

EU-LATIN AMERICA RELATIONS

Charting a course for the future

REPORT

Summer 2015



Media partner

Europe's World
THE ONLY EUROPE-WIDE POLICY JOURNAL

This report reflects the conference rapporteur's understanding of the views expressed by participants. Moreover, these views are not necessarily those of the organisations that participants represent, nor of Friends of Europe, its Board of Trustees, members or partners.

Reproduction in whole or in part is permitted, provided that full credit is given to Friends of Europe and that any such reproduction, whether in whole or in part, is not sold unless incorporated in other works.

EU-LATIN AMERICA RELATIONS
Charting a course for the future

Summer 2015

INTRODUCTION

Latin America and the European Union have great potential for future cooperation on a range of global challenges, participants told a conference co-organised by Friends of Europe and the Konrad Adenauer Stiftung.

“Latin American countries are now largely dynamic democracies,” said **Christian Leffler**, Managing Director for the Americas at the European External Action Service. **“This has allowed a strengthening of ties.** The stock of EU investment in Brazil is bigger than EU investment in Russia and China together, and there is a long-standing relationship to build on.”

The EU-Latin America Policy Summit was held on 4th June, a week before summit talks between the EU and the 33-member Community of Latin American and Caribbean States (CELAC). Representatives of the two regions want to reinvigorate relations through dialogue on politics and accountable societies, on social inclusion, and on economic and trade relations. The recent rapprochement between the United States and Cuba could also have a positive impact for the CELAC region as a whole, as well as for relations with all its other trade and investment partners.

EU trade with the region has doubled in the past decade, and the EU holds preferential trade agreements with 26 of the 33 CELAC countries, including free trade agreements with Chile, Mexico, Colombia and Peru. The EU is also negotiating a trade agreement with Mercosur, a group of southern countries that includes Argentina, Brazil, Paraguay, Uruguay and Venezuela.

“This is a relationship that goes back a long way; it is varied and it's still quite strong,” said **Shada Islam**, Director of Policy at Friends of Europe. “But I firmly believe – as I do for Asia or Africa – that it needs to come into a new world and become more reflective of the changes taking place in both Europe and in Latin America. **There is a new geopolitical narrative** and not just because Cuba and the US have come to terms with each other, but also **because China has become a very influential investor and economic player.**”

TRADE AND INVESTMENTS

China appears to be challenging European influence in the region, as it is becoming the destination for an increasing share of Latin American exports, especially primary products and crude oil. “Although China’s share of total FDI (foreign direct investment) in the region remains marginal, the question of the impact of Chinese-Latin American trade structures on the economies and societies of the region seems to have wider implications for the relationship with the EU,” said **Sabina Wölkner**, Head of the Multinational Development Policy Dialogue at the Konrad Adenauer Stiftung. China could also affect negotiations between the EU and US for the Transatlantic Trade and Investment Partnership (TTIP), as this could impact the access of Latin American products to the European market, she added.

Leffler said that EU-Latin American relations can be unexciting because they are generally good. “Good health and good progress is not great news, and there aren't any really urgent, pressing crisis issues that we need to deal with,” he said. **“There is a very broad and solid basis that we build on, a basis of common history, of common experiences, of strong economic ties, and of social and societal ties. There is therefore almost a tendency to take each other for granted.”**

Many large European corporations have had production bases in Latin America since the 1950s and '60s, which they currently use to supply their units in other parts of the world. Europe is the

biggest investor in the region, with a stock of investment worth more than half a trillion euros – its biggest outside North America. EU investment in Brazil is bigger than EU investment in Russia and China together. “The best way to transfer technology is to keep governments out of it and let companies get on with it,” Leffler said. “When you get co-production or productive investments using technology, you get sustainable transfers because there is no subsidy involved.”

So Europeans should not be too concerned about growing Chinese economic influence, he said. If Chinese trade and investment boost Latin American economies, that will generate more Latin American demand, which will help Europe, he said. Moreover, Chinese and European trade have different structures: European exports to Latin America tend to be more complex products than Chinese exports, and European imports are more diversified, going beyond raw materials.

