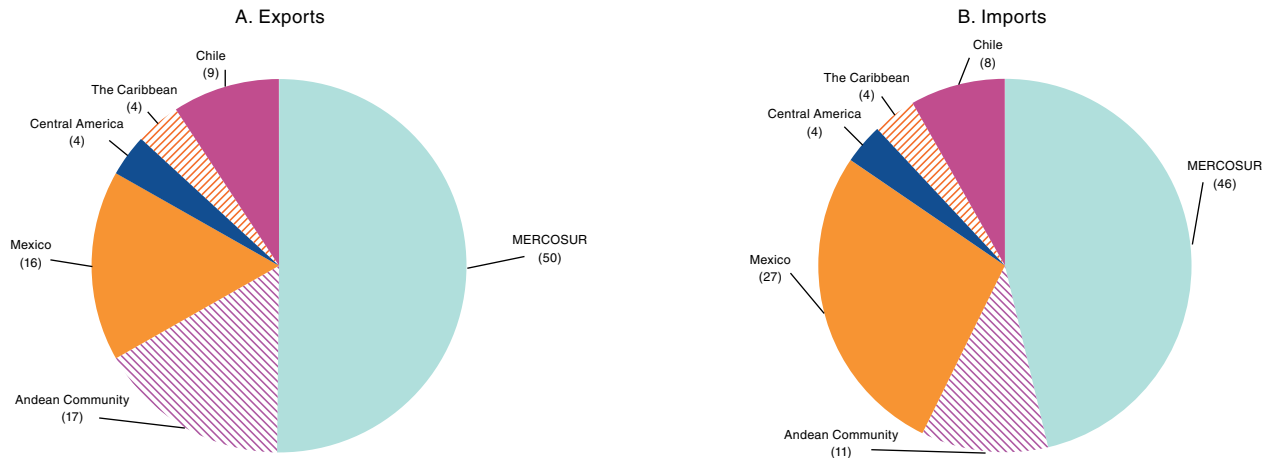
5. MERCOSUR accounts for nearly half of Latin America and the Caribbean's trade in goods with the European Union

- In 2013, the five member countries of the Southern Common Market (MERCOSUR) exported US\$ 60.4 billion in goods to the European Union, or half of the value of total exports from Latin America and the Caribbean to that market. And 79% of MERCOSUR's exports to the European Union that year came from Brazil, which sent easily twice as many exports to the bloc as the second largest exporter, Mexico, whose share of regional exports to the European Union was, in turn, equal to the combined share of the four member countries of the Andean Community (Colombia, Ecuador, Peru and the Plurinational State of Bolivia).
- In the case of regional imports from the European Union, MERCOSUR accounted for over 45% of the total. Compared with the composition of exports, the main difference with imports was the larger share going to Mexico, which imports a wide array of intermediate goods from Europe for the manufacture of final goods for exportation to other markets, particularly the United States. One example of this practice is evident in the strong presence of European manufactures in Mexico's automotive industry.

■ Figure III.4 ■

Latin America and the Caribbean: composition of the trade in goods with the European Union, by selected countries and groups of countries, 2013

(Percentages)



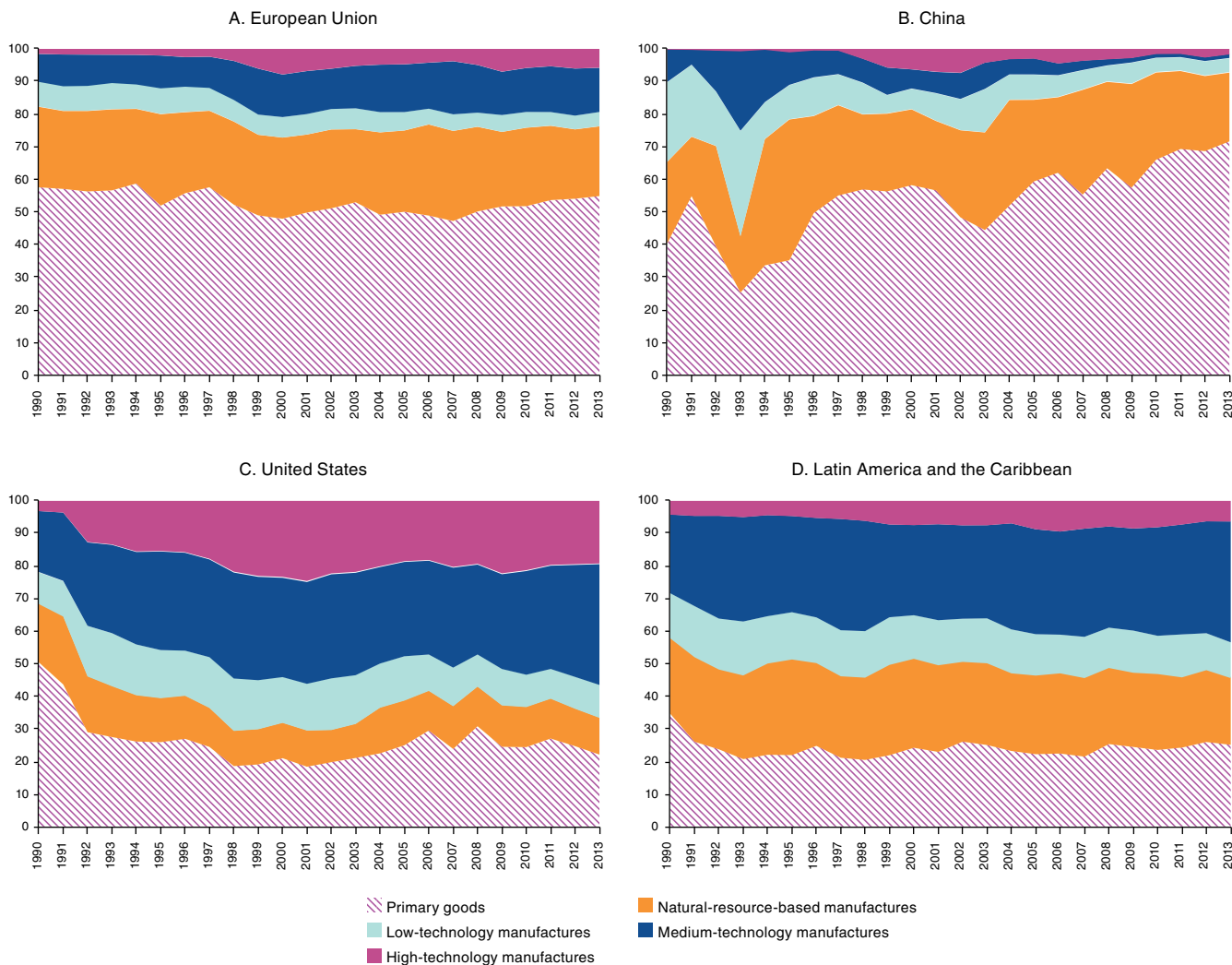
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

6. Exports of goods from Latin America and the Caribbean to the European Union continue to be concentrated in commodities and by-products with low technology content

■ Figure III.5 ■

Latin America and the Caribbean: composition of goods exports to selected destinations, by technology content, 1990-2013

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

7. The countries of Latin America and the Caribbean export a smaller number of products to the European Union than to other countries within the region, but a larger number than to China and Japan

■ Table III.2 ■

Latin America and the Caribbean (23 countries): number of products exported to selected destinations, 2013

Country	Latin America and the Caribbean	United States	European Union	China	Japan
Antigua and Barbuda	465	486	392	4	3
Argentina	3 557	1 402	1 700	437	359
Bahamas	226	1 156	148	12	11
Belize	308	342	49	29	36
Bolivia (Plurinational State of)	634	292	259	51	59
Brazil	3 934	2 794	3 038	1370	12 14
Chile	2 985	1 296	1 381	388	264
Colombia	3 219	1 806	1 370	232	201
Costa Rica	2 878	1 746	1 057	278	173
Dominican Republic ^a	2 048	1 933	909	127	58
Ecuador	1 997	1 067	843	94	95
El Salvador	2 557	1 094	401	74	50
Guatemala	3 313	1 451	740	194	101
Guyana	764	691	247	46	11
Honduras ^b	1 528	1 456	542	590	151
Jamaica	858	850	374	48	54
Mexico	3 910	4 218	2 899	1 444	1 296
Nicaragua	375	284	167	36	30
Panama	301	163	79	32	10
Paraguay	945	349	321	43	27
Peru	3 142	1 862	1 585	282	498
Uruguay	1 387	434	732	106	54
Venezuela (Bolivarian Republic of) ^c	1 689	373	1 024	110	37

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

^a At the six-digit level of the Harmonized Commodity Description and Coding System.

^b The data correspond to 2012.

^c Data obtained from mirror statistics.

