WHO FINANCES FAIR TRANSITIONS IN LATIN AMERICA AND THE CARIBBEAN? OLD RECIPES UNDER NEW LABELS. THE EU LOOKS AT LATIN AMERICA.1

Latin American societies live on a permanent state of economic, social and political polarisation due to the impact of a major inequality crisis in which wealth is highly concentrated, and democracy and natural resources are captured for the benefit of the few. This July, the European Union (EU), under a Spanish presidency that has pushed for a high-level summit between the two regions, has the opportunity to renew the political dialogue, the economic relations and the cooperation agenda so that they can help building new social pacts focused on equality, environmental protection and human rights.

Despite the renewed interest in Latin America and the Caribbean (LAC), the EU is focusing its efforts on the Global Gateway Investment Agenda—a geopolitical proposal that places the private sector at the heart of the EU’s political and economic offer. This strategy risks reproducing inequalities and perpetuating privileges by feeding into the same dynamics that have subjected most of the population—60%—to a situation of entrenched vulnerability. Not for nothing, it is the private sector that is called to be the key actor in implementing the European cooperation agenda with LAC.

In a region where more than 380 million people live in a situation of vulnerability—almost 85 million in extreme poverty—1 and 91 billionaires concentrate a wealth of almost $400 billion,2 it is perplexing that the fight against inequality is not the central theme of the EU’s policy proposal for its “renewed relationship” with LAC.

Furthermore, we know that extreme inequality is linked to democratic disaffection. We know that most citizens feel that the region is governed by powerful groups.3 We also know that the more inequality and more influence the rich have, the more people distrust democracy.4 And we know that with each crisis, the ones who have the most are the ones who earn the most.

If the EU wants to align its interests with those of the people in the region, it needs to redefine the centrality of the private investment logic and give prominence to specific support for public initiatives that clearly speak of the fight against inequality as a driver for development, respecting human rights as the basic principle of any investment. That means adding the social transition to the green and digital transitions.

If the Global Gateway really aims at leaving its mark on the future of bi-regional relations, it must redirect its objectives toward a search for investments that respond to social and development objectives, put local communities in the driving-seat, and limit the negative effects on populations and the environment. To this end, it is essential to guarantee a democratic space in the debates to define a shared horizon of transitions.5

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It is not acceptable to promote an energy transition that moves from fossil fuels to the extraction of critical minerals or water, importing green while exporting harmful practices. It is not acceptable to advance an agenda that considers the private sector a privileged actor without applying due diligence criteria to its actions beyond the EU. This will not provide an answer to the inequality crisis that exist in the region. It will likely open new borders for extraction and new areas of sacrifice that will widen the gaps between the EU and LAC.

Similarly, the Global Gateway should not be the only way to support the region in its search for more resources to finance itself. The EU cannot have a Marshall Plan for Europe—public investment in the form of Next Generation—and use the old recipe for foreign investment for LAC under the new Global Gateway label. The EU cannot sustain its open strategic autonomy with Latin America if it is not politically and financially autonomous or align common agendas from the widely-publicised shared values of social cohesion and democracy.

Europe sees LAC as a strategic partner to renew multilateralism. However, at a time like the present one, policies of olden times are no longer valid, despite historical debts such as official development assistance. Being a trustworthy partner now means cooperating on fiscal justice and climate financing; phasing out fossil energy subsidies—still present in the EU—; pushing for Special Drawing Rights for development; addressing the issue of sovereign debt restructuring and relief; ultimately, transforming the international financial architecture, basing it on social and environmental sustainability.

There is now an opportunity for the fiscal justice agenda in LAC. A group of LAC countries have decided to promote a regional initiative to lay the foundations of a fiscal pact in the region. This initiative led by Colombia sets a precedent for the region to create spaces for regional cooperation that serve to coordinate its own fiscal policies and better defend the interests of LAC countries in global agendas in which the EU plays a relevant role.

The region became more indebted after the COVID-19 pandemic, with limited capacity to increase its resources independently. Reduced fiscal space is the result of inadequate, regressive fiscal structures—highly dependent on resource extraction—, rising interest rates and the growing weight of debt in public finances. On average, in LAC, around 15% of total tax revenues in 2023 must be earmarked to debt repayments. This means that almost two out of every ten dollars that are received cannot be allocated to the provision of public services. This unsustainable debt has been burdening the region for decades and it conditions the autonomy of many governments. Today, this situation is made more untenable by its concurrence with the climate crisis of which the region is one of the most impacted—despite its little contribution—and to which governments must respond immediately to mitigate its effects and to adapt to future crises.

