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Europe and Latin America:

A Solution to Each Others' Economic Challenges

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Introduction

Europe has experienced a significant slowdown in both economic and productivity growth since the early 2000s, causing the average European today to earn approximately 34% less than their American counterpart, with 70% of this income gap driven by lower productivity levels.¹ For years, Europe has failed to take advantage of the digital revolution, which is why only four European technology firms are among the fifty biggest worldwide. These structural weaknesses are compounded by rising geoeconomic exposure. China, for instance, currently supplies nearly 100 percent of the heavy rare earth elements critical to clean energy and advanced manufacturing technologies.²

The Latin American economy, for its part, has experienced minimal economic growth over the past decades. Between 2014 and 2023, the region's gross domestic product grew at a mere 0.9%.³ Latin America remains the world's most unequal region in terms of income distribution, with a persistently high poverty rate of 27%.⁴ Governance failures and extensive state intervention in the economy have hindered the region's economic

¹ Overview: Latin American Economic Outlook 2025 | OECD, 2025

https://www.oecd.org/en/publications/latin-american-economic-outlook-2025_80e48de5-en/full-report/overview_db715ebd.html

² Bonnefous, Bastien, Sophie Fay, Adrien Pécout, and Olivier Pinaud, 'European Industry Caught in Crossfire of China's Rare Earths War', *Le Monde.Fr* (2025)

https://www.lemonde.fr/en/international/article/2025/10/27/european-industry-caught-in-crossfire-of-china-s-rare-earths-war_6746830_4.html

³ 'OECD Economic Outlook, Volume 2024 Issue 1 | OECD', *OECD Economic Outlook, Volume 2024 Issue 1*, 2024 https://www.oecd.org/en/publications/oecd-economic-outlook/volume-2024/issue-1_69a0c310-en.html

⁴ 'Poor Investment Performance, Low Labor Productivity and Limited Fiscal Space Keep Latin America and the Caribbean in a Trap of Low Economic Growth', Economic Commission for Latin America and the Caribbean, 2024 <https://www.cepal.org/en/pressreleases/poor-investment-performance-low-labor-productivity-and-limited-fiscal-space-keep-latin>

performance. Latin America's market composition lacks the human and financial capital needed for higher growth rates. Weak property rights protections, judicial systems and infrastructure are also present throughout the region.

Europe and Latin America represent complementary reflections of each other's economic strengths and structural needs. Europe generates surplus capital and hosts globally competitive export firms, yet its growth remains constrained by regulatory burdens, internal market fragmentation, and sluggish domestic consumption. Latin America and the Caribbean (LAC), in contrast, form a market of over 650 million people characterised by persistent unmet consumer and industrial needs and considerable untapped export potential. This complementarity has become strategically critical as Europe seeks to reduce dependency on Chinese supply chains. This is particularly true in the energy sector, given Latin America's possession of nearly 40% of global copper production and significant reserves of nickel, cobalt, and rare earth elements.⁵

As the European Union and the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) move toward ratifying their comprehensive partnership agreement, they face a strategic choice: whether EU–Latin America relations become a pillar of Europe's competitiveness and economic security, or whether that space is ceded to competitors like China. This report is framed around that decision. It sets out what is concretely at stake for both sides, identifies the binding economic constraints shaping EU and LAC performance, and pinpoints their highest-value opportunities in terms of economic growth and security. It then advances a focused set of politically realistic policy actions capable of delivering measurable economic gains.

⁵ *Latin America's Opportunity in Critical Minerals for the Clean Energy Transition – Analysis* - IEA, 2023
<https://www.iea.org/commentaries/latin-americas-opportunity-in-critical-minerals-for-the-clean-energy-transition>

Rebuilding Competitiveness: Europe's Productivity Decline and Geopolitical Concerns

After World War II, Europe began a period of rapid economic growth. Between 1950 and 1980, the main European economies saw their consumption per capita tripled.⁶ This significant increase in productivity, and therefore income, was driven by a combination of catch-up dynamics, as European economies narrowed part of the technological gap with the United States, and domestic innovation supported by high levels of capital accumulation. By the late 1970s, Western Europe had consolidated global leadership in capital-intensive sectors such as aerospace, nuclear energy, and precision manufacturing.⁷

This trajectory shifted significantly beginning in the 1990s. From 1995 to 2022, the European Union experienced an average annual GDP growth rate of just 1.1%, falling further to only 0.7% between 2004 and 2022.⁸ Similarly, Europe's productivity growth has been in decline since the 1980s, from 2.1% in the 1980s to 0.7% in the past decade.⁹ As a result, the average European worker now produces less than 80% of the output generated by a U.S. worker in the same amount of time, compared to 95% in the mid-1990s.¹⁰

In the absence of policy reforms, this performance gap between the European Union and the United States is likely to widen in the upcoming years, as Europe is not taking advantage of the digital revolution, which includes sectors like artificial intelligence, advanced robotics, and digital assets. Among the world's fifty largest technology firms by market capitalisation, only four are headquartered in the European Union.¹¹ Only 8% of

⁶Garicano, Luis, 'The Constitution of Innovation', *The Constitution of Innovation - by Luis Garicano* (2025) <https://www.siliconcontinent.com/p/the-constitution-of-innovation>

⁷Ibid.

⁸Ibid.

