“European-Latin American and Caribbean (LAC)

Experiences and Financial Cooperation”

CONCLUSIONS AND RECOMMENDATIONS

1. The Latin American and Caribbean (LAC) countries have been unable in the past 30 years to move closer to the per capita income levels of the developed countries. LAC per capita income in 1990 amounted to 33% of that of the developed countries and today has dropped to 31%. The fact is that, instead of advancing, 13 countries have fallen farther behind, with the result that people today are poorer than in past generations. The basic reason for this is that the region has not been capable of improving its productivity. Growth is driven by capital investments, instead of by an efficient combination of labor and capital, despite the fact that human capital, investment in technology and access to processes have shown an improvement in the region. As a result, the major challenge lies in how to resolve the problem that is keeping the region from showing sustained growth --in other words, from enhancing its productivity.

2. Given its low productivity, LAC growth theoretically rests on investment, but in all truth, this lags far behind that of its competitors. LAC invests 12% of GDP on average, while the developed countries put 14% into their investments. Furthermore, its investments are far less efficient than those of other regions of the world. By all estimates, had LAC invested at China’s levels over the past 30 years, its GDP would have doubled, and had its investments during that period been as efficient as those made in Asia, its GDP would have been four times as large. The conclusion to be drawn is that LAC´s poor economic performance cannot be attributed to a lack of resources, but largely to a deficient combination of the various factors of production.

3. The European Union (EU) has lost specific weight in its trade with LAC over the past three decades, particularly as an export market. Even so, between 2005 and 2017, European enterprises spearheaded investments in the LAC countries, accounting for 39% of the total value of new projects in the region. They also own 41% of the accrued assets of foreign direct investment (FDI) in LAC. Their presence is particularly important in South America, where Spain dominates with 120,000 million euros, or 29% of European investments in new projects and 29% of European mergers and acquisitions in the region over the period 2005-2017.

4. Financial development requires the design and development of an inclusive financial system conceived as a policy of productive insertion and dedicated to financing

production by giving those lacking it access to formal financial services and improving use of the financial system by those that are a part of the formal financial circuit. Development banks play a significant role in that financial inclusion through their innovation of both financial instruments and processes and their institutions, with a view to enhancing people's possibilities for saving and consumption and taking greater advantage of the entrepreneurial talents and investment opportunities of small and medium enterprises (SMEs). In the last ten years, development banks have crafted a wide array of SME financing instruments and modalities: loans, guarantee funds, risk instruments, consulting and training services and multiple programs. An effort has been made to ensure that those instruments are appropriate to the type of business involved and to its scale of production, life cycle and risk structures. However, their design has been more static than dynamic, making it difficult to meet a company's changing financial needs over time.

5. Micro, small and medium enterprises are known to be an essential part of the fabric of business in the LAC countries. In fact, the region's low level of productivity is said to be attributable in large measure to those enterprises, due to their inefficient infrastructure, low innovative capacity and use of outdated technologies. The development banking system has a leading role to play in this area in helping these enterprises raise their level of productivity and, in time, internationalize their activities. With this in mind, efforts like providing support for investment in infrastructure do much toward enhancing productivity and competitiveness, inasmuch as a lack of infrastructure or its deficient operation weighs more in terms of cost than the tariffs or duties themselves. Here, the financing provided by regional and multilateral financing organizations, development banks, and enterprises of EU countries and of other regions of the world is of extreme importance.

6. The new LAC infrastructure that is developed should be sustainable, inclusive and resilient in the face of climate change. However, given the need for large amounts of resources and their short supply, the fact should be considered that it is far more economic to maintain existing infrastructure than to build new projects. As a result, use of the different financing methods should be evaluated, depending upon the type of project involved. In the case of projects to be implemented by means of public-private partnerships (PPPs), for example, it must be borne in mind that not all projects are suitable for such an arrangement, which only makes sense if the infrastructure involved is complex, as in the case of urban, technology and energy projects. Furthermore, it is extremely important to plan the infrastructure, to have an infrastructure investment plan with a clearly defined project package, so that top investors and operators that are not usually enticed when isolated projects are involved, can be attracted.

7. Digitalization is the future. It offers an opportunity and the necessary conditions for competing and should be incorporated by all enterprises, regardless of their size. Profits today are no longer produced by physical capital and low wages play no part, either; rather, they are the outcome of intangible elements associated with the use of that physical capital and of the digitalization of the processes, which have a major impact on employment and social elements. This is also bringing about a change in the orientation of investment flows to target countries that possess connectivity infrastructure and offer favorable conditions for the use of new Internet technologies. LAC has a serious problem

in this regard: only 30% of the population has access to 4G technology, while the rest uses 3G or 2G and another population segment has very limited access, with which it loses the opportunity to take advantage of the new technologies. This is another area in which new investments are urgently needed.