Figures alone are enough to illustrate the issue of financing. The deficit to finance the Sustainable Development Goals in LAC is about $650 billion per year. According to the latest ECLAC data, the region loses about 6% of GDP annually in tax revenues due to tax fraud. This means that with a regional GDP of about $5 trillion the region loses about $320 billion annually. If we add the $50 billion a year of potential revenue
resulting from applying a progressive wealth tax, we see that two fiscal measures could finance almost 57% of what is needed to achieve the SDGs.

Faced with the problems of financing, there is no doubt that it is necessary to find investments from the private sector that contribute to achieve digital or green transitions without forgetting the social transition. However, it is difficult to defend the “cascade effect” logic on which the Global Gateway is based, which insists that a development model based on growth and private investment will end up flooding society with benefits by creating jobs.

The pandemic highlighted the limitations of this model in two ways. Firstly, it showed the control of the large transnational groups over the technology necessary to supply public goods—vaccines—and their refusal to give up control; secondly, the large business groups were the major beneficiaries of the pandemic.

This is of great concern, seeing that the Global Gateway Investment Agenda will mobilise investments—some €10 billion euros—for renewable energies and green hydrogen, rare minerals, infrastructure projects, 5G and digital connectivity, digital transformation of public services, healthcare manufacturing, etc. These are investments in sectors that have been, for the most part, the major beneficiaries of the pandemic crisis and have reinforced the crisis of inequalities and privileges in the region. According to Oxfam, in LAC 65% of billionaires’ wealth is concentrated in four sectors: finance and investment, food and beverages, metals and mining, and telecommunications.

These are the sectors directly related to the green and digital transitions that we have proposed as main pathways for the transformation and the reform of the social pact.

In other words, this is a proposal to renew the bi-regional relationship that will end up mobilising resources from large private actors via public resources channelled to sectors that mostly concentrate the main beneficiaries of the status quo of privileges and vulnerabilities.

That is why we at Oxfam believe there is a real risk that the EU’s investment agenda will end up reinforcing the culture of privilege that widens inequality gaps. Therefore, at a geopolitical moment such as the current one, we call on the EU to take this opportunity to put the fight against inequalities at the centre of the partnership with LAC.

On the eve of the next EU-CELAC summit on 17 and 18 July 2023 in Brussels, we believe that the first steps can be taken in this direction.

Specifically, we ask the EU:

- To include the transition toward “social” equality as the central axis of the EU’s offer to LAC.
- To lead a new international financing architecture within the framework of a renewed multilateralism that is materialised in: supporting the first LAC summit towards a fair, inclusive and sustainable global taxation and establish and interministerial tax platform; a new debt governance; properly defining and complying with commitments, and incorporating new climate financing mechanisms; supporting governance spaces governed by the logic of equal conditions; and recognising the negative externalities in the Global South of domestic policies, i.e. tax havens.
- To condition the implementation of the Global Gateway Investment Agenda on the following three elements: including inequality reduction measures in
projects; a due diligence review of project beneficiaries including their commitment to a fiscal justice agenda; and the non-impact on sovereign debt.

Finally, we at Oxfam believe that this transition to equality will not be possible and will not have democratic legitimacy without civil society taking a place at the table. That is why to renew the bi-regional relationship and move toward equality, it is necessary to create a multi-stakeholder mechanism to monitor EU-CELAC relations.

ENDNOTES


2 https://lac.oxfam.org/lo-%C3%BAltimo/publicaciones/la-ley-del-mas-rico

3 https://www.latinobarometro.org/lat.jsp


6 According to Oxfam data, high-income countries have a debt to low-income and middle-income countries of 5.7 trillion dollars. https://policy-practice.oxfam.org/resources/50-years-of-broken-promises-the-57-trillion-debt-owed-to-the-poorest-people-621080/


12 According to OXFAM and IPS, Patriotic Millionaires and Fight Inequality Alliance figures, applying a 2% tax to millionaires, 3% tax to those with a wealth over $50 million, and a 5% tax to billionaires across LAC. https://lac.oxfam.org/lo-%C3%BAltimo/publicaciones/la-ley-del-mas-rico

13 https://www.oxfam.org/en/research/profiting-pain


15 https://lac.oxfam.org/lo-%C3%BAltimo/publicaciones/la-ley-del-mas-rico
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Oxfam is an international confederation of 21 organizations, working with its partners and allies, reaching out to millions of people around the world. Together, we tackle inequalities to end poverty and injustice, now and in the long term – for an equal future.

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