⁹ Bergeaud, Antonin, *The Past, Present and Future of European Productivity* by Antonin Bergeaud https://www.ecb.europa.eu/pub/pdf/sintra/ecb.forumcentbankpub2024_Bergeaud_paper.en.pdf

¹⁰ Ibid.

¹¹ Draghi, Mario, 'The Draghi Report on EU Competitiveness', *European Commission*, 2024 https://commission.europa.eu/topics/competitiveness/draghi-report_en

EU-based firms report having integrated artificial intelligence into their operations. Only 6% of global venture capital funding for AI-focused startups is captured in Europe, while the United States accounts for 61% and China for 18%.¹² In general, the total share of venture capital funds raised in the European Union is just 5%, compared to 52% in the U.S. and 40% in China.¹³

The region faces a sharp demographic contraction. The European workforce is projected to decline by around 2 million people per year through 2040. As a result, the ratio of working to retired individuals is expected to fall from roughly three to one today to two to one within the next fifteen years. In this context, maintaining the average productivity growth rate observed since 2015 (approximately 0.7% per year) would be insufficient to increase aggregate output. This means that, at current trends, it would only allow the European Union to keep its gross domestic product constant through the mid-century.¹⁴

In response to these economic pressures, Commission President Ursula von der Leyen announced in July 2024 that “prosperity and competitiveness” will be the Commission’s “top priority,” marking a clear shift toward growth-oriented policymaking after a first term largely focused on green and digital regulation.¹⁵ The Commission immediately followed this declaration with the launch of a comprehensive economic strategy known as the EU Competitiveness Compass.¹⁶ This roadmap identifies three core strategic imperatives for the European economy: closing the innovation gap with global competitors, decarbonising industry without eroding its productive base, and reducing Europe’s exposure to concentrated foreign supply chains. The initiative is built around a series of structural enablers, including a regulatory simplification agenda and renewed efforts to complete

¹² Martens, Bertin, and Rebecca Christie, ‘Catch-up with the US or Prosper below the Tech Frontier? An EU Artificial Intelligence Strategy’, *Bruegel*, 2025 <https://www.bruegel.org/policy-brief/catch-us-or-prosper-below-tech-frontier-eu-artificial-intelligence-strateg>

¹³ ‘The Scale-up Gap Financial Market Constraints Holding Back’, *European Investment Bank*, 2024 https://www.eib.org/attachments/lucalli/20240130_the_scale_up_gap_en.pdf

¹⁴ Draghi, Mario, ‘The Draghi Report on EU Competitiveness’, *European Commission*, 2024 https://commission.europa.eu/topics/competitiveness/draghi-report_en

¹⁵ Staff, Editorial, ‘Ursula von Der Leyen Bids for a Second Mandate with Pledges on “Prosperity and Competitiveness”’, *The Watcher Post*, 2024 <https://www.thewatcherpost.eu/ursula-von-der-leyen-seek-tru-eu-parliament-with-prosperity-and-competitiveness/>

¹⁶ ‘Competitiveness Compass’, *European Commission* https://commission.europa.eu/topics/competitiveness/competitiveness-compass_en

the single market, as high trade barriers within Europe are equivalent to an internal tariff of “44% for manufactured goods and 110% for services,” according to the International Monetary Fund (IMF).¹⁷

The competitiveness agenda is underpinned by a broader strategic doctrine known as strategic autonomy.¹⁸ It refers to Europe’s ability to act independently when necessary, acknowledging that excessive dependence on external powers can weaken both prosperity and resilience. To this end, the European Commission has implemented a series of instruments aimed at curbing foreign market distortions and reducing geopolitical exposure, with a particular focus on China. These included the Foreign Subsidies Regulation, which allows the EU to investigate and address the effects of foreign state-backed acquisitions within the single market; the International Procurement Instrument, designed to secure reciprocal access for EU firms in global procurement markets; and the Anti-Coercion Instrument, which authorises countermeasures against states that deploy economic pressure against EU member states.

China currently supplies 98% of the permanent magnets used by European industry, nearly 100% of heavy rare earth imports, and 63% of global cobalt output.¹⁹ In general, China accounts for more than 20% of EU imports and is the Union’s largest source of manufactured goods.²⁰ In response, the EU aims to domestically extract at least 10% of its annual consumption of strategic raw materials, process 40%, and recycle 25% of total usage by 2030.²¹ It has also enacted measures to cap the share of any one third country in the EU’s total supply of any strategic material at 65%. This benchmark is designed to

¹⁷ Kammer, Alfred, ‘Europe’s Integration Imperative’, *IMF*, 2025

<https://www.imf.org/en/publications/fandd/issues/2025/06/europes-integration-imperative-alfred-kammer>

¹⁸ *EU Strategic Autonomy 2013-2023: From Concept to Capacity* | Think Tank | European Parliament, 2022 [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2022\)733589](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733589)

¹⁹ Bonnefous, Bastien, Sophie Fay, Adrien Pécout, and Olivier Pinaud, ‘European Industry Caught in Crossfire of China’s Rare Earths War’, *Le Monde.Fr* (2025) https://www.lemonde.fr/en/international/article/2025/10/27/european-industry-caught-in-crossfire-of-china-s-rare-earths-war_6746830_4.html

²⁰ *China-EU - International Trade in Goods Statistics Statistics Explained* <https://ec.europa.eu/eurostat/statistics-explained/SEPDF/cache/55157.pdf>

²¹ ‘The EU’s Critical Raw Materials Strategy: Engaging with the World to Achieve Self-Sufficiency’, *Tænketanken Europa*, 2024 <https://thinkeuropa.dk/brief/2024-09-the-eus-critical-raw-materials-strategy-engaging-with-the-world-to-achieve-self>

mitigate overdependence on any single supplier, with China clearly in view, as the country has become a direct competitor to Europe in several sectors.

