

# KAS INTERNATIONAL REPORTS

## TRADE RELATIONS AND TRADE AGREEMENTS



■ **Political Factors in the Negotiations on a Transatlantic Trade and Investment Partnership in the U.S.**  
*Lars Hänsel / Jeanene Laird*

■ **Free Trade Agreement Between the EU and Vietnam: Difficult Partnership**  
*Rabea Brauer /  
Vu Dang Tuan / Natalie Frey*

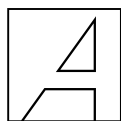
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Diana Puentes*





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## EDITORIAL

Dear Readers,

The prosperity we enjoy in Germany and Europe is intrinsically linked to the libertarian world order which the United States of America has been instrumental in establishing and maintaining since the Second World War. However, Germany's rise to become one of the leading economic and industrialised nations was not merely due to trade barrier reductions and the establishment of institutions to promote free trade. Another crucial factor was that Germany wholeheartedly embraced a set of core values, the most important constants of which are freedom, democracy and the Social Market Economy. Then and now, different models of economic development and of global trade have been competing with one another. While the Free and Social Market Economy still holds a promising future in most of Europe and the so-called Western World, other countries pursue approaches based on state capitalism with a strong element of state control. Consequently, the question on how to shape international trade, a technical issue at first glance, has once again led to an emotional confrontation between different political, moral and ideological values and systems.

Where the future of global trade is concerned, Germany is facing a particular challenge, as it is intertwined more strongly with the global economy than others. Creating prosperity is dependent on strong German foreign trade (with exports of over one billion euros in 2013), and every fifth job relies on it. It is therefore in the interest of the German government to shape globalisation in a responsible manner in collaboration with Germany's partners. This includes the responsibility of promoting free trade and the development of global markets. That this issue evokes critical questions from the public is reflected in the current controversy over the Transatlantic Trade and Investment Partnership (TTIP).

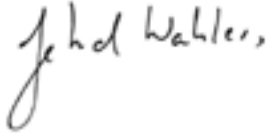
The European Union and the United States began negotiations on the TTIP in June 2013. Its chief aim is to reduce barriers to trade between the two sides. In addition, Brussels and Washington are discussing the reduction and harmonisation of regulatory provisions, which are expected to yield positive effects on incomes and employment. In this issue, Lars Hänsel and Jeanene Lairó analyse the political factors relating to the TTIP in the U.S. The authors are convinced that such an agreement is "immensely important for the European and American partners, the future of transatlantic relations, as well as the future liberalization and standards applied to world trade".

Where the topic of trade liberalisation is concerned, the EU is not only looking westwards. In a similar fashion, the Europeans are currently conducting negotiations with Asian countries such as Vietnam. Rabea Brauer, Vu Dang Tuan and Natalie Frey are investigating the aims and repercussions of the envisaged free trade agreement. On the one hand, the talks go along with hopes for a more liberal economic policy in Vietnam, which is still organised according to the principles of a planned economy. On the other hand, the authors conclude that an agreement between Brussels and Hanoi could "breathe new life into the negotiations between the EU and the group of Southeast Asian states, seeing that a joint trade agreement with all ten ASEAN member states is the EU's ultimate goal".

In Latin America, Argentina's financial crisis affected not only the domestic economy but also that of the neighbouring countries. Therefore, Kristin Wesemann and Marc Koch focus on the intraregional aspects of trade relations. The authors warn that "Argentina's latest default also has consequences for Mercosur. The contagion could spread to other economies if the problem is not resolved quickly – and particularly to Brazil, Argentina's largest trading partner".

The Konrad-Adenauer-Stiftung is actively involved in the debate over a future-oriented trade and economic policy based on the principles of the Social Market Economy. We are convinced that the regulatory framework plays a substantial role in a multipolar world. In essence, the objective is that all trading partners agree on common rules and

abide by them in order to gain trust and establish fair competition. Polarisation and one-sided depictions such as those put forward in the discussion on the TTIP are not helpful – factual argumentation is what is needed.

A handwritten signature in black ink that reads "Gerhard Wahlers". The signature is written in a cursive style with a large, stylized initial 'G'.

Dr. Gerhard Wahlers  
Deputy Secretary General

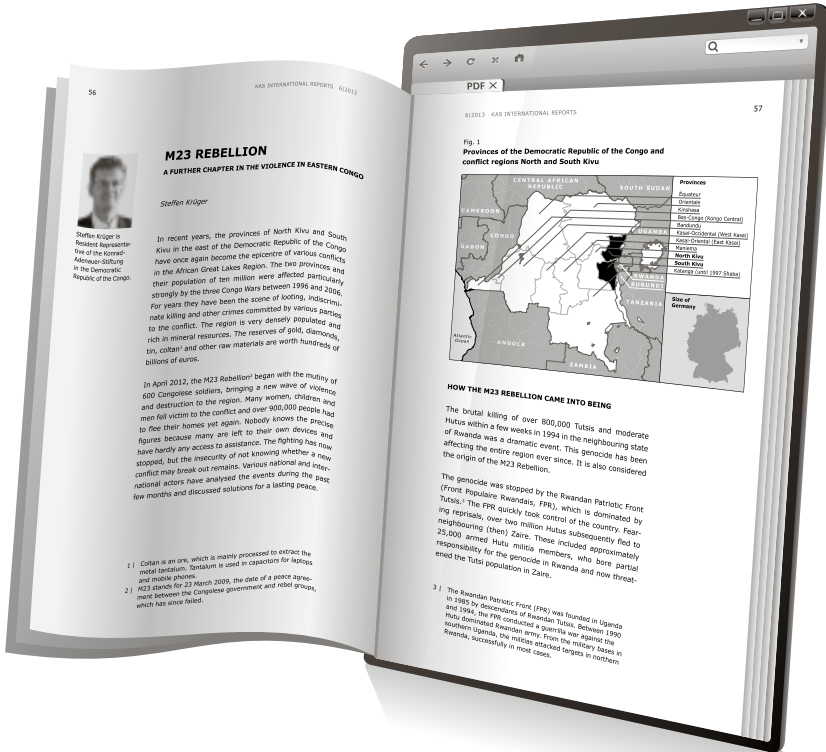
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Dr. Lars Hänsel heads the Konrad-Adenauer-Stiftung's Washington Office.

## POLITICAL FACTORS IN THE NEGOTIATIONS ON A TRANS-ATLANTIC TRADE AND INVESTMENT PARTNERSHIP IN THE U.S.

*Lars Hänsel / Jeanene Lairó*



Jeanene Lairó is Program Manager at the Konrad-Adenauer-Stiftung in Washington, D.C.

The crisis in Ukraine and the fragile situation in the Middle East, to name just two recent hotspots, once again highlight the need for transatlantic cooperation in all areas. In addition, the BRICS countries<sup>1</sup> attempt to challenge the Western countries' claim to leadership within the Bretton Woods institutions<sup>2</sup> by founding an alternative, common fund.<sup>3</sup> Given these circumstances, the negotiations surrounding a Transatlantic Trade and Investment Partnership (TTIP) are immensely important for the European and American partners, the future of transatlantic relations, as well as the future liberalisation and standards applied to world trade. TTIP would lend great momentum to transatlantic cooperation, even if no formal framework for policy dialog regarding existential issues is initially provided as is the case with NATO, for example. The significance and scope of a successful agreement as an anchor for future transatlantic partnership is nevertheless clear.

In order to assess TTIP's chances of success, it is important to understand and evaluate the political space in which the negotiations are embedded, as well as the stakeholders' interests and power bases. The following focuses on the political environment in which the negotiations are taking place on the American side. Formal negotiations are

- 1 | Brasil, Russia, India, China and South Africa.
- 2 | International Monetary Fund (IMF) und The World Bank Group.
- 3 | Cf. Patrick Welter, "Konkurrenz für den Währungsfonds", *Frankfurter Allgemeine Zeitung*, 16 Jul 2014, <http://faz.net/-gqe-7rnlo> (accessed 29 Aug 2014).

conducted by the U.S. Trade Representative (USTR) as a member of the Executive Office of the President. However, their interests do not necessarily align with those of other governmental institutions. Even the U.S. Congress is acting in favor of its own specific interests that continue to expand in the House of Representatives and the Senate. Representatives and Senators have to consider the public as well as various interest groups, political parties, trade associations, trade unions, environmental organisations, etc. Added to that are the federal and state levels with their own multifaceted range of interests. The chronology below represents certain aspects of the TTIP negotiations and a comprehensive critique is not possible here.

Table 1

**Timeline of TTIP negotiations**

2011 to 2013	Experts from the U.S. government and the EU Commission form the High Level Working Group on Jobs and Growth (HLWG). They are exploring options for advancing transatlantic economic relations.
11 February 2013	In its final report, the HLWG argues for a comprehensive trade and investment agreement.
14 June 2013	The EU Commission receives the negotiating mandate for the TTIP from the EU Trade Ministers.
17 June 2013	U.S. President Barack Obama and former President of the European Commission José Manuel Barroso announce the start of TTIP negotiations at the G8 summit. More than 20 working groups are to be formed.
July, November and December 2013	1 <sup>st</sup> to 3 <sup>rd</sup> round of negotiations. In the EU, the Commission is in charge of the TTIP negotiations, specifically the Directorate General for Trade. The political figure responsible is EU Trade Commissioner Karel De Gucht and Ignacio Garcia Bercero from the Directorate General for Trade is acting as chief negotiator. The United States Trade Representative, Michael Froman (Office of the United States Trade Representative, USTR) is politically responsible on the U.S. side, and their chief negotiator is Dan Mullaney.
Late January 2014	The EU Commission appoints a 14-member advisory body comprised of experts in consumer protection, trade unions and various economic sectors.
10 to 14 March 2014	4 <sup>th</sup> round of negotiations in Brussels.
26 March 2014	EU-US summit in Brussels with the TTIP as the main focus.
19 to 23 May 2014	5 <sup>th</sup> round of negotiations in Arlington, Virginia.

6 July 2014	End of the "Public consultation on the modalities for investment protection and investor-state dispute settlement in TTIP".
14 to 18 July 2014	6 <sup>th</sup> round of negotiations in Brussels.

Source: Federal Ministry for Economic Affairs and Energy, "Frequently Asked Questions on the Transatlantic Trade and Investment Partnership (TTIP)" (German), <http://bmwi.de/DE/Themen/Aussenwirtschaft/Ttip/faqs.html> (accessed 26 Aug 2014).

## **LEGAL FRAMEWORK: CONSTITUTIONAL BASIS AND NEGOTIATING POWER**

The U.S. Constitution provides clear guidance on accountability for foreign trade, though the political reality bears special challenges. To begin with, Article 1, Section 8 grants Congress the authority to conduct foreign trade.<sup>4</sup> It has the authority to regulate economic relations with other States and to levy tariffs. The President does not enjoy this authority. He is empowered to negotiate foreign trade agreements and international treaties with other countries. "He shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur" (Article 2, Section 2). Successful foreign trade structure therefore requires the President and Congress to work well together, especially with the Senate in issuing a negotiating mandate.

The Constitution allows for Congress to empower the President to negotiate foreign trade agreements. Congress can do this using the Trade Promotion Authority (TPA, also called fast track), a system introduced by the Finance Committee in the Senate and the Ways and Means Committee in the House of Representatives in 1974. Bills are then put to a vote in their respective committees before being passed in both houses. These two committees therefore play a central role in free trade agreements. With TPA, Congress empowers the President (or the executive branch, i.e. specifically the United States Trade Representative of the USTR) to conclude trade agreements that Congress may

4 | The U.S. National Archives and Records Administration, Constitution of the United States, [http://archives.gov/exhibits/charters/constitution\\_transcript.html](http://archives.gov/exhibits/charters/constitution_transcript.html) (accessed 29 Aug 2014).

then only vote either for or against without amending the bill. TPA defines negotiating objectives and priorities for trade agreements and, during the negotiation process, establishes consulting and reporting requirements with regard to the legislature. TPA consequently establishes the basic framework for upcoming international trade agreements for the government. Restricting Congress to a clean vote on the negotiated agreement is meant to avoid a situation in which the agreements and regulations negotiated by the USTR are subsequently individually suspended by Congress or must be renegotiated. Theoretically, TPA is not essential to either open negotiations or to bring them to a vote in Congress. However, Congress has signaled early support for negotiations and their outcomes.

**TPA defines negotiating objectives for trade agreements and, during the negotiation process, establishes consulting and reporting requirements with regard to the legislature.**

With regard to the TTIP, however, this indicates that TPA is not strictly necessary. The negotiations began in 2013 without the President receiving the formal negotiating mandate or TPA. However, its further refusal would be a clear sign that Congress could reserve the right to have its own input on individual issues as well as refusing to pass the bill that results from the negotiations. It is therefore important for the President to continue to push for TPA. Furthermore, TPA signals Congress' approval of the negotiations to the negotiating parties. Otherwise it would be difficult for the U.S. negotiators to force concessions from the other side. The European Union might appear less flexible on sensitive topics such as regulatory issues if no support were granted by Congress, thus calling into question the weight of the negotiations. Time and again, however, there have been cases of Congress renegotiating trade agreements that had already been concluded prior to the required vote despite TPA. Both in the case of the North American Free Trade Agreement (NAFTA) in 1994 and the 2012 agreement with South Korea, Congressional Representatives would only pass the bills if certain passages were amended. In this respect, TPA holds great significance, albeit at times this (important) significance is a symbolic one.



Difficult relationship: President Obama expressed interest in TPA in his State of the Union Address on January 28. But because his relationship with Congress is considered problematic, ultimately this aim could also fail. | Source: © Pete Souza, The White House, flickr.

### **U.S. CONGRESSIONAL INTERESTS**

In the summer of 2013, President Obama submitted a formal request for a TPA bill. A draft followed on 9 January in the House of Representatives and the Senate (The Bipartisan Congressional Trade Priorities Act 2014). In the Senate a draft was proposed by the Chairman of the Finance Committee, Senator Max Baucus (D-Montana) and the Committee's senior Republican, Senator Orrin Hatch (R-Utah). In the House of Representatives this fell to the Chairman of the House Ways and Means Committee, David Camp (R-Michigan). This bill had not been ratified when Senator Baucus resigned his post in early February 2014 after almost 40 years in the Senate.

Senator Baucus initially represented an important ally for President Obama in obtaining TPA; he is a clear supporter of free trade in general and TPA in particular. He is also regarded as the strongest supporter of TPA in the Senate. Twelve senators who are not members of the Finance Committee had announced their opposition to TPA in an open letter in January 2014.<sup>5</sup> On the day Baucus' legislative initiative was submitted, five Democrats on the Senate Finance Committee also informed the U.S. Trade

5 | Cf. "TPA Ltr to Leader Reid 1.15.2014", <http://de.scribd.com/doc/200151609/TPA-Ltr-to-Leader-Reid-1-15-2014> (accessed 29 Aug 2014).

Representative, Mike Froman, that they would withhold their support until greater transparency and monitoring mechanisms are incorporated.<sup>6</sup> Since then, Baucus has become the U.S. Ambassador to China and his successor, Senator Ron Wyden (D-Oregon), is considered less open to free trade. Prominent opposition came and continues to come from the Democratic Senate Majority Leader, Senator Harry Reid (Nevada). He brought along the majority of Democratic Senators to join him in his opposition of the present TPA bill. There is strong opposition to TPA even among the Democrats in the House of Representatives, as evidenced by a letter signed by 149 Democrats. This makes it clear that about three-quarters of Democratic legislators would not support the TPA legislative initiative in this form.<sup>7</sup> There is also resistance from trade unions, agriculture and environmental groups, who seem to exercise greater influence on the negotiation process and thus oppose TPA.

**Prominent opposition comes from the Democratic Senate Majority Leader, Senator Harry Reid. There is strong opposition to TPA even among the Democrats in the House of Representatives.**

On the one hand, opposition to TPA is due to specific interests associated with the respective negotiations on free trade and which Congressmen must take into consideration. On the other hand, for many it is also primarily a matter of the legislature participating in the negotiation process. The existing TPA model passed by the Senate in 1974 already provides for regulations that bolster Congress through consulting mechanisms and executive branch's reporting requirements. Ultimately, since both houses must approve every trade agreement, it is also in the interest of the President or the executive to meet these transparency obligations and to secure their support. However, for some congressmen, such as Representative Sander Levin (D-Michigan), these rules are not extensive enough. He

6 | Cf. "Sens. Brown, Casey, Cardin, Stabenow, And Menendez Call On U.S. Trade Rep. To Better Consult Congress On Proposed 'Fast Track'", press release, Sherrod Brown, 9 Jan 2014, <http://brown.senate.gov/newsroom/press/release/sens-brown-casey-cardin-stabenow-and-menendez-call-on-us-trade-rep-to-better-consult-congress-on-proposed-fast-track> (accessed 29 Aug 2014).

