

The European Union and Latin America and the Caribbean

Convergent and sustainable strategies in the current global environment



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Contents

Foreword	5
I. Latin America and the Caribbean and the European Union in the new global context	7
A. Globalization has moved towards a tipping point in recent years	9
B. Uncertainty regarding countries' potential growth has increased, but the region's economic outlook has improved somewhat	10
C. Global positioning and growth potential will depend largely on the development of manufacturing	11
D. In a world of exponential digitization, technological development will be a determining factor for countries	12
E. Together with digital development, the degree of maturity to drive the fourth industrial revolution will be a key component in countries' development	13
F. Migratory movements are another key component of development processes, especially in the most advanced countries	14
G. Against this backdrop, and with a view towards achieving the 2030 Agenda for Sustainable Development, strengthening multilateralism is more important than ever	15
H. The historical and cultural ties between the two regions heightens the strategic importance of Latin America and the Caribbean for the European Union	17
I. The region's commitment to the Sustainable Development Goals —embodied in the Forum of the Countries of Latin America and the Caribbean on Sustainable Development— together with the European Union's experience, can be a deciding factor in achieving the 2030 Agenda for Sustainable Development	18
II. An economic, social and environmental overview	21
A. The macroeconomic situation	23
B. Social situation	36
C. The environmental situation	47
III. The keys to more inclusive production development: the role of knowledge and digitalization	57
A. Productivity is a basic prerequisite for countries to develop, and Latin America and the Caribbean has fallen behind	59
B. Science, technology and innovation are essential ingredients in countries' growth and competitiveness strategies	60
C. The decade-long boom in Latin America and the Caribbean did not remedy the dearth of innovation or bring movement towards progressive structural change	61
D. This limited commitment to technological development has translated into a low level of export complexity in the region's countries, in contrast with the dynamic economies and trade surpluses of European countries	64
E. The low level of diversification in Latin American economies is of particular concern in a world that is moving rapidly towards the knowledge economy and digitalization	65
F. At the same time, the development and progress of the Internet of things, big data analytics, robotization and artificial intelligence will determine countries' geopolitical positioning and the distribution of global income and wealth	68
G. Convergence between physical and digital technologies, which are the pillars of the fourth industrial revolution, requires a more collaborative and integrated approach	69
H. Connectivity and infrastructure investment will thus be vital if the region is to move forward with the digital economy and society	71

I. Digital skills and capacity-building will also be crucial factors	72
J. In this context, giving greater continuity to the digital agenda for Latin America and the Caribbean becomes a moving target	73
K. Although access to digital platforms has made a whole range of previously unimaginable services available to the countries and inhabitants of Latin America, digital technology is still developed exogenously	74
L. Progress towards a regional digital market is needed for the digital economy to expand, as it would boost regional trade and integration	75
M. Innovation and digital progress are not everything; rising concern about climate change and the environment requires a new approach linking innovation and environmental sustainability	76
IV. Trade and production integration between the European Union (EU) and Latin America and the Caribbean	79
A. Trade and value chains	81
B. Foreign direct investment (FDI) to modernize and strengthen productive structures	92
V. Micro-, small and medium-sized enterprises (MSMEs): key actors for development	107
A. Performance and main characteristics of MSMEs	109
B. Main achievements of MSME promotion policies	115
VI. New institutions to carry forward the development process in Latin America and the Caribbean	133
A. Transition economies face old and new challenges	135
B. Improved growth rates and greater inclusiveness in the countries of Latin America and the Caribbean have translated into a growing middle class and a substantial reduction in poverty	136
C. The emerging middle class of Latin America and the Caribbean has become more demanding and more critical of the quality of State-provided services	137
D. Perceived corruption and low tax morale are matters of concern in the region	138
E. Strengthening and restructuring public institutions is crucial for the countries of Latin America and the Caribbean to be able to increase their well-being and progress on the path to development	139
F. Rethinking institutions requires a new nexus between the State, the market and society	140
VII. Opportunities for cooperation between the European Union and Latin America and the Caribbean	141
A. Macroeconomic policy	143
B. Cooperation opportunities for advancing social development	146
C. Climate change mitigation: an urgent priority	148
D. Science, technology and innovation: a fertile arena for cooperation between the two regions	152
E. Towards strategic biregional cooperation in trade and investment	153
F. The European experience: a reference point for the development of smaller businesses and of the institutions charged with their promotion	155
G. Closing infrastructure gaps: new opportunities for cooperation between the two regions	157

Foreword

In the past decade, a series of global tectonic shifts in the geopolitical, economic and technological arenas have marked a turning point in the process of globalization and countries' international positioning. These structural changes have been accompanied by other factors linked to new global demands related to the Sustainable Development Goals and the 2030 Agenda for Sustainable Development.

Sluggish economic growth and weaker global trade momentum since the 2008-2009 crisis, along with the accelerated technological revolution driven by global digital platforms, greater concern about climate change, environmental impacts and migratory flows are the backdrop of a new global context. In this scenario, China has positioned itself as a protagonist.

The recent changes in the global political arena include a new trade and tax strategy for the United States, which has given rise to tensions between the major economic blocs. The United States has shifted its stance of direct support for globalization based on multilateral negotiations to an approach focused more on bilateral moves, which seeks to put "America First" and has led to that country withdrawing from, questioning or renegotiating major agreements such as the Trans-Pacific Partnership Agreement (TPP) and the North American Free Trade Agreement (NAFTA). These changes in economic and political strategies have significant repercussions for several members of the Community of Latin American and Caribbean States (CELAC) and put pressure on existing production specialization models, balance-of-payments positions and investment flows, migratory movements and remittances.

In addition, positive economic momentum for Latin American and Caribbean countries in the past few decades has resulted in several becoming upper middle-income economies and beginning to experience new social, economic and institutional pressures. This is an unprecedented challenge, especially in light of the recent and future classification of many of these countries.

These and other factors provide an opportunity to rethink cooperation between the member countries of CELAC and the European Union, with the end goal of renewed and dynamic collaboration based on multilateralism, which goes beyond trade integration, strengthens the shared vision and values of both regions, promotes investment and the development of real production integration, encourages technology transfer and innovation, favours the inclusion of micro, small and medium enterprises, and ultimately facilitates progressive structural change with stronger productivity, more and better jobs, and higher wages. In other words, cooperation that helps to build more modern, productive and inclusive societies.

This document is a joint effort of the Economic Commission for Latin America and the Caribbean (ECLAC), the European Union and the European Union-Latin America and the Caribbean Foundation (EU-LAC Foundation), which uses a comparison of the experiences in both regions to identify areas and lines of bi-regional cooperation that facilitate progress in collaboration, considering the new context of many Latin American economies experiencing “development in transition”.

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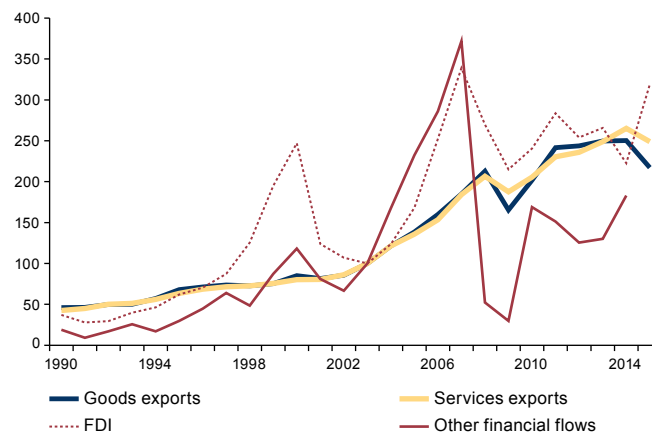
I. Latin America and the Caribbean and the European Union in the new global context

A. Globalization has moved towards a tipping point in recent years

- In recent years, a series of economic, social and geopolitical changes have led to a tipping point or crisis of globalization which has directly affected Latin America and the Caribbean's international integration and multilateral relationships, including those with the European Union.
- Two major political events have marked this process of change: the Brexit decision in the United Kingdom, and the policies and decisions made by the new Government of the United States that took office in January 2017. These developments unfolded against a long-term backdrop characterized by the subdued growth of the global economy and international trade in the aftermath of the 2008-2009 crisis, the acceleration of the technological revolution, China's global advancement in the economic and geopolitical spheres, the deepening of inequality in many countries throughout the world, and the persistence and exacerbation of the environmental crisis. Because of the productive heterogeneity of Latin American and Caribbean countries, these processes have had different impacts on the countries' socioeconomic dynamics and international integration patterns.
- Subdued global growth, which initially affected the most developed economies (United States, the European Union and Japan) and subsequently spread to those affected by the fall in commodity prices linked to natural resources (Latin America and the Caribbean, and Africa), was reflected in the slowdown of the trade in goods and services, and

of financing and foreign direct investment flows. While some of these flows have recovered in absolute terms, as a percentage of output they remain similar to or lower than their pre-crisis levels. In particular, the trade in goods—currently growing at its slowest pace in the post-war era—is no longer the driving force of economic growth.

■ **Figure I.1** ■
Key global trade, investment and finance flows, 1990-2015
(Index: 2003=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Latin America and the Caribbean in the World Economy, 2016* (LC/G.2697-P), Santiago, 2016.

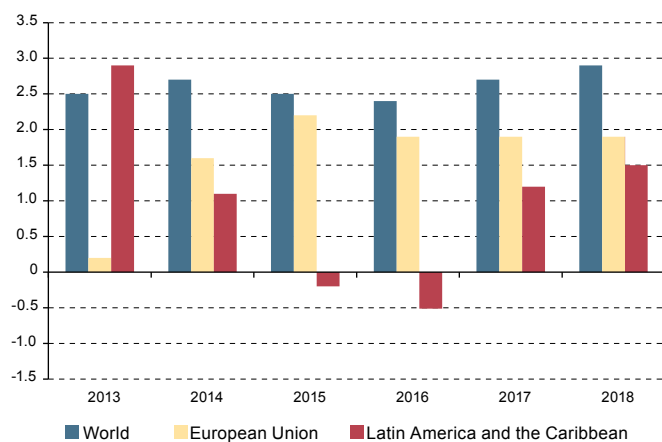
B. Uncertainty regarding countries' potential growth has increased, but the region's economic outlook has improved somewhat

- Notwithstanding persistent geopolitical risks, growth prospects in general have benefitted from a relatively benign global economic and financial environment. Globally, 2017 year-end data point to higher output and trade growth rates—albeit below those expected in a recovery phase—although this is accompanied by significant uncertainty surrounding the robustness of the recovery, thus affecting market behaviour and weighing on decision-makers, especially those involved in macroeconomic policy.
- Growth in Latin America and the Caribbean also shows signs of picking up, although at historically low aggregate rates and with clear differences among countries. While most economies are growing—some even at rates above 5%—mediocre aggregate results can be explained by the performance of Argentina, the Bolivarian Republic of Venezuela and Brazil. That said, Argentina and Brazil have shown incipient signs of recovery, which could intensify in 2018.
- These forecasts have been made in a context of uncertainty. On the one hand, impact on growth resulting from the region's political changes over the last biennium remains unclear, as the share of market-friendly governments has increased together with a preference for international integration processes consistent with the dominant paradigm. These developments have led to changes in the strategic make-up of international economic relationships (Argentina), and to substantial domestic reforms in the tax, labour and privatization spheres (Brazil). On the other hand, United States foreign trade strategy has changed: instead of supporting and fostering globalization on the basis of multilateral negotiations, it is now granting a more prominent role to its national context (“America First”), as can be seen in its withdrawal from major accords such as the Trans-Pacific Partnership (PPP) or its re-negotiation—from a position of strength—of other more geographically limited agreements, such as the North American Free Trade Agreement (NAFTA). These changes have increased the uncertainty for foreign direct investment in export platforms, which is already evident in the case of Mexico, and could also have an impact on other agreements based on NAFTA (such as the Free Trade Agreement between the Dominican Republic, Central America and the United States, and other bilateral agreements with countries such as Chile, Colombia and Peru).

■ Figure I.2 ■

World, the European Union, and Latin America and the Caribbean: growth and projections

(Percentages)



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

C. Global positioning and growth potential will depend largely on the development of manufacturing

- The rethinking of globalization currently underway in the United States—the outcome of which will depend on the power struggle between the protectionists and those favouring the previous globalization paradigm— can be linked to ideological considerations, but also to a particular reading of labour market dynamics and, importantly, to the persistent commercial imbalances exacerbated by the size and consistency of China’s surplus and, to a lesser extent, those of Germany, Japan and Mexico.
- The significant weight of manufacturing exports in the surpluses of these four countries suggests the sector is poised to reclaim the leading role in policy discussions it last held in the 1980s, when several European countries

launched their industrial reconversion programmes. The debate on the impact of globalization on the manufacturing capacity of countries, and in this particular case that of the United States, remains open. One side of the argument holds that technological change has become the key driver of job losses and wage dynamics in the manufacturing sector, assigning a secondary role to industrial and trade policies and to globalization strategies. However, without ignoring the importance of technological disruption, the other side argues that trade agreements and industrial policies adopted by United States trading partners, especially China, have reinforced deindustrialization, leading to the subsequent loss of relatively well-paid jobs.

■ Table I.1 ■

United States: trade balance with main countries, 2016^a

(Millions of dollars and percentages)

	Total	Percentage	Manufactures	Non-manufactures	Energy
World	-735 462	100	-635 935	-40 097	-59 431
China	-347 038	47	-368 885	19 778	2 069
Japan	-68 938	9	-81 455	10 598	1 919
Germany	-64 865	9	-61 022	-4 080	236
Mexico	-63 192	9	-68 628	-6 140	11 576
Ireland	-35 948	5	-33 227	-2 714	-7
Viet Nam	-31 958	4	-32 623	712	-47
Italy	-28 457	4	-25 283	-3 645	472
Republic of Korea	-27 666	4	-33 217	6 266	-716
Other countries	-67 401	9	68 405	-60 873	-74 933

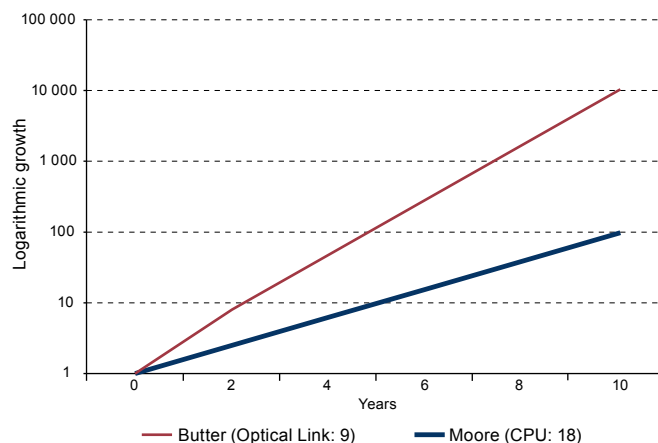
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States International Trade Commission (USITC), Interactive Tariff and Trade DataWeb [online] <https://dataweb.usitc.gov/>.

^aOn the basis of USITC, “A Note on U.S. Trade Statistics”, 22 August 2014 [online] <https://www.usitc.gov/publications/research/tradestatsnote.pdf>.

D. In a world of exponential digitization, technological development will be a determining factor for countries

- The technological revolution, especially as regards digital technologies, is accelerating rapidly. The existence of exponential trends in technological development has been confirmed through empirical regularities such as Moore's Law (processing capacity doubles every year) and Butters' Law (optical fibre transmission capacity doubles every nine months). Notwithstanding the unsustainability of these trends in the long term, they are illustrative of the current momentum in the hardware, platform and applications spheres.
- Mass use of mobile technology and the Internet has boosted the ubiquity of digital technologies, laying the ground for new patterns of consumption, interconnection and production. It is through these processes—from which new technologies such as cloud computing, big data and the Internet of things have emerged—that global aggregation platforms such as Google and Facebook in the West, or Baidu and Alibaba in China, play a central role. The most advanced robotics and artificial intelligence technologies are supported by these types of platforms, leading to significant geopolitical repercussions in terms of the balance of power between the largest blocs.

■ **Figure I.3** ■
The exponential growth of computing and connection capacities^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Moore's Law (1965) and Butters' Law (2011).

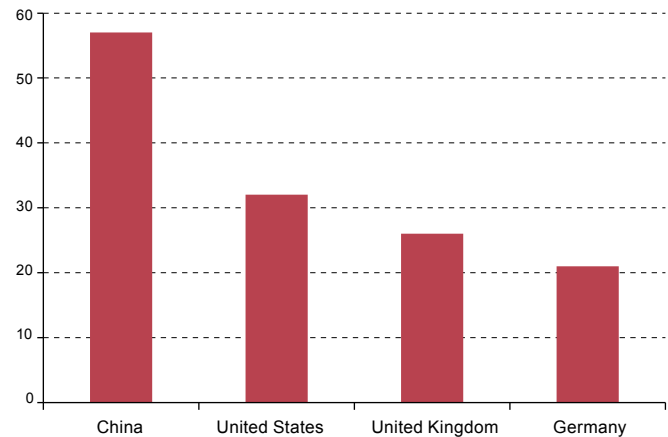
^aMoore's Law predicts that central processing units double their capacity every 18 months. Such growth means that every new device can expand its capacity to capture and analyse increasing data traffic. However, with greater levels of traffic comes the need for greater storage capacity. On the basis of Kryder's Law, it is estimated that storage density doubles every 12 months. Thus, the prevailing scenario is one in which traffic speed grows at a faster rate than processing and storage capacity. Butters' Law of Photonics demonstrates that optical fibre networks double their capacity in just nine months.

E. Together with digital development, the degree of maturity to drive the fourth industrial revolution will be a key component in countries' development

- China has taken huge steps forward in the global economy, initially on the back of its manufacturing base, and subsequently through its increasing technological prowess and its investment role in foreign markets. The country's progress and its enhanced geopolitical leadership have led to the perception of a growing disequilibrium in the multilateral system and to certain protectionist reactions, such as halting Chinese investments in strategic technological companies in the United States and Europe. In particular, the combination of China's share of increasingly advanced manufactures and the development of digital platforms has bolstered its ability to embark on broad-ranging geopolitical initiatives, altering the equilibrium of old in which China was simply seen as the "workshop of the world".
- Despite the fact that the strategies aimed at driving Industry 4.0 or Advanced Manufacturing will afford significant competitiveness gains to the manufacturing sector, the potential upside will depend on how well countries are prepared to adopt them in other economic and social sectors. Winning in this process will be determined by factors such as size and impetus of pre-existing industrial bases, trade conditions and technological development. A recent survey by Infosys suggests that China is ahead of its closest competitors (Germany, the United Kingdom and the United States).

■ **Figure I.4** ■
China, the United States, the United Kingdom and Germany: readiness for implementation and development of the fourth industrial revolution

(Percentages of interviewees who believe their country is prepared for early adoption of the Industry 4.0 strategy)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Infosys [online] www.infosys.com.

F. Migratory movements are another key component of development processes, especially in the most advanced countries

- China's recovery of its leading global position—which it last enjoyed in the eighteenth century—has been accompanied by a significant urbanization push and a substantial reduction of poverty. These outcomes, shared by India to a lesser extent, have reduced global aggregate inequality, despite the latter increasing in many countries. Against this backdrop, progress made in one of the regions with the highest population growth rates (sub-Saharan Africa) has been insufficient to retain large segments of its population, which has driven huge migratory flows, mostly to Europe. A similar phenomenon, albeit of lower intensity, can be seen among Latin American and

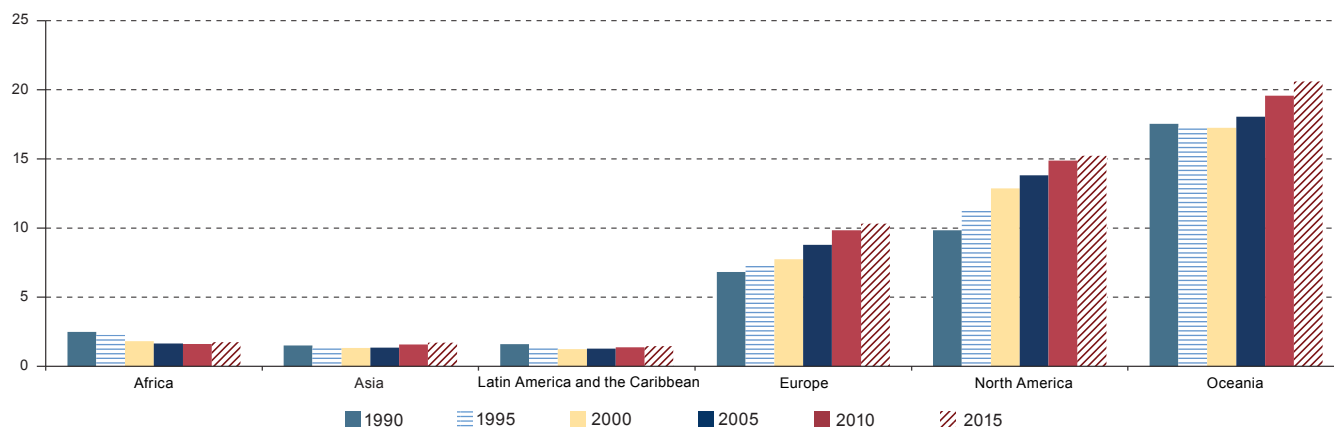
Caribbean countries of different degrees of development, although it seems that political pressures have slowed migratory flows from Mexico and Central America to the United States.

- While total migrants worldwide stood at 152.5 million in 1990, figures for 2015 show an increase of 60% to more than 243 million people. In 1990, migrants worldwide accounted for 2.9% of the world's population, but two decades later migrant populations account for more than 3.3% of the total. An analysis by regions shows that migratory processes are accelerating, especially in Europe, North America and Oceania.

■ Figure I.5 ■

Main regions: international migration trends, 1990-2015

(Percentages of the total population)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the United Nations Population Division, 2015.

- The lack of GDP growth in regions with high demographic growth rates has been compounded by the humanitarian crises resulting from two decades of war in the Middle East and neighbouring regions. These new migratory flows have led to the re-emergence of anti-immigration—or anti-immigrant—feelings and political movements. The impact of migratory flows on the labour markets and cultural make-up of destination countries felt by certain

segments of the population is one of the most powerful explanations for the 2016 presidential election results in the United States and of the Brexit vote in the United Kingdom. This anti-immigrant feeling was especially evident in the latter; the United Kingdom is now seeking to preserve the free movement of goods, services and financial flows with the European Union, and at the same time to limit the free movement of people.

G. Against this backdrop, and with a view towards achieving the 2030 Agenda for Sustainable Development, strengthening multilateralism is more important than ever

- This context of uncertainty for international trade and investment, of growing difficulties for developed countries to deal with China's new role, of fear of the still unknown effects of the digital revolution (especially the impact of robotics and artificial intelligence on employment) and of negative perceptions surrounding large migratory flows, paints a troublesome picture for the multilateral system for the governance of globalization. The framework has been unable to respond in a timely manner to these new challenges, just as it was unable to react to the global financial crisis. Furthermore, its capacity is also being questioned by one of its main stakeholders and drivers, as exemplified by the withdrawal of the United States from the Paris Agreement under the United Nations Framework Convention on Climate Change and from the United Nations Educational, Scientific and Cultural Organization (UNESCO), as well as by that country's strong criticism of the World Trade Organization (WTO). Although it is still early to determine the long-lasting effects of the withdrawal from the Paris Agreement, it represents a major blow to one of the international community's key agreements.
- Accordingly, the efforts led by the European Union, Latin America and the Caribbean, and East Asian countries in support of the multilateral framework for the governance of globalization will be of crucial importance. Ultimately, here lies one of the fundamental pillars for the implementation of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals, which allow moving towards the achievement of specific targets in favour of equality, progress and sustainability.
- As stated by ECLAC in *Horizons 2030: Equality at the Centre of Sustainable Development*, moving towards the fulfilment of the Sustainable Development Goals demands a new global governance focused on creating global public goods. This consists of increasing the importance of developing countries in strategic decisions, reconciling trade and investment rules with the Sustainable Development Goals, coordinating financial and exchange-rate policies to prevent tax evasion and avoidance, creating mechanisms to facilitate the transfer and development of environmental technologies, and addressing the migratory phenomenon together.

■ Diagram I.1 ■

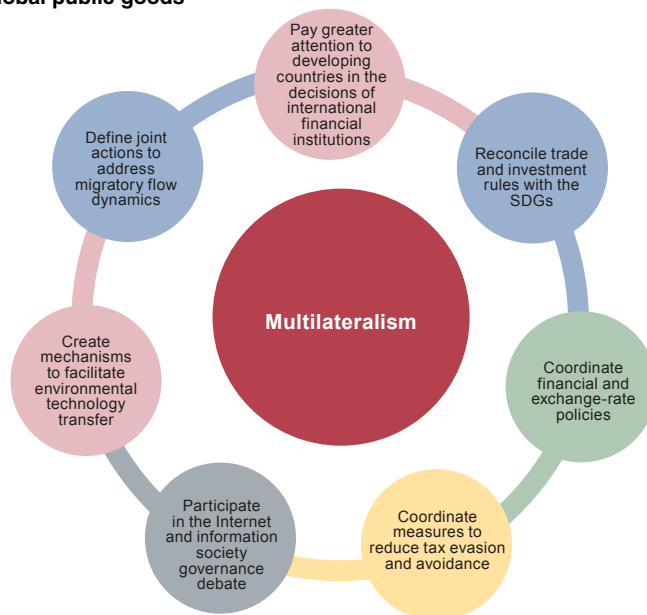
Potential impact of achieving the 2030 Agenda



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

■ Diagram I.2 ■

Multilateralism as a key pillar of global public goods



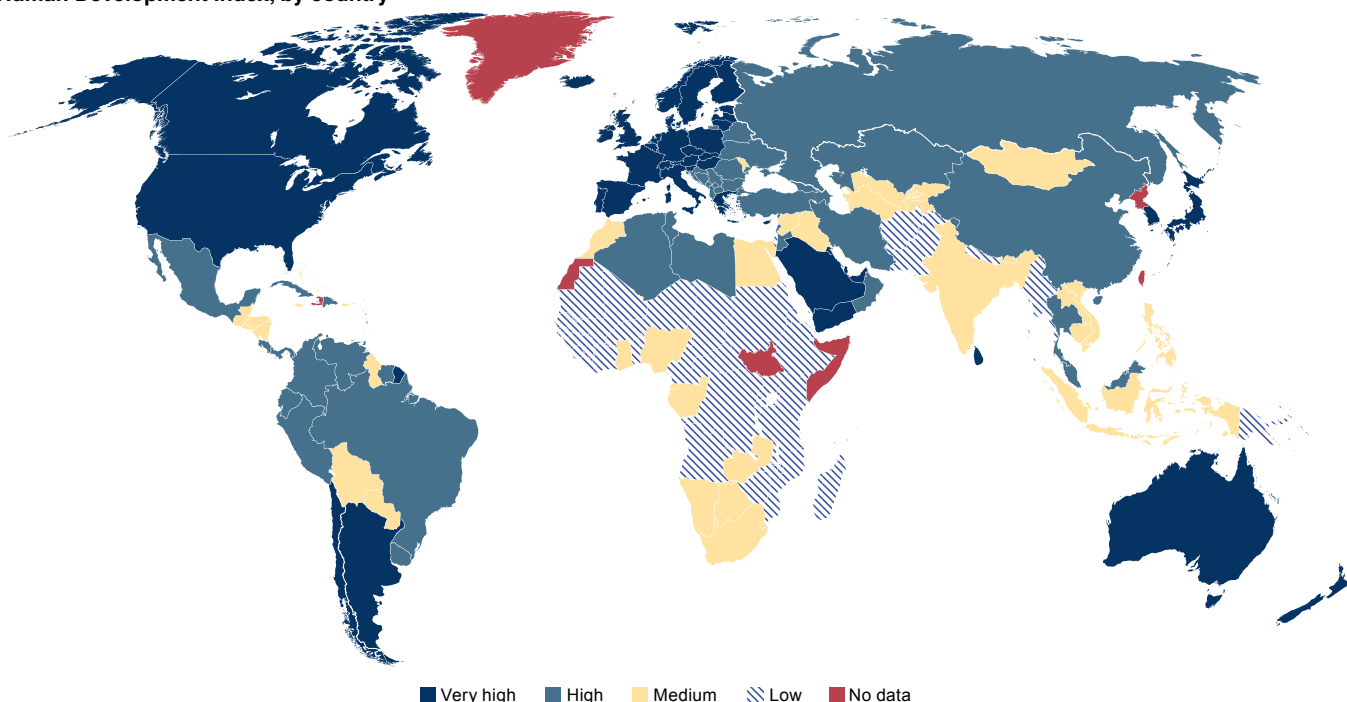
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

H. The historical and cultural ties between the two regions heightens the strategic importance of Latin America and the Caribbean for the European Union

- Europe and Latin America and the Caribbean have a shared history and common principles in various spheres (political, economic, social, cultural, academic and in supporting development), which explains the solid link between both regions throughout their history. Among these shared aspects are Graeco-Roman culture and law, scientific rationality, democracy and institutions, liberties and the market economy. Latin America, through European migration and its relationship with European institutions and society, has incorporated many of these elements in its own DNA, also enriched by its own culture and ancestral knowledge.
- The strong links between Latin America and the Caribbean and the European Union have taken many forms. One of these is the establishment of European Union-Latin America and the Caribbean Foundation (EU-LAC Foundation): in May 2010 the countries of both regions signed an international agreement to set up the Foundation with a view to strengthening and promoting their bioregional strategic partnership, raising its profile and encouraging the participation of civil society.
- Latin America and the Caribbean are important for the European Union, as reflected in the European Union's global strategy for foreign and security policy, which addresses the need to reinforce a broader Atlantic space and proposes the establishment of closer relationships with the region's countries.

■ Map I.1 ■

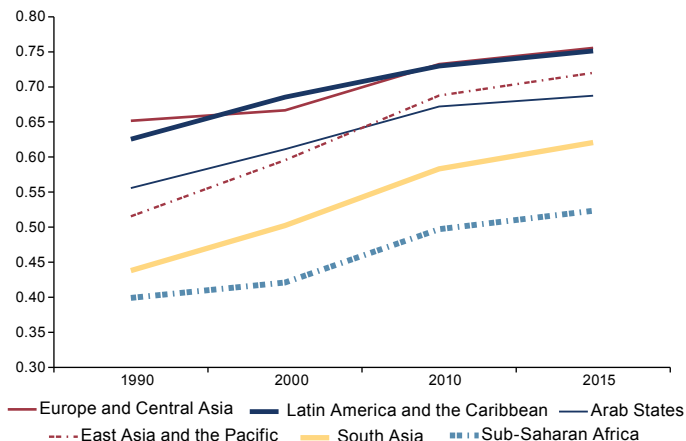
Human Development Index, by country



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Development Programme (UNDP), *Human Development Report 2015: Work for Human Development*, New York, 2015.

- Latin America and the Caribbean has reclaimed its standing as a strategically important region, as illustrated by the inclusion of three of its countries in the Group of 20 (Argentina, Brazil and Mexico). The economic and social progress achieved by the region in recent decades, as well as its current demographic dividend, its rising middle class and levels of human development position it as a very dynamic, stable, safe and attractive region for international investors and for the development of new business opportunities. On the whole, the human development index for Latin American and Caribbean countries stands at 0.751 (out of a maximum of 1), similar to readings for the countries that make up Europe and Central Asia, and above those of regions such as East Asia and the Pacific (0.72), the Arab nations (0.687), South Asia (0.621) and Sub-Saharan Africa (0.523).
- The region is in a phase of full transition, with high potential for developing and implementing joint actions in various spheres, including infrastructure, education, health, renewable energy, science and technology, and productive development.

Figure I.6
Main emerging regions: human development 1990-2015



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Development Programme (UNDP), *Human Development Report 2015: Work for Human Development*, New York, 2015.

I. The region's commitment to the Sustainable Development Goals —embodied in the Forum of the Countries of Latin America and the Caribbean on Sustainable Development— together with the European Union's experience, can be a deciding factor in achieving the 2030 Agenda for Sustainable Development

- In light of the new globalization scenario, it is essential to continue supporting a form of governance based on multilateralism, as well as its standing as a global public good. However, this governance cannot be limited to simply supporting the global framework of old. The positive aspects of the latter must be maintained, but the large economic, social and environmental problems it has generated must be addressed. Ultimately, what is needed is a new form of governance of globalization designed and implemented in a context of negotiation, as opposed to one characterized by the imposition of projects that seek a dominant position. The long experience of cooperation and coordination between the European Union and Latin America and the Caribbean offers a solid foundation for the construction of this new form of globalization in alignment with the 2030 Agenda for Sustainable Development and its Sustainable Development Goals.
- The region's countries are playing a pivotal role in these initiatives, as confirmed by their collective commitment made explicit in the first meeting of the Forum of the Countries of Latin America and the Caribbean on Sustainable Development, held in Mexico City in April 2017. Here, the region's countries reaffirmed their individual and collective commitment to the 2030 Agenda for Sustainable Development as a universal and transforming agenda centred on people, bringing together the economic, social and environmental dimensions of sustainable development.

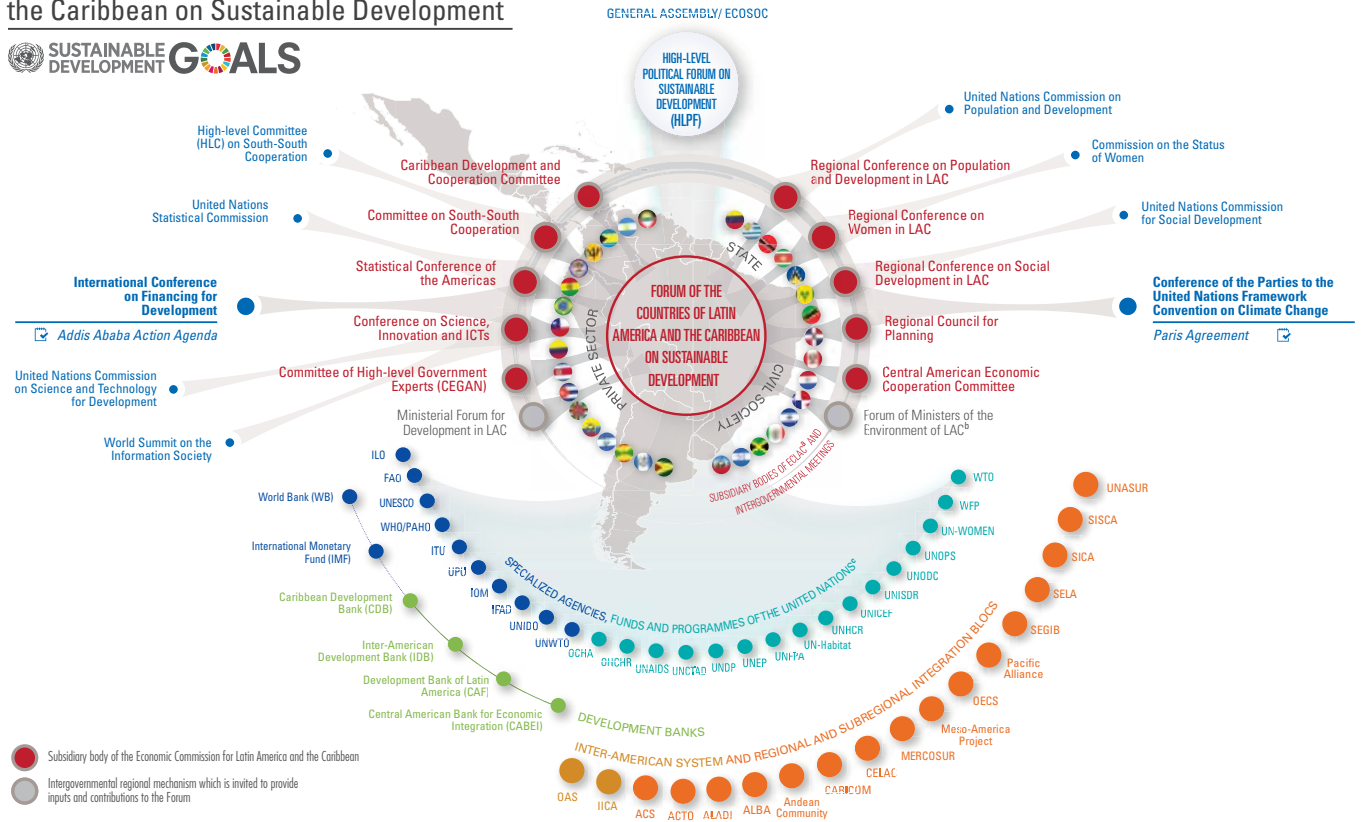
■ Diagram I.3 ■

Forum of the Countries of Latin America and the Caribbean on Sustainable Development



REGIONAL AND GLOBAL DIMENSIONS OF THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

Forum of the Countries of Latin America and the Caribbean on Sustainable Development



Source: Economic Commission for Latin America and the Caribbean (ECLAC). Economic Commission for Latin America and the Caribbean (ECLAC), "Establishment of the Forum of the Countries of Latin America and the Caribbean on Sustainable Development," resolution adopted at the thirty-sixth session of ECLAC, 27 May 2016.

^a Due to space considerations some names have been abbreviated. For a full list of subsidiary bodies of ECLAC visit <http://www.cepal.org/en/organos-subsidiarios>.

^b UNEP/ROLAC acts as secretariat to the Forum of Ministers of the Environment of Latin America and the Caribbean. The Forum has also an Interagency Technical Committee composed of UNEP, UNDP, ECLAC, IDB and the World Bank.

^c This is a non-exhaustive list. For a complete list of specialized agencies, funds and programmes of the United Nations visit <http://www.unsceb.org/content/unssystemchart-dpi-2015>.

II. An economic, social and environmental overview

A. The macroeconomic situation

1. The global economy is showing signs of recovery, albeit with sluggish growth

- The global outlook continues to be affected by various adverse factors. First, there are growing risks associated with the possible effects of a tighter monetary policy in the United States, which would affect financial flows to emerging markets, currency values and financial asset prices. Second, mounting trade tensions have generated fresh uncertainties regarding the future of the global economy.
- Since the international financial crisis of 2008, the global economy has experienced low growth, with global trade slowing in particular. Furthermore, a number of adverse economic and political developments have triggered recurrent spikes in uncertainty. Countries exporting natural resources, including many in Latin America and the Caribbean, have faced slacker external demand and worsening terms of trade, which have had a negative impact on their fiscal accounts and on the balance of payments.
- After seeing growth of just 2.5% in 2016, the global economy growth performed better in 2017 —by the end of the year growth averaged 3.2%— and this trend is expected to continue in 2018. Both industrialized countries and the developing and transition economies are showing signs of recovery.
- In 2017, the growth rate in developing economies—which has trended down over the past few years—is expected to rebound to 4.6%, and is expected to continue to follow this course in 2018 and 2019, to reach 4.7%. The slowdown forecast for the Chinese economy in 2017 did not materialize, but it is expected to happen in 2018, as policy support will fade and fiscal policies tighten. India recorded growth of 6.7% in 2017, while two other large emerging economies, Brazil and the Russian Federation, returned to growth in 2017 after two years of contraction, and that upturn is expected to continue in 2018 and 2019.
- The developed economies grew by 2.4% in 2017, higher than the level seen the previous year. Of that group, the United States stands out as the driver of growth, especially after the approval of a tax package in December 2017. In the other advanced economies, conversely, growth is expected to be sacker in 2018.

■ **Table II.1** ■

GDP growth and projections, 2013-2019

(Percentages)

	2013	2014	2015	2016	2017	2018 ^a	2019 ^a
World	2.5	2.7	2.7	2.5	3.2	3.3	3.2
Developed economies	1.2	1.9	2.2	1.6	2.4	2.3	2.1
United States	1.7	2.6	2.9	1.5	2.3	2.8	2.3
Japan	2.0	0.3	1.1	0.9	1.7	1.1	1.5
European Union	0.3	1.8	2.3	1.9	2.4	2.1	2.0
Emerging and developing economies	4.7	4.3	3.9	4.0	4.6	4.8	4.8
China	7.8	7.4	6.9	6.7	6.9	6.6	6.3
India ^b	6.4	7.5	7.6	7.1	6.7	7.3	7.5
Brazil	3.0	0.5	-3.5	-3.5	1.0	2.2	2.7
Transition economies	2.4	0.9	-2.2	0.3	2.0	2.1	2.2
Russian Federation	1.8	0.7	-2.8	-0.2	1.5	1.7	1.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Economic Situation and Prospects 2018: Update as of Mid-2018*, New York, 2018 [online] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP_2018_Mid-year_Update.pdf; ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, “European economic forecast, Summer 2018 (Interim);” *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

^a Figures for 2018 and 2019 are projections.

^b Figures correspond to the fiscal year starting in April and ending in March of the following year.

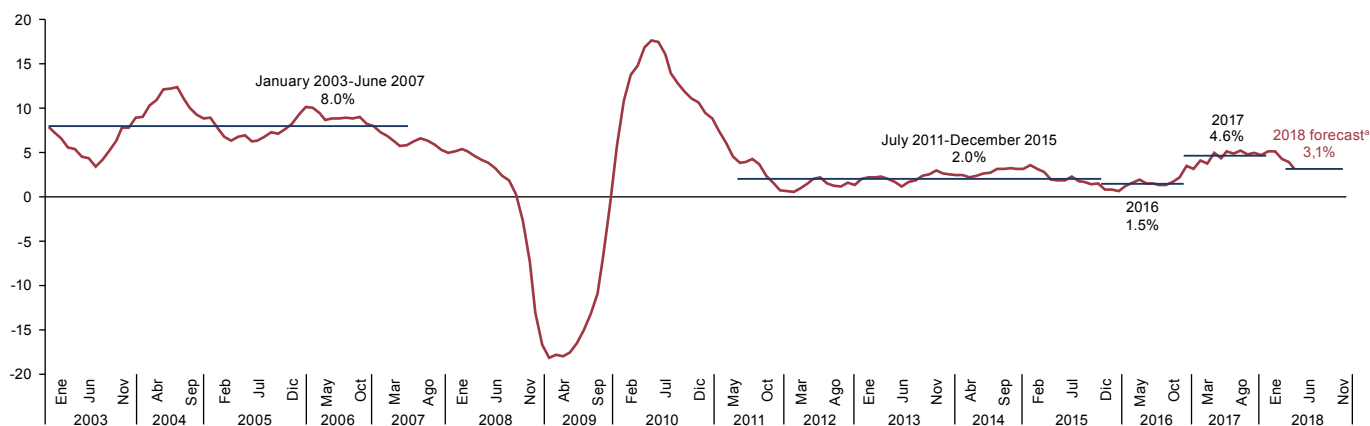
2. The recent stronger performance of international trade is expected to facilitate a moderate upturn in the global economy

- After growing only 1.5% in 2016, there was an uptick in international trade, which began in November 2016, in line with upturn in global economic activity.
- Despite ongoing constraints on more robust growth of world trade —such as a possible reversal of the process of production segmentation into value chains— cyclical factors are expected to induce a 4.6% increase in global trade volumes in 2017. However, there is still an atmosphere of uncertainty caused by the withdrawal of the United Kingdom from the European Union (Brexit) and the possible tightening of trade policies. In this scenario, year-on-year growth rates slowed in the first five months of 2018.
- In general, the growth outlook for trade in the European Union and Latin America and the Caribbean appears to benefit from a relatively favourable global economic and financial environment, even though risks associated with geopolitical factors persist.

■ Figure II.1 ■

World: year-on-year variation in seasonally adjusted index of trade volumes, January 2003–May 2018

(Percentages)



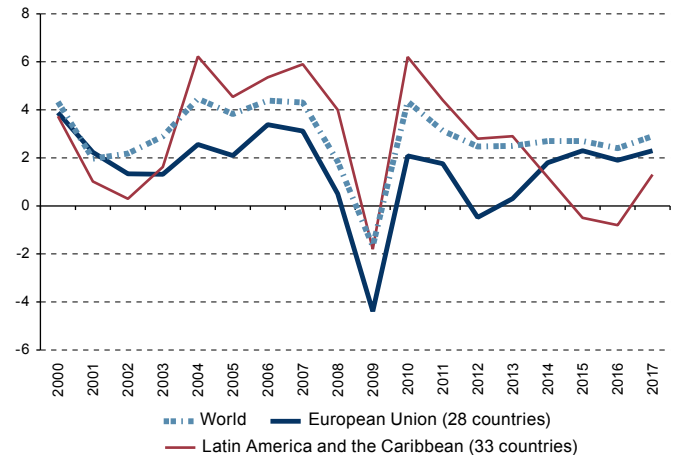
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf.

^a This is the lower limit of the projection by the World Trade Organization at April 2018.

3. Against this backdrop, the Latin America and the Caribbean region is returning to positive growth, albeit low, while the European Union continues to grow at a moderate pace

- In 2017, following two years in which regional GDP declined (-0.2% in 2015 and -0.8% in 2016), the economy of Latin America and the Caribbean is set to grow by a modest 1.2%. This increase in regional GDP will boost regional GDP per capita by 0.2%. Although it is a slight improvement, it means that this indicator has performed better than it did over the two previous years, when it fell, on average, by 1.6% per year.
- This GDP growth is boosted by domestic demand, both from consumption and investment, together with the increase in external demand. In 2017, private consumption and exports of goods and services were the main drivers of the region's economic growth. Although there are marked differences from one country to another in the composition of the basket of exported and imported goods, higher energy and mining prices fuelled a terms-of-trade upturn of 4%. Furthermore, in the fourth quarter of 2016, there was an upswing in investment that boosted, albeit modestly, its contribution to growth. In 2017, after falling for three years running at an average annual rate of 4.7%, investment in the region climbed 2.8%
- Recently the economies of the European Union have grown more than expected. The third quarter of 2017 marked a year of quarterly growth equal to or higher than 0.6%, which is a strong indicator of moderate, long-term growth. Economic growth has been underpinned by domestic investment and consumption, both private and public, which continued to benefit from more favourable financing conditions, thanks to flexible monetary policies, a better labour market situation, the recent recovery in global production and trade and a reduction in political and economic uncertainty. Against this backdrop, the GDP of the European Union grew by 2.4% in 2017, higher than the 1.9% growth seen in 2016.

■ **Figure II.2** ■
Latin America and the Caribbean and the European Union: GDP growth, 2008-2017
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Economic Situation and Prospects 2018: Update as of Mid-2018*, New York, 2018 [online] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP_2018_Mid-year_Update.pdf; ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

4. Latin America is growing less than the European Union and the previous differences among country groupings' economic performances are decreasing

- The sharp differences that had prevailed among the Latin American subregions since 2013 had begun to even out by the end of 2017. The South American economies reached a turning point in the first quarter of 2016 when they began to recover, thanks to the positive impacts of higher global growth and, hence, of external aggregate demand following improvements in commodity prices, which boost not only the terms of trade and the value of exports, but tax revenues as well. However, growth slowed in the first half of 2018. Meanwhile, growth in the economies of Central America,

the Dominican Republic and Mexico has remained stable in recent years, underpinned by the positive effects of remittance flows, which have increased considerably, and is likely to benefit from expectations of further global growth, in general, and growth of its principal trading partner, the United States, in particular.

- In the first half of 2018, GDP growth was driven by domestic demand, which has fuelled an upturn in private consumption and investment.

■ Figure II.3 ■

Latin America (selected groupings): GDP growth rates and contribution by expenditure components to growth, first quarter of 2014–first half of 2018

(Percentages, on the basis of constant dollars at 2010 prices)

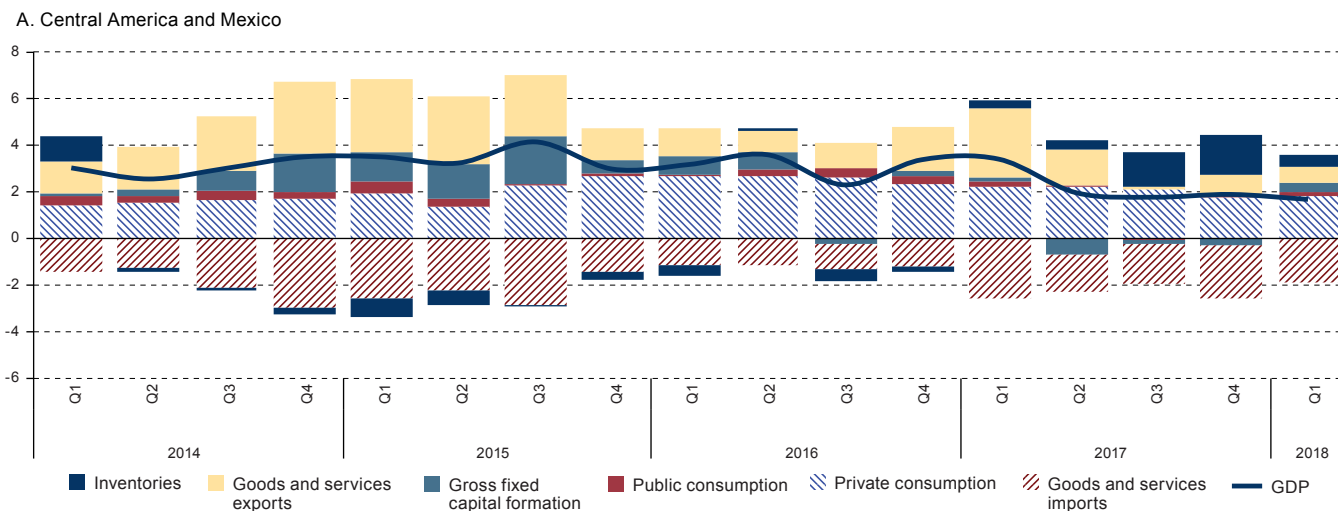
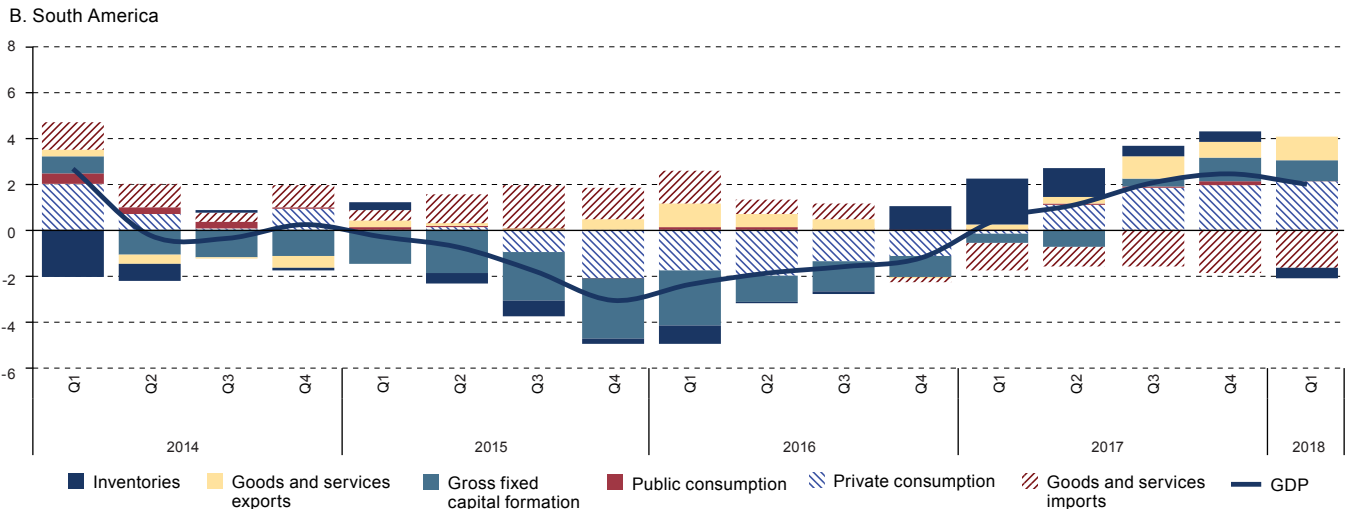


Figure II.3 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf.