From Economic Exclusion to Commodity Dependence: The Limits of Latin America's Growth Model

Between 2014 and 2023, Latin America has recorded an average annual GDP growth rate of just 0.9%.²² The region remains the most unequal in the world in terms of income distribution, according to the Gini Index and other metrics. Its poverty rate is also high, as 27% of Latin Americans live below the poverty line, while 11% remain in conditions of extreme poverty.²³ Looking ahead, the outlook remains modest. Regional GDP is projected to expand by 2.4% in 2025 and 2.3% in 2026, resulting in an average growth rate of only 1.6% for the decade spanning 2017 to 2026.²⁴ This positions Latin America as the weakest-performing region globally, well below the estimated global average of 2.7%.

Latin America and the Caribbean experienced periods of industrialisation in the mid-20th century, particularly through import substitution strategies aimed at building domestic manufacturing capacity. However, this momentum was not sustained. By the 1980s, many countries began undergoing premature deindustrialisation, a shift away from manufacturing before achieving a strong and diversified industrial base. This process was worsened by the implementation of economic models built around extensive state intervention. Venezuela offers the clearest example. In the past two decades, its economy

²² 'Poor Investment Performance, Low Labor Productivity and Limited Fiscal Space Keep Latin America and the Caribbean in a Trap of Low Economic Growth', *Economic Commission for Latin America and the Caribbean*, 2024 <https://www.cepal.org/en/pressreleases/poor-investment-performance-low-labor-productivity-and-limited-fiscal-space-keep-latin>

²³ *Overview: Latin American Economic Outlook 2025* | OECD, 2025 https://www.oecd.org/en/publications/latin-american-economic-outlook-2025_80e48de5-en/full-report/overview_db715ebd.html

²⁴ 'ECLAC Updates Growth Projections for Latin America and the Caribbean: An Expansion of 2.4% Is Expected in 2025 and 2.3% in 2026', *Economic Commission for Latin America and the Caribbean*, 2025 <https://www.cepal.org/en/pressreleases/eclac-updates-growth-projections-latin-america-and-caribbean-expansion-24-expected>

was structured around centralised control of key sectors, large-scale nationalisations, price and currency controls, and the systematic replacement of market mechanisms for bureaucratic decision making. These policies led to declining productivity, capital flight, and the erosion of private sector capabilities. The result has been prolonged stagnation, high inflation, chronic shortages, and sharp declines in living standards. While Venezuela represents an extreme case, other economies in the region also experienced episodes where excessive state intervention undermined industrial competitiveness and fiscal sustainability.²⁵

In a broader strategic sense, Latin America's weak long-term growth reflects the persistence of a development model that fails to provide most of the population with access to basic public goods and functional market institutions. In much of the region, reliable property rights remain unevenly enforced, judicial systems are vulnerable to politicisation, financial markets are unstable and fragmented, financial inclusion and credit access remain weak, and physical infrastructure lags behind comparable middle-income economies. This means that basic conditions for productivity are unavailable to large portions of the population. This does not only slow down growth, it also prevents the emergence of high-value-added production, as firms lack the institutional foundations required to expand, innovate, or compete in more complex sectors. As a result, labour remains trapped in low-productivity activities, and investment consistently falls short of what is needed to drive structural transformation.

This institutional exclusion prevents millions from becoming economically active in a formal and scalable way. It also depresses private investment, reduces the effectiveness of public spending, and limits gains from trade and specialisation. Most importantly, it constrains the creation of high-value-added production, as firms lack the legal certainty, skilled labour base, and financing channels needed to compete in complex sectors. The result is an economic environment where even periods of macroeconomic stability fail to produce structural transformation or convergence with higher-income regions.

²⁵Jraissati, Jorge, *Venezuela's Collapse: Exogenous Shock or Institutional Design?* - JRAISSATI - 2022 - *Economic Affairs* - Wiley Online Library, 2022 <https://onlinelibrary.wiley.com/doi/abs/10.1111/ecaf.12537>

This degree of economic exclusion also produces constant political crises throughout the region. In Peru, persistent failures to build credible institutions have resulted in repeated constitutional crises, with six presidents in as many years and growing calls to rewrite the political framework entirely. In Venezuela, decades of institutional erosion, combined with widespread exclusion from formal economic life, created the conditions for authoritarian consolidation under a regime that dismantled democratic checks while centralising power. In Argentina, recurring fiscal and monetary crises, reinforced by weak rule of law and politicised policymaking, have fuelled cycles of populist backlash, abrupt policy shifts, and sustained investor distrust. Under these conditions, external shocks such as commodity price fluctuations, capital flight, or episodes of social unrest often translate directly into institutional reversals, policy fragmentation, and prolonged instability. The result is not only lower growth, but also the absence of the institutional continuity required to support complex development over time.