8. Regional exports to the European Union continue to be concentrated in commodities

■ Table III.3 ■

Latin America and the Caribbean (18 countries) and Caribbean Community (CARICOM): five main products exported by each country to the European Union, 2013

(Percentages)

Country	Sum of 5 products	First	Second	Third	Fourth	Fifth
Argentina	56.3	Oil-cake and other solid residues, resulting from the extraction of soya-bean oil 35.3	Copper ores and concentrates 8.0	Biodiesel and mixtures thereof 4.6	Fresh or chilled bovine meat, boneless 4.5	Other frozen shrimp and prawns 3.9
Bolivia (Plurinational State of)	66.7	Zinc ores and concentrates 19.7	Petroleum oils and oils obtained from bituminous minerals, crude 15.7	Silver ores and concentrates 14.6	Fresh or dried Brazil nuts, shelled 9.8	Undenatured ethyl alcohol 6.9
Brazil	34.5	Oil-cake and other solid residues, resulting from the extraction of soya-bean oil 9.7	Iron ores and concentrates 9.2	Soya-beans 5.7	Coffee, excluding roasted and decaffeinated 5.1	Floating or submersible drilling or production platforms 4.8
Chile	57.5	Copper, refined, in the form of cathodes and sections of cathodes 28.5	Copper ores and concentrates 15.8	Wine in containers of less than 2 litres 4.8	Semi-bleached or bleached chemical wood pulp 4.6	Copper, unrefined; copper anodes for electrolytic refining 3.9
Colombia	86.6	Bituminous coal 37.0	Petroleum oils and oils obtained from bituminous minerals, crude 36.2	Coffee, excluding roasted and decaffeinated 6.1	Fresh or dried bananas 5.6	Ferro-nickel 1.7
Costa Rica	66.6	Integrated circuits 19.8	Fresh or dried pineapples 19.6	Fresh or dried bananas 17.7	Coffee, excluding roasted and decaffeinated 4.9	Needles, catheters and cannulae 4.6
Dominican Republic	51.2	Plantains 13.3	Cocoa beans 12.6	Pharmaceutical preparations and products 9.1	Fresh or dried bananas 8.6	Rum obtained by distilling fermented sugarcane products 7.6
Ecuador	69.1	Fresh or dried bananas 20.8	Preserved tuna 18.7	Other frozen shrimp and prawns 13.9	Petroleum oils and oils obtained from bituminous minerals, crude 9.4	Frozen cold-water shrimps and prawns 6.3
El Salvador	80.3	Coffee, excluding roasted and decaffeinated 35.1	Preserved tuna 33.3	Light oils and preparations 5.6	Cane molasses 3.7	Natural honey 2.6
Guatemala	64.0	Coffee, excluding roasted and decaffeinated 20.6	Undenatured ethyl alcohol 18.3	Crude palm oil 11.6	Commodities not elsewhere specified 8.2	Tobacco, partly or wholly stemmed or stripped 5.3

Table III.3 (concluded)

Country	Sum of 5 products	First	Second	Third	Fourth	Fifth
Honduras	90.9	Coffee, excluding roasted and decaffeinated 69.6	Crude palm oil 9.9	Other frozen shrimp and prawns 7.0	Frozen rock lobster 2.2	Zinc ores and concentrates 2.2
Mexico	50.3	Petroleum oils and oils obtained from bituminous minerals, crude 33.8	Motor vehicles with diesel engines of a cylinder capacity between 1,500 and 2,000 cm ³ 6.9	Motor vehicles with piston engines of a cylinder capacity between 1,000 and 1,500 cm ³ 4.2	Machines for the reception, conversion and transmission or regeneration of voice, images or other data 3.5	Telephones, including for cellular and other wireless networks 3.0
Nicaragua	77.5	Coffee, excluding roasted and decaffeinated 30.1	Other frozen shrimp and prawns 25.3	Shelled peanuts 9.5	Cane sugar 8.0	Frozen rock lobster 4.6
Panama	77.8	Fresh or dried bananas 40.5	Fresh or dried pineapples 15.6	Frozen cold-water shrimps and prawns 8.3	Fresh watermelons 7.6	Crude palm oil 5.8
Paraguay	92.6	Soya-beans 68.6	Oil-cake and other solid residues, resulting from the extraction of soya-bean oil 13.9	Full-grain hides, unsplit or grain splits, in the wet state 6.0	Crude soya-bean oil, including degummed 2.4	Wood charcoal 1.7
Peru	52.9	Copper ores and concentrates 22.8	Gold, unwrought, except in powder form, for non-monetary purposes 8.9	Liquefied natural gas 8.0	Copper, refined, in the form of cathodes and sections of cathodes 6.9	Coffee, excluding roasted and decaffeinated 6.3
Uruguay	58.8	Fresh or chilled bovine meat, boneless 20.1	Soya-beans 13.6	Frozen, boneless bovine meat 12.8	Other woods in chips or particles 6.6	Other combed wool, except in fragments 5.6
Venezuela (Bolivarian Republic of)	91.9	Petroleum oils and oils obtained from bituminous minerals, crude 80.4	Ferrous products obtained by direct reduction of iron ore 3.9	Acyclic alcohols and their halogenated derivatives 3.7	Petroleum coke, petroleum bitumen and other residues of oils 2.2	Coal; briquettes, ovoids and similar solid fuels 1.7
Caribbean Community	63.8	Petroleum gas and other gaseous hydrocarbons 23.2	Petroleum oils and oils obtained from bituminous minerals, crude 22.6	Acyclic alcohols and their halogenated derivatives 6.4	Cane sugar and chemically pure sucrose 5.9	Gold, unwrought or in semi-manufactured or powder forms 5.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNCTAD/WTO International Trade Centre, Trade Map database.

9. The European Union continues to expand its portfolio of trade agreements with Latin America and the Caribbean

- In July 2014, Ecuador and the European Union concluded negotiations for a trade agreement similar to the one formalized by the European Union in 2012 with two other member countries of the Andean Community: Colombia and Peru. The European Union now has trade agreements with 26 countries in Latin America and the Caribbean, making it the foreign trading partner with the largest portfolio of trade agreements in the region (followed by the United States, which has free trade agreements with 11 countries).
- If negotiations for a trade agreement between MERCOSUR and the European Union are successful, the latter will have trade agreements with nearly every country in the region. It could then establish mechanisms linking all the agreements, which would allow the countries in the region to cumulate origin with each other—and with the European countries—in their exports to the European Union.
- There is already a regime in place for the diagonal cumulation of origin between the European Union, the members of the European Free Trade Association (EFTA), some countries in the Balkans, Turkey and several countries in the Middle East and North Africa. The application of a similar regime between the European Union and Latin America and the Caribbean could contribute significantly to strengthening production integration between the region's countries.

■ **Table III.4** ■
European Union: trade agreements with groups and countries in Latin America and the Caribbean, March 2015

	In force	Signed/Initialled	Under negotiation
Groups			
CARIFORUM ^a	X		
Central America ^b	X		
MERCOSUR ^c			X
Countries			
Chile	X		
Colombia	X		
Ecuador		X	
Mexico	X		
Peru	X		

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

^a Includes 14 Caribbean Community (CARICOM) member countries and the Dominican Republic.

^b Includes Panama.

^c The Bolivarian Republic of Venezuela is not participating in the negotiations.

10. Trade negotiations between the European Union and the United States and the imminent entry into force of a free trade agreement with Canada present access-related challenges for exports from the Latin America and the Caribbean to the European market

- Since July 2013, the European Union has been negotiating with the United States to establish a Transatlantic Trade and Investment Partnership (TTIP). And in September 2014, it successfully concluded negotiations for a free trade agreement with Canada, which could enter into force in late 2015.
- Meanwhile, as of January 2014, Argentina, the Bolivarian Republic of Venezuela, Brazil and Uruguay are no longer beneficiaries of the European Union's Generalized System of Preferences (GSP), having been classified by the World Bank as uppermiddleincome economies for the third year in a row. As a result, their exports to the European Union are subject to the latter's mostfavourednation tariffs, which in some cases (especially for farm products) are very high.
- Between the imminent entry into force of the free trade agreement between the European Union and Canada, the loss of GSP advantages and the prospect of successful negotiations for a TTIP, the countries in the region without a trade agreement with the European Union are in a tough situation. These include Argentina, Brazil and Uruguay, which export mainly agricultural products to the European Union. These countries will have more competition from Canada and the United States, two countries that are among the top agricultural exporters in the world and compete directly with the members of MERCOSUR on products such as meat, grains, dairy and wine.
- Aside from tariff issues, active negotiations by the European Union, especially for the TTIP, could have a strong regulatory impact on exports from Latin America and the Caribbean, for example, if a trade agreement between the European Union and the United States were to impose new technical standards on third parties in categories such as biofuels, genetically modified crops or the use of hormones in livestock.

■ Table III.5 ■

European Union: imports of selected products, 2013

(Millions of dollars and percentages)

Tariff code	Description	Total imports ^a (millions of dollars)	Main foreign suppliers (rank and share)
020130	Bovine meat cuts, boneless, fresh or chilled	6 395	1. Argentina (8.1) 2. Brazil (4.1) 3. United States (3.5) 4. Uruguay (3.2)
220421	Wine of fresh grapes in containers of less than 2 litres	10 792	1. Chile (5.8) 2. United States (3.5) 3. Australia (3.5) 4. South Africa (3.0) 5. New Zealand (2.6) 6. Argentina (1.7)
240120	Tobacco, partly or wholly stemmed or stripped	3 420	1. Brazil (24.7) 2. United States (11.9) 3. India (5.7)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNCTAD/WTO International Trade Centre, Trade Map database.