5. The difference in growth rates is greater in Latin America and the Caribbean than in the European Union

- GDP contracted in some of the largest Latin American economies in 2016, which had a negative impact on the regional average. However, the vast majority of the economies of the region saw positive growth rates in 2017, with the exception of the Bolivarian Republic of Venezuela—where GDP fell by 13%—and two Caribbean countries (Dominica and Trinidad and Tobago). The economies that saw the highest growth are Panama, Grenada, Nicaragua, Paraguay, Honduras and the Dominican Republic, in that order.
- The English- and Dutch-speaking Caribbean saw zero growth in 2017, reflecting the damage wrought by Hurricanes Irma and Maria in some of the subregion's countries.
- In the European Union, there are differences between those countries that were hardest hit by the economic and

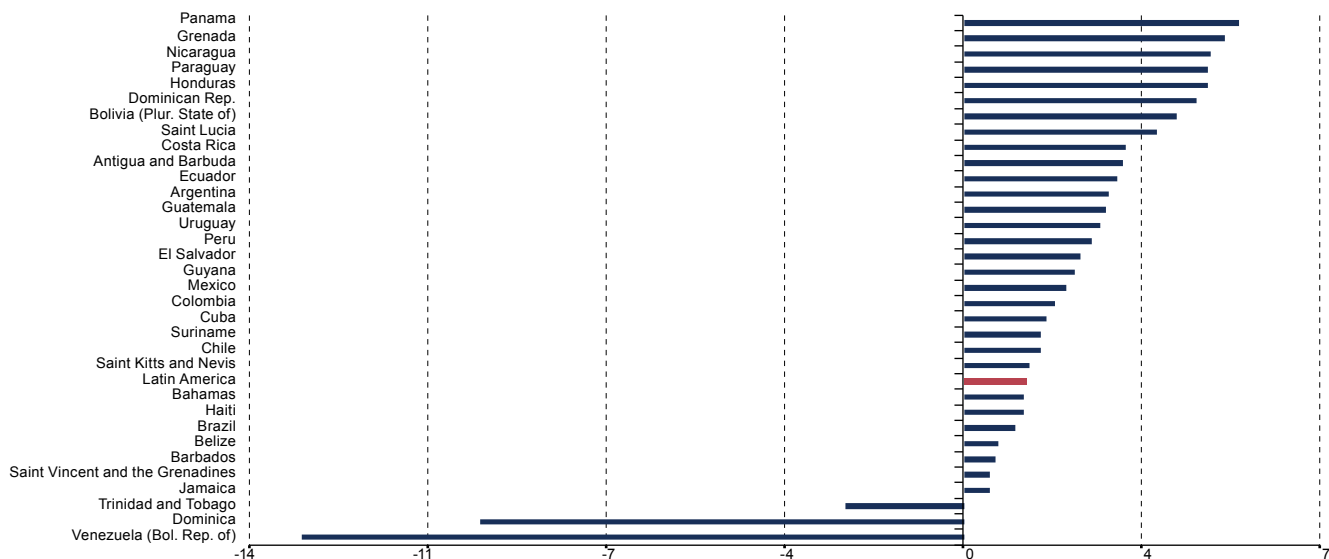
financial crisis that began in 2008 and those that were able to overcome that crisis more easily. Between 2008 and 2012, GDP contracted in 13 of the 28 member countries of the European Union, most notably in Greece (-5.4%), Latvia (-2.6%), Portugal (-1.4%) and Spain (-1.3%). However, today all the economies of the European Union, which is entering its fifth year of recovery, have, more or less, returned to growth and are expected to see positive growth rates. The year 2017 marked the first time since 2007 that the GDP of the vast majority of member countries, with the exception of Greece in 2015 and 2016, had grown for three years in row. The fastest growing economies are Ireland, Romania, Malta, Slovenia and Estonia, in that order.

■ **Figure II.4** ■

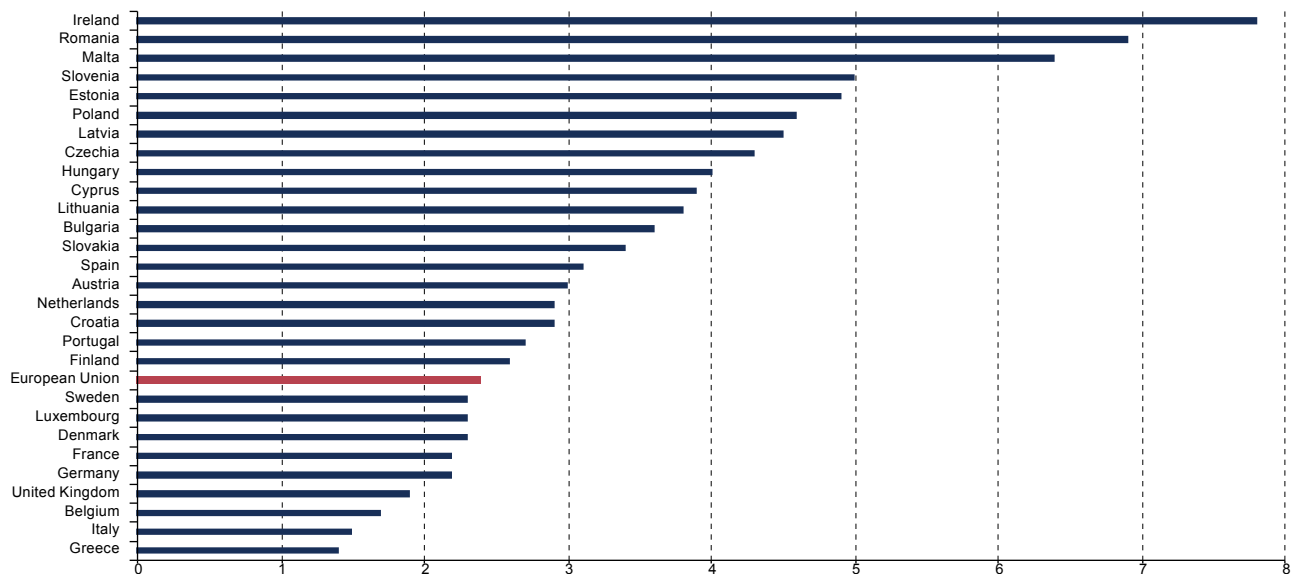
Latin America and the Caribbean and the European Union: projected GDP growth rates, 2017

(Percentages)

A. Latin America and the Caribbean



B. European Union



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf

■ Table II.2 ■

Latin America and the Caribbean and the European Union: economic growth rates, 2013-2018*(Percentages)*

	2013	2014	2015	2016	2017	2018 ^a
Latin America	2.9	1.2	-0.2	-0.8	1.2	1.5
Argentina	2.4	-2.5	2.7	-1.8	2.9	-0.3
Bolivia (Plurinational State of)	6.8	5.5	4.9	4.3	4.2	4.3
Brazil	3.0	0.5	-3.5	-3.5	1.0	1.6
Chile	4.0	1.8	2.3	1.3	1.5	3.9
Colombia	4.6	4.7	3.0	2.0	1.8	2.7
Costa Rica	2.3	3.5	3.6	4.2	3.2	3.3
Cuba	2.8	1.0	4.4	0.5	1.6	1.5
Dominican Republic	4.9	7.6	7.0	6.6	4.6	5.4
Ecuador	4.9	3.8	0.1	-1.6	3.0	1.5
El Salvador	2.4	2.0	2.4	2.6	2.3	2.4
Guatemala	3.7	4.2	4.1	3.1	2.8	2.9
Haiti	4.2	2.8	1.2	1.5	1.2	1.8
Honduras	2.8	3.1	3.8	3.8	4.8	3.9
Mexico	1.4	2.8	2.6	2.9	2.0	2.2
Nicaragua	4.9	4.8	4.8	4.7	4.9	0.5
Panama	9.6	5.1	5.6	5.0	5.4	5.2
Paraguay	14.0	4.7	3.0	4.0	4.8	4.4
Peru	5.9	2.4	3.3	4.0	2.5	3.6
Uruguay	4.6	3.2	0.4	1.7	2.7	3.0
Venezuela (Bolivarian Republic of)	1.3	-3.9	-5.7	-9.7	-13.0	-12.0
The Caribbean	0.9	0.7	1.1	-1.8	0.0	1.7
Antigua and Barbuda	-0.1	5.1	4.1	5.3	3.1	4.2
Bahamas	-0.4	-0.1	1.0	-1.7	1.4	2.5
Barbados	0.0	0.0	0.9	2.0	0.6	0.0
Belize	0.7	4.0	3.8	-0.5	0.7	2.6
Dominica	-0.6	4.4	-2.6	2.5	-9.5	-6.4
Grenada	2.4	7.3	6.4	3.7	5.1	3.5
Guyana	5.0	3.9	3.1	3.4	2.2	3.0
Jamaica	0.5	0.7	0.9	1.4	0.5	1.3
Saint Kitts and Nevis	5.5	6.1	2.1	2.2	1.3	2.4
Saint Lucia	-1.3	3.6	-0.9	3.4	3.8	2.1
Saint Vincent and the Grenadines	1.8	1.0	1.8	1.3	0.5	1.3
Suriname	2.9	0.3	-2.7	-5.1	1.5	2.7
Trinidad and Tobago	1.0	-0.3	1.5	-6.0	-2.3	1.5

Table II.2 (concluded)

	2013	2014	2015	2016	2017	2018 ^a
European Union	0.0	1.7	2.3	1.9	2.4	2.1
Austria	0.0	0.8	1.1	1.5	3.0	2.8
Belgium	0.2	1.3	1.4	1.4	1.7	1.7
Bulgaria	0.9	1.3	3.6	3.9	3.6	3.8
Croatia	-1.1	-0.1	2.4	3.5	2.9	2.6
Cyprus	-5.9	-1.4	2.0	3.4	3.9	3.6
Czechia	-0.5	2.7	5.3	2.5	4.3	3.0
Denmark	0.9	1.6	1.6	2.0	2.3	1.6
Estonia	1.9	2.9	1.7	2.1	4.9	3.5
Finland	-0.8	-0.6	0.1	2.1	2.6	2.8
France	0.6	1.0	1.1	1.2	2.2	1.7
Germany	0.5	1.9	1.7	1.9	2.2	1.9
Greece	-3.2	0.7	-0.3	-0.2	1.4	1.9
Hungary	2.1	4.2	3.4	2.2	4.0	4.0
Ireland	1.6	8.3	25.6	5.1	7.8	5.7
Italy	-1.7	0.1	1.0	0.9	1.5	1.3
Latvia	2.6	1.9	3.0	2.2	4.5	3.3
Lithuania	3.5	3.5	2.0	2.3	3.8	3.1
Luxembourg	3.7	5.8	2.9	3.1	2.3	3.5
Malta	4.6	8.1	9.6	5.2	6.4	5.4
Netherlands	-0.2	1.4	2.0	2.2	2.9	2.8
Poland	1.4	3.3	3.8	3.0	4.6	4.6
Portugal	-1.1	0.9	1.8	1.6	2.7	2.2
Romania	3.5	3.1	4.0	4.8	6.9	4.1
Slovakia	1.5	2.8	3.9	3.3	3.4	3.9
Slovenia	-1.1	3.0	2.3	3.1	5.0	4.4
Spain	-1.7	1.4	3.4	3.3	3.1	2.8
Sweden	1.2	2.6	4.5	3.2	2.3	2.4
United Kingdom	2.1	2.9	2.3	1.8	1.7	1.3

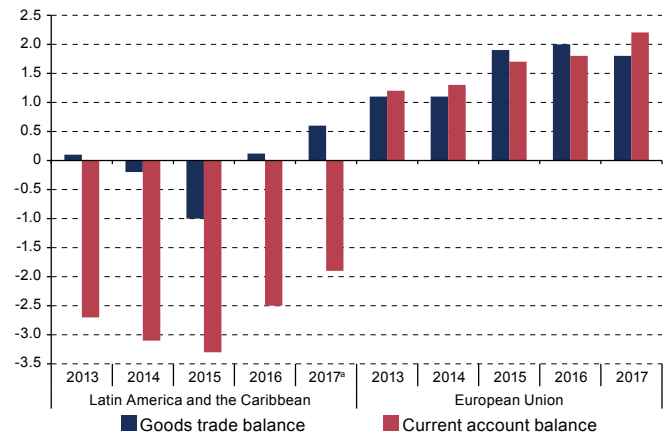
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

^a The figures for 2018 are projections.

6. In both regions, the balance-of-payments current account remains relatively stable, in a stronger growth context

- In the European Union, the current account balance is determined to a large extent by the goods balance. By contrast, in Latin America and the Caribbean, other components have a marked impact on the balance of payments, particularly the income deficit generated by payment of profits and interest, only partially offset by migrant remittance flows, which are concentrated in a certain group of countries.
- The prices of the main export products of Latin America and the Caribbean rallied in 2017, leading to a 4% increase in the region's terms of trade compared with the previous year, the first growth after five years of falls. The commodity-exporting countries of South America saw the biggest gain in 2017. In 2018, higher oil prices pushed up the terms of trade for the hydrocarbon-exporting countries by 13%. The exporters of mineral and agricultural products should see a slight upturn in the terms of trade, of around 3% and 2%, respectively. Lastly, terms of trade for the Central American and Caribbean countries will deteriorate by 2% and 3%, respectively.
- In recent years, the European Union has benefited from lower commodity prices and its terms of trade improved between 2013 and 2016. In that context, it posted a surplus of 1.8% of GDP on the balance-of-payments current account. In 2017, the bloc's terms of trade deteriorated for the first time since 2012, despite the fact that the appreciation of the euro nudged this surplus up slightly to 2.2% of GDP.

Figure II.5
Latin America and the Caribbean and the European Union: goods trade balance and balance-of-payments current account, 2013-2017
(Percentages of GDP)



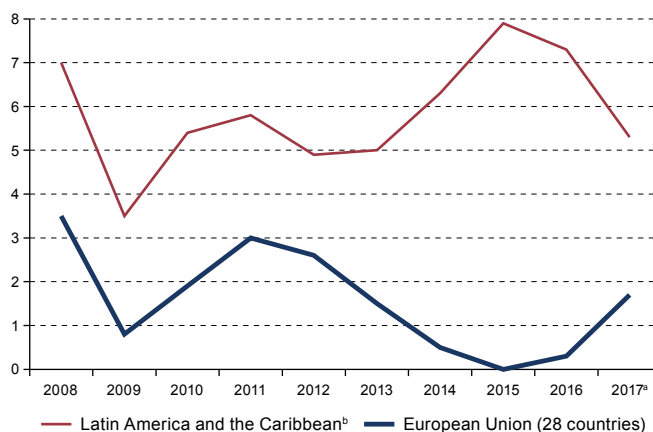
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

7. Inflation remains low in the European Union, while it has begun to fall in the countries of Latin America and the Caribbean

- The weighted average inflation figures of the countries of Latin America and the Caribbean continued on the upward trend begun in 2014 until mid-2016. At the regional level, inflation (excluding the Bolivarian Republic of Venezuela) peaked at 8.9% in June 2016. However, this trend was reversed mid-year and regional inflation began to fall, reaching 5.9% in June 2018, boosted by currency appreciation and more stable energy prices.
- However, the disparity between the inflationary pressures in the different subregions of Latin America and the Caribbean has increased. Between December 2016 and December 2017, inflation fell in South America (from 9.1% to 5.3%), but rose in the economies of Central America and Mexico (from 3.7% to 6.4%). Exchange rate movements and the performance of anti-inflationary policies were the most important factors behind this disparity. While currency appreciation has pushed down prices in the South American economies, in Central America and Mexico currency depreciation has helped to fuel inflation. Meanwhile, Argentina, Brazil and Colombia saw rapid falls in inflation thanks to disinflation policies.
- Inflation in the European Union has fallen steadily since 2011. However, prices began to rise in mid-2016, as a result of higher energy prices.
- In the eurozone, the European Central Bank maintained its accommodative monetary policy to strengthen the growth upturn and stimulate credit growth. Other central banks in the European Union, including the Bank of England, maintained their leading rates at historically low levels. In June 2018, inflation was 1.9%.

■ **Figure II.6 ■**
Latin America and the Caribbean and European Union: 12-month changes in the consumer price index (CPI), weighted averages, 2008-2017

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

^a Figures for 2017 are projections for the European Union and data to October for Latin America and the Caribbean.

^b Does not include the Bolivarian Republic of Venezuela.

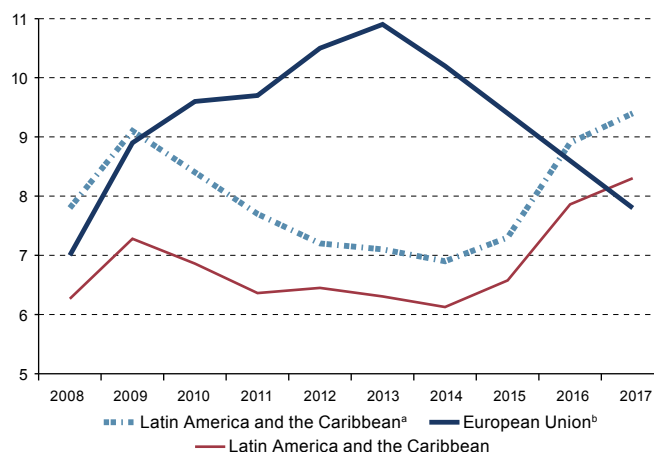
8. The labour market continued to deteriorate in Latin America and the Caribbean, while the European Union has seen gradual improvement

- The urban unemployment rate in Latin America and the Caribbean reached 9.3% in 2017, the worst figure since 2005, undoing the notable progress that was made during the 2000s and early 2010s. The rise in urban unemployment was due, among other factors, to persistently weak job creation, evidence of low economic growth and the resulting anaemic labour demand.
- Recently, labour market conditions deteriorated more or less across the board in Latin America and the Caribbean, although the size of the regional figure largely reflected weak job creation and steady increase in unemployment in Brazil.
- In addition, in recent years employment quality has taken a turn for the worse: amid weak wage employment generation, most of the new jobs are of a precarious nature, especially informal work and self-employment.
- National unemployment rates are often lower, owing to the fact that in many countries open unemployment in rural areas is not a relevant indicator in measuring the labour market issues. For 2016 specifically, the unemployment rate at the national level stood at 7.9%, and rose to 8.3% in 2017. Moreover, in most countries, real wages increased slightly, thanks to declining inflation.
- In the European Union, by contrast, the unemployment rate fell from 8.6% in 2016 to 7.6% in 2017, thanks to an increase in the employment rate, from 60.4% to 61.3%. In February 2018, the unemployment rate in the European Union reached its lowest level since September 2008. Despite falling significantly in the last four years, unemployment in the eurozone is still higher than it was before the economic and financial crisis.
- Thus, in 2017 the unemployment rate in the European Union fell below that of Latin America and the Caribbean for the first time in several years. However, in several countries, unemployment remains very high and in the European

Union as a whole the rates for specific groups —young people, people with low levels of formal education— still betray serious labour market issues.

- Although nominal wages are picking up pace in the European Union, higher inflation in 2017 will erode this rise in real terms. Indeed, while average real wages climbed by around 1% in 2015 and 2016, they are projected to edge up by just 0.4% in 2017, which will affect household consumption demand.

■ **Figure II.7** ■
Latin America and the Caribbean and European Union: unemployment rates, weighted average, 2008-2017
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, “European economic forecast, Summer 2018 (Interim)”, *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

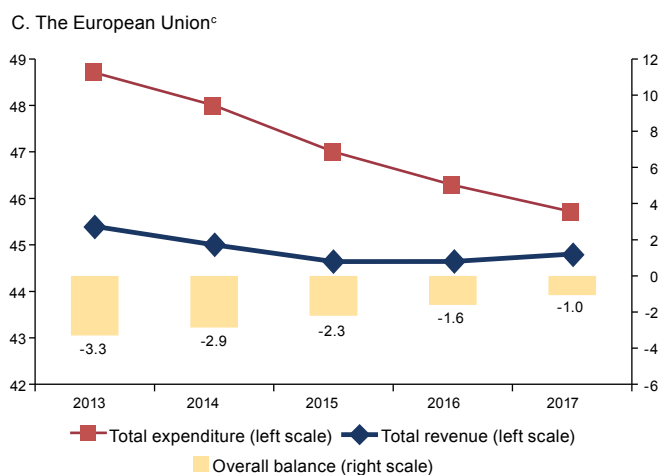
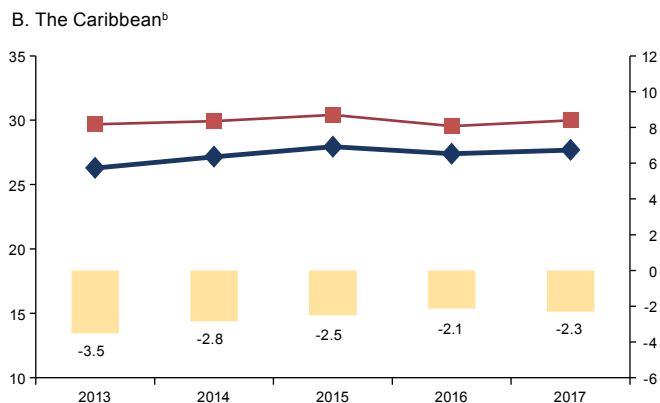
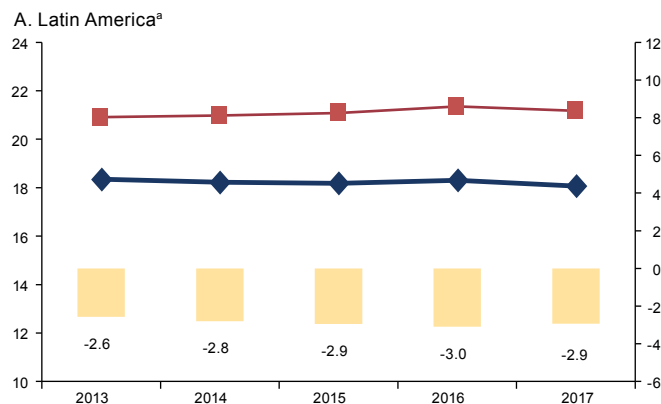
^a The series refers to the urban unemployment rate.

^b The series refers to the national unemployment rate.

9. Fiscal deficits remain manageable in both regions: relatively stable in Latin America and the Caribbean and declining in the European Union

- In the Latin American countries, the average fiscal deficit remained relatively stable at around 3.1% of GDP in 2016 and 2017. Despite this relative stability, the fiscal deficit is set to increase in 7 of the 17 Latin American countries included in the analysis. In particular, in the group comprising Central America, Mexico, Haiti and the Dominican Republic, the fiscal deficit completed a fourth consecutive year of significant reduction, from 2.1% to 1.9% of GDP. Conversely, in South America the fiscal deficit held steady in 2017, as several countries adopted fiscal consolidation measures.
- In the Caribbean, the fiscal deficit narrowed from 2.4% of GDP in 2016 to 2.1% of GDP in 2017. The primary balance remained in surplus, at 1.1% of GDP, reflecting the high cost of servicing public debt in this subregion. Total public spending came in at 27.8% of GDP in 2017, owing partly to governments' response to the devastation caused by hurricanes. Public revenues also improved, from 27.4% of GDP in 2016 to 27.7% in 2017.

■ **Figure II.8 ■**
Latin America and the Caribbean and the European Union:
central government fiscal indicators, 2013-2017
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Economic Survey of Latin America and the Caribbean 2018. Briefing paper*, Santiago, August 2018 [online] https://repositorio.cepal.org/bitstream/handle/11362/43965/121/S1800544_en.pdf; and European Commission, "European economic forecast, Summer 2018 (Interim)", *Institutional Paper*, No. 084, Luxembourg, July 2018 [online] https://ec.europa.eu/info/sites/info/files/economy-finance/ip084_en.pdf.

^a Simple average for 17 countries. Does not include Bolivarian Republic of Venezuela, Cuba or Plurinational State of Bolivia.

^b Simple average for 17 countries. Dominica is not included.

^c The data are weighted averages and correspond to general governments.

- In the European Union, the general government deficit fell from 2.3% of GDP in 2015 to 1.0% in 2017, as expenditure contracted from 47.0% to 45.8% of GDP, while revenues held relatively stable in GDP terms. The reduced spending was partly thanks to low interest rates, which had an impact on the fall in interest payments, which went from 2.2% to 2.0% of GDP. Automatic stabilizers also played a role, as the upturns in the labour market reduced social transfers. Similarly, gross central government debt should continue to edge down (from 86.1% of GDP in 2015 to 84.8% in 2016 and 83.1% in 2017).

10. High levels of tax evasion prevent Latin America's tax regimes from being as effective as they could be

- Latin America's persistent (overall and primary) fiscal deficits, combined with the growing burden of —albeit still moderate— public debt, have prompted several countries to take steps to consolidate their public accounts in order to safeguard their public debt sustainability in the medium and long term. Although the more recent measures have generally focused on public expenditure restraint, there is still room to increase the tax burden, which remains low in relation to the region's level of development.
- One of the hallmarks of tax regimes in Latin America is their low collection of direct taxes. This is especially true in the case of personal income tax, whose receipts averaged only 1.6% of GDP in Latin America in 2014, compared with 8.4% among the members of the Organization for Economic Cooperation and Development (OECD), with even higher averages in some European Union countries —Denmark (25.4%), Finland (13.3%), Belgium (12.6%), Sweden (12.5%), Italy (11.3%), Austria (10.6%) and Germany (9.9%). It therefore comes as no surprise that this tax is particularly weak as a tool of redistribution in Latin America. Conversely, the collection of taxes on goods and services is close to the levels among OECD countries.
- One of the main weaknesses of tax systems in the region is the high level of tax avoidance and evasion. It is estimated that the Latin American countries lose over 50% of potential earnings through personal income tax evasion. ECLAC estimates that non-payment of personal and corporate income tax amounts to 4.3% of GDP in the region. When this is added to evasion of value added tax (VAT), it is thought that the region lost US\$ 340 billion in revenue in 2015.
- Efforts to strengthen direct taxation and combat tax avoidance have become increasingly prominent on the regional agenda. In this regard, steps have been taken to strengthen tax administrations (for example, by introducing electronic invoicing) and to adapt tax frameworks to the new international good practices. Some countries are also participating in the automatic exchange of financial information, which would be useful for detecting tax evasion. A number of unreported asset regularization schemes have been rolled out —by Argentina, Brazil and Chile, for example— with results that have far exceeded the authorities' expectations.
- It is equally important to create a tax culture where evaders are effectively penalized and it is understood that tax revenues are the cornerstone of the basic financing of a modern State. Such information-sharing requires far-reaching transparency, not just in the tax administration but also in the institutions and systems where the most important public spending decisions are taken.

B. Social situation

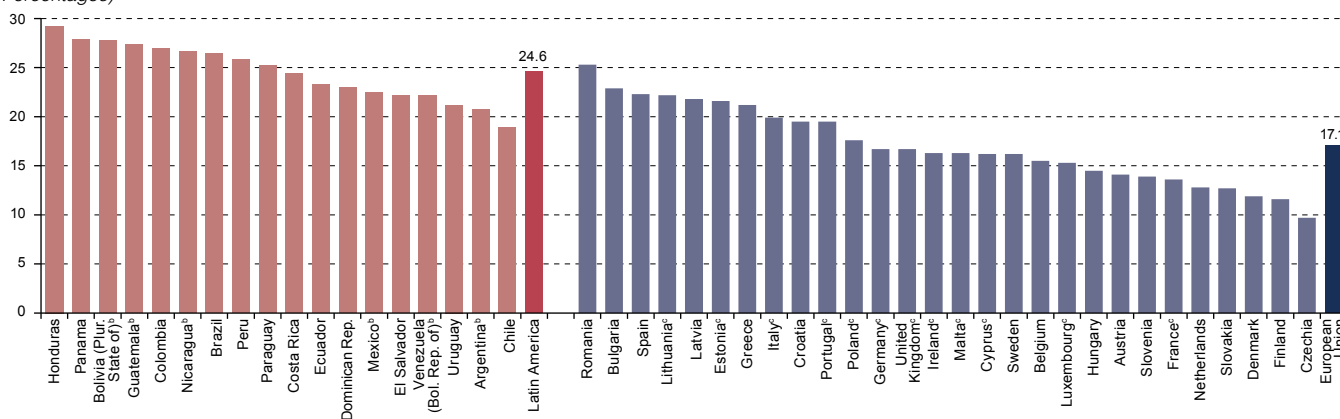
1. While relative poverty reduction is coming to a standstill in Latin America, it is picking up slightly in the European Union

- Poverty rates in Latin America have not changed significantly in recent years. Relative poverty fell in most countries between 2006 and 2015, although the decline has been much less marked since 2013. While the region is growing again after two years of contraction, the rate of economic growth for 2017 (1.2%) was low and accompanied by an increase in unemployment, which reached 9.4% in urban areas. In the European Union, the economic environment and increased migration flows have contributed to a trend in the opposite direction: a slight (1 percentage point) increase in relative poverty rates over the past decade.
- While the relative poverty gap between the two regions has narrowed, there is still a difference of more than seven percentage points. Furthermore, the incidence of relative poverty in all countries in Latin America is higher than the European average. Chile is the country in the region with the lowest relative poverty rate: 19%, two percentage points above the European average. Nevertheless, there are countries in the European Union—such as Romania, Bulgaria, Spain and Lithuania—in which the incidence of relative poverty is close to the Latin American average (nearly 24%).

■ Figure II.10 ■

European Union (28 countries) and Latin America (18 countries): incidence of relative poverty, 2015-2016^a

(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 Calculated on the basis of equivalent per capita income (modified Organization for Economic Cooperation and Development (OECD) scale), below 60% of the national median income.

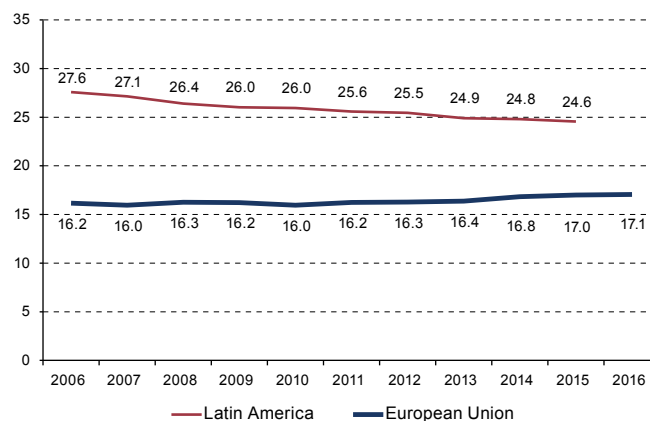
^b The data for Argentina, the Bolivarian Republic of Venezuela(l), Guatemala, Mexico and the Plurinational State of Bolivia are for 2014, and those for Nicaragua are for 2009.

^c Data corresponding to 2015.

■ Figure II.9 ■

European Union (28 countries) and Latin America (18 countries): incidence of relative poverty, 2006-2016^a

(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.

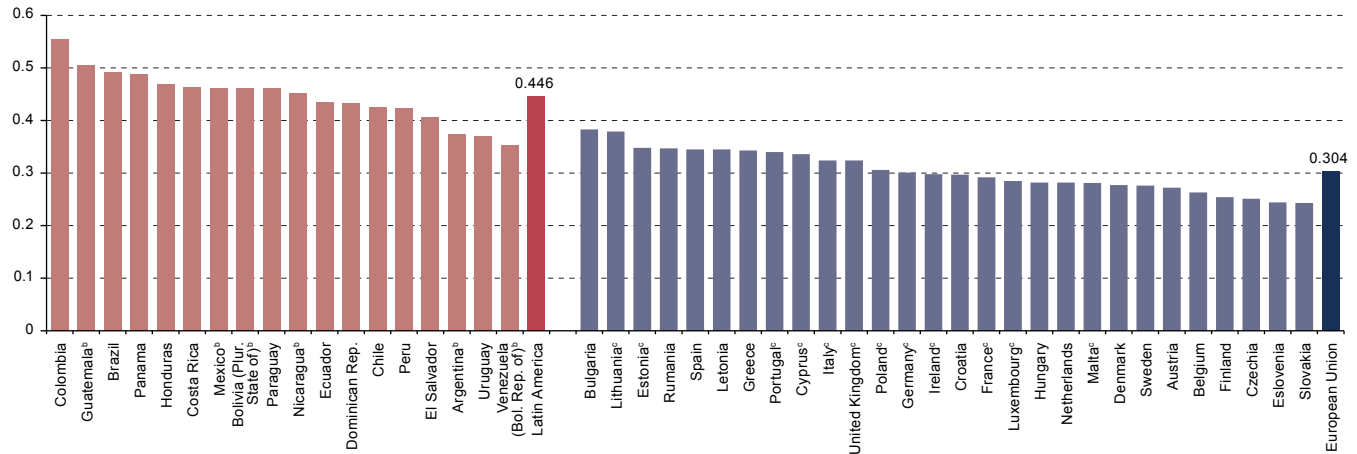
^a Calculated on the basis of equivalent per capita income (modified Organization for Economic Cooperation and Development (OECD) scale), below 60% of the national median income.

2. Slight improvements have been maintained in personal income distribution and in functional income distribution

- On average and in aggregate terms, inequality in personal income distribution has been decreasing in Latin America. According to the latest data available, the Gini coefficient for the region in 2015 and 2016 averaged 0.446. However, there are still considerable disparities between countries: with Colombia and Guatemala at one end of the scale with a coefficient of over 0.500 and Uruguay, Argentina and the Bolivarian Republic of Venezuela at the other end with under 0.400, with the other countries of the region between those two values.
- In the European Union, on the other hand, there is less income inequality. The Gini coefficient averaged 0.34 in 2015 and 2016 and varied much less among countries than in Latin America. The countries with the highest levels of inequality are Bulgaria and Lithuania, with an average Gini coefficient of 0.38, i.e. below the average for Latin America.
- In addition to the decrease in the Gini coefficient in Latin America, the wage share of GDP has also risen in most countries since 2006, with the exception of Guatemala, Mexico, Panama and the Plurinational State of Bolivia, where the negative trend in functional income distribution seen since the beginning of the decade continued.
- At the aggregate level, differences in wages' share of GDP between countries or changes in that ratio over time within one country may stem from both how value added is distributed between labour and capital in the various economic sectors and changes in the relative share of value added from one sector to another.

■ Figure II.11 ■

European Union (28 countries) and Latin America (18 countries): Gini coefficient, around 2015-2016^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries, and Eurostat.

^a Calculated on the basis of equivalent per capita income (modified Organization for Economic Cooperation and Development (OECD) scale), below 60% of the national median income.

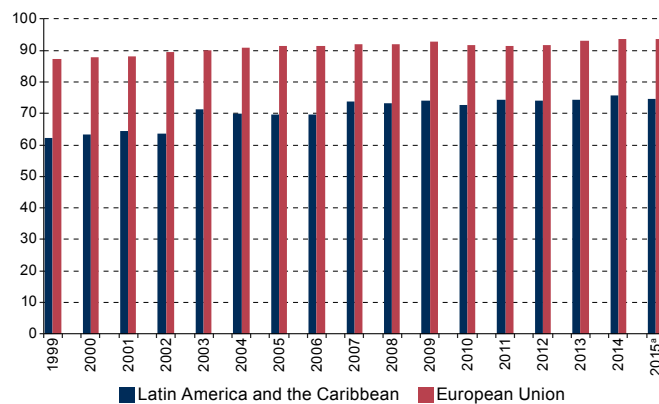
^b The data for Argentina, the Bolivarian Republic of Venezuela, Guatemala, Mexico and the Plurinational State of Bolivia are for 2014, and those for Nicaragua are for 2009.

^c Data corresponding to 2015.

3. In recent years, thanks to expanded secondary education coverage, Latin America has been closing capacity-building gaps with the European Union

- Knowledge production and generation have become key factors in the global economy in recent decades and in the changes brought about by the ongoing technological revolution. Education has thus become a pillar of sustainable development. Individuals who have completed more years of education increase their ability to contribute more to a country's productive development, and do so in a more diversified and efficient manner. That in turn is a prerequisite for long-term sustainable growth, insofar as it calls for structural changes in the production matrix, constant incorporation of knowledge and innovation and sectoral selectivity with a high value-added component, all of which require better trained human resources, with skills that need to be enhanced and upgraded.
- Primary education coverage is almost universal in Latin America and the Caribbean and the European Union. However, significant gaps persist with respect to secondary and tertiary education. Latin America and the Caribbean increased net enrolment in secondary education from 60% in 1999 to 74.5% in 2015. While net enrolment is higher in European Union countries (approximately 90%), the gap has narrowed by 6 percentage points in the past 15 years.
- The regional averages nevertheless disguise gaps within each region. In Latin America, Guatemala and Honduras have the lowest secondary education enrolment rates (only 48% and 49%, respectively). The situation is different in the European Union, where the lowest net enrolment rates are found in Romania (83.9%), Bulgaria (88.3%) and Malta (88.8%). As for the highest rates, in Latin America and the Caribbean, only Chile (with 88%) is close to achieving 90% net enrolment. In the European Union, the countries that come closest to achieving 100% enrolment are Latvia (98.3%) and Lithuania (98%).

■ **Figure II.12 ■**
Latin America and the Caribbean (20 countries) and European Union (17 countries): net enrolment in secondary education, both sexes, 2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistical information from the United Nations Educational, Scientific and Cultural Organization (UNESCO).

* Simple average.

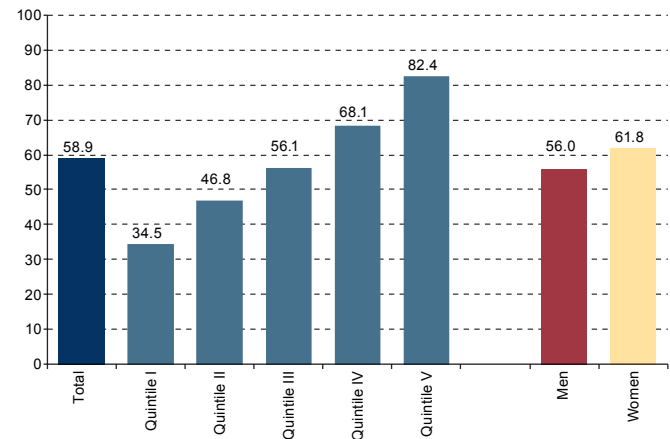
4. In Latin America, inequality is an obstacle to the greater capacity-building needed to jump-start development

- The progress made in educational coverage conceals both major gaps among countries in the region and significant gaps within them. A multidimensional approach is needed to analyse this inequality, taking into consideration the various structural factors that give rise to it in this region. The inequality produced and reproduced by the production structure spreads to and is reinforced in labour and social relations and becomes intertwined, in a variety of ways, with gender relations, ethnic and racial relations, relationships throughout the life cycle and territorial inequalities.
- Increasingly, secondary education is becoming a minimum prerequisite for triggering the productivity increases required for sustainable growth and to mitigate the intergenerational transmission of inequality and exclusion: a step that is vital for moving toward societies with greater social cohesion. Educational gaps have a bearing not just on a country's relative level of development; some internal inequalities, including the level of household income, hamper achievements within each country. The stratification and income inequality so prevalent in the region is reproduced in educational systems. While more than 80% of the population aged 20 to 24 in the highest income quintile complete secondary education, only 34.5% of those in the lowest income quintile do so. Inequalities by geographic area and ethnic and racial origin are also more marked at the secondary education level.

■ **Figure II.13 ■**

Latin America (18 countries): completion of secondary education in the population aged 20 to 24, by income quintile and sex, around 2015

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household surveys of the respective countries.

5. Young people are having a harder time entering the labour market

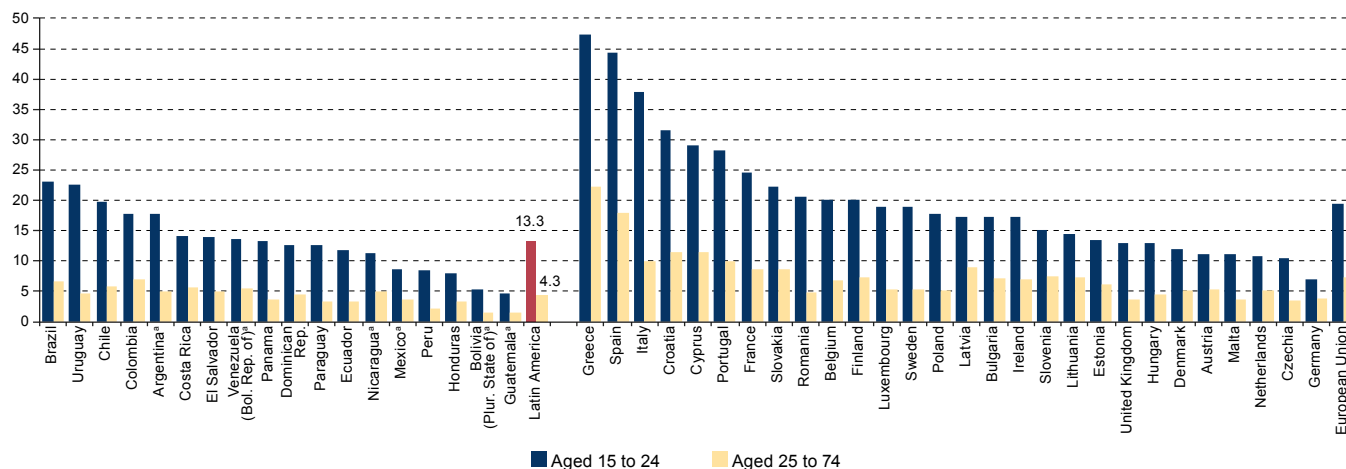
- Job opportunities for young people constitute a pillar of social and economic inclusion. Paid work is the principal—if not the only—way to ensure financial and personal independence. Young people therefore seek high quality job opportunities that will enable them to participate fully in community and productive development and to enhance their personal well-being and development. The progress made in education has not translated into comparable improvements in the job market, where gaps persist with respect to the adult population.
- Youth unemployment is higher than that of adults and persons aged 65 and over, and significantly higher among

vulnerable populations. European Union countries face even greater unemployment challenges, for both adults and young people, than those besetting Latin America. Furthermore, the disparity among young people is also higher in the European Union (12 percentage points) than in Latin America (9 percentage points). However, this issue must also be examined in relation to the differences in social protection frameworks between the two regions, given that the unemployed in the European Union have better social protection benefits than those in Latin America that enable them to enjoy a guaranteed minimum standard of living while they deal with the situation.

■ Figure II.14 ■

Latin America (18 countries) and European Union (28 countries): unemployment rates for youth (aged 15 to 24) and adults (aged 25 to 74), around 2015-2016

(Percentages)



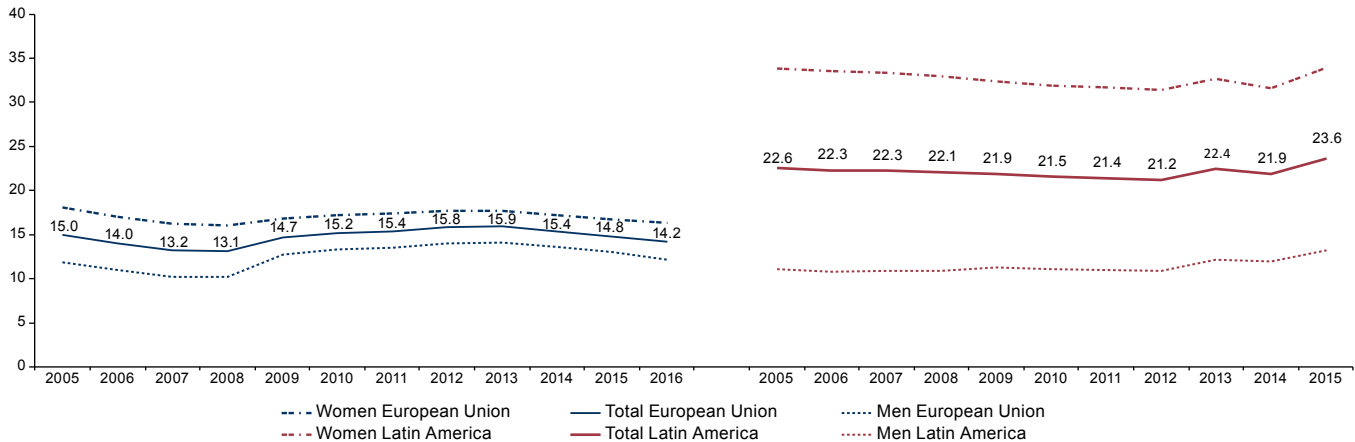
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household surveys of the respective countries and Eurostat.

^a The data for Argentina, the Bolivarian Republic of Venezuela, Guatemala, Mexico and the Plurinational State of Bolivia are for 2014, and those for Nicaragua are for 2009.

6. More young people are excluded from the labour market and from education in Latin America, mainly as a result of women's status

- The education system and the labour market are the two main avenues for social inclusion. Yet a large percentage of young people are not in employment or education. That percentage is higher for young people in Latin America and it has increased slightly in recent years to nearly 24% of the population aged 15 to 29. In Europe, it has remained between 14% and 15% for the past 10 years. This difference between the two regions is largely explained by the relative lack of inclusion of young women in Latin America. The average percentages of young men who are not in employment or education (around 13%) and trends in that regard are similar in the two regions. By contrast, the average for young women in the same situation in Latin America is 17.6 percentage points higher than the average for young women in the European Union.
- On the one hand, these differences reflect the discriminatory effects of Latin American labour markets in terms of equitable job opportunities and wages for men and women. At the same time, however, there is evidence that many young Latin Americans who are not in employment or education actually do unpaid domestic and caregiver work, and that most of them are women. According to certain social norms and expectations that persist in this region, women are responsible for domestic chores, which precludes them from participating in the labour market or benefiting from an education.

■ **Figure II.15** ■
Latin America (18 countries) and European Union (28 countries): young people aged between 15 and 29 who are neither studying nor in paid work, 2005-2016
(Percentages)



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

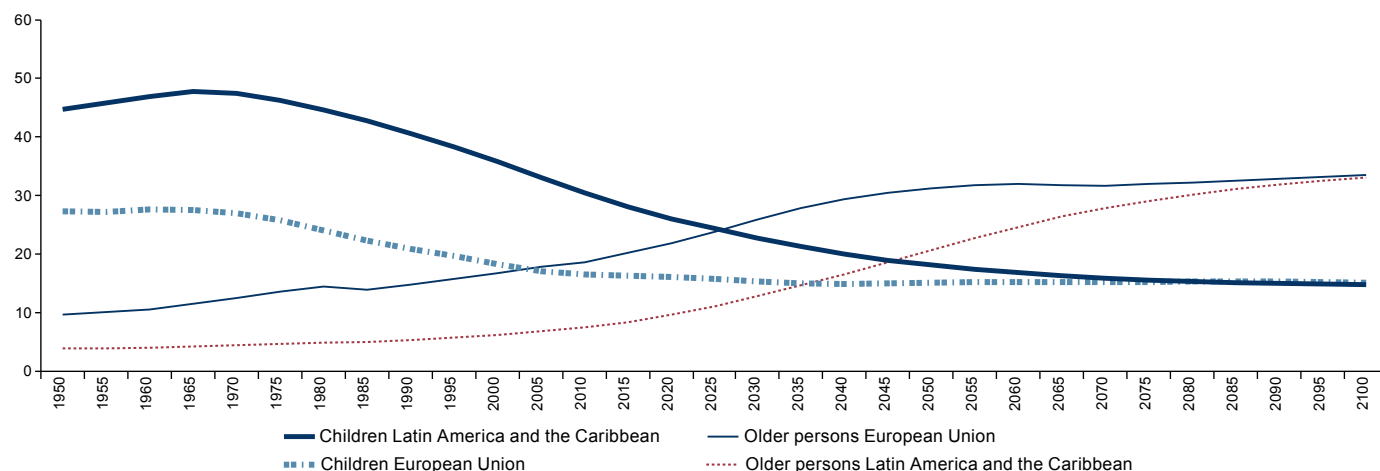
7. The demographic structure of Latin America has changed significantly bringing the age-group distribution closer to the current pattern found in the European Union

- Changes in the structure of the population, sociocultural and technological transformations, the functioning of labour markets, gender inequalities, and the characteristics and shortcomings of social protection systems, among other factors, have altered intergenerational well-being gaps. These factors are also transforming the needs, opportunities and overall experience of population cohorts at each stage of the life cycle, which in turn has an impact on social inequalities. Old age, youth or early childhood are experienced differently today, compared to 50 years ago.
- The social and economic impact associated with different age groups in the population undoubtedly varies depending on their productive contributions and the pressure they are under to consume. As a result of the sharp decline in fertility rates, combined with improved life expectancy, the age structure of the Latin American population has undergone a sea change, following the trends seen in the European Union. By the start of the twenty-first century, the demographic transition in the European Union had already shifted the dependency ratio to one in which the elderly account for more of the social burden than children. The same pattern will emerge in Latin America as of 2045.