As a result, Venezuela has lost over 70% of its gross domestic product (GDP) since 2013. This is the deepest economic depression ever in the absence of war, equivalent to 2.5 times the GDP decline of the United States Great Depression between 1929 and 1939. The proportion of Venezuelan households living in poverty has soared from 29% in 2012 to 81% by 2024. The rate of extreme poverty has followed a similar trajectory, rising from 8% to 50% in the same period.²⁶ On top of that, roughly eight million Venezuelans have left the country in the past decade, one-quarter of its population. This is the biggest migratory crisis in the modern history of the Western Hemisphere. It is currently only comparable with war-torn countries like Syria and Ukraine.²⁷

Another structural weakness in Latin America is the fragmentation of economic governance. In many countries, multiple ministries and agencies pursue overlapping development strategies with limited coordination, resulting in policy duplication, resource misallocation, and institutional inertia. At the same time, financial systems remain shallow and underdeveloped. Capital markets are small, with total stock market capitalisation

²⁶'Household Poverty Rate in Venezuela 2023', *Statista*, 2025
<https://www.statista.com/statistics/1235189/household-poverty-rate-venezuela/>

²⁷Mariana Rodríguez | July 7, 2025, 'The Future of Venezuela's Diaspora', *Americas Quarterly*, 2025
<https://www.americasquarterly.org/article/the-future-of-venezuelas-diaspora>

averaging just 37% of GDP, roughly half the OECD average. Corporate financing is dominated by government debt, crowding out private investment. Banking systems are highly concentrated and structurally risk averse, offering limited credit to small and medium-sized enterprises at high cost. Taken together, these structural weaknesses have shaped the way Latin America has integrated into the global economy, particularly in its economic relationship with Europe.

Decades of Economic Integration: EU and Latin America

The economic relationship between the European Union and Latin America has expanded significantly over the past two decades. Bilateral trade in goods grew from approximately \$90 billion in 2000 to nearly \$300 billion in 2023, reflecting an average annual growth rate of around 6%.²⁸ Today, the European Union maintains free trade or association agreements with 27 of the 33 countries in Latin America and the Caribbean, positioning the region as the EU's fifth-largest trading partner. This network of agreements gives the European Union preferential access to over 90% of the region's GDP.²⁹

When it comes to Latin America's exports to Europe, its package remains dominated by raw materials and primary commodities, which accounted for about 70% of the region's total shipments to the EU in 2023. These include agricultural goods, hydrocarbons, and mineral ores, reflecting the region's abundant natural resources in both arable land and extractive sectors. Europe's import profile from Latin America is more diversified than China's, where over 90% of imports are raw materials, but considerably more commodity-intensive than that of the United States, where only about 22% of imports from the region fall into this category.³⁰

²⁸ Grieger, Gisela, 'EU Trade with Latin America and the Caribbean', *European Parliamentary Research Service*, 2023

[https://www.europarl.europa.eu/RegData/etudes/STUD/2023/751413/EPRS_STU\(2023\)751413_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/751413/EPRS_STU(2023)751413_EN.pdf)

²⁹ Mendoza, Marko Cortés, 'The Dynamics of Latin America-EU Relations in Global Trade Agreements', *European View*, 24/2 (2025), 260–67

³⁰ 'European Union, Trade in Goods with CELAC', *European Commission Directorate General Trade and Economic Security*, 2025 https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_celac-com-of-latin-american-and-caribbean-states-33_en.pdf

This export pattern reflects a persistent overreliance on commodity production as the primary source of external income. Between 2000 and 2020, the share of commodities in total exports increased markedly across the region. In Brazil, the figure rose from 41% to 56%.³¹ In Chile, it increased from 63% to 83%.³² Colombia and Peru followed similar trajectories. Venezuela, once again, represents the most extreme case. Over the past decade, the country's socialist economic model has dismantled entire sectors of the economy. As a result, Venezuela's export basket has become significantly less complex, with the country falling more than 40 positions in the Economic Complexity Index. In 2024, oil comprised over 80% of Venezuela's exports.³³

In contrast, the EU's exports to Latin America consist overwhelmingly of manufactured goods, which represent roughly 85% of total exports.³⁴ These are primarily medium and high technology products such as machinery, automobiles, pharmaceuticals, and engineering equipment. This trade structure, with natural resources flowing to Europe and finished manufactures flowing to Latin America and the Caribbean, reflects classical patterns of comparative advantage. It provides Latin American economies with access to the industrial and consumer goods required for development, while securing for Europe reliable supplies of energy, foodstuffs, and an increasingly important set of critical minerals.

Latin America's economies remain less open and less internally connected than those of other emerging regions. In 2019, total trade amounted to just 47% of GDP, up from around 30% in the 1990s but still well below global benchmarks. Intra-regional trade is especially limited. Only 14% of the region's exports are destined for neighbouring countries, a figure that contrasts sharply with the levels observed within Europe or East Asia. Latin America

³¹ 'Brazil Trade Summary', WITS

<https://wits.worldbank.org/CountryProfile/en/Country/BRA/Year/2020/Summarytext>

³² 'Chile Trade Summary', WITS

<https://wits.worldbank.org/CountryProfile/en/Country/CHL/Year/2020/Summarytext>

³³ 'The Atlas of Economic Complexity by @harvardgrwthlab', *The Atlas of Economic Complexity*

<https://atlas.hks.harvard.edu/countries/862/None>

³⁴ 'European Union, Trade in Goods with Latin American Countries', *European Commission Directorate General Trade and Economic Security*, 2025

https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_latin-american-countries_en.pdf

trades 40 to 50% less with itself than would be expected based on geography and market size, pointing to a structurally fragmented internal market.³⁵ This fragmentation is particularly pronounced in South America, where most countries export raw materials with limited integration into regional supply chains. In contrast, Mexico and much of Central America are more closely linked to North American production networks. As a result, Latin America and the Caribbean do not function as an integrated production zone. This limits economies of scale, weakens cross-border industrial development, and reduces the region's attractiveness as a unified economic partner.