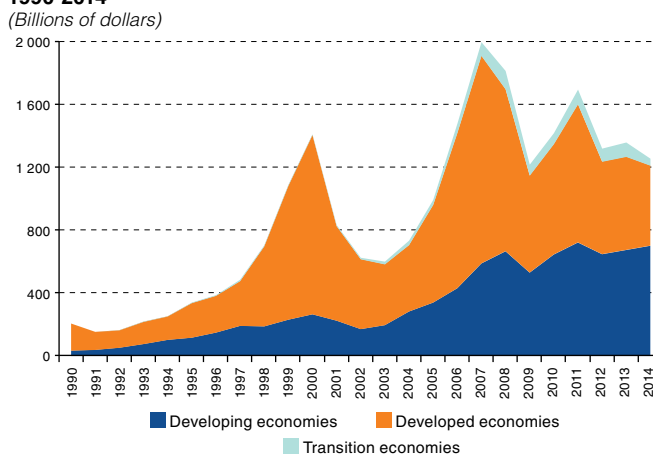
^aIncludes imports from member countries of the European Union.

B. Foreign direct investment

1. Foreign direct investment totalled US\$ 1.26 trillion in 2014

- Worldwide foreign direct investment (FDI) flows fell sharply in the wake of the 2008 financial crisis. Over the past three years, flows have stabilized around US\$ 1.3 trillion. The developed economies were the hardest hit by the decline.
- In 2014, FDI inflows crashed in the United States, which went from receiving US\$ 160 billion in 2013 to just US\$ 10 billion in 2014, mainly due to Verizon's US\$ 130 billion buy-out of the British telecommunications company Vodafone.
- Inward flows of FDI to the European Union countries, which totalled US\$ 854 billion in 2007 (including intra-regional investments), also plummeted through 2013. In 2014, flows rebounded by 13% to US\$ 267 billion. The developed economies went from receiving more than two thirds of worldwide FDI in 2007 to just 41% in 2014.
- In contrast, the developing economies took in 56% of total investment flows in 2014, a record high. The majority of the flows were concentrated in Asia, which received US\$ 492 billion. Africa received US\$ 55 billion, and the Eastern European transition economies took in US\$ 45 billion.

■ **Figure III.6** ■
Foreign direct investment flows by group of economies, 1990-2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by United Nations Conference on Trade and Development (UNCTAD).

■ **Table III.6** ■

Inward foreign direct investment by region, 2005-2014

Regions and groups of countries	Investment flows (billions of dollars)						Variation rate (percentages)						Structure of investment flows (percentages)					
	2005-2009	2010	2011	2012	2013	2014	2005-2009	2010	2011	2012	2013	2014	2005-2009	2010	2011	2012	2013	2014
World	1 449	1 346	1 612	1 324	1 363	1 260	9	-7	20	-18	3	-7.6	100	100	100	100	100	100
Developed economies	917	703	880	590	594	511	8	-23	25	-33	1	-14.0	63	52	55	45	44	41
European Union	574	384	490	282	235	267	-2	-33	28	-42	-17	13.6	40	29	30	21	17	21
North America	259	226	263	213	302	139	24	-13	16	-19	42	-54.0	18	17	16	16	22	11
Transition economies	74	71	95	84	92	45	31	-4	34	-11	10	-51.1	5	5	6	6	7	4
Developing economies	469	589	652	650	677	704	10	26	11	0	4	4.0	32	44	40	49	50	56
Latin America and the Caribbean	99	131	171	178	190	153	8	32	31	4	7	-19.5	7	10	11	13	14	12
Africa	47	47	48	55	56	55	17	1	2	15	2	-1.8	3	3	3	4	4	4
Developing Asia	323	409	431	414	427	492	10	27	5	-4	3	15.2	22	30	27	31	31	39
Errors and omissions	-12	-17	-15	0	0	0	-	-	-	-	-	-	-1	-1	-1	0	0	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by United Nations Conference on Trade and Development (UNCTAD).

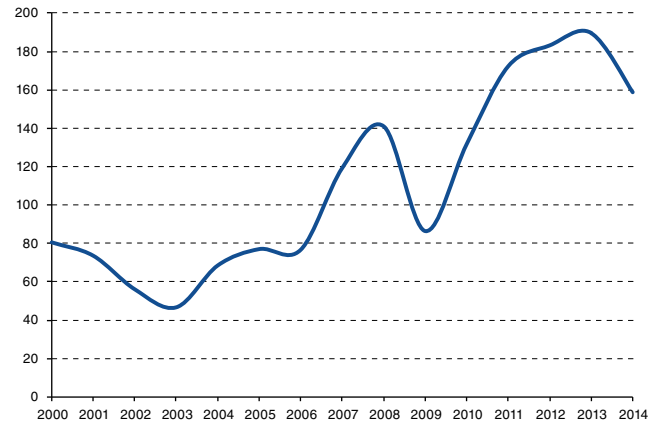
2. After growing strongly for a decade, foreign direct investment inflows into the Latin American and Caribbean region declined significantly in 2014

- FDI in Latin America and the Caribbean stood at US\$ 160 billion in 2014, which marked a reversal in a growth trend that had lasted for more than a decade with only two brief interruptions (in 2006 and 2009).
- Inward flows of FDI were affected by slower growth in the region, as well as by falling prices for many commodity exports. Conditions were similar in 2013, but an exceptionally large transaction that year (the acquisition of the Modelo brewing company in Mexico for US\$ 13.249 billion) inflated the figure, resulting in a total for the year that was not in line with the trend.
- The decline in FDI flows was concentrated in the largest countries. Of the six largest economies in the region, FDI flows increased only in Chile and remained constant in Colombia. The top destination for FDI continued to be Brazil, where flows had been stable for a number of years. Mexico, the second largest economy in Latin America, was also the second largest recipient of FDI, albeit with an amount that was below the average for the previous decade. Chile received more FDI than in 2013 but less than the record high of 2012. In Peru, FDI flows contracted for the second year in a row. Meanwhile, most of the countries in Central America and the Caribbean took in slightly more FDI.

■ **Figure III.7** ■

Latin America and the Caribbean: foreign direction investment inflows, 2000-2014

(Billions of dollars)

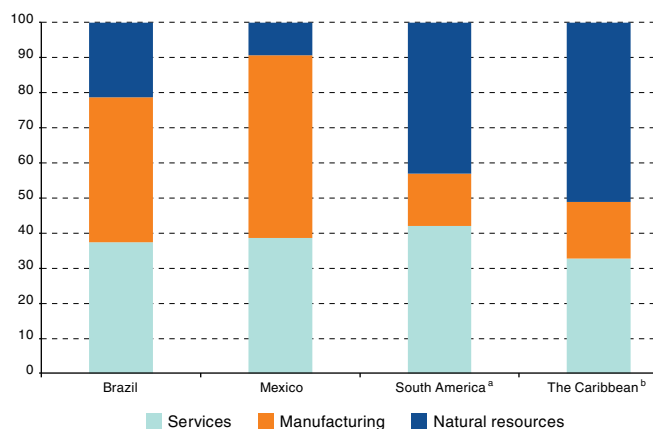


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 29 April 2015.

3. The structure of FDI coincides with production specialization patterns in the region

- In South America, investment flows are heavily channelled into natural resources. Mining is especially important in Chile, Colombia and Peru. The hydrocarbons sector is the top destination for FDI in the Bolivarian Republic of Venezuela, Ecuador and the Plurinational State of Bolivia, and to a lesser extent in Colombia. In the larger economies of the Caribbean, most FDI also goes to the natural resources sectors, with investments concentrated in oil and gas extraction in Trinidad and Tobago and in gold mining in the Dominican Republic.
- In contrast, in Mexico and some economies in Central America and the Caribbean, a large part of foreign investment is channelled to export manufacturing activities. For example, 52% of total FDI flows to Mexico in recent years went to manufactures. In Brazil's more diversified economy, transnational companies invest heavily in the manufacturing industry, but the agriculture, mining and hydrocarbons sectors are dominated by local firms, so the FDI amounts that reach those sectors are relatively small.
- In Central America and the Dominican Republic, there is a sizeable export manufacturing sector, especially for the production of clothing and medical devices. These industries create large numbers of jobs but they do not attract much FDI because they are not capital-intensive.
- In nearly all the countries, foreign investment is concentrated in services, with large amounts going to the telecommunications, financial services, electricity and retail sectors.

■ **Figure III.8** ■
Latin America and the Caribbean: foreign direct investment inflows, by sector of activity, 2009-2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national figures.

^a Includes Argentina, Chile, Colombia, Ecuador, the Plurinational State of Bolivia and Uruguay.

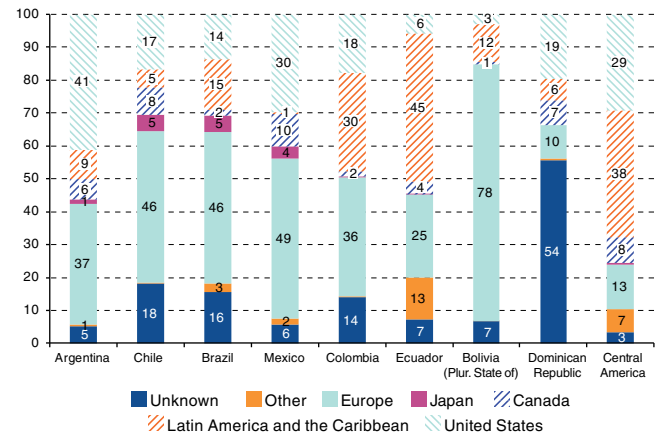
^b Includes the Dominican Republic and Trinidad and Tobago.