There is plenty of variation in the influences on Latin America, said **Oswaldo Biato Jr.**, Director of the Europe Department at Brazil’s Ministry of Foreign Affairs. “In Mexico and Central America there is a very big American influence,” he said. “But as you go down, especially to the Southern countries – Brazil, Argentina, Chile – the presence of Europe is very strong. That has been true for many years, and I believe it will continue to be true.”

TRANSATLANTIC BUSINESS COOPERATION

There’s concern that the South Atlantic relationship is overly dominated by big corporations, said **Giles Merritt**, Secretary General at Friends of Europe. That’s a contrast to the North Atlantic, where there is plenty of exchange between small technology companies in Europe and the US **“Has the political diplomatic structure of EU-CELAC begun to bear fruit where it really matters – in terms of companies getting together?”** he asked.

While some Spanish and Portuguese countries have half of their sales in Brazil, these are big companies, added Biato. But there’s potential for that to change. **“We now want to make it easier for smaller and medium European enterprises to be active in Brazil,”** he said. “I think **we have incredible synergy, we have a huge market in Brazil.** We have many different states, and provincial governments are growing very strongly in areas such as agriculture. They want to add value to their agricultural goods, and there’s ample space for small and medium European enterprises to be present there.”

One way to do this is to revitalise trade agreements, in particular the stalled Mercosur deal. Ten years ago, many Brazilian businessmen did not want free trade deals with Europe, because they feared that Brazilian industry could not cope with the increased competition. “These perceptions have changed very much,” he said. **“Today, it’s not the government pushing the businessmen. It’s the businessmen pushing the government to forge these agreements.”**

In contrast to Latin America’s links with China and some other big trading partners, its connections with Europe go beyond business. Brazil has set up a “Science Without Borders” programme to encourage science and maths students to study overseas. More than half of these students go to Europe, and almost none to China, Russia and India. “In this area, the relationship is still very strong,” Biato said. “It’s a very varied relationship – much more varied than the one we have with China.”

Latin American partners have access to the EU research framework programmes, and they are becoming increasingly enthusiastic participants. “This brings together research centres and researchers from both sides,” Leffler said. “It is extremely promising for taking the relationship further.”

Europe's model for student exchange is now serving as a model. **"Latin America has taken inspiration from the European Erasmus model to set up mobility in the continent and beyond,"** said MEP **Teresa Jiménez Becerril-Barrio**, Chair of the European Parliament Delegation to the EU-Mexico Joint Parliamentary Committee, and member of the Delegation to the Euro-Latin American Parliamentary Assembly. "Nowadays there are students, teachers and lecturers enjoying mobility across the Atlantic." There is no community budget to fund these exchanges, but Banco Santander has agreed to fund exchanges for 40,000 academics and students over five years, she said. **"It increases the quality of the learning and teaching experience of students and academics."**

ECONOMIC AND SOCIAL REFORM

The success of relations between the EU and Latin America ultimately depends on healthy economies. Most of Latin America has grown well over the past couple of decades, said **Juan Luis Bour**, Director and Chief Economist at the Fundación de Investigaciones Económicas Latinoamericanas in Argentina. This was partly thanks to better domestic policies, but was also thanks to good external conditions, including high commodity prices and the high global growth that started in the 1990s.

But, he said, the standard of economic management has varied a lot. Some countries remained prudent during the commodities boom, but others raised public spending, which resulted in a deterioration of public accounts. When growth slowed after the 2008 financial crisis, countries such as Mexico seized the opportunity to reintroduce overdue reforms. Others, in particular the Pacific countries, increased connectivity with the world, or used the low interest rates to improve infrastructure, as Panama did. "But other countries did nothing more than pray for the best luck and ask for support from China," said Bour. "Those countries are now facing a second shock."

The lesson of the last decade is that the accumulation of capital and labour is not enough to sustain growth. Rises in productivity are also needed, and these have been low, Bour said. **"All countries need to carry out second and third generation reforms,"** he said – meaning structural reforms that go beyond macroeconomic stability.

The EU can help this effort by interacting more closely with the region through trade, foreign direct investment and preferential trade agreements. "I think that the first level for this rapprochement is that **the EU and Mercosur should demonstrate their dedication to conclude ongoing negotiations in a regional format,**" Bour said. "This is vital not only for relations between the EU and Latin America but also to reinvigorate Mercosur." He also suggested that the EU consider the opening of TTIP negotiations to Latin America, and that individual countries in the two regions should deepen relations.