Beyond trade, investment links form a second pillar of the EU–LAC economic relationship, with Europe remaining the leading foreign investor in Latin America. By 2022, the stock of European outward foreign direct investment in the region reached roughly 741 billion euros, equivalent to about 5.5% of the EU's total global FDI holdings but around 28% of all FDI stock in Latin America.³⁶ European investment initially played a decisive role in banking, electricity, and telecommunications during the privatisation wave of the 1990s, and it is now concentrated in strategic, high-value sectors such as renewable energy, telecommunications infrastructure, automotive and aerospace manufacturing, and financial services. European firms are central actors in Brazil's and Mexico's automotive industries, Chile's electricity generation, and Peru's mining sector, while Spanish and British banks rank among the largest lenders across the region. This dense web of investments means European companies are significant contributors to employment, export capacity, and fiscal revenues in Latin American economies.

The most economically consequential agreement in the EU–Latin America architecture is the long-delayed trade pact with Mercosur (Argentina, Brazil, Paraguay, and Uruguay), which was only concluded in principle after more than twenty years of intermittent negotiations. Once ratified, the EU–Mercosur agreement will connect a market of roughly

³⁵ Moreau, Flavien, and Rafael Machado Parente, 'How Latin America Can Use Trade to Boost Growth', *IMF*, 2023 <https://www.imf.org/en/blogs/articles/2023/11/16/how-latin-america-can-use-trade-to-boost-growth>

³⁶ López, Javi, 'A Historic Opportunity for EU-Latin America Relations', *UE y América Latina: Una Alianza Estratégica Global*, 2025 <https://agendapublica.es/noticia/19856/relaciones-ue-america-latina-opportunidad-geopolitica-multilateralismo>

770 million people and an estimated 18 trillion euros in combined GDP, corresponding to close to one quarter of global output. It would, in practice, establish a comprehensive preferential trade regime between the European Union and all of Latin America's largest economies, sharply consolidating the region's position within Europe's external economic strategy.³⁷

In practical terms, the EU–Mercosur agreement would remove tariffs on more than 90% of tariff lines in bilateral trade, with most duties phased out over a ten-year transition period to allow for a progressive adjustment on both sides. For the most sensitive Mercosur farm exports, notably beef, poultry, and sugar, the EU would retain tariff-rate quotas instead of full liberalisation, permitting limited duty-free volumes broadly in line with existing trade flows while keeping tariffs on imports above those thresholds. These quota arrangements and extended transition periods, in some cases lasting up to fifteen years, are explicitly designed to cushion the impact on European farmers and reduce the risk of abrupt import surges into the EU market.

The agreement is projected to deliver substantial economic gains for both sides. Estimates by the Banco de España suggest that, in the long run, it could increase total trade between the EU and Mercosur by more than one third, with Mercosur's exports and imports rising by around 5–13% and the EU's by roughly 0.3–0.7% compared to a no-agreement scenario. This asymmetric effect, with proportionally larger gains for the smaller Mercosur economies, underscores the scale of new market opportunities for European firms in sectors ranging from industrial goods to services. As of December 2025, however, the agreement still awaits ratification by EU member states and the European Parliament, where debates over environmental safeguards, deforestation, and regulatory standards continue to shape the political timetable.³⁸

³⁷ 'Against the Tide: The EU-Mercosur Trade Deal', *Banco de España*, 2025
<https://www.bde.es/wbe/en/noticias-eventos/blog/a-contracorriente-el-acuerdo-comercial-union-europea-mercotur.html>

³⁸ 'Against the Tide: The EU-Mercosur Trade Deal', *Banco de España*, 2025
<https://www.bde.es/wbe/en/noticias-eventos/blog/a-contracorriente-el-acuerdo-comercial-union-europea-mercotur.html>

EU and LAC: Growth and Security Opportunities

Complementary Growth and Investment Opportunities

The growth benefits from greater economic integration between Europe and Latin America are evident. Europe holds abundant capital, advanced technology, and robust institutional frameworks. Its domestic investment levels are insufficient to absorb its available capital, which results in a current account surplus of 2.7% of GDP.³⁹ In contrast, Latin America invests only about 20% of its GDP and struggles with economic growth more generally.⁴⁰ Europe's capital-rich but demand-constrained economy and Latin America's capital-scarce but demand-rich profile thus form a structural asymmetry, especially as the region's export potential is significant. High European savings seeking productive outlets abroad can be coupled with Latin America's vast unmet needs in infrastructure, manufacturing, and services, laying the groundwork for a complementary interdependence if the two regions can effectively integrate.