■ Figure II.16 ■

Latin America and the Caribbean (37 countries and territories) and European Union (28 countries): children aged 0 to 14 and older persons aged over 65

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nation, *World Population Prospects: The 2017 Revision*, June 2017.

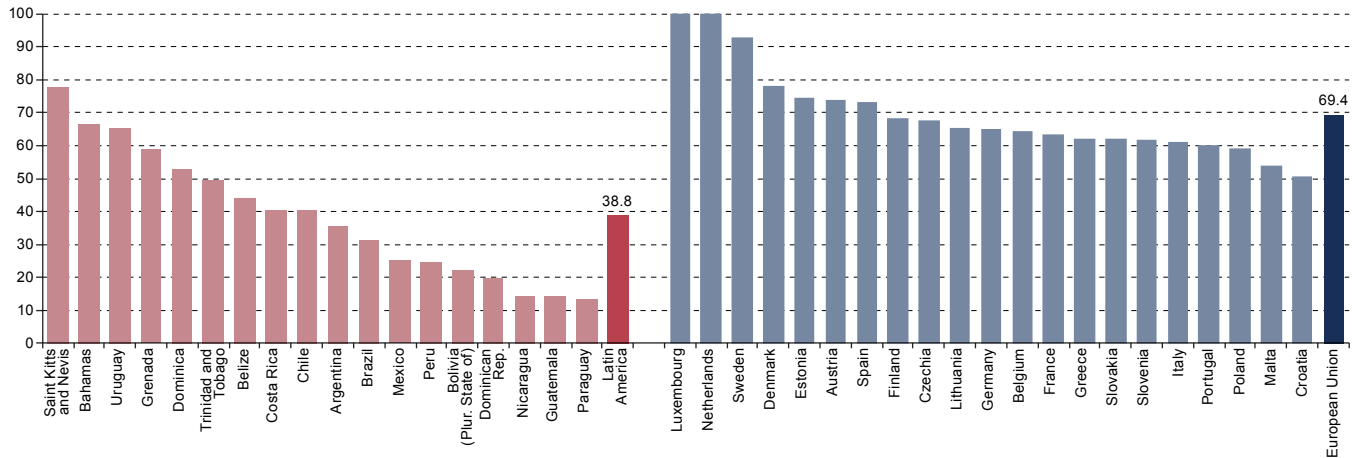
8. Demographic changes have a major impact on social protection systems and Latin America is facing these challenges with low pensions and health-care coverage

- Latin America and the Caribbean is undergoing far-reaching demographic change, in which older persons not only constitute a higher percentage of the population but also live longer. It will be a huge challenge to convert those achievements into effective and universal access to adequate levels of well-being, self-fulfilment, enjoyment of rights and an active social life for the population as a whole.
- The upturn in the labour market in recent decades, in terms of lower unemployment rates and the expansion of employment and formalization, has spurred affiliation to social protection systems (health care and pensions) in Latin America.
- Even so, access to social protection systems in Latin America is highly stratified and unequal, and coverage is significantly lower than in the European Union, where at least 50% of the population of all the countries pay regularly into a contributory pension system and the average coverage rate for the European Union as a whole is almost 70%. By contrast, the average coverage rate in Latin America is less than 40% of the working-age population, which means that its systems will not be able to cope with a larger number of older adults, who will be dependent for longer periods of time.

■ Figure II.17 ■

Latin America and the Caribbean (18 countries and territories) and European Union (21 countries): percentage of the working-age population enrolled in a contributory pension system

(Percentages)



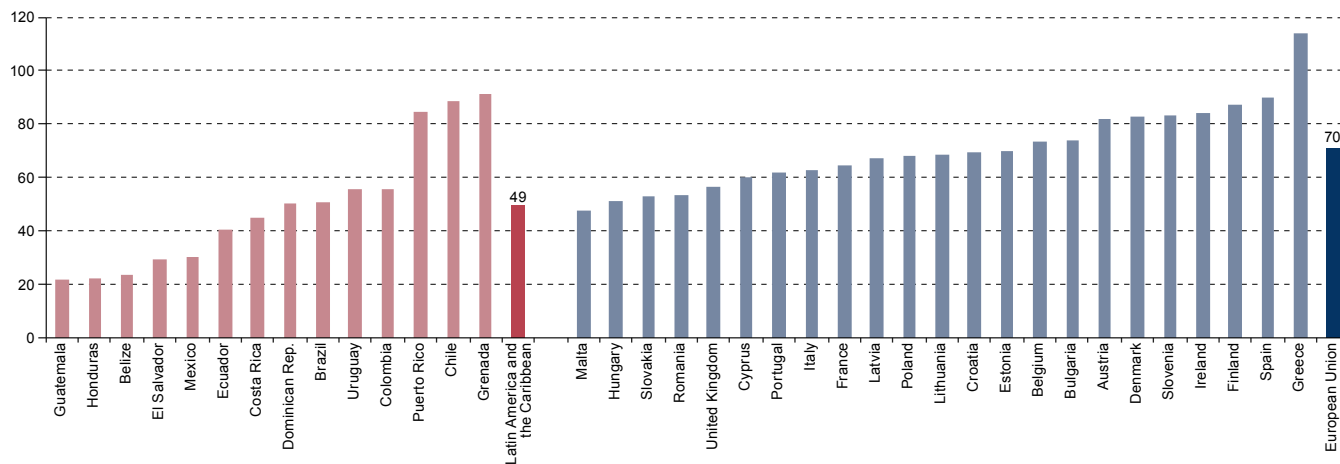
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), "Social Protection. Building social protection floors and comprehensive social security systems" [online] <http://www.social-protection.org/gimi/gess/ShowSearchIndicators.action>.

9. The technological revolution requires a highly qualified population. In this respect, Latin America lags far behind the European Union

- The technological revolution induces changes not just in production and consumption systems, but also in the manner in which social relations are established. Those changes oblige the population to develop a series of skills and capacities that will enable it to join the digital revolution under way.
- The share of the population with access to higher education in Latin America is far smaller than in the European Union. In almost all European countries, the gross tertiary education enrolment rate exceeds 50%. In Latin American and the Caribbean the same can be said for only half the countries for which information is available.
- In both Latin American and European Union countries, the main difference between men's and women's academic preferences is found in science, given the social recognition and economic rewards associated with a degree in this field. This has clear implications for jobs and salaries and partly explains the gender wage gap.

■ **Figure II.18** ■

Latin America and the Caribbean (14 countries and territories) and European Union (23 countries): gross enrolment rate in tertiary education (Percentages)

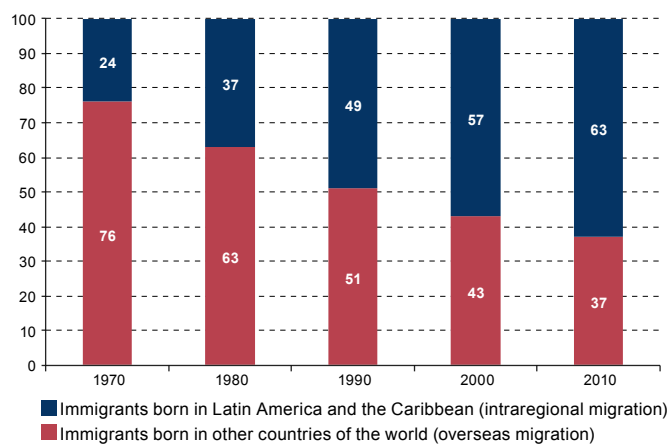


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistical information from the United Nations Educational, Scientific and Cultural Organization (UNESCO).

10. Europe receives the bulk of global migration flows, while intraregional migration flows have risen in Latin America

- Between 1990 and 2013, the share of international migrants in the world's population increased from 2.9% to 3.2%. In 2013, international migrants accounted for 10.8% of the total population in industrialized countries and for only 1.6% of the population in developing regions. Migration increased sharply in the 2000s, bringing some 4.6 million migrants a year mainly to developed economies. In 2013, 232 million international migrants were registered, with two thirds of them concentrated in Europe (72 million) and Asia (71 million). The next most important destinations were North America (53 million), Africa (19 million), Latin America and the Caribbean (9 million) and Oceania (8 million).
- In Latin America and the Caribbean, migration flows to destinations outside the region appear to be slowing. Several factors explain this trend, including, most notably, the impact of the crisis on labour markets and wages, together with fiscal cutbacks, specific directives on access to territories, and a series of difficulties facing immigrants who are already settled. Within the region, the share of immigrants in the native population is roughly homogeneous from one subregion to another, ranging between 0.9% and 2.8%. With regard to emigrants, however, there are marked differences from one subregion to another, with the Caribbean and Central America exhibiting the highest shares of emigrants in relation to the size of the native population (11.1% and 10.2%, respectively).

■ **Figure II.19** ■
Latin America and the Caribbean: share of immigrants in the population, by origin, 1970-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Martínez Pizarro, V. Cano and M. Soffia, "Tendencias y patrones de la migración latinoamericana y caribeña hacia 2010 y desafíos para una agenda regional", *Población y Desarrollo series*, No. 109 (LC/L.3914), Santiago, 2014.

11. Remittance flows have continued to grow, driven by economic recovery in Europe and the United States

- Remittances from workers living abroad make an important contribution to household consumption in many Latin American economies. Remittance flows have recorded positive rates of growth in recent years, with the exception of 2009 when they fell as a result of the international financial crisis. While the current transfers balance —comprised mainly of migrants' remittance flows— accounted, on average, for 1.5% of GDP in Latin America in 2016, in the case of Central America it represented nearly 8% of GDP.
- The United States is the main country of origin of the remittances received by most Latin American countries. The exceptions are the Plurinational State of Bolivia and Paraguay, which receive most of their remittances from Spain.

■ Table II.3 ■

Latin America: current transfers in 2016 (Percentages of GDP)

Argentina	0
Bolivia (Plurinational State of)	4
Brazil	0
Chile	1
Colombia	2
Costa Rica	1
Dominican Republic	7
Ecuador	3
El Salvador	17
Guatemala	12
Haiti	31
Honduras	18
Mexico	3
Nicaragua	12
Panama	0
Paraguay	3
Peru	2
Uruguay	0
Venezuela (Bolivarian Republic of)	0
Latin America	1
South America	1
MERCOSUR	0
Mineral exporters (Chile and Peru)	1
Hydrocarbon-exporting countries (Bolivia (Plurinational State of), Colombia, Ecuador and Venezuela (Bolivarian Republic of))	1
Central America, Haiti and the Dominican Republic	8
Agribusiness-product-exporting (Argentina, Paraguay and Uruguay)	0
Other financially integrated countries (Brazil, Colombia and Mexico)	1

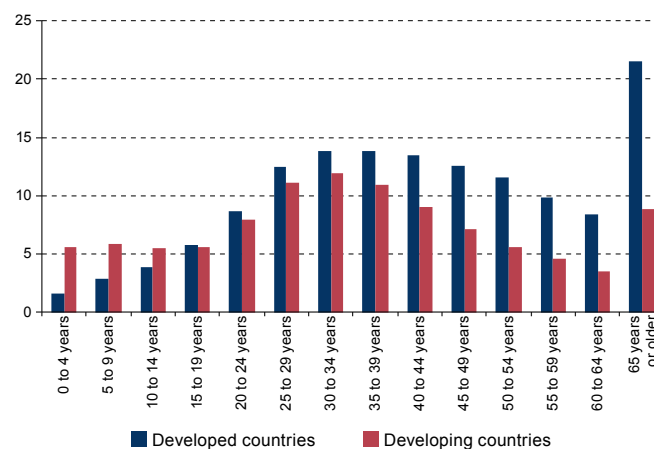
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

12. Most migration flows involve people of working age, which poses challenges for social security systems

- In 2015, three quarters of all international migrants were aged between 20 and 64. The majority (60%) of the 177 million working-age international migrants resided in developed countries. That percentage remained fairly constant between 2000 and 2015. During that same period, the number of working-age migrants in developing economies increased by 57% (from 46 million to 72 million), while the increase in industrialized countries was 36% (from 77 million to 105 million).
- Regardless of whether they are forced to migrate or do so of their own volition, whether they are in transit or have already arrived at their destination, and irrespective of their immigration status, migrants have rights that must be respected in several priority areas. These include access to legal identity, decent work, health care, education and housing, other care services and financial inclusion. These large flows of people will undoubtedly put a strain on social protection systems.
- In Latin America, immigrant workers exhibit higher levels of informality than their native peers. Furthermore, if one compares social security system coverage rates for men and women, it transpires that the gap between migrants and the native population is wider for female migrants.

■ **Figure II.20 ■**
Developed and developing countries: age distribution of international migrants, 2015

(Millions)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, “International Migration. Monitoring global population trends” [online] <http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates15.shtml>.

C. The environmental situation

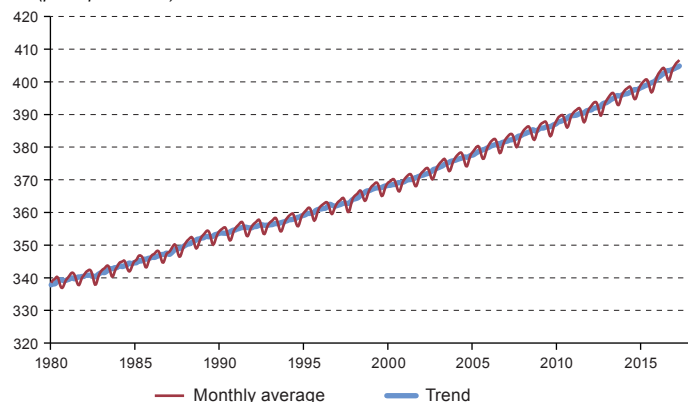
1. The manifestations of climate change are a matter of increasing concern

- Greenhouse gas emissions from human activities have increased continuously since the pre-industrial era. As a result, the concentration of CO₂ in the atmosphere has grown from approximately 280 ppm (parts per million) to 407 ppm, the highest levels for at least the past 800,000 years. This increase is the root cause behind the rise in global temperatures.
- 2016 was the hottest year on record since 1880, when temperatures began to be recorded in accordance with modern standards. The temperature in 2016 was approximately 1°C above the average for 1951-1980, which means that 16 of the 17 hottest years on record have occurred since 2001.
- Sea levels have also risen. Satellite measurements taken since 1993 show a rise of 86 mm at a rate of 3.4 mm per year. In addition, the Arctic sea ice area has shrunk: a development that will over time translate into further rises in sea levels.
- Geographic, economic and social conditions in Latin America and the Caribbean render it particularly vulnerable to the effects of climate change.

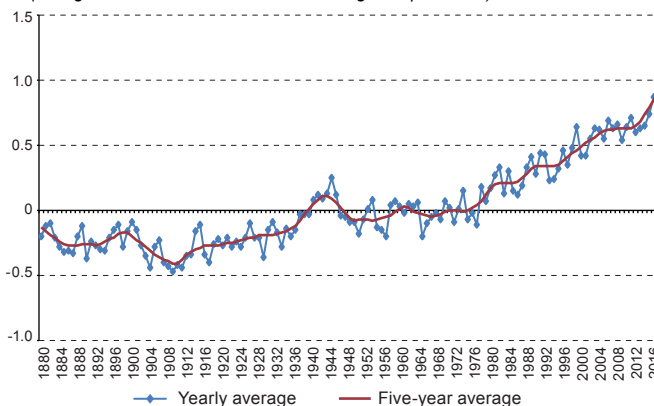
■ Figure II.21 ■

Origin and effects of climate change

A. Concentration of CO₂ in the global atmosphere, monthly average, 1980-2017 (parts per million)



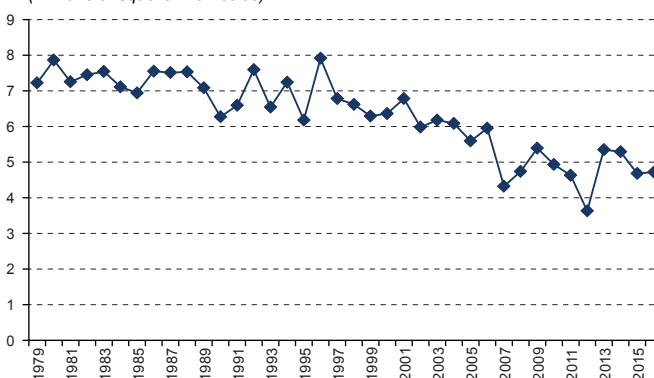
B. Global land-ocean temperature index, 1880-2016 (change in °C relative to 1951-1980 average temperatures)



C. Changes in average sea level, 1993-2017 (millimetres)



D. Arctic sea ice extent as of September, 1979-2016 (millions of square kilometres)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of National Oceanic and Atmospheric Administration (NOAA), Earth System Research Laboratory [online] www.esrl.noaa.gov/gmd/ccgg/trends/; Goddard Institute for Space Studies and National Snow and Ice Data Center (NSIDC).

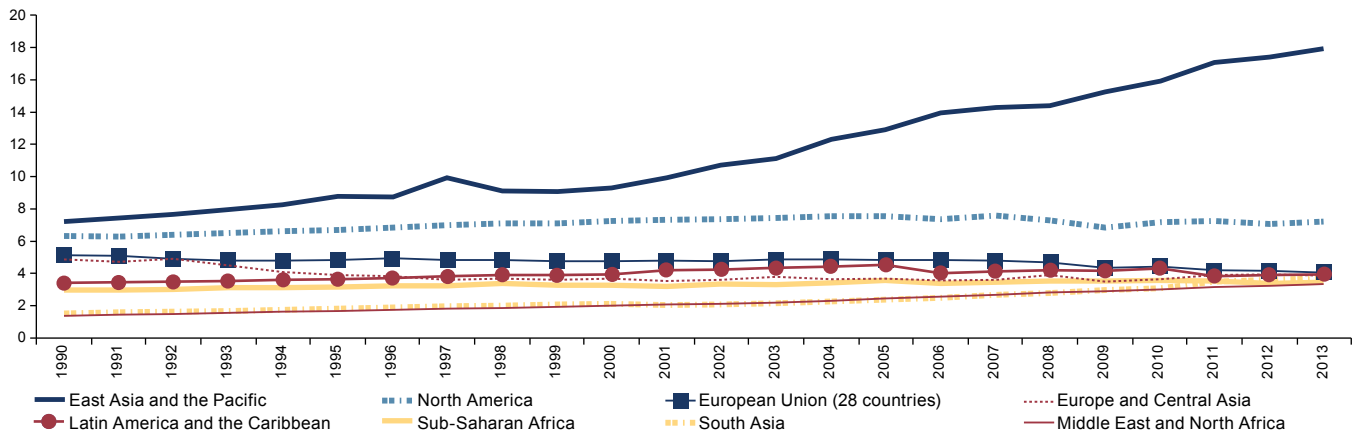
2. Greenhouse gas emissions, causing global warming, are still increasing

- Global emissions continue to increase, making it difficult to attain the target of holding increases in global temperature below 2°C above pre-industrial levels. In 2013, global greenhouse gas emissions reached 45.4 gigatons of CO₂ equivalent (GtCO₂e).
- Currently, the European Union and Latin America and the Caribbean have the same level of emissions (~4 GtCO₂e). While emissions from Latin America and the Caribbean have remained constant, emissions from the European Union have declined significantly over the past 30 years.
- A considerable portion of the increase in emissions is due to growth in the East Asia and Pacific region, particularly economies such as China and India. Growth in emerging regions is projected to continue, surpassing growth in the developed economies, so that the former's share of emissions will continue to increase.
- Both the European Union and Latin America and the Caribbean have reduced their share of total global emissions. In 1990, the European Union accounted for 16% of them and Latin America and the Caribbean for 10%. Today, these shares have fallen to close to 8% for both regions. This is due, among other factors, to the mitigation policies pursued in the European Union and a decline in deforestation in Latin America and the Caribbean.

■ Figure II.22 ■

Greenhouse gas emissions, by region, 1990-2013

(Gigatons of CO₂ equivalent)

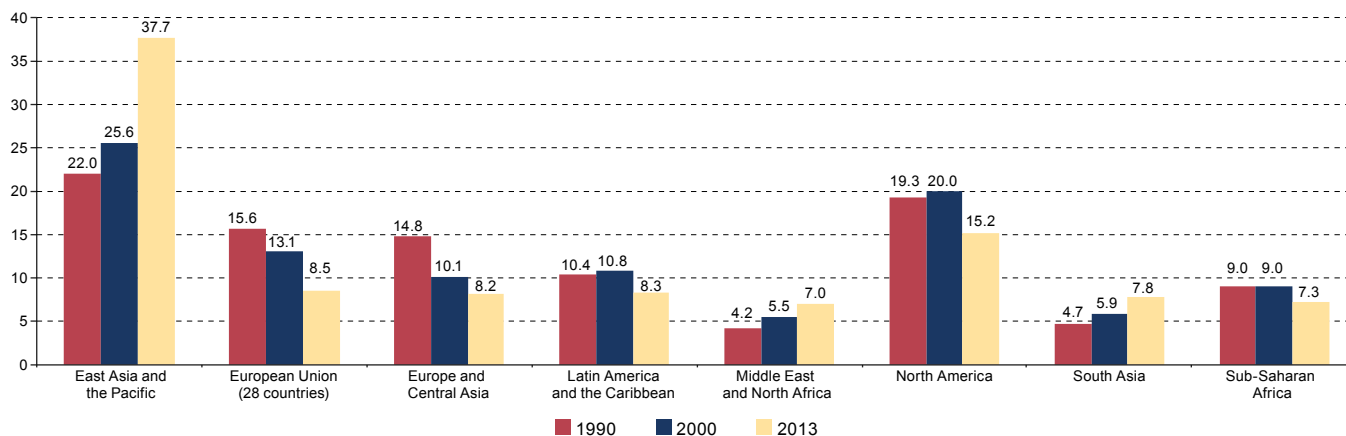


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Resources Institute (WRI), "CAIT 2.0. WRI's Climate Data Explorer," Washington, D.C., 2014 [online] <http://cait2.wri.org>.

■ **Figure II.23** ■

Regional shares of global greenhouse gas emissions, 1990, 2000 and 2013

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Resources Institute (WRI), “CAIT 2.0. WRI’s Climate Data Explorer,” Washington, D.C., 2014 [online] <http://cait2.wri.org>.

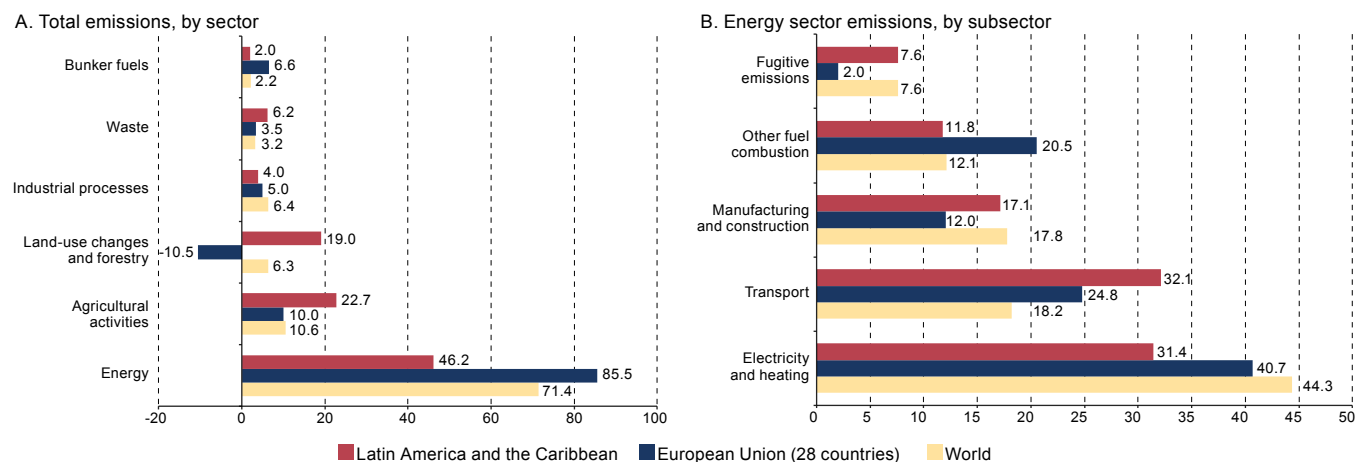
3. The energy sector accounts for most of the emissions in both the European Union and Latin America and the Caribbean

- The energy sector is the main source of global greenhouse gas emissions. Emissions from that sector —electricity and heating, manufacturing and construction, and other sectors— account for almost three quarters of total global emissions today.
- In the European Union, the energy sector’s share of the total is 86%. The energy sector is therefore one of the key areas for mitigation policies. In particular, electricity generation and heating account for 40% of the sector’s emissions.
- In Latin America and the Caribbean, the energy sector is the biggest polluter, accounting for 46% of total emissions, with fuel consumption for transport the principal source. That is why this sector is one of the major drivers of emissions in the region.
- Agricultural activities, changes in land use and forestry in Latin America and the Caribbean still produce a significant amount of the region’s emissions (42%). However, policies to reduce deforestation have significantly reduced emissions.

■ Figure II.24 ■

Latin America and the Caribbean and China: greenhouse gas emissions, by sector, 2013

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Resources Institute (WRI), "CAIT 2.0. WRI's Climate Data Explorer," Washington, D.C., 2014 [online] <http://cait2.wri.org>.

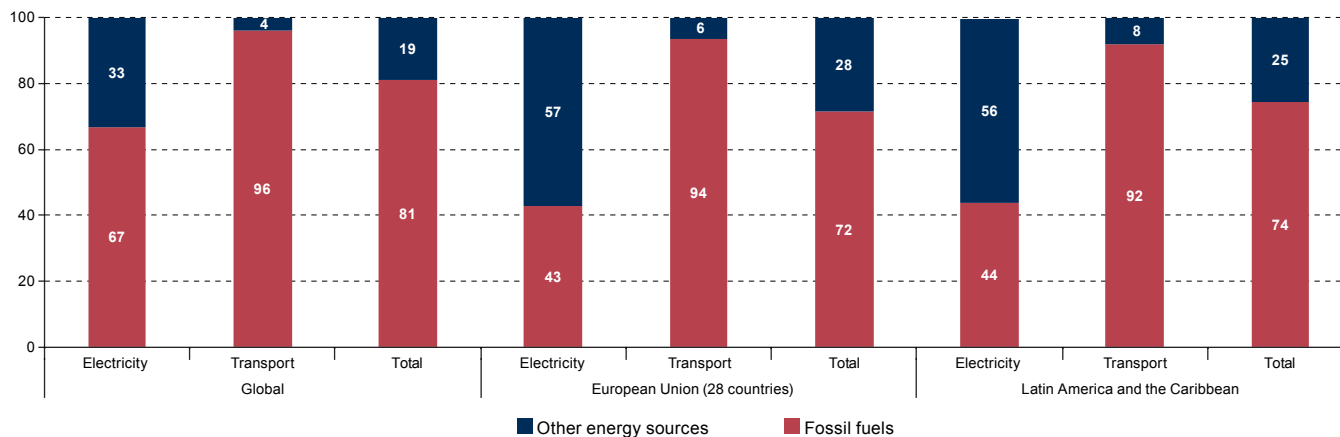
4. Within the energy sector, generating electricity and energy for transport is vital for achieving a transition to low-carbon economies.

- The share of fossil fuels (coal, oil and natural gas) in the energy matrix determines to a large extent the amount of greenhouse gas emissions. That share is currently similar in Latin America and the Caribbean and the European Union with respect to both the generation of electricity and fuel for transport and the matrix as a whole, which is less than the global average.
- More than 90% of the energy used for transport comes from fossil fuels, both globally and in both regions. The transition to new energy sources will therefore require a huge effort, particularly given the increased pace of motorization worldwide.
- North America (Canada and the United States) is currently the region with the highest motorization rate in the world (806 vehicles per 1,000 inhabitants), followed by the European Union (577 vehicles per 1,000 inhabitants). The motorization rate in Latin America and the Caribbean is approximately one third of the European Union rate and a quarter of the rate in North America.
- Nevertheless, the motorization rate in the emerging regions increased sharply between 2005 and 2015: by 120% in South Asia, 88% in the East Asia and Pacific region and 61% in Latin America and the Caribbean. This has significant implications for the generation of greenhouse gases and other pollutants in those regions.

■ **Figure II.25** ■

Share of fossil fuels in the energy matrix: electricity, transport and total, 2014

(Percentages)

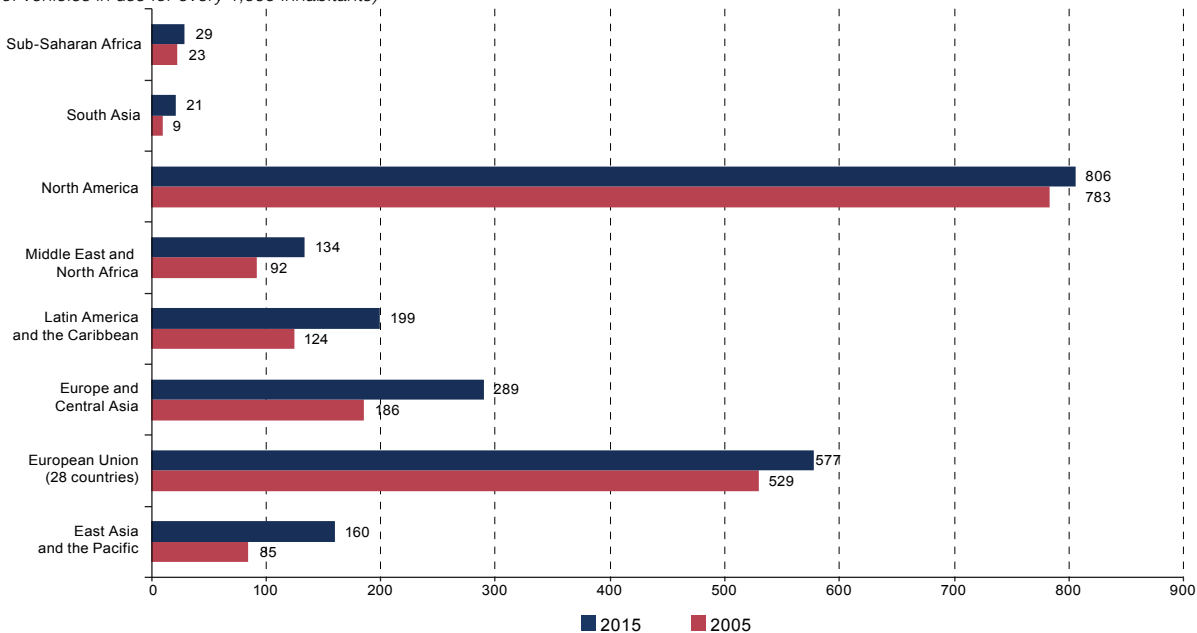


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Energy Agency (IEA), OECD iLibrary [online] <http://www.oecd-ilibrary.org/>.

■ **Figure II.26** ■

Motorization rate, by region, 2005 and 2015

(Number of vehicles in use for every 1,000 inhabitants)



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

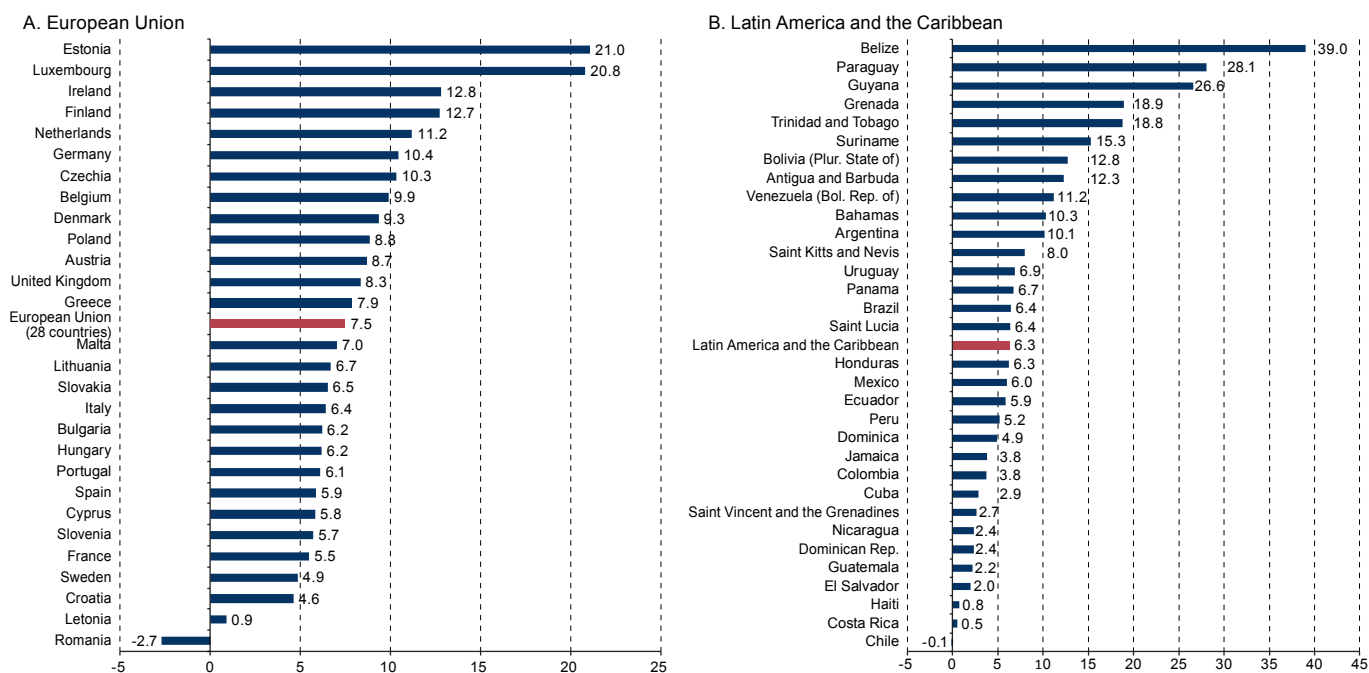
5. Global actions are still not enough to achieve the goal of cutting emissions by two tons per capita worldwide

- To avoid a catastrophic change in temperature, global emissions must be cut to a maximum of two tons per capita by 2050. That must come down to less than 1 ton and close to zero, or even to a level where emissions are being absorbed by the end of the century.
- At present, the region of Latin America and the Caribbean emits 6.3 tons of CO₂ equivalent per person per year, compared with 7.5 tons in the European Union.
- In Latin America and the Caribbean, only Chile, Haiti, Costa Rica and El Salvador produce emissions of around two tons of CO₂ equivalent per person, while Latvia and Romania are the only countries that meet that requirement in the European Union.
- Achieving the necessary cuts in emissions will require efforts in all sectors of the economy, together with changes in production and consumption patterns. It is therefore essential to coordinate policies to facilitate massive investment in environmentally friendly sectors.

■ Figure II.27 ■

European Union and Latin America and the Caribbean: greenhouse gas emissions per capita, 2013

(Tons of CO₂ equivalent per capita)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Resources Institute (WRI), "CAIT 2.0. WRI's Climate Data Explorer," Washington, D.C., 2014 [online] <http://cait2.wri.org>.

6. Stopping deforestation is one of the major challenges facing Latin America and the Caribbean; while the European Union has increased its forest area

- Forests are one of the most important natural resources of Latin America and the Caribbean. With its 927 million hectares of forests and jungle, this region is one of the most wooded regions in the world and accounts for a quarter of the global total. In the European Union, the forest area was 161 million hectares: 4% of the global total.
- Sustainable forest and jungle conservation and management is one of the major challenges facing Latin America and the Caribbean. The region lost 97 million hectares between 1990 and 2015, a development that has had a marked impact on the generation of emissions due to land-use changes. Agriculture is the leading cause of deforestation worldwide.
- Latin America and the Caribbean is estimated to have produced most emissions due to land-use changes (3.8 GtCO₂e of greenhouse gases), second only to Sub-Saharan Africa, between 1990 and 2013. The European Union, on the other hand, managed to increase its forest coverage and thereby absorb 1 GtCO₂e.
- However, the loss of forests in Latin America and the Caribbean has slowed over the past two decades, reducing emissions on that account. Stopping deforestation is a regional priority, in order to both conserve natural resources and tackle climate change.
- Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Panama, Peru and the European Union signed the New York Declaration on Forests, opened for signature at the Climate Summit in 2014. Its objectives include halving the rate of loss of natural forests by 2020 and striving to end it by 2030.

■ Table II.4 ■

World forest cover and trends, 1990-2015

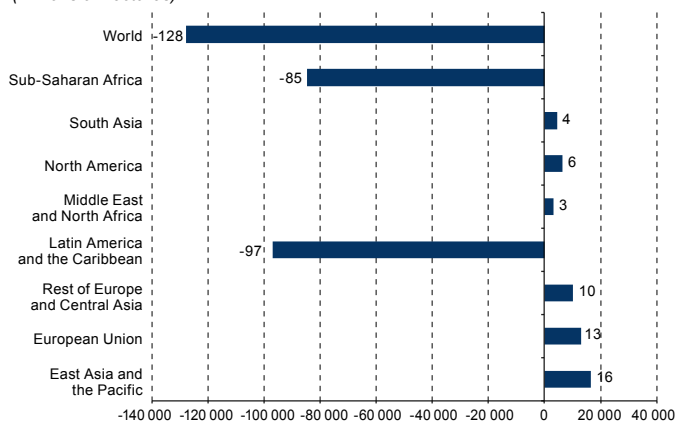
Region	Forest area (thousands of hectares)				Exchange rate (annual percentages)		
	1990	2000	2010	2015	1990-2000	2000-2010	2010-2015
East Asia and Pacific	619 824	618 451	631 390	636 255	-0.02	0.21	0.15
European Union	147 924	154 736	159 235	161 081	0.45	0.29	0.23
Rest of Europe and Central Asia	872 061	873 874	881 673	882 288	0.02	0.09	0.01
Latin America and the Caribbean	1 024 230	979 717	938 115	927 232	-0.44	-0.43	-0.23
Middle East and North Africa	19 929	20 500	23 130	23 199	0.28	1.21	0.06
North America	650 724	651 339	656 023	657 165	0.01	0.07	0.03
South Asia	78 919	79 023	82 714	83 395	0.01	0.46	0.16
Sub-Saharan Africa	698 966	661 795	628 521	614 285	-0.54	-0.51	-0.46
World	4 112 577	4 039 434	4 000 800	3 984 901	-0.18	-0.10	-0.08

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

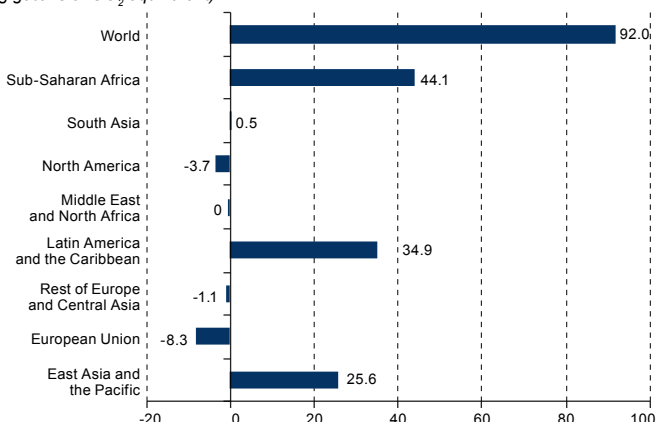
■ **Figure II.28** ■

Cumulative change in global forest cover and total global emissions from land-use changes and forestry

A. Cumulative change in global forest cover, 1990-2015
(millions of hectares)



B. Total global emissions from land-use changes and forestry, 1990-2013
(gigatons of CO₂ equivalent)

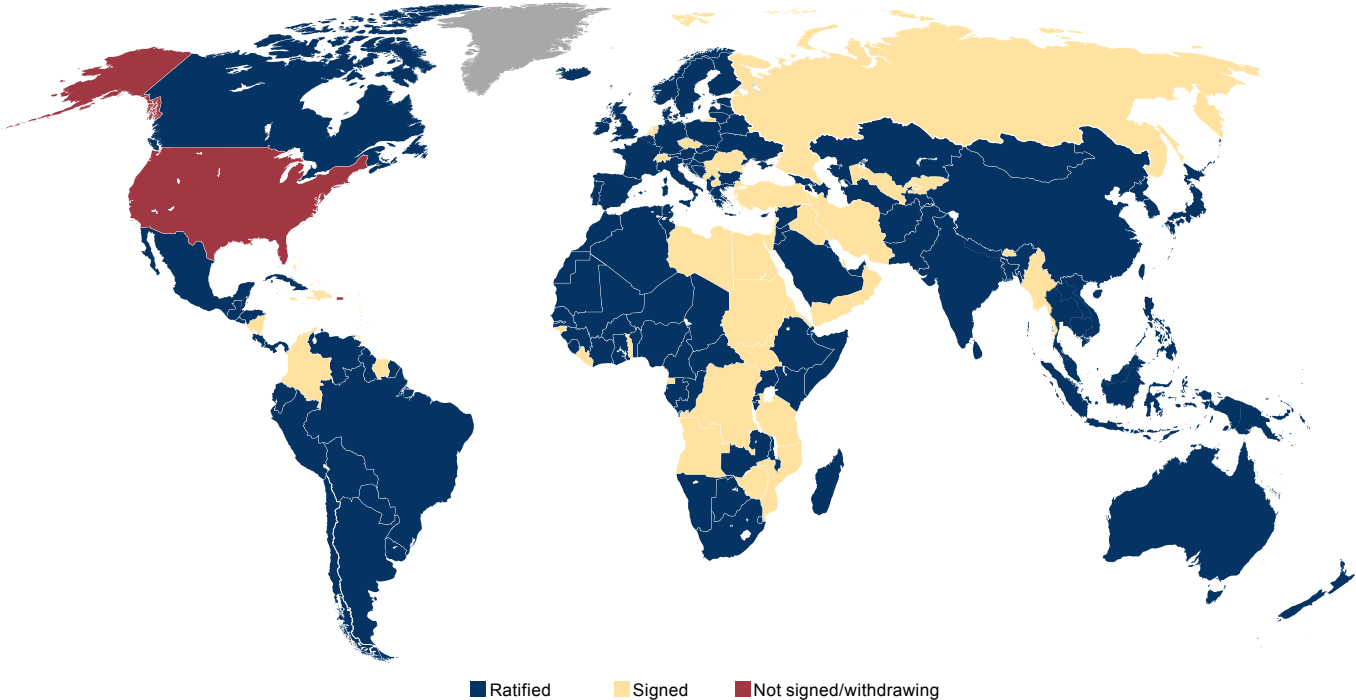


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

7. The global commitment to address climate change translated into expedited ratification of the Paris Agreement

- The response from countries made it possible for the Paris Agreement to enter into force with a speed unprecedented in the recent history of international agreements. This confirms the international community's commitment to attaining the climate target of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit the increase to 1.5°C.
- The Paris Agreement entered into force on 4 November 2016, 30 days after satisfying the condition that at least 55 of the Parties to the Convention accounting in total for at least 55% of the total global greenhouse gas emissions had deposited their instruments of ratification, acceptance, approval or accession.
- By June 2018, of the 195 signatories, 178 countries had ratified the Paris Agreement. It was signed and ratified by, among others, the European Union and was signed by the 33 member countries of the Community of Latin American and Caribbean States (CELAC). Of those 33 countries, 31 have already ratified it, with only Colombia and Suriname still to do so.
- The Paris Agreement requires all Parties to undertake ambitious efforts through nationally determined contributions and to step up those efforts in the coming years. This includes requirements that all Parties report regularly on their emissions and on their efforts to implement the Agreement. This instrument reflects the extent to which each country aspires to reduce its greenhouse gas emissions and to adapt to climate change.
- The Lima Declaration, adopted at the Fifth Summit Conference of Heads of State and Government of Latin America and the Caribbean and the European Union (May, 2008) established EUROCLIMA as a joint programme of the European Union and Latin America, focused on climate change. Within this cooperation framework, technical inputs have been developed to assess economic and social impacts, as have climate policy instruments, which include support for designing nationally determined contributions.

■ Map II.1 ■
Countries that have ratified or signed the Paris Agreement, June 2018



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Framework Convention.

III. The keys to more inclusive production development: the role of knowledge and digitalization

A. Productivity is a basic prerequisite for countries to develop, and Latin America and the Caribbean has fallen behind

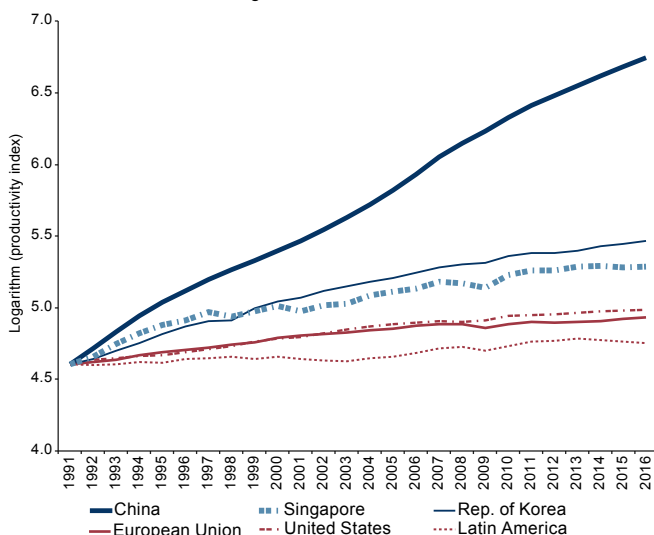
- While the countries of Latin America and the Caribbean have substantially improved their poverty indicators and access to services, as the previous section showed, the region still lags badly in terms of productivity, and the gap has been growing in recent decades despite periods of strong growth in a number of the countries.
- Although the explosive growth of productivity in China over the past 25 years may look remarkable, the country started from a position where productivity was just 10% of the Latin American and Caribbean level in the late 1980s. A review of what has happened in other regions or countries over the period reveals, however, that whereas

productivity levels in Latin America and the Caribbean and the Republic of Korea were much the same in the 1990s, two and a half decades later the latter is 2.3 times as productive as the region.

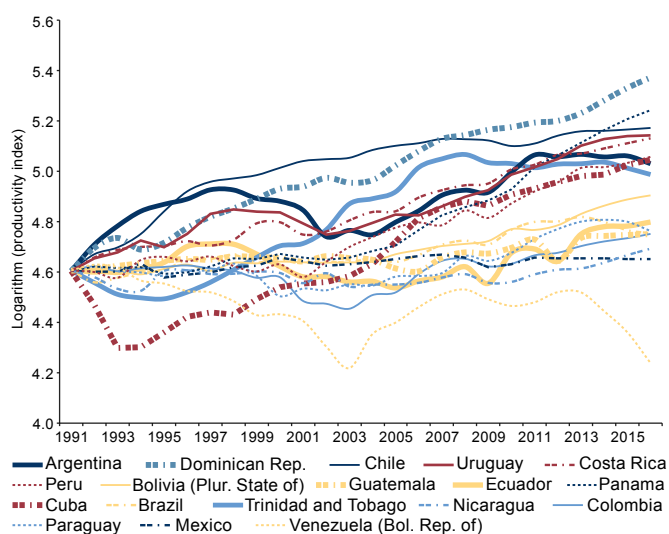
- Analysing the growth of productivity indices within the region, meanwhile, reveals both great heterogeneity and great volatility. Although productivity has been rising in almost all the countries, the increase has been small in some cases (e.g. Brazil, Colombia, Mexico and Nicaragua) but much more dynamic in others (e.g. Chile, the Dominican Republic and Panama). This contrasts with the case of the Bolivarian Republic of Venezuela, whose productivity has fallen heavily.

■ Figure III.1 ■
Productivity indices, 1991-2016
(Index base 1991 in logarithms)

A. Selected countries and regions



B. Countries in Latin America and the Caribbean



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

B. Science, technology and innovation are essential ingredients in countries' growth and competitiveness strategies

- Although there is no linear relationship between growth and innovation, with numerous factors entering into and influencing this connection, what does seem undeniable is that as countries develop new products, processes and ways of organizing production, their economic and social structures change quantitatively and qualitatively, enabling them to improve productivity and per capita income. A virtuous circle thus arises between innovation capacity, economic growth and development, feeding upon itself and strengthening over time.
- As the knowledge economy and society have advanced, investment in research and development (R&D) has emerged as one of the main indicators of countries' technology and innovation effort. At the global level, there is undeniably a strong correlation between such investment and an economy's per capita income. Although this is not a deterministic or one-way link, since it also depends on variables such as the capabilities of human resources, the efficiency of institutions (research centres and universities) and production specialization patterns, among others, it does give an idea of how countries are placed in this respect and of their potential to grow and compete.
- A comparative analysis of this indicator reveals that developed countries and some emerging ones are particularly committed to innovation. Leaving aside temporary economic conditions and the effects of any crises in these countries, they are found to evince a greater research and development (R&D) effort over the years, and this is connected with their development strategies, strongly grounded as they are in knowledge and technology.
- Thus, where investment in innovation is concerned, there has been a widening of the gap between the countries of Latin America and the Caribbean, on the one hand, and those of the European Union and some emerging ones such as China, on the other, both in absolute volumes (shown in figure III.2 by the size of the spheres) and in relative terms, which reveals how much scope there still is for the region to progress in this area.