7 | See Kenneth Quinnell, "151 House Democrats Say 'No' to Fast Track Authority", The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), 13 Nov 2013, <http://aflcio.org/Blog/Political-Action-Legislation/151-House-Democrats-Say-No-to-Fast-Track-Authority> (accessed 29 Aug 2014).

refused to grant authorisation under the former TPA model and advocates for Congress' increased participation as well as greater transparency in times of globalisation and in the face of complex trade agreements.<sup>8</sup>



Strong opposition: Senator Harry Reid (Nevada), is the Democratic majority leader in the Senate. With regard to TTIP, he opposes the Trade Promotion Authority for the President. In general, Democrats are said to be more critical of free trade than Republicans. | Source: Geri Kodey, University of Nevada Las Vegas Photo Services, flickr ©@@.

Similarly, the new Chairman of the Senate Finance Committee, Ron Wyden, has long emphasised the importance of transparency and on principle has tied his approval of TPA to a more open information policy on the part of the USTR to Congress. When speaking of trade promotion authority Senator Wyden no longer refers to it as fast track but rather smart track. This new label is to symbolize the improved participation of Congress in the political process. This clearly is an illustration in how the relationship between Congress and the President is generally strained, especially on trade matters. In fact, Obama expressed his interest in TPA in his State of the Union Address this year. However, critics point out that this was done in a rather en

8 | Cf. Ways and Means Committee Democrats, "Levin Statement on Today's Introduction of Trade Promotion Authority Legislation", press release, 9 Jan 2014, <http://democrats.waysandmeans.house.gov/press-release/levin-statement-today's-introduction-trade-promotion-authority-legislation> (accessed 29 Aug 2014).



*passant* manner and that he never really fought for TPA, for example through his personal contacts in the Senate. According to Gary Hufbauer, a trade expert at the prestigious Peterson Institute for International Economics, at least half of the Democratic senators would oppose TPA. He cites the reason for this as Obama's poor relationship with Democrats in the Senate and his failure to adequately include them in his decisions thus far. TPA could therefore be seen as a victim of the President's dysfunctional relationship to Congress.



More transparency and participation: Senator Ron Wyden chairs the U.S. Senate's Finance Committee. He stresses the importance of transparency in the negotiation process and asks for broader competences of the Congress when it comes to international trade. | Source: Talk Radio News Service, flickr ©①②③.

By contrast, Republicans (as well as industrial and economic groups) who have traditionally supported trade are supporting the President and while at the same time criticising him for not supporting free trade vigorously enough.<sup>9</sup> However, according to Hufbauer, Obama needs the backing of approximately three-quarters of Republicans to secure TPA. Some of the Tea Party Republicans, led by Representative Paul Broun (Georgia) and the libertarian Senator Rand Paul (Kentucky), essentially do not want to

9 | See i.e. Vicky Needham, "Hatch presses for Obama's involvement in trade promotion authority", *The Hill*, 1 May 2014, <http://thehill.com/policy/finance/204965-hatch-presses-for-obamas-involvement-in-trade-promotion-authority> (accessed 29 Aug 2014).

grant the executive any additional power on free trade and are thus against granting TPA to the President (which they pejoratively refer to as "Obamatrade").

### TTIP AND TPP

**A Trans-Pacific Partnership is aimed at strengthening Asian countries surrounding China through access to the American market.**

Granting the President TPA and thus the power to negotiate TTIP is further complicated by the fact that a trans-pacific free trade agreement (the Trans-Pacific Partnership, TPP) is currently being negotiated with twelve states. Both agreements have a clear strategic focus: increased competitiveness against China.<sup>10</sup> TPP is aimed at strengthening Asian countries surrounding China through access to the American market. This should also send a signal to China. At the same time, these countries' markets are to be opened to U.S. companies. U.S. automakers, for example, expect access to the Japanese market, which they have previously been virtually cut off from (with approximately a one per cent market share). The same applies to agricultural products, especially rice. With regard to Vietnam, the issues at hand are those of liberalising the labor market, but also designating certain products (e.g. catfish) and fundamental issues of recognising Vietnam as a market economy given its many state-owned enterprises.

The TPP negotiations are at an advanced stage. However, key aspects remain unresolved. For example, Japan does not want to open its auto market, nor does Vietnam want to issue new regulations for its labor market. The fact that Obama has not yet been granted TPA for this ambitious agreement is a hindrance in the negotiations.<sup>11</sup> TPP is in many ways a "traditional" trade agreement, which prompts the usual opponents to free trade in the U.S. to act.<sup>12</sup>

10 | For more on Vice President Biden's comments on geopolitics to Democratic Congressmen, see: Marc Landler und Jonathan Weisman, "Trade Pact With Asia Faces Imposing Hurdle: Midterm Politics", *The New York Times*, 14 Feb 2014, <http://nyti.ms/1dt2jw> (accessed 29 Aug 2014).

11 | For more on this, see Vicky Needham, "Camp says trade agenda at risk without fast-track", *The Hill*, 19 Jun 2014, <http://thehill.com/policy/finance/209956-camp-says-trade-agenda-at-risk-without-fast-track> (accessed 29 Aug 2014).

12 | However, TPP is also more comprehensive compared to previous trade agreements, which means that more government institutions are also affected by the issues negotiated here than usual. See Len Bracken, "Wyden Vows to Flesh Out >

Because the TPP negotiations have already been under way for a longer period of time, TPP plays a bigger role for the public. The political resistance to the President's authority to conduct negotiations (see above) is primarily sparking resistance to the TPP.

### **The Political Calendar: Midterm Elections and Presidential Elections**

The Democrats in particular will face extraordinary challenges in the November, 2014 Congressional election (midterm elections). Most observers assume that the Republicans stand a very good chance of defending their majority in the House and winning the Senate. Democrats have a skeptical attitude toward free trade – not least because a large part of their electorate is aligned with the trade unions and is close to environmental and consumer groups. Although the Democrats have an equally pro-business wing, on the whole they have to be more politically aware of free trade critics.

Republicans are considered more open to free trade and tend to support the President by granting him negotiating authority. However, because Senate Majority Leader Harry Reid has not brought TPA to a vote, the Republicans see no reason to publicly comment on this before the November elections. At this stage, it is hardly to be expected that the President will ask the Democrats to reinforce any support of TPA in the run-up to the election. Everything is organised around the goal of at least defending the Senate. Due to a lower turnout in midterm elections than in presidential elections, they do not want to risk more of their supporters abstaining because of their opposition to free trade. The elections are critical enough already. Consequently, the Democrats must demonstrate solidarity and avoid internal disputes on free trade. They are neither to quarrel among themselves nor with the President. After the elections, new opportunities will arise to promote TPA legislation and the prospects for TTIP (and TPP) along with it. However, it can be assumed that by the end of 2015 the campaigns for the

**At this stage, it is hardly to be expected that the President will ask the Democrats to reinforce any support of TPA in the run-up to the election.**

upcoming presidential election the following year will be in full swing. Everything will then be cast under a (party) political perspective.



Balancing act: Michael Froman holds the Office of the United States Trade Representative and leads the negotiations for the U.S. He has to respect the varying interests with regard to TTIP. | Source: Asia-Pacific Economic Cooperation (APEC), flickr ©.

This provides a window of opportunity of approximately one year to build a political process in support of the negotiations in order for this administration to finalise and implement the TTIP. The President is expected to repeat his push for support of TPA. The question will be whether he will request it for both the TTIP and the TPP. Theoretically, he could demand that Congress grant him the mandate for the TTIP alone in the belief that he can expect greater support for the TTIP than for the TPP (which is viewed more critically by the Democrats in particular). However, if he does not request TPA for the TPP as well, this could be seen as “reversing the pivot to Asia”. Presently up for debate is how much political capital the President is willing to use to go down in history with a free trade success story and the strengthening of transatlantic relations. At the same time, U.S. Trade Representative Mike Froman is continuing the negotiations independently of the political process. It is possible that the transatlantic trade agreement will only be concluded after the election of the new president in 2016.

## **New Aspects of the TTIP and the Diversity of Political Interests**

Compared to previous free trade agreements, the TTIP contains a new aspect that is having a strong impact on not only the content of political debate, but its structure as well. At their core, previous agreements focused on initiatives to lower tariff trade barriers. In contrast, non-tariff trade barriers, such as regulatory issues, should also become part of the new agreement. As a result, on the one hand this transcends the political debate over classical free trade with its proponents and opponents. On the other hand, institutions, such as senators or regulators, are now involved when they had only played a supporting role in previous agreements. This means that the U.S. Trade Representative must deal with a new variety of interests. In the end, new tensions might arise, but also opportunities for a potentially wider support base for the TTIP.

One example is financial regulation. The Treasury is not interested in ceding any authority over financial market regulation and its current authority in negotiating international financial agreements. It demands that U.S. Trade Representative Froman not discuss any financial regulations under the TTIP. The Department of Agriculture pursues other issues and may also put pressure on Froman. In addition, the USTR is under close scrutiny by Congressmen from constituencies where agriculture plays a central role. However, since employees are regularly sent from the Department of Agriculture to the USTR, the tension is likely to be limited.<sup>13</sup>

### **Interests of the States**

Depending on their economic structure, the states have varying degrees of interest in free trade in general and in trade with the EU in particular. The Representatives and

13 | The most recent example of this would be the appointment of Darci Vetter as Chief Agricultural Negotiator for the USTR on 11 Jul 2014. Cf. The Office of the United States Trade Representative, "Ambassador Froman Welcomes Senate Confirmation of Darci Vetter as Chief Agricultural Negotiator", Jul 2014, <http://ustr.gov/about-us/press-office/press-releases/2014/July/Amb-Froman-Welcomes-Senate-Confirmation-of-Darci-Vetter-as-Chief-Ag-Negotiator> (accessed 29 Aug 2014).

Senators serving on the committees that are critical for TPA come from export-oriented states, such as Illinois, California, New York or Texas; these states also produce high investment from the EU. Consequently, there is a great interest in increased trade with the Europeans in those states. Therefore, chances are increasing that the President will receive the negotiating mandate despite all the political disputes and dysfunctionality, thus increasing the prospect of a successful conclusion and implementation of the TTIP.

Furthermore, the TTIP enjoys a broader support base than other, more traditional free trade agreements do. Some ten trade-friendly states could previously be counted on.

**Since the TTIP includes the service and investment sectors, states that have previously been less amenable to free trade are now interested.**

As industrial sites they were able to benefit from free trade in the past. Since the TTIP does not only include the free trade of goods, but also the service and investment sectors, states that have previously been less amenable to free trade are now interested (for example South Carolina, North Carolina, Alabama and New Jersey).<sup>14</sup> The supporters can be divided into the following categories: first, states that traditionally advocate free trade; second, states with strong exports; and third, those that have benefited from EU investment. This list comprises the potential TTIP advocates Alabama, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and Wisconsin.<sup>15</sup> A look at those committees that deal with free trade

14 | The authors would like to thank Charles Ludolph for this insight. As former Deputy Assistant Secretary of Commerce for Europe for the U.S. administration, he negotiated important transatlantic agreements on trade and tax issues, among others. See also the report on economic relations between the 50 States and Europe: Atlantic Council, "TTIP and the Fifty States: Jobs and Growth from Coast to Coast", 24 Sep 2013, <http://atlanticcouncil.org/publications/reports/ttip-and-the-fifty-states-job-growth-from-coast-to-coast> (accessed 29 Aug 2014).

15 | Cf. Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2014. Annual Survey of Jobs, Trade and Investment between the United States and Europe*, Bd. 2/2014, Center for Transatlantic Relations, Trans-Atlantic Business Council, American Chamber of Commerce to the European ▶

(House Ways and Means Subcommittee on Trade, Senate Finance Subcommittee on International Trade) reveals that the majority of their members come from states that correspond to these categories (see table 2).

Table 2

### Composition of Congressional Committees Dealing with Free Trade

#### House Committee on Ways and Means, Subcommittee on Trade

Chairman: Devin Nunes, CA	
Kevin Brady, TX Dave Reichert, WA Vern Buchanan, FL Adrian Smith, NE Aaron Schock, IL Lynn Jenkins, KS Charles Boustany, LA	Peter Roskam, IL Charles B. Rangel, NY Richard E. Neal, MA John Larson, CT Earl Blumenauer, OR Ron Kind, WI

#### Senate Finance Committee for International Trade

Chairman: Ron Wyden, OR	
Orrin G. Hatch, UT Debbie Stabenow, MI John. D. Rockefeller IV, WV Charles E. Schumer, NY Maria Cantwell, WA Bill Nelson, FL Robert Menendez, NJ Thomas R. Carper, DE Benjamin L. Cardin, MD Sherrod Brown, OH Michael F. Bennet Robert P. Casey, Jr., PA	Mark R. Warner, VA Chuck Grassley, IA Mike Crapo, ID Pat Roberts, KS Michael B. Enzi, WY John Cornyn, TX John Thune, SD Richard Burr, NC Johnny Isakson, GA Rob Portman, OH Patrick J. Toomey, PA

Source: Compiled by the authors. Note: Black indicates that the respective state can be regarded as a free trade supporter. Grey means that the state is not on the above list. (This does not necessarily mean that these Congressmen are against free trade, but that they each come from states that are not necessarily considered friendly to trade.)

Union, [http://transatlantic.sais-jhu.edu/publications/books/TA2014/TA2014\\_Vol\\_2\\_state\\_by\\_state.pdf](http://transatlantic.sais-jhu.edu/publications/books/TA2014/TA2014_Vol_2_state_by_state.pdf) (accessed 29 Aug 2014); National Association of Manufacturers, "US Manufacturing Statistics – Manufacturing & Trade Data By State", <http://nam.org/Statistics-And-Data/State-Manufacturing-Data/Manufacturing-by-State.aspx> (accessed 29 Aug 2014), Atlantic Council, Fn. 14.

## The Public and Interest Groups

Public interest is focused more on the trans-pacific trade agreement, which faces widespread resistance from the public.<sup>16</sup> Although Americans are also aware of the TTIP, they have not (yet) given it their full attention. The TPP negotiations are at best echoed by the media. The general public in the U.S. tends to be less well informed about trade agreements and not at all informed about the details.<sup>17</sup> This is due to the complex and relatively opaque nature of negotiation processes. U.S. Trade Representative Froman is seeking to involve the public via a consultation process early on in the negotiations. Thus on May 29 and 30, 2013, a public hearing was held on the priorities of the TTIP; some 60 representatives from civil society and industry participated. The public is also involved through expert groups. Many government agencies have established advisory committees for different sectors, for which professionals from various interest groups are appointed for a limited period of time. Members of these committees have access to negotiation documents (including classified information) and are regularly (pro forma) invited to exchange ideas. In addition, government officials often have informal contacts whom they consult if necessary.<sup>18</sup>

16 | Cf. the poll by Hart Research Associates and Chesapeake Beach Consulting, "Voters' View of Fast-Track Authority for the Trans-Pacific-Partnership Pact", Jan 2014, <http://fasttrackpoll.info> (accessed 29 Aug 2014).

17 | Cf. Curd Knüpfer, "Counting on the American Public to Be Informed on the TAFTA/TTIP Talks? Don't Hold Your Breath", *The Transatlantic Colossus*, 29 Jan 2014, <http://future-challenges.org/local/counting-on-the-american-public-to-be-informed-on-the-taftattip-talks-dont-hold-your-breath> (accessed 29 Aug 2014).

18 | The authors would like to thank Charles Ludolph for this insight as well.



Table 3

**Support for TTIP in the U.S. and in Germany  
(in per cent)**

Do you think this trade agreement will be good for our country or bad?

	Good	Bad	Don't know	Haven't heard enough	Neither
U.S.	53	20	12	14	<2
Germany	55	25	11	8	1%

Source: Cf. n. 19, Survey Q3.

Table 4

**Attitude towards specific TTIP goals (in per cent)**

Support of...	U.S.	Germany
Making American and European standards for products and services similar	76	45
Removing all duties on goods imported from Germany/U.S.	41	38
Removing all investment restrictions between U.S. and EU	39	41

Source: Cf. n. 19, Survey Q7a-c.