Europe's surplus of capital is a defining feature of its macroeconomy, driving strong external investment flows. The euro area has run persistent net lending to the rest of the world for over a decade. Underlying Europe's account surplus is the region's elevated household saving rate of 15%, which is higher than the United States or Latin America.⁴¹ An ageing population and cautious consumer sentiment have caused consumption growth to lag income, resulting in excess savings. Gross capital formation in the EU remains subdued at about 21% of GDP, and private-sector credit growth has been weak, so a large share of Europe's incremental savings inevitably seeks returns overseas.⁴²

³⁹ 'EU Current Account Surplus €81.0 Bn', *EU Current Account Surplus €81.0 Bn - Euro Indicators - Eurostat*, 2025 <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-07102025-bp>

⁴⁰ 'New Investment Agenda Needed in Latin America and the Caribbean to Boost Growth, Job Creation and Sustainable Development', *Economic Commission for Latin America and the Caribbean*, 2023 <https://www.cepal.org/en/pressreleases/new-investment-agenda-needed-latin-america-and-caribbean-boost-growth-job-creation-and>

⁴¹ 'Household Saving Rate Increases to 15.4% in the Euro Area', *Household Saving Rate Increases to 15.4% in the Euro Area - Euro Indicators - Eurostat*, 2025 <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-07102025-ap>

⁴² 'Statistics Explained', *National Accounts and GDP - Statistics Explained - Eurostat*, 2025 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=National_accounts_and_GDP

Conversely, Latin America faces a chronic investment deficit and has substantial capacity to absorb foreign capital productively. Gross capital formation in Latin America and the Caribbean remains lower than in other developing regions. Public investment in infrastructure in Latin America is situated at around 3% of GDP. This is roughly half the levels seen in East Asia or even Sub-Saharan Africa, resulting in aging transport networks, energy bottlenecks, and digital gaps that constrain productivity.⁴³ Low domestic savings and shallow financial systems mean Latin America must rely on external finance to fund development projects. When foreign capital is available, the region has demonstrated it can absorb and utilise it. The Inter-American Development Bank estimates a sustainable development financing gap of nearly \$100 billion per year in Latin America.⁴⁴

A pronounced technology and innovation asymmetry further underpins the structural complementarity between Europe and Latin America. The European Union spends over 2.2% of its GDP on research and development, a level far above emerging economies.⁴⁵ In absolute terms, the EU accounts for roughly one-fifth of global R&D investment and produces a comparable share of high-value patents.⁴⁶ By contrast, Latin American economies contribute negligibly to global innovation metrics, with the region's expenditure being only around 0.6% of GDP.⁴⁷

From a European investment perspective, Latin America's labour market remains largely untapped by frontier technologies. Only about 12% of jobs in the region are complementary to new technologies like artificial intelligence, roughly half the share in

⁴³ Fintzen, Claus, Marta Perez, and Sandrine Des Closières, 'Financing Growth with Infrastructure in Latin America', *Allianz Global Investors* (2025) <https://www.allianzgi.com/en/insights/outlook-and-commentary/financing-growth-with-infrastructure-in-latin-america>

⁴⁴ Brichetti, Juan Pablo et al. *The Infrastructure Gap in Latin America and the Caribbean* ...<https://publications.iadb.org/publications/english/document/The-Infrastructure-Gap-in-Latin-America-and-the-Caribbean-Investment-Needed-Through-2030-to-Meet-the-Sustainable-Development-Goals.pdf>

⁴⁵ 'EU Spending on R&D Exceeded €403 Billion in 2024', *EU Spending on R&D Exceeded €403 Billion in 2024 - News Articles - Eurostat*, 2025 <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20251204-2>

⁴⁶ Bonaglia, Davide, 'End of Year Edition – against All Odds, Global R&D Has Grown Close to USD 3 Trillion in 2023', *Global-Innovation-Index*, 2024 <https://www.wipo.int/en/web/global-innovation-index/w/blogs/2024/end-of-year-edition>

⁴⁷ World Bank Group, 'The Innovation Paradox in Latin America: Between Timid Growth and Brimming Potential', *World Bank* (2025) <https://www.worldbank.org/en/news/feature/2025/03/10/la-paradoja-de-la-innovacion-en-america-latina>

advanced economies.⁴⁸ This indicates that the region is largely missing out on the productivity gains of the fourth industrial revolution. In the most recent data, jobs classified as high- or medium-high technological intensity accounted for a mere 2.1% of total employment in LAC, compared to 7.7% in OECD countries. Roughly half of all workers in the region remain in the informal economy.⁴⁹

Differences in industrial development between the two regions underscore a supply-side complementarity, particularly in manufacturing and natural resources. The European Union has a diversified and advanced industrial base, which includes sectors such as machinery, chemicals, automotive, aerospace, and pharmaceuticals. Latin America, on the other hand, remains heavily specialised in primary goods. About 70% of Latin America's exports to Europe are primary commodities with relatively little technological embedding.⁵⁰ Europe thus possesses a technological and industrial base that Latin America lacks, and this creates potential for technology transfer through foreign investment, trade, and industrial cooperation. European multinational firms operating in Latin America bring advanced production techniques, managerial know-how, and innovation capabilities that can spur local productivity.