■ Figure III.2 ■

Selected countries: per capita GDP and research and development spending

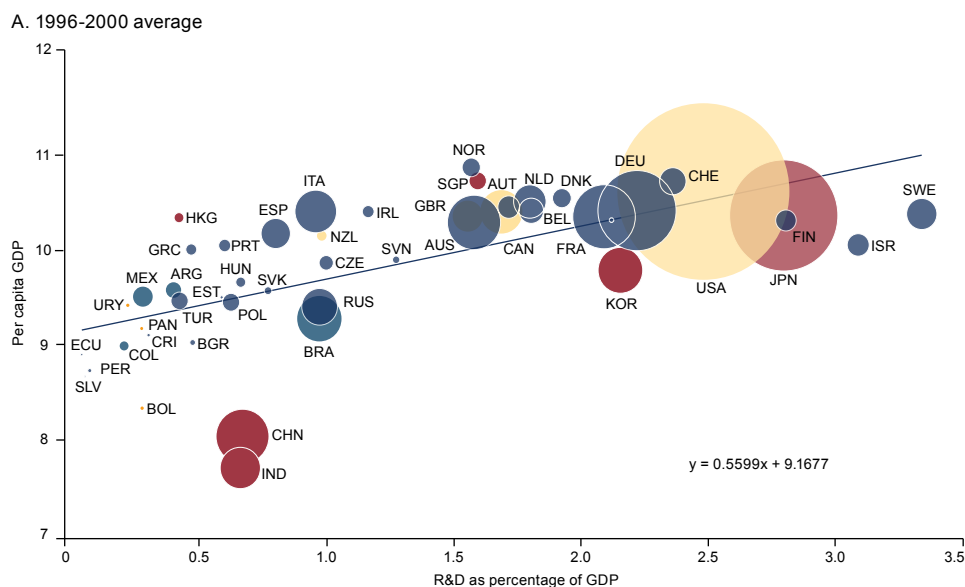
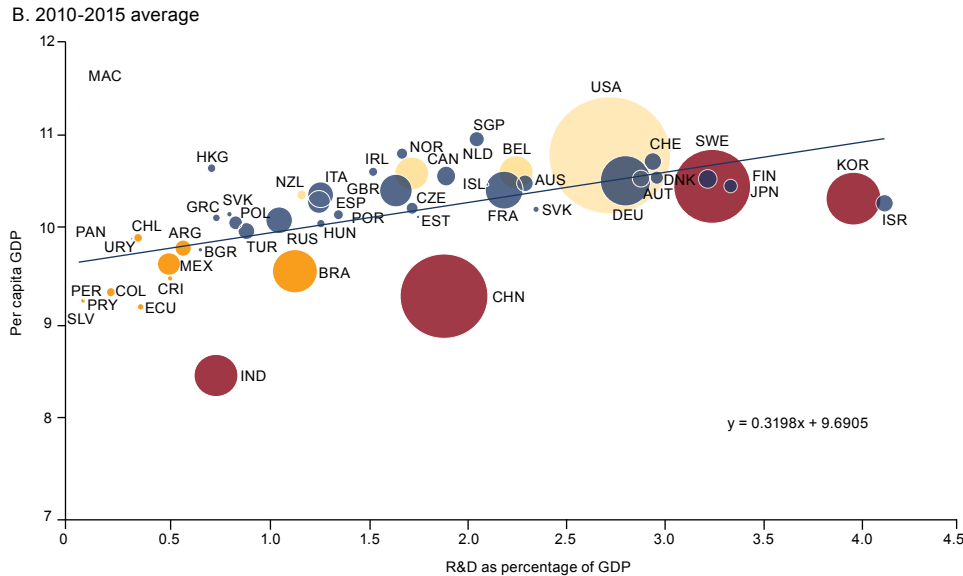


Figure III.2 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Bank.

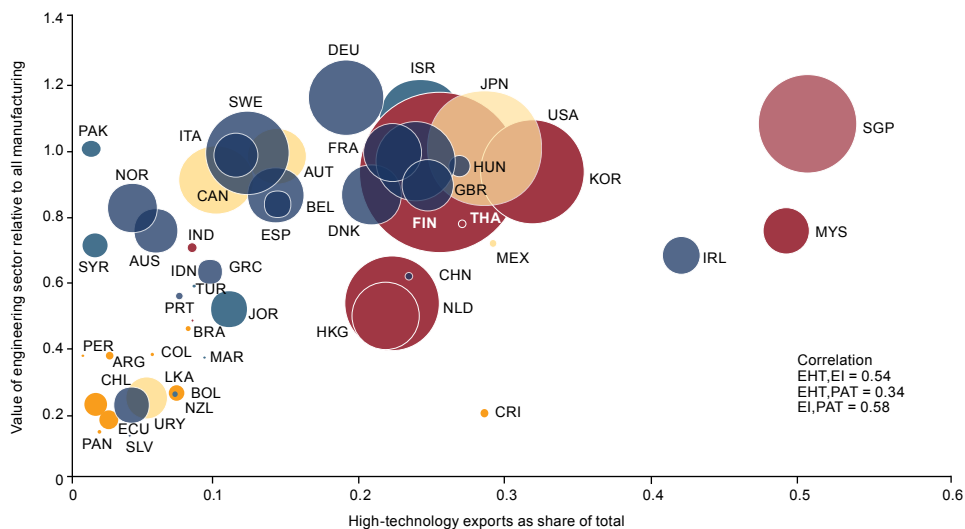
C. The decade-long boom in Latin America and the Caribbean did not remedy the death of innovation or bring movement towards progressive structural change

- In the view of ECLAC, one way to move towards more inclusive development is by a strategy with progressive structural change at its heart. This consists of a process of transformation towards production activities and processes that: (i) are learning- and innovation-intensive, (ii) are oriented towards rapidly growing markets and goods and service categories so that output and employment increase, and (iii) are conducive to environmental protection and the decoupling of economic growth from carbon emissions.
- Making an economy more diverse and technology-intensive will affect growth on both the demand and supply sides. On the demand side, the expansion of technology-intensive sectors gives a country the opportunity to participate in more dynamic markets, both domestic and external, with above-average demand growth. On the supply side, these sectors' characteristics mean that as their share of the economy increases, productivity growth rises and with it growth in the economy as a whole.
- An analysis of how certain indicators of innovation capacity and technology intensity in the production structure correlate with export diversification gives some insight into the connection between these factors and their importance for participation in world trade.

■ Figure III.3 ■

Selected countries: production diversification, complexity and specialization, 2000s

A. Patents, technology exports and engineering-intensive manufactures



B. Complexity and technology exports

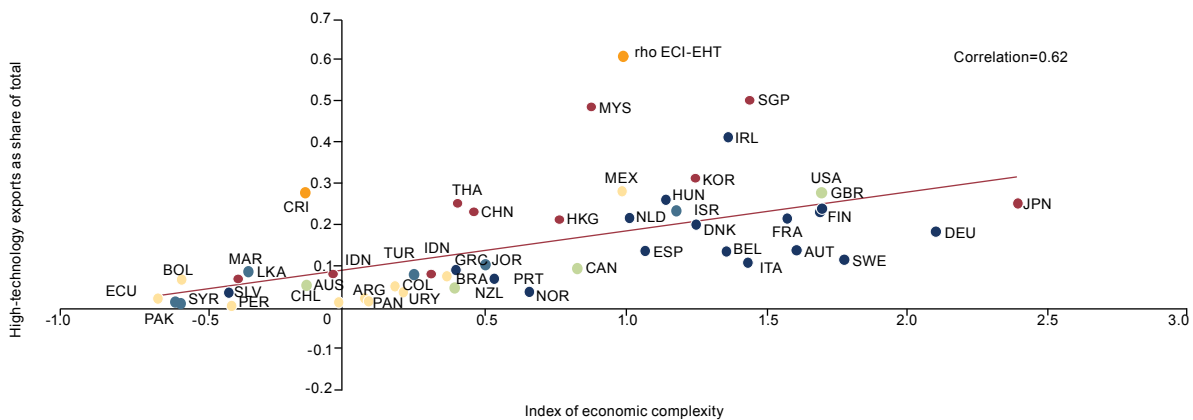
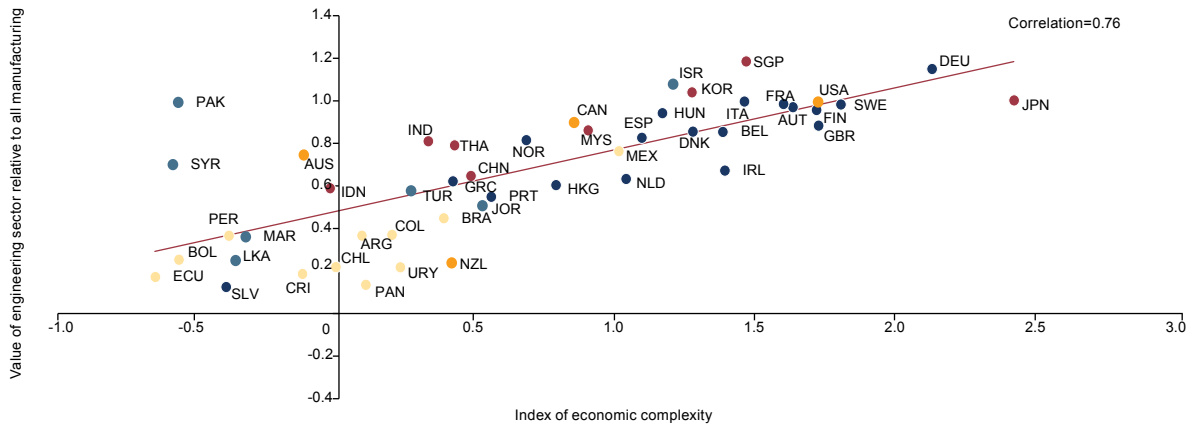


Figure III.3 (concluded)

C. Complexity and engineering-intensive manufactures



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the Ibero-American Network of Science and Technology Indicators (RICYT).

- The indicator that captures the share of the engineering sector relative to total value added in manufacturing is closely related with the ability to export high-technology goods and with patenting capacity (shown by the size of the spheres in figure III.3), which are indicators of the inputs and outputs of the innovation process. The index of economic complexity, conceived as a combination of diversification and highly sophisticated capabilities in production and innovation, is strongly correlated both with the indicator measuring the high-technology share of total exports (0.62) and with the relative share index (0.76). In all three charts (III.3.A, III.3.B and III.3.C), the countries of Latin America and the Caribbean are in the bottom left-hand quadrant, reflecting the low level of sophistication and complexity in their production processes and a very low level of patenting, in contrast to the European Union countries.

D. This limited commitment to technological development has translated into a low level of export complexity in the region's countries, in contrast with the dynamic economies and trade surpluses of European countries

- Countries whose competitiveness is based on exporting high-technology products need to have very advanced scientific capabilities and a high level of investment in R&D, while maintaining close links between the production base and the science and technology system. High-technology sectors are less exposed to the entry of competitors, while low-technology ones are much more exposed to international competition and generate lower rents. Thus, the export of technologically advanced products is a characteristic of almost all developed countries.
- At the same time, countries with higher exports of high- and medium-technology products display far more dynamic behaviour in their imports of goods of this type. Most of the countries increased their trade in such goods between 2006 and 2016. The developed countries export over US\$ 2,000 per capita, on average, of medium- and high-technology goods, while among the Latin American countries only Mexico attains this figure. Costa Rica exports about US\$ 1,000 per capita and the others less than US\$ 500. Furthermore, technologically advanced countries run trade surpluses in this category, while the Latin American economies do not.

■ Figure III.4 ■

Selected countries: per capita exports and imports of medium- and high-technology products, 2006 and 2016

(Current dollars)

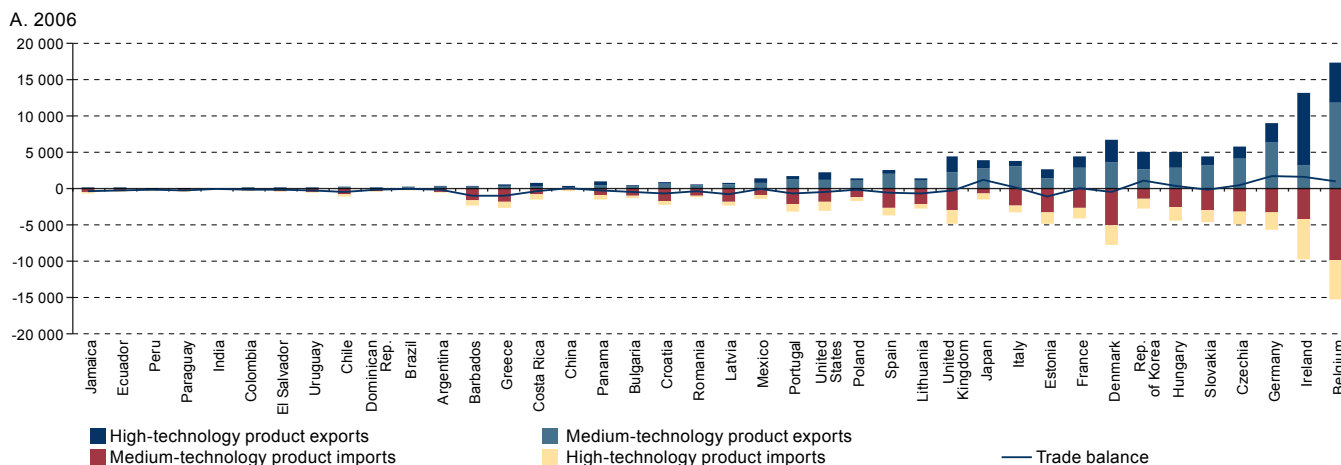
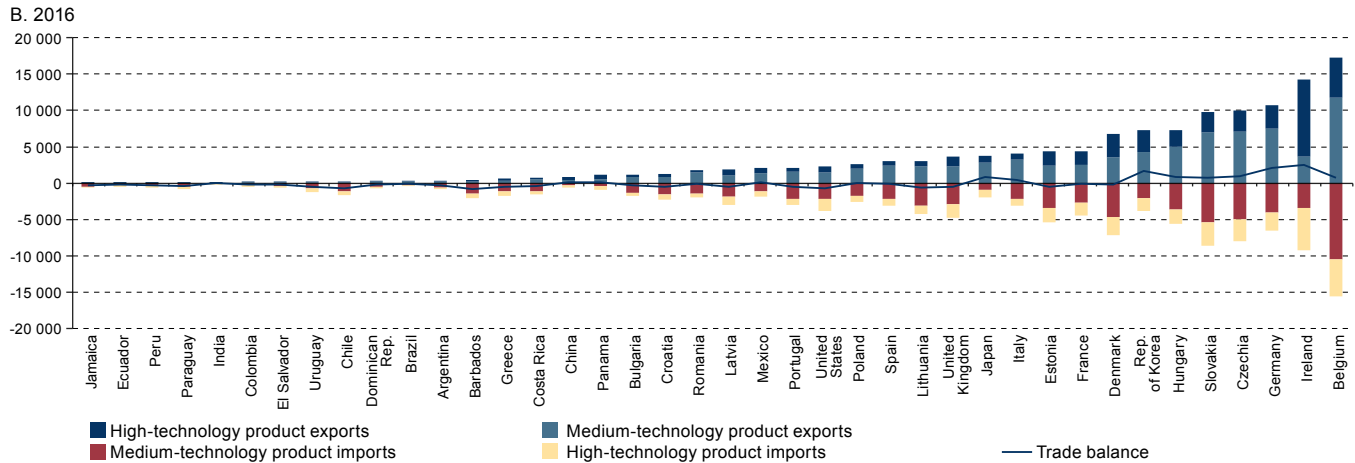


Figure III.4 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Interactive Graphic System for International Trade Data (SIGCI) and the World Bank.

E. The low level of diversification in Latin American economies is of particular concern in a world that is moving rapidly towards the knowledge economy and digitalization

- By contrast with a few years ago, the firms with the highest market capitalization in the world are now in the digital industry. However, this is not the case in the countries of Latin America and the Caribbean, where the largest firms have a much lower market capitalization than the world's most highly valued ones. Furthermore, these firms are in traditional sectors such as food and drink, financial services and natural resources, a situation that has actually become more pronounced in recent years, with just one telecommunications firm (América Móvil of Mexico) in the top 10.
- This is connected to the ability to supply digital services, which is mainly concentrated in the United States and, to a lesser extent, Asia. When potential demand in different

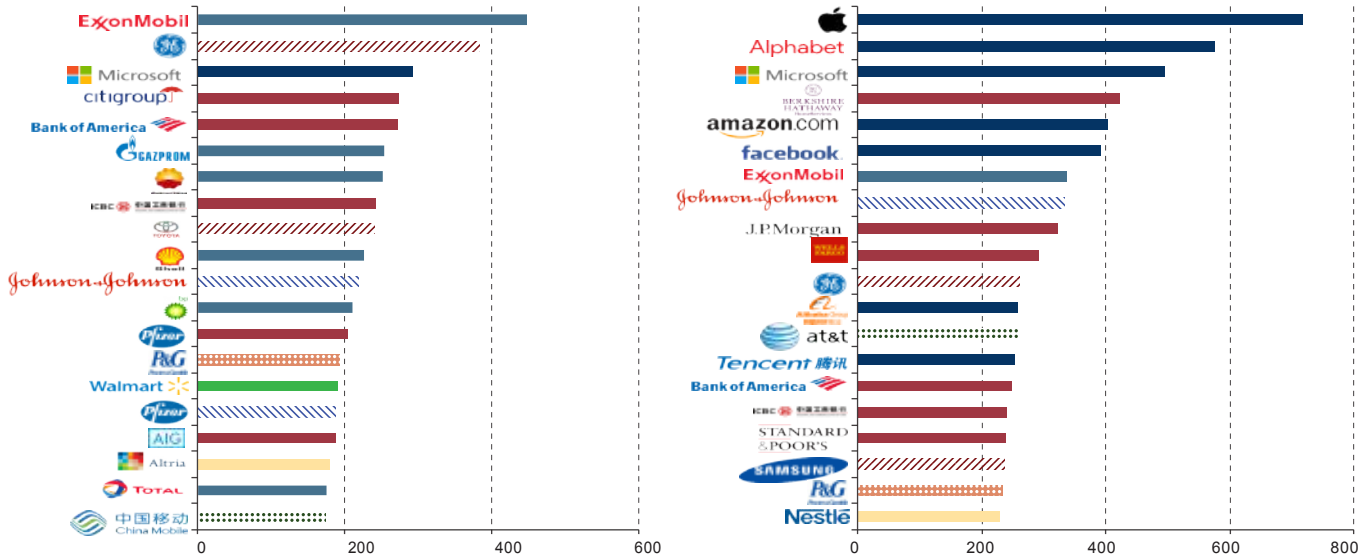
regions is analysed using a variable for the level of digital penetration as a proxy (the percentage of active users of the most popular social network in each region), the values are very similar across regions (North America, 59%; Western Europe, 48%; Eastern Europe and Oceania, 45%; South and Central America, 49%; East Asia, 49%). This imbalance between the ability to generate digital services and the extent of their use is cause for concern in both Latin America and the Caribbean and the European countries, given that the net effect must be a transfer of resources away from these two regions, while also showing the potential for the development of regional platforms to serve rising demand.

■ Figure III.5 ■

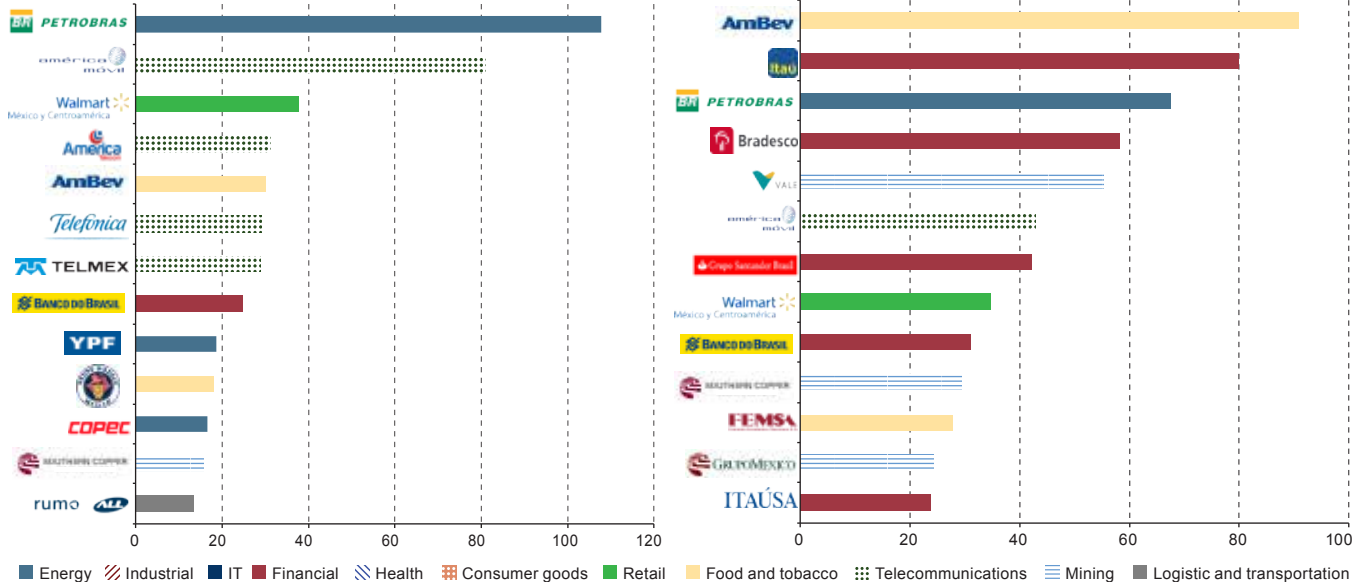
Latin America and the world: leading firms by market capitalization, 2006 and 2017

(Billions of dollars)

A. World



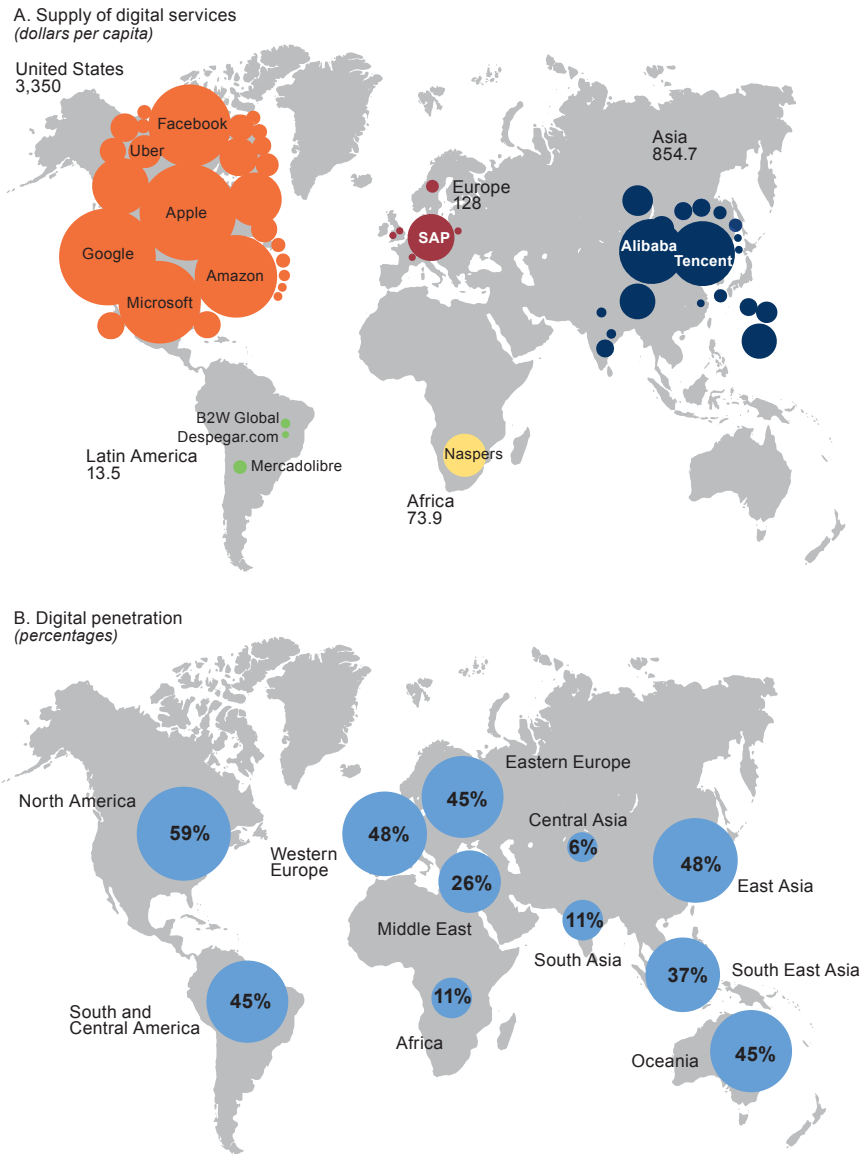
B. Latin America



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Evans, "Emerging platform economy. Global platform survey", presentation at the MIT Platform Strategy Summit, Cambridge, Massachusetts Institute of Technology (MIT), 15 June 2016; Fortune and Bloomberg.

■ Figure III.6 ■

Supply of digital services and digital penetration, 2016



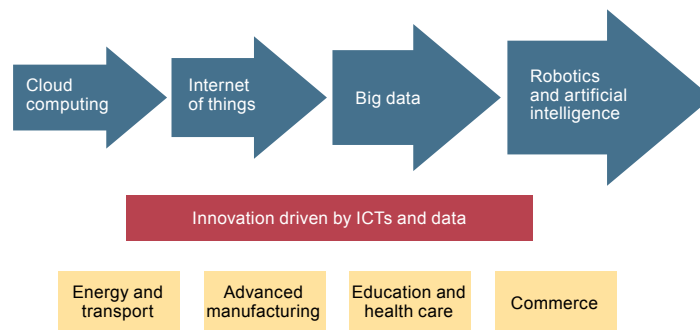
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Evans, Global Platform Database, New York, Center for Global Enterprise, 2016.

F. At the same time, the development and progress of the Internet of things, big data analytics, robotization and artificial intelligence will determine countries' geopolitical positioning and the distribution of global income and wealth

- The new industrial revolution is being generated by embedding advanced technology into production processes; in strategic sectors, this should increase the competitiveness and productivity of the economy. Countries using these technologies intensively are going to displace the rest in the global marketplace, which will create greater divides in income and wealth creation.
- This advanced technology includes, among other things, the employment of cloud services, the use of sensors and the development of the Internet of things, big data generation and management, and the incorporation of robotics and artificial intelligence.
- In this context, policies to incentivize access to and use of digital (mainly Internet-based) services need to be reviewed, since most of the measures adopted in the region have been designed to promote home Internet use. Incentivizing the appropriation of this technology must involve strong encouragement for its use, easier access to digital platforms and the incorporation of digital technologies into production processes.
- This shift from the Internet of consumption to the Internet of production does not mean neglecting efforts to close divides in individual user access, but supplementing these efforts with measures to promote large-scale Internet use in production activities. According to industrial survey information, take-up of mature technologies (Internet, broadband, information technology) by firms, regardless of size, is usually strong. However, assimilation or incorporation of these into production processes has not gone very far at all as yet, being mainly confined to the likes of e-mail, information searches and the use of financial services. These technologies need to be incorporated into all stages of production, from procurement and processing to distribution.

■ Diagram III.1 ■

From the Internet of consumption to the Internet of production

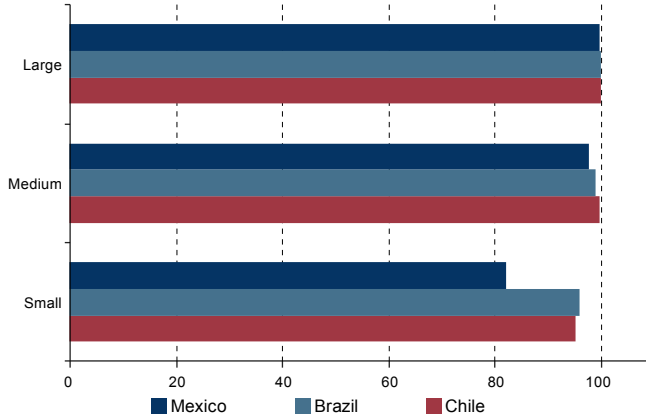


Source: Economic Commission for Latin America and the Caribbean (ECLAC), 2015.

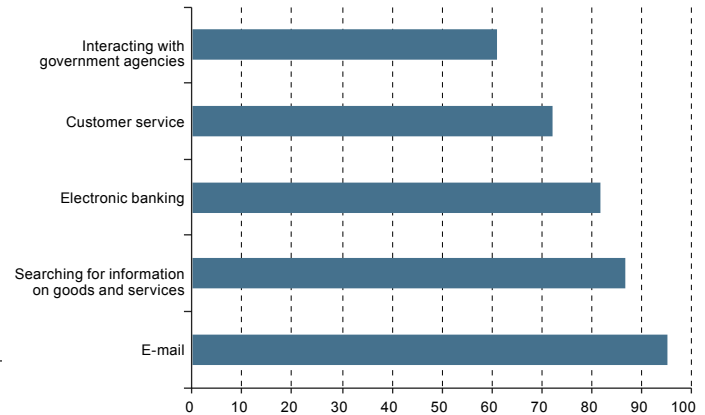
■ Figure III.7 ■

Latin America and the Caribbean: Internet use by firms

A. Firms using the Internet, by size (percentages of total)



B. Main uses Internet put to by firms (percentages of all firms with Internet)



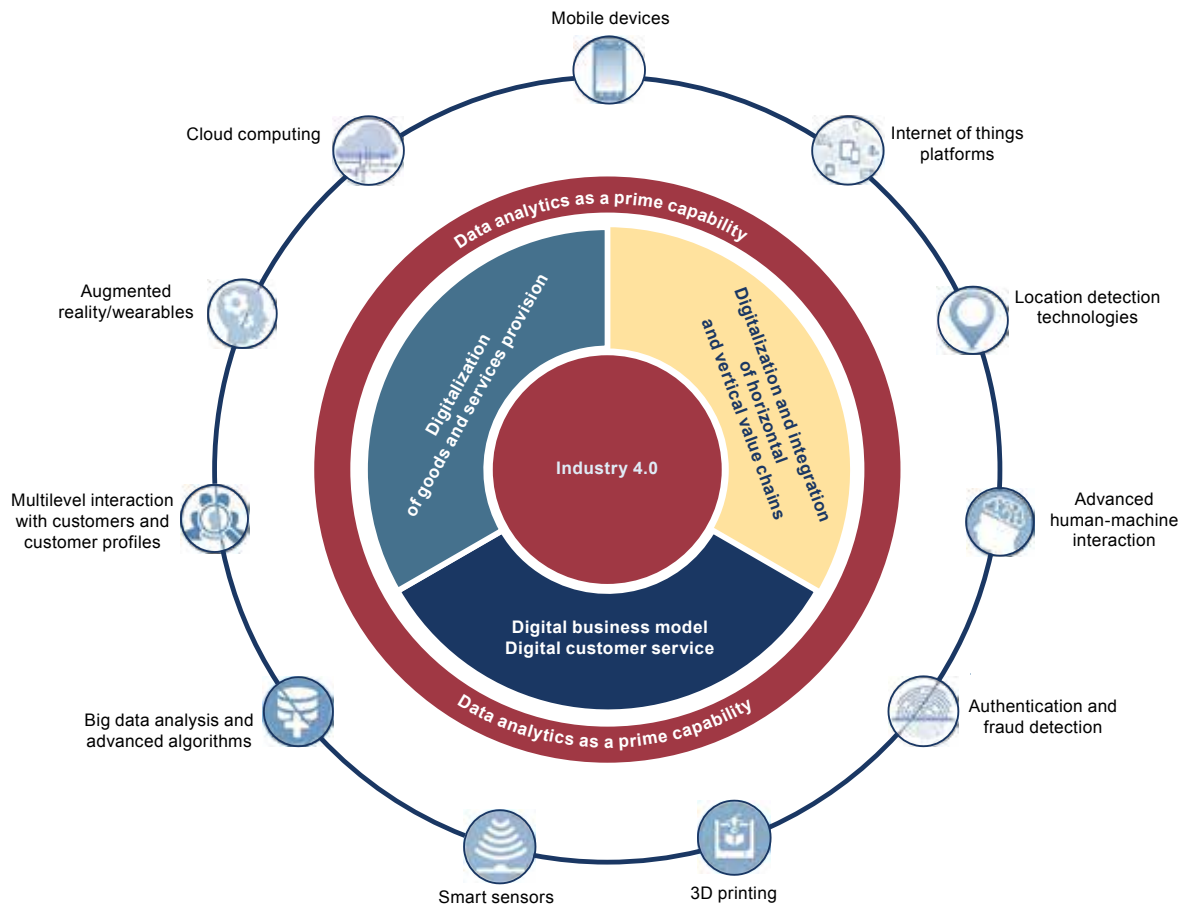
Source: Regional Broadband Observatory (ORBA), on the basis of data from the national institutes of statistics of the countries selected.

G. Convergence between physical and digital technologies, which are the pillars of the fourth industrial revolution, requires a more collaborative and integrated approach

- The convergence of the digital and physical worlds, whereby advanced hardware is coupled with advanced software, sensors and big data analysis, is helping firms to create smarter products and processes and to connect more closely with customers, suppliers and manufacturers. According to a recent study by PricewaterhouseCoopers (PwC), the fourth industrial revolution is being driven by three main factors, all grounded in big data analytics and using different technologies, platforms and processes.
- The essential pillars of the fourth industrial revolution on which progress is needed in the region are:
 - *Digitalization and integration of horizontal and vertical value chains:* in the fourth industrial revolution, processes are digitalized and integrated vertically throughout the organization, from product development and procurement to manufacturing, logistics and servicing. Horizontal integration extends beyond internal operations to suppliers, customers and all key partners in the value chain. Technologies range from monitoring and tracking devices to real-time integration of planning and execution.
 - *Digitalization of goods and services provision:* product digitalization includes adding to existing products by incorporating smart sensors or communication devices that can be used with data analysis tools and creating new digitalized products based on fully integrated solutions. By integrating new data gathering and analysis methods, firms can generate data on product use and refine their products to meet the growing needs of end users.
 - *Digital commerce models and customer access:* leading industrial firms are also expanding their provision by incorporating disruptive digital solutions such as full services based on data and integrated platform solutions. Disruptive digital business models often centre on generating additional digital revenues and optimizing customer interaction and access. Digital products and services are often designed to serve customers by offering them complete solutions in a single digital ecosystem.

■ Diagram III.2 ■

The fourth industrial revolution: factors, components and tools



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of PricewaterhouseCoopers, "Industry 4.0: building the digital Enterprise", 2016 [online] <https://www.pwc.com/gx/en/industries/industries-4.0/landing-page/industry-4.0-building-your-digital-enterprise-april-2016.pdf>.

- Achieving these goals requires far more dynamic and targeted institutions, strategies, policies and instruments capable of driving collaboration and much closer and more permanent links between the different actors and between the areas of knowledge generation and application and technology development. This is a particular challenge for

a region like Latin America and the Caribbean that, despite progress in some areas, has yet to come to terms with the importance and disruptiveness of convergence and the fourth industrial revolution, or the potential opening up for greater regional integration.

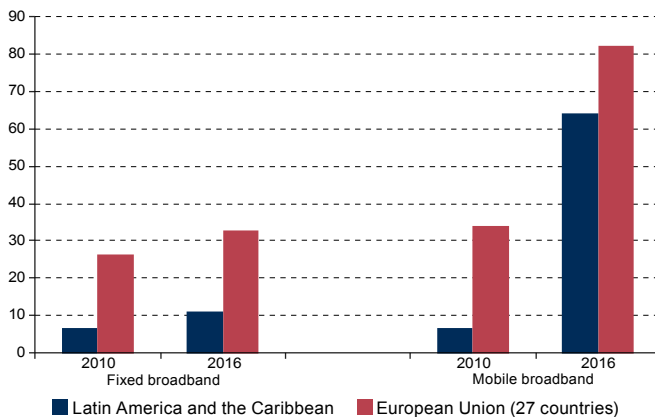
H. Connectivity and infrastructure investment will thus be vital if the region is to move forward with the digital economy and society

- Although the region's countries have made substantial progress with Internet connectivity in recent years, mainly in mobile access, they still lag well behind the most advanced countries and regions, particularly when it comes to fixed high-speed broadband, with differences not only in subscriber numbers but also and especially in connection speeds.
- Connection speeds even in the region's best-placed countries are much lower than in more advanced countries and regions, such as the European Union, and this is an impediment both to access and to the development of more sophisticated digital services and applications.
- To reduce these differences, greater investment is needed in high-speed broadband network infrastructure, including fibre optics in the case of fixed networks and 4G and 5G in the case of mobile networks.
- A number of trends are driving up bandwidth demand, such as mobility, falling device costs and technological convergence. There are aspects that remain crucial for the deployment of high-speed networks and connectivity services: building Internet exchange points, managing spectrum and adopting Internet Protocol version 6. Other challenges are to improve regulatory environments so that they promote competition, innovation and investment, and to improve financing by combining private and public resources.

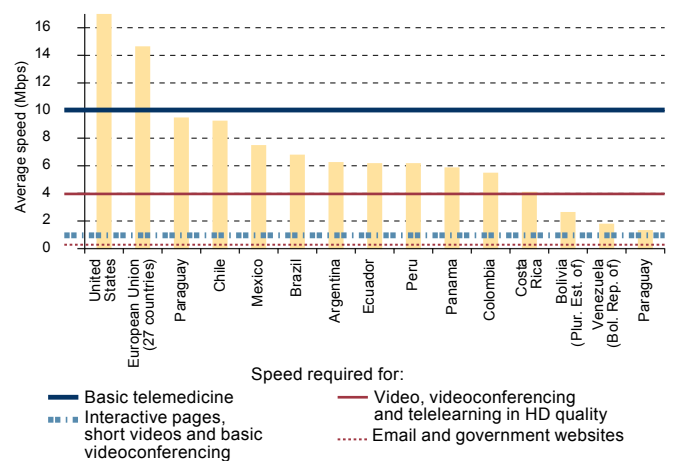
■ Figure III.8 ■

Latin America and the Caribbean and the European Union: fixed and mobile broadband subscribers, connection speeds and requirements, by activity

A. Fixed and mobile broadband subscribers, 2010 and 2016



B. Connection speeds and requirements, by activity, 2017



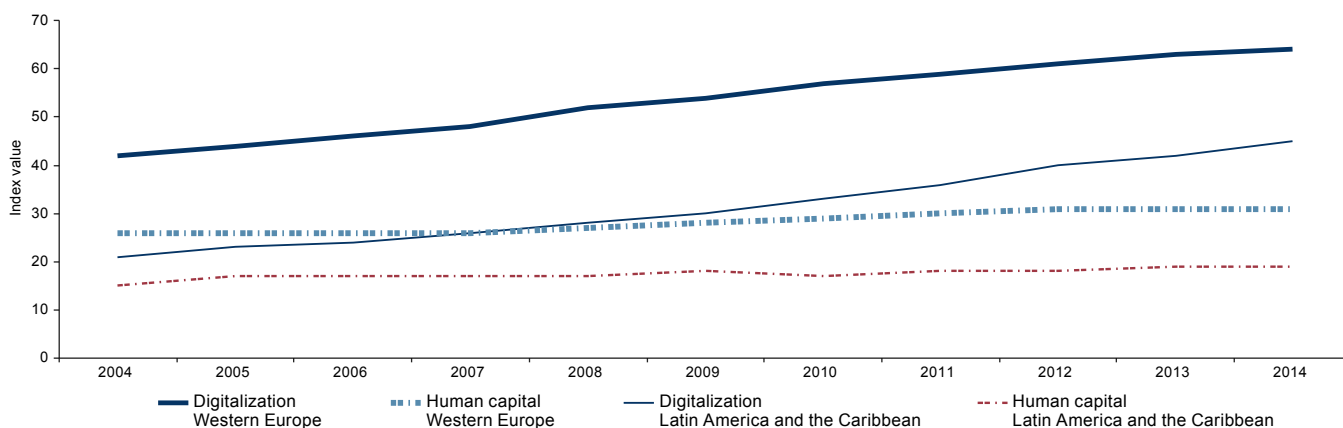
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Regional Broadband Observatory (ORBA), on the basis of Federal Communications Commission (FCC) and Akamai Technologies, *Q1 2017 State of the Internet/Connectivity Report*, 2017.

I. Digital skills and capacity-building will also be crucial factors

- Human capital shortfalls are a challenge for both advanced and emerging economies. This is a particularly serious issue for Latin America and the Caribbean, however, as can be seen when the historical evolution of digitalization and human capital indices is compared across regions.¹ If Western Europe is compared with Latin America and the Caribbean, for example, there are clear differences in both cases, but it can also be seen that the supply of human capital has been increasing more slowly relative to the digitalization index in Latin America and the Caribbean than in Western Europe.
 - The mismatch between the human capital and digitalization variables can be attributed in part to the boost to technology take-up from greater access, service provision and affordability. Between 2004 and 2015, for example, technology access rose by 175% while use grew by 169%. However, the human capital index advanced by just 35%.
- Demand-driven digitalization is an obvious trend, but the human capital shortfall is significantly constricting the take-up of more sophisticated technologies and the provision of locally produced technology. For these technologies to have a sustained impact, it is vital to strengthen innovation and education ecosystems.
- Latin America is the region with the largest gap between the training provided by the education system and the skills required by the production sector. Implementing efficient systems in the labour market is also a vital requirement for strengthening the region's economies, and this could be done by using digital technologies to match supply and demand for skills. These systems in turn can yield information for policy design and the identification of digital skills gaps.

■ Figure III.9 ■

Latin America and the Caribbean and Western Europe: digitalization index and human capital index, 2004-2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Katz, "Iniciativas empresariales y políticas públicas para acelerar el desarrollo del ecosistema digital latinoamericano", presentation at the conference "Políticas públicas para el desarrollo del ecosistema digital", Lima, ESAN University, 23 May 2017.

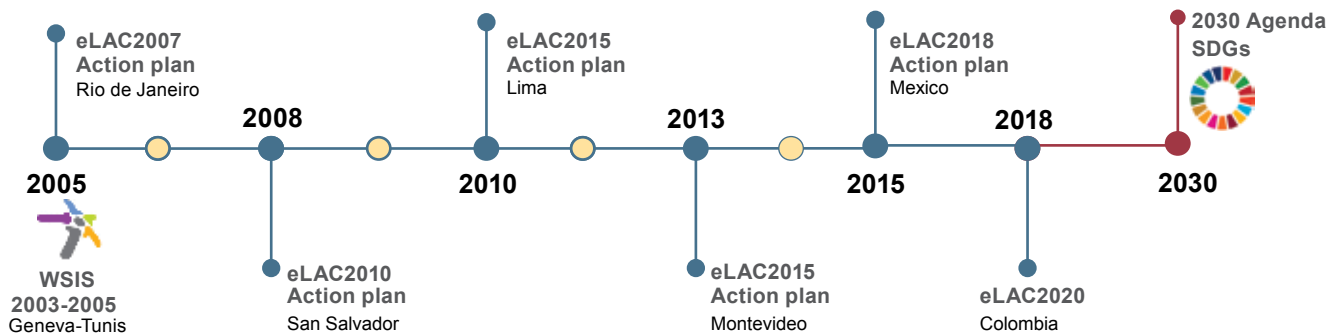
¹ The digitalization index is an indicator composed of 24 variables grouped into six pillars (affordability, infrastructure reliability, accessibility, telecommunications network capacity, use of digital technologies and human capital), while the human capital index is composed of two variables: engineers as a percentage of the population and workforce with secondary or tertiary education as a percentage of the total. See R. Katz, "Iniciativas empresariales y políticas públicas para acelerar el desarrollo del ecosistema digital latinoamericano", presentation at the conference "Políticas públicas para el desarrollo del ecosistema digital", Lima, ESAN University, 23 May 2017.

J. In this context, giving greater continuity to the digital agenda for Latin America and the Caribbean becomes a moving target

- The digital agenda for Latin America and the Caribbean (eLAC) has had the mission of enhancing the digital aspect of the regional integration process, with a particular focus on technological dynamism and the social changes wrought by digitalization. This process began at the first Regional Preparatory Ministerial Conference of Latin America and the Caribbean for the second phase of the World Summit on the Information Society (WSIS) held in Rio de Janeiro in 2005, where the first version of the Plan of Action for the Information Society in Latin America and the Caribbean (eLAC2007) was approved.² This process then continued with the eLAC2010, eLAC2015 and eLAC2018 plans and the work plans with specific actions for the periods 2013-2015 and 2018-2020.
- The Sixth Ministerial Conference on the Information Society in Latin America and the Caribbean, held in Cartagena de Indias (Colombia) in April 2018, adopted the latest version of the Digital Agenda for Latin America and the Caribbean (eLAC2020), thereby renewing the Conference's commitment to a vision towards 2020 and including among the priorities of the Agenda a number of emerging challenges associated with digitization. The agreements reached at the Sixth Conference included provision to hold the Seventh Ministerial Conference on the Information Society in Latin America and the Caribbean in Brazil in 2020. These agreements testify to the continuity and commitment governments are affording to this process.
- The Digital Agenda for Latin America and the Caribbean (eLAC2020) establishes a number of actions at the regional level, prioritizing critical factors for digital development, such as strengthening institutional and regulatory frameworks, broadband roll-out, skills- and capacity-building, the development of content and applications, and monitoring and evaluation of the targets set. Within this framework, the governments of the region set 30 interdependent and complementary objectives whose outcomes influence each other's, mapped into seven areas of action: (i) digital infrastructure; (ii) digital transformation and the digital economy; (iii) regional digital market; (iv) digital government; (v) culture, inclusion and digital skills; (vi) emerging technologies for sustainable development; and (vii) governance for the information society.

■ Diagram III.3 ■

The process surrounding the digital agenda for Latin America and the Caribbean (eLAC2020)



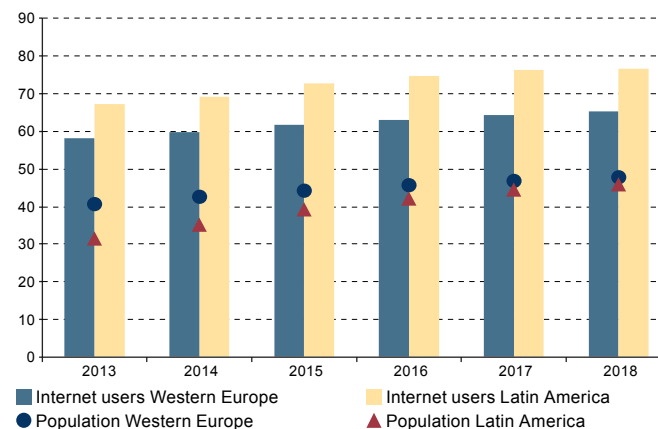
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

² This refers to the start of the approval process for an action plan; however, the regional conferences began in 2000 with the Declaration of Florianopolis and continued in 2003 with the regional preparatory process for the World Summit on the Information Society and the Bávaro Declaration.

K. Although access to digital platforms has made a whole range of previously unimaginable services available to the countries and inhabitants of Latin America, digital technology is still developed exogenously

- Certain digital platforms are used at least as intensively in Latin America as in more advanced economies. Comparing social network penetration rates in Latin America with those in Western Europe, for example, shows that these services are heavily used in the former. This may indicate that the use of certain digital services is not directly related to income or education levels and reconfirms the rapid pace of digital consumption growth.
- Certain indicators confirm that the development of new digital services is particularly exogenous. The Internet of things entails the interconnection of physical devices (such as vehicles, sensors and buildings) and their integration with connectivity networks, creating a range of opportunities that provide increased efficiency and accuracy and economic benefits. However, figures for the proportion of software developers creating devices connected to the Internet of things by region reveal that Latin America is the least advanced region in this respect.
- The region's countries continue to lag in the development of new Internet-based technologies. Likewise, although there has been progress with infrastructure and supply systems, there are countries that have made little progress in digitalizing their production processes. In this context, the region should heighten its efforts to design and implement policies for the take-up of Internet of things technologies, increasing the use of cyberphysical systems in production. Some prominent initiatives that aim at this are Mexico's Road Map for the Internet of Things, Chile's Smart Industries Strategic Programme and the national Internet of things plan announced in Brazil.

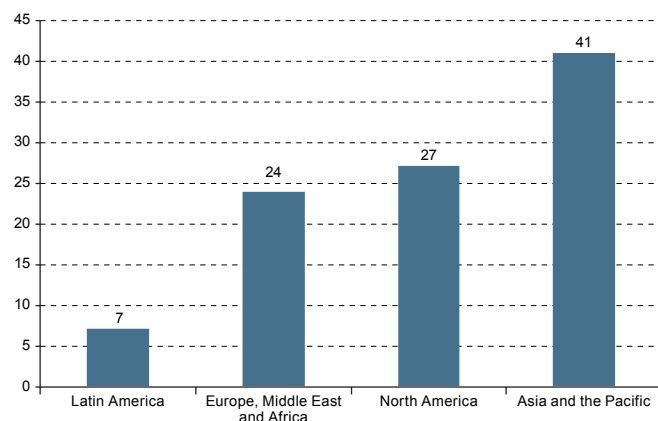
Figure III.10
Latin America and Western Europe: social network penetration, 2013-2018
(Percentages)



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

Note: The figures for 2014 to 2018 are estimates.

Figure III.11
Software developers creating devices connected to the Internet of things, by region, 2016
(Percentages)

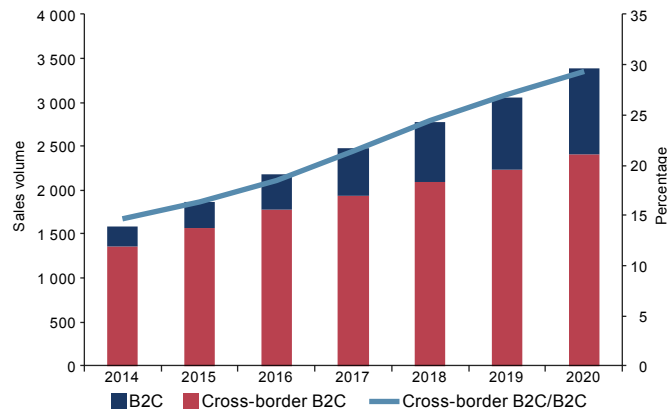


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Evans Data Corporation, 2016.

