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