Current shifts in global supply chains and the growing momentum toward “nearshoring” present a significant strategic opportunity for Latin America. In response to recent global supply disruptions, pandemic-driven vulnerabilities, and escalating geopolitical tensions, particularly between China and Western powers, companies in Europe and the United States are seeking to reduce dependence on distant Asian manufacturing hubs. This reconfiguration of trade networks positions Latin America as an increasingly attractive alternative location for production and investment. The region offers several advantages that align with the priorities of Western economies. Most Latin American countries are

⁴⁸ Bakker, Bas, ‘What Can Artificial Intelligence Do for Stagnant Productivity in Latin America and the Caribbean?’, *IMF Working Papers*, 2024/219 (2024), 1

⁴⁹ LLC, Globalen, ‘Stock Market Capitalization, Percent of GDP in Latin America’, *TheGlobalEconomy.Com* https://www.theglobaleconomy.com/rankings/stock_market_capitalization/Latin-Am/

⁵⁰ ‘European Union, Trade in Goods with Latin American Countries’, *European Commission Directorate General Trade and Economic Security*, 2025
https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_latin-american-countries_en.pdf

stable democracies with cultural, linguistic, and institutional affinities to the West, which helps foster trust and policy alignment. In addition, the region's energy profile is among the cleanest globally, with approximately half of its electricity sourced from renewables; a feature that resonates with the growing global emphasis on decarbonisation and sustainable production. These characteristics give Latin America a compelling value proposition as firms seek to combine geographic proximity, political compatibility, and environmental responsibility in their supply chain strategies.

Securing Europe's Green Future: Latin America's Strategic Role

From an economic security standpoint, Europe's green transition has exposed a structural vulnerability: a heavy dependence on China's imported raw materials that underpin clean technologies. This imbalance has triggered an urgent drive within the EU to reinforce supply resilience, curb excessive reliance on single suppliers, and anchor its climate agenda in a more autonomous industrial base. Demand for battery metals and rare earth elements is set to surge over the coming decades, yet Europe currently produces almost none of these inputs, as China provides 100% of the EU's heavy rare earth elements, which are indispensable for manufacturing wind turbines, electric vehicle motors, and a range of high-efficiency electronics.⁵¹

Europe has started to translate this concern into concrete policy action. The EU has responded by enacting a series of initiatives to re-balance and secure EU supply chains. By 2030 at least 10% of the EU's own consumption of strategic minerals should be mined domestically, 40% processed in European facilities, and 25% supplied via recycling. Most crucially, no more than 65% of the Union's annual consumption of any strategic raw material should come from a single third country. Europe also intends to produce 40% of its deployment needs for technologies such as batteries, wind turbines, and solar panels

⁵¹ *Critical Raw Materials Act - Consilium.Europa.Eu*, 2024
<https://www.consilium.europa.eu/en/infographics/critical-raw-materials/>

by 2030. Achieving that manufacturing target will be infeasible without reliable access to raw inputs.⁵²

Latin America emerges as the key partner in the EU's strategy to diversify critical raw material sources, owing to the region's extraordinary geological wealth. Latin America already accounts for 40% of global copper production, led by Chile and Peru.⁵³ It is also home to the lion's share of lithium reserves on the planet, as Chile, Argentina, and Bolivia (the "Lithium Triangle" countries) hold roughly 68% of the world's identified lithium reserves.⁵⁴ Brazil by itself holds about one-fifth of the world's known reserves of nickel and rare earth elements, and also holds sizeable graphite and manganese reserves needed for batteries.⁵⁵

Despite Latin America's vast mineral wealth, governance challenges and economic inefficiencies have long kept much of its potential untapped. As a result, the region's current output represents only a fraction of what it could achieve under more stable and investment-friendly conditions. This underutilisation, however, sets the stage for intensified competition between European companies and China in the coming decade. The global demand for copper is estimated to rise by 24% in 2035.⁵⁶ Lithium demand is similarly expected to almost fivefold by 2040.⁵⁷ The rare earth elements market size will more than double from 2024 to 2032.⁵⁸ In general, it is estimated that electric vehicles will

⁵² 'Questions and Answers on the Resource Action Plan', *European Commission - European Commission*, 2025 https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_2886

⁵³ *Latin America's Opportunity in Critical Minerals for the Clean Energy Transition – Analysis* - IEA, 2023 <https://www.iea.org/commentaries/latin-americas-opportunity-in-critical-minerals-for-the-clean-energy-transition>

⁵⁴ Canada, Natural Resources, 'Lithium Facts', *Natural Resources Canada* (2025) <https://natural-resources.canada.ca/minerals-mining/mining-data-statistics-analysis/minerals-metals-facts/lithium-facts>

⁵⁵ Pope, Nicholas, and Peter Smith, 'Brazil's Critical and Strategic Minerals in a Changing World', *Instituto Igarapé*, 2023 <https://igarape.org.br/en/brazils-critical-and-strategic-minerals-in-a-changing-world/>

⁵⁶ Jowett, Patrick, 'Copper Demand to Rise 24% by 2035, Says Wood Mackenzie', *Pv Magazine International*, 2025 <https://www.pv-magazine.com/2025/10/15/copper-demand-to-rise-24-by-2035-says-wood-mackenzie/>

⁵⁷ 'Lithium Demand to Grow Fivefold by 2040, with Cobalt Demand Rising by One and Half Times - the Global Energy Association', *The Global Energy Association - Global Energy*, 2025 <https://globalenergyprize.org/en/2025/05/30/lithium-demand-to-grow-fivefold-by-2040-with-cobalt-demand-rising-by-one-and-half-times/>

⁵⁸ 'Rare Earth Elements Market Size, Share & Global Report [2032]', *Rare Earth Elements Market Size, Share & Global Report [2032]* <https://www.fortunebusinessinsights.com/rare-earth-elements-market-102943>

reach 30% of all automobile sales by 2030.⁵⁹ If Latin America's output rises in tandem with global demand, we should expect considerable investment opportunities for European firms in this sector.