Table 5

**Background information of those who view the Transatlantic trade as "very good" (in per cent)**

	Germany	U.S.
Total	34	26
Men	48	32
Women	22	20
18-29	31	30
30-49	38	27
50+	33	23
No College	32	22
College degree	51	36

Source: Cf. n. 19, Survey Q1, Q4a-d, Q7a-c.

What does public opinion on the TTIP in the U.S. look like? According to a poll published by the Pew Research Center in cooperation with the Bertelsmann Foundation in April 2014, Americans generally support free trade, particularly with the EU, as well as the TTIP.<sup>19</sup> Eight out of ten respondents support increased trade with Germany. The reasons given for this are to boost competitiveness with China (43 per cent), positive effects for the U.S. economy (32 per cent) and closer cooperation with the EU (22 per cent). Younger Americans (aged 18 to 29) support TTIP (67 per cent), but the same support among those over the age of 50 is only 45 per cent. Compared to Germany (where support is below 50 per cent), 76 per cent of Americans favor making product and service standards as similar as possible through the TTIP. Younger respondents tend to trust U.S. standards less than their older counterparts, who are more likely to trust the U.S. government to set stricter standards.

### **Think Tanks and Non-governmental Organisations**

The major think tanks in the U.S., particularly those with transatlantic focus, support the TTIP. The Atlantic Council, for example, has initiated its own campaign. The Council sends out a weekly newsletter on the TTIP and compiles publications, reports, newspaper articles and events in Europe and the USA. The Center for Transatlantic Relations (CTR) also regards the TTIP as a priority. CTR has set up a web forum and regularly provides information through studies, polls and reports. Other renowned institutions, such as the German Marshall Fund, the Brookings Institution and the American Institute for Contemporary Studies (AICGS) are engaging in similar activities.

The landscape is more varied among NGOs. Numerous organisations oppose the agreement on principle. The Fair World Project<sup>20</sup> is against it arguing that free trade is

19 | Cf. Pew Research Center and Bertelsmann Foundation, "Support in Principle for U.S.-EU Trade Pact", Apr 2014, <http://pewglobal.org/files/2014/04/Pew-Research-Center-Bertelsmann-Foundation-U.S.-Germany-Trade-Report-FINAL-Wednesday-April-9-2014.pdf> (accessed 29 Aug 2014).

20 | Cf. Fair World Project, "Free Trade Agreements – Do They Really Affect You?", 8 Oct 2013, <http://fairworldproject.org/blogs/free-trade-agreements-do-they-really-affect-you> (accessed 29 Aug 2014).

detrimental to small farmers and results in wage losses for large segments of the population. The Transnational Institute makes similar arguments, maintaining that free trade has led to greater injustice.<sup>21</sup> Groups such as the Citizens Trade Campaign (CTC), established in the context of NAFTA as a coalition of different interest groups, such as environmentalists, unions, agricultural, religious and civil society groups, consumer organisations, only support free trade when it is subject to clearly defined social and societal objectives. They reject the argument that free trade boosts the economy and creates jobs as unfounded. At the same time, they fear that the existing standards in the environmental sector or consumer protection will be weakened or undermined. Other organisations observe certain aspects of the negotiations and mobilise citizens against the TTIP.<sup>22</sup> Even the politically influential Sierra Club, which by its own account is the largest and most influential environmental organisation in the U.S. – has lodged its opposition to the TTIP.<sup>23</sup> It argues that due to new export opportunities, the agreement could contribute to undermining environmental standards and expand fracking, which is regarded as harmful to the environment. The investment protections discussed in the negotiations (Investor State Dispute Settlement, ISDS) elicit further resistance. Because of this, U.S. and European civil society organisations sent an open letter to those leading the negotiations in the U.S. and the EU in December, 2013 and complained that ISDS undermined democracy.<sup>24</sup> Although there are a number of vocal TTIP opponents, their influence is limited and the general public is currently in favor of trade.

**Some civil society and interest groups only support free trade when it is subject to clearly defined social and societal objectives.**

21 | Cf. Transnational Institute (TNI), "Trade & Investment Works on", <http://tni.org/page/trade-investment-works> (accessed 26 Sep 2014).

22 | These include the Center for Food Safety, Food & Water Watch, Institute for Agriculture and Trade Policy, International Brotherhood of Boilermakers, Coalition for Sensible Safeguards, National Family Farm Coalition, PopularResistance.org, Center for Digital Democracy, Public Citizen's Global Trade Watch, Friends of the Earth U.S., and Trans Atlantic Consumer Dialogue.

23 | Cf. Sierra Club, "About the Sierra Club", <http://sierraclub.org/about> (accessed 29 Aug 2014).

24 | Cf. Corporate Europe Observatory, "Civil society groups say no to investor-state dispute settlement in EU-US trade deal", 17 Dec 2013, <http://corporateeurope.org/trade/2013/12/civil-society-groups-say-no-investor-state-dispute-settlement-eu-us-trade-deal> (accessed 29 Aug 2014).

## Trade Unions

The trade unions are more influential even if they currently exhibit reticence. Because previous free trade agreements have involved the reduction of tariffs, which liberalised the labor market and led to lower wages, the unions are considered opponents of free trade. Their negative experience with NAFTA plays a significant role and they do not want this to reoccur. The attitude of the trade unions is far more differentiated on the TTIP. The powerful confederation of trade unions, the American Federation of Labor-Congress of Industrial Organisations

**The American Federation of Labor-Congress of Industrial Organizations sees the benefits for American and European workers and is therefore not fundamentally opposed to the agreement.**

(AFL-CIO), with almost 60 trade unions as members, sees the benefits of the TTIP for American and European workers and is therefore not fundamentally opposed to the agreement.<sup>25</sup> However, it all depends on the specific regulations for the AFL-CIO. It is feared that the large corporations will ultimately improve their shareholder values by relocating their production facilities to low-wage countries. In addition, they are concerned that the U.S. labor market will not benefit and the general level of prosperity will not be increased.<sup>26</sup> The AFL-CIO would like to reduce the influence of corporations on the negotiations and strengthen the position of the public sector.

The AFL-CIO has therefore intensified its efforts vis-a-vis the negotiators to make the process more transparent and consult the public on the issue of ISDS.<sup>27</sup> Both the umbrella organisation and the individual unions hope the TTIP will introduce European regulations that are more

25 | Cf. AFL-CIO, "U.S.-EU Trade Agreement (TTIP)", <http://aflcio.org/Issues/Trade/U.S.-EU-Free-Trade-Agreement-TTIP> (accessed 29 Aug 2014).

26 | Cf. the article by the president of the AFL-CIO, Richard L. Trumka, "Corporate Leaning TTIP Needs To Benefit Average Worker", *Atlantic Community*, 2 Oct 2013, <http://atlanticcommunity.org/-/corporate-leaning-ttip-needs-to-benefit-average-worker> (accessed 29 Aug 2014).

27 | Cf. Celeste Drake, "Why Aren't We Having a Public Debate on Investment Policies in the TTIP?", AFL-CIO, 17 Apr 2014, <http://aflcio.org/Blog/Global-Action/Why-Aren-t-We-Having-a-Public-Debate-on-Investment-Policies-in-the-TTIP> (accessed 29 Aug 2014). The AFL-CIO joined 40 NGOs (see n. 24) in writing a letter against the inclusion of ISDS in the TTIP and would like to see a similar public hearing process to that which has been promised by European negotiator Karel de Gucht.

labor-friendly to the U.S. labor market. Unions, such as Workers Uniting (a coalition of the United Steelworkers, USW, in the United States and the largest trade union in the UK, Unite) are calling for a financial transaction tax to support social programs. They are also demanding that the “European Works Council Directive” of 1994, which strengthens workers’ representation in large multinational corporations operating in the EU, should apply to American workers as well. The same applies to security standards (e.g. in the chemical industry) and social standards. Furthermore, trade unions often oppose liberalisation and the adoption of the award process for public contracts in the TTIP.

### **Corporations**

The American Chamber of Commerce to the European Union, which represents U.S. corporations operating in the EU, foresees benefits for its large and small member corporations, for example by cutting red tape and reducing prices. Small and medium enterprises (SMEs) account for a significant portion of value creation in the United States. They have generated almost half of the gross domestic product (GDP) since 1993 and have created 63 per cent of new jobs.<sup>28</sup> This category of business in particular could benefit from the TTIP and more uniform standards and less bureaucracy. At the same time, however, SMEs would lose protection, for example in the area of public procurement, which is strictly regulated at the federal and state levels. Increased liberalisation of public procurement, for example through the U.S. State Preference Programs, as is already partially practiced in other free trade agreements, is therefore carefully regarded by SMEs.

The American side echoes a common call for European interest in lifting U.S. export restrictions on energy, especially for liquefied natural gas (LNG).<sup>29</sup> Ever since the oil shocks of the 1970s, the U.S. has viewed energy resources

28 | Cf. Small Business & Entrepreneurship Council, “Small Business Facts & Data”, <http://sbecouncil.org/about-us/facts-and-data> (accessed 29 Aug 2014).

29 | See the published report ,written by Karel de Gucht for Mike Froman “Non-Paper on a Chapter on Energy and Raw Materials on TTIP” dated 27 May 2014, <http://de.scribd.com/doc/233022558/EU-Energy-Non-paper> (accessed 29 Aug 2014).

as a strategic tool. The crisis in Ukraine and relations with Russia in particular have led to a controversial debate. But Congress has not yet approved the export of gas and crude oil, not least out of fear of increasing energy prices. By contrast, oil companies and their lobbying group, the American Petroleum Institute, belong to the proponents of liberalised export regulations. The extent to which Europe would ever benefit from LNG exports is unclear. First, it would take several years for the infrastructure to be built in the United States and in Europe. Second, transporting it to Europe would be expensive. In addition, the focus of companies on profit makes selling to the Asian markets more lucrative than exporting to Europe.

## **CONCLUSION**

Many political factors determine the process and outcome of free trade agreements. From an American perspective, geopolitical considerations in particular come into play in establishing free trade.

From NAFTA to free trade agreements with Israel, Jordan, Colombia and South Korea, politicians have always placed economic motives in the broader horizon of American interests and engaged in global interest politics with trade agreements. The TTIP is no exception, but it would be the first time an agreement was concluded between partners who are on a level playing field economically and are already so closely intertwined through trade and investment. Their trade balance, as well as the balance of direct investment is nearly equal. Even their fundamental interests, challenges and values are similar. Thus, both sides have a sound common starting point when it comes to negotiating a trade and investment partnership.

Trade experts in the United States believe this narrative of common ground will contribute to ensuring that U.S. politicians are willing to provide broader support for such an agreement. Other similarities with Europe that belong to the TTIP narrative are that Europe can potentially be counted on for support in other U.S. trade relationships, particularly with China, but also with the BRICS countries and in multilateral agreements in the World Trade Organization (WTO). U.S. trade politicians are therefore eager

to present the TTIP as the “gold standard” among partners with similar interests. This means new standards should be set with the TTIP in a way that has not yet been seen in any other trade agreement. Once the negotiations have been successfully completed and the agreement comes into effect, it should serve as a guideline for multilateral negotiations with the BRICS countries, especially with China within the framework of the WTO. While politicians in the United States recognise that Europeans share many objectives and priorities for the TTIP, this global perspective is missing in the European debate, as is the connection to the WTO. From an American perspective, the EU’s concerns are almost completely limited to commercial and economic impacts.

**Once the negotiations have been successfully completed and the agreement comes into effect, it should represent a guideline for multilateral negotiations with the BRICS countries.**

The developments in Eastern Europe and the crisis in Ukraine are currently slipping into the TTIP debate in the U.S. Politicians on both sides of the Atlantic are aware of the geostrategic importance of energy issues, as well as the implications for its trade and investment partnership. But the political realities can hardly be overlooked. In the United States, the TTIP is being negotiated by President Obama and his trade representative. During the negotiations, the executive branch will continue to press Congress for support under the fast track process (or TPA) and will come to an agreement with the legislature on objectives and strategies. When concluding an agreement, the President will need formal approval by both houses of Congress. The political calendar plays a major role in this: all Members of the House of Representatives and one-third of the Senators will face elections in November, 2014, and as a result, neither the House nor the Senate will vote on TPA or even a negotiated agreement prior to this date. The Democrats in particular, whose electorate is considered to be very critical of free trade, will not take any political risks.

Because the presidential elections are in November 2016 when a new head of State will be elected, all efforts to successfully conclude the TTIP will need to focus on the coming year. This would give President Obama the opportunity to go down in history with an important trade agreement. He could build on the success of former President Bill Clinton, whose accomplishments included NAFTA. In any case,

Democratic support cannot be taken as a given. Many opposed NAFTA because they recognised the threat of losing jobs (especially to Mexico). An agreement between the U.S. and the EU negotiated under the TTIP is different, however. To win over his party, Obama must clearly articulate and communicate these differences. Accordingly, the TTIP narrative should be strengthened with the prospect of higher regulatory standards and an improved investment climate.

As was once the case with Clinton, it is expected that the TTIP can only be implemented with the support of Republicans in the House of Representatives and the Senate. Both houses would be under Republican control if they were to win the Senate majority as is currently expected. On the one hand, this is good for the President's free trade agenda because Republicans are considered amenable to free trade. On the other hand, it remains to be seen whether they are willing to grant the President any political success. At present, the relationship between these two branches of government is considered to be completely shattered. Under these circumstances, the Republicans could withhold their support until after the elections in 2016 in hopes of taking greater control over the content of the TTIP and to allow a Republican president to take credit for its success.



# FREE TRADE AGREEMENT BETWEEN THE EU AND VIETNAM

## DIFFICULT PARTNERSHIP

*Rabea Brauer / Vu Dang Tuan / Natalie Frey*

### THE POLITICAL SITUATION IN VIETNAM

In Vietnam, progress and stagnation lie closer together than ever before. While the country's leadership is willing to allow the population some economic freedoms, political reforms are not up for discussion. The political leadership comprises the Secretary General of the Communist Party of Vietnam (CPV) Nguyen Phu Trong, Prime Minister Nguyen Tan Dung and President Truong Tan Sang. The fundamental Marxist-Leninist principles and the ideology of Ho Chi Minh continue to determine the activities of the Vietnamese government. The Party persists in its fundamental rejection of political pluralism, let alone a multi-party system. Even though the state and party systems are separate on the face of it, the policy guidelines approved by the National Party Congress which takes place every five years determine the objectives for government policy, which are then implemented by the legislative and the executive. All the key positions in politics, the administration and the judiciary are held by party members. The constitutional amendments adopted by the National Assembly, the Vietnamese parliament, on 28 November 2013 did not have any great impact on the CPV's monopoly on power. The amendments were to bring about stronger protection of human rights, a greater emphasis on democratic participation and a clear separation of state powers. While the National Assembly was assigned further competences in the area of budgetary supervision, hopes that the reforms would create a body responsible for monitoring constitutional standards have remained unfulfilled. This deficiency greatly undermines the effectiveness of the constitutional



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changes, with the result that the CPV and the government remain free to continue using their monopoly on power without constraint.

## EU-VIETNAM RELATIONS

Despite the political differences, Vietnam is already among the EU's closest partners in Asia. Next year, they will look back on 25 years of diplomatic relations. Initially, the EU's goals in Vietnam were limited to development cooperation and sustainable economic growth. After some time, however, political cooperation developed rapidly. The first cooperation agreement between Brussels and Hanoi was adopted in 1995. A more comprehensive Partnership and Cooperation Agreement (PCA) was signed in June 2012. It envisages strong cooperation in the areas of trade, science, technology, energy and the environment as well as in the fight against corruption. The agreement is also intended to strengthen collaboration in efforts to meet regional and global challenges such as the fight against terrorism and climate change.

**The EU represents Vietnam's largest overseas market with exports totalling 24.4 billion U.S. dollars and is – after China – Vietnam's second largest trading partner.**

In spite of the fact that political relations have recently intensified, it is the economic cooperation between the two parties that is of particular significance. The EU represents

Vietnam's largest overseas market with exports totalling 24.4 billion U.S. dollars. This corresponds to 19 per cent of the country's global exports in 2013 and means that – after China – the EU is Vietnam's second largest trading partner. The EU exports mainly high-tech products, vehicles, machinery, aircraft and pharmaceutical products. Imports from Vietnam to the EU, on the other hand, consist of electronic products, shoes, coffee, textiles, rice, seafood and furniture.<sup>1</sup> Bilateral trade has increased five-fold over the last decade, rising from 6.5 billion to 33.6 billion U.S. dollars. In that regard, Vietnam has always benefited from a high trade surplus (9.2 billion U.S. dollars in 2013).<sup>2</sup> This

1 | Cf. European Commission, "Countries and regions. Vietnam", <http://ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam> (accessed 15 May 2014).