L. Progress towards a regional digital market is needed for the digital economy to expand, as it would boost regional trade and integration

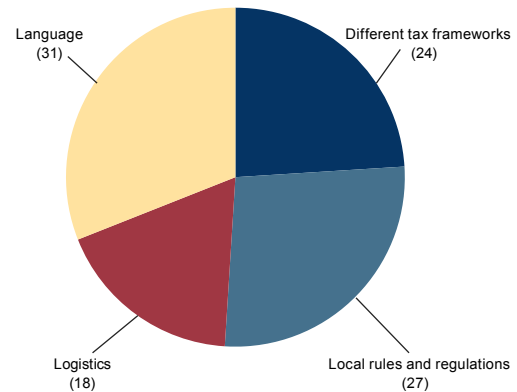
- A number of factors hinder the expansion of cross-border electronic trade, including fiscal, legal, regulatory, logistical and language issues. Firms are obliged to comply with different fiscal and legal frameworks, which can be a disincentive for online commerce. Likewise, the different consumer rights laws governing complaints and return procedures differ from country to country. Privacy and data protection rules can make it hard to share data across the region, but similarities in language could be a competitive advantage for the region's firms.

■ **Figure III.12** ■
Cross-border electronic commerce between firms and consumers (B2C), 2014-2020
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of AliResearch, "Global Cross Border B2C e-Commerce Market 2020: Report highlights & methodology sharing", 2016 [online] http://unctad.org/meetings/en/Presentation/dtl_eweek2016_AlibabaResearch_en.pdf.

■ **Figure III.13** ■
Main barriers to cross-border electronic trade worldwide
(Percentages of survey respondents)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of K. McDermott, *Key Business Drivers and Opportunities in Cross-Border Ecommerce*, Payvision, 2015.

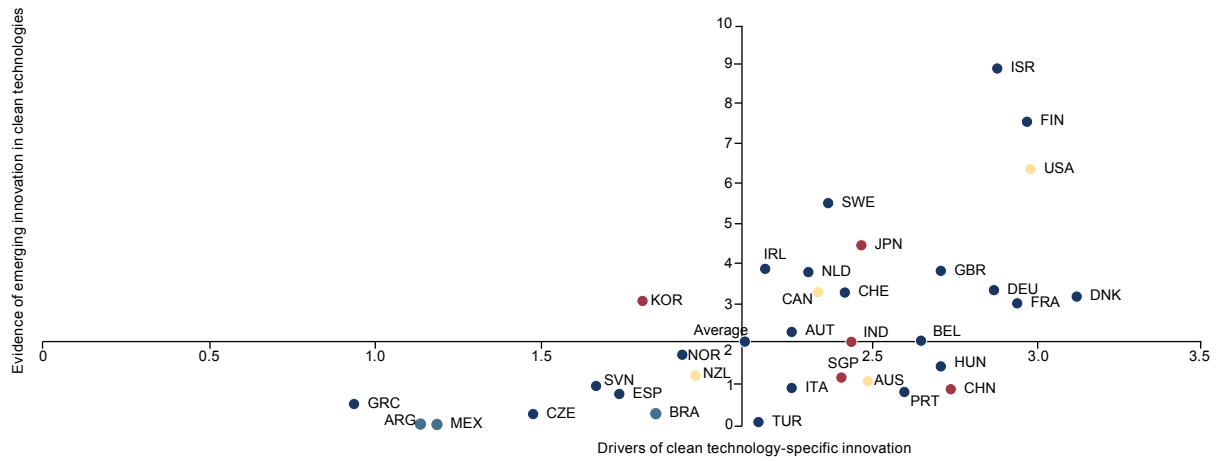
- On recent estimates, cross-border electronic commerce between firms and consumers (B2C) will be worth approximately US\$ 1 trillion a year by 2020, representing 30% of all electronic retail trade. Although these estimates should be treated with caution, the share of digital commerce (especially in digital products) within trade flows is increasing at a time when world trade, foreign direct investment and international financing are losing dynamism.
- To deal with the issues affecting the expansion of the digital economy in the region, the countries need to move forward with a strategic agenda that allows them to define a set of principles, goals and actions that can guide policymaking aimed at forming a regional digital market to improve connectivity and increase trade efficiency by reducing regulatory asymmetries and transaction costs. The decision to move towards a regional digital market could strengthen regional integration processes.

M. Innovation and digital progress are not everything; rising concern about climate change and the environment requires a new approach linking innovation and environmental sustainability

- There is now recognition of the need to decouple economic growth from environmental impacts and take advantage of new sources of sustainable growth. For there to be progress towards an economic growth model that includes decent work and a better quality of life, the ability to administer and restore the natural resources on which all life and economic activity depend will be crucial. This is particularly relevant to the countries of Latin America and the Caribbean, a region that depends very heavily on natural resources and is exposed to the vagaries of climate change.
- In the context of the green economy, one of the efforts expected of firms is that they should decouple resource consumption from production. Accordingly, they ought to adopt business strategies of the “4R” type (reduce, reuse, recycle, replace) that maximize resource efficiency and foster cleaner production. This means maximizing the efficiency of energy and raw material use via cleaner production to prevent pollution and raise productivity. Firms themselves can also contribute to decoupling by using renewable energy sources and recyclable or reusable materials. Also important is progress with the implementation of management systems encompassing human and financial inputs, training, innovation and certification as the most effective means for a firm to ensure efficient and continuous application of 4R strategies.
- The creation and spread of clean technologies and more sustainable production models have the potential to unleash technological change and new innovation cycles. Human capital and scientific and technological development are key inputs in this. The Global Cleantech Innovation Index

reflects countries’ ability to generate business activity based on clean technologies that can be successfully commercialized. Figure III.14 relates two elements that are vital to countries’ capacity to generate and develop sustainable innovations. First, there are the specific factors driving clean technologies: government policy, public-sector R&D spending, access to private financing, renewable energy infrastructure and clean-technology industrial organizations. Second, there is the evidence for the emergence of clean innovations and technologies: early-stage private investment, high-impact firms and environmental patents. Four different groups of countries are identified. In the first are countries that make little effort with sustainable technologies and are below average as regards both investment in institutions promoting this type of innovation and the results obtained. This group includes the Latin American countries in the study and some European countries (the Czech Republic, Greece, Slovenia, Spain and, mainly because of the importance of its oil industry, Norway). Countries in the second group make a greater than average effort with these technologies but have below-average results (e.g. Hungary, Italy and Portugal). After this come a group of countries which are heavily committed to environmental technologies and have developed them to a high level (Germany, Israel, the United Kingdom, the United States and the Nordic countries, among others). Lastly, there is the Republic of Korea, whose strategy and engagement with sustainable technologies show a very strong commitment to these, without this having as yet been reflected to the same extent in the results.

■ Figure III.14 ■
Clean technology: commitment and results, 2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Wildlife Fund (WWF)/Cleantech Group, *The Global Cleantech Innovation Index 2014: Nurturing Tomorrow's Transformative Entrepreneurs*, 2014.

IV. Trade and production integration between the European Union (EU) and Latin America and the Caribbean

A. Trade and value chains

1. The European Union remains the third largest trading partner of Latin America and the Caribbean, after the United States and China

- The European Union's share of external trade with Latin America and the Caribbean has not changed significantly over the course of this century. While in 2000 the Community market absorbed 12% of the region's exports, since 2013 its share has stood at 11%. During the same period, the European Union's share of the region's imports has remained virtually unchanged at around 14%. This stands in contrast with the evolution of the region's terms of trade with China over the same period. Between 2000 and 2017, that country's trade with the region increased nine-fold (from a very low base): exports rose from 1% to 10% and imports from 2% to 18%. As a result, in 2014 China overtook the European Union as the region's second most important trading partner, behind the United States.
- In 2017, China accounted for 14% of the region's foreign trade (considering both exports and imports), while the European Union's share was 12%. While the latter remains the second largest market for the region's exports, in 2010 it was replaced by China as the second most important origin of imports. For European Union manufacturers, Chinese competition in the region has been especially evident in the electronics sector.

■ Table IV.1 ■

European Union and China: share of imports of selected products in Latin America and the Caribbean, 2000 and 2016

(Percentages)

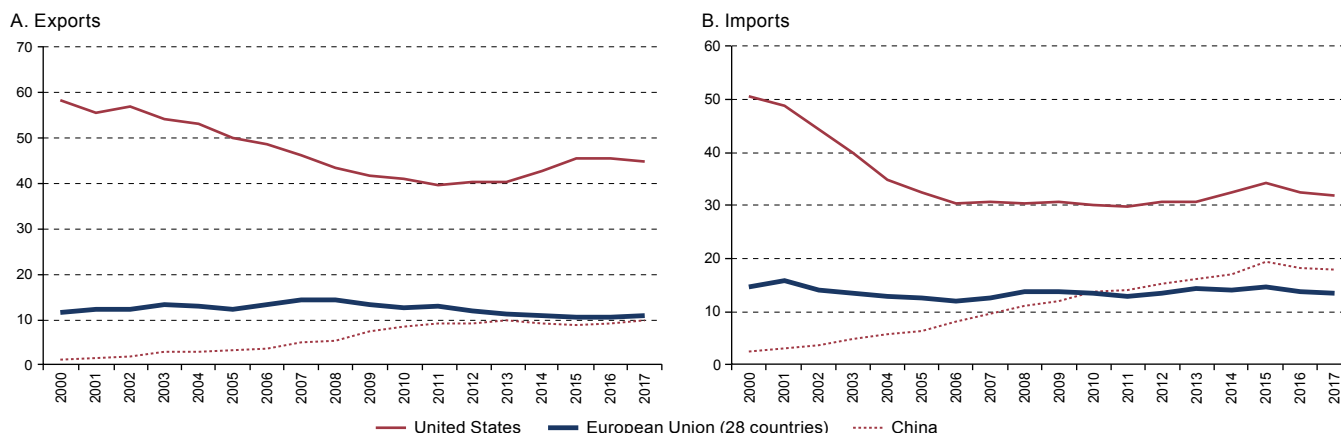
Product	2000		2016	
	European Union	China	European Union	China
Telephone equipment parts	32.3	1.0	3.8	59.6
Radio broadcasting or television transmitters	15.9	0.3	0.3	76.7
Radio broadcasting or television transmitter parts	24.3	2.7	1.3	64.8

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

■ **Figure IV.1** ■

Latin America and the Caribbean: share of trade in goods of selected partners, 2000-2017

(Percentages)



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

2. Trade between Latin America and the Caribbean and the countries of the European Union rebounded in 2017 after contracted sharply in the previous three years

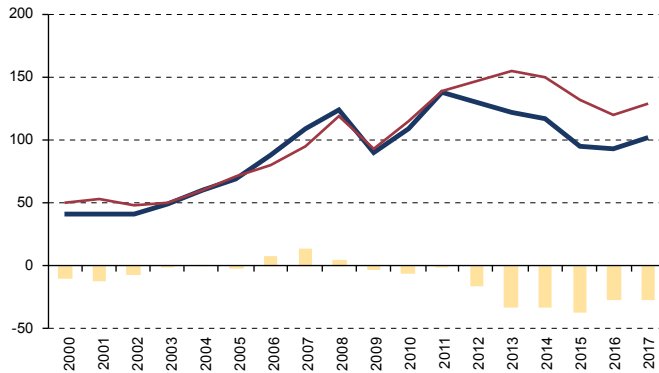
- In 2016, trade between Latin America and the Caribbean and the European Union stood at US\$ 231 billion, up by 9% on 2016 figures. Between 2014 and 2016, bilateral trade registered a cumulative drop of 23% from peak level of US\$ 278 billion in 2013. During that period, the region’s shipments to the European Union and its imports from the Community market fell at similar rates, which reflects the recent loss of economic momentum in both regions. This has been compounded, in the case of Latin America and the Caribbean, by the impact of lower-priced commodities, which are the main components of the region’s shipments to Europe.
- The region’s trade with the European Union remained fairly balanced until 2011, as surpluses in South America outweighed deficits in Mexico, Central America and the Caribbean. However, from 2012 onward, South America’s trade balance with the European Union also turned negative, in a context of sharp declines in both exports and imports. In contrast, trade between Mexico, Central America and the Caribbean and the European Union has shown greater resilience in recent years.

■ Figure IV.2 ■

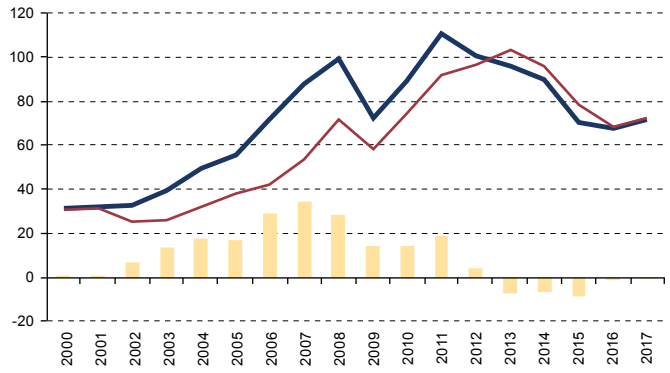
Latin America and the Caribbean: goods trade with the European Union, 2000-2017

(Billions of dollars)

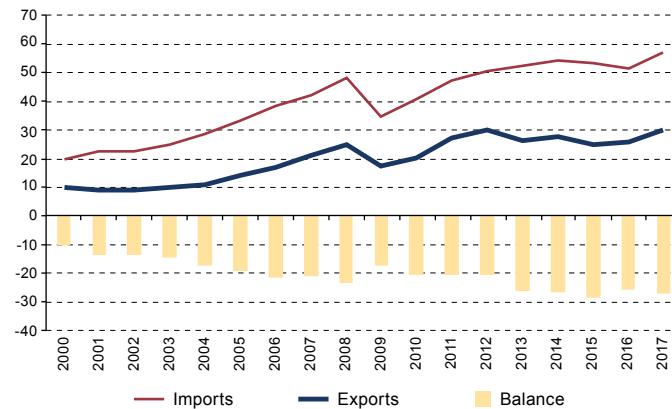
A. Latin America and the Caribbean



B. South America



C. Mexico, Central America and the Caribbean



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

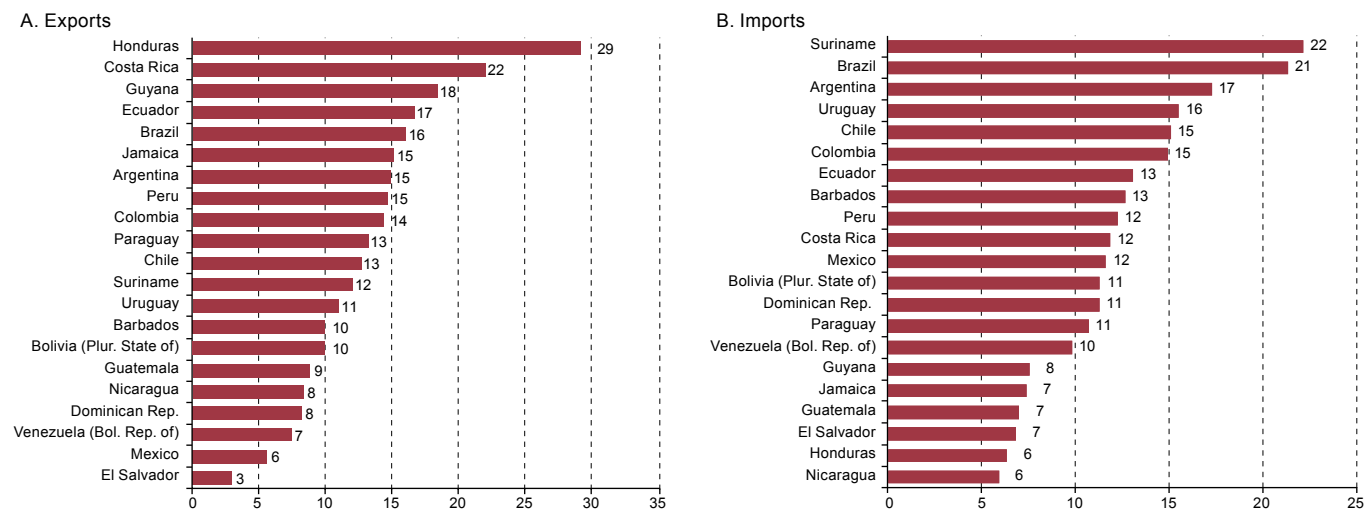
3. The European Union's share of total trade varies considerably among countries in the region

- In 2017, only two Latin American countries shipped more than 20% of their exports to the European Union: Honduras and Costa Rica. Similarly, only two countries in the region received more than 20% of their imports from the European Union: Suriname and Brazil.

■ Figure IV.3 ■

Latin America and the Caribbean (21 countries): European Union share of trade in goods, 2017

(Percentages)



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

4. Latin America and the Caribbean has a share of less than 3% in the European Union's external trade in goods and services

- The subdued level of growth experienced by many member States of the European Union since the outbreak of the global financial crisis in 2008 has produced a steep loss of momentum in intra-community trade. The intra-EU market's share of total European Union goods exports fell by almost 5 percentage points between 2008 and 2016, and stands at 62%. In this context, the United States and China have increased their share.
- With regard to services, the intra-EU share of European Union exports to the rest of the world (55%) is less than that for goods, and has also declined less.
- The share of Latin America and the Caribbean in the European Union's external trade has changed marginally in recent years, remaining below 3% for both goods and services, and for both exports and imports.
- In 2016, excluding intra-community trade, Latin America and the Caribbean was the destination for 6% of goods exported by the European Union to the rest of the world, and the origin of 5.3% of its imports. With regard to services, in 2015 (the last year with statistics for all trade partners) the region was the destination for 6% of the European Union's exports to the rest of the world, and the origin of 7% of its imports.
- In contrast to goods trade, Latin America and the Caribbean still outweighs China as a partner of the European Union in services trade (measured both by exports and imports).

■ **Table IV.2** ■
European Union: share in trade of selected partners
(Percentages)

A. Goods, 2008-2016

Partner		2008	2010	2012	2013	2014	2015	2016
Exports	Latin America and the Caribbean	2.1	2.3	2.7	2.6	2.4	2.5	2.3
	China	1.9	3.0	3.3	3.3	3.6	3.6	3.7
	United States	6.3	6.4	6.7	6.4	6.8	7.7	7.9
	Japan	1.0	1.1	1.3	1.2	1.2	1.2	1.3
	European Union	66.5	64.4	61.6	61.1	62.2	62.1	61.9
Imports	Latin America and the Caribbean	2.6	2.5	2.6	2.4	2.3	2.2	2.1
	China	6.5	8.0	7.3	7.2	7.7	8.4	8.4
	United States	5.1	5.2	5.3	5.2	5.3	6.0	5.8
	Japan	2.2	2.1	1.8	1.6	1.5	1.6	1.8
	European Union	59.3	58.3	56.8	58.6	59.1	59.5	60.0

B. Services, 2010-2015

Partner		2010	2011	2012	2013	2014	2015
Exports	Latin America and the Caribbean	3.1	3.3	3.1	3.0	2.8	2.7
	China	1.5	1.6	1.7	1.7	1.7	2.0
	United States	10.7	10.9	11.5	11.6	11.7	12.2
	Japan	1.5	1.4	1.6	1.5	1.5	1.5
	European Union	56.3	56.0	54.7	54.4	54.6	55.0
Imports	Latin America and the Caribbean	1.9	2.0	2.0	1.8	2.6	3.0
	China	1.5	1.5	1.5	1.6	1.6	1.6
	United States	12.5	12.1	12.4	12.3	13.1	13.2
	Japan	1.2	1.3	1.2	1.1	1.0	1.0
	European Union	59.6	59.9	59.6	59.6	58.4	57.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade) (goods trade) and Organization for Economic Cooperation and Development (OECD) (services trade).

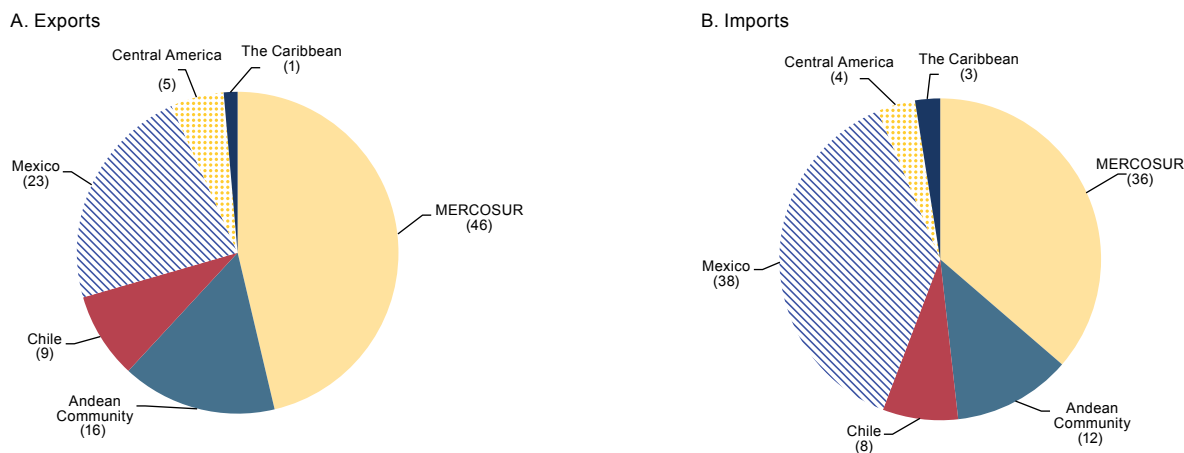
5. The Southern Common Market (MERCOSUR) is the region's largest exporter of goods to the European Union, but Mexico is now the leading importer from that market

- In 2017, the five member countries of the Southern Common Market (MERCOSUR) exported goods valued at US\$ 47.3 billion to the European Union, or 46% of the value of Latin American and Caribbean shipments to that market. Brazil accounted for 34% of the region's total exports to the European Union. It was followed by Mexico with 23%, a share in the region's exports to the European Union equal to the combined exports of the member countries of the Andean Community and the countries of Central America and the Caribbean.
- MERCOSUR accounted for over 36% of the region's total imports from the European Union in 2017, 9 percentage points below the 2013 level. This reflects the slowdown in growth and the ensuing economic contraction that has afflicted the principal MERCOSUR economies in recent years. In contrast, during the same period, Mexico increased its share by 11 percentage points, from 27% to 38%, overtaking MERCOSUR as the region's main destination for shipments from the European Union.
- Mexico imports a broad range of intermediate goods from Europe, which it subsequently incorporates into final manufactured goods that it exports to other markets, in particular the United States. The automotive industry is an illustrative example, as Mexico is home to many plants installed by a number of European manufacturers.

■ Figure IV.4 ■

Latin America and the Caribbean: breakdown of trade in goods with the European Union, by selected countries and groupings, 2017

(Percentages)



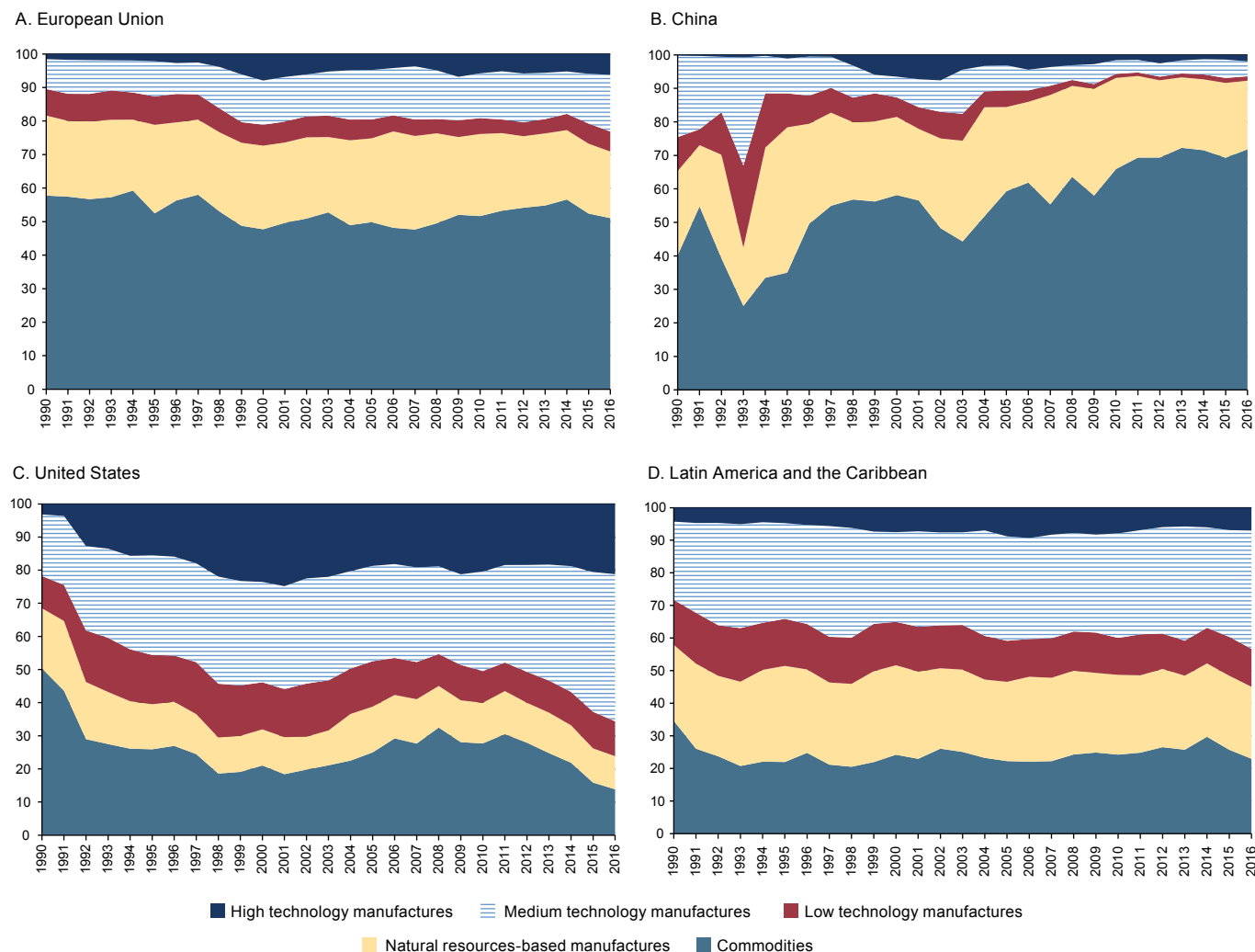
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

6. Commodities represented 51% of the total value of Latin American and Caribbean exports to the European Union, less than that of shipments to China (72%), but far greater than that of shipments to the United States (14%) and to the region itself (23%)

■ Figure IV.5 ■

Latin America and the Caribbean: breakdown of goods exports to selected destinations, by technology content, 1990-2016

(Percentages)



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

7. The countries of Latin America and the Caribbean export less products to the European Union than to their own region, but far more than to their major Asian markets

■ Table IV.3 ■

Latin America and the Caribbean (21 countries): number of products exported to selected destinations, 2017

(At the six-digit level of the Harmonized Commodity Description and Coding System)

Country	Latin America and the Caribbean	United States	Unión Europea (28 countries)	China	Japan
Argentina	3 353	1 388	1 517	410	326
Belize	420	438	70	138	15
Bolivia (Plurinacional State of)	529	221	253	54	76
Brazil	3 957	3 039	3 063	1 488	1 263
Chile	3 702	1 436	1 535	409	288
Colombia	3 305	1 933	1 497	224	161
Costa Rica	2 831	1 749	1 005	207	112
Dominican Republic	2 549	2 353	1 307	158	41
Ecuador	1 978	1 154	891	112	121
El Salvador	2 592	1 216	523	72	53
Guatemala	3 281	1 584	904	144	129
Honduras	1 448	1 503	823	786	204
Jamaica	966	1 100	220	56	30
Mexico	3 858	4 239	2 901	1 460	1 344
Nicaragua	1 956	935	247	41	40
Panama	3 228	1 607	729	49	41
Paraguay	1 093	324	461	51	37
Peru	3 144	1 843	1 729	338	451
Saint Lucia	756	1 323	511	148	5
Uruguay	1 455	556	889	134	48
Venezuela (Bolivarian Republic of)	1 415	374	813	112	30

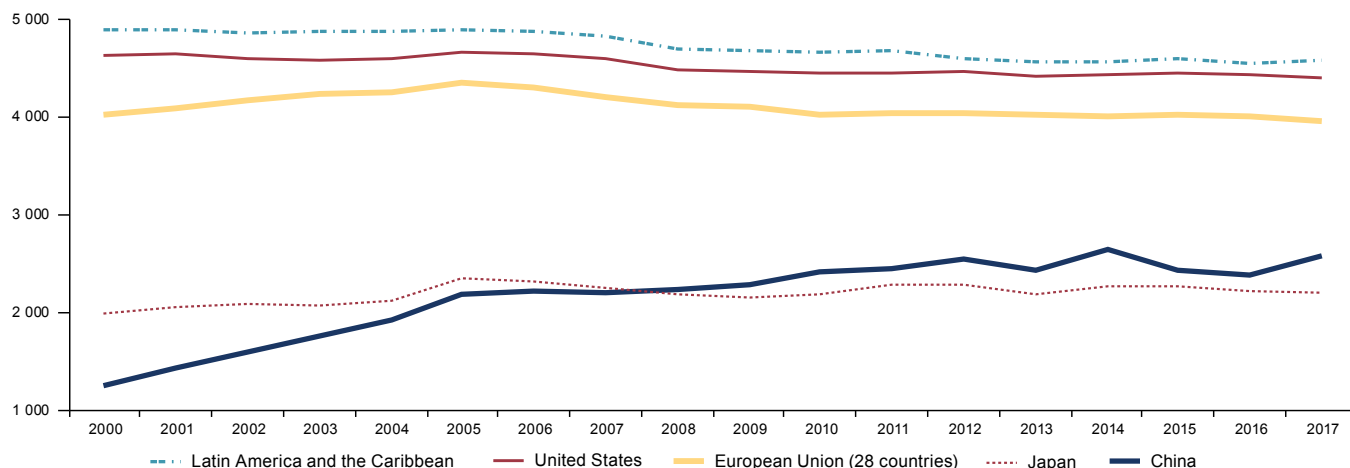
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

Note: The data for Colombia, Costa Rica, Guatemala and Saint Lucia are from 2016. The figures for the Bolivarian Republic of Venezuela are based on mirror data.

■ Figure IV.6 ■

Latin America and the Caribbean: number of products exported to selected destinations, 2000-2017

(At the six-digit level of the Harmonized Commodity Description and Coding System)



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

8. With rare exceptions, the region's exports to the European Union remain concentrated in only a few products, generally commodities

■ Table IV.4 ■

Latin America and the Caribbean (16 countries): five main products exported to the European Union, 2017

(Percentages of total exports)

Country	First	Second	Third	Fourth	Fifth	Top five
Argentina	Soybean cake and other solid soybean residues (29)	Other shrimps and prawns, frozen (6)	Biodiesel and blends (5)	Bovine meat, fresh or chilled (5)	Peanuts (4)	56
Belize	Raw cane sugar, solid form (79)	Orange juice (8)	Builders' joinery and carpentry of wood (2)	Essential oil of orange (2)	Other shrimps and prawns, frozen (2)	93
Bolivia (Plurinational State of)	Zinc ores and concentrates (37)	Silver ores and concentrates (14)	Brazil nuts, fresh or dried (13)	Unwrought tin, not alloyed (12)	Lead ores and concentrates (6)	81
Brazil	Soybean cake and other solid soybean residues (8)	Coffee, non-decaffeinated (7)	Iron ores and concentrates, non-agglomerated (6)	Soybeans (6)	Wood pulp other than coniferous (6)	32
Chile	Copper ore and concentrates (25)	Refined copper cathodes and sections of cathodes (19)	Other wine; grape must in containers holding 2 litres or less (5)	Wood pulp other than coniferous (3)	Avocado (3)	56
Dominican Republic	Plantains (15)	Cocoa beans, whole or broken, raw or roasted (11)	Plantains, fresh or dried (11)	Other medical, surgical or veterinary instruments and appliances (7)	Pharmaceutical goods (7)	51
Ecuador	Plantains, fresh or dried (30)	Preserved tuna, skipjack and bonito, whole or in pieces (22)	Other shrimps and prawns, frozen (21)	Cocoa beans, whole or broken, raw or roasted (6)	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purpose (4)	83
El Salvador	Preserved tuna, skipjack and bonito, whole or in pieces (33)	Coffee, non-decaffeinated (20)	Raw cane sugar (8)	Cane molasses (6)	Light oils and preparations (5)	72
Honduras	Coffee, non-decaffeinated (63)	Palm oil, crude (17)	Other shrimps and prawns, frozen (6)	Palm kernel or babassu oil and fractions thereof, crude (4)	Zinc ores and concentrates (2)	92
Jamaica	Aluminium oxide (89)	Rum and spirits from sugar cane or tafia (3)	Rock lobster and other sea crawfish, frozen (2)	Molluscs or other aquatic invertebrate, live, fresh or chilled (2)	Coffee, non-decaffeinated (1)	96
Mexico	Crude petroleum oils (16)	Motor vehicles of a cylinder capacity exceeding 1,500 cm ³ but not exceeding 3,000 cm ³ (13)	Other vehicles of a cylinder capacity exceeding 1,500 cm ³ but not exceeding 3,000 cm ³ (7)	Other vehicles of a cylinder capacity exceeding 1,000 cm ³ but not exceeding 1,500 cm ³ (5)	Telephone sets, including telephones for cellular networks (4)	46
Nicaragua	Coffee, non-decaffeinated (36)	Other shrimps and prawns, frozen (17)	Groundnuts, seed (13)	Plantains, fresh or dried (9)	Rock lobster and other sea crawfish, frozen (6)	80
Paraguay	Soybeans (46)	Soybean cake and other solid soybean residues (29)	Hides and skins of bovine or equine animals (6)	Bovine meat, fresh or chilled (3)	Soya-bean oil, crude (2)	86
Peru	Copper ore and concentrates (17)	Liquefied natural gas (8)	Zinc ores and concentrates (7)	Coffee, non-decaffeinated (6)	Gold, unwrought (excluding in powder form), non-monetary (6)	45
Uruguay	Bovine meat, fresh or chilled (30)	Bovine meat, frozen (12)	Wood in chips or particles, other than coniferous (8)	Combed wool, other than in fragments (6)	Soybeans (5)	61
Venezuela (Bolivarian Republic of) ^a	Crude petroleum oils (62)	Ferrous products (10)	Other petroleum oils and preparations (5)	Petroleum coke, not calcined (3)	Rum and spirits from sugar cane or tafia (2)	82
Latin America and the Caribbean	Soybean cake and other solid soybean residues (7)	Copper ore and concentrates (6)	Crude petroleum oils (6)	Coffee, non-decaffeinated (4)	Motor vehicles of a cylinder capacity exceeding 1,500 cm ³ but not exceeding 3,000 cm ³ (3)	26

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

^aThe figures for the Bolivarian Republic of Venezuela are based on mirror data.

9. The countries of the region that have trade agreements with the European Union have substantially improved their access to that market, although much less in agriculture than in the industrial sector

- In aggregate terms, average tariffs on exports from the region's countries that have trade agreements with the European Union range from 0% to 2%, which are much lower than the European Union's most-favoured-nation average tariff for all products (6.3%). However, there is a significant asymmetry between industrial and agricultural products. While the former gain access to the European Union free of tariffs, the latter are subject to average tariffs ranging from 4% (Peru) to 8.9% (Chile). Agriculture shipments from the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) are the only exception, as they are practically unencumbered by tariffs in the European Union. The agreement with CARIFORUM is highly asymmetrical (in favour of the latter).
- While nearly 100% of non-agricultural products exported by the region's countries to the European Union are admitted free of duties, for agricultural products the percentage drops to 55%-60% (for Chile, Central America, Ecuador and Mexico), or slightly above 70% (for Colombia and Peru). Once again, the situation is much more favourable for CARIFORUM countries.
- The European Union maintains particularly high average tariffs for dairy products (36%), sugar and confectionery (27%) and meat (19%), which tend to be the same products excluded from tariff liberalization in the trade agreements with countries of the region. This prevents Latin American countries from fully harnessing their potential in the agricultural and agro-industrial sectors and also contributes to the continued concentration of the region's exports to the European Union in relatively few products.

■ **Table IV.5** ■

European Union: tariffs applied to selected trade partners, 2016 (Percentages)

A. Simple average tariff

Partner	All products	Agricultural products	Non-agricultural products
Most favoured nation	6.3	14.1	4.3
CARIFORUM ^a	0.0	0.1	0.0
Central America ^a	1.3	6.4	0.0
Chile	1.9	8.9	0.0
Colombia ^a	1.0	4.7	0.0
Ecuador ^a	1.8	8.7	0.0
Mexico	1.7	8.2	0.0
Peru ^a	0.8	4.0	0.0

B. Percentage of tariff lines free of tariffs

Partner	All products	Agricultural products	Non-agricultural products
Most favoured nation	26.1	19.1	28.1
CARIFORUM ^a	99.0	96.5	99.8
Central America ^a	90.8	58.7	99.8
Chile	89.9	55.0	99.7
Colombia ^a	93.6	71.3	99.9
Ecuador ^a	89.2	54.6	99.0
Mexico	90.6	57.9	99.8
Peru ^a	94.0	73.2	99.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *Trade Policy Review: European Union, 2017*, table 3.1.

^a The tariff reduction programme has yet to conclude.

10. The European Union has the largest global network of trade agreements with Latin America and the Caribbean, thus offering a great opportunity for both parties

- In November 2016, Ecuador joined the trade agreement that had been in force since 2013 between Colombia and Peru, on the one hand, and the European Union, on the other. Thus, the European Union now has trade agreements in place with 26 countries of Latin America and the Caribbean, making it the extraregional partner with the broadest range of agreements of this kind in the region, followed by the United States, which has agreements with 11 countries. Unlike other trade partners, the European Union has favoured “bloc to bloc” negotiations with the main Latin American and Caribbean subregional integration mechanisms of.
- If the European Union’s negotiations with MERCOSUR conclude successfully, it will have trade agreements in place with 30 of the 33 CELAC countries. This could lay the foundations for a mechanism linking all these agreements, thereby allowing the countries of Latin America and the Caribbean to cumulate origin with each other—and with the European countries—for their exports to the European Union.
- The European Union already has a regime in place for cumulation of origin with 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 implementation of a similar regime between the European Union and Latin America and the Caribbean would strengthen production integration among the region’s countries and between them and Europe.
- In April 2017, Mexico and the European Union successfully concluded negotiations that had begun in May 2016 with a view to modernizing their trade agreement, which has been in force since 2000 and is the oldest accord between the European Union and a country in the region. Negotiations began in November 2016 to modernize the agreement with Chile, which has been in place since 2003 and is the European Union’s second oldest in the region. Unlike more

recent agreements with the Andean countries and Central America, the European Union’s initial accords with Chile and Mexico do not have chapters on e-commerce, trade and sustainable development or several other areas. The European Commission has indicated that following their modernization, both agreements should be comparable in terms of content with the Comprehensive Economic and Trade Agreement (CETA) entered into by the European Union and Canada in October 2016.

- In the coming years, the modernization process initiated with Mexico and Chile will probably be extended to include other agreements between the European Union and the region’s countries and groupings, a necessary step to adapt them to the rapid and intense changes taking place in global trade and production, in particular growing digitization. Another priority issue to be addressed will be the insufficient liberalization of agricultural trade in the existing agreements (with the exception of the agreement between the European Union and CARIFORUM).

■ **Table IV.6** ■
European Union: trade agreements with Latin American and Caribbean countries and groupings

	Year agreement signed	Year agreement came into force
Groupings		
CARIFORUM ^a	2008	2009
Central America	2012	2013
Andean countries ^b	2012	2013
Countries		
Chile	2002	2003
Mexico	1997	2000

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 Colombia, Ecuador and Peru.

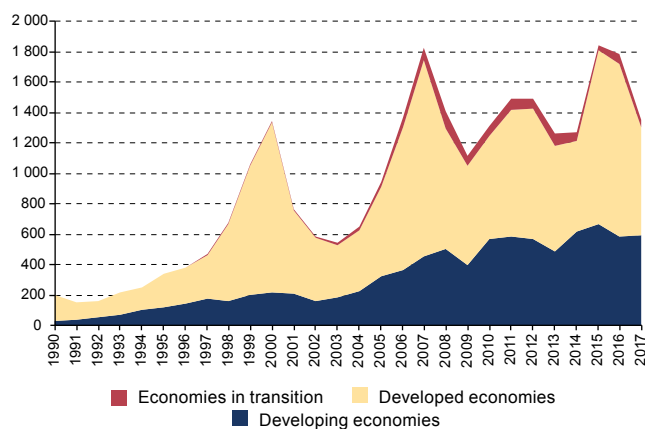
B. Foreign direct investment (FDI) to modernize and strengthen productive structures

1. Global FDI fell in 2017, triggered by weaker flows into the United States and the United Kingdom

- Global foreign direct investment (FDI) flows fell by 23% in 2017 to US\$ 1.43 trillion, attributable to lower inflows to developed economies, in particular the United States and the United Kingdom. FDI inflows to the United States were 40% lower than in 2015 and 2016, owing primarily to a tightening of regulations that put a halt to the corporate inversion transactions in which companies relocate overseas to reduce their tax burden. Inward FDI in the United Kingdom saw a decline of close to 10% compared with 2016, when inflows had skyrocketed owing to a number of large mergers and acquisitions. Developed countries thus accounted for 50% of global FDI.
- FDI into developing economies remained stable in 2017, although Asia was the only region where flows increased compared with the year before. Flows to Africa (US\$ 41.772 billion) were 21% lower than the previous year, while in the transition economies of Eastern Europe flows fell by 27% to US\$ 46.767 billion and by 3% in Latin America and the Caribbean. Inflows into China stood at US\$ 136.320 billion, making it the second largest FDI recipient in the world, behind the United States. Despite its FDI policy change that slashed overseas FDI by 36% in 2017, China emerged as the third largest investor in the world, behind the United States and Japan.
- Over the long term, global FDI flows have been slowing; FDI did not match its record levels of 2007—registered before the onset of the global financial crisis—until 2015 and 2016, and since then has fluctuated around US\$ 1.5 trillion, in nominal terms. The upward trend in the two decades that preceded the financial crisis seems to have been broken, despite better conditions for FDI in recent years: positive growth rates in the world's largest economies, abundant liquidity, high valuations for financial assets and a series of technological changes leading to the restructuring of many industries.

■ **Figure IV.7** ■
Global foreign direct investment flows, by groups of economies, 1990-2017

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018* (UNCTAD/WIR/2018), Geneva, 2018.

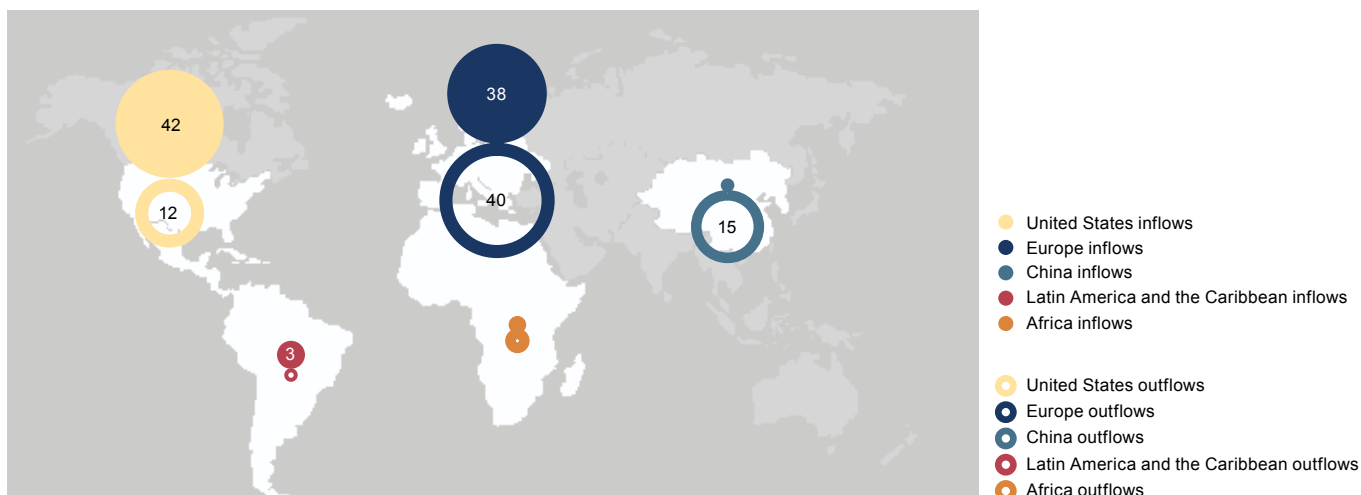
2. Concentration in advanced economies is even more evident in cross-border mergers and acquisitions; China emerges as a major buyer

- In 2017, the net value of global cross-border mergers and acquisitions fell 22%, owing mainly to transactions in developed economies, which accounted for 82% of sales (32% in Europe and 45% in the United States). Advanced economies were also the main sources of funding for these transactions, accounting for 67% of the total. For its part, in 2017 China emerged as a large global buyer, accounting for 15% of the total value of acquisitions and more than doubling its 2010 share of 6%.
- China consolidated its position among leading investing countries in 2016, with FDI outflows reaching an all-time high of US\$ 196.149 billion. Its share of outward FDI increased from 1.3% in 2006 to 13.3% in 2016, making it the world's second largest investor after the United States. A sustained trade surplus, the access of public banks to credit at low rates and difficulties to sustain high profit levels in the domestic market contributed to China's acquisition activity in foreign markets.
- This trend lost momentum in 2017 as a result of increasing controls on the part of China's monetary authority, as FDI outflows fell by 36.5%. The measures aimed to curtail the negative impact of FDI outflows on the balance of payments and on the national currency. These actions also reflected the concern of authorities with regard to the high level of indebtedness of some Chinese transnational firms, as well as their efforts to align FDI with the country's strategic plan.
- However, the country's cross-border transactions also suggest that it is seeking to establish a leading position in the new global industrial and technological landscape. The vast majority of FDI flows from China were directed at mergers and acquisitions, transactions which allow for rapid acquisition of knowledge, technological capabilities, brands, client bases and access to markets. This activity focused mainly on the United States and Europe through transactions which, although diversified by sector, centred chiefly on high technology industries. In the United States, most transactions occurred in hardware, consumer electronics, real estate and entertainment, whereas in Europe there were several acquisitions in information and communication technologies, transport, energy and infrastructure and industrial machinery.

■ Figure IV.8 ■

Share in the overall net value of cross-border mergers and acquisitions, by country or region, 2017

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2017* (UNCTAD/WIR/2017), Geneva.

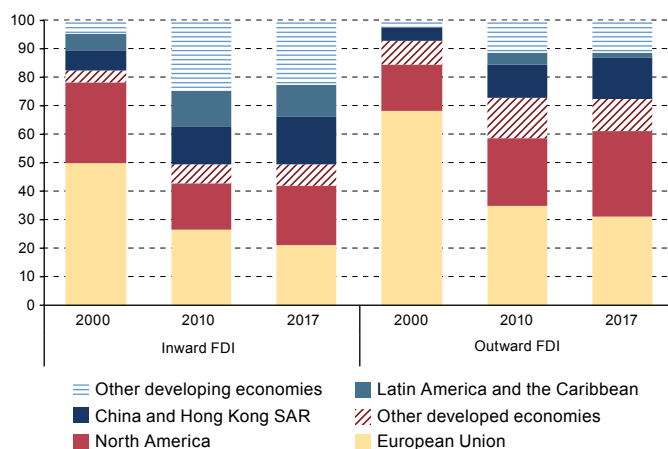
- In a similar vein, China's efforts to acquire strategic industrial assets have generated concerns in Europe and the United States. Large transactions in the high technology space have prompted the European Union to adopt a new legal

framework allowing the bloc to deepen its FDI protection mechanisms, while in the United States the Committee on Foreign Investment (CFIUS) took decisive action in recommending the blocking of two major transactions.

3. The European Union has a balanced profile as a recipient and source of FDI, accounting for 20% and 32%, respectively, of global flows; meanwhile, Latin America and the Caribbean is a net recipient, with 11% of inflows and 2% of outflows

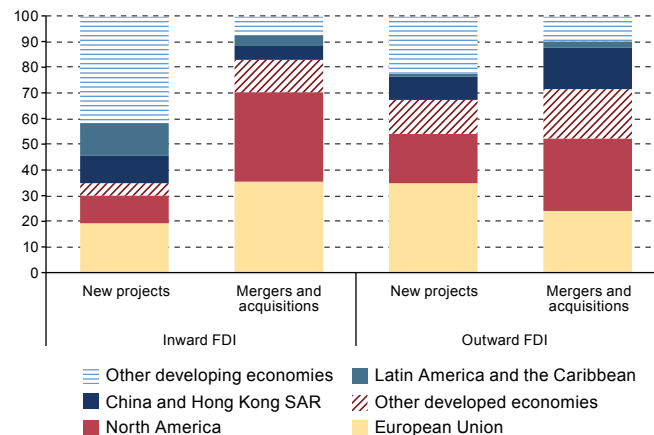
- In 2017, FDI flows to Latin America and the Caribbean fell by 3.6%, for a total of US\$ 161.911 billion. Thus, the region accounted for 11% of global inward FDI, compared to its record high of 15% in 2014. Investments centred on the search for natural resources slowed after the end of the commodities price boom, as did those seeking new markets after the region slumped or, the case of certain larger economies such as Brazil, fell into recession. Additionally, the development of export platforms to the United States, which attract investment to Mexico and the Central American countries, faces an uncertain outlook, as reflected in the renegotiation of the North American Free Trade Agreement (NAFTA) and in the United States abandoning negotiations for the Trans-Pacific Partnership (TPP). Against this backdrop, FDI continued its retrenchment in 2017, when it recorded a 19% cumulative drop from its peak in 2011.
- Outward FDI from Latin America and the Caribbean also fell in 2017. The focus of trans-Latin companies on their own regional market meant they were affected by the same factors that shaped the overall FDI trend. Furthermore, Brazilian companies represented a large share of investments, and many potential transactions have suffered as a consequence of the corruption scandals that have come to light in the past year.
- The European Union bloc is the world's largest recipient and source of FDI. In 2017, FDI flows to the European Union fell sharply (42%), with inflows totalling US\$ 303.580 billion, or 21% of the world's total. The activity of European transnational corporations slowed in 2017: outward FDI from the bloc fell by 4% to US\$ 435.736 billion, equivalent to 30% of global FDI outflows.
- The geographical breakdown of mergers and acquisitions and of new investment announcements shows the different investment strategies of transnational investors by region. Announcements of greenfield investment projects have been clearly concentrated in developing economies, which accounted for 65% of inflows between 2010 and 2017. The European Union was the recipient of 19% of new projects announced, a figure below their overall share of inward FDI, while the share of Latin America and the Caribbean stood at 12%, slightly above the region's share of total FDI flows (11%). As already mentioned, advanced economies had the largest share of mergers and acquisitions deals, of which the European Union represented 36% in cumulative terms during the period, compared with 5% concentrated in Latin America and the Caribbean.
- Developed economies have been the main source of new projects and of mergers and acquisitions, although in relative terms their share in the generation of new projects has been greater than in the acquisition of existing firms. Between 2010 and 2017, announcements of new transnational investments made by European companies accounted for 35% of the total, while their share of mergers and acquisitions of existing firms was 24%. Latin American and Caribbean firms have had lower shares in both types of investment, accounting for only 2% of total new project announcements and 2% of mergers and acquisitions transactions.