However, most Latin American exports to Europe are still primary products such as soya beans, oil, minerals and coffee – so in fact they do not differ that much from the exports to China, said **Mario Cimoli**, Chief of the Production, Productivity and Management Division at the UN Economic Commission for Latin America and the Caribbean (ECLAC) **"The trade is not of the quality that Latin America needs at this moment,"** he said. **"To sustain the new middle class that is coming, we need diversification."**

One problem is low spending on research and development, which only amounts to around half a percent of gross domestic product. **"There was an enormous effort in social policy,"** he said.

“But in terms of the innovation and productivity needed for a new generation of entrepreneurs, this is very poor.”

A cause of this is the Washington Consensus – policies of macroeconomic stability, market forces and openness to trade and investment – that has dominated economic thinking in the region for the past few decades. Under this, industrial policy was largely dismantled.

But even Europe is now speaking again about industrial policy, because Europe has not created the giant enterprises of the internet age. “They have understood that **an industrial policy is important to sustain a middle class,**” he said. “I think there is a common point here in Latin America and Europe: **Don't put the logic of agreements only in terms of trade. Make agreements in ways that we can benefit in terms of technology and the creation of new firms.**”

Growing economies have already reduced poverty in Latin America. About 130 million people are covered by programmes to boost their income to above the poverty line, said Becerril-Barrio. These have helped Latin American countries and the Caribbean achieve the UN Millennium Development Goal of combating extreme poverty. Sixty million people, or 28% of the population of Latin America and the Caribbean, live under the poverty line – but this is down from 40% a few years ago, she said. As poverty has gone down, economic performance has improved, which in return lowers tax-inequality. As a result, the wealth redistribution mechanism is working better.

“This boosts social spending through the increase of tax flows, and it boosts the private sector,” said Becerril-Barrio. **“Small and medium sized companies are finally having a chance to grow. Entrepreneurial spirit is slow but rising.”**

However, most Latin Americans are still vulnerable, and a slowdown in the global economy could pull people back into poverty. “If Latin America can't maintain economic growth, the quality of living in the region will be affected,” said Becerril-Barrio. “Children and students could face the risk that education was just an illusion. And we all know that poverty and education go hand in hand.”

Longer term, many Latin Americans are attracted to the European-style social market economy. But Latin America still faces a number of challenges before it can attempt its own versions of this model.

The first condition for a social market economy is a stable macro-economy, said Bour. Beyond that, competitive markets are needed. **“Competition is part of the second and third generation reforms that we need in the region,”** he said. “Of course, some countries are much more advanced in these areas than others. But these are economic conditions for the region to regain sustainable growth and sustainable social policies.”

Therefore, a lot of work remains for some Latin American countries before they can become social market economies. **“How far are we from the preconditions of having a successful economy?”** he asked. **“In Argentina, 45% of the economy is informal. When you have gone this far, you have a long way to get back to normality – to make the economy work and to have sustained growth over time.”**

Another economic challenge is productivity. An educated, aspirational middle class is key to a dynamic economy, said [Olaf Jacob](#), Acting Director of the Latin America Department at Konrad Adenauer Stiftung. **“We have in Latin America a new middle class of entrepreneurs and pragmatic business people and individuals,”** he said. “They have different ways of seeing the world from 20 or 30 years ago.”

Job-producing growth has been attracting more attention recently. It features in the Sustainable Development Goals (SDGs) that will replace the Millennium Development Goals for the post-2015 development agenda, said **Nicola Harrington**, Deputy Director of the OECD Development Centre.

“The core challenge of growth that generates jobs – because it is productive and inclusive – is really a shared challenge of our day,” she said. “I am very struck that in the sustainable development goals, the issues of inclusive employment and productive transformation have got much more visible traction. I think that is based very much on the understanding that without good jobs, it will be very hard to achieve many of the other objectives.”

However, education systems are still not producing the workers needed by industry. Latin American companies are 13 times more likely than those in the Asia-Pacific region to cite the lack of qualified labour as a major constraint to the growth of their business, said Harrington. “**The jobs are there, as is the potential for the growth of those jobs,**” she said. “**But the skill sets do not always match that need.** And this is coming from a region that has invested enormously in the last few years in terms of education – that can see really impressive progress in terms of enrolment and participation. But quite clearly **there is still a skills mismatch that needs to be tackled in the short term with very intensive and very targeted training.**”

Boosting pre-schools would be one way to remedy this, because that’s the period when people tend to learn the skills needed in a knowledge economy. “Being able to negotiate and cooperate in the playground helps people when they get into the workforce,” she said.