Despite Latin America's issues, when compared to other regions, Latin America offers a mix of advantages that make it a relatively secure and aligned partner for Europe's critical minerals quest. Alternative suppliers often entail higher governance and geopolitical risks. In Africa, for example, the world's richest cobalt reserves are in the Democratic Republic of Congo, which controls 50% of the world's reserves and 70% of global production. Unfortunately for Europe, Chinese companies control 8 of the 14 largest cobalt mines in the DRC. Collectively, these mines account for half of the DRC's cobalt production.⁶⁰ Central Asian states similarly hold significant metals and rare earth deposits, yet they operate in the shadow of Russian and Chinese influence, and investors face opaque business environments.

By contrast, many Latin American nations are stable democracies with established legal frameworks, even if bureaucratic delays persist. Chile and Peru have decades of experience hosting major multinational mining firms. Their physical infrastructure, including their ports, roads, and smelters, is in place to a far greater degree than in less developed regions. Moreover, the region's macroeconomic maturity is often underestimated. In recent decades, most Latin American governments have demonstrated a notable commitment to sound fiscal and monetary management. With few exceptions (most prominently Venezuela), countries across the region have maintained disciplined public finances, independent central banks, and low inflation, even under leaderships spanning the ideological spectrum.⁶¹ The days of chronic hyperinflation, fiscal populism, and volatile currency crises that once defined Latin American economies are largely a thing of the past. Diplomatically, Latin American governments share Europe's commitment to the Paris Agreement and sustainable

⁵⁹ Altiparmak, Suleyman O., Keith Waters, Cameron G. Thies, and Shade T. Shutters, 'Cornering the Market with Foreign Direct Investments: China's Cobalt Politics', *Renewable and Sustainable Energy Transition*, 7 (2025), 100113

⁶⁰ Ibid.

⁶¹ Garicano, Luis, 'Learning from Latin America', *Learning from Latin America - by Luis Garicano* (2025) https://www.siliconcontinent.com/p/learning-from-latin-america?utm_source=publication-search

development, creating more common ground in negotiations over mining practices and climate goals.

Underpinning the economic calculus is a notable alignment of values and public sentiment that can be considered an intangible yet important facet of EU–LAC relations. Unlike some external actors, the EU is broadly viewed in Latin America as a partner that respects sovereignty, promotes development, and shares core principles. Survey evidence indicates that 64% of Latin Americans see the EU as the “best partner” for helping on issues like environmental protection, ranking it above China or the United States.⁶² The EU is also perceived as a leader in the fight against poverty and inequality (by 54% of respondents), in culture and education exchanges (46%), and in supporting democracy. When asked about preferred international alignments, nearly half of Latin Americans (48%) express a desire for stronger ties with the European Union, far more than the share who prioritise closer relations with the U.S. (19%) or other powers. This goodwill is an asset that has developed from decades of diplomatic engagement, development cooperation, and the EU’s generally non-interventionist posture in the region.⁶³

Policy Recommendations

The following are policy recommendations in order to take full advantage of the complementary economic needs and opportunities that Europe and Latin America possess:

- **Ratify and Implement the EU–Mercosur Trade Agreement**, eliminating tariffs on 90% of bilateral trade and saving EU firms approximately €4 billion annually. Swift implementation is strategically essential to prevent further erosion of European market share in Mercosur economies, especially given the rising influence of Chinese competitors.

⁶² Domínguez, R. (2023). “Latin American Perceptions of the European Union as a Partner”. *CEPAL Review*.

⁶³ Domínguez, Roberto, *Perceptions of the European Union in Latin America*, 2023
https://eulacfoundation.org/system/files/digital_library/2023-07/dt_fc_76_eng.pdf

- **Remove Non-Tariff Barriers and Align Standards**, achieving efficiency gains and ensuring the well-functioning of markets. Non-tariff barriers currently represent one of the largest hidden costs in EU–Latin America trade. Divergent technical standards, duplicative conformity assessments, complex rules of origin, complex financial compliance rules, and fragmented customs procedures raise compliance costs, delay market entry, and disproportionately disadvantage small and medium-sized firms.
- **Streamline Anti-Money Laundering Frameworks to Improve Investment Flows**, introducing simplified, risk-based due diligence specific to strategic sectors like energy and critical minerals. This targeted approach reduces compliance burdens and transaction costs, enabling greater European investment and strengthening Europe’s supply-chain resilience.
- **Clarify Environmental, Social, and Governance (ESG) Guidelines to Encourage Strategic Energy Investments**, explicitly codifying recent EU institutional guidance to eliminate ambiguity surrounding investments in energy infrastructure, transitional technologies, and defence-related industries. Clearer guidelines will allow European firms to compete effectively against Chinese rivals, supporting Europe's economic stability and strategic autonomy objectives in Latin America.

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