4. The European Union continues to be the largest investor in South America

- FDI figures by country of origin are hard to interpret owing to the increasingly common practice among transnational companies of routing international investments through third countries. In the European Union, the Netherlands and Luxembourg often play an intermediary role for investments by transnational companies in Latin America and the Caribbean. As a result, the Netherlands is occasionally identified as the top foreign investor.
- For the economies of South America, investments from the European Union are particularly important, with the European market originating 46% of total FDI received in Brazil and Chile in 2013. Nearly half of investments received in Mexico that year were also from the European Union, though the high proportion is partly explained by a costly acquisition by the Belgian company AB InBev.
- Approximately 14% of total FDI going to the economies of Latin America and the Caribbean comes from the so-called trans-Latins. That figure climbed continuously for nearly a decade but stalled in the past two years on declining foreign investments by countries in the region. Intra-regional FDI flows have been particularly important in Colombia and Ecuador, as well as in Central America.

■ **Figure III.9** ■

Latin America: origin of foreign direct investment, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national figures.

5. Mergers and acquisitions

- In 2014, just 5 of the 20 largest cross-border corporate acquisitions in Latin America were carried out by European firms. The largest of these transactions was the purchase by the Anglo-Dutch company Royal Dutch Shell of liquefied natural gas deposits in Peru and Trinidad and Tobago for US\$ 4.1 billion. The company that sold these assets, the Spanish firm Repsol, was also based in the European Union.
- The three largest transactions were in the brewing sector, a highly concentrated industry in which the three largest companies in the world are global conglomerates headquartered in European countries: AB InBev (Belgium), SABMiller (United Kingdom) and Heineken (Netherlands).

■ Table III.7 ■

Latin America and the Caribbean: largest cross-border acquisitions by European Union firms

(Millions of dollars)

Rank	Year	Firm/Asset	Country	Sector	Acquirer	Country	Value
1	2012	Grupo Modelo	Mexico	Beverages	Anheuser-Busch	Belgium	19 763
2	2010	FEMSA-Operación cervecera	Mexico	Beverages	Heineken	Netherlands	7 325
3	2005	Bavaria	Colombia	Beverages	SABMiller	United Kingdom	4 716
4	2014	Activos Gas Licuado de Repsol	Peru and Trinidad and Tobago	Hydrocarbons	Royal Dutch Shell	Netherlands	4 100
5	2011	Telemar (25%)	Brazil	Telecommunications	Portugal Telecom	Portugal	3 786
6	2008	IronX Mineração SA	Brazil	Mining	Anglo American PLC	United Kingdom	3 492
7	2009	GVT	Brazil	Telecommunications	Vivendi SA	France	3 372
8	2014	GENER	Chile	Energy	Gas natural	Spain	3 300
9	2014	Banco Santander Brasil (14%)	Brazil	Banking	Banco Santander	Spain	3 199
10	2007	Colombia Telecomunicaciones	Colombia	Telecommunications	Telefónica SA	Spain	2 627
11	2007	Sistema-Minas Rio	Brazil	Mining	Anglo American PLC	United Kingdom	2 451
12	2009	Metsa-Botnia-Uruguay	Uruguay	Wood pulp and fibre	UPM-Kymmene	Finland	2 404
13	2008	Grupo Financiero Inbursa SA	Mexico	Banking	La Caixa	Spain	2 222
14	2006	Grupo Banistmo SA	Panama	Banking	HBSC Holding	United Kingdom	1 780
15	2008	Electricity and gas assets	Mexico	Energy	Gas natural SDG	Spain	1 448

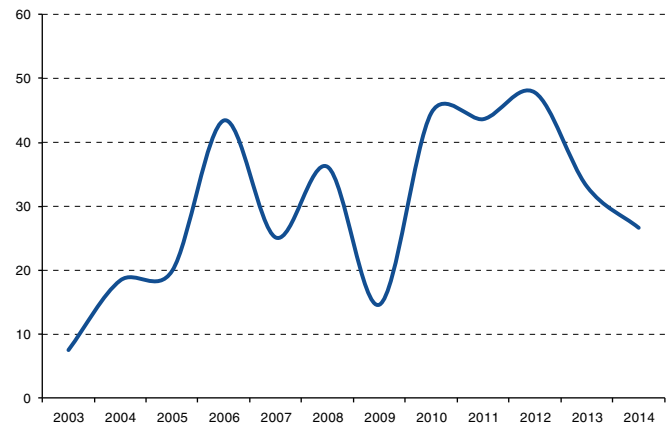
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Thomson Reuters and Bloomberg.

6. Outward FDI flows from Latin America and the Caribbean fell by 12% in 2014, to US\$ 29.162 billion

- FDI outflows from Latin America and the Caribbean exceeded US\$ 29 billion in 2014, a 12% decline over 2013. Also, for the second year in a row, outward FDI flows contracted by a large margin —between 2010 and 2012, outflows averaged US\$ 45 billion per year. FDI outflows have always been very volatile, inasmuch as they are concentrated among a small number of trans-Latins and a handful of countries and are therefore strongly shaped by major acquisitions and projects.
- Against this backdrop of volatility, the decline in 2013 and 2014 can be explained by the same factors that affected FDI inflows. Inasmuch as the bulk of foreign investments by the economies of Latin America and the Caribbean remain within the region, any deterioration in investment prospects also affects FDI outflows. Furthermore, many of the largest trans-Latin firms are in extractive industries, which are reducing capital investments in response to falling commodity prices.
- Most large trans-Latin corporations are based in one of just four countries: Brazil, Chile, Colombia and Mexico, whose outflows accounted for 90% of the regionwide total over the past decade. The decrease in outflows in 2014 occurred mainly in Colombia and Mexico.
- In 2014, Peru became the third largest country of origin of investments, after Chile and Mexico, with outflows of US\$ 4.452 billion. Some of Peru's largest firms have been

investing abroad since 2006, taking advantage of robust economic growth, macroeconomic stability and improved access to financing. Starting in 2006, outflows averaged US\$ 1.4 billion per year, but a historic high was hit in 2014, a year marked by several major projects and acquisitions.

■ **Figure III.10** ■
Latin America and the Caribbean: outward foreign direct investment, 2003-2014
(Billions of dollars)



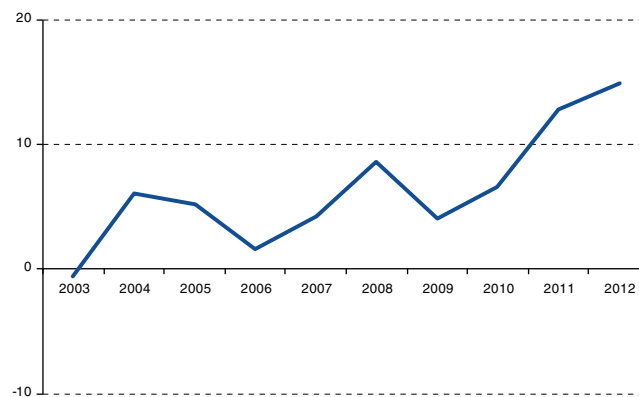
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national sources.

7. Trans-Latin firms are concentrating their international expansion within the region but investing increasingly larger amounts in Europe

- FDI outflows from Latin America and the Caribbean are still concentrated in the region, but as the region's firms grow and build their capacity, many are starting to invest elsewhere. Mexico's top trans-Latins are investing in the United States, as are some of the largest corporations from Brazil and Colombia.
- In recent years, many firms in the region have stepped up their investments in Europe. According to data from several European countries, FDI flows from Latin America have expanded considerably since 2009, which reflects greater availability of financial resources for Latin American companies than for European firms. Initially, this evolution led to the divestiture of assets in Latin America by European firms to improve their cash flow. Later, it drove the arrival of Latin American firms in Europe. Investments by trans-Latin companies in other developing regions continue to be scarce.
- Since 2003, approximately 31% of investment flows from Latin America went to Spain, while Belgium and Luxembourg received 25% and 15% of the total, respectively. The main countries of origin were Brazil and Mexico, although the figures vary considerably depending on the destination market.

■ **Figure III.11** ■
European Union: foreign direct investment flows from Latin America, 2003-2012

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Organization for Economic Cooperation and Development (OECD).

IV. Sector and firm dynamics

A. Automobiles and financial services

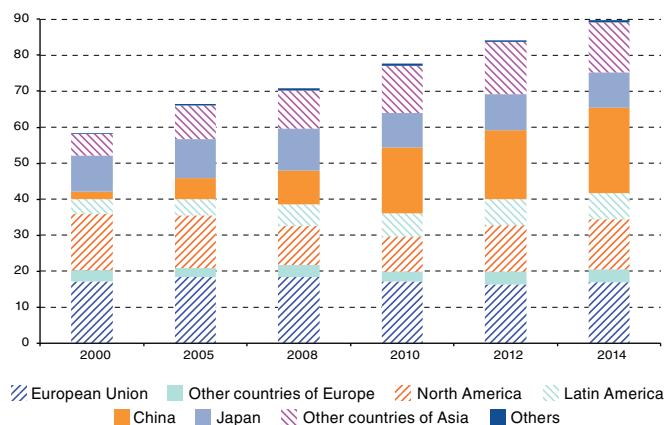
1. The large European automakers are positioning themselves in global automotive industry restructuring

- The global automotive industry has undergone a major restructuring, characterized by a stiff increase in competition, the offshoring of production to low-cost locations in emerging markets, particularly in Asia, major acquisitions and new actors, especially in China and India.
- Between 2005 and 2014, production in the United States shrank from 18% to 13% of the worldwide total, dropping to as low as 9% in 2009. The European Union and Japan lost some of their share of the global market too, though not nearly as much as the United States. However, the most significant development has been the emergence of China as the world's leading producer of motor vehicles.
- Between 2005 and 2014, China's share of the global market rose from 8.6% to 26.4%.
- In a mature market undergoing rapid technological change, greater integration of the largest manufacturers is expected. The partnership between Renault and Nissan and the merger between Fiat and Chrysler are cases in point.
- In 2014, more than 80% of global production was concentrated among 15 large automakers, including six European manufacturers (the German companies Volkswagen, BMW and Daimler AG, the Italian company Fiat and the French companies PSA Peugeot-Citroën and Renault).