HUMAN RIGHTS, CLIMATE AND SECURITY

Human rights are still an issue between the EU and some parts of Latin America. Spanish MEP **António López-Istúriz White**, who is Secretary General of the European People’s Party, said that, despite recent changes in Cuba, it has a long way to go before it becomes a democracy. “Please do not forget that we are still speaking about a dictatorship,” he said. “They are persecuting politicians and civilians there in Cuba.”

Cuba is a one-party republic, but **Norma Goicochea**, Cuba’s Ambassador to Belgium, Luxembourg and the European Union, said that it is democratic, with 90% of the population voting. “The way Spain has to approach Cuba has to take into account that we are able to decide our future and the kind of government that we want,” she said. “Yes, we are not perfect, but there is no perfection in society.”

But overall, human rights are less of a barrier to relations than in the past, and the EU and Latin America are now looking for areas where they can cooperate on specific global problems.

To combat climate change, the EU agreed last year to a 40% reduction in greenhouse gas emissions by 2030. In May, Mexico became the first big emerging economy to announce its intended nationally determined contribution (INDC) ahead of the UN climate talks scheduled for Paris later this year.

Mexico emits only 1.4% of the world’s greenhouse gases, said **Roberto Dondisch Glowinski**, Director General for Global Issues at Mexico’s Ministry of Foreign Affairs and Mexico’s lead negotiator to the UN climate talks. But the economy is growing, so probably emissions will too – though they unlikely to reach the levels of Europe and the US “It was a difficult thing to do, as we are an oil-producing country. But **we announced a decoupling between growth and emissions by 2026 and full decarbonisation by 2060,**” said Roberto Dondisch Glowinski, Director General for

global issues at the Mexican Ministry of Foreign Affairs. **“There is no bigger threat than climate change, but it is one of those things that happens bit by bit.** So you might not want to realise it because the medicine you need is quite harsh.”

Peter Wehrheim, Head of Unit for Climate Finance and Deforestation in the European Commission's Directorate-General for Climate Action, praised Mexico's contribution to the UN Conference of the Parties (COP) talks on climate change. In 2009, COP 15 in Copenhagen ended without a binding agreement on reducing greenhouse gas emissions. But in 2010, Mexico hosted COP 16, which agreed to set up a Green Climate Fund to assist poorer countries in financing emission reductions and adaptation. “Mexico made a very important contribution to international negotiations,” said Wehrheim. **“Mexico did a very good job in bringing together the international actors – industrialised countries, post-industrialised countries, developing countries.** It put them into an inclusive process, which has ensured progress.”

Sustainable development is making broader progress in Latin America, Wehrheim said. Brazil has reduced deforestation rates, including imposing a moratorium on soya bean farms to help reduce the conversion of forests into agricultural land. There have also been renewable energy initiatives – in particular the promotion of solar, wind and hydro power in Chile. “And at the same time, countries like Brazil and Mexico are graduating,” he said. **“Income is growing, and the question indeed is, how can that growth and development process be made sustainable?”**

The EU and CELAC together make up a third of the population of the United Nations, so if they work together on such topics, they can have a big impact, said **Peteris Ustubs**, Senior expert at the Cabinet of the High Representative of the EU, Federica Mogherini. “The agenda that we are talking about is basically a UN agenda,” he said. “Therefore, **if one third of the United Nations can agree on something, there will be enormous pressure and enormous energy behind it.**”

Security is still a problem in much of Latin America, said **Daniel Luz i Alvarez**, Citizen Security Advisor in the United Nations Development Programme's (UNDP) Regional Centre for Latin America and the Caribbean in Panama. This includes gender-based violence, corruption, problems of governance and human rights violations. One reason the problems persist is the lack or weakness of security and justice institutions, which means that homicides often go unpunished. “This produces a limitation of the exercise of human rights caused by fear,” said Alvarez. “The impact is very, very heavy.”