2 | Cf. Jean-Jacques Boufflet, "Overview on VN-EU Trade and investment relation, prospective and orientation for development", Vietnam-EU Business Forum 2014, 2.

strong growth in trade reflects the economic development of the Southeast Asian country over the last two decades.



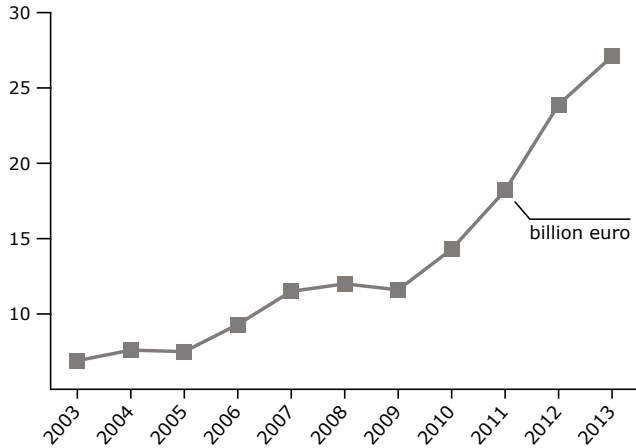
A differing range of products: The EU exports mainly high-tech products like vehicles or machinery. Compared to that, furniture and handicrafts enter the European market. | Source: Xiaojun Deng, flickr ©.

Vietnam's economic boom has its roots in the comprehensive *Doi Moi* reforms (English: "renovation") of the 1980s. These reforms supported the shift from a centralised planned economy towards a market economy, which Vietnam officially labels "socialist-oriented".<sup>3</sup> Within just two decades, an average annual growth rate of 7.3 per cent has transformed one of the poorest countries of the world into a lower-middle income country. The rapid economic growth went hand in hand with an influx of foreign investment, an increase in trading volumes and a remarkable reduction in poverty. Vietnam's admission to the World Trade Organization (WTO) in 2007 furthered trade liberalisation, increased foreign direct investments (FDI), stabilised the export sector and improved the quality of products and services. Vietnam is pursuing the ambitious goal of achieving a per capita income of 3,000 U.S. dollars by 2020, prioritising the stabilisation of economic growth, the construction of first-class infrastructure, access to

3 | Cf. Nadine Mensel, *Der Entwicklungsprozess der Sozialistischen Republik Vietnam. Erfolge und Herausforderungen durch staatlich gelenkte Entwicklung*, Wiesbaden, Springer VS, 2013, 158-183.

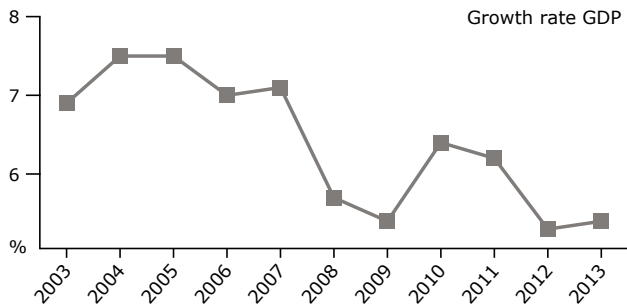
professional and vocational training and the strengthening of the institutions of the market economy.<sup>4</sup>

Fig. 1  
**Trade balance in goods between Vietnam and the EU, 2003 to 2013**



Source: European Commission, "European Union, Trade in goods with Vietnam", 16 Apr 2014, <http://trade.ec.europa.eu/doclib/html/113463.htm> (accessed 3 Sep 2014).

Fig. 2  
**Economic Growth in Vietnam, 2003 to 2013**



Source: The World Bank, "GDP growth", <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> (accessed 3 Sep 2014).

4 | Cf. Deepak Mishra, "Vietnam development report 2012: market economy for a middle-income Vietnam", 6 Dec 2011, <http://documents.worldbank.org/curated/en/2011/12/15546780/vietnam-development-report-2012-market-economy-middle-income-vietnam> (accessed 3 Sep 2014).

In line with the PCA, the European Union and Vietnam are now taking the next step towards a more stable partnership, which logically entails negotiations about a Free Trade Agreement (FTA). Vietnam is the third ASEAN country to enter into such negotiations after Singapore (March 2010) and Malaysia (October 2010).<sup>5</sup> The seventh round of negotiations was already held in March this year in Hanoi. The two parties hope to be able to conclude the talks successfully by the end of the year, in the expectation that the Free Trade Agreement will reduce customs duties and curtail restrictive trade barriers. It further deals with pressing issues such as legal certainty, investments, public procurement, the trade in goods and services, and patent legislation.<sup>6</sup>

### **ECONOMIC EVALUATION OF A FREE TRADE AGREEMENT**

If you apply David Ricardo's theory of comparative cost advantage to the trade relations between the EU and Vietnam, the latter has a comparative cost advantage where labour and resource-intensive products are concerned. And Vietnam does, in fact, export mainly products from the low-wage sector. The EU, on the other hand, exports high-tech products from the capital and technology-intensive sector. According to the theory, the FTA would be highly beneficial to both sides. In line with this thinking, studies on EU-ASEAN relations conclude that a Free Trade Agreement could provide a 20 per cent boost to Vietnam's export activities.<sup>7</sup> Eliminating import duties on shoes, for example, has increased exports in this segment from seven to an estimated 21 per cent,<sup>8</sup> which represents an enormous

5 | Cf. European Commission, "EU and Vietnam launch negotiations for a comprehensive Free Trade Agreement", 26 Jun 2012, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=811> (accessed 3 Sep 2014).

6 | Cf. European Institute for Asian Studies, "The EU Seeks to Strengthen Trade Relations with ASEAN Countries", 21 Mar 2014, <http://eias.org/asian-news-outlook/eu-seeks-strengthen-trade-relations-asean-countries> (accessed 3 Sep 2014).

7 | Cf. Gauri Khandekar, Mapping EU-ASEAN Relations, FRIDE, Brussels, 2014, 57.

8 | Cf. Claudio Dordi and Federico Lupo Pasini, "The impact of Vietnam-EU FTA on some selected exporting sectors of Vietnam", WTO-Center, Vietnam Chamber Of Commerce And Industry, 9 Jun 2011, <http://wtocenter.vn/content/impact-vietnam---eu-fta-some-selected-exporting-sectors-vietnam> (accessed 3 Sep 2014).

benefit to Vietnam in view of the stagnating economy. According to its own studies, the European Parliament assumes that Vietnam's gross domestic product (GDP) would increase by as much as 15 per cent in the long run.<sup>9</sup> Such increases in prosperity have a positive effect on consumer behaviour. The Deutsche Bank is already forecasting a 5.5 per cent rise in private consumption in Vietnam for 2014.<sup>10</sup> With the conclusion of the FTA, this trend would be set to continue. The crucial advantage to the EU would be that wholesalers and retailers would obtain better market access for their much sought-after high-tech goods.

The Free Trade Agreement is linked to hopes for a more liberal economic policy in Vietnam. In the past, the socialist-style economic structures have attracted direct investments predominantly from Asia, particularly from Japan, Taiwan, South Korea and Singapore.<sup>11</sup> The Agreement would result in conditions for companies from the EU improving considerably. They could establish subsidiaries in Vietnam in order to supply not only the Vietnamese market but also the ASEAN and other Asian countries such as Japan, China and India. From the EU's perspective, Vietnam represents an important gateway for gaining access to a dynamic market of the future. A Free Trade Agreement would stimulate the negotiations between the EU and the group of Southeast Asian states, seeing that a joint trade agreement with all ten ASEAN member states is the EU's ultimate goal.<sup>12</sup> Vietnam, on the other hand, would benefit from the influx of funds and the transfer of know-how which would be of particular advantage to small businesses and their international sales.

**From the EU's perspective, Vietnam represents an important gateway for gaining access to a dynamic market of the future. A Free Trade Agreement would stimulate the negotiations between the EU and ASEAN.**

9 | Cf. Marika Armanovica, "Policy Briefing. EU-Vietnam economic and trade relations", Sep 2012, Europäisches Parlament, Generaldirektion Externe Politikbereiche, [http://europarl.europa.eu/RegData/etudes/briefing\\_note/join/2012/491454/EXPO-INTA\\_SP\(2012\)491454\\_EN.pdf](http://europarl.europa.eu/RegData/etudes/briefing_note/join/2012/491454/EXPO-INTA_SP(2012)491454_EN.pdf) (accessed 3 Sep 2014).

10 | Cf. Thomas Hundt, *Wirtschaftstrends Jahreswechsel 2013/14 Vietnam*, Germany Trade and Invest, Hanoi, 2013, 4.

11 | Cf. *ibid.*, 3.

12 | Cf. European Commission, "Association of South East Asian Nations (ASEAN)", <http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean> (accessed 3 Sep 2014).

One further advantage to both sides would be the simplification of rules, standards and regulations. Although Vietnam is currently still benefiting from the Generalised Scheme of Preferences (GSP), it will drop out of the group of preferred countries by 2017 at the latest. The GSP allows exporters from developing countries to pay either no or minimal duties when they trade with the EU. Since January 2014, the GSP has been predominantly supporting the least-developed countries,<sup>13</sup> a group Vietnam no longer qualifies for. An FTA would enable Vietnam to compensate for the forecasted loss of GSP benefits. At the same time, it would help the EU to counter the protectionist measures and incongruent import restrictions imposed by Vietnam. Currently, virtually every import into Vietnam from the EU is subject to taxes. Although hardly any

taxes are payable for machinery, tool components, technical equipment, raw materials and capital goods for the manufacturing industry, which are not available locally, consumer and luxury goods (such as cars) are subject to high taxes.<sup>14</sup> Alcoholic beverages, cosmetics, vehicles and mobile phones (non-essential goods) can only be imported through the ports of Ho Chi Minh City, Da Nang and Hai Phong, for instance. In addition, imports require certain permits. Consequently, conducting business deals without local middlemen and networks are either not feasible or extremely costly.

**Due to certain permits, conducting business deals without local middlemen and networks are either not feasible or extremely costly until today.**

A further urgent objective pursued by the FTA is an improvement of the conditions under which European businesses are allowed to operate in Vietnam. At present, work permits for foreigners are valid for a maximum of 24 months (formerly 36).<sup>15</sup> Also, any proposed new business must pass the Economic Needs Test (ENT). The purpose of this test is to establish whether the investment by the

13 | Cf. European Commission, "Generalised Scheme of Preferences (GSP)", <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences> (accessed 3 Sep 2014).

14 | Cf. Vietnam Trade Promotion Agency, "Taxation", [http://www.vietrade.gov.vn/en/index.php?option=com\\_content&id=783&Itemid=179](http://www.vietrade.gov.vn/en/index.php?option=com_content&id=783&Itemid=179) (accessed 3 Sep 2014).

15 | Cf. Foreign Trade Association, "FTA Position Paper. EU-Vietnam Trade Negotiations", 20 Nov 2012, <http://fta-eu.org/doc/unp/opinion/en/FTA-Position-Paper-EU-Vietnam-trade-relations.pdf> (accessed 3 Sep 2014).

foreign company in a particular province would benefit the local economy. The ENT is not only applied when businesses are founded, but also when businesses already established in Vietnam are to be expanded. It is a typical instrument of the socialist planned economy and is used strategically by the government to control the distribution of international capital in Vietnam. Although the government wishes to avoid the impression that this represents an impediment to direct investments, in practice, this test does mean exactly that for foreign businesses. According to Csaba Budnik, Executive Managing Director of the European Chamber of Commerce in Vietnam (EuroCham), the rules of the lengthy and laborious ENT process are so opaque that each provincial government interprets them differently.<sup>16</sup> This results in inconsistent application of the rules and makes it more difficult for foreign businesses to gain a foothold in the Vietnamese market. The trade liberalisation the FTA entails would therefore generate a positive impact on Vietnamese exporters and European businesses.

However, the biggest benefit Vietnam can derive from the FTA is greater integration into global trade. The aspects of particular importance in this context are stable economic growth and the modernisation of the Vietnamese economy. It would give Vietnam the opportunity to reform its economic structures. This includes above all greater support for small and medium enterprises (SME). In the past, economic development in Vietnam has been greatly hampered by the poor performance of state-owned enterprises (SOE). Despite some privatisation efforts in the last few years, the state continues to play a dominant role in the economy, even though SOEs generally perform worse than private companies and have generated considerable amounts of defaulted debt. This is costing Vietnam some eight per cent of its GDP, denying the private sector growth opportunities, deterring investment and weakening the banking sector and thereby the country's economic performance.<sup>17</sup>

**Despite some privatisation efforts in the last few years, the state continues to play a dominant role in the economy.**

16 | Cf. My Chau, "ENTs be consistently implemented", VCCINEWS, 4 Apr 2014.

17 | Cf. Armanovica, n. 9.



Comprehensive competition legislation could benefit the private sector. While the government has set up a Competition Commission, this has not been allocated any financial or HR resources.<sup>18</sup> Hardly surprising, seeing that effective competition legislation which would strengthen private enterprise would simultaneously weaken the role of the state. State-owned enterprises enjoy special conditions, particularly with respect to the awarding of loans. This gives them an advantage over private enterprises where the raising of capital is concerned. Vietnam is still far from fair competition between state-owned and private enterprises. Removing these disparities would make funding private enterprises a great deal easier; it would allow them to plan better for the future and take advantage of the benefits of the global market. The proportion of competitive private enterprises in Vietnam would increase as a result. However, one has to assume that the political leadership would consider such a development as unwelcome competition for the SOEs.



Structural change: Experts expect a higher unemployment rate after the FTA will enter into force. In particular Vietnam's agricultural sector is likely to experience negative impacts. | Source: M M, flickr ©©©.

18 | Cf. ECORYS Nederland BV, "Commission Services' Position Paper on the Trade Sustainability Impact Assessment of the Free Trade Agreement between the EU and ASEAN", 2013, [http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc\\_151230.pdf](http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151230.pdf) (accessed 3 Sep 2014).

## Negative Aspects of the Free Trade Agreement

Although the Free Trade Agreement between the EU and Vietnam is being declared a “win-win situation”, it does involve a number of challenges. Vietnam could be caught in a so-called low-wage trap. The country has a competitive advantage where the manufacture of low-value goods is concerned, which depends on advantageous wages and resources. The EU, for its part, has a competitive advantage regarding the manufacture of high-value goods, which involves sophisticated technology and innovation. If market entry were to be made easier for European companies, this might entail the risk that Vietnamese companies could not meet the competition from Europe. This would adversely affect Vietnam’s economic development, as its manufacture would continue to be limited to goods of lower value. It may even be that the agreement could even result in economic development stagnating at some point, precisely at a time when Vietnam would be on the verge of becoming an industrialised country.

**While the shoe, textile and clothing industries would probably grow, the agricultural sector could be expected to suffer losses of up to 27 per cent.**

Experts foresee unemployment to rise in some sectors if the FTA is implemented. While the shoe, textile and clothing industries would probably grow, the agricultural sector could suffer losses of up to 27 per cent.<sup>19</sup> The causes of this would include a likely reduction in production volumes as well as increasing unemployment in the grain sector. In the area of industrially processed foods, European traders have a clear comparative advantage over their Vietnamese counterparts. When European traders enter the Vietnamese food market, the domestic food industry as a whole will shrink due to the competitive disadvantage. The predictable unemployment will predominantly affect the agricultural workforce. There will be a transfer of human resources to more profitable sectors such as the leather industry. The automotive and component industries as well as the electronics and machinery sectors, which were developed relatively late in Vietnam compared to other Asian countries, will experience a downturn in production because Vietnamese suppliers will find it hard to hold their own against stronger competitors from Europe.<sup>20</sup>

19 | Cf. Armanovica, n. 9.

20 | Cf. n. 18.