■ Figure IV.1 ■

Selected countries and regions: motor vehicle production, 2000-2014

(Millions of vehicles produced)

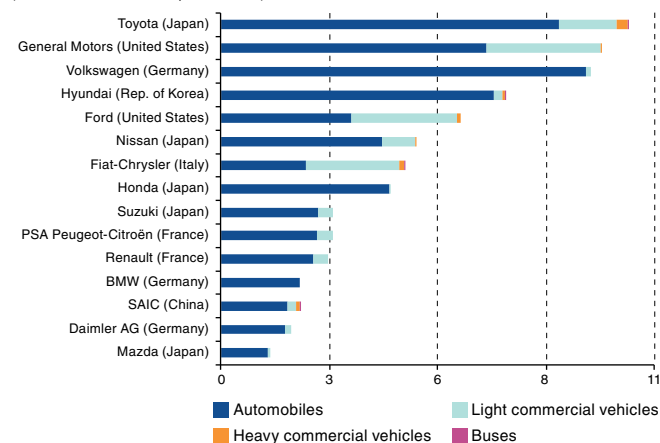


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Organization of Motor Vehicle Manufacturers (OICA).

■ Figure IV.2 ■

Largest motor vehicle firms, 2014

(Millions of vehicles produced)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Organization of Motor Vehicle Manufacturers (OICA).

2. Latin America and the Caribbean is a key player in the global production networks of the main European automakers

- As production has been moved offshore to emerging markets, Latin America has gained ground in recent years. The European firms have been key agents in this process, establishing large production plants in Brazil and to a lesser extent in Argentina and Mexico.
- In Argentina and Brazil, the European automakers are dominant players, accounting for about 50% of domestic production. In Mexico, their contribution to domestic production has soared in recent years to over 53%. Volkswagen, with its long history in the country, now has company, with Fiat's acquisition of Chrysler and the partnership between Renault and Nissan.

■ Table IV.1 ■

Latin America and the Caribbean: production by the largest motor vehicle firms by origin, 2006 and 2013

(Units and percentages)

Firms	Brazil		Argentina		Mexico		Percentage share of Latin America in the world total	
	2006	2013	2006	2013	2006	2013	2006	2013
Volkswagen	630 982	667 858	46 815	39 674	348 391	516 149	18.1	13.0
Fiat	565 988	759 290	3 414	111 235	-	439 781	24.6	28.0
PSA Peugeot-Citroën	92 515	147 833	96 787	116 189	-	-	5.6	9.0
Renault	68 423	292 444	52 446	117 753	9 859	-	7.1	26.0
Daimler AG	50 194	-	19 839	-	28 722	-	4.8	0.0
Percentage share of firms of the European Union	53.9	50.3	50.8	48.7	18.9	31.3	-	-
General Motors	550 183	680 737	70 862	111 355	504 746	646 036	12.6	15.2
Ford	320 124	359 099	78 785	102 280	330 228	515 395	11.6	16.3
Percentage share of firms of the United States	33.3	28.0	34.6	27.0	40.8	38.0	-	-
Toyota	61 650	139 804	65 280	94 397	33 920	63 694	2.2	3.0
Nissan	-	27 258	-	-	407 222	680 278	12.6	14.3
Honda	78 360	136 257	-	-	24 300	63 172	2.8	4.6
Percentage share of firms of Japan	5.4	8.2	15.1	11.9	22.8	26.4	-	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Organization of Motor Vehicle Manufacturers (OICA).

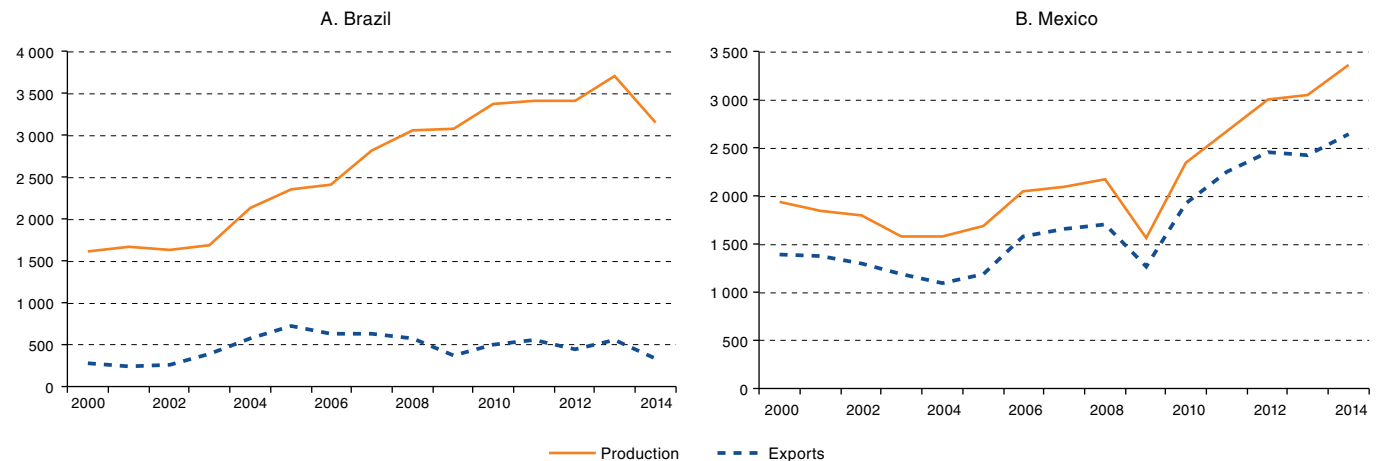
3. European investments follow two patterns of production and commercial specialization

- In their Latin American operations, the European automakers follow two business strategies that are reflected in different types of production specialization.
- In Brazil, European firms have focused on compact vehicles to supply the domestic and subregional markets (MERCOSUR). Production in Brazil is strongly complementary with production in Argentina. In both countries, major efforts have been made to adapt and develop original models, and significant technological innovations have been achieved, including the flex-fuel engine. In recent years, the Brazilian market has expanded significantly on a robust domestic economy, a situation that is starting to reverse.
- In Mexico, the European firms have a more diversified strategy and produce mainly for export, especially to the United States, taking advantage of the North American Free Trade Agreement (NAFTA). Volkswagen and Fiat have established a global export platform, with models that are made only in Mexico (the Beetle and the Fiat 500).
- In recent years, European automakers have invested over US\$ 19 billion in the automotive sector in Mexico, doubling its production capacity, and nearly US\$ 20 billion in Brazil, which has enhanced the competitiveness of the industry.

■ Figure IV.3 ■

Brazil and Mexico: production and exports of motor vehicles, 2000-2014

(Thousands of units)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the National Association of Motor Vehicle Manufacturers of Brazil (ANFAVEA).

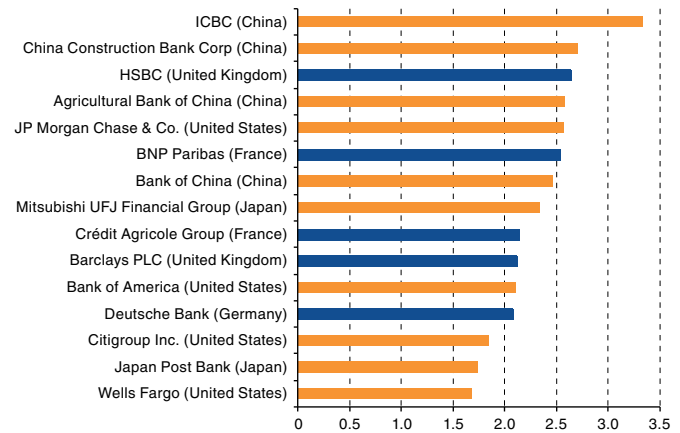
4. The new phase of restructuring is creating opportunities for the automotive industry to improve its contribution to local economies

- As productivity, energy prices and currency fluctuation risks become more relevant, production costs in China, Latin America and Eastern Europe, which have long attracted automakers, are approaching costs in the developed countries. In response, automakers are developing new local supply chains with greater flexibility.
 - Mexico would seem to be taking advantage of this trend, particularly in the luxury vehicle segment. Audi, a subsidiary of Volkswagen, is investing US\$ 1.6 billion in a new plant that will launch production of a sport utility vehicle in 2016. It plans to purchase 90% of its components locally and achieve local value-added content of 65% in compliance with requirements set in the free trade agreements signed by Mexico, allowing it to make a global product. Meanwhile, BMW and Mercedes-Benz are building a network of suppliers for their new plants.
- In 2017, the latter plans to make compact vehicles with 80% local content.
- In 2014, Daimler AG and the Renault-Nissan partnership established a 50:50 joint venture to build and operate a new plant in Mexico with annual production capacity of 300,000 vehicles. Production will begin in 2017 with models under the Infiniti brand and will expand the following year to include Mercedes-Benz models.
 - Although Brazil's automotive industry slowed in 2014, automakers remain confident in its enormous potential. Fiat, Ford, Honda, Mercedes-Benz and Nissan are continuing to invest to increase production capacity and modernize and develop products. The brands that have recently entered that market, such as BMW, Audi and Jaguar Land Rover, are betting on the luxury segment, just as Mexico is doing, but on a smaller scale.