He called for a more sophisticated approach, including anti-money laundering programmes, witness protection mechanisms in order to give prosecutors a better chance of generating the evidence needed to incarcerate criminals, and the rehabilitation of former inmates.

For example, 30% of Colombia's territory is not controlled by the state, meaning that the people living there do not benefit from the rule of law. “They are not full citizens,” said Alvarez. **“One of the challenges that we have to address is how the democratic institutions provide these services, with a high standard of quality, to the entire population.”**

The Colombian government has been making some progress in peace negotiations with the country's largest and oldest guerrilla group, the Revolutionary Armed Forces of Colombia (FARC). The talks began in 2012, and there is now an opportunity for a political settlement, said **Eduardo Fidel Pastrana Buelvas**, Director of the International Relations Department at Pontifical Xavierian University in Colombia. **“Both the government and rebels know that the time for a settlement is now or possibly never and that Colombia deserves to finally have peace,”** he said. “Colombia is in a positive trend of political reforms and economic and social progress.”

The objective is to transform Colombia from a “problem state” that needs international support into a useful international partner. The country's foreign policy agenda has shifted from security, drug trafficking and terrorism to mainstream social and economic themes. President Juan Manuel Santos has been positioning Colombia as a secondary regional power that can play a bridge role. “For instance, Colombia is trying to overcome the geopolitical split between North and South America, making the effort to bring together various regional integration projects,” Buelvas said.

That could be important as the EU shows signs of increasing bilateralism in its relations with the region, illustrated by its various strategic associations and free trade agreements. “Historically, the approach of the EU in its relations with Latin American and the Caribbean (LAC) responds mainly to its preference for inter-regionalism and regional dialogues,” he said. “However, **it doesn't make any sense for the EU to continue to treat LAC as one single actor.**”

DRUGS AND POLICING

Another opportunity for EU cooperation with Latin America is in the old scourge of drugs. Latin America is known as a production region for cocaine and other narcotics. The region is also home to traffickers. More recently, the countries have become consumers of drugs: Brazil is one of the world's biggest users of cocaine, said **Ernesto Cortés**, Executive Director of the Costa Rican Association for the Study and Intervention in Drugs (ACEID).

“This has occurred during a period where Latin America is being compliant and carrying out all the strategies in the war on drugs, which mainly comes from United States,” said Cortés. “The problem is not diminishing, it is getting bigger. **There is more trafficking and it's spreading to every other place. Now, it's not only Colombia producing cocaine, you can see it in Bolivia, you can see it in Peru.** Five or more years ago, you didn't see the amount of violence you see right now.”

As a result, countries in the region are asking whether the existing anti-drug strategies are effective, Cortés said. These have focused on how to stop drugs going from south to north, which involves putting people in jail and using military tactics. “What these countries are saying is: ‘We have internal issues’. We have problems in our countries that are really affecting us and we have been carrying out these strategies for the last 30 years and it's not changing our problems. It's even getting worse.”

Latin American countries are suffering most of the costs of the war on drugs, he said – economic costs, human costs and even environmental costs. “The **people most affected by these policies and this illegal market are the most vulnerable population,**” he said: drug users, farmers and low-level drug dealers. “**Most of the people in jail in Latin America are not big drug dealers or big cartels;** they are the small ones, the ones who are dealing in the streets, the ones who are transporting heroin in their bellies, the ones that are using.”

Instead, anti-drug efforts should focus on aspects such as reducing violence, and Europe could help by passing on some of the methods that have worked there, Cortés said. While Europe is one of the world's biggest drug consumers, violence rates are low, so Latin America could learn from European police forces about community policing and prevention. Also important are governance and anti-corruption measures, to make sure the police are not in the pay of drugs cartels. Healthcare related policies could also provide lessons.

“There are harm reduction policies that have been going on in Switzerland and the Netherlands for the last 20 or 30 years, that are not even discussed in Latin America,” Cortés said. “We should focus more on how to work with these low-level drug traffickers and these development issues in a way that really changes how the drug problem is affecting our countries.”

Meanwhile, drug cartels are diversifying, in particular into illegal mining, said Alvarez. This is more profitable and less violent, and makes for easier money laundering opportunities. “This is increasing,” he said. “It has terrible environmental consequences.”

Access the [event page](#) and find more information on Friends of Europe's website and social media