8. Multilateral development banks operate with a model based on a vision of economic development that does not correspond to the true situation. According to that vision, their role is to serve as intermediaries, so that the savings of the rich countries flow toward the emerging nations. The real situation, however, is the opposite, for the emerging countries have been exporting capital continuously and systematically for the past 20 years. In addition, the volume of resources needed for gross capital investment in Latin America --over one billion dollars-- is far beyond the capacity of the multilateral development banks to supply. To sum up, these institutions must retool their business model and turn themselves into facilitators in order to raise private funds in the capital market and furnish knowledge, advisory assistance and their own experience.

9. The situation does not differ very much in the case of national development banks (NDBs). Public resources do not flow to these financial institutions; on the contrary, in some countries, NDBs have found themselves in the position of having to refund resources to the public treasury. For that reason, greater attention has been given to raising funds in the capital markets and establishing financing agreements with multilateral and bilateral banks and taking advantage of the development of new markets, such as that of green bonds for the financing of green or climate change-related projects. In addition, they are either moving or should move toward a development bank model in which they serve as facilitators more than as financing sources or use instruments that facilitate access to financing while tapping their fund-raising potential. This can be accomplished by, for example, making more intensive use of the provision of loan guarantees to back the issues of companies or financial intermediaries and can be supplemented by technical assistance and information services, among others.

10. Estimates by different specialized institutions point to a slowdown of global economic growth in 2019 due to a number of different types of risks. One of the most important has to do with the worsening of trade tensions between the U.S. and China and the very economic slowdown of the latter, one of the world's largest importers of raw materials. A possible Brexit without a negotiated departure from the EU constitutes another significant risk, which could have the effect of weakening the private consumption, exports and industrial production of Germany, the most important economic partner in the Eurozone. This impacts LAC growth forecasts, estimated to reach a maximum of 2% with a downward trend if conditions worsen further.

11. The global economic slowdown also had an impact on access to long-term external investment resources, above all for the developing countries. Capital flows have demonstrated a high degree of volatility and FDI flows to developing countries were generally negative over the period 2015-2017. Incoming global FDI flows dropped 19% in 2018 to US$1.18 trillion, their lowest level of the past 10 years, but are expected to show a slight improvement in 2019.

12. World trade in goods and services, for its part, is forecast to slow slightly in 2019 from its

2018 level of 3.9, to 3.7%, in line with the slowdown in global economic growth. The various trade conflicts are impairing entrepreneurial trust and investment decisions. It should be stressed that world trade growth, of itself, lags behind that of GDP, amounting to almost one-half during the pre-2008 crisis period. The weakness of the investor component has been considered a key element behind the slowing of global trade flows. That means that if the intention is to revive trade, global investment must be spurred.

13. It is also important to take into consideration that development banks, by maintaining good relations with multilateral development organizations and governments, are in an advantageous position to call for initiatives to promote foreign trade and investment. In addition, they enjoy access to privileged information, like knowledge of major investment projects, bilateral initiatives between countries that tend to be arranged at the political level, or national or foreign entrepreneurs who propose projects for government consideration.

14. For the past 16 years, LAC has maintained an almost unvarying share of roughly 6% of global exports of goods and services. The Asian developing countries, on the other hand, have seen these rise considerably over the same period. This increase is largely due to China, whose participation more than tripled, rising from 4 to 14% between 2000 and 2016. Although the region's exports of goods increased 22-fold between 2000 and 2016, these have been concentrated in only five products: soybeans, copper, refined copper, oil and gas, and iron.

15. The future of exports can be seen to lie in the service sector, whose share of world trade has risen, but LAC is responsible for barely 3.1%, compared with almost 6% of global exports of goods. LAC's percentage of service exports dropped over the past decade from 4.2 to 3.1%, while the Asian developing countries, on the other hand, saw their participation in this area rise strongly. Service exports today account for 22% of world exports and are forecast to rise to over 40% in the next few years, driven by the development of the digital industry.

16. Stronger growth of modern services. LAC's outlook for the export of these types of services --telecommunication, financial, insurance, pension, royalty and other entrepreneurial services-- does not differ significantly. Its share amounts to 1.8%, with South America being the region's largest supplier (75% of the total exports in 2016). The Caribbean and Mexico accounted for smaller percentages of LAC modern service exports, in a reflection of their specialization in traditional services, particularly tourism. Central America's participation in this category amounted to 16%.

17. LAC intra-regional trade between 2008 and 2016 has remained in the neighborhood of 20%, revealing the existence of a huge potential for growth, given that in Europe's case it amounts to 59% and in that of Asia, to 50%. Intra-regional trade requires the building of infrastructure, for its lack is more costly than many tariffs and duties that have already been lifted. Development of the intra-regional market could make it possible to remove obstacles to trade that have arisen in recent years.