5. The international financial crisis transformed the global banking sector

- In recent decades, financial systems have undergone sweeping changes spurred by deregulation and technological advances, which have created new credit and savings opportunities for individuals, households and companies. In the advanced economies, financial innovations have expanded business options, some of which, being of a speculative nature and based on heavy leveraging, have succeeded in diversifying and transferring risk. As a result, the industry has seen tremendous growth, a robust process of mergers and acquisitions and greater integration at the local, regional and global levels.
- Against this backdrop, the size and complexity of financial institutions and operations began to overwhelm the weak regulatory and oversight systems and analytical capacity of private risk evaluation agencies, such that when conditions changed, a crisis of huge proportions was unleashed, leaving national, regional and multilateral authorities struggling to mitigate its effects and stem the contagion.
- As a result of the rapid process of mergers and acquisitions, a handful of firms have come to dominate the national, regional and global markets. Nevertheless, in the wake of the crisis, some longstanding entities in the advanced economies have been ousted by newcomers from the developing countries, particularly China.
- At present, of the 15 largest banks in the world, 6 are from Asia, mainly China and Japan, 5 are European and 4 are based in the United States.

■ **Figure IV.4** ■
Largest banks by assets, 2014
(Trillions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from The Banker.

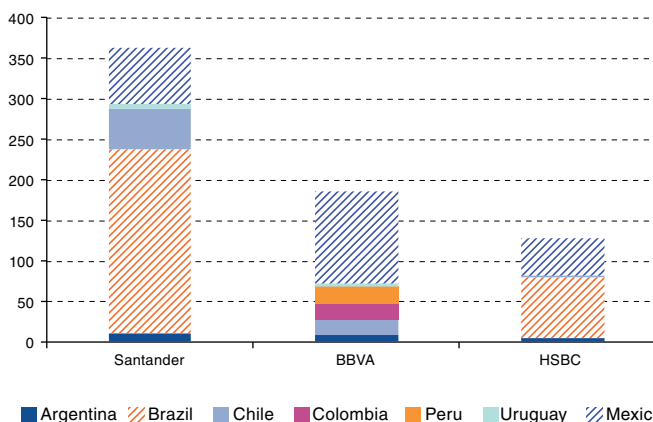
6. In Latin America, the effects of the crisis were different

- In response to serious and recurring banking crises, the region's countries implemented legal and institutional prudential reforms that helped strengthen financial activity.
- In contrast to previous traumatic episodes and even though the 2009 international financial crisis hit the region hard, the local economies recovered rapidly and the banking systems remained stable and solid. Banks are now better regulated and have improved their capital and efficiency ratios.
- Despite significant advances, financial systems in Latin America are still in need of improvement, especially compared with financial systems in the advanced economies. With few exceptions, the percentage of the population that is banked is lower than in countries with similar per capita income levels, and the emphasis on short-term credit has been heightened by the adoption of modern consumer lending practices.
- In this scenario, three major European banks have taken positions of leadership in the largest regional markets. In nearly all cases, these are the largest foreign banks, surpassing others like the United States' Citigroup and Canada's Scotiabank.
- The Brazilian market, the largest in Latin America, is relatively more important for Santander and HSBC. In Brazil, these two institutions have competed successfully with powerful local banks, several of which are establishing a significant regional presence, such as the bank Itaú.
- Meanwhile, BBVA, despite failing to consolidate its position in the Brazilian market, has succeeded in expanding its operations in similar financial sectors in the rest of the region, particularly in insurance and pension funds.
- These institutions have helped improve the efficiency and competitiveness of the region's financial systems, but their strong bias towards consumer credit for higher-income groups has sidelined credit for long-term investments and smaller economic agents.

■ **Figure IV.5** ■

Latin America: largest European banks by assets, 2014

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *América Economía*.

B. Small and medium-sized enterprises

1. Both in Latin America and the Caribbean and the European Union, small and medium-sized enterprises account for 99% of the total number of firms and generate between 40% and 80% of jobs

- Growth in many industries, as well as income levels and labour conditions of a large part of the population, is closely related to the performance of micro-, small and medium-sized enterprises.
- Regardless of a country's level of social and economic development, these firms constitute the majority of production units. Their contribution to the total number of jobs varies considerably (from 40% to 80%) as does their contribution to GDP, though in the latter case to a lesser extent.
- Even though the relative weight of micro-, small and medium-sized enterprises in the production structure may be similar, in the developing countries they have a very low level of professionalization. A large percentage of microenterprises could be included in the category of precarious employment or even hidden unemployment.

■ Table IV.2 ■

Latin America and European Union (selected countries): structure of the number of enterprises and jobs, by firm size, 2011 or latest available year

(Percentages)

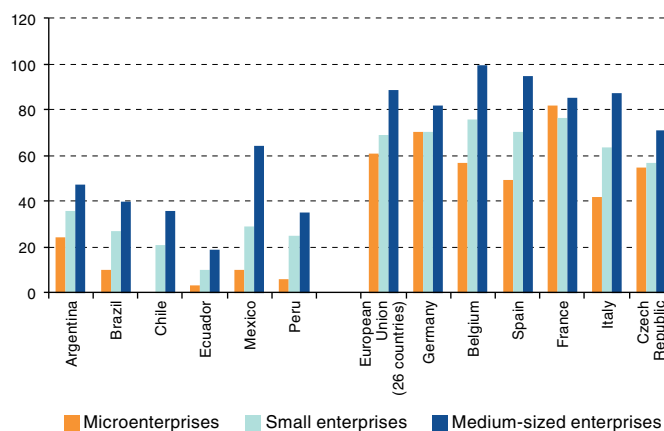
Country	Number of enterprises			Country	Jobs		
	Microenterprises	SMEs	Large enterprises		Microenterprises	SMEs	Large enterprises
Argentina	69.7	28.4	1.9	Argentina	11.5	39.6	48.9
Brazil	90.1	9.3	0.6	Brazil	13.7	28.3	58
Chile	78.3	20.3	1.4	Chile	44.1	30.9	25
Colombia	96.4	3.5	0.1	Colombia	50.6	30.3	19.1
Ecuador	95.4	4.4	0.2	Ecuador	47.3	29.8	22.9
El Salvador	91.2	8.4	0.4	El Salvador	37.8	27.7	34.6
Mexico	95.5	4.3	0.2	Mexico	45.7	23.6	30.8
Peru	94.5	4.9	0.6	Peru	48.5	19.2	32.4
Uruguay	83.4	16.1	0.5	Uruguay	24.1	43.1	32.8
European Union (25 countries)	92.0	7.8	0.2	European Union (25 countries)	31.5	38.3	30.2
Germany	82.0	17.5	0.4	Germany	19.5	44.0	36.5
Belgium	93.7	6.2	0.1	Belgium	34.8	38.4	26.8
Spain	94.0	5.9	0.1	Spain	41.5	35.1	23.4
France	94.7	5.1	0.1	France	31.8	35.1	33.1
Italy	95.0	4.9	0.1	Italy	48.5	33.4	18.1
Czech Republic	96.0	3.8	0.1	Czech Republic	32.8	37.6	29.6
United Kingdom	89.7	10.0	0.3	United Kingdom	19.8	37.0	43.2

Source: for Latin America: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Santoleri and G. Stumpo, "Microempresas y pymes en América Latina: Características de las firmas y políticas de apoyo", Working Document, Santiago, Chile, ECLAC, 2014, unpublished; for the European Union: figures provided by the Organization for Economic Cooperation and Development (OECD).

2. In the countries of Latin America and the Caribbean, micro-, small and medium-sized enterprises tend to be concentrated in sectors with low value added, low wages, poor quality jobs and high informality

- Whereas in Latin American countries small firms have very low levels of labour productivity compared with larger companies, in European countries the gaps between the two size classes are much smaller.
- In Brazil, Ecuador and Peru, productivity levels among microenterprises are between 3% and 10% of the productivity levels of large companies, whereas in a number of European countries including Germany, Spain and Italy, the corresponding figures are 71%, 49% and 42%, respectively.
- These large gaps in productivity between micro-, small and medium-sized enterprises and large companies can be attributed to structural problems related to their sector specialization.
- In Latin America's manufacturing industry, three groups of countries can be identified based on the relationship between the size of their economies and the sectors in which most SMEs are found. In the countries that are larger and have more developed production structures (Argentina, Brazil and Mexico), SMEs are concentrated in the food, textile and apparel, chemical and plastic products and engineering sectors. In medium-sized economies (Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador and Peru), these firms are mostly found in the food and chemical industries. And in the smaller economies (Costa Rica, Nicaragua and Uruguay), SMEs tend to specialize in the food industry.

Figure IV.6
Latin America and European Union (selected countries):
labour productivity of micro-, small and medium-sized
enterprises with respect to large companies,
2011 or latest available year
(Percentages)



Source: for Latin America: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Santoleri and G. Stumpo, "Microempresas y pymes en América Latina: Características de las firmas y políticas de apoyo", Working Document, Santiago, Chile, ECLAC, 2014, unpublished; for the European Union: figures provided by the Organization for Economic Cooperation and Development (OECD).