Figure IV.9
Breakdown of global FDI flows, by region, 2000-2017
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018* (UNCTAD/WIR/2018), Geneva, 2018.

Figure IV.10
Breakdown of the value of investment announcements in new projects and cross-border mergers and acquisitions, by region, cumulative 2010-2017
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018* (UNCTAD/WIR/2018), Geneva, 2018.

4. FDI in Latin America and the Caribbean is concentrated in the largest economies, with Brazil receiving 43% of the total in the last five years, whereas in the European Union, the three largest recipients accounted for 50% of inflows in the same period

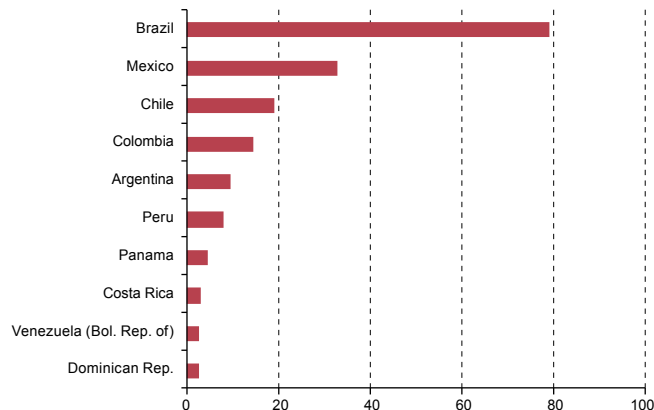
- Between 2012 and 2017, FDI in Latin America and the Caribbean was directed towards two principal destinations: Brazil (43%) and Mexico (20%). In 2017, FDI into Brazil decreased by 9.7%, driven down by a steady fall in investment in natural resources, with the largest shares of investment directed to manufacturing and services, particularly in electricity and gas. FDI also fell in Mexico (8.8%), although at a similar rate to the average of the last five years; the manufacturing industry attracted the most foreign capital (45% of the total), followed by services. In both Brazil and Mexico, there has been a surge in investment in the automotive industry in the last year. Chile, Colombia, Argentina, and Peru were the next largest recipients of FDI after Mexico. FDI inflows to Argentina increased following a sharp drop in 2016 and Colombia also saw a slight increase, while flows to Chile and Peru declined. Inflows to countries of the Caribbean and Central America jumped in 2017; notable cases were Panama, which has seen a steady increase over the past five years thanks to its strategy of attracting investment in services, and the Dominican Republic, where inflows have risen significantly.
- The three main FDI recipients in the European Union have accounted for 50% of cumulative inflows in the last five years. Ireland, Luxembourg and the Netherlands receive large FDI flows as tax-friendly financial centres with the logistics and services for transnational corporations to execute global transactions. FDI into the United Kingdom plummeted in 2017, after the sharp rise in 2016 on the back of three of the four largest global mergers and acquisitions transactions. France, Germany, Italy and the United Kingdom have sophisticated productive systems, especially in manufacturing, thus making them attractive FDI destinations. The same can be said of Poland and Spain, which have matured as exporting platforms.

■ **Figure IV.11 ■**

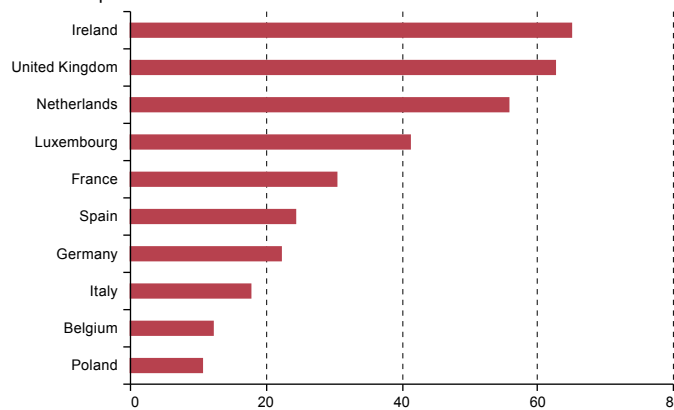
Latin America and the Caribbean and European Union: leading FDI recipient economies, average 2012-2017

(Billions of dollars)

A. Latin America and the Caribbean



B. European Union



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2018. Briefing paper*, Santiago, 2018; and United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2017* (UNCTAD/WIR/2017), Geneva.

■ Table IV.7 ■

Latin America and the Caribbean and the European Union: FDI inflows, by recipient countries, 2007-2017*(Millions of dollars)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Latin America and the Caribbean	131 223	153 095	94 601	168 242	207 225	204 754	194 111	203 043	186 743	168 426	161 911
Antigua and Barbuda	341	161	85	101	68	138	101	155	154	146	...
Argentina	6 473	9 726	4 017	11 333	10 840	15 324	9 822	5 065	11 759	3 260	11 517
Bahamas	1 623	1 512	646	1 097	1 409	1 034	1 133	3 244	408	943	928
Barbados	476	615	255	446	458	548	56	559	69	230	286
Belize	143	170	109	97	95	189	95	153	65	33	26
Bolivia (Plurinational State of)	366	513	423	643	859	1 060	1 750	657	555	335	725
Brazil ^a	44 579	50 716	31 481	88 452	101 158	86 607	69 686	97 180	74 718	78 248	70 685
Chile ^b	13 475	18 473	13 855	16 020	24 150	30 293	20 825	23 736	21 051	12 374	6 419
Colombia ^a	8 886	10 564	8 035	6 430	14 647	15 039	16 209	16 167	11 723	13 850	13 924
Costa Rica ^c	1 896	2 078	1 615	1 907	2 733	2 696	3 205	3 242	2 956	2 958	2 997
Dominica	48	57	58	43	35	59	25	35	36	33	...
Dominican Republic ^d	1 667	2 870	2 165	2 024	2 277	3 142	1 991	2 209	2 205	2 407	3 570
Ecuador	194	1 057	309	166	644	567	727	772	1 322	755	606
El Salvador ^a	1 455	824	366	-226	218	466	179	306	396	348	792
Grenada	172	141	104	64	45	34	114	38	61	63	0
Guatemala ^b	745	754	600	806	1 026	1 245	1 295	1 389	1 221	1 185	1 147
Guyana	152	178	164	198	247	294	214	255	122	58	212
Haiti	75	29	55	178	119	156	161	99	106	105	375
Honduras	928	1 006	509	969	1 014	1 059	1 060	1 417	1 204	1 139	1 186
Jamaica ^f	866	1 437	541	228	218	413	545	582	925	928	888
Mexico ^g	33 070	32 188	19 455	20 990	24 320	17 570	47 229	30 287	36 519	34 776	31 726
Nicaragua ^g	382	627	434	490	936	768	816	884	950	899	897
Panama ^h	1 777	2 402	1 259	2 363	3 132	2 980	3 943	4 459	5 058	5 995	6 066
Paraguay	202	263	71	462	581	697	245	412	306	320	356
Peru	5 491	6 924	6 431	8 455	7 341	11 788	9 800	4 441	8 272	6 863	6 769
Saint Kitts and Nevis	141	184	136	119	112	110	139	120	78	69	...
Saint Lucia	277	166	152	127	100	78	95	93	95	97	...
Saint Vincent and the Grenadines	121	159	111	97	86	115	160	110	121	104	...
Suriname	-247	-231	-93	-248	70	174	188	164	279	309	163
Trinidad and Tobago ⁱ	830	2801	709	549	41	-1 904	-1 130	661	194	-24	-374
Uruguay	1 329	2 106	1 529	2 289	2 504	6 044	755	3830	2435	-379	27
Venezuela (Bolivarian Republic of) ^j	3 288	2 627	-983	1 574	5 740	5 973	2 680	320	1 383

Table IV.7 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
European Union	823 661	305 478	391 169	362 685	434 756	492 007	344 675	259 933	515 866	524 010	303 580
Austria	25 484	7 226	9 268	2 575	10 616	3 989	5 720	4 577	1 270	-9 001	9 630
Belgium	93 429	-12 272	65 381	43 231	78 258	6 516	25 125	-12 390	23 872	30 307	740
Bulgaria	12 389	9 855	3 385	1 549	2 052	1 697	1 837	1 540	2 746	1 194	1 071
Croatia	4 633	5 317	3 048	1 155	1 699	1 510	958	2 877	267	1 756	2 104
Cyprus	2 226	1 934	3 703	17 268	-11 725	47 199	-6 495	736	7 466	2 118	6 343
Czechia	10 444	6 451	2 927	6 141	2 318	7 984	3 639	5 492	465	9 815	7 412
Denmark	6 638	-742	1 045	-8 977	11 939	776	908	4 682	3 616	-159	-3 115
Estonia	2 311	1 830	1 839	1 509	1 005	1 565	769	655	13	915	784
Finland	12 451	-1 144	718	7 359	2 550	4 154	-169	18 304	1 484	11 644	1 328
France	63 500	37 593	30 733	13 890	31 642	16 062	34 270	2 669	45 347	35 165	49 795
Germany	80 212	8 127	23 806	65 643	67 514	28 181	15 573	4 863	33 276	16 982	34 726
Greece	2 111	4 499	2 436	330	1 143	1 740	2 817	2 688	1 272	3 069	4 046
Hungary	3 951	6 327	1 995	2 193	6 300	14 409	3 402	7 807	-14 751	-5 855	2 492
Ireland	24 707	-16 453	25 715	42 804	23 545	46 923	46 625	37 414	215 791	14 523	28 975
Italy	43 849	-10 835	20 077	9 178	34 324	93	24 273	23 223	19 628	22 243	17 077
Latvia	2 324	1 264	94	379	1 453	1 109	903	780	710	148	721
Lithuania	1 984	1 964	-14	799	1 446	700	469	-23	870	264	595
Luxembourg	-29 679	7 117	27 255	39 129	8 843	143 003	19 616	22 747	11 320	45 123	6 623
Malta	39 620	12 689	2 907	5 409	21 876	14 184	12 004	11 343	4 645	3 813	3 185
Netherlands	114 161	-6 776	38 752	-7 184	24 156	25 013	51 105	44 974	69 565	85 778	57 957
Poland	19 836	12 283	10 039	12 796	15 925	12 424	2 734	14 269	15 271	13 928	6 434
Portugal	2 875	3 549	1 611	2 424	7 428	8 858	2 702	2 999	6 926	6 310	6 946
Romania	9 733	13 492	4 665	3 041	2 363	3 199	3 601	3 211	3 839	4 997	5 160
Slovakia	4 017	4 868	-6	1 770	3 491	2 982	-604	-512	106	-295	2 277
Slovenia	757	1 218	-476	105	1 087	339	-151	1 050	1 674	1 260	702
Spain	64 264	76 993	10 407	39 873	28 379	25 696	37 436	25 238	19 560	19 660	19 086
Sweden	28 593	36 947	10 147	97	12 929	16 257	3 930	4 030	6 897	12 177	15 396
United Kingdom	176 839	92 158	89 709	58 200	42 200	55 446	51 676	24 690	32 720	196 130	15 090

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 5 July 2018, and United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018: Investment and New Industrial Policies*, Geneva, 2018.

^a The data are standardized according to the methodology of the Balance of Payments and International Investment Position Manual Sixth Edition (BPM6).

^b From 2003 to 2016 the data are standardized according to the methodology of BPM6.

^c From 2009 to 2016 the data are standardized according to the methodology of BPM6.

^d From 2010 to 2016 the data are standardized according to the methodology of BPM6.

^e From 2008 to 2016 the data are standardized according to the methodology of BPM6.

^f From 2012 to 2016 the data are standardized according to the methodology of BPM6.

^g From 2006 to 2016 the data are standardized according to the methodology of BPM6.

^h From 2015 to 2016 the data are standardized according to the methodology of BPM6.

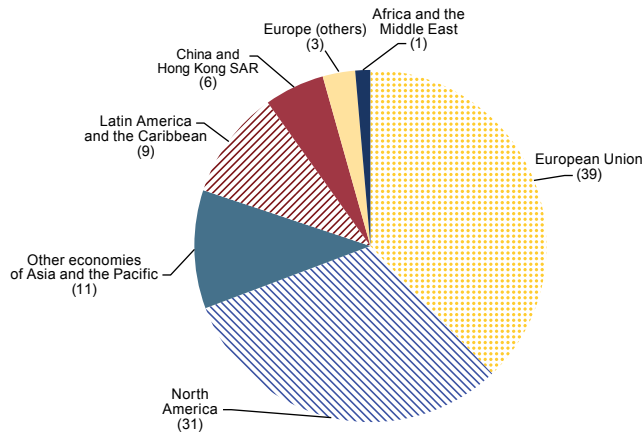
ⁱ From 2011 to 2015 the data are standardized according to the methodology of BPM6.

^j The 2015 data correspond to the first three quarters only.

5. The European Union has a diversified investment profile and is the largest investor in Latin America and the Caribbean

- In recent years, European transnational companies have led investment announcements in Latin America and the Caribbean. Between 2010 and 2017, 39% of the total value of new projects announced in the region was attributable to European Union companies, with North America relegated to second place (31% of the total). Transnational corporations from Asia and the Pacific, together with China and Hong Kong SAR, came third and accounted for 16%, while the trans-Latins, whose cross-border announcements represented 9% of the total value of new projects, were fourth.
- For the same period, new cross-border projects announced by European Union firms showed healthy geographical diversification. Latin America and the Caribbean accounted for 13% of the total value, while the European Union hosted the largest share of projects (28%), followed by Asia, including China and Hong Kong SAR, and the countries of the Pacific (25%).

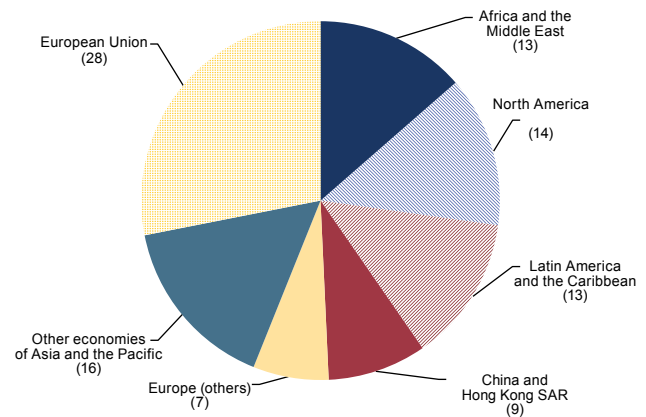
■ **Figure IV.12** ■
Latin America and the Caribbean: breakdown of announced investment inflows, by region of origin, 2010-2017
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

Note: This analysis excludes the announcement of the Nicaragua Canal made by Hong Kong SAR in 2013, for a value of US\$ 40 billion.

■ **Figure IV.13** ■
European Union: breakdown of outward cross-border investment announcements, by region of destination, 2010-2017
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

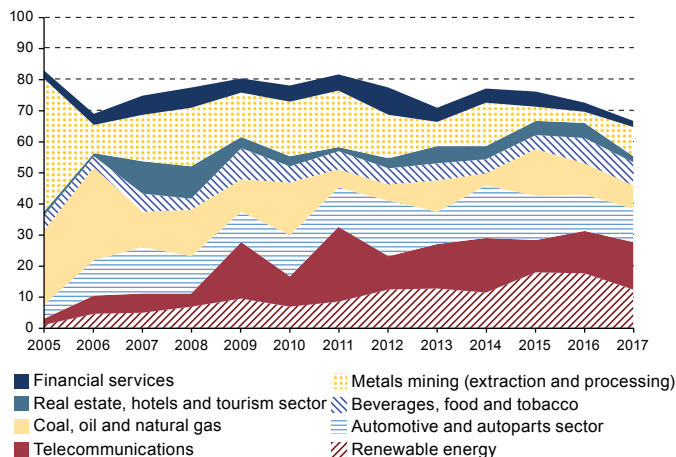
6. Investments in renewable energy and telecommunications have increased sharply in Latin America and the Caribbean

- The sectoral breakdown of investment projects announced in Latin America and the Caribbean changed significantly between 2005 and 2017, reflecting the end of the commodities boom cycle, the greater development of renewable energies, the growth of the automotive industry —mainly in Mexico and Brazil— and the advance of the digital economy, which requires continuous scaling-up of telecommunications infrastructure.
- The size of investments in extractive projects declined noticeably. Between 2011 and 2017, metals mining projects as a percentage of the total fell from 18% to 9%. Despite a modest recovery in June 2017 (up from 4% in 2016) and recent price increases, it is unlikely there will be new megaproject announcements considering the current scale of installed capacity. The extraction of lithium and other minerals needed for new production technologies has attracted FDI, but the announcements made to date have not been comparable to those of previous metal mining projects. The share of hydrocarbon investments fell from 30% in 2006 to 7% in 2017.
- However, this was offset by larger investments in other sectors, particularly in telecommunications, renewable energy and the automotive industry. Renewable energy projects jumped from 1% of total value of announcements in 2005 to 12% in 2017. Investments in telecommunications have grown consistently since 2005 and the sector is now the largest recipient in the region (15% of the total in 2017). In a context of continuous technological change in which the digital economy is increasingly important, the telecommunications sector is considered key for the region's development and for its adaptation and reconversion capacity vis-à-vis the fourth industrial revolution.
- The vehicle assembly and autoparts manufacturing sector has maintained its significant share of total FDI, representing 13% of total projects announced between 2006 and 2017. Investments come mostly from the European Union (36%),

followed by North America (29%) and Japan and the Republic of Korea (26%). However, unlike other sectors where a certain degree of geographical diversification is evident, FDI in the automotive industry is highly concentrated in countries with manufacturing capacity in the sector: Mexico, Brazil and Argentina stand to receive 58%, 31% and 7%, respectively, of projects announced during the period under review.

- Tourism accounted for 4% of the total investments announced. However, it exhibits a high degree of geographical concentration and it is a key sector for the Caribbean countries: between 2010 and 2017, 42% of total tourism investment announcements in the region were directed at countries of the Caribbean, followed by Mexico (25%) and Central America (14%).

■ **Figure IV.14** ■
Latin America and the Caribbean: sectoral breakdown of cross-border investment announcements, 2005-2017
(Percentages)

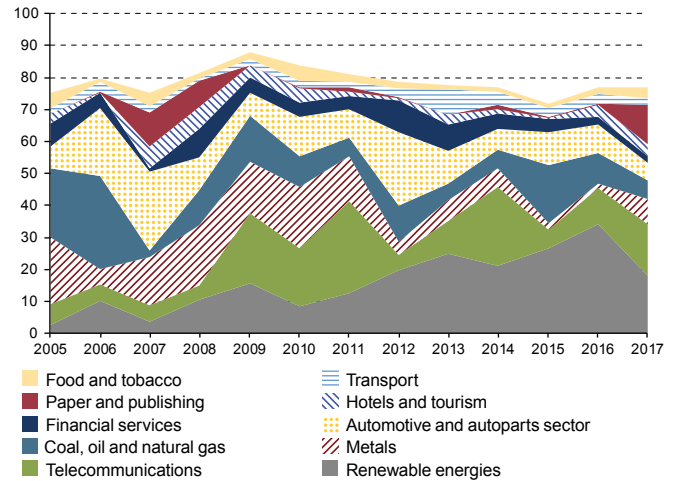


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

7. European companies are playing a key role in the shift towards a sustainable energy mix as 26% of all projects announced by the European Union are aimed at renewable energy ventures

- The sectoral breakdown of new investments by European Union companies in Latin America and the Caribbean has also changed significantly. Extractive industries went from representing 43% of total announcements in 2005 to 14% in 2017, while projects in telecommunications and renewable energy projects grew substantially.
- Renewable energies increased their share in the investment portfolios of European companies in Latin America and the Caribbean. Between 2005 and 2017, the share of these projects grew from 3% to 26% of total investment announcements in the region. The share of telecommunications projects also rose (from 7% to 14%) in the same period; these were concentrated in Brazil (39%), Argentina (13%) and Chile (9%), with announcements dominated by companies from Spain (48%), Italy (16%), France (10%) and the United Kingdom (10%).
- The automotive sector continued attracting European companies, with an average share of 12% of total project announcements between 2005 and 2017. German automotive companies led the way with 54% of the total value of sector announcements in the region, followed by Italian (19%) and French (12%) automakers.

■ **Figure IV.15** ■
Latin America and the Caribbean: sectoral breakdown of cross-border investment announcements by European Union firms, 2005-2017 (first semester)
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

8. The European Union is the largest investor in renewable energy in Latin America and the Caribbean, and Chile is the largest recipient of investments aimed at changing the energy mix

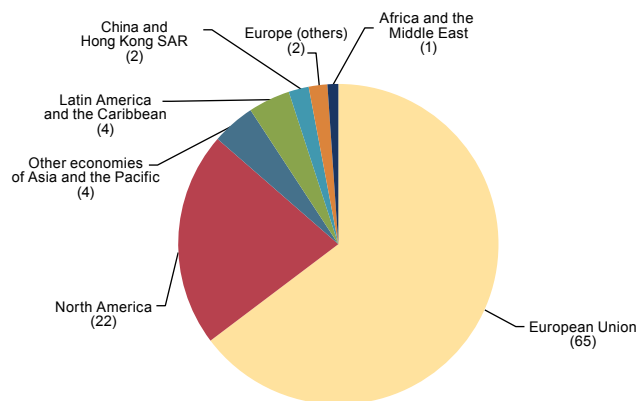
- Non-conventional renewable energy sources have developed significantly in Latin America and the Caribbean in recent years, and in 2016 the sector was the main recipient of new FDI projects (18% of total announcements) and the second largest recipient in 2017 (12%). Expansion in this sector is a reflection of the enormous potential of the region's countries to develop renewable energies and to support global efforts to address and mitigate the effects of climate change through the development of clean and efficient alternative energy sources.
- The European Union is a key stakeholder in this process and has established itself as the leading investor in renewable energy sources in Latin America and the Caribbean, concentrating 63% of total announcements in the region since 2005. During this period, Spain has been the foremost investor in the region, concentrating 29% of renewable energy development announcements, followed by Italy (8%), Germany (8%) and France (7%). The United States has been the other large investor, accounting for 18% of total announcements.
- Between 2005 and 2017, Chile emerged as the largest beneficiary of renewable energy investment announcements (31% of the total), followed by Brazil and Mexico (21%). Worthy of note in 2016 were the reforms implemented in the Mexican energy market. In 2017, 57% of the total investments announced in the region were concentrated in Mexico.

■ Figure IV.16 ■

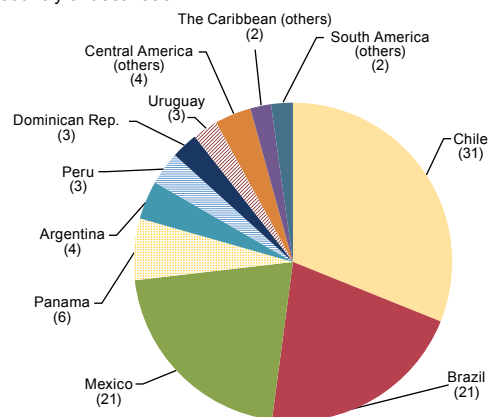
Latin America and the Caribbean: cross-border investment announcements in renewable energy, by region of origin and country of destination, 2005–2017

(Percentages)

A. By region of origin



B. By country of destination

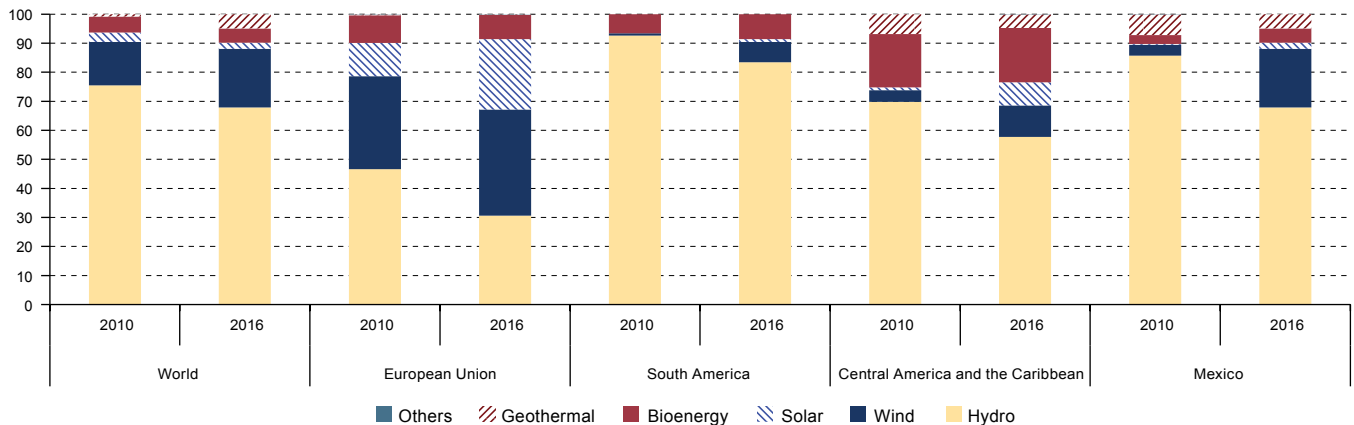


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

9. Large investments in new renewable energy sources have substantially changed the energy mix of both regions

- In recent years, the weight of non-conventional renewable energies —mainly solar and wind— has increased as a percentage of the world’s total installed capacity, a trend also mirrored in the European Union and in Latin America and the Caribbean. There are, however, differences in the structure and development dynamics of renewable energies in the two regions.
- In the European Union, solar energy recorded solid growth until 2011 and subsequently stagnated, whereas wind energy has followed an upward trend for the past ten years. Within the region, Germany has the largest installed capacity for both solar and wind energy.
- In South America, installed capacity consists mostly of hydroelectric plants, which have continued growing at a healthy rate for the past three years, mainly on account of new small-to-medium run-of-river plants coming into operation. At the same time, solar energy has started to make its mark in the new renewable mix, specifically in Chile, while wind power has experienced significant growth, especially in Brazil, Chile and Uruguay.
- Solar energy has grown significantly in Central America and the Caribbean in the last two years, especially in Honduras, while wind power has expanded consistently in Costa Rica, Honduras, Nicaragua and Panama. Finally, Mexico has increased its installed wind power capacity substantially and has recently started making progress with solar energy.

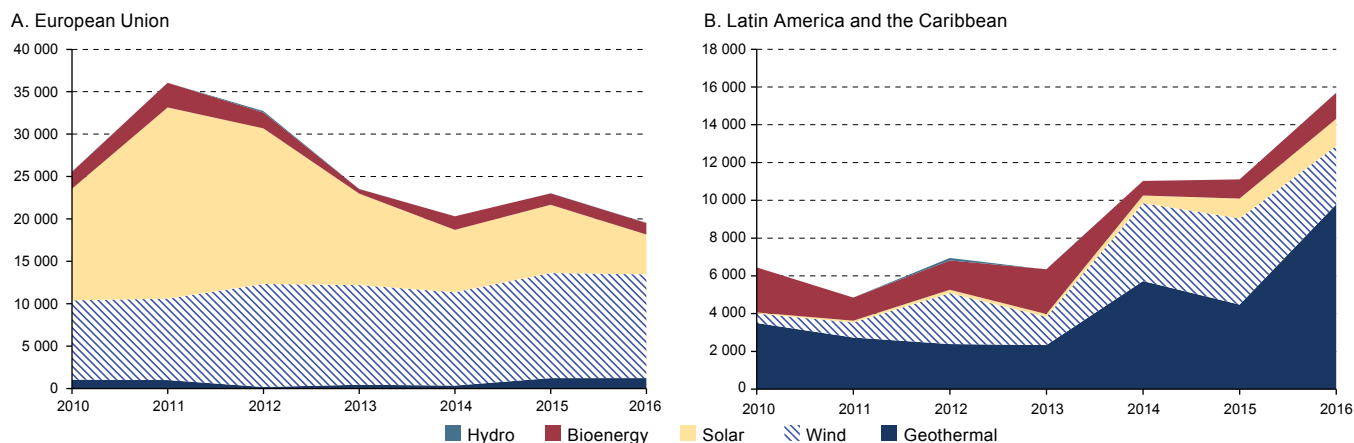
■ **Figure IV.17** ■
Selected regions: renewable energy installed capacity, 2010–2016
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Renewable Energy Agency (IRENA).

■ **Figure IV.18** ■

Selected regions: new installed capacity, 2010-2016
(Megawatts)



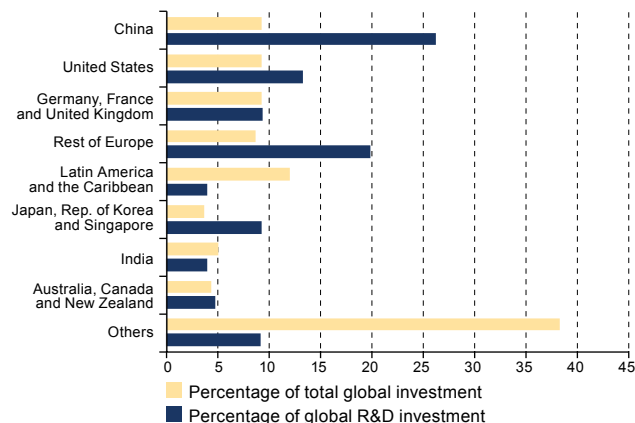
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Renewable Energy Agency (IRENA).

10. Latin America and the Caribbean receives a small relative share of research and development (R&D) project announcements, with the European Union as the main source of these investments

- The share of research and development (R&D) projects received by Latin America and the Caribbean was smaller than its share of global FDI inflows. Over the past six years, the region has been the recipient of 4% of total R&D project announcements, one third of its share of total investment announcements (12%). In contrast, China's share of total new investments announced was below 10%, but it was the recipient of one third of total cross-border R&D project announcements. The United States, Japan, the Republic of Korea and Singapore also have a high relative share of R&D projects.

■ **Figure IV.19** ■

Breakdown of announced cross-border investments, totals and in R&D, by region and country of destination, 2012-2017
(Percentages)

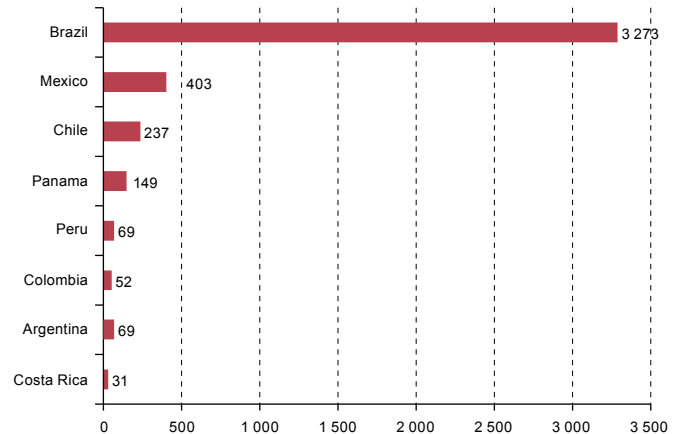
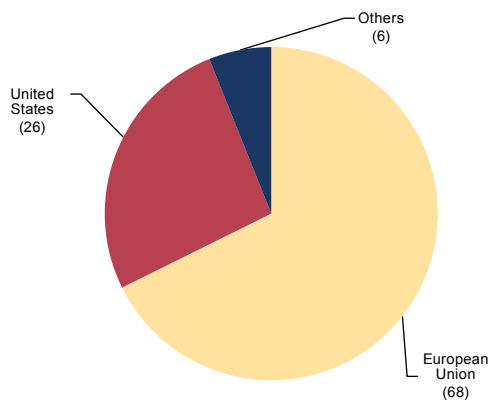


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

- Over the past five years, the European Union captured 21% of new R&D projects announced, a higher percentage than the bloc's share in total cross-border investment announcements. However, the largest recipients in Europe—Germany, France and the United Kingdom—have similar shares of both types of projects.
- Investment announcements in R&D projects in Latin America and the Caribbean totalled close to US\$ 4.3 billion between 2007 and 2017. Brazil attracted the largest share (76%), followed by Mexico (9%), and Chile (6%). The European Union was the dominant investor in these projects, as European companies were responsible for 68% of total R&D project investments in the region.
- In sectoral terms, between 2007 and 2017 recipients of these investments have been led by chemicals (27%), followed by pharmaceuticals (17%) and telecommunications (12%). That said, there have also been R&D project announcements in numerous other sectors, including renewable energy, biotechnology, food and tobacco, and information technologies.

■ Figure IV.20 ■

Latin America and the Caribbean: announced cross-border investments, totals and in R&D, by region and country of destination, 2012–2017
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDi Markets.

**V. Micro-, small and medium-sized enterprises (MSMEs):
key actors for development**

A. Performance and main characteristics of MSMEs

1. Micro-, small and medium-sized enterprises (MSMEs) play an important role in the economies of the European Union and of Latin America and the Caribbean

- Micro-, small and medium-sized enterprises (MSMEs) are important players in the development of the two regions, as large parts of the population and economy depend on their activity and performance. These firms make up a widely heterogeneous group of agents, ranging from subsistence microenterprises that respond to individual self-employment needs and sell exclusively in local markets, to medium-sized enterprises with a high degree of technological development that operate in international markets and invest a substantial share of their revenues in training staff, improving assets and developing new forms of knowledge. Thus, the concept of enterprise size hides a very diverse reality when it refers to this type of production unit.
- MSMEs account for close to 99% of the total universe of companies and for a significant percentage of formal employment: more than 50% of the total in several cases, substantial differences among countries notwithstanding. However, their contribution to total output is small and, especially in Latin America and the Caribbean, so is their contribution to exports.

■ **Table V.1**
European Union and Latin America: breakdown of enterprises, employment and sales/output, by enterprise size
(Percentages)

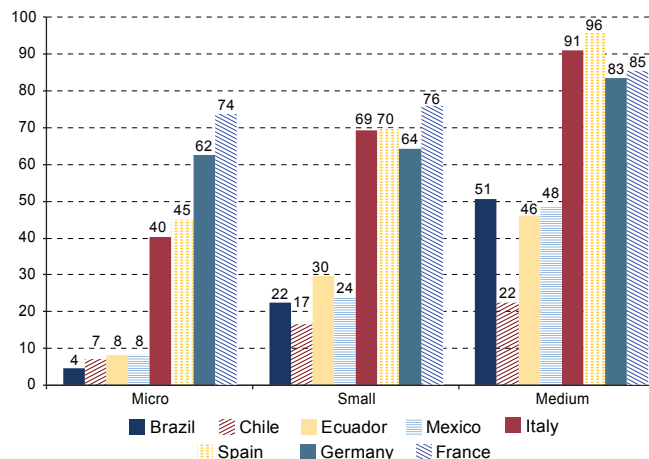
		Micro	Small	Medium	Large
Enterprises	Latin America	88.4	9.6	1.5	0.5
	European Union	92.9	5.9	1.0	0.2
Employment	Latin America	27.4	19.7	14.0	38.9
	European Union	29.8	21.3	18.3	30.6
Sales/output	Latin America	3.2	8.8	12.6	75.4
	European Union	20.0	17.6	18.6	43.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Correa, V. Leiva and G. Stumpo, "Mipyme y heterogeneidad estructural en América Latina", *MIPYME en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento*, M. Dini and G. Stumpo (comps.), Santiago, September 2018, forthcoming.

2. Productivity gaps between companies in Latin America are much more pronounced than between their counterparts in the European Union

- In Latin America and the Caribbean, there are enormous productivity discrepancies between micro-, small and medium-sized enterprises, on one hand, and larger firms, on the other. For microenterprises, these differentials can frequently be higher than 80 or 90 percentage points. In general, the productivity of smaller firms barely reaches 30% of that of large firms, while medium-sized firms achieve only 50% of the productivity of their larger counterparts.
- These differences are much smaller in the European Union where, on average, the labour productivity of microenterprises sits above 40% of that of larger companies, increasing to almost 60% for small enterprises and to well over 70% for medium-sized ones.
- For example, whereas the productivity of Mexican microenterprises represents barely 8% of that of the country's largest companies, their French counterparts reach 74% of the productivity of their larger peers.
- These significant labour productivity gaps between companies of different sizes prevent the development of efficient relationships between them and hinder the development of dynamic economic systems based on rapid knowledge-sharing among producers, suppliers and consumers.

■ **Figure V.1 ■**
Latin America (2016) and European Union (2015)
(selected countries): relative domestic productivity
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Correa, V. Leiva and G. Stumpo, "Mipyme y heterogeneidad estructural en América Latina", *MIPYME en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento*, M. Dini and G. Stumpo (comps.), Santiago, September 2018, forthcoming.

3. These productivity gaps are also reflected in marked wage discrepancies between the different types of firms

- Productivity gaps in Latin America are also reflected in wage discrepancies, which in turn have a severe impact on the distribution of income and on inequality.
- Differences in productivity between companies are closely linked to their productive structure and the sectoral distribution of employment. In Latin America, more than 70% of the workforce can be found in sectors of low relative productivity such as agriculture, construction, commerce, and community and personal services; another 20% works in areas of medium-level productivity, such as manufacturing and transport, and the remaining 8% in high productivity sectors such as mining, finance and energy.
- Employment in microenterprises is concentrated in the commerce sector and in certain low value-added services. In the case of small enterprises, the largest employers are the retail sector, manufacturing (albeit to a lesser extent) and, in some countries, construction. Among medium-sized enterprises, the manufacturing sector is the largest employer in several countries, although the commerce sector also has a substantial share. As for large enterprises, the manufacturing sector and some higher value-added services (telecommunications and financial intermediation) account for the bulk of jobs.
- The substantial differences in the productivity of micro-, small, medium-sized and large enterprises point to weaknesses and to a dual reality in the Latin American economy, which could pose significant challenges when attempting to foster linkages among companies of different sizes.
- These productivity lags are one of the explanations for the high structural heterogeneity in the region's economies, which in turn is partly responsible for the severe social inequality in Latin America, to the extent that these wide productivity discrepancies (between sectors and between companies) both reflect and reinforce gaps in capacities, in participation in technological progress, in bargaining power, in access to social networks and in upward occupational mobility opportunities throughout people's working lives.
- As a result, countries also have limited possibilities to generate externalities that could lead to greater specialization by businesses and within the workforce, and to increased innovation and productivity.

■ Table V.2 ■

Latin America and European Union (selected countries): average wages in MSMEs as a proportion of average wages in large enterprises
(Percentages)

	Micro	Small	Medium	MSMEs
Argentina	28.50	49.90	63.60	48.20
Brazil	24.50	46.10	68.90	42.20
Chile	18.50	37.80	53.70	37.60
Ecuador	38.20	53.40	69.00	57.90
Mexico	12.80	39.10	66.70	35.00
Spain	38.80	63.60	78.60	61.40
France	55.80	71.60	79.10	67.70
Italy	25.10	62.10	84.30	50.90

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Correa, V. Leiva and G. Stumpo, "Mipyme y heterogeneidad estructural en América Latina", *MIPYME en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento*, M. Dini and G. Stumpo (comps.), Santiago, September 2018, forthcoming.

4. Against this backdrop, Latin American MSMEs have achieved low levels of internationalization

- Overall, MSMEs account for a low percentage of Latin American exports, which underscores their marked bias towards the domestic market and their dependence on local demand dynamics. Accordingly, they are highly influenced by the prevailing macroeconomic conditions in their countries. Unsurprisingly, at times of high economic volatility, business failure rates are inversely related to the size of firms and, at the same time, entry rates for new companies tend to shrink by a greater margin in the case of smaller formal businesses.
- As a result of the export structure of Latin American countries—dominated by capital-intensive and natural resource-related sectors—direct participation of MSMEs in total exports is quite low. Evidence suggests that the probability of engaging in export activities rises as the size of the company increases. Furthermore, the current make-up of regional exports contributes to greater heterogeneity in Latin America’s production structure, as MSMEs are denied access to the more innovative processes available to exporters.
- In contrast, MSMEs in the European Union achieve greater levels of internationalization, and a greater proportion of them are exporters.

■ Table V.3 ■

Latin America and the European Union (selected countries): share of enterprises taking part in exports, by enterprise size (Percentages)

Countries/Enterprises	Micro	Small	Medium	Large
Argentina ^a	0.3	1.6	6.5	91.6
Brazil ^b	0.1	0.9	9.5	82.9
Chile	-	0.4	1.5	97.9
Germany	8.0	12.0	18.0	62.0
Spain	11.1	13.3	22.6	47.1
France	17.0	10.0	15.0	58.0
Italy	9.0	19.0	28.0	44.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC/Organization for Economic Cooperation and Development (OECD), *Latin American Economic Outlook 2013: Structural Policies for SME Development* (LC/G.2545), Santiago, 2012.

^a Corresponds to the industrial sector.

^b The small enterprise category includes companies that are considered special, with less than ten employees and exports above 2.5 million dollars.

5. Productivity gaps between companies of different size in Latin America and the Caribbean, and in the European Union, can be attributed to differences in sector specialization and in innovation strategies, among other factors

- From a structural viewpoint, MSMEs in Latin America and the Caribbean generally operate in low technology-intensive sectors, while in the European Union a significant percentage of similarly sized companies compete successfully in technology-intensive areas. In Germany, Czechia and Italy, for example, more than 40% of small and medium-sized enterprises (SMEs) specialize in engineering-intensive sectors.
- The technology and innovation strategies pursued by companies also have an impact on productivity gaps. While smaller companies in Latin America and the Caribbean focus their innovation efforts on acquiring (mostly imported) machinery and equipment, European SMEs spread out their activities more evenly and invest greater percentages in research and development, as well as in their own technological capacities.

■ Table V.4 ■

European Union (selected countries): share of different manufacturing sectors, by technology intensity, in the value added by SMEs, average 2008-2014*(Percentages)*

Sector	Germany	Czechia	Spain	France	Hungary	Italy	Romania
Total engineering-intensive sectors	50	47	34	35	28	42	28
Engineering-intensive sectors, excluding automobiles	46	42	29	30	24	40	24
Automobiles	3	4	4	5	4	3	4
Total natural-resource-intensive sectors	35	39	49	48	44	36	44
Food, beverages and tobacco	11	11	20	23	17	11	17
Other natural-resource-intensive sectors	24	28	29	25	27	25	27
Labour-intensive sectors	15	14	18	17	28	22	28
Total manufacturing industry	100	100	100	100	100	100	100

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

■ Table V.5 ■

Latin America and the European Union (selected countries): investment in capital goods and in research and development, by enterprise size*(Percentages with respect to group)*

Country	Enterprise size	Domestic research and development (R&D)	Foreign research and development (R&D)	Acquisition of machinery and equipment
Brazil	Small	4.4	1.9	26.2
	Medium	14.9	5.0	34.5
	Large	34.4	12.8	38.4
Chile	Small	2.1	0.5	6.8
	Medium	10.9	4.3	20.5
	Large	23.1	7.1	21.6
Uruguay	Small	4.8	0.2	9.4
	Medium	12.1	3.6	25.1
	Large	22.8	8.9	46.1
Germany	Small	51.7	16.3	63.8
	Medium	68.8	30.7	74.2
	Large	89.3	61.3	79.4
Spain	Small	36.1	16.7	26.4
	Medium	61.6	31.8	21.4
	Large	75.0	50.2	29.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC/EU-LAC Foundation, *Reinforcing Production Cooperation and Dialogue Spaces: the Role of SMEs*, Santiago, May 2015 [online] http://repositorio.cepal.org/bitstream/handle/11362/38243/1/S1500521_en.pdf.

6. The way in which MSMEs participate in the productive structure determines their performance

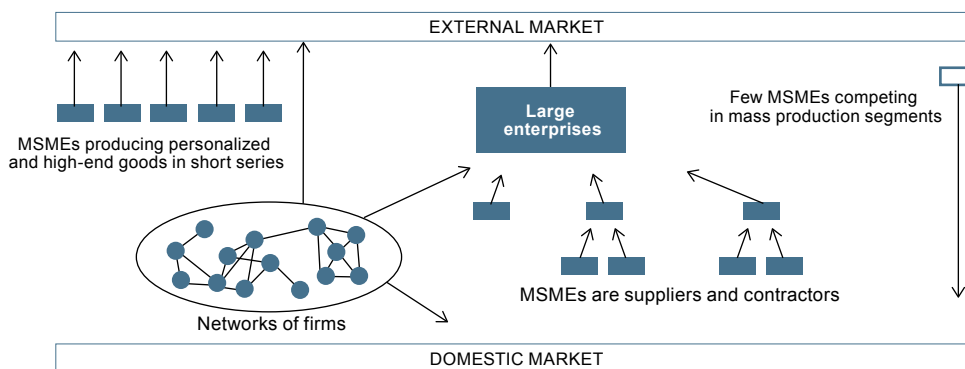
- A third factor that contributes to perpetuating the anomalous gaps in relative productivity between large companies and MSMEs in Latin America relates to the organization of production and, in particular, to the way in which companies participate in the productive structure. In contrast with their counterparts in industrialized countries, including those of the European Union, Latin American MSMEs

do not coordinate their actions efficiently, although they could by cooperating with dynamic large enterprises or through partnering agreements with other small firms. Quite the contrary, the prevalent trend is one of competitive strategies based on individual actions, with rare cases of specialization and a reduced capacity to focus on specific niches of high-quality goods or products.

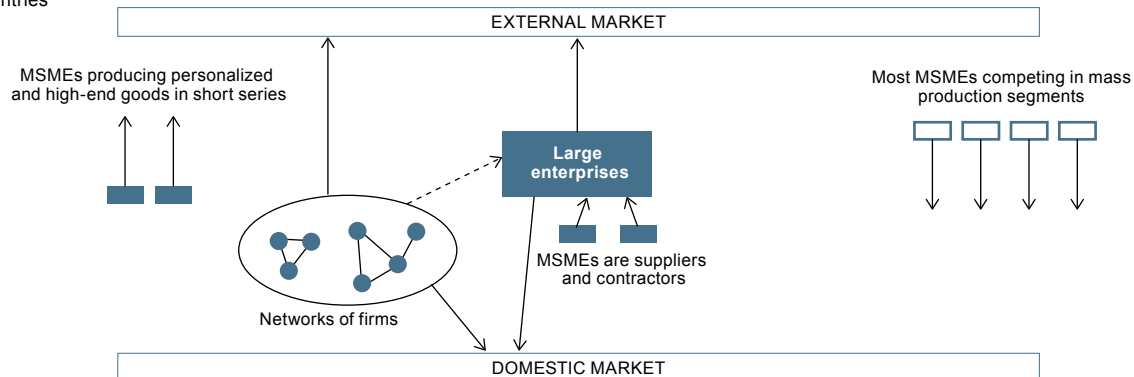
■ Diagram V.1 ■

Developed and developing countries: integration of MSMEs into the production strategy

A. Developed countries



B. Developing countries



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of T. Altenburg and U. Eckhardt, *Productivity Enhancement and Equitable Development: Challenges for SME Development*, United Nations Industrial Development Organization (UNIDO), Vienna, 2006.

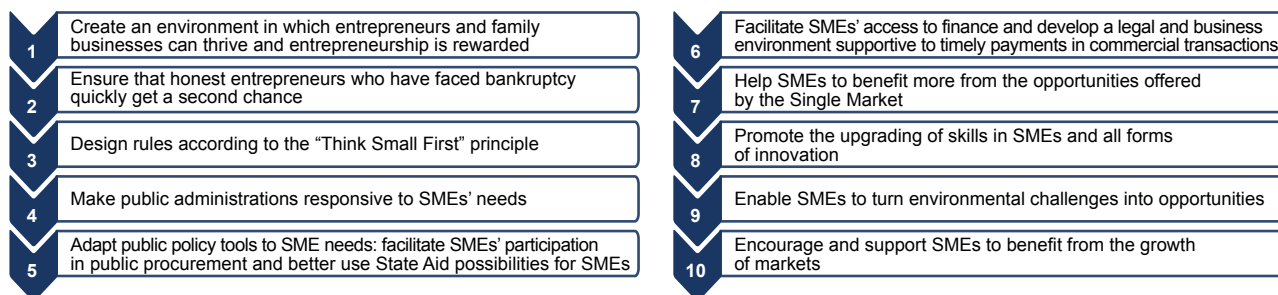
B. Main achievements of MSME promotion policies

1. Production development policies in both regions over the past 30 years have consistently addressed MSMEs, albeit with shifting focuses and priorities

- The greatest differences can be seen in the degree to which policies to promote MSMEs have been combined with production development strategies at the national level. Whereas in Europe these policies were gradually integrated into plans and actions that focused on strengthening territories, productive clusters, technological service promotion networks, technical and professional training, and research and development efforts, policies in Latin America aimed at smaller-sized enterprises have remained isolated, showing little integration and coordination with other production policies.
- For most of the 1980s and 1990s—a period of unrestricted trust in markets and of mistrust in the role and capacity of the public sector—measures aimed at supporting MSMEs in Latin America were considered one of the few acceptable production development policies. In this context, support actions were justified on account of these companies' specific situations and "market shortcomings" in terms of access to financing, information, labour training and technological innovation.
- More recently, profound changes in the institutional and regulatory spheres have broadened the scope for State intervention, mainly in promoting business cooperation, cutting down on red tape and boosting financing. These trends have consolidated and intensified in the past decade.
- With the aim of reinforcing the sustainable growth and competitiveness of MSMEs, the European Union enacted the Small Business Act, which seeks to establish a new political framework that integrates the existing strategic instruments for business-centred policies and thus create a political partnership, between the European Union and its member States, organized around 10 fundamental principles.