Although it is likely that general prosperity will increase in Vietnam, the growth in GDP will be distributed unevenly between industry sectors and regions as well as between the social strata. The shift from agriculture towards manufacturing will result in a decline in the real income of people living in rural areas. This will involve a short-term rise in poverty for part of the population, which will in turn spur migration to the cities.<sup>21</sup> Economists assume that people formerly working in agriculture will have no difficulty in finding jobs in other sectors, which means that the Free Trade Agreement should foster poverty reduction in the long run.<sup>22</sup>



Competition from Europe: Due to the import of industrially processed foods the Vietnamese food industry will contract. Rice farmers must expect drops in sales, while consumers could enjoy lower prices. | Source: Julien Boulin, flickr ©©©.

Vietnam's developmental progress will result in a reduction in official development assistance (ODA) in the medium term. In 2012, Vietnam received over four billion U.S. dollars in bi-lateral and multi-lateral ODA.<sup>23</sup> In future, the country will have to deal with a reduction in foreign capital as well as taking measures to ensure macroeconomic stability. The repercussions of the FTA also include environmental problems. Increasing exports of fishery and

21 | Cf. *ibid.*

22 | Cf. Armanovica, n. 9.

23 | Cf. World Bank, "Net official development assistance and official aid received", <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD> (accessed 3 Sep 2014).

seafood products, for instance, will exacerbate overfishing, which is already widespread. The heavy use of aquacultures is also impacting land-use and biodiversity.<sup>24</sup>

### **POLITICAL AND LEGAL CHALLENGES FOR VIETNAM**

The strict EU quality standards represent a challenge to Vietnam. This involves primarily the Technical Barriers to Trade (TBT) and the Sanitary and Phytosanitary (SPS) Measures. Both tools are aimed at protecting people's health and safety, biodiversity as well as natural resources. Compliance with these standards is a prerequisite to successful trading with the EU. As for almost all developing countries, this is no easy task for Vietnam.

For Vietnam, the proposed Free Trade Agreement is in a different league compared to the existing agreements, such as those with Japan and South Korea. Ever since the *Doi Moi* reforms, the government has been consistently pursuing a policy of economic opening-up, intended to make the country attractive to foreign investors without giving up any political power and control. Foreign direct investments are considered to play a central role in promoting economic growth. The large number of free trade agreements that have come into force over recent years act as important tools for achieving this goal. Particularly after the country joined the WTO in 2007, the Vietnamese leadership increased its efforts to conclude further FTAs in order to accelerate the process of trade liberalisation and Vietnam's global integration.

However, the FTA with the EU is of a far more complex nature than existing agreements. It does not only involve tax reductions and more advantageous business conditions, but most importantly also includes qualitative components. The EU thus attaches great importance to accurate details about product origins, observance of patent rights and competition legislation, as well as consideration of the sustainability principle and environmental standards. All this requires extensive legal reforms, not restricted solely to legislation. In many instances, the legal framework lacks effective mechanisms for monitoring and evaluating the implementation of the laws. That is why the Vietnamese

24 | Cf. Armanovica, n. 9.

legal system is not yet capable of coping with this plethora of changes. Before the full potential of the Free Trade Agreement can unfold, the Vietnamese legal system will have to undergo fundamental reform. Otherwise, Vietnam will be unable to satisfy the EU's exacting requirements. To allow the consequences of the FTA to be evaluated, a monitoring and evaluation system should begin to operate as soon as the Agreement has become effective. This is one of the main concerns of the European Commission, as the EU is looking to safeguard both the principles of sustainable development and essential labour standards.<sup>25</sup>

Will the Free Trade Agreement encourage not only economic reform but political change as well? Considering the above-described consequences, the concept of the state will inevitably need to be revised, because the role played by the government in the sphere of economic activities will undergo considerable change in the course of the FTA's implementation. The effective introduction of the modified competition legislation as well as the EU demand for the different legal treatment of state-owned and private enterprises to be abandoned would mean a loss of power for the government. In the event that the Free Trade Agreement is concluded, the Communist Party of Vietnam will have to be prepared to rethink its original role of planning and shaping the economy. But as the CPV, in fact, has been strengthened by the new constitution (in force since 1 January 2014), it is unlikely that there will be any change to the Party's supremacy. Should the FTA be signed, however, the Vietnamese government would have to commit itself to some political reforms.

**In the event that the Free Trade Agreement is concluded, the Communist Party will have to be prepared to rethink its role of planning and shaping the economy.**

The EU Member States, in particular, as well as the European Parliament continue to draw attention to the disregard for fundamental freedoms and civil rights in Vietnam. They press for freedom of expression, freedom of the press and religious freedom as well as equitable treatment of political dissidents. A "Motion for Resolution" by the European Parliament called for the observance of human rights by the Vietnamese government to be included in the Trade Agreement. Accordingly, there should be an option to terminate the FTA with immediate effect in the event of

25 | Cf. n. 18.

human rights violations.<sup>26</sup> If the European Parliament were to uphold its demand and only allow the Agreement to go ahead on these conditions, this could provide for a boost to the improvement of the human rights situation in Vietnam. Under these circumstances, it would, however, also be conceivable that the Vietnamese government would refuse the signature in the foreseeable future.

Vietnamese academics are, in fact, ascribing the FTA some influence on the situation regarding the lack of freedom of expression and freedom of the press, albeit anonymously. To guarantee fair competition and improved conditions for businesses, the state must permit transparency in all areas. The academics view the press – to date a state-controlled tool for agitation and PR – as the crucial medium. They are keeping their own expectations low at the same time, as freedom of the press has hitherto been unthinkable in Vietnam. Nor is any improvement to be expected in the area of religious freedom in the foreseeable future. Since the beginning of 2013, religious communities have been required to undergo a stricter registration process (Decree 92/2012/ND-CP). Furthermore, religious groups

**One can assume that the human rights situation in Vietnam will not improve in the medium term. The government and the CPV will continue to take tough measures against dissidents.**

see themselves confronted with the confiscation of church property and land. Vietnam lacks a clear legal framework in the area of expropriation, and the issue of the illegality of expropriations is set to remain unclear in the future as well. One can generally assume

that the human rights situation in Vietnam will not improve in the medium term. The Vietnamese government and the CPV will continue to take tough measures against dissidents, reformist activists as well as journalists who are critical of the government. For these reasons, academics do not consider Vietnam ready for the Agreement. The country is not capable of exploiting the advantages of the FTA in full due to the lack of political will to commit to serious change.

26 | Cf. Gerald Häfner, Barbara Lochbihler, Rui Tavares, Nicole Kiil-Nielsen and Raül Romeva i Rueda, "Motion for a Resolution with request for inclusion in the agenda for a debate on cases of breaches of human rights, democracy and the rule of law pursuant to Rule 122 of the Rules of Procedure on Vietnam", 2013/2599(RSP), 16 Apr 2013, <http://europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+MOTION+B7-2013-0166+0+DOC+PDF+V0//EN> (accessed 3 Sep 2014).

The lack of willingness to commit to political change on the Vietnamese side and the EU's insistence on qualitative conditions for the FTA and on human rights illustrate the political divide in the parties' negotiating positions. There is disagreement on crucial points between Brussels and Hanoi. The political relations between the two sides are not sufficiently substantive to allow for a speedy rapprochement and for constructive solutions to be devised. Perception of the EU as a unit is not widespread either in Vietnamese society or among those active in the political arena. Although there is no doubt about the economic benefits for both sides, the EU's lack of political weight in the eyes of Vietnam represents a major obstacle on the path towards a rapprochement in the negotiations.

### **Territorial Dispute Opens up New Prospects**

Until several months ago, it did indeed look like the negotiations would fail. The stalled efforts to make progress on the FTA experienced an unexpected momentum on 2 May 2014. A drilling rig that China had moved into Vietnam's exclusive economic zone in the South China Sea destabilised the power landscape underpinning Vietnam's foreign policy. A difficult friend had turned into an uncontrollable foe overnight. The South China Sea has been an international trouble spot for decades, with several Southeast Asian countries and China making territorial claims in the region.



Intensified negotiations: Here, the former President of European Commission, Manuel José Barroso meets Vietnamese Prime Minister Nguyen Tan Dung for political talks in Vietnam, August 2014. | Source: © European Union Delegation to Vietnam.

The People's Republic of China and the Socialist Republic of Vietnam are not merely bound by close links ideologically due to their communist societies, they also have intensive trade relations. The economic interdependencies between

**Over the last few months, Vietnam has had to realise that its economic dependence on China is placing severe restrictions on the scope of its own foreign policy activities in the region.**

the two countries are having a continued influence on Vietnam's foreign policy. And this has placed the country in a dilemma. As its economy is in the process of stabilising, an economic downturn caused by foreign policy tensions would be disruptive. Over the last few months, Vietnam has had to realise that its economic dependence on China is placing severe restrictions on the scope of its own external affairs in the region. The country therefore needs a new overall political strategy. In that regard, the envisaged FTA with the EU could become the most important element. More intensive economic relations between the EU and Vietnam can provide a counterweight to China, reduce undesirable dependencies and create some much-needed scope for diplomatic action.

### **FROM SCEPTICISM TO HOPE: A LOOK AHEAD**

Up until the end of April, EU representatives and Vietnam's political cadres as well as entrepreneurs from both sides were still pessimistic about the conclusion of the Free Trade Agreement. The ideas of the two sides were too divergent. Hopes for the agreement to be signed by the end of 2014 were receding. It was not until the dispute with China, that Hanoi felt compelled to re-evaluate and revitalise its partnerships. This included a re-evaluation of the topics under discussion in connection with the FTA as well as a re-assessment of the Vietnamese positions. Conciliatory messages are now emanating from the ministries and from the Central Committee, suggesting the gap between the ideas and demands of the two sides is narrow. In fact, according to Dr Claudio Dordi, a leading expert in this area, Vietnam has no alternative to the Trade Agreement with the EU.<sup>27</sup> The disadvantages of the FTA, which are to be expected, form part of the development process that Vietnam inevitably has to go through. In Dordi's opinion, a

27 | Dr Claudio Dordi is the Technical Director of EU project "European Trade Policy and Investment Support Project (MUTRAP)" in Vietnam and a professor at the Università Bocconi in Milan.



postponement or even failure of the agreement would be fatal for Vietnam's economic development. In terms of competition, Vietnam would be at a distinct disadvantage in the trade with the EU compared to other ASEAN states, which either already have a joint trade agreement in place or which are in negotiations for one (Thailand, Malaysia).

Without the crisis in the South China Sea and the re-orientation of Vietnamese foreign policy this triggered, Vietnam would take a more critical stance towards concluding the Agreement. During his visit on 25 and 26 August, Jose Manuel Barroso held talks with Vietnam's highest political leadership regarding the relations between the two sides. Particularly the suggestion by Vietnam's President Truong Tan San that the EU-VN FTA should be signed as soon as possible was a strong indication that Vietnam has the political will to intensify its relations with the EU immediately. Current developments are having a positive effect where the EU's significance for Vietnam is concerned. The FTA offers Vietnam the opportunity to engage in urgently needed reforms and could provide new impetus to its stagnating economy. For Asia and Europe, this Free Trade Agreement would ensure a new dynamic in the currently unsatisfactory foreign relations between the two sides as well as greater mutual understanding.



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## INGLORIOUS ISOLATION

### ARGENTINA'S ECONOMIC AND FINANCIAL POLICIES ARE SLOWING DOWN TRADE WITH ITS NEIGHBOURS

*Kristin Wesemann / Marc Koch*

Argentina has its back to the wall. But the fact that President Cristina Fernández refuses to accept this state of affairs has become all too clear, particularly with her now notorious utterance: "Today is the 31<sup>st</sup> of July and the world keeps on turning".<sup>1</sup> This shows the president does not have a clear understanding of the long-term effects of the technical default that was announced on the previous day. It is true Argentina's 2014 default is not on the same scale as the country's bankruptcy in 2002. At that time, Argentina was thrown into poverty almost overnight because it could no longer service its 100 billion U.S. dollar debt. Today its debt is somewhat more manageable at around 46 per cent of GDP.<sup>2</sup> In the wake of legal action by hedge funds, a New York district court has ordered Argentina to repay its outstanding debts, but even this should not present a problem as they only amount to some 1.3 billion U.S. dollars. Yet Argentina is refusing to comply with the court's verdict because it is afraid that a specific clause will result in a flood of other existing debtors who took their share of the haircut between 2005 and 2010 believing they can get all their money back. There is currently some legal debate about whether this could actually happen.

1 | "Una batería de medidas de impacto social para recuperar la iniciativa", *La Nación*, 1 Aug 2014, <http://lanacion.com.ar/1714841> (accessed 4 Sep 2014).

2 | Cf. German Trade & Invest, "Wirtschaftsdaten kompakt: Argentinien", May 2014, [http://ahk.de/fileadmin/ahk\\_ahk/GTaI/argentinien.pdf](http://ahk.de/fileadmin/ahk_ahk/GTaI/argentinien.pdf) (accessed 4 Sep 2014).

So it is wrong to talk about another sovereign default – Argentina is certainly not bankrupt. Perhaps “unwilling to pay” would be a more accurate description. The final collapse of negotiations with the hedge funds at the end of July was greeted with remarkable calm in Argentina. There was no sense of panic during the weeks of talks in New York, and few Argentinians were surprised when, in his normal gruff manner, Minister of the Economy Axel Kicillof announced the breakdown of negotiations. This was because the negative effects will not be felt for many years. By then, a different president will be in power in the country on the River Plate. The roots of the Argentinean crisis go back many years. The economy has barely grown since 2011 and it is being strangled by currency controls and absurd import regulations. The government has failed to get a grip on inflation while at the same time attempting to win voters over with lavish public spending.

This vicious circle would only tighten still further in the event of a sovereign default, says Luis Palma Cané of economic consultants Fimades: “This would result in fewer U.S. dollars entering the country. Then it would become clear that our country has little legal certainty, which would isolate us still more in the eyes of the world. We would be able to import even fewer goods and primary products, which would have a negative impact on industrial production and our GDP.”<sup>3</sup> Under Cristina Kirchner’s late husband, former President Néstor Kirchner (2003 to 2007), Argentina’s economic policies were already oriented towards a certain degree of separation and specific populist actions. For example, in 2006 beef exports were banned almost overnight in order to keep prices low on the domestic market. The result was the collapse of one of Argentina’s main export industries. Today, the country exports less meat than Paraguay or Uruguay. At present, Argentinian soy farmers have to pay 35 per cent of their turnover in export taxes. So it is hardly surprising that they stockpile the soy crop that is in such demand overseas, particularly in China. Soy exports are a major source of the urgently needed currency reserves.

**Under Néstor Kirchner, Argentina’s economic policies were already oriented towards a certain degree of separation and specific populist actions.**

3 | Luis Palma Cané quoted in *El Liberal*, “Economistas advierten sobre los costos de un nuevo default”, 23 Jul 2014, <http://elliberal.com.ar/ampliada.php?ID=144966> (accessed 4 Sep 2014).



A dozing regional organisation: Mercosur was meant to create a common market and a free trade area. But despite many summit meetings, like the one in Mendoza in 2012, the goals have not been reached so far. | Source: Fernanda LeMarie, Ministerio de Relaciones Exteriores, Comercio e Integración, flickr ©©©.

After gaining power in 2007, Cristina Kirchner continued to press ahead with these policies, and indeed has consolidated them still further. This is exemplified by the expropriation of the Spanish energy company Repsol in April 2012 and the nationalisation of the oil company YPF, in which Repsol held a majority stake. This coup gave Kirchner's government a much-needed boost among its supporters after Argentina – a country rich in natural resources – began importing oil in 2011 and energy prices soared. The dispute with the hedge funds – which are often called *fondos buitres* or “vulture funds”, not just by the Argentinian government – also took on a nationalistic tone: Kirchner's solution was to ask “Patria o Buitres?”, “Fatherland or vultures?”. By using such a slogan, the President is consciously drawing parallels with a historic dispute of the 1940s, when presidential candidate Juan Domingo Perón fought back against his political opponent, U.S. ambassador Spruille Braden. The catchphrase at the time was “Braden o Perón?”. And Kirchner's desire for confrontation has grown so strong that she is not afraid of drawing tasteless parallels. During the Gaza conflict she accused the hedge funds of firing “financial rockets” over Argentina.<sup>4</sup>

4 | “Cristina Kirchner y su comparación con Gaza: ‘Esto también es violencia, son misiles financieros, que cuestan vidas’”, *La Nación*, 31 Jul 2014, <http://lanacion.com.ar/1714687> (accessed 4 Sep 2014).