3. In Latin American and Caribbean countries, wage gaps between workers in different sizes of firm are much larger than in European countries

- Productivity gaps have important repercussions on the ability of firms of different sizes to establish linkages with each other and participate in the international market. They also have a significant impact on wage structures, with the attendant effects on income distribution and inequality.
- Jobs created by Latin American microenterprises are concentrated in commerce and services with low value added. Meanwhile, small firms are primarily found in the retail, manufacturing (to a lesser extent) and in some cases construction sectors, whereas most jobs created by medium-sized enterprises are concentrated in industry, though a significant number are also in commerce.
- Whereas wage gaps between workers in the various size classes of firms are very large in Latin American countries—microenterprise employees earn between 20% and 46% of what their counterparts in large companies earn—the gaps in the European countries are much smaller—workers in microenterprises earn over 60% of what workers in large companies earn.

■ Table IV.3 ■

Latin America and European Union (selected countries): wage gaps between large and smaller enterprises, 2011

(Percentages of wages paid in large enterprises)

	Argentina	Brazil	Chile	Ecuador	Mexico	Peru	Germany	Spain	France	Italy
Microenterprises	46	43	-	20	30	21	69	63	-	-
Small enterprises	56	49	52	31	45	49	73	74	88	69
Medium-sized enterprises	65	74	69	44	66	67	81	89	91	79

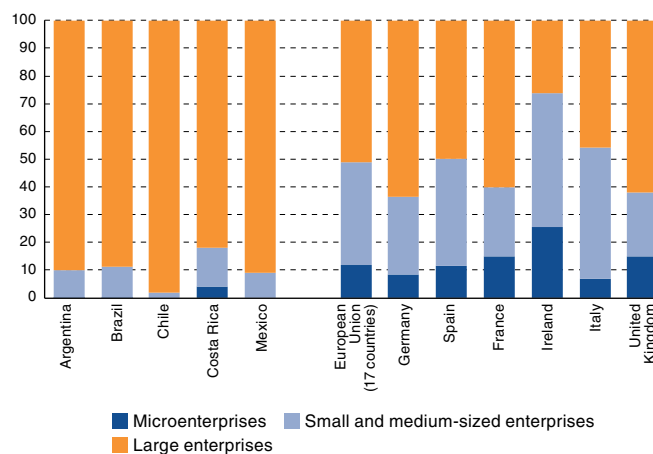
Source: P. Santoleri and G. Stumpo, "Microempresas y pymes en América Latina: Características de las firmas y políticas de apoyo", Working Document, Santiago, Chile, ECLAC, 2014, unpublished.

4. Latin American SMEs have low rates of participation in the export structure, in sharp contrast to their European counterparts

- Micro-, small and medium-sized enterprises in Latin America have a low rate of participation in the export structure. In most countries (Costa Rica being an exception), their rate of participation is less than 10%.
- In contrast, European micro-, small and medium-sized enterprises generate between 30% and 50% of exports, except in Ireland, where these firms participate in the export sector at well above the average rate.
- Despite their low rate of participation in Latin America's foreign trade, export-oriented SMEs spur production diversification and improve the structure of exports. In general, these firms have better production performance, higher levels of productivity, more quality certifications and more innovation activities.

■ Figure IV.7 ■

Latin America and European Union (selected countries): share of firms, by firm size, in total exports, 2011 or latest available year
(Percentages)



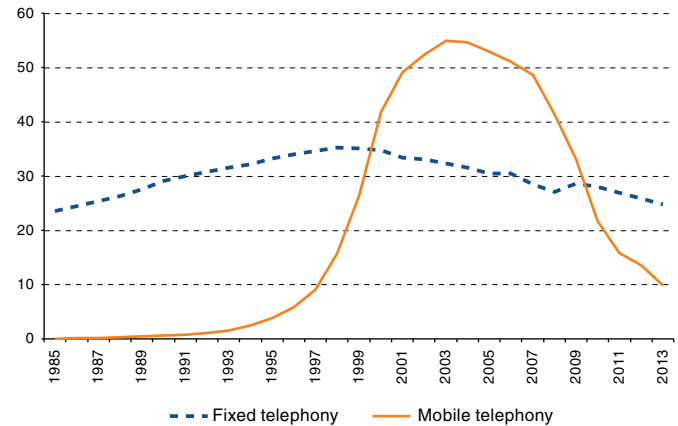
Source: for the European Union: Organization for Economic Cooperation and Development (OECD); for Latin America: P. Santoleri and G. Stumpo, "Microempresas y pymes en América Latina: Características de las firmas y políticas de apoyo", Working Document, Santiago, Chile, ECLAC, 2014, unpublished.

C. The digital economy

1. The gap in mobile telephony between the two regions has nearly disappeared

- In the mid-2000s, the gaps between the European Union and Latin America and the Caribbean in terms of the percentage of individuals with mobile telephony started to rapidly shrink, narrowing to just 10 percentage points by 2013. In the case of fixed telephony, the gap had begun to close 15 years earlier but at a much slower pace, and the levels achieved at the end of the period are similar to those at its start.
- In both the European Union and the countries of the Community of Latin American and Caribbean States (CELAC), fixed telephony is quickly being replaced by mobile telephony, with a decline in the penetration of the former and a significant increase in the latter.
- The reduction in the mobile telephony gap is the result of technological advances that produced a sharp drop in the price of equipment and rates, as well as investment efforts by the major telecommunications operators, namely, two firms: the Spanish provider Telefónica and the Mexican company América Móvil.

■ **Figure IV.8** ■
Latin America and the Caribbean and European Union:
gaps in fixed and mobile telephony, 1985-2013^a
(Percentage points)



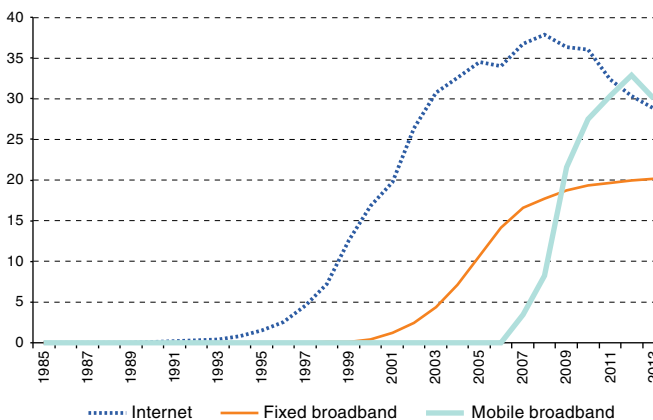
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Telecommunication Union (ITU), World Telecommunications Indicators Database, 2014.

^a The gap is calculated as the difference between the European Union and Latin America and the Caribbean in the percentage of people with fixed or mobile telephony services.

2. Following several years of large increases, gaps in Internet use are starting to narrow

- The main factor that makes digital society possible is Internet access and use. The gap between the two regions in terms of Internet users widened significantly until almost the end of the 2000s and then shrank by nearly 10 percentage points between 2007 and 2013.
- For more than a decade now, the governments of Latin America and the Caribbean have incentivized Internet use through actions generally built into their digital agendas. This public policy effort has been bolstered by an uptick in mobile broadband subscriptions by individual users attracted by the falling cost of third generation (3G) devices, lower service rates and expanded coverage.
- These developments have occurred alongside strong trends towards technological convergence between devices and permanent and ubiquitous connectivity. Following large increases in the gap in this service through 2012, the most recent year under consideration marked the first reduction since the introduction of this technology.
- The gap in fixed broadband service, which has been smaller than the gap in mobile broadband service since 2008, has stabilized around 20 percentage points at the end of the period and is expected to continue to narrow as this technology matures.

■ **Figure IV.9 ■**
Latin America and the Caribbean and European Union:
gaps in use of Internet, fixed broadband and mobile broadband,
1985-2013^a
(Percentage points)



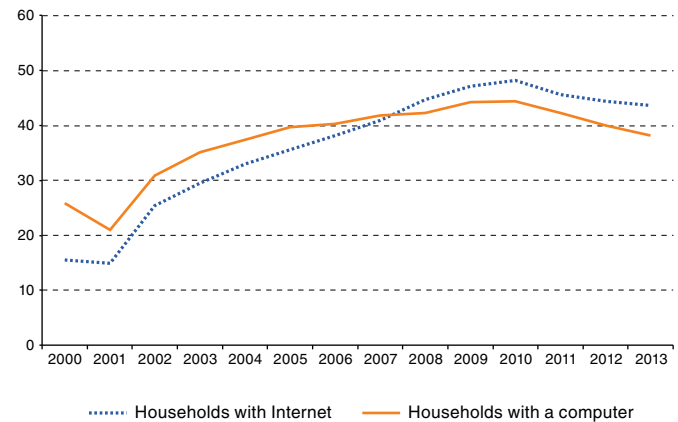
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Telecommunication Union (ITU), World Telecommunications Indicators Database, 2014.

^aThe gap is calculated as the difference between the European Union and Latin America and the Caribbean in the percentage of Internet users or subscriptions to fixed or mobile broadband services.