■ Figure V.2 ■

Small Business Act: guiding principles for the conception and implementation of MSME policies in the European Union and its member States



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Commission of the European Communities, "Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions" (COM(2008) 394), Brussels, 25 June 2008 [online] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0394&from=EN>.

2. Many countries in Latin America have made an effort to reorganize their frameworks for MSMEs

- The new generation of regulations is much more coordinated and places greater emphasis on the specificities of MSMEs.
- Precise quantitative criteria have been established in order to define the universe of reference, which is generally established

as a function of sales and/or employment. Accordingly, companies can identify themselves clearly in terms of their size, acknowledging—explicitly or implicitly—their true weight within each national economy.

■ Table V.6 ■

Latin America (selected countries): framework laws for MSMEs

Country	Main national laws for MSMEs
Argentina	The Small and Medium-sized Enterprises Act was promulgated in 1995 (Law No. 24467), establishing specific development instruments granted by the Finance Secretariat (competent organ). This regulatory framework was modified in 2000 by Law No. 25300 and again in 2016 by Law No. 27264. The later reforms modified the definition of SMEs, established the Monitoring and Competitiveness Council for Micro-, Small and Medium-sized Enterprises and introduced investment, financing and tax incentives for SMEs.
Brazil	The SIMPLES Federal Act was adopted in 1996 (Law No. 9317), followed by the Microenterprises Act in 1999 (Law No. 9841), which repealed the previous legislation. In 2006, the General Micro- and Small Enterprises Act was promulgated (Complementary Law No. 123), which has subsequently been modified on several occasions through complementary laws 128 (2009), 133 (2009), 144 (2014) and 155 (2016). The most important changes relate to tax calculation methods, access to financing modalities, public procurement processes and the promotion of associations.
Chile	The Small and Medium-sized Enterprises Act was promulgated in 2010 (Law No. 20416). In 2014, a special regime for SMEs (Law No. 20780) was introduced in the context of the tax reform.
Colombia	Enacted in 1998, Law No. 78 provided a definition of MSMEs as well as a series of instruments to promote smaller-sized enterprises. These measures were subsequently revised under Law No. 590 (2000) and substantially modified by Law No. 905 (2004) (definitions, institutional framework, market access, technological development and business creation).
El Salvador	In 2014, the Promotion, Protection and Development of Micro-sized and Small Enterprises Act was adopted, providing a definition of these types of companies and establishing an inter-institutional coordination system as a support mechanism for policies aimed at promoting and developing micro- and small enterprises. The system will be directed by the Ministry of Economic Affairs and will be coordinated by the National Commission for Micro and Small Enterprises (CONAMYPE). A registry of micro- and small enterprises was also established, as well as a mechanism to simplify bureaucratic processes for these companies.
Mexico	The Development of Micro-, Small and Medium-sized Enterprise Competitiveness Act was adopted in 2002. Also in that year the National System for the Development of MSME Competitiveness was created, as well as the National Council for the Competitiveness of Micro-, Small and Medium-sized Enterprises and the State Councils for the Competitiveness of Micro-, Small and Medium-sized Enterprises. The law was reformed in 2015.
Peru	In 2003, the Promotion and Formalization of Micro-sized and Small Enterprises Act was adopted (Law No. 28015). The Promotion of Competitiveness, Formalization and Development of Micro-sized and Small Enterprises and Access to Decent Work Act (known as the MYPE Act) was adopted in 2008.
Uruguay	Decree No. 54/992 was promulgated in 1992, establishing the statute for SMEs and granting power to the National Directorate for Handicrafts, Small and Medium-sized Enterprises to lead the country's policy for the development and promotion of MSMEs.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, "Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas", unpublished, Santiago, 2017.

3. The new generation of policies acknowledges and legitimizes the differentiated treatment of MSMEs

- Current instruments for the promotion of MSMEs acknowledge the particular nature of smaller-sized companies and legitimize regulatory adjustments for establishing differentiated treatments in different spheres, in order to eliminate or reduce the distortions experienced by these firms. Mostly, these actions are aimed

at simplifying formalization and accounting procedures, as well as at granting tax exemptions or creating special tax regimes. The majority of measures are horizontal in nature, meaning that they do not discriminate among micro-, small and medium-sized beneficiaries by sector or location.

■ Table V.7 ■

Latin America (selected countries): horizontal policies for MSMEs

Country	Scope	Law	Description of measures
Argentina	Simplified accounting	Joint General Resolution 4050 of the Federal Administration of Public Funds (AFIP) and the Secretariat for Entrepreneurs and SMEs (SEPYME) (2017)	Simplify financial statements for MSMEs registered under the Single Registry of the Ministry of Production.
	Reduction of tax burden	Law No. 27264 (2016)	Increase the minimum earnings threshold for withholding purposes and value-added tax (VAT). Quarterly payment of VAT. Provide exclusion certificate for withholding of main taxes.
Brazil	Tax benefits or simplified tax regimes	SIMPLES Federal Act (complementary Law No. 123) Integrated tax and contributions payment system of microenterprises and small businesses	Establish a differentiated and privileged tax treatment for microenterprises and small businesses, reducing tax burdens substantially and simplifying formalization procedures.
	Simplified procedures for exports	Decree No. 8870 (2016)	Unify export transactions registry. Establish single data entry point for all entities involved. Provide support during the process.
Chile	Simplified formalization procedures	One-day Company Act, Law No. 20659 (2013)	Allow companies to be incorporated, modified, merged, divided, transformed, terminated or dissolved using a single form. Forms are registered in a single registry created for this purpose.
	Special tax regime	Tax reform (2014)	Introduce a special tax regime for SMEs.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, "Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas", unpublished, Santiago, 2017.

4. Latin American countries have made progress in strengthening institutional support for MSMEs

- The development of MSMEs involves a wide range of issues, ranging from labour and tax matters to topics related to the financing, development and dissemination of new technologies, the creation of new collective strategies for action, tariff policies, education and research efforts and investment in infrastructure, among others. Each of these have their own sectoral specificities and imply the intervention of various regulatory and promotion bodies, such as banks, innovation agencies, export promotion institutions, public training centres, various ministries, local governments and universities. All of these components combine in a
- complex network of organizations, the coordination of which represents one of the greatest challenges for the development of effective promotion policies.
- To address these challenges, the region's countries have established governmental agencies with exclusive competence for MSME promotion policies. Most of the entities involved are ministerial directorates, secretariats or under-secretariats with permanent staff, albeit with limited power and resources. Additionally, these structures are frequently subject to changes in their hierarchy, resources and attributions as a result of changes in the central administration.

■ Table V.8 ■

Latin America (selected countries): governing bodies for MSME policies

Country	Governing body of SME Policy	Main agencies involved
Argentina	Secretariat of Entrepreneurs and SMEs	<ul style="list-style-type: none"> – Productive Integration Secretariat – Sectoral and Federal Coordination Undersecretariat – National Institute of Industrial Technology (INTI) – National Institute for Agricultural Technology (INTA) – Argentine Technological Fund (FONTAR)
Brazil	Secretariat for Micro and Small Enterprises (SEMPE), Brazilian Micro and Small Business Support Service (SEBRAE)	<ul style="list-style-type: none"> – Ministry of Industry, Foreign Trade and Services, Brazilian Development Bank (BNDES) – National Industrial Apprenticeship Service (SENAI) – Studies and Projects Financing Entity (FINEP)
Chile	<ul style="list-style-type: none"> – Division of Small Enterprises (Ministry of Economic Affairs, Development and Tourism) – Division of Associations and Social Economy (2014) 	<ul style="list-style-type: none"> – Chilean Economic Development Agency (CORFO) – Technical Cooperation Service (SECOTEC) – National Institute for Agricultural Development (INDAP) – Export Promotion Bureau (PROCHILE) – National Mining Corporation (ENAMI) – National Training and Employment Service (SENCE)
Colombia	<ul style="list-style-type: none"> – Directorate of Micro-, Small and Medium-sized Enterprises (Ministry of Trade, Industry and Tourism) (Decree No. 210, 2003) – Handicrafts of Colombia 	<ul style="list-style-type: none"> – Foreign Trade Bank (BANCOLDEX) – Administrative Department of Science, Technology and Innovation (COLCIENCIAS) – National Apprenticeship Service (SENA)
El Salvador	National Commission for Micro and Small Enterprises (CONAMYPE) (Ministry of Economic Affairs)	
Mexico	National Institute of the Entrepreneur (INADEM) (2013)	<ul style="list-style-type: none"> – National Council for Science and Technology (CONACYT) – Nacional Financiera (NAFIN) – Banco Nacional de Comercio Exterior (BANCOMEXT)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, "Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas", unpublished, Santiago, 2017.

5. Chile and Brazil have led the way in the development of MSME support institutions

- The countries that have advanced the most in the design and implementation of coordinated and long-term strategies in support of MSMEs are those that —apart from having ministerial focal points— have created specialized agencies with certain degrees of autonomy, sufficient and stable resources, motivated professionals specialized in various areas and disciplines, as well as the authority and flexibility to adapt their instruments for action to the changing needs of the companies they provide services to.
- Currently, countries with this type of set-up in the region are a minority. Chile and Brazil have been the pioneers in this respect as their institutions supporting MSMEs have had to overcome different macroeconomic situations, political contexts and even institutional regimes. Agencies recently created in the region include the National Institute of the Entrepreneur (INADEM) in Mexico, the National Commission for Micro and Small Enterprises (CONAMYPE) in El Salvador and the Colombian Government’s Management Unit for Business Growth, iNNpulsa.
- Experience suggests that these institutions must fulfil at least two conditions to achieve stability: first, the continuity of their mid-level professional staff and, second, a budget commensurate with their functions. In 2003, Chile introduced a System of High Public Management whose main objective was to provide government agencies —through public and transparent competitive processes— with professional directors of demonstrable managerial and leadership capacity for the execution of public policies defined by the authority. In 1990, Brazil reformed the statute for the Brazilian Micro and Small Business Support Service (SEBRAE) with a view to granting it financial autonomy and establishing a mixed management system, with significant input from the private sector.
- Similarly, several countries have created various coordination agencies aimed at strengthening their policy design, launch, dissemination, assessment and adjustment processes. Examples include the creation of mechanisms to coordinate the actions of various public entities and the launch of venues for public-private dialogue.

■ Table V.9 ■

Latin America (selected countries): main government agencies for the promotion of MSMEs, 1950-2017

	1950-1970		1970-1990		1990-2017
Chile	Technical Cooperation Service (SECOTEC) (1955)	National Institute for Agricultural Development (INDAP) (1963)	➔		
Brazil			Brazilian Small and Medium- Sized Enterprise Support Centre (CEBRAE) (1972)	Brazilian Small and Medium- Sized Enterprise Support Service (SEBRAE) (1990)	
El Salvador					National Commission for Micro and Small Enterprises (CONAMYPE) (1996)
Mexico					National Institute of the Entrepreneur (INADEM) (2013)
Colombia					iNNpulsa Colombia (2012)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, “Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas”, unpublished, Santiago, 2017.

6. Public-private dialogue is vital for efficient promotion measures

- Overall, coordination mechanisms between the different agencies in the public sector seek to support the design of long-term promotion strategies, helping government agencies to ensure a coherent alignment between specific support measures for micro-, small and medium-sized enterprises and the production transformation programmes that exist within the national economy.
- Additionally, they aim to maximize the coordination and convergence efforts between the main policy actions and the support agencies, in both the public and the private spheres.
- Some of the most important measures adopted to promote more systematic and efficient forms of cooperation between agencies include defining their respective spheres of intervention and responsibilities and scheduling regular meetings to promote dialogue and share information.

■ Table V.10 ■

Latin America (selected countries): public coordination systems for MSME policies

Country	Support system	Law	Summarized description
Argentina	Federal Council for Micro-, Small and Medium-sized Enterprises (2000)	Law No. 25300 (2000)	Coordinates public policies between the national and regional governments. The Council seeks to harmonize public policies and avoid the duplication of efforts.
Colombia	National System for the Support and Promotion of MSMEs (2004)	Law No. 590 (2000) Law No. 905 (2004)	The Inter-institutional Coordination System—directed by the Deputy Minister of Trade, Industry and Tourism of the Ministry of Trade, Industry and Tourism—organizes the activities and programmes centred on MSMEs. The National System for the Support and Promotion of MSMEs complements the actions of the Inter-institutional Coordination System, with the participation of stakeholders from local, municipal and private spheres through the Higher Council for Small and Medium-sized Enterprises, the Higher Council for Microenterprises and the regional councils.
El Salvador	National System for Micro and Small Enterprises (2014)	Executive Decree No. 48 (1996) Promotion, Protection and Development of Micro and Small Businesses Act (2014)	The National System for the Development of Micro and Small Businesses seeks to organize the actions of all relevant public and private entities. The System is made up of a National, Regional, Municipal and Sectoral Council.
Mexico	National System for the Development of Micro-, Small and Medium-sized Enterprise Competitiveness (2002)	Development of Micro-, Small and Medium-sized Enterprise Competitiveness Act (2002)	The Secretariat of Economic Affairs coordinates the different actions performed by the public sector in favour of the development of micro-, small and medium-sized enterprises.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, “Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas”, unpublished, Santiago, 2017.

7. Public-private dialogue is vital for the continuity of support measures

- Overall, public-private dialogue structures offer forums for consensus-building and act as advisory bodies to the agencies responsible for MSME promotion policies.
- Key goals of these dialogue venues include: (a) proposing support measures or programmes for small companies; (b) verifying the impact of the various actions undertaken by the central Government; (c) cooperating in the supervision and follow-up of promotion programmes, as well as formulating proposals for adjustment or adaptation; (d) boosting the mobilization of private financing; and (e) generating opportunities for less bureaucratic communication so as to reduce friction and increase trust between MSMEs and governing bodies.
- These entities are formal bodies created by virtue of decrees, which specify certain functions, operational rules and, on certain occasions, the number and nature of their members. They began emerging in the 2000s, first in Brazil, Colombia and Mexico, and later on in Argentina, Chile and El Salvador.
- However, they have shown significant weaknesses in Latin America as they do not operate on a regular basis, they lack permanent financing and the relevance of their proposals tends to depend on the capacity of their members.

■ Table V.11 ■

Latin America (selected countries): formal structures for public-private dialogue

Country	Entity	Date	Regulation	Members
Argentina	Monitoring and Competitiveness Council for Micro-, Small and Medium-sized Enterprises.	2016	Law No. 27264	-
	Regional Production Units.	2016	Resolution No. 425 - E/2016	-
	The Unit for Rural Change (UCAR) manages programmes and projects of the Ministry of Agriculture with external funding, including the Plan for Development and Competitive Improvement, the goal of which is to promote coordination between public and private stakeholders.	2009		
Brazil	The Permanent Forum of Micro and Small Enterprises (FOPEME) focuses on the reduction of bureaucracy, market expansion (public procurement and exports), innovation and credit.	2000	Decree No. 3474	41
	Regional Forums.	2007	Decree No. 6174	-
Chile	National Advisory Council for Small Enterprises.	2010	Law No. 20416	15
	Advisory Council for MSMEs of the Chilean Economic Development Agency (CORFO).	2014	Resolution No. 1309 of the Chilean Economic Development Agency (CORFO)	16
Colombia	Senior Council of Small and Medium-sized Enterprises.	2000	Law No. 590	22
	Higher Council for Microenterprises.	2000	Law No. 590	15
	Regional Councils for Micro-, Small and Medium-sized enterprises.	2000	Law No. 590	-
El Salvador	National Committee of Micro and Small Enterprises.	2014	Decree No. 667	-
	Regional Committees for Micro and Small Enterprises.	2014	Decree No. 667	-
	Municipal Committees for Micro and Small Enterprises.	2014	Decree No. 667	-
	Sectoral Committees for Micro and Small Enterprises.	2014	Decree No. 667	-
Mexico	National Council for Micro-, Small and Medium-sized Enterprise Competitiveness.	2002	Development of Micro-, Small and Medium-sized Enterprise Competitiveness Act	31
	State Councils for Micro-, Small and Medium-sized Enterprise Competitiveness. "The council promotes, analyses and follows up on the schemes, programmes, instruments and actions that must be developed in support of MSMEs" (art. 17).	2002	Development of Micro-, Small and Medium-sized Enterprise Competitiveness Act	-
	Advisory Council of the National Institute of the Entrepreneur (INADEM).	2013	Decree whereby various provisions in the internal rules of the Secretariat of Economic Affairs are reformed, amended and repealed	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, "Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas", unpublished, Santiago, 2017.

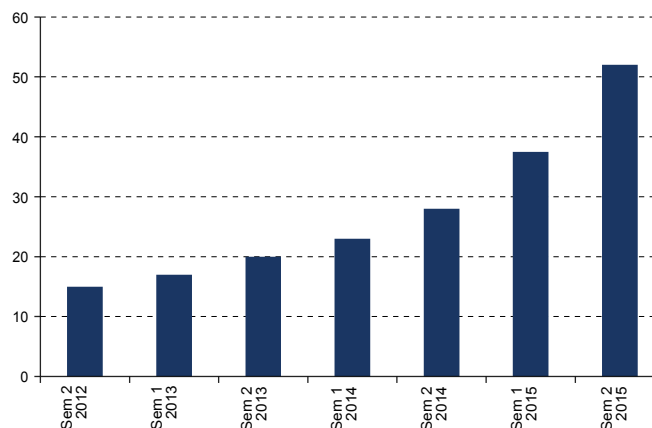
8. The new generation of MSME support measures broadens the scope for intervention

- Historically, policies aimed at promoting MSMEs have focused on access to credit, technical assistance, information on markets (and, to a lesser extent, on technologies,) promoting innovation and supporting the development of commercial strategies, especially in foreign markets. Recently, countries have redoubled their efforts to improve access to funding, deepen actions aimed at stimulating production linkages, increase the presence of support agencies in their territories and promote the entrepreneurial spirit.
- Actions seeking to facilitate access to funding for MSMEs have increased significantly in terms of resources invested. In Brazil, for example, credit extended to MSMEs by the Brazilian Development Bank (BNDES) grew from 0.59% of GDP in 2003 to 1.04% of GDP in 2014. In Argentina, after the charter of the Central Bank of Argentina (BCRA) was amended in 2012, the monetary authority was empowered to design measures to promote lending to the private sector, with a special focus on SMEs. Accordingly, the BCRA established a mandatory minimum reserve for financial entities to grant loans to the private sector for productive investment, known as the credit line for productive investment. Currently, 97% of funds destined to SMEs are generated through this mechanism.

■ **Figure V.2** ■

Argentina: placements through the credit line for productive investment, by semester, 2012-2015

(Billions of Argentine pesos)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Central Bank of Argentina.

9. Programmes aimed at production linkages are key tools in integrating MSMEs into the transformation projects of production sectors, chains or systems

- Since the 1990s, programmes seeking to promote production linkages have paved the way for closer relationships between MSMEs and some of the most dynamic growth segments of several Latin American economies. These can be divided into three categories: those promoting territorial production systems, those creating or consolidating networks of companies and those promoting supply relationships or production chains.
- These different linkage programmes have points in common insofar as they are all sources of collective projects, although

they generally have different scopes, as reflected in the differences among firms with a specific business initiative, production chains that may reach different levels of territorial extension, or production systems with a local presence. In these three cases, generating efficient partnerships depends on the possibility of developing foundations of mutual trust on the basis of which entrepreneurs and institutions involved in the initiatives can share information, face unplanned situations, solve unforeseen issues and combine different interests and sensitivities.

■ Table V.12 ■

Latin America (selected countries): promotion programmes for production linkages

Country	Boosting territorial production systems	Promoting business networks	Supporting the creation or consolidation of suppliers or production chains
Argentina	<ul style="list-style-type: none"> Programme for Productive Conglomerates (Secretariat for Entrepreneurs and SMEs (SEPYME)) Cluster Development Initiatives (Unit for Rural Change (UCAR)) 	<ul style="list-style-type: none"> Local Production Systems Programme (Secretariat for Entrepreneurs and SMEs (SEPYME)): provides support to association groups through technical and economic support Programme for the Strengthening of Technological Innovation in Productive Clusters (FIT-AP) (National Agency for Scientific and Technological Promotion) Initiative for association groups (Regional Development Fund (FONDER) of the Bank of the Argentine Nation) 	Programme for the Strengthening of Technological Innovation in Projects for Supplier Development (FIT-PDP) (National Agency for Scientific and Technological Promotion)
Brazil	Temporary local agreements (APL)		National Programme for Production Chains (Brazilian Micro and Small Business Support Service (SEBRAE))
Chile	Integrated Territorial Programmes (Chilean Economic Development Agency (CORFO))	<ul style="list-style-type: none"> Associative Development Projects (CORFO) Supplier development programme (CORFO) 	Strategic Smart Specialization Programmes (CORFO)
Colombia	Cluster Programme (iNNpulsa)		
El Salvador	One Village, One Product (National Commission for Micro and Small Enterprises (CONAMYPE))		
Mexico		Networks of integrator firms (National Institute of the Entrepreneur (INADEM))	<ul style="list-style-type: none"> Value chain networks (INADEM) Programme for the Development of Networks and Global Value Chains Production Chains Programme (Nacional Financiera (NAFIN)): provides liquidity to suppliers via factoring options

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, "Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas", unpublished, Santiago, 2017.

10. Creation of public goods for the development of MSMEs: business development centres

- Business development centres —resulting from the joint efforts of public, private and academic stakeholders— have become a valuable instrument of technical assistance and support for the management of small enterprises.
- Latin American business development centres are modelled on those created by the United States Small Business Administration, which has supported specialized professional team-building efforts in several countries throughout the region. The Small Business Development Centers network is the main source of technical and administrative advisory services for microenterprises and small businesses in the United States. It is currently made up of more than 1,100 centres with 5,000 full-time advisors, and provides free-of-charge services to 750,000 companies per year. There are similar experiences in Europe, where business development services have been running since the 1980s; the Enterprise Europe Network brings together 650 members and is one of the world's largest international MSME support networks.
- The Small Business Administration of the United States has entered into cooperation agreements with several countries in the region wishing to adopt the small businesses development centres model. In Central America, the Regional Centre for the Promotion of MSMEs (CENPROMYPE) has helped to establish more than 60 centres, and in Chile, the Technical Cooperation Service (SERCOTEC) of the Ministry of Economic Affairs, Development and Tourism has launched 51 centres in the past two years. In Mexico, these initiatives have been led by universities, which to date have launched 118 centres.
- Despite differences in models from one country to another, business development centres in general tend to be managed by local private, public or academic stakeholders aiming to promote partnerships with institutions in their territory, jointly define goals and plans, and complement existing resources and capacities in these centres. Latin American business development centres have a nimble and clear results-based institutional structure, with mechanisms aimed at assessing and monitoring their impact on the firms they serve. One of the virtues of these support models for MSMEs is the broad coverage they afford, allowing them to reach large parts of national territories. Another key factor in guaranteeing the efficiency of business development centres is the level of development of countries' existing business promotion systems.

■ Table V.13 ■

Latin America (selected countries): outcomes of business development centres

Country	Name and responsible entities	Launch date	Number of BDCs	Number of enterprises served	Main impact
Chile	Business development centres promoted through the Technical Cooperation Service (SERCOTEC)	2014	51	15,997 (at June 2017)	<ul style="list-style-type: none"> – Creation of 2,152 jobs (2015-2017) – Creation of 1,347 formal companies – Additional sales of 23 billion Chilean pesos (2015-2017)
El Salvador	Development centres for micro and small enterprises (CDMYPE) promoted by the National Microenterprise and Small Business Commission (CONAMYPE)	2010	14	3,078	Over 5,000 jobs created and additional sales of US\$ 22 million thanks to intervention by business development centres

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Bravo, M. Dini and M. Rueda, "Centros de desarrollo empresarial: avances, aprendizajes y perspectivas de las experiencias de Chile, Colombia, El Salvador y México," unpublished, Santiago, 2017.

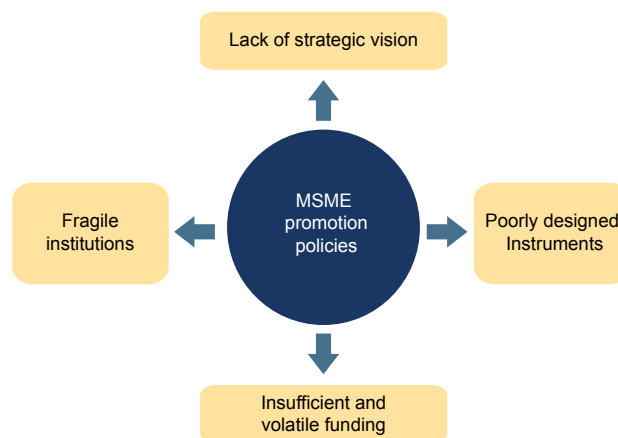
11. The promotion of entrepreneurship has been one of the fastest growing areas of production development policies in the last decade

- Programmes aimed at promoting start-ups or the entrepreneurial spirit seek to generate new business opportunities within existing firms or to launch new ventures. In general, these actions consist of a series of instruments: education, to stimulate students' entrepreneurship capacities at different stages in their schooling; support for business or start-up ideas; preferential access to credit; and special financing conditions, including mechanisms such as angel investors and venture capital.
- With regard to training, offerings range from the entrepreneurship education programmes of the Ministry of Education in El Salvador—which entail modifying curricula—to the entrepreneurship courses of SEBRAE in Brazil (National Entrepreneurship Education Programme), and the virtual classroom platforms launched in Argentina as part of the Academia Argentina Emprende programme. In several cases, training is a prerequisite to gain access to the funding needed for the development of a new venture, as is the case of the Seed Capital Programme of CORFO in Chile, and of the entrepreneurship programme of the National Service of Apprenticeship (SENA) in Colombia. Finally, some countries offer special credit lines to support the entrepreneurial spirit among young persons or women, such as Crédito Joven of INADEM in Mexico, Ciudad Mujer in El Salvador and Capital Abeja Emprende of the Technical Cooperation Service (SERCOTEC) in Chile.
- The region also offers a broad range of instruments to support new business ideas. Some of these focus on rapid-growth ventures (the High-impact Incubation Programme of INADEM in Mexico), others on the creation of technological companies (the Apps.co Programme of the Ministry of Information and Communications Technologies (MinTIC) in Colombia and the Vive Digital plan for the creation of new businesses through ICTs, such as mobile apps, software and digital content), and others promote the creation of innovative companies (the Innovative Entrepreneurs Support Programme of the National Research and Innovation Agency (ANII) of Uruguay) through sponsor institutions which allow them to allocate funds for the launching of new firms developing innovative products, processes, services or applications.
- In this context, creating a network of support institutions—incubators, business accelerators and technology parks—becomes extremely important. Generally speaking, these are public, private or hybrid entities that support early stage entrepreneurial initiatives, helping them with management and organizational aspects, offering them subsidized basic services (including rent, electricity and Internet) and supporting them in formalizing new business opportunities.
- Overall, it has not been easy for these types of programmes to assess their impact. That said, the experience of the National Association of Promoting Entities of Innovative Enterprises (ANPROTEC) in Brazil suggests the opposite. According to the association, some of the most important direct economic effects of the incubation and graduation of 5,000 companies from their scheme include sales above US\$ 4.7 billion and the creation of over 53,000 jobs. Indirect effects of their support—quantified through the input-output table of the Brazilian Geographical and Statistical Institute (IBGE)—include US\$ 7.5 billion generated in the production sector, revenues totalling US\$ 4.218 billion and 373,000 jobs created in other areas of the economy.

12. Despite this progress, prevailing conditions still limit the efficiency of MSME support policies

- Most countries in Latin America and the Caribbean lack a coherent package of broad-based and coordinated policies to adequately address the issues faced by small enterprises. The lack of strategic vision and coordination of MSME policies translates into a loss of focus which leads to the dilution of efforts, to rare instances of convergence among promoting entities and to little value being assigned to public-private dialogue in the promotion actions led by government authorities.
- Promotion instruments also suffer from poor design. Overall, support policies tend to be fragmented in several instruments of limited scope and restricted budgets; they have multiple and frequently contradictory goals, and they fail to define in a precise manner the expected contributions of MSMEs to countries' production development; they ignore the heterogeneity that tends to characterize these types of agents, proposing uniform measures ill-equipped to adapt to the diversity of beneficiary companies or territories; and they do not include monitoring and assessment of results and impacts, thus limiting the opportunity to learn from experience and make the necessary corrections to improve the effectiveness and efficiency of implemented measures.
- Overall, institutional structures linked to the promotion of MSMEs are very fragile. In most cases, support policies are limited in duration and subject to the political cycle. Furthermore, the region lacks agencies specializing in MSMEs with the sufficient degree of autonomy to sustain their promotion actions over lengthy periods of time.
- Also, the financial resources allocated to MSME promotion policies tend to be insufficient and are not allocated on a permanent basis.

■ Diagram V.2 ■
Latin America: main deficiencies of promotion policies

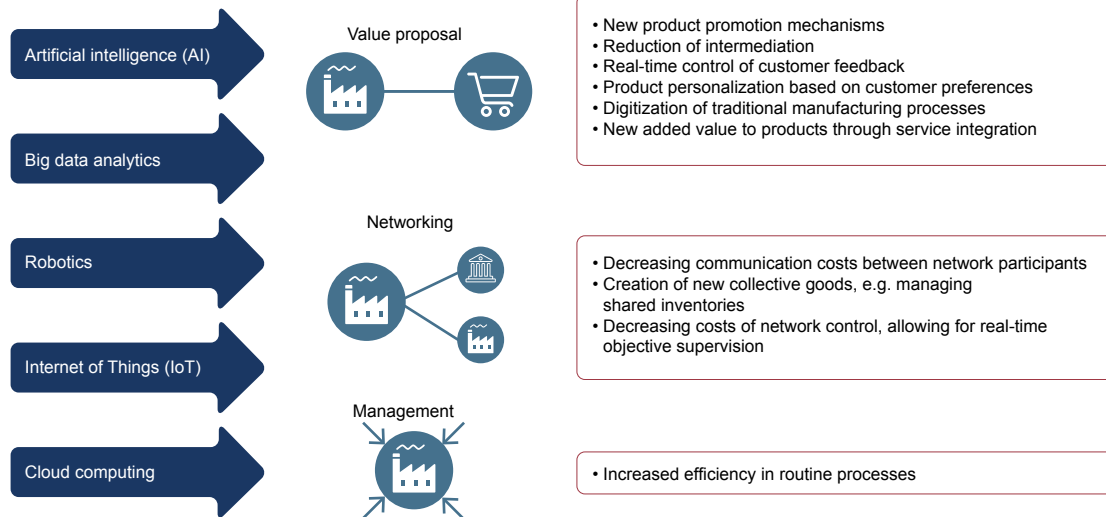


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

13. The digital transformation demands a new generation of promotion policies

- Designing new support policies for MSMEs requires addressing these problems. However, the unprecedented speed and style of changes in consumption patterns, production methods and business models resulting from the technological revolution mean that this is not enough.
- The acceleration of innovation processes and, furthermore, the integration of knowledge generated by different technologies —artificial intelligence, augmented reality, robotics, big data analytics, among others— and by different disciplines (biology, engineering and new materials) are transforming the way firms operate, regardless of their size.
- Companies' value proposals are changing together with the progress of the digital economy, the increase in the speed of transmission and the expansion of analytics, thus allowing for the incorporation of new services into manufactured goods and radically changing relationships with suppliers and destination markets, among other things. Electronics and ICTs are facilitating real-time interactions with customers, allowing for product and service adaptations that are paving the way for personalized offerings. Decreasing costs in high-speed data connection and transmission are changing relationships between commercial and production companies, streamlining the coordination of production processes and generating collective services with unprecedented efficiency.
- The integration of technology is also redefining competences within companies: for example, by allowing unskilled workers to carry out more complex tasks by using augmented reality tools, by reducing the need for manual labour through automated processes and robots, by generating demand for new jobs and by radically modifying training, skills and apprenticeship processes.

■ Diagram V.3 ■
New MSME business models

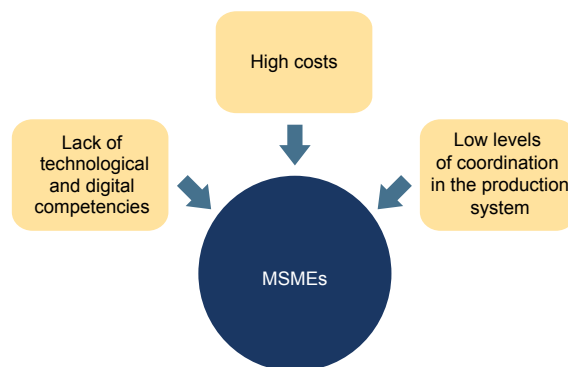


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

14. Today, MSMEs have enormous difficulties in integrating technology into their management processes, production methods and business models

- Efforts to boost digital literacy are no longer enough. Aside from the fact that many small companies lack the basic knowledge to participate in the new technological and competitive landscape, support institutions also face a much more complex task: to help MSMEs redesign their business models by integrating and adapting to new technologies. Recent experience in this area points to the need for support institutions to provide MSMEs with specialized and close mentorship, with a view to generating the necessary trust for companies to share critical information. In the European Union, several production systems with a high density of MSMEs have embraced these transformation processes, notably in the Basque Country in Spain or Emilia-Romagna in Italy. In these cases, support initiatives are led by business chambers or regional institutions which, in cooperation with training organizations and local governments, provide advisory and technical mentorship services for small enterprises.
- The digital transformation is still an expensive endeavour for MSMEs. Currently, this is not as much a problem of hardware (computers, sensors, cameras) as one of software. Restructuring a company—in which different management, production and commercial components come together in an integrated model managed on the basis of digital technologies—entails high costs that many small enterprises cannot afford.
- Finally, the substantial economies of scale required for the development of key competencies and knowledge demand collective responses to build new specialized business services networks, including the spheres of vocational and technical training, testing and certification laboratories and specialized research and development centres.

■ Diagram V.4 ■
Difficulties for MSME participation in the ongoing digital transformation



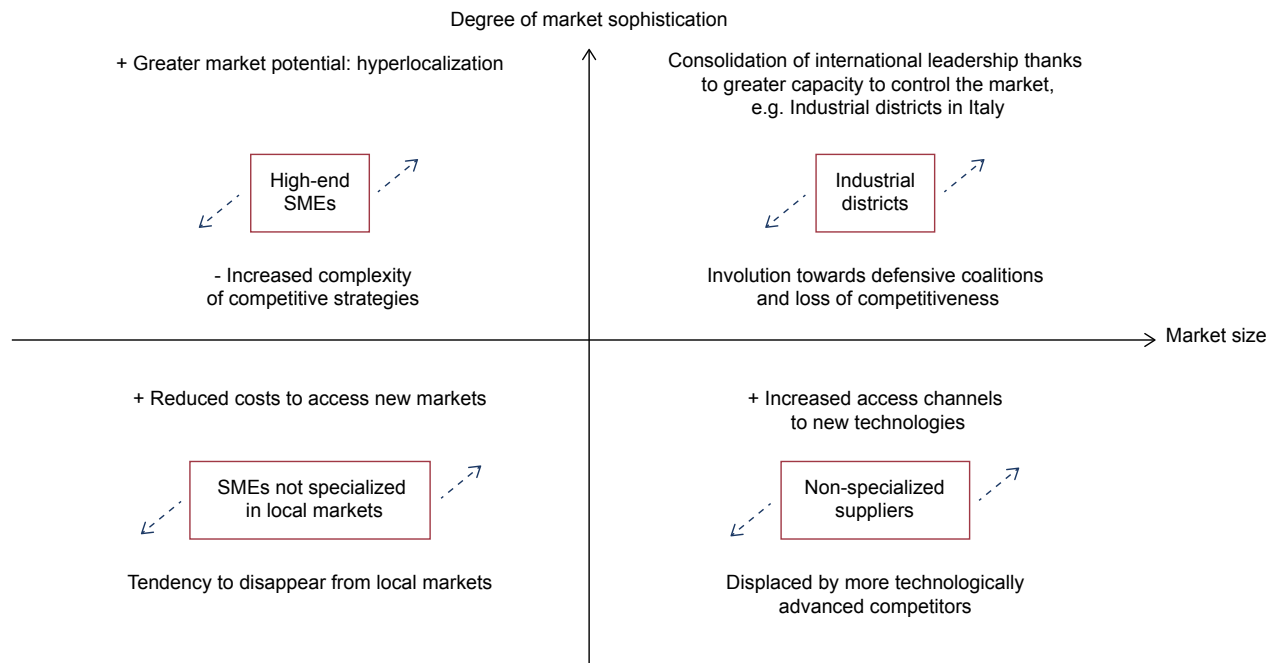
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

15. To overcome these limitations, support policies must make substantial adjustments, at least in two key aspects

- Measures aimed at supporting MSMEs must be coordinated with enabling policies whose purpose should be to create or boost competitive conditions, in both the national and the international markets. Key among these actions are those aimed at strengthening the technological base (including expanding high-speed networks, generating interoperability standards and developing cybersecurity), social capital and competition so as to prevent large firms from abusing their dominant position. Generally speaking, institutions responsible for MSME policy do not take part in the definition of the strategic objectives of these enabling policies. However, these policies are fundamental in the success of measures aimed at the transformation of small enterprises. Accordingly, promoting dialogue and coordination between these two groups of governmental authorities is of vital importance.
- Every measure aimed at promoting digitization of MSMEs must take into account the heterogeneity of this universe of companies, which react differently to the various challenges of the technological revolution and are subject to their own strategic capacities, financial resources and knowledge. The impact of these technologies depends, among other things, on companies' level of specialization and on the size of the markets in which they operate. In such a scenario, promotion policies need to establish specific and diversified support measures for MSMEs.

■ Diagram V.5 ■

Impact depending on level of specialization and size of the market in which companies operate



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

16. Different types of companies require different types of measures

- In the following table, the Economic Commission for Latin America and the Caribbean (ECLAC) proposes possible support measures to improve and accelerate the participation of MSMEs in the digital economy.

■ Table V.14 ■

Specific and differentiated measures to support the integration of MSMEs in the digital economy

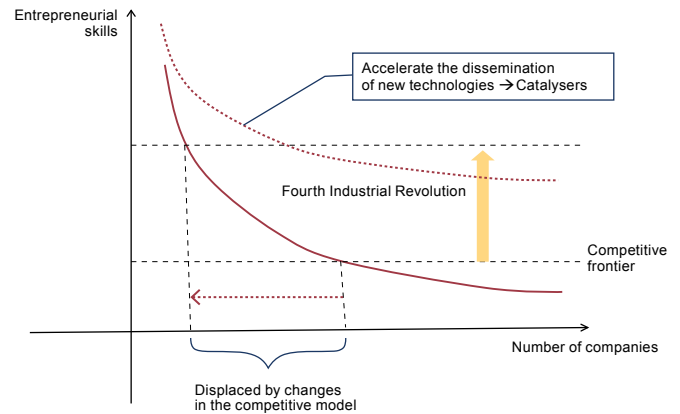
	Main risks and opportunities of Industry 4.0	Priority policy measures
MSMEs integrated into dynamic production systems, such as clusters or industrial districts	<ul style="list-style-type: none"> + Consolidation of international leadership resulting from greater capacity to control the market – Involvement towards defensive coalitions and loss of competitiveness 	<ul style="list-style-type: none"> – Define production standards to reinforce strategic positioning of dynamic clusters – Strengthen connections with technological centre networks specialized in advanced technologies – Create local collective goods for testing, trials and quality control
High-end MSMEs	<ul style="list-style-type: none"> + Greater market potential – Increased complexity of competitive strategies 	<ul style="list-style-type: none"> – Establish strategies to facilitate export procedures – Support entrepreneur training to manage new competitive strategies – Create new enterprises oriented towards digital services
Non-specialized suppliers	<ul style="list-style-type: none"> + Increased access channels to new technologies – Increased competition from countries with low human resource costs and from more technologically advanced competitors 	<ul style="list-style-type: none"> – Strategic mentorship in order to identify new competitive opportunities – Financial and technical support for digitization
Non-specialized SMEs operating in local markets	<ul style="list-style-type: none"> + Reduced costs to access new markets – Tendency to disappear from local markets 	<ul style="list-style-type: none"> – Digital literacy

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Dini and G. Stumpo, “Mipyme en América Latina: un frágil desempeño y nuevos desafíos para las políticas”, unpublished, Santiago, 2017.

17. Despite these measures, there is always the risk of arriving late

- Latin American economies are faced with the risk of the technological transformation taking place at such a fast pace that most companies will not be able to react in time to adapt, leaving a great number of them behind. To prevent or mitigate these effects, support policies and institutions need to act rapidly with meaningful measures that can affect a significant part of the MSME universe in a short period of time.
- A potential strategy in this direction should incorporate, at least, two key elements: on the one hand, clear signals to ensure the convergence of enabling policies and specific measures and, on the other, the identification of catalysers capable of accelerating and intensifying the impact of the implemented measures.
- Catalysers that can help MSMEs embrace change include: (a) integrating large companies into the production chains of small enterprises; (b) State demand and public procurement policies; (c) digital platforms that enable mobilization and coordination of production and service sectors; and (d) smart cities, considering that cities' production ecosystems have become a melting pot for new opportunities and ventures on account of their capacity to attract knowledge and capital.

■ **Figure V.3** ■
Impact of the shift in the technological frontier on the business community



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

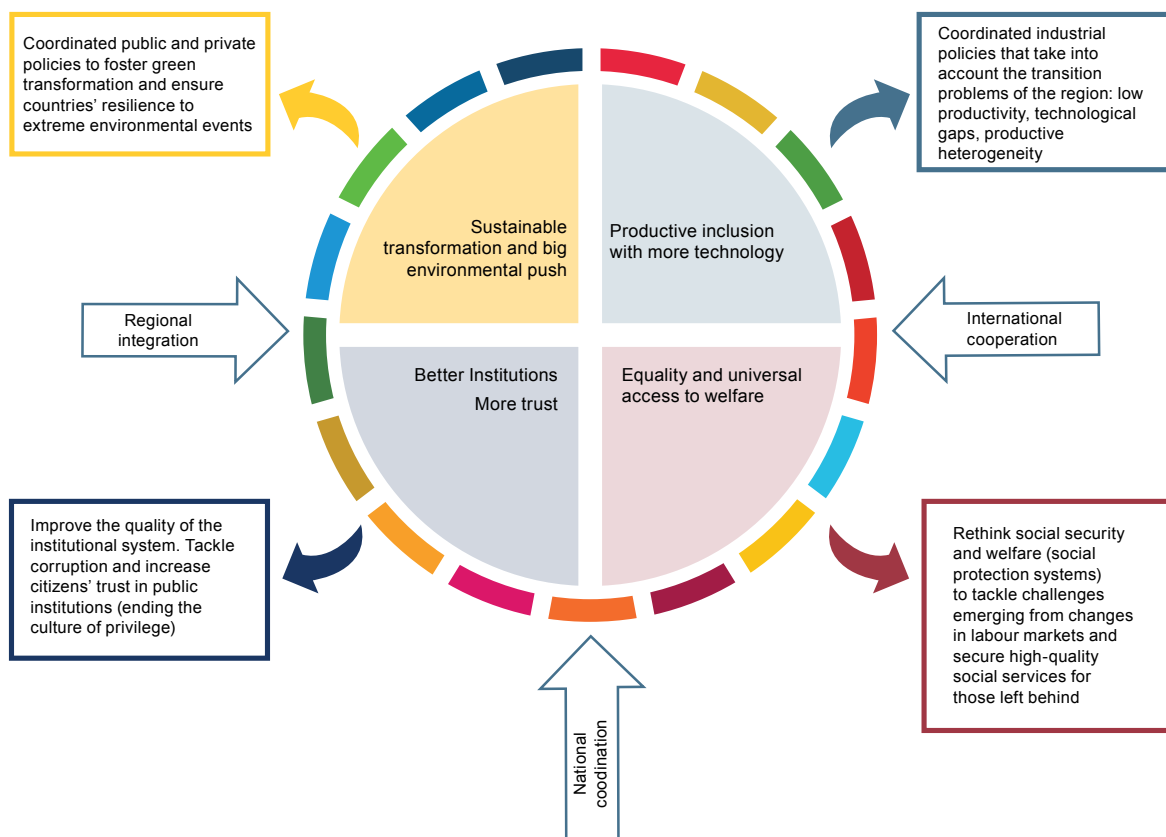
VI. New institutions to carry forward the development process in Latin America and the Caribbean

A. Transition economies face old and new challenges

- Besides the usual challenges that economies face on the path to development (particularly the need to move towards more integrated, effective and efficient production systems, social protection and welfare systems and more sustainable systems of production and consumption), they now have to meet the demands of fulfilling the 2030 Agenda for Sustainable Development and attaining the Sustainable Development Goals.
- This means working on a number of issues, particularly those involved in building up the public institutions needed to respond to citizens' new demands and improving their confidence in and satisfaction with services.
- To achieve this, it is also vital to strengthen the public policy space and policy coordination at the national level, increase regional integration and the contribution it can make to the four pillars of development, and enhance the role of international cooperation and multilateralism.

■ Diagram VI.1 ■

Key considerations when rethinking the development process

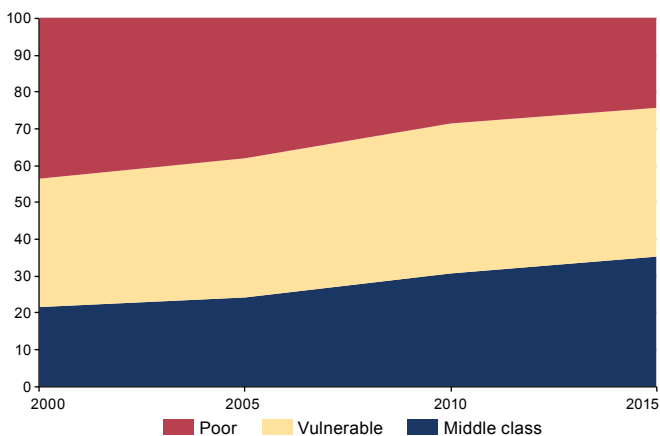


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

B. Improved growth rates and greater inclusiveness in the countries of Latin America and the Caribbean have translated into a growing middle class and a substantial reduction in poverty

- Higher rates of growth and social inclusion in the Latin America and Caribbean region over recent decades have led to improvements in welfare and an expanded middle class.
- Although different aspects of individuals' economic and social life should ideally be considered (multidimensional approach) in identifying the different socioeconomic groups, lack of information means that per capita income is often taken as a reasonable proxy to determine which sector of society people belong to.
- Thus, whereas in 2000 some 21% of the population of Latin America were considered to belong to the "consolidated middle class", i.e., the group earning between US\$ 10 and US\$ 50 a day at 2005 purchasing power parity (PPP), by 2015 the proportion was 34%. Again, the proportion of people living in poverty, i.e., those with incomes below US\$ 4 a day at 2005 PPP, fell dramatically between 2000 and 2015, from 43% to 24% of the population, while the proportion of the population classed as vulnerable rose from 34% to 39% in the same period.

■ **Figure VI.1 ■**
Latin America and the Caribbean: population
by socioeconomic group
(Percentages of the total population)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

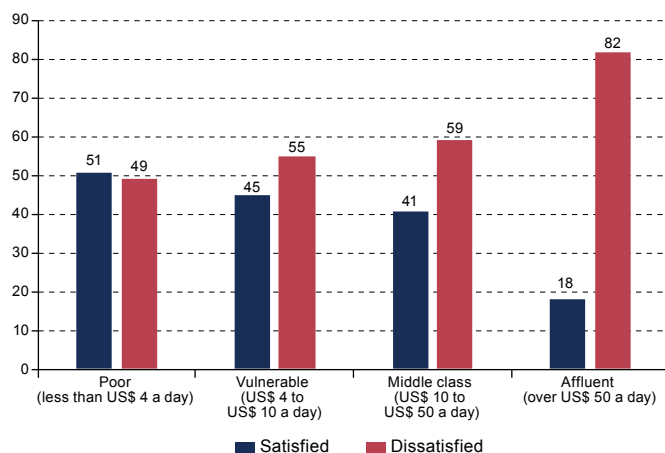
C. The emerging middle class of Latin America and the Caribbean has become more demanding and more critical of the quality of State-provided services

- Higher levels of satisfaction among the population and the larger relative size of the middle class have brought new economic and social demands that need to be addressed by institutions. These factors are a particular challenge for the region's governments, particularly given the recent slackening of the countries' dynamism.
- The expansion of the middle class has brought a change in values that partly accounts for the growing dissatisfaction of citizens in Latin America and the Caribbean. Middle-class citizens tend to be more critical about the functioning of institutions and the services provided by public institutions. In fact, when the middle class expands to 30% or more of the population, its members acquire a collective power that enables them to more effectively demand better public goods and services (OECD/CAF/ECLAC, 2018).
- Furthermore, the growing size of the middle class brings a need for higher public spending on health, education and security, among other things. According to the latest report prepared by the Organization for Economic Cooperation and Development (OECD), the Development Bank of Latin America (CAF) and the Economic Commission for Latin America and the Caribbean (ECLAC), the degree of satisfaction among Latin American and Caribbean citizens with public institutions and governments has deteriorated and they are more mistrustful of them than formerly (OECD/CAF/ECLAC, 2018).
- Besides the low level of satisfaction with public services in the region, what is striking is the trend over recent years, which connects straight back to the increased demands of the Latin American and Caribbean middle class.

■ Figure VI.2 ■

Latin America: satisfaction with public services, by economic group, 2015

(Percentages)

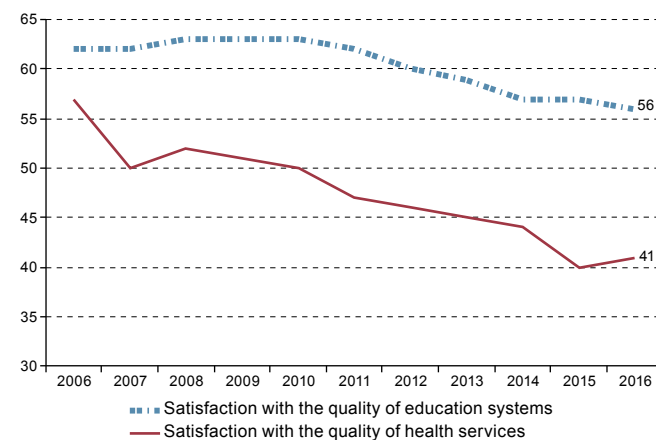


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

■ Figure VI.3 ■

Latin America: satisfaction with public education and health services, 2006-2016

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

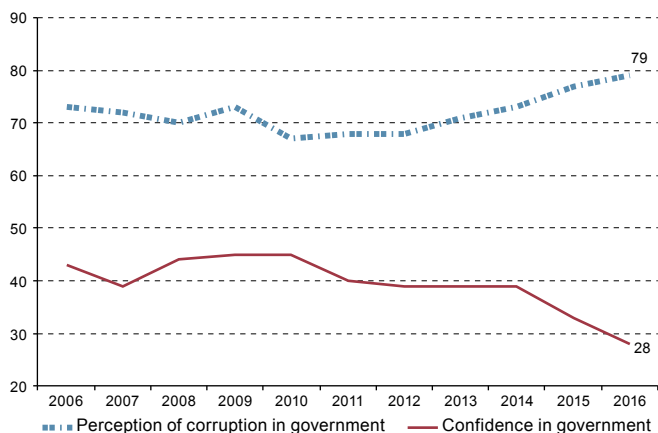
D. Perceived corruption and low tax morale are matters of concern in the region

- Dissatisfaction with the supply of public services has been reflected in declining confidence in institutions among citizens and a perception of governments as corrupt. This situation, which is common to developing economies generally and the countries of Latin America in particular, suggests an urgent need to construct more efficient and effective States and institutional frameworks with greater budgetary, administrative and management capacities that make it possible to pursue inclusive and sustainable development processes that improve access to health care and education and also enhance productivity, the

- incorporation and development of new technologies and capacity-building in the interests of greater employability.
- The corollary of this loss of confidence in governments and public institutions is a lesser willingness to pay taxes. Thus, when asked whether evading taxes was justifiable or not, 52% of the Latin American and Caribbean population considered in 2015 that this was justifiable or somewhat justifiable. This leads to a vicious circle of lower revenues, reduced State spending capacity, fewer and poorer-quality services, greater discontent and yet lower confidence in government institutions.

■ Figure VI.4 ■

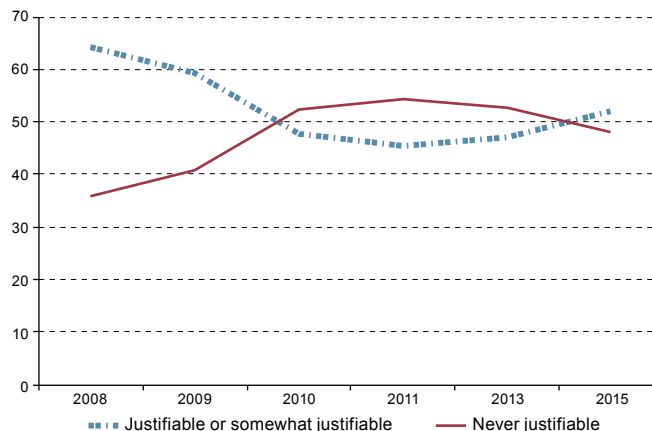
Latin America: perceived corruption and confidence in governments, 2006-2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

■ Figure VI.5 ■

Latin America: views on tax evasion, 2008-2015
(Percentages)

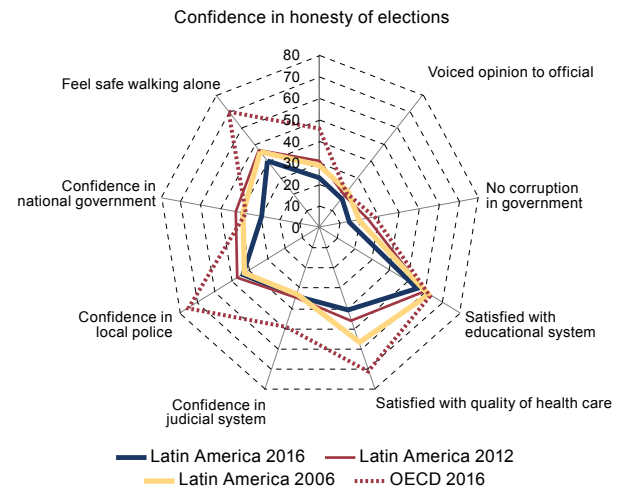


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

E. Strengthening and restructuring public institutions is crucial for the countries of Latin America and the Caribbean to be able to increase their well-being and progress on the path to development

- Indicators of perceived well-being have also deteriorated in Latin America and the Caribbean in recent years, pulled down by growing citizen mistrust and dissatisfaction. Some of the core elements in people's well-being are connected to satisfaction with democracy and the political engagement of society and with services such as education and health care, along with confidence in public institutions (the government, the judicial system and local police), among other things, and it is also affected by the perception of corruption in public services (Gallup, 2016).
- Thus, if a comparative analysis of the region is carried out at different points in time and in relation to the developed countries, there is clearly an urgent need to rethink the kind of institutions that should be built up in the region, since the proportion of people responding positively to questions about well-being in Latin America and the Caribbean declined between 2006 and 2016, and particularly from 2012 onward.

■ **Figure VI.6 ■**
Latin America and Organization for Economic Cooperation and Development (OECD): satisfaction as measured by selected indicators of governance and well-being
(Percentages of respondents)



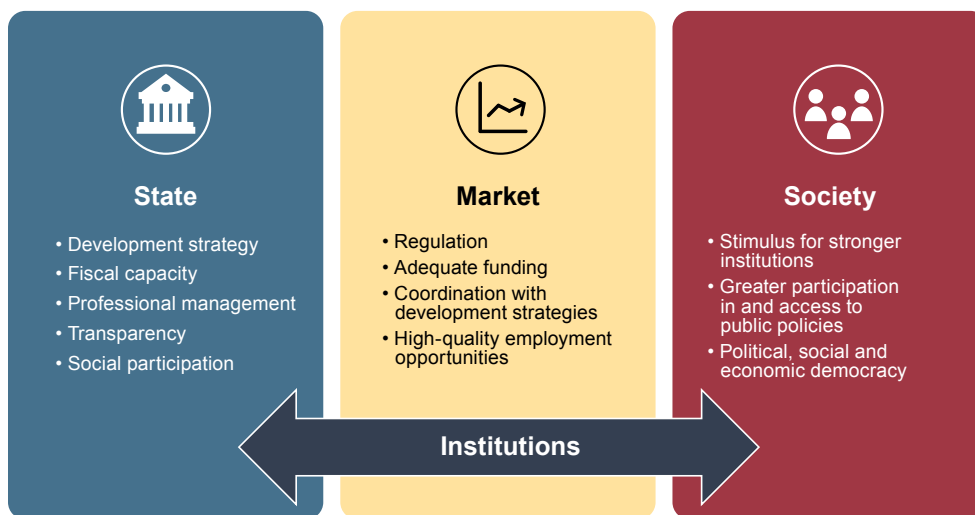
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Development Bank of Latin America (CAF)/Economic Commission for Latin America and the Caribbean (ECLAC), *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (LC/PUB.2017/25), Paris, OECD Publishing, 2018.

F. Rethinking institutions requires a new nexus between the State, the market and society

- When citizens perceive public institutions as being unable to respond to their demands, something that has been seen to be the case in many of the countries of Latin America and the Caribbean, they have few incentives to meet their obligations. This in turn weakens the ability of the State to raise revenue and provide high-quality public goods and services effectively, which adversely affects the welfare of citizens. The result is a negative spiral that further alienates citizens from public institutions. Consequently, public policies need to strengthen the institutional framework so that it responds better to citizens' demands and re-establishes trust.
- To increase the well-being of the population of Latin America and the Caribbean, it is essential to pursue a new and firmer social contract involving a long-term commitment among the three actors involved (the State, the market and society) to explore and enhance interaction and promote synergies, and to ensure that citizens' demands and well-being are prioritized.

■ Diagram VI.2 ■

The need for a new and stronger equation between the State, the market and society



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

VII. Opportunities for cooperation between the European Union and Latin America and the Caribbean

A. Macroeconomic policy

1. Fiscal policy, public expenditure management, and social and territorial cohesion

- The European Union has become a reference point for institutional structures and macrofiscal coordination through the establishment of rules to control deficits and strengthen the sustainability of public debt. In recent decades, the countries of Latin America have also implemented similar mechanisms; often, however, their operation has been undermined by macroeconomic volatility and the procyclical bias of the fiscal policies pursued.
- This experience underscores the importance of rules in the coordination of macroeconomic policies. It is therefore necessary to discuss changes that would reorient limits and controls, including countercyclical policy mechanisms and, in addition, establish incentives for prioritizing public investment. With this, governments would be better able to respond to the vagaries of the economy through countercyclical policies that bolster fiscal sustainability.
- However, this approach must be accompanied by an analysis of the quality of public finances. In this regard, reviewing experiences with public expenditure management, accountability and transparency in the use of public resources (availability and harmonization of fiscal statistics) would be of particular interest.
- In parallel with the need to improve the macroeconomic impact of fiscal policy and the efficiency and effectiveness of spending, another important measure is to explore public policies for avoiding or changing the income concentration bias through fiscal instruments. Indeed, tax collection levels in most Latin American and Caribbean countries are insufficient to fund the public policies they require: whereas in the region the total tax burden averages around 20% of gross domestic product (GDP), the corresponding figure in the countries of the European Union is almost twice as high (close to 40% of GDP).
- At present, most Latin American and Caribbean tax systems have a weak redistributive impact. Thus, whereas in the countries of the Organization for Economic Cooperation and Development (OECD), the Gini coefficient improves significantly with the State's intervention through the tax system, in the region's countries the concentration of income declines marginally after taxation.
- Those results are the consequence of tax systems that depend heavily on indirect taxation, as well as on tax breaks and exemptions for different types of income that are mainly available to higher-income sectors, together with high rates of evasion that benefit higher earners and the wealthy.
- Accordingly, the principal fiscal policy challenges include strengthening direct taxation (on income and wealth), in order to significantly increase their share of fiscal revenues, and improving tax administration mechanisms, so as to fight tax evasion more effectively.
- Tax evasion and tax avoidance have become increasingly important in developed countries and, as a result, on the international agenda. While the main progress has been led by the OECD and the Group of 20 (G 20), their importance in Latin America and the Caribbean is receiving increasing recognition. In developing countries, tax evasion, tax avoidance and illicit financial flows take different forms depending on the structure of the economy and the level of development of public institutions. Public policies for addressing those challenges must therefore take those differences into account. The international debate on the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda made a clear call for action in this area, in order to ensure the funding needed for the implementation of the Sustainable Development Goals (SDGs).
- One of the European Union's priorities is the territorial cohesion of its member States, and that principle has resulted in a system of intergovernmental fiscal coordination. That experience has yielded particularly relevant results. In turn, in Latin America territorial disparities can be seen in the different fiscal capacities of the countries' central, intermediate and local governments, and this also determines the coverage and quality of the public goods and services they provide.
- At the national level, one of the factors that has most accentuated the vertical asymmetry that exists between different levels of government is the mismatch between the allocation of public spending responsibilities and the capacity to generate resources. An example of this can be seen in the increase of central government transfers to intermediate and local governments which, in some cases, contribute to increased indebtedness.

- The high rate of specialization in the exploitation of natural resources and the regional concentration of their deposits, together with the asymmetrical distribution of tax revenues from this sector, amplifies the pronounced territorial disparities that exist.
- In that context, one additional challenge for territorial cohesion and intergovernmental relations is to make progress with equalization transfers and compensation mechanisms for the governments of those territories that have smaller taxable bases. In this undertaking, attention must be paid to issues such as regional productivity and the location of natural resources, coupled with their institutional structure and legal status.

2. Labour markets and migration

- In the context of regional integration processes, the countries of Latin America and the Caribbean face, in the medium term, the challenge of integrating their labour markets. In recent years, intraregional labour migration has risen in importance compared to other migratory movements and policies are needed to ensure its benefits reach the recipient countries, the migrants and their countries of origin. The European Union has a long and significant experience in this area, and this could be very useful in the design of policies for Latin America and the Caribbean. The key issues related to intraregional migration include the following: (i) the rights of intraregional migrants, (ii) the mutual recognition of academic qualifications, vocational training and skill certificates, (iii) the handling of acquired social security rights, and (iv) systems for transferring funds (remittances).
- At the same time, it would be useful to review the legal, social and employment situation of migrants from Latin America and the Caribbean in the countries of the European Union, in order to ensure that their rights are being upheld.
- The free trade agreements signed between the European Union and the countries of Latin America and the Caribbean typically include clauses on the recognition and enforcement of labour rights and environmental standards. Currently, some of those agreements are being renegotiated with a view to updating and modernizing them, and this process could involve reviewing those clauses and assessing their impact.

3. Financing for development

- Financial inclusion has become one of the leading issues on the policy agendas of the Latin American and Caribbean countries and of international agencies, as indicated in the resolution on financial inclusion for sustainable development (A/RES/72/206).
- An analysis of financial inclusion in Latin America and the Caribbean shows that the region is characterized, on the one hand, by low and unequal access to the formal financial system among households and small and medium-sized enterprises (SMEs) and, on the other, by a limited number of tools and mechanisms for improving the financial inclusion of the productive agents who are part of the formal financial system.
- Latin America and the Caribbean is one of the regions of the world with the lowest levels of financial inclusion. In the production sector, smaller businesses have low levels of access to the formal financial system, while a gulf in access exists between small and large enterprises.
- The financial inclusion gap in Latin America and the Caribbean can be explained by two sets of factors that constrict access to financing by households and, above all, by SMEs. First, there are the factors of supply and demand that directly affect SMEs and, second, the structure of the regional financial system, which entails, inter alia, low levels of depth and development, high concentration, an orientation towards the

short term, a lack of financial instruments and a shortage of incentives to channel sources of finance towards SMEs.

- Development banks have an important role to play in generating innovation in the form of products, processes and institutional structures for financing, both directly and through their coordination with other banks. While a degree of complementarity exists between the regional and

subregional development banks and national development banks on account of their common objectives and instruments, there is also room for cooperation with private banks, where potential synergies could lead to mutually beneficial innovations. The European Union's experiences could be very useful for the design of innovative financial instruments in Latin America and the Caribbean.

4. Structural gaps and the middle-income countries

- At present, official development assistance (ODA) flows represent 0.18% of the gross national income (GNI) of Latin America and the Caribbean, and this marks a sharp decrease from the average rate of 0.4% recorded during the 1970s, 1980s and 1990s. The evolution of ODA in the aggregate reflects the logic of the international cooperation system, which relies on per capita income as the indicator that determines a country's level of development and accordingly guides the allocation of official assistance resources.
- The evidence indicates that access to external resources can depend on a wide array of variables other than per capita income, including external factors such as credit ratings, risk perceptions, external demand conditions and the size of their economies that are beyond the control of middle-income countries. Similarly, the ability to mobilize domestic resources also depends on factors unrelated to per capita income, such as the level of domestic saving, the degree of financial inclusion and the ability of governments to collect taxes.
- The structural gaps approach is a response to the demand of the Latin American and Caribbean economies for a comprehensive set of indicators that, on the one hand, reflect the reality of each country and, on the other, identify each State's priority needs, to prevent the middle-income criterion from acting as an a priori impediment to receiving ODA.
- According to this approach, the level of per capita income cannot be equated with the level of development, and attaining economic and social development entails

overcoming a series of medium- and long-term obstacles (or, more accurately, structural development gaps) that still exist. Such barriers not only hinder dynamic and sustainable economic growth in the region's countries, they also restrict the chances of their economies and societies becoming more inclusive. Those gaps include those of per capita income, inequality, poverty, investment and savings, productivity and innovation, infrastructure, education, health, taxation, gender and the environment.

- The gap-based approach is both an alternative and a complement to the per capita income approach, one that entails a development cooperation agenda that explicitly includes an evaluation of needs and shortcomings that are not captured by income indicators but are reflected in other types of gaps. This is a more suitable approach and it is essential for casting light on those areas that require the determined focus of public policies and for guiding how the resources of the international cooperation system are targeted.
- This alternative is of even greater significance in light of the new challenges facing global development, primarily those enshrined in the 2030 Agenda for Sustainable Development and in the Paris Agreement on climate change adopted at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 21) in 2015. Those instruments constitute the main road map for the coming decades and call directly on the countries to attain a number of targets in the social, economic and environmental arenas.

B. Cooperation opportunities for advancing social development

1. Social innovation: an area of growing public policy interest, but one that still lacks a solid institutional structure to support it

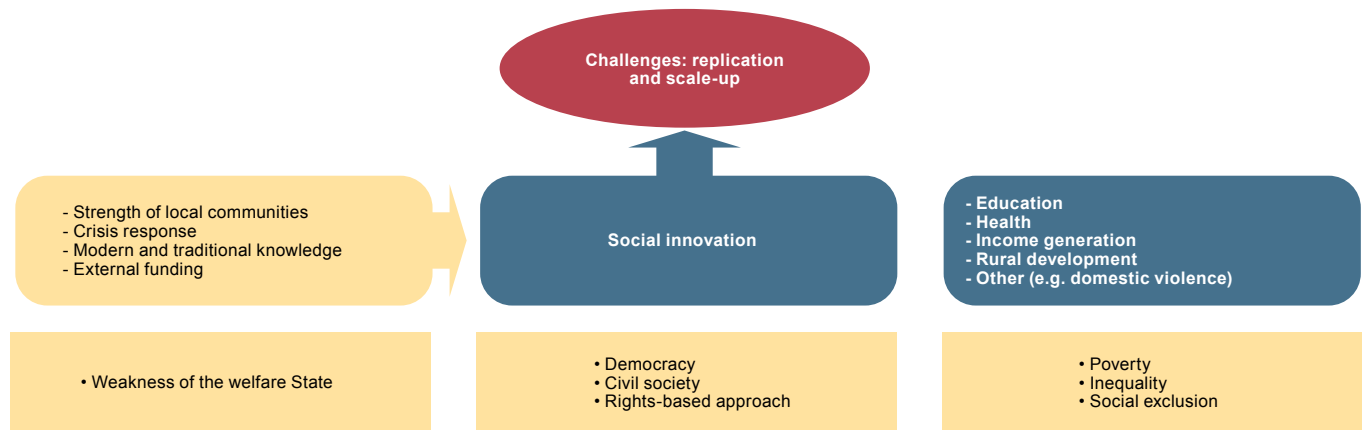
- Social innovations—understood as innovative, not-for-profit solutions to socially significant problems—are emerging as an important arena for international action to overcome such challenges as poverty and social exclusion, inadequate social protection and the lack of access to health services and quality education.
- They are not necessarily entirely new ideas that have never been tested: they can also be initiatives that significantly modify established processes in order to adapt them to local environments or that substantially improve aspects of those processes such as, for example, their effectiveness or sustainability.
- A key factor in the emergence of social innovations is the active participation of civil society. In addition to participation, other factors that bolster social innovation include political commitment and favourable legislative frameworks. An enabling environment for social innovation is created in countries where active civil societies are promoted, encouraged and developed.
- Social innovations must therefore be supported by an adequate institutional framework. However, while governmental interest in social innovation has grown in both the European Union and Latin America and the Caribbean, most of the countries do not have public institutions with direct responsibility for the topic.
- Currently, the countries of the European Union are paying increasing attention to social innovation, driven by a set of emerging social challenges such as demographic change and persistent unemployment (particularly among young people), migration, the sustainability of urban transport and climate change.
- The European Union has placed social innovation at the forefront of several initiatives, such as the Europe 2020 strategy, the growth and employment agenda agreed on by its member States in 2010, and the Horizon 2020 programme, which finances activities in the fields of research and innovation.
- In particular, the European Commission has financed the SI-DRIVE (Social Innovation: Driving Force of Social Change) project which, between 2014 and 2017, enabled research into social innovation to be conducted by an international consortium, of which the Economic Commission for Latin America and the Caribbean (ECLAC) was a member through its Division for Social Development.

2. Social innovation in Latin America and the Caribbean: in search of answers to structural problems in the social, economic and environmental arenas

- Latin America and the Caribbean have seen the emergence of multiple social innovations seeking to respond effectively to key development issues, such as health (reduction of maternal and infant mortality), education (reducing school dropout numbers and improving learning levels), autonomous income generation and rural development.
- The region is a hotbed of social innovation partly on account of the weakness of the welfare State and the persistent problems of poverty, inequality and social exclusion, in response to which—in a democratic environment— various civil society actors, local communities and, in some cases, local or municipal governments have developed new initiatives with a rights-based approach in order to reach the most vulnerable segments of the population not covered by traditional government programmes.
- Many social innovations have been implemented by local communities to cope at times of economic crisis, with those communities receiving external funding contributions. Synergies have often developed between modern knowledge and the knowledge of indigenous peoples.
- It is vitally important that decision makers recognize social innovation as a tool for development in Latin America and the Caribbean. Governments should support civil society and local communities in the search for new ways to address both structural and emerging problems. In particular, the evaluation of social innovations should be promoted and, subsequently, those initiatives that have proved successful in improving the population’s living standards should be adopted as public policies and scaled up.
- While the region is very innovative, there are many challenges with implementation, the largest of which is the scaling up and replication of successful social innovations. In this regard, it must be borne in mind that the development, implementation and consolidation of a social innovation implies a process of trial and error, which requires a period of time (at least five years) that is longer than the duration of a government mandate. Results in the very short term cannot be expected. Thus, the experience of the European Union could be a source of inspiration and motivation for progressing in that direction.

■ Diagram VII.1 ■

The situation of social innovation in Latin America and the Caribbean



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M.E. Bernal and S. Cecchini, "Social innovation in Latin America and the Caribbean," *Atlas of Social Innovation, SI-DRIVE*, 2017.

C. Climate change mitigation: an urgent priority

1. Climate change and its close ties to economic development

- Latin America and the Caribbean have already reached annual levels of greenhouse gas emissions similar to those of the European Union, despite the region's lower level of development. 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.
- Given that the region's upward trend in greenhouse gas emissions will continue into 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 will continue with its successful efforts in this regard. Thus, the sustainable production models that the European Union has developed could serve as a solid base for new experiences in Latin America and the Caribbean.
- The 2030 Agenda for Sustainable Development recognizes that climate change is one of the greatest challenges of the present day and that its effects undermine the possibility of attaining sustainable development. Consequently, in December 2015, the twenty-first Conference of the Parties of the United Nations Framework Convention on Climate Change adopted the Paris Agreement: the first agreement in which both industrialized nations and developing countries alike undertook to manage the transition towards a low-carbon economy. As of early January 2018, of the 195 signatories of the Paris Agreement, 172 countries had ratified it, including the European Union and its 28 member States and 30 of the 33 member countries of the Community of Latin American and Caribbean States (CELAC). As a result of the rapid domino effect in its ratifications, the Paris Agreement came into force on 4 November 2016, well ahead of schedule.
- In addition to these collective efforts, the European Union has been a pioneer in the adoption of climate change mitigation actions. For example, the Europe 2020 strategy includes the following objectives: (i) reducing greenhouse gas emissions by 20%, (ii) increasing the share of renewable energy to 20%, and (iii) improving energy efficiency by 20%. At the same time, the Latin American and Caribbean region is particularly vulnerable to the effects of climate change, albeit unevenly from one country to the next. Several efforts have therefore been made to implement public policies for climate change mitigation and adaptation, particularly in the areas of energy, transport, agriculture, forestry and waste management.
- In that context, the European Union's experiences could be of great help in accelerating and improving the Latin American countries' ongoing efforts to address what has been called "the biggest market failure the world has ever seen".

2. Adequate access to environmental information

- The countries of the European Union and of Latin America and the Caribbean are firmly committed to the application of Principle 10 of the Rio Declaration on Environment and Development. Principle 10 affirms that everyone shall have appropriate access to information concerning the environment that is held by public authorities, including information on materials and activities that pose a danger within their communities, together with the opportunity to participate in decision-making processes in that area, and shall be afforded effective access to judicial and administrative proceedings in environmental matters, all of which contributes to the attainment of the Sustainable Development Goals.
- The European Union and its 28 member States are parties to the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention), adopted in 1998 under the

auspices of the Economic Commission for Europe. This Convention guarantees the right of access to information, participation in decision-making and access to justice in environmental matters, in order to help protect the right of all members of present and future generations to live in a healthy environment.

- On 4 March 2018, the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean was adopted in Escazú (Costa Rica), with the meaningful participation of civil society and the support of ECLAC, as technical secretariat. This Agreement is the only treaty with its origins in the United Nations Conference on Sustainable Development (Rio+20), the first binding agreement of the Latin American and Caribbean countries on environmental issues and the only one in the world to include specific provisions to ensure a safe and enabling environment for human rights defenders in environmental matters. It is also the first agreement concluded under the aegis of ECLAC, exactly 70 years after the Commission's establishment. Inspired by the Aarhus Convention, the objective of the Regional Agreement is to guarantee the full and effective implementation in Latin America and the Caribbean of the rights of access to environmental information, public participation in the environmental decision-making process and access to justice in environmental matters, and the creation and strengthening of capacities and cooperation, contributing to the protection of the right of every person of present and future generations to live in a healthy environment and to sustainable development. By focusing on people and groups in vulnerable situations, it places equality at the centre of sustainable development with the aim of leaving no one behind. The Agreement was opened for signature by the 33 Latin American and Caribbean countries at United Nations Headquarters in New York on 27 September 2018, and it will enter into force on the ninetieth day after the date of deposit of the eleventh instrument of ratification, acceptance, approval or accession.
- The constitutions of 20 Latin America and Caribbean countries recognize the right of people to live in a healthy environment, 22 countries have adopted laws on access to public information, 25 are equipped with rules to promote public participation in the general environmental laws and 20 allow any individual or collective to bring legal action in defence of the environment.
- Principle 10 of the Rio Declaration offers important opportunities for collaboration and cooperation between the European Union and its member States and the countries of Latin America and the Caribbean. As rights of access are a goal and a means for the implementation of the 2030 Agenda for Sustainable Development, access to information, public participation and access to justice in environmental matters are cross-cutting elements in multilateral environmental agreements, such as the Paris Agreement on climate change, the Convention on Biological Diversity, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, the Stockholm Convention on Persistent Organic Pollutants and the recently adopted Minamata Convention on Mercury, which came into force in August 2017. Moreover, as parties to the Aarhus Convention, the European Union and its member States are committed to promoting its principles within international organizations and environment-related processes, and this has favoured cooperation between the two regions.
- As an example, in recent years the Governments of Italy and the Netherlands funded various phases of the Building Bridges between Regions cooperation project, which aimed at supporting the countries of Latin America and the Caribbean, particularly those of the English-speaking Caribbean, in implementing Principle 10 of the Rio Declaration on Environment and Development. The Government of Germany, through its Agency for International Cooperation (GIZ), has also supported a project that seeks to strengthen the relationship between sustainable mining and environmental democracy in the Andean countries. In the final stage of the negotiations for the Latin American and Caribbean regional agreement, and with a view to its prompt implementation, it is to be hoped that such cooperation will be stepped up.

■ Map VII.1 ■

Latin America and the Caribbean: countries with constitutional texts addressing the right to a healthy environment, 2017



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Observatory on Principle 10 in Latin America and the Caribbean [online] <https://observatoriop10.cepal.org/>, and ECLAC, "Acceso a la información, la participación y la justicia en asuntos ambientales en América Latina y el Caribe: hacia el logro de la Agenda 2030 para el Desarrollo Sostenible. Panorama 2017. Versión preliminar" (LC/CNP10.8/DDR/1), Santiago.

■ Map VII.2 ■

Latin America and the Caribbean: countries with freedom of information laws, 2017



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Observatory on Principle 10 in Latin America and the Caribbean [online] <https://observatoriop10.cepal.org/>, and ECLAC, "Acceso a la información, la participación y la justicia en asuntos ambientales en América Latina y el Caribe: hacia el logro de la Agenda 2030 para el Desarrollo Sostenible. Panorama 2017. Versión preliminar" (LC/CNP10.8/DDR/1), Santiago.

D. Science, technology and innovation: a fertile arena for cooperation between the two regions

- The Mexico City Declaration was adopted at the Fifth Ministerial Conference on the Information Society in Latin America and the Caribbean, held in Mexico City in 2015. The Declaration recognizes the importance of examining the advantages and feasibility of making progress with the establishment of a single digital market in the region, which will require reviewing the legal and regulatory considerations hindering the growth of the digital economy. The countries share a cultural and linguistic identity through which they could harness the potential of increased electronic commerce in the region. Forums for cooperation in this area could be strengthened in order to exchange experiences with the strategy formulated in the European Union for building a digital single market and with the programmes that have stemmed from that initiative.
- With regard to digital skills, while there is no consensus on the net effect of automation and robotics on employment, it is clear that countries must step up their efforts to build their workers' skills and increase the functional efficiency of the labour market. In particular, young people, women and other underrepresented groups still face obstacles in obtaining quality jobs and becoming actors of progressive structural change, and coordination between different public policy areas is crucial for attaining that objective. Digital skills are vital to the development of more robust digital and global services industries and, at the same time, can promote labour inclusion. Cooperation in this area could focus on reviewing and building on the European Union's experience to strengthen early-learning capacities, to anticipate and better respond to the changing demands of the labour market, to build workers' skills and to encourage life-long learning.
- In the area of digitized production, leading-edge productive activities combine such innovative technologies as additive manufacturing, augmented and virtual reality, the Internet of things, big data analytics, robotics and artificial intelligence. Those technologies enable the development of new productive processes and systems and intelligent products. They also increase the flexibility of industrial processes, facilitate the scaling up of production, decentralize decision-making and allow the manufacture of customized products. These developments, already present in various manufacturing industries, mining and agriculture, can also be found in sectors such as health (for example, technologies for care, monitoring and telemedicine) and cities (for example, streamlining energy transactions). These new consumption and production patterns pose challenges for the region, particularly because the development of those new technologies is essentially exogenous. Cooperation in this area could be expanded to better understand the European initiatives related to the promotion of Industry 4.0 and the adoption of advanced production technologies.
- In the areas of green production and eco-innovation, the creation of new productive capacities and the adoption of green technologies is one of the main challenges facing the countries of Latin America and the Caribbean. New consumption and production patterns are forcing companies to modify their procedures, processes and products to improve their productivity and environmental performance, as they transition towards green production and adopt eco-innovation activities. In this context, cooperation could be expanded to identify European good practices with policies and incentives for developing eco-innovation capabilities within firms, with a particular focus on smaller businesses, in order to guide similar exercises in the countries of Latin America and the Caribbean.
- With regard to data-driven innovation, addressing the uncertainty caused by economic and social change is a key objective in the information age. Thus, innovation based on big data is crucial for decision-making and development strategies. Harnessing that transformative potential requires an ecosystem for innovation that incorporates new sources of information and facilities for processing those data and for enabling their use by individuals, organizations and communities. In this area, cooperation could be strengthened in order to promote exchanges of experiences regarding innovation networks and training activities to support the identification of solutions based on the use of big data for development.

E. Towards strategic biregional cooperation in trade and investment

1. Accountability, transparency and inclusion: key elements for a renewed trade agenda

- In October 2015, the European Commission presented a new trade strategy —“Trade for all: towards a more responsible trade and investment policy”— the guidelines of which have been included in the most recent trade agreements concluded by the European Union (with Canada, Japan, Singapore and Viet Nam). It is structured around three pillars:
 - An effective policy that tackles new economic realities. Trade agreements must adapt to such phenomena as global value chains and digitization. This means reduced emphasis on traditional topics such as tariffs and more focus on services, e-commerce, intellectual property, regulatory harmonization and trade facilitation.
 - A policy of greater transparency. Trade agreements have continuously expanded their scope to cover such issues as environmental and labour standards, consumer protection, cultural policies and public health. Both in Europe and worldwide, this has fuelled a growing public demand for participation in determining negotiating positions and for detailed information on how negotiations are unfolding. In this context, the European Union has implemented unprecedented measures to ensure transparency, such as, for example, making its negotiating proposals public.
 - A policy based on values. Such a policy must promote sustainable development, human rights and anti-corruption efforts. The new agreements also include rules on investment protection, a topic that prior to the entry into force of the Lisbon Treaty was addressed exclusively by member States through bilateral agreements. The new approach seeks to address the concerns that have arisen regarding mechanisms for resolving disputes between investors and States, through the creation of an investment court and the inclusion of provisions ensuring the right of host States to regulate in the public interest.
- For Latin America and the Caribbean, the importance of strengthening cooperation with the European Union in the areas of trade and investment goes far beyond the dimensions of their current trading relationship, for two main reasons:
 - The significant global economic weight of the European Union. Taken together, the 28 member countries of the European Union represent the second-largest economy in the world after China (measured in purchasing power parity). Even if trade among its members is ignored, the European Union is the world’s second-largest exporter of goods (after China), its second-largest importer of goods (after the United States) and its largest exporter and importer of services. The European Union is also world’s leading source of aid for trade, its largest recipient of foreign direct investment (FDI) and the main source of FDI, both globally and in Latin America and the Caribbean.
 - The close similarity of vision shared by the two regions. The European Union’s trade and investment policy places a strong emphasis on the pursuit of sustainable development, the promotion of human rights and the primacy of multilateralism. The countries of Latin America and the Caribbean share those values. Indeed, Latin America and the Caribbean’s similarity of values and visions is greater with the European Union than with any other of its trading partners. This has been clearly demonstrated by the shift towards greater protectionism taken by United States trade policy.
- In sum, there are many areas in which the European Union and Latin America and the Caribbean can cooperate over the coming years on an agenda of shared interests. These include the defence of the multilateral trading system, the identification of synergies between trade policy and the 2030 Agenda for Sustainable Development and the reform of the international governance of foreign direct investment. In addition, in the medium term, a shared foundation of similar agreements between countries or groups of countries in the region and the European Union could facilitate efforts to strengthen convergence between the different economic integration mechanisms that exist in the region itself.

2. New opportunities for boosting investment between the two regions

- Over the past two years, the advance of the digital economy and the stabilization of commodity prices at levels below those reached during the supercycle have shaped an international landscape in which the main movements of capital in the form of foreign direct investment were intended to secure strategic assets or further sectoral consolidation processes in the advanced economies and into which China entered as a major global player, through mergers and acquisitions in both the United States and the European Union.
- Against that backdrop, FDI inflows to the Latin American and Caribbean economies weakened and were focused on services, manufacturing and renewable energy, leaving FDI targeting natural resources in a state of comparative neglect. In particular, FDI from the European Union managed to remain on the increase in the aftermath of the 2008 global financial crisis and following the end of commodity price boom, but in 2015 and 2016, European investment in Latin America and the Caribbean declined, mainly as a result of reduced investments in Brazil.
- In that context, both regions are facing the challenge of identifying and exploiting their opportunities for strengthened investment links and of thereby bolstering a strategic partnership to contribute to meeting the Sustainable Development Goals. Thus, the priority areas of cooperation include, for example, renewable energy, telecommunications and strengthening research and development (R&D). With this, the Latin American and Caribbean economies will be able to make progress towards advanced manufacturing practices and adapt to the new demands of the digital economy that are transforming production processes and consumption patterns. At the same time, progress in that direction will allow European Union companies to consolidate their international leadership and further explore new benefits offered by the participation of developing countries in their value chains.
- European Union companies have a long history in the countries of Latin America and the Caribbean, which has enabled them to build stable business relationships of great importance to the economies of both regions. Currently, European transnational corporations are playing an important part by investing in renewable energy and telecommunications, and those investments represent a contribution to sustainable development and the deployment of infrastructure to enable the digital economy. By way of example, in 2016 renewable energy and telecommunications headed the list of new cross-border greenfield investments announced in Latin America and the Caribbean (accounting for 18% and 14%, respectively, of the totals), and European Union companies led this process, with 63% the investments announced for renewable energy and 44% of those announced in the telecommunications sector.
- Projects by European Union companies also led investments in research and development in Latin America and the Caribbean: companies from the European Union accounted for 71% of the R&D investments announced over the past five years. The location of applied research centres, such as those of Fraunhofer in Chile and Brazil, demonstrates the availability of research capabilities for progressing towards advanced manufacturing in the region. Moreover, there is abundant room for growth in this area, given that the region still has a small share in global R&D investments (4% of R&D projects, compared with 13% of the total projects announced). Thus, the necessary R&D investments can be promoted through even closer biregional cooperation.
- Investment flows into the region should strengthen with the growth and economic recovery that can be seen on the horizon, and with the increasing need to address global challenges through a strengthened relationship between Latin America and the Caribbean and the European Union. This would contribute to achieving the Sustainable Development Goals, improving productive structures and facilitating the emergence of a digital economy in both regions.

F. The European experience: a reference point for the development of smaller businesses and of the institutions charged with their promotion

- The European Union has a long tradition of support policies for micro-, small and medium-sized enterprises (MSMEs). In 2000, the European Council in Santa Maria da Feira, Portugal, recognizing the importance of those businesses, adopted the European Charter for Small Enterprises and, in 2008, the European Union adopted the Small Business Act, which set the strategic principles and main lines of action for encouraging the development of smaller businesses within the European Union and its member States.
- Based on the definitions contained therein, the European Union has launched far-reaching support instruments. Chief among these is the programme for the Competitiveness of Enterprises and SMEs (COSME), which has a projected budget of 2.3 billion euros for the 2014–2020 period and is intended to stimulate access to finance and markets, improve the business environment and promote entrepreneurial culture.
- On this basis, through efforts to bring together their different productive development policies, the European Union and its member countries have gradually developed a coordinated support system that covers major topics for the development of MSMEs in Latin America and the Caribbean, such as the introduction of digital technologies into the smaller businesses' productive processes, the development of advanced technologies and access to them (such as robotics, big data analytics, additive manufacturing or 3D printing) and the design and implementation of development strategies for local territories and production systems.
- A fluid dialogue between public and private institutional actors from the two regions, the exchange of good practices and the creation of cooperative projects offer a very important opportunity for strengthening the institutional framework for business promotion in Latin America and the Caribbean (as shown by the experience of the Euromipyme project and the AL-Invest 5.0 programme) and for laying the foundations for closer integration between the two regions' productive and business systems.
- The main lines of collaboration should cover, at the least, three aspects: building methodologies and developing institutional capacities for the design of development strategies; knowledge about productive technologies, particularly those that stand at the heart of the fourth industrial revolution; and exchanges of experiences among enterprises.
- From a methodological point of view, a dialogue between the development institutions responsible for small and medium-sized enterprises could make a major contribution to the capacities of the agencies responsible for those processes. In particular, an analysis of the European experience in light of the political and institutional realities of Latin America and the Caribbean would provide valuable elements for sparking critical reflection and possible adjustments in policies for the promotion of MSMEs:
 - In the European development strategy, there is a high degree of integration among policies for SMEs. First, the European Union recognizes that SMEs play a decisive role in promoting the consolidation of a strong industrial base: in the Europe 2020 strategy, SMEs are key to achieving intelligent, sustainable and inclusive development. Second, permanent efforts are made to ensure convergence between initiatives in the areas of SME strategy and innovation promotion (Horizon 2020) and territorial development initiatives, such as the Research and Innovation Smart Specialization Strategy (RIS3).
 - The territorial dimension has a central role in the European strategy. Public efforts to boost the competitiveness and development of SMEs must be designed and implemented with emphasis on the creation and consolidation of cooperative ties among companies of different sizes and between them and the institutions that make up their productive ecosystem. For example, RIS3 requires an integrated territorial approach for policy design and execution. Policies must be adapted to the local context and recognize that different options for advancing innovation and regional development exist, including: (i) rejuvenating traditional sectors through activities that offer greater added value and new market niches, (ii) modernization through the adoption and dissemination of new technologies, (iii) technological diversification based on specializations that already exist in related fields, (iv) developing new economic activities through disruptive technological change and cutting-edge innovations, and (v) capitalizing

on new forms of innovation, such as open and user-guided innovation, social innovation and services innovation.

- This would reinforce the idea that policy should be seen as a collective action, in which public-private dialogue is key in defining priorities for action and building a consensus to legitimize productive development interventions.
- The approach adopted by the European Union also differs significantly from the predominant experience in Latin America and the Caribbean in terms of the governance models used for development programmes and initiatives. They provide for the complementarity of roles and functions between actors operating within community, national and territorial bodies, and they place emphasis on the regional dimension for identifying potential, mobilizing resources, building competencies and constructing operational venues for cooperation.
- Another positive element within the European experience is the stability of its development policies, which ensures ongoing initiatives medium- and long-term continuity that lasts beyond the political cycles of the member countries and of the European Union itself, allowing more far-reaching transformation processes that require longer durations to be undertaken.
- In the field of public policy cooperation, the Euromipyme project, a joint effort of ECLAC and the European Union, has been one very important step forward. The project's main objective is to improve policies for MSMEs at the national, subregional and regional levels in the countries of Latin America, in order to promote inclusive economic growth, generate productivity gains and reduce poverty. This basic purpose is pursued along four key lines: (i) supporting Latin American countries in the development, implementation and monitoring of national, subregional and regional policies, plans and strategies for MSMEs, (ii) strengthening dialogue between public and private actors regarding MSME policies in Latin America to facilitate and improve the design of policies in this area, in coordination with the AL-Invest programme, (iii) bolstering cooperation between Latin America and Europe on institutional, technical and social issues related to promoting MSMEs, and (iv) supporting the evaluation process of the AL-Invest programme.
- The AL-Invest programme is one of the European Commission's most important international cooperation projects in Latin America and the Caribbean. It was launched in 1994 in an attempt to attract European investment into

the region; over time its focus changed, however, and it now works to promote internationalization and build the productivity of MSMEs in Latin America. In 2015, the European Commission launched a tender for the fifth phase of the programme: AL-INVEST 5.0, "Integrating growth for social cohesion in Latin America". The Chamber of Industry, Commerce, Services and Tourism (CAINCO) of Santa Cruz, Plurinational State of Bolivia, coordinates the consortium of 11 international organizations that won the bid to implement the project across the region.

- In the technological arena, some of the past cooperation experiences between the two regions have been interesting: most notably, the experience of Germany's Fraunhofer Institute in Chile, referred to above, and the extended presence of Tecnalía Corporación Tecnológica, a Basque Country technological centre, in several Latin American and Caribbean countries. The development of new technologies—and, in particular, the challenges posed by the digitization of the economy—offers new opportunities to make this type of cooperation more systematic and, especially, more firmly oriented towards integrating MSMEs into the digital world. The current situation, at a time when many Latin American and Caribbean countries are reviewing their policies for technology centres, also offers particularly conducive prospects for forging partnerships to leverage and boost the accumulated capacities of the two regions' technological institutions. The European networks of technology centres and digital innovation hubs, which promote group projects for the development of specific technologies among players from specific territories, provide an interesting model and could serve as partners for joint programmes aimed at strengthening the region's technology strategies.
- The experiences with productive cooperation between companies undertaken to date have yielded unsatisfactory results, especially as regards the participation of MSMEs. Those companies' high levels of integration into their local environments hampers the development of internationalization strategies based solely on individual efforts, and this underscores the need to take all the players engaged in a productive ecosystem into consideration as subjects of those policies. The studies and proposals for cooperation between clusters from both regions developed by the European Union – Latin America and Caribbean Foundation (EU-LAC Foundation) provide a good example of how cooperation programmes between productive territories could be structured.

G. Closing infrastructure gaps: new opportunities for cooperation between the two regions

1. Enabling infrastructure for structural change

- In order to pursue progressive structural change, as proposed by ECLAC, and to comply with the 2030 Agenda for Sustainable Development, Latin America and the Caribbean must further expand its infrastructure services (transport, energy, telecommunications, water and sanitation). At present, the provision of these services remains inadequate, inefficient and unsustainable, thus perpetuating the region's structural imbalances: limited diversification of the production structure, sluggishness in innovation efforts and performance, high income and wealth concentration and vulnerability to climate change.
- Public policy in this area has been unsatisfactory. On the one hand, patterns of public and private infrastructure investment show that Latin America and the Caribbean have been unable to mobilize the funds needed to advance the development of the sector, even at times of economic booms and high commodity prices. In contrast, the European Union has shown more dynamism in its investments for the deployment and modernization of enabling infrastructure. At the same time, in addition to the low levels of investment, the limited targeting of the measures adopted by the authorities in the area of infrastructure has led to an inefficient provision of services and the absence of the infrastructure needed for sustainable development. Particularly notable in this regard is the failure by the region's countries to capitalize on infrastructure integration in order to benefit from economies of networking and of scale and thus reduce the gaps that exist.
- Against that backdrop, new venues for biregional cooperation to further the deployment of enabling infrastructure for structural change could be proposed:
 - Infrastructure governance. The European Union and its member countries have accrued valuable experience with public infrastructure policy, including such notable elements as phasing and permanence, accumulating technical know-how and institutional strengthening. Accordingly, the exchange of good practices is a vitally important activity for the region's authorities.
 - Design of regionally coordinated policies for infrastructure and logistics. One recurring theme with the implementation of logistics and mobility policies in Latin America and the Caribbean is the absence of statistical information and operating indicators to support decision-making and the monitoring and assessment of actions and policies. In this area, the European experience with generating standardized sectoral statistical information through which countries can be compared has been key in bringing about changes in transport policies (modal distribution and energy efficiency) and in advancing the integration of the region's infrastructure and logistics.
 - New generation of logistics and mobility policies. The European Union's white papers on transport and how they interconnect with national logistics and mobility plans and policies offer a key source of support for technical and political dialogue on urban logistics and mobility in Latin America and the Caribbean. Notable in this context are such aspects as the mobilization of public and private investment, the use of public-private partnerships and smart transport systems, together with policy tools for moving towards sustainable logistics and mobility. In addition, use could be made of the accumulated experience with participatory mechanisms involving the private sector, academia and civil society, to bring about change in how infrastructure is designed, regulated and operated and thus allowing the needs of economic development to be reconciled with social and environmental progress. An issue of particular concern is the importance of public transport in Latin American cities, which are facing increasing rates of motorization and individual vehicle use.
 - Logistics integration and energy complementarity to encourage the delinking of economic growth, consumption and natural resource extraction. To that end, sharing experiences with mechanisms for stimulating innovation, low carbon investments, non-conventional renewable energies, training and greater professionalization in the transport and logistics sector could encourage a better provision of those services in Latin America and the Caribbean in economic, social, environmental and institutional terms.

2. Energy efficiency in keeping with the 2030 Agenda for Sustainable Development and the Paris Agreement

- The European Union's level of energy intensity —that is, the ratio of total energy consumption to GDP— has evolved positively over the past quarter of a century. Its steady decrease (a 40% drop over 25 years) indicates a significant and positive uncoupling of economic growth from energy consumption. This dynamic is mainly the result of the design and implementation of public policies for energy efficiency in most of the European Union member States. The effects of those policies are constantly measured through performance indicators generated by the Odyssee-Mure programme, funded by the European Commission and implemented by the Environment and Energy Management Agency (ADEME) of France.
- At the same time, Latin America and the Caribbean continues to report low rates of energy intensity compared to other regions, and the trend over the past 25 years shows no significant progress. Ample room therefore exists for improving productive energy use and incorporating it into energy policies and strategies in pursuit of Goal 7 of the 2030 Agenda for Sustainable Development. Accordingly, public policies for energy efficiency —which already exist in most Latin American and Caribbean countries but which, for both political and economic reasons (subsidies and low oil prices), are not being implemented— must be promoted and given priority.
- One important element in the European experience is the monitoring of public policies for energy efficiency. In this regard, since 2011, ECLAC has been spearheading the creation and functioning of the Database for Energy Efficiency Indicators for Latin America and the Caribbean (BIEE), an initiative similar to the Odyssee-Mure programme, with the technical support of France's ADEME and financial cooperation from the Government of Germany. The results of this initiative are particularly positive: all the Latin American countries have officially joined the project and four Caribbean countries signed up in 2017.
- In this area, however, there is still much room for furthering cooperation between the European Union and Latin America and the Caribbean. Thus, the region could benefit from European experiences with the following topics:
 - Economic and regulatory mechanisms to encourage energy efficiency projects and programmes at the national and local levels.
 - Regulatory frameworks to promote energy service companies dedicated to improving the efficiency of industrial, residential and commercial systems.
 - The inclusion of efficiency in policies for evolving towards more sustainable systems for power generation, transmission and distribution, in keeping with the commitments set out in the 2030 Agenda for Sustainable Development and the Paris Agreement.



Recent economic, political and social changes and the accelerated digital revolution, along with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals, are the new backdrop for the review of cooperation between the members of the Community of Latin American and Caribbean States (CELAC) and the European Union. The end goal is renewed and dynamic collaboration based on multilateralism, which goes beyond trade integration and strengthens the shared vision and values of both regions.

This document is a joint effort of the Economic Commission for Latin America and the Caribbean (ECLAC), the European Union and the European Union-Latin America and the Caribbean Foundation (EU-LAC Foundation), which identifies many areas in which cooperation is crucial, especially for economies experiencing “development in transition”. It examines factors that drive investment and the development of real production integration, encourage technology transfer and innovation, favour the inclusion of micro, small and medium enterprises, and improve States’ responsiveness to citizens’ demands. In short, it aims to outline the path to progressive structural change with stronger productivity, more and better jobs, and higher wages. In other words, to establish cooperation that helps to build more modern, productive and inclusive societies.