Fig. 1

**Member states of Mercado Común del Sur (Mercosur)**

Source: Own depiction.

This mixture of isolationism, lack of legal certainty and erratic economic policy decisions has made life difficult for investors and Argentina's trading partners alike. Mercosur, the trade association co-founded by Argentina in 1991 whose members include Brazil, Paraguay, Uruguay and more recently Venezuela, is now eking out a somewhat

lean existence in terms of regional economic policy.<sup>5</sup> What began as ambitious project to create a common market, customs union and free trade zone is now mired in an endless trench warfare between the individual member states. It has certainly not achieved its objectives, as bemoaned by Uruguay's Vice-President Danilo Astori: "We have never managed to set up a common market, the customs union is in tatters and the free trade zone is simply not functioning because there is no free movement of goods and services. Mercosur is in a state of almost total incapacity."<sup>6</sup> This is largely due to the behaviour of Mercosur's two largest member states. Brazil and Argentina have long been wrangling over every possible area of economic policy, including trade restrictions, import restrictions and customs tariffs.

Table 1

**Argentina's trade balance 2010 to 2014,  
in billion U.S. dollars**

	2010	2011	2012	2013	2014 (prognosis)
Exports	68.2	84.1	80.9	81.7	74.3
Imports	56.8	74.3	68.5	73.7	68.0
Saldo	11.4	9.8	12.4	8.0	6.3

Sources: N. 2; José Hidalgo Pallares, "Prevén un desplome de las exportaciones y el saldo comercial, y mayor escasez de divisas", *La Nación*, 14 Aug 2014, <http://lanacion.com.ar/1718476> (accessed 4 Sep 2014). The Newspaper *La Nación* relies on data of Cámara de Exportadores de la República Argentina (CERA), [http://cera.org.ar/new-site/contenidos.php?p\\_seccion\\_izq\\_id=340](http://cera.org.ar/new-site/contenidos.php?p_seccion_izq_id=340) (accessed 5 Sep 2014).

In 2013, Brazilian mining company Vale halted construction of a huge potash mine in Argentina, which would have been one of the largest investment projects of recent years. Since then, talks on a free trade agreement between the European Union and Mercosur have failed because of the

5 | Cf. Kristin Wesemann, "Lonely Together: South American Alliances Mercosur and Unasur Face Crisis", *KAS International Reports* 2/2014, <http://kas.de/wf/en/33.36787> (accessed 4 Sep 2014).

6 | Danilo Astori quoted in *El Observador*, "Astori apuesta por Alianza de Pacífico y denuncia 'inacción' del Mercosur", 3 Jun 2013, <http://elobservador.com.uy/noticia/252185/astori> (accessed 4 Sep 2014).

uncompromising stance of the Argentinian President, who prefers to stress the asymmetries between the two blocs rather than seek a joint way forward.<sup>7</sup>

Table 2

**Regional Trade 2013**

	<b>Exports to Argentina in billion U.S. dollars</b>	<b>Ratio of Argentina of total exports in per cent</b>	<b>Imports from Argentina in billion U.S. dollars</b>	<b>Ratio of Argentina of total imports in per cent</b>
Brazil	19.6	8.1	16.5	6.9
Chile	0.8	1.0	3.9	4.9
Uruguay	0.5	5.4	1.6	14.2

Sources: N. 11; Germany Trade & Invest, "Wirtschaftsdaten kompakt: Chile", 05/2014, [http://ahk.de/fileadmin/ahk\\_ahk/GTaI/chile.pdf](http://ahk.de/fileadmin/ahk_ahk/GTaI/chile.pdf) (accessed 4 Sep 2014); German Trade & Invest, "Wirtschaftsdaten kompakt: Uruguay", May 2014, [http://ahk.de/fileadmin/ahk\\_ahk/GTaI/uruguay.pdf](http://ahk.de/fileadmin/ahk_ahk/GTaI/uruguay.pdf) (accessed 4 Sep 2014) and calculations by the authors.

Argentina's latest default also has consequences for Mercosur. The contagion could spread to other economies – and particularly to Brazil, Argentina's largest trading partner – if the problem is not resolved quickly.<sup>8</sup> Even though Brazilian Finance Minister Guido Mantega has stressed his government's belief that Argentina is in no way insolvent,<sup>9</sup> Brazil's economic circles and press have reacted with horror to its neighbour's political situation. Even Kirchner herself has been the subject of strong criticism.<sup>10</sup> Its neighbour's difficulties could not have come at a worse time for Brazil. Its own economic growth has slowed, its people are burdened by rising inflation and exports are falling. This is

7 | Cf. Marc Koch, "Hoch gezielt und knapp daneben", *Deutsche Welle*, 27 Jan 2013, <http://dw.de/p/17SUD> (accessed 4 Sep 2014).

8 | The Wharton School, "Will Argentina's Default Unleash Further Contagion?", 11 Aug 2014, <http://knowledge.wharton.upenn.edu/article/will-argentina-default-unleash-contagion> (accessed 4 Sep 2014).

9 | Cf. Sofia Fernandes, "Para Mantega, situação na Argentina é de 'impasse'", *Folha de S. Paulo*, 31 Jul 2014, <http://www1.folha.uol.com.br/mercado/2014/07/1493771-para-mantega-situacao-na-argentina-e-de-impasse.shtml> (accessed 4 Sep 2014).

10 | "A ruinosa trajetória da Argentina kirchnerista", *O Globo*, 1 Aug 2014, <http://oglobo.globo.com/opiniaao/a-13450905> (accessed 4 Aug 2014).

partly a result of the situation in Argentina. The country was previously Brazil's third-largest export partner, after China and the USA.<sup>11</sup>



Partners in trade: The fiscal policy of Cristina Kirchner does not only affect Argentina. Brazil's President Dilma Rousseff (l.) has to face an increasing inflation and a drop in exports. | Source: Roberto Stuckert Filho, Blog do Planalto, flickr ©1©©.

In the first six months of 2014 there was a sharp drop in the amount of goods crossing Brazil's southern border, and car exports fell by as much as 35 per cent. "Argentina is the largest buyer of goods produced here",<sup>12</sup> comments José Augusto de Castro of Brazil's export trade association. The automotive sector in particular has few alternatives. 85 per cent of its exports go to Argentina. And for many small and medium-sized enterprises in the Brazilian states of Rio Grande do Sul and Santa Catarina, Argentina is their only market. The bottom could fall out if Argentina's recession continues.

One thing seems certain: the value of the Argentinian peso will once again fall drastically. This will have an impact on Argentina's economically powerful neighbours.

11 | Cf. German Trade & Invest, "Wirtschaftsdaten kompakt: Brasilien", May 2014, [http://ahk.de/fileadmin/ahk\\_ahk/GTAI/brasilien.pdf](http://ahk.de/fileadmin/ahk_ahk/GTAI/brasilien.pdf) (accessed 4 Sep 2014).

12 | José Augusto de Castro quoted in "Default de Argentina pegará a Brasil", *CNN Expansión* [min. 1'33], <http://exp.mx/v001CLP> (accessed 4 Sep 2014).



Uruguay, for example, has concerns about the effect on its tourism industry. Every year, 1.76 million Argentinians cross the River Plate for their holidays. This is already not exactly cheap, but any devaluation of the peso would take it beyond the reach of many Argentinians. Exports would also be affected. In the case of Uruguay, this mainly concerns textiles, paper and household appliances. On the other hand, this small country has announced record levels of foreign capital investment for June alone. According to its Central Bank in Montevideo, 4.4 billion U.S. dollars of deposits were held in private accounts, the highest level since 2002. 75 per cent of these deposits were made by Argentinians.<sup>13</sup> However, Uruguay has been successfully exercising a kind of “de-Argentinisation” (*desargentización*)<sup>14</sup> of its economy. Flying in the face of tradition, its largest neighbour is no longer the country’s main target in terms of goods exports and the movement of capital. Chile has taken similar steps. After taking office, socialist President Michelle Bachelet also set a totally different course in terms of economic and regulatory policy. “We have to a large extent unhitched ourselves from the Argentinian economy. Trade amounts to perhaps three per cent, and exports to Argentina one per cent. The default has no impact in terms of real trade,”<sup>15</sup> asserts Chilean economic expert Alejandro Alarcón.

**Uruguay has been successfully exercising a kind of “de-Argentinisation” of its economy. Its largest neighbour is no longer the main target in terms of goods exports and the movement of capital.**

Bolivia – one of the Kirchner administration’s closest allies – supplies its neighbour with 17 million cubic metres of gas every day and likes to be paid for it in U.S. dollars. This amounted to 582 million U.S. dollars in the first quarter of this year alone. The Bolivian government under Evo Morales is trying to dispel fears that Argentina will no longer pay its gas bills as a result of the default. But to be

13 | Cf. Rubén Ramallo, “Depósitos argentinos en Uruguay alcanzan el mayor crecimiento en seis años”, iProfesional.com, 28 Jul 2014, <http://iprofesional.com/notas/192094-Ante> (accessed 4 Sep 2014).

14 | Alejandro Rebossio, “La crisis de deuda de Argentina amenaza con daños a países vecinos”, *El País*, 2 Aug 2014, [http://economia.elpais.com/economia/2014/08/02/actualidad/1406951994\\_850485.html](http://economia.elpais.com/economia/2014/08/02/actualidad/1406951994_850485.html) (accessed 4 Sep 2014).

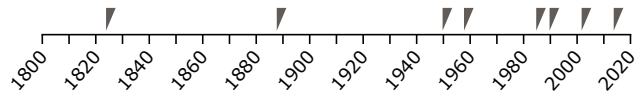
15 | Alejandro Alarcón quoted in “Chile y el default de la Argentina”, *Clarín*, 1 Aug 2014, [http://clarin.com/opinion/Chile-default-Argentina\\_0\\_1185481485.html](http://clarin.com/opinion/Chile-default-Argentina_0_1185481485.html) (accessed 17 Aug 2014).

on the safe side, it holds a guarantee from Argentina to the tune of 400 million U.S. dollars which represents two months' supply.<sup>16</sup>

The psychological effects of the Argentinian default on the region's trade and finances should not be underestimated. They could also lead to contagion in other markets. This may not be fair but it is conceivable, warns Mauro Guillén, a Latin America expert at the Wharton Business School: "Whatever happens in [the financial markets] of Brazil, Chile, Mexico and Peru should have nothing to do with Argentina, but somehow the market associates Argentina with the region. [...] It is discouraging to see that markets don't discriminate in a better way between Argentina and the other countries of the region."<sup>17</sup>

Fig. 2

**Argentina's defaults since 1800**



Source: "Argentina's debt saga. No movement", *The Economist*, 31 Jul 2014, <http://econ.st/UPDB9C> (accessed 5 Sep 2014).

In this respect, it is striking that Argentina's political allies and partners have indeed expressed their solidarity on the hedge fund dispute, but that this has generally been a token rhetorical gesture.<sup>18</sup> Even left-leaning blocs such as Unasur and Mercosur have generally reacted with caution. Nevertheless, at the last meeting of the BRICS countries held in July 2014 in Fortaleza, Brazil, the Argentinian president canvassed support for her position and particularly sought out the support of Russian president Vladimir Putin. Kirchner can claim a political victory in the

16 | "Argentina retrasaría pagos por el gas", *Clarín*, 26 Jun 2014, [http://clarin.com/opinion/Argentina-retrasaria-pagos-gas\\_0\\_1163883609.html](http://clarin.com/opinion/Argentina-retrasaria-pagos-gas_0_1163883609.html) (accessed 4 Sep 2014).

17 | Mauro Guillén quoted in The Wharton School, cf. n. 8.

18 | Cf. "América Latina sale en defensa de la Argentina en la pelea con fondos buitres", *Perfil*, 25 Jun 2014, <http://perfil.com/internacional/America-Latina-sale-en-defensa-de-Argentina-en-la-pelea-con-fondos-buitres-20140625-0029.html> (accessed 04 Sep 2014).

way Putin declared Argentina to be a “strategic partner”<sup>19</sup> and announced they would work together on the peaceful use of nuclear power. In return, Kirchner explicitly praised the project agreed upon by the BRICS group in Fortaleza to set up a new joint development bank, saying: “We salute the decision to build a development bank that addresses commercial and infrastructural aspects, but also focuses on mending a deranged financial world order.”<sup>20</sup>

The President is convinced her economic and foreign policies will lead to a “fairer” financial order. Although Argentina cannot match the financial power and key economic indicators of these countries, she would like to see her country included in the BRICS group. But with her ideological view of the BRICS bank, it seems likely she and others are setting themselves up for disappointment. Günther Maihold of the German Institute for International and Security Affairs comments: “The spectrum ranges from an expectation that the capital markets can be excluded via a cross-border finance system, to a revival of the 1970s fantasies that it could now be possible, with international help, to pursue national development under the banner of protectionism. The BRICS bank will no doubt know how to avoid such aberrations.”<sup>21</sup>

However, Argentina is not only targeting the BRICS Development Bank for ideological reasons. It is also strongly motivated by the possibility of getting fresh loans from the new bank. Argentina has not issued debt abroad since its sovereign default 12 years ago. It has been repaying its debts from currency reserves. After these reserves fell by one third over subsequent years, in early 2014 Argentina

**Argentina has not issued debt abroad since its sovereign default 12 years ago. It has been repaying its debts from currency reserves.**

19 | Natasha Niebieskikwiat, “Argentina es el principal socio estratégico en América latina’ dice Putin”, *Clarín*, 11 Jul 2014, [http://clarin.com/politica/Argentina-principal-estrategico-America-Putin\\_0\\_1172882818.html](http://clarin.com/politica/Argentina-principal-estrategico-America-Putin_0_1172882818.html) (accessed 4 Sep 2014).

20 | Cristina Kirchner quoted in “Cristina Fernández critica ante los BRICS el ‘pillaje’ financiero y niega default en Argentina”, *Información y análisis de América Latina*, 16 Jul 2014, <http://infoLATAM.com/2014/07/16/la-presidenta-argentina-critica-el-pillaje-financiero-de-algunos-paises> (accessed 4 Sep 2014).

21 | Günther Maihold, “Die BRICS-Bank – der Einstieg in eine neue Weltfinanzordnung”, *SWP-Aktuell* 53, Aug 2014, 5 et seq., [http://swp-berlin.org/fileadmin/contents/products/aktuell/2014A53\\_ilm.pdf](http://swp-berlin.org/fileadmin/contents/products/aktuell/2014A53_ilm.pdf) (accessed 4 Sep 2014).

massively devalued the peso, removed state subsidies and in the months that followed made some very surprising moves towards the global financial markets. In May, it struck a deal with the Paris Club, an informal institution comprised of state and public creditors, to repay 9.7 billion U.S. dollars of existing debt within the next five years. And the dispossessed Spanish energy company Repsol was paid five billion U.S. dollars in compensation for the nationalisation of its stakeholding in YPF. This about-face could be the first sign of a change of direction in Argentina's financial and economic policy – and hence of a return to or at least rapprochement with global markets. No official explanation has been given for these actions. But it is conceivable that Axel Kicillof, who took up the post of Minister of the Economy at the end of 2013, has realised the country has to fulfil certain conditions if it is to regain international confidence. But this opportunity seems to have been wasted as a consequence of the recent default.



*Una causa nacional:* The dispute over the U.S. hedge funds, or *fondos buitres* (vulture funds) as they are called in Argentina, is charged with a nationalistic rhetoric. Therefore, "Fatherland or Vultures" became Cristina Kirchner's slogan. | Source: Benjamin Dumas, flickr ©①③②.

In December, the RUFO clause (Right Upon Future Offers)<sup>22</sup> expires which, in the wake of the New York decision in favour of the hedge funds, could lead to a flood of legal claims

22 | Cf. Analia Llorente, "Qué es la cláusula RUFO y cómo afectaría a la Argentina", Cronista.com, 22 Jul 2014, <http://cronista.com/economiapolitica/-20140722-0090.html> (accessed 4 Sep 2014).

from existing debtors. All the Kirchner administration's bluster about the hedge funds seems to have been an attempt to gain a breather. Observers are convinced Argentina will be urgently seeking a solution with the hedge funds after January 2015. 40 per cent inflation, a further deepening of the recession and the threat of massive job losses are causing mounting pressures at home. The nervousness of the government is shown by its recent pronouncement that the highly controversial anti-terror law should be applied against the subsidiary of a U.S. corporation which abruptly filed for bankruptcy, on the grounds that this "is harmful to economic and financial order" and terrorises the public.<sup>23</sup> However, this very public threat could not be justified under the very broad provisions of the anti-terrorism law, so it was withdrawn by the president the very next day. It was aimed at investors who held shares in the company and who also worked with one of the hedge funds with whom Argentina is at loggerheads.

**Observers are convinced Argentina will be urgently seeking a solution with the hedge funds after January 2015. A further deepening of the recession is causing mounting pressures at home.**

Yet even if there is a settlement of this bizarre dispute with the hedge funds, Argentina will still find it difficult to access fresh loans at good rates. Investors, too, are bound to remain sceptical for the time being. Although they know the country's potential, they fear "the teenage attitude that rules are there to be broken", as government policy has recently been described in *The Economist*.<sup>24</sup> At the end of 2015, Kirchner has to stand down from the presidency after serving two terms. This is written in the constitution and the government gave up on plans to change this after the parliamentary elections of 2013. Her successor will face a difficult legacy. Along with problems at home, he or she will have to end the country's isolation from global markets. Economist Fausto Spotorno believes this will be no easy matter: "The problem is that Argentina has not exactly behaved like a reliable borrower over recent years, like someone you can trust. And because this has not happened, there is now, of course, always doubt about

23 | Mariana Verón, "Cristina buscará que se aplique la ley anti-terrorista contra una empresa", *La Nación*, 15 Aug 2014, <http://lanacion.com.ar/1718881> (accessed 4 Sep 2014).

24 | "The Luis Suárez of international finance", *The Economist*, 5 Jul 2014, <http://econ.st/WZE8XW> (accessed 4 Sep 2014).

how much Argentina can be trusted as a borrower today.”<sup>25</sup> It has hardly been a *década ganada*, a winning decade, as the President and her late husband loved to call it. It is now time for Argentina to start winning – above all to start winning back lost confidence.

25 | Fausto Spotorno quoted in Marc Koch, “Argentina, otra vez entre la espada y la pared”, *Deutsche Welle*, <http://dw.de/p/1Ciqn> (accessed 4 Sep 2014).

## JUAN MANUEL SANTOS' SECOND TERM IN OFFICE

### COLOMBIA DIVIDED ON ITS PATH TOWARDS PEACE

*Hubert Gehring / Diana Puentes*

During the elections in June 2014, Colombia confirmed President Juan Manuel Santos in office. In spite of unresolved issues in areas including the healthcare, education and justice systems as well as employment, which all figure in as inventory of his first term in office, the hope for peace acted as a catalyst for Santos' election campaign after a fierce election battle in the run-up to the elections and ultimately secured his re-election. The campaigning caused strong polarisation between the "Peace without impunity" promoted by the political party of former President Uribe and Santos' motto "Peace as engine for development".

No doubt, uniting Colombians in the pursuit of a collective and comprehensive peace plan involving the Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia, FARC) and the Ejército de Liberación Nacional (National Liberation Army, ELN) is one of the major tasks for the coming term. This mission is experiencing some head wind from the revitalised opposition in Congress under the leadership of former President Uribe, which is likely to inhibit progress towards both the ratification and implementation of the agreements on ending the armed conflict and the approval of the reforms Santos failed to implement during his first term. With this new political constellation, the important thing is to realise the chance for a peaceful future and to master the historic structural problems that are considered to be at the root of the armed conflict. Uniting the Colombian people and thereby consolidating a stable and enduring peace appears to be within grasp.



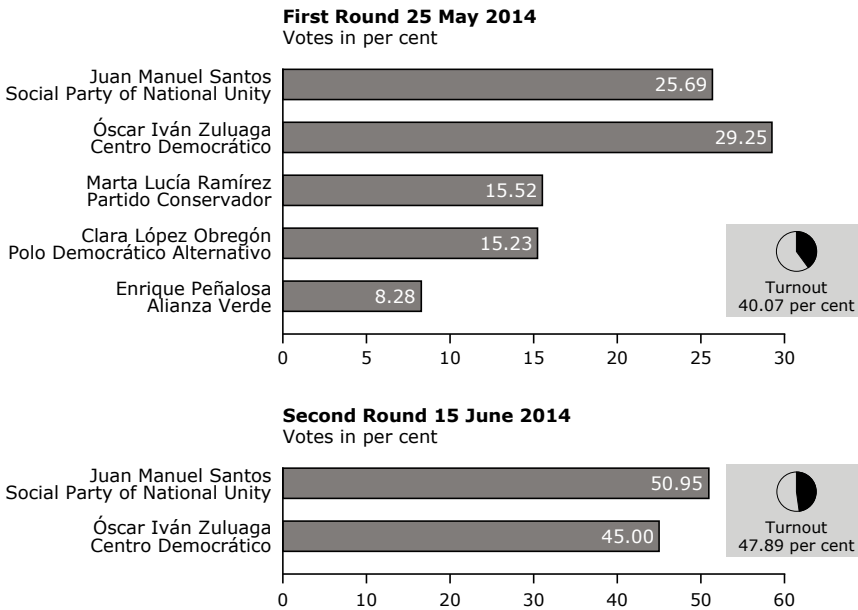
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Diana Puentes is Coordinator for Political Cooperation at the Konrad-Adenauer-Stiftung in Colombia.

Fig. 1

**Colombian Presidential Election Results in 2014**



Sources: Registraduría Nacional del Estado Civil, “Elección de Presidente y Vicepresidente”, [http://www3.registraduria.gov.co/presidente2014/preconteo/1v/99PR1/DPR9999999\\_L1.htm](http://www3.registraduria.gov.co/presidente2014/preconteo/1v/99PR1/DPR9999999_L1.htm) (accessed 9 Sep 2014); “Elección de Presidente y Vicepresidente – Segunda Vuelta”, [http://www3.registraduria.gov.co/presidente2014/preconteo/2v/99PR2/DPR9999999\\_L1.htm](http://www3.registraduria.gov.co/presidente2014/preconteo/2v/99PR2/DPR9999999_L1.htm) (accessed 9 Sep 2014).

**JUAN MANUEL SANTOS’ FIRST TERM IN OFFICE – ACHIEVEMENTS, REFORMS AND PROBLEMS**

**“Locomotive” of Development**

Santos entered his first presidential term with the intention of increasing growth and reducing unemployment. In 2010, he presented a five-point plan to promote strategic economic sectors that were to act as the “engines for development”: infrastructure, the construction of housing, agriculture, mining and energy, and innovation. According to analyses of his first term in office, a great deal of progress was made in the implementation of government projects in some of these areas, while those in others became bogged down. In the area of residential construction, for instance, the majority of the planned projects were implemented,



including 675,000 social housing projects, which have been awarded, but most of which are still under construction. There has also been a high level of activity evident in the mining sector, and oil production was increased to over one million tons a day. Despite these achievements, there are still unresolved issues relating to environmental protection and to the living conditions of the local populations within the oil production and mining areas.

There is also an obvious lack of progress in the implementation of the projects in the areas of agriculture, infrastructure and innovation. To date, only 41 per cent of the rural population own any farming land. Further major investment and increased funding are therefore required to improve land distribution, infrastructure development to boost competitiveness, and technological development in Colombia.



Inaugurated: The people of Colombia have re-elected Juan Manuel Santos as President, here at his inauguration 2010. The most important task of the government is to advance the peace process and to overcome the polarization of the country. | Source: Luis Echeverría, Presidencia, flickr ©①②③.

### **Continuing Income Disparities despite Economic Growth**

Efforts to stimulate economic growth proved successful, which meant that Santos was able to end his first term in the middle of the strongest phase of growth of the last

seven years. In the first quarter of this year, the economy grew by 6.4 per cent, exceeding all expectations. This has put Colombia globally in second place in terms of quarterly growth in 2014, and the country even topped the ranking within South America. This trend is an indication of an energised national production system. The most significant growth sectors were construction and public and private services. Nevertheless, the country has not succeeded in making any major progress with respect to a more equitable income distribution or in the fight against poverty. According to figures from the Colombian office of statistics,

**Colombia is ranked third amongst the countries with the highest level of social inequity in the northern hemisphere. Overcoming this remains a central task for the President's new term.**

the Departamento Administrativo Nacional de Estadísticas (DANE), over 32.2 per cent of the population are classed as poor, i.e. almost 14.7 million people. That indicates that the revenues generated by the economic growth are concentrating on certain parts of the population, exacerbating social inequality in the country. According to the Gini coefficient of the World Bank,<sup>1</sup> Colombia is ranked third amongst the countries with the highest level of social inequity in the northern hemisphere, only exceeded by Honduras and Guatemala. Overcoming social inequality therefore remains a central task for the President's new term.

### **Social Movements – Expression of a Dissatisfied Society**

As regards politics, Santos took up his governmental responsibility with the intention of conducting important reforms and initiating a positive transformation of the country. With the majority backing of Congress, he succeeded in pushing through bills in areas such as the *regalias*, land-use regulation, formalisation of the labour market and support for people starting work as well as compensation for victims and restoration of land. The laws relating to the *regalias* (distribution of revenues from the mining of natural resources to the regions), tax regulations as well as tax sustainability have been seen in a positive light in that they promote the redistribution of resources as well as good economic management.

1 | "Reducir desigualdad social, la otra asignatura pendiente para el presidente de Colombia", Reuters, 17.06.2014, <http://Ita.reuters.com/article/domesticNews/idLTAKBN0ES2S720140617> [09.09.2014].

However, the President met with resistance where other reforms were concerned. Following changes in Congress, Santos withdraw his judicial reform, as it would have granted parliamentarians and high court judges disproportionate privileges. There was also considerable opposition to the “Judicial Framework for Peace”,<sup>2</sup> which was ultimately adopted. Critics complained that former members of armed groups would go unpunished and could potentially participate in political life. This made relations between the President and the legislature difficult during the last two years of his first term. It dampened the government’s reforming zeal with the end result that numerous tasks in other areas such as healthcare, education and justice as well as agricultural and employment policy were shelved.

**There was considerable opposition to the “Judicial Framework for Peace”. Critics complained that former members of armed groups would go unpunished and could potentially participate in political life.**

The lack of progress in these areas led to complaints by the people, who felt that their needs were being neglected. There have been numerous public protests in various parts of the country since 2012. In the first quarter of 2013, demonstrations were held in several agricultural sectors. The complaints were increasingly about the inequitable conditions, which people frequently put down to the implementation of free trade agreements. These isolated demonstrations subsequently increased in intensity and spread to further regions and economic sectors of the country.

Farmers’ revolts, an agricultural strike and protests by numerous students, teaching staff, transport service providers and healthcare staff reflected the general climate of discontent with the policies of the Santos government. All this led to a crisis of representation at the end of 2013, during which a growing interest in political participation on the part of the population became apparent. People resented being excluded from the decision-making process, which is

2 | The “Judicial Framework for Peace” (El Marco Jurídico para la Paz) is a legal provision amending the constitution, which has been used to enact instruments of transitional jurisdiction to end the armed conflict in Colombia. According to this legal framework, punishment should be restricted to the key players involved in violations classed as crimes against humanity, genocide or systematic war crimes, while the middle echelons are to be granted amnesty.

closely linked to the person of the President in Colombia's highly centralist political system with its concentration of power. At the same time, the country's mood was an indication of the fact that Santos had lost touch with the people. Generally, the government responded to the protests with a show of willingness to negotiate, but it kept its distance at all times. In the words of the former liberal President Cesar Gaviria, Santos "takes very little political action and people do not feel close to him". The head of state and his government failed to establish direct channels of communication to better involve the population in political activities and to optimise the representation of interests. Not only did this fuel dissatisfaction within society, it also strengthened the negative impression of the way the government was conducting its business.

### **Light and Shadow in the Peace Process**

Peace in Colombia has been and remains one of Santos' important missions. He confirmed this in an announcement halfway through his first term.<sup>3</sup> The issue remained present throughout the most recent election campaign. In August 2012, after six months of secret negotiations in Cuba, Santos had announced the beginning of peace negotiations intended to lead to the signing of a "General Agreement to End the Conflict and Build Stable and Lasting Peace" with FARC. The definition of the negotiating agenda involved five key points: agricultural development, political participation (by former guerrilla fighters), a solution to drug trafficking, compensation for the victims and demobilisation. The negotiations were held under the motto "Nothing is agreed until everything is agreed". On completion of the negotiating phase and the signing of a final agreement, both the government and FARC are to

**In August 2012, after months of secret negotiations in Cuba, Santos had announced the beginning of peace negotiations and to build a stable and lasting peace with FARC.**

3 | According to a study by the Conflict Analysis Resource Center CERAC and the United Nations, peace could produce economic growth in the region of eight per cent, an increase in per capita income of over 16,700 U.S. dollars as well as the recovery of 800,000 hectares of land. Cf. Centro de Estudios para el Análisis de Conflictos (CERAC), "Violencia Armada y Desarrollo. ¿Qué ganará Colombia con la paz?", <http://cerac.org.co/es/líneas-de-investigación/violencia-armada/¿qué-ganará-colombia-con-la-paz-una-perspectiva-económica.html> (accessed 9 Sep 2014).

begin the fulfilment or implementation of the agreements during the subsequent ratification and implementation phase.

Although a few milestones have been reached during the course of the negotiating process, there have also been problems. The achievements made since the start of negotiations nearly two years ago are of historic proportions and suggest that the prospect of finally halting more than 60 years of civil war is coming within reach. To date, the government and FARC have succeeded in reaching agreement on the first three points: development of the rural areas, political participation by former guerrilla fighters and a solution to drug trafficking. During the presidential election campaign, preliminary talks were held on the recognition of the victims of the conflict, and preparations were made for a potential dialogue with the ELN at the same time. Although the ELN is smaller than FARC in terms of numbers, its reach extends over wide swathes of the country.

For Santos, the peace initiative represents one of the greatest achievements. However, the concluding agreement, which had originally been planned for November 2013, is taking longer than expected. There have not

yet been any talks about demobilisation, for instance, nor have any mechanisms for the ratification of the agreement, in the form of a referendum for example, been determined.

**Santos has failed in preparing the Colombian population mentally for the peace process. Many people are not aware of their significance for the future of the country.**

The President has also shown little skill in preparing the Colombian population mentally for the peace process. Many people do not know anything about the peace negotiations and are not aware of their significance for the future of the country. This is a task the President must tackle as soon as possible as he will need the support of all Colombians if it comes to a referendum and to implementing the agreement.

The negotiating process also has its critics. Not only on the right of the party spectrum (including former President Uribe and certain groups of society), but also among the democratic Left. FARC is also showing signs of a split; there have been several violations of the unilateral ceasefire, which FARC has been observing over the last two

**There are sizeable challenges ahead for peace in Colombia, as the country's structural problems also need attention.**

years, by guerrilla groups that are gaining the greatest financial benefit from the drug trafficking. There are sizeable challenges ahead for peace in Colombia, as it is not just a matter of implementing the agreements. In a potential post-conflict phase, the country's structural problems also need attention, because otherwise, different armed organisations may rekindle the conflict.

### **The 2014 Presidential Elections – a Controversial Election Campaign**

After a turbulent pre-election period with party-internal deliberations over candidate selection, Colombians were presented with five applicants in the early summer of 2014: from the center-right spectrum Marta Lucia Ramírez from the Conservative Party (Partido Conservador), Óscar Iván Zuluaga from the Democratic Center (Centro Democrático), considered a Uribe candidate, Juan Manuel Santos from the Unidad Nacional party alliance (Partido de la U, Cambio Radical and Partido Liberal) as well as Enrique Peñalosa from the Greens. The left party spectrum was represented by Clara López from Polo Democrático Alternativo.

During the first round, the campaign was rocked by a number of scandals, which diverted attention from the election manifestos of the five candidates. According to some analysts, there were genuine "smear campaigns" being waged around the office of president. The most prominent controversies focused on Santos and Zuluaga. On the one hand, media reports revealed that funds originating in drug trafficking had flowed into Juan Manuel Santos' presidential election campaign in 2010. During the last week before the first round of voting, on the other hand, the country was shocked by a scandal involving the candidate of Centro Democrático, who had been found to have close links to a person responsible for the illegal interception of communications of some members of the negotiating teams in Havana and of the President. In this scenario, the election strategies of the affected candidates consisted of attempts to discredit their competitors in order to win over the "disappointed" followers to their side. The press played along with this strategy to some degree, with some of the most important media even siding with one or other candidate

and only few media representatives seriously examining the individual election programs. The same applied to most of the television debates. The candidates preferred to voice accusations against their rivals or to defend themselves against the accusations of others rather than discuss topics that were important to Colombians such as education, health and employment. This proved the point that there is a need for strengthening the mass media in their function to provide information, particularly at a regional level.

There were hardly any differences among the election manifestos regarding the topics of education, health and employment, as they were all limited to rather vague promises of improvements in quality and provision in these areas. Nor were there substantial differences apparent with respect to the justice system; here, the candidates merely mentioned a few key points of the impending legal reforms. Large differences were, however, apparent with respect to the strategies for a peace plan, which is why this probably became the crucial issue in the final phase of the election campaign.

### **The Situation after the First Round and after the Second Round**

Out of the five candidates of the first round, the two making it into the second round were Zuluaga with 29.2 per cent of the votes and Santos with 25.6 per cent, the latter only in second place although he had the entire state infrastructure on his side. The participation of the two female candidates was highlighted as a historic aspect of these elections. Marta Lucía Ramírez achieved 15.5 per cent of the votes and Clara López 15.2 per cent. This especially made the Conservative candidate Ramírez one of the winners of the elections, considering the difficult circumstances of her own campaigning. She could not rely on the full support of the Partido Conservador, as only 18 of 22 Senators from her parliamentary group endorsed her while the rest supported Santos. Undeterred, Ramírez continued her election campaign with limited funds, a strategic advertising campaign and support from the party base.

**The participation of the two female candidates was highlighted as a historic aspect of these elections. Marta Lucía Ramírez achieved 15.5 per cent of the votes and Clara López 15.2 per cent.**



Outlook 2018: In spite of not succeeding in the first round, Marta Lucía Ramírez, candidate of the Partido Conservador, has good prospects for a candidature in the next presidential elections. | Source: Juan Manuel Herrera, Organization of American States (OEA-OAS), flickr ©①②③.

The almost two million votes that Ramírez ultimately won are all the more impressive as she was one of four candidates vying for votes in the center-right spectrum. She won over voters from other sectors of the political center, cultivating the profile of an alternative candidate. Several analysts viewed her achievement as political capital for the next campaign in 2018. It will depend, however, on how the situation within the Conservative Party will develop, because a split as in the current situation would no doubt be detrimental to Ramírez' ambitions.

Another remarkable aspect of the first round was the low turnout of 60 per cent, the lowest for 20 years. This suggests that many voters felt unable to identify with any of the candidates. But maybe the reasons also had to do with a certain political apathy or a general discontent with the achievements of the last few governments.<sup>4</sup> One area

4 | News emerged from some locations on the Atlantic Coast suggesting that people stayed away from the election by way of protest against the water shortage. There were media reports about placards bearing the slogan "Tagango won't vote without water", which inhabitants of the town were holding up next to the ballot boxes. According to the local registration office, the proportion of non-voters in Taganga was 87.5 per cent.



where turnout was particularly low was the Atlantic Coast region, due less to political dissatisfaction than to the fact that the “political machinery” had not yet been in gear during the first round. “Political machinery” is a term used in Colombia to describe voter mobilisation by party representatives or regional leaders, who buy voters’ support through promises of material benefits: positions in the public sector, social benefits, free transport to the polling stations and other amenities. Whether the wheels of the “political machinery” turn or not can influence the outcome of elections and be instrumental to the victory of a particular candidate. The 2014 elections were no exception in this respect.

### **Political Alliances Were Crucial to Santos’ Victory in the Second Round**

Three weeks after the first round, President Santos succeeded in outdoing the Uribe candidate and being confirmed in his post, having attracted the additional votes of over four million people who had not voted for him in the first round. In the second round, Santos won 50.9 per cent of the votes against Zuluaga’s 45 per cent. Voter turnout had increased by seven per cent, which meant that the proportion of non-voters had dropped to 52 per cent. Ultimately, the election alliances proved the decisive factor. The votes from the Caribbean Coast and from Bogotá brought victory to the old and new President. Turnout doubled in the seven Atlantic Coast departments, giving a 20 per cent boost to Santos’ votes, which analysts put down to the “cranking up of the political machinery”. In Bogotá, the outcome hinged mainly on numerous political alliances Santos had entered into with the Polo Democrático candidate and with the movement of the Mayor of Bogotá (Movimiento Progresista) as well as with several groups among the Greens. Analyses showed that Santos was able to attract 900,000 additional votes of the 1.2 million votes cast in Bogotá that had gone to first-round candidates who later dropped out, while Zuluaga mainly gained votes previously cast for Marta Lucía Ramírez, particularly in Bogotá.

**“Political machinery” is a term used to describe voter mobilisation during the elections by party representatives or regional leaders, who buy voters’ support through promises of material benefits.**



Fierce campaign: Although he had scored more votes in the first round, in the end, Óscar Iván Zuluaga, rival candidate from the Centro Democrático, could not win against Santos. | Source: Politécnico Grancolombiano Departamento de Comunicaciones, flickr ©[1](#)[2](#).

After the results had been announced, Zuluaga congratulated Santos on his election victory, acknowledged his own defeat and asserted that he wished to continue his work for the country: "Our movement lost with dignity and integrity. [...] Here, we shall go on fighting the political fight for our country."<sup>5</sup> Marta Lucía Ramírez also acknowledged Santos' victory and insisted on certain conditions during the impending government negotiations: "We shall not give in with respect to our values or our convictions and we shall continue to insist that any negotiation must be conducted under certain conditions. [...] I am convinced that peace depends on a government that operates efficiently, that gives us healthcare, security, jobs, that guarantees us justice and that simultaneously conducts peace negotiations that can achieve genuine peace."<sup>6</sup>

5 | TV address of 15 June 2014.

6 | Ibid.

No doubt the election results represented an endorsement of the peace process promoted by the President by millions of Colombians. However, there is currently a split emerging in the country. It is torn between supporting Santos and his peace plan as the engine for social and economic development or Zuluaga, the Uribist candidate and proponent of peace without impunity for former guerrilla fighters as well as stricter conditions for the negotiations. After all, this stance was supported by close to seven million followers in the elections, who were not convinced by Santos' government of the last four years. There are also many among Santos' supporters, who have a critical view of his first term in office, but who are even more determined to prevent a return of Uribism to power. The question that was probably at the bottom of many people's decision was therefore "Which is the lesser evil?". That should give the re-elected President some food for thought. The success of his second term will depend on whether he will manage to reunite the divided country, hampered by the fact that government action will be made more difficult by the majority situation in Congress, which is less favourable for him now than during his previous term in office.



Having formed political alliances, Santos was able to convince voters especially in the capital Bogotá. | Source: Justin Swan, City Clock, flickr ©①②③.

## GOVERNING A POLARISED COUNTRY

After his victory, Santos conceded that some errors were made during his first term: "We shall make corrections where corrections are needed and we shall make adjustments where adjustments are needed. And we shall conduct reforms where there is a need for reform." The first great challenge in the new constellation at the beginning of the second term is to form a government that is capable of tackling the tasks ahead. In the words of former President Gaviria: "The challenge for the President is a government that does not disappoint the trust placed in us by the Left on the one hand and that maintains a dialogue with the Centro Democrático and Óscar Iván Zuluaga on the other."

This is no easy task, and, unlike the last four years when he could rely on backing from almost 80 per cent of Congress, Santos will now have to contend with a strong opposition in the legislature. For the first time since the 1991 constitution came into force, this is dominated by the Right, more specifically by the Centro Democrático (the Uribist faction has 20 per cent of the senate seats in Congress), several parliamentarians from the Partido Conservador faction, as well as some left-leaning movements, which do support the peace plan, but will oppose other items on the agenda

**The current scenario requires a strategic approach to government formation, which will satisfy the trust that the Left is demonstrating for the time being and simultaneously facilitate dialogue with the Uribist camp.**

as soon as Congress has taken a position on the relevant issues. Santos will also have to involve sections of the left wing for the sake of legitimising his government, as they could otherwise place obstacles in the government's path with their powers of social mobilisation. The current scenario requires a strategic approach to government formation, which will satisfy the trust that the Left is demonstrating for the time being and simultaneously facilitate dialogue with the Uribist camp. As previously mentioned, Santos is beginning his new term in government in a polarised country and will therefore have to go some way to appease the almost seven million Colombians who had voted against the peace process he had advocated, who are concerned about the concessions to FARC and who are complaining about the failed reforms of Santos' first term. The government cannot afford to simply concentrate on the left-leaning center. It must bring on

board the groups of dissatisfied Colombians if it wants to win a referendum on the agreement being hammered out in Havana.

All these factors represent challenges for the government activities of the re-elected head of state. While the successful outcome of the talks in Havana and the implementation of the peace agreement remain among Santos' key concerns, he will have to make substantial efforts to explain to the population what the deal will mean in detail if he wants to have any chance of winning the proposed referendum. In addition to the implementation of the points agreed in Havana, the government's remit also involves the realisation of important and fundamental reforms in the area of infrastructure as well as efforts to improve access to healthcare, education and justice as well as the job market. For these activities, Santos' will not only need to establish alliances with the Left and the Right, he will also need to take steps to ensure that his coalition will be capable of taking effective action beyond handling the conflict resolution.



Low turnout: In the first round on May 25, almost 60 per cent of eligible voters did not go to the polls, the highest figure of the last 20 years. Reasons for this are lack of identification with candidates but also the dissatisfaction with the results of the first term of Santos. | Source: Globovisión, flickr ©©©.

## Outstanding Reforms

There are various outstanding tasks from Santos' first term in office in areas that are most important to Colombians: healthcare, education, employment and jurisdiction. And these involve not only qualitative improvements but also optimised provision and better access to public services and public infrastructure. This is where the true drivers for the country's progress lie. In education, the numerous actors within this sector must be brought round to cooperate on a new reform project, which will do justice to the requirements with respect to both provision and quality. There are major deficits in the Colombian education system. While 90 per cent of children have access to primary and secondary education in the capital Bogotá, there are still deficiencies in the preschool sector (50 per cent) and higher education sector (30 per cent). Furthermore, 80 per cent of the richest people in Colombia have a university qualification, while the proportion among the poorest is a meager 20 per cent. Currently, Colombia has the third worst results worldwide in the OECD PISA test.

After 20 years of pursuing a public healthcare model, the healthcare system is in crisis.<sup>7</sup> Although the government succeeded in passing a legal directive for reforming the fund management and the regulation of basic services, these reform efforts failed during the previous term and require restructuring to facilitate better access to medical services and to provide good quality care. There is also a need for action apparent in the justice system. A recent survey by the Ministry of Justice and Law showed that seven out of ten Colombians think the justice system works very slowly and that four out of ten believe that justice officials are "corrupt".<sup>8</sup> This calls for reform that will ensure better access to the justice system, more efficient court

7 | While there are rules in place in the UK and the USA dictating that qualified nurses working in an intensive care unit are responsible for the direct care of no more than two patients at a time, the ratio is more like one to eight on the intensive care wards of some institutions in cities such as Bogotá, and these nurses are mainly responsible for administrative tasks at that.

8 | Rodrigo Uprimny, Miguel Emilio La Rota, Sebastián Lalinde und Diego Eduardo López, "Encuesta nacional de necesidades jurídicas y acceso a la justicia", 2013, [http://dejusticia.org/files/r2\\_actividades\\_recursos/fi\\_name\\_recurso.619.pdf](http://dejusticia.org/files/r2_actividades_recursos/fi_name_recurso.619.pdf) [09.09.2014].

proceedings and official channels as well as better working conditions for justice officials. As regards employment, there is a need for tackling the formalisation of millions of informal jobs where labour conditions are currently inadequate. In Colombia, over half of all working people are in jobs without social security or labour rights.

Santos will have to tackle all these tasks, which are paramount for guaranteeing basic rights as well as promoting social mobility, whether there will be a “post-conflict” scenario or not. Further areas requiring action, for instance improvement of the country’s infrastructure and election system as well as amelioration of the agricultural crisis, will also need to be prioritised by the President, who is up against a stronger and more broadly based opposition. In view of the potential signing of the peace agreement, the government’s foremost task will be to define and implement the referendum about the agreement, which will require efforts to unite the divided country.

But even if this mission can be accomplished, Santos will still have a long way to go. First of all, he needs to create the appropriate conditions for the guerrilla fighters to lay down their arms, for their reintegration into civil society and for their involvement in the implementation of the agreements. Another challenge is to push the reforms for the implementation of the agreements through Congress so as to initiate badly needed change in Colombia’s rural areas. Important topics in this context include land distribution, political participation by minorities, as well as the inclusion of demobilised fighters into the political process, guarantees for the opposition, but also the compensation of victims of the conflict.

**Santos needs to create the appropriate conditions for the guerrilla fighters to lay down their arms, and for their reintegration into civil society.**

Creating a consensus with respect to the peace plan and for the implementation of the changes, laws and reforms required for the agreement represents a complex task and the key to success at the same time. Santos will have to manage the balancing act of maintaining his extended coalition with the left wing of Congress while employing clever tactics in responding to the expected demands from the Centro Democrático faction.

## **Colombia's International Relations**

One of the most important foreign policy achievements of Santos' first government was the restoration of full diplomatic relations with Ecuador and Venezuela. Relations with the neighbouring countries have improved noticeably, and the country succeeded in adopting a leading role in the most important multilateral and regional bodies. As a result, Colombia chaired the UN Security Council for a period and co-chaired the Union of South American Nations (UNASUR). A further event that marked the repositioning of the country within Latin America was the creation of the Pacific Alliance, whose members include Chile, Peru and Mexico besides Colombia.

The new government is faced with the challenge of further strengthening and consolidating these regional alliances, as they play a key role for the development of Colombian trade and for international cooperation. In connection with the opening-up process that Colombia is currently undergoing with respect to the European Union and the Free Trade Agreement with the USA, there is a need to create the appropriate conditions to protect national production and improve competitiveness. The peace process, for its part, requires support from the international community, because Colombia will need international assistance not only in the collective fight against the drug trade but also to monitor the agreements made in Havana.

## **CONCLUSION AND OUTLOOK**

### **Challenges beyond the Peace Process**

Once the resolution of the conflict has become reality, legislature and executive will have to conduct a number of changes and reforms to put the agreements into practice. Aside from that, Colombia also needs long-term structural change to tackle problems that emerged before Santos came into office and that are at the root of many of the country's current problems.

One of the most significant causes of Colombia's problems is the extent of regional and social exclusion as well as the failure of the state to exert its presence at local and



departmental level. Consequently, structural changes entailing greater decentralisation is one of the central missions of the country's development. Although these measures are prerequisites for a stable and enduring peace, they must be pushed forward, whether the

**The decentralisation is one of the central missions of the country's development. The most pressing task is to change the mechanism for the distribution of power and codetermination between central and local government.**

Havana peace negotiations will bear fruit or not. The most pressing task is to change the mechanism for the distribution of power and codetermination between central and local government. This will require the creation of an effective regulatory framework, which will ensure adequate inclusion of all regions and sectors of society.

A similarly important task for the next four years will be to overcome the economic and social inequalities, which have made Colombia one of the most inequitable countries of the Latin American continent, where corruption is widespread, wealth is concentrated in the hands of a small minority, and large swathes of the population live in poverty. This will determine whether it will be possible to generate social mobility and to offer the population alternative job opportunities to satisfy their basic needs. Mitigating social tensions that stem from poverty and inequality do not only contribute to reducing crime; it is also essential to build confidence in the political system and democratic institutions. According to numerous studies conducted in the region, Colombians have very little faith in political institutions such as Congress, the political parties and local government authorities. The first task resulting from this state of affairs is to promote greater involvement of the citizens, who are currently feeling estranged from the institutions that represent them. In addition, the negative image of politics and democratic participation must be improved in a country that has traditionally suffered from low election turnouts, with the last presidential elections representing a disappointing record.

The challenge now is to unite the Colombians behind a common goal, to urge them to create a consensus and become involved, to fight for a better future, to exert their right to vote and to exercise the power that Colombian democracy affords them. The common goal is peace and its impact on the country's future. The Colombians have put their trust in Santos' slogan of peace as the engine

of economic and social development. It is now up to the re-elected President to focus all his energy on turning this vision into reality while simultaneously fulfilling all further conditions to facilitate the realisation of the mission of a stable and enduring peace.

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