3. Gaps in household computer and Internet access have been shrinking since 2010

- Access to computers and the Internet in the home not only increases the opportunities for communication and entertainment but also improves the use of services in areas such as education, health and government. Thus, access in public areas (telecentres, cybercafés, schools, communities) is not a complete substitute for access in the home.
- After widening for nearly a decade, both gaps began to close in 2010. These gaps are a result of the region's technological lags with respect to the European Union, where equipment costs and access rates are lower. Indeed, nearly 100% of computers in European households are connected to the Internet, compared with just 80% in Latin America and the Caribbean.
- Given the gap in computer access and connectivity between the two regions, it is clear that the countries of CELAC should step up their efforts in this area in order to make online services widely available.

■ **Figure IV.10** ■
Latin America and the Caribbean and European Union:
gaps in household Internet and computer access, 2000-2013^a
(Percentage points)



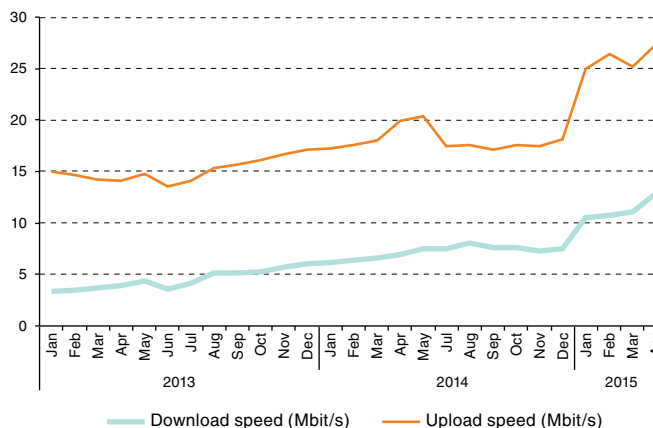
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Telecommunication Union (ITU), World Telecommunications Indicators Database, 2014.

^aThe gap is calculated as the difference between the European Union and Latin America and the Caribbean in the percentage of households with access to the Internet or a computer.

4. Gaps in Internet speeds are increasing

- Given the growing requirements of applications and content, the key aspect of Internet access will be quality, that is, good speed and low latency. Otherwise, the quality of the Internet experience becomes poor to pointless.
- In contrast with the dynamics of access presented in figures IV.8 and IV.10, which show progress in important fields, the gaps in speed have widened with no signs of reversing.
- This reflects the fact that the expansion in connections has not been accompanied by the infrastructure investments that would ensure adequate bandwidth for users. The solution to this problem is to invest more heavily in the necessary infrastructure, an activity that will be fundamentally shaped by public policy and the investment determinants of the main telecommunications operators.

■ **Figure IV.11** ■
Latin America and European Union: gaps in download and upload speeds, January 2013 to April 2015^a
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Regional Broadband Observatory (ORBA).

^aThe gap is calculated as the difference between the European Union and Latin America in the average download or upload speed in megabits per second.

5. Broadband service rates are still very high given per capita income levels in Latin America and the Caribbean

- The main problem affecting the dissemination of broadband service in Latin America and the Caribbean is the high rates charged for service in relation to per capita income. Whereas in European Union economies like Spain, France, Italy, Portugal and the United Kingdom, as well as in Japan, service rates are equivalent to around 0.1% of per capita income, in Latin America and the Caribbean, they range from 0.6% in Chile and Mexico to nearly 21% in the Plurinational State of Bolivia. Although these percentages have decreased significantly in recent years, they are still restricting the expansion of broadband service.
- This problem is related not only to the region's lower per capita income levels but also to higher service rates paid by users. Progress in this field should be based on increasing public investment, as well as on subsidies for extremely poor and isolated populations.

■ **Table IV.4** ■

Japan, Latin America and European Union (selected countries): broadband rates^a

(Percentages of monthly per capita GDP)

Country	Fixed broadband rate (1Mbit/s)
Latin America	
Chile	0.6
Mexico	0.6
Uruguay	0.8
Panama	0.9
Argentina	1.0
Costa Rica	1.2
Brazil	1.7
Colombia	1.7
Ecuador	1.9
Venezuela (Bolivarian Republic of)	2.1
Peru	2.4
El Salvador	3.7
Paraguay	4.8
Guatemala	8.2
Honduras	10.8
Nicaragua	11.0
Bolivia (Plurinational State of)	20.9
European Union	
Spain	0.1
France	0.1
Portugal	0.1
United Kingdom	0.1
Italy	0.2
Japan	0.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Regional Broadband Observatory (ORBA).

^a The rates correspond to August 2014, and GDP to 2013.

6. The growth rate of cloud computing in Latin America and the Caribbean will be among the highest in the world

- Thanks to cloud-based business models, firms are able to lower their costs of purchasing and maintaining equipment, use pricing mechanisms to charge users on a pay-per-use basis, obtain access to technology solutions from any geographical location and scale new processes without major infrastructure costs.
- Worldwide revenue from public cloud services—that is, services available to any subscriber—is expected to total over US\$ 200 billion in 2016. Although Western Europe and North America will be the top grossing regions in the next several years, Latin America, Mainland China and Asia and the Pacific are likely to see robust growth.
- The region's share of public cloud services is around 5% of the worldwide total, less than its share of global GDP. Nevertheless, estimated annual growth of 26.4% means that these services will be adopted more quickly than in Western Europe.
- The strong growth forecast for cloud computing in Latin America is affirmed by the distribution of workloads among cloud data centres in the region, which is expected to grow from 0.7 million workloads in 2011 to 7.2 million in 2016, with a compound annual growth rate of 60%.

■ **Table IV.5** ■

Selected countries and regions: income from public cloud services, 2011, 2014 and 2016

(Billions of dollars and percentages)

Region	2011	2014 ^a	2016 ^a	Compound annual growth rate (CAGR), 2011-2016
Latin America	2.4	4.7	7.6	26.4
Argentina	0.2	0.4	0.6	28.5
Brazil	1.4	2.7	4.4	25.0
Mexico	0.6	1.1	1.8	26.0
Others	0.2	0.5	0.8	26.0
Eastern Europe	0.4	0.7	1.1	22.2
Emerging Asia and the Pacific	0.4	0.9	1.5	31.8
Eurasia	0.6	1.4	2.0	25.9
Mainland China	3.0	7.1	11.2	30.0
Developed Asia and the Pacific	8.9	14.0	17.5	14.3
Middle East and North Africa	0.3	0.6	0.9	21.5
North America	50.8	89.8	125.4	19.1
Sub-Saharan Africa	0.2	0.3	0.5	19.6
Western Europe	24.3	34.1	42.5	11.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Gartner [online] <http://www.gartner.com>.

^a Estimated value.

7. Cloud computing will foster the creation of small firms and jobs in both regions

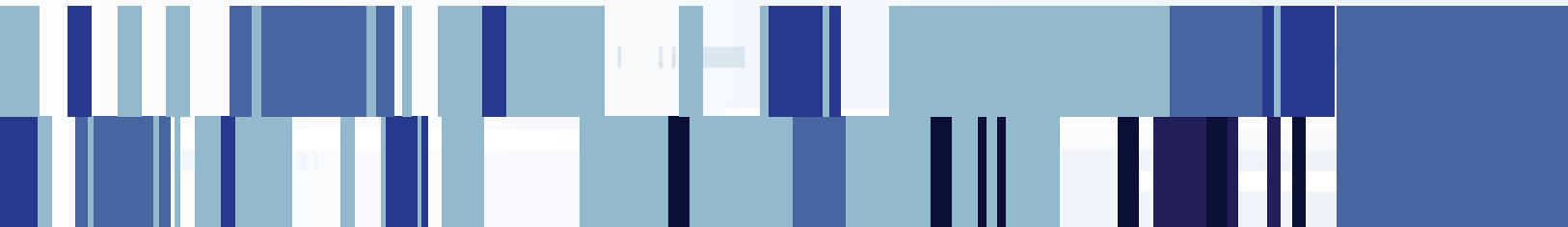
- As cloud computing drives down the fixed costs of information technologies, it is helping reduce barriers to entry for new firms and increasing their ranks in the marketplace, with positive effects on job creation and possibly price competition.
- The introduction and widespread dissemination of cloud computing in the European Union is expected to lead to the permanent creation of around 400,000 SMEs and over three million new jobs.
- As in the case of the European Union, estimates of the potential impact of widespread cloud computing on the creation of SMEs have been prepared for two countries in Latin America. In recent studies on Argentina and Brazil, cloud computing is forecast to have strong impacts on SME creation, and in turn on job creation.
- Despite the importance of cloud computing for both regions, according to Frost and Sullivan,¹ only one in ten providers of this service preferred by Latin American firms in 2010 was European (SAP from Germany); the other nine were from the United States.

■ **Table IV.6**
Argentina and Brazil: creation of firms and jobs through the diffusion of cloud computing

	In 5 years		In 10 years	
	Firms	Jobs	Firms	Jobs
Argentina	24 700	117 300	30 300	128 900
Brazil	202 100	861 000	402 650	945 000

Source: Federico Etro and Andrea Colciago, "Cloud computing, structural change and job creation in SMEs", *Broadband in Latin America: Beyond Connectivity* (LC/L.3588), V. Jordán, H. Galperin and W. Peres (eds.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Regional Dialogue on the Information Society, 2013.

¹ "Cloud Computing Trends End User Perspective. A clear look through the cloud" [online] http://es.slideshare.net/LA_IBM_Cloud_Event/frostsullivan-cloud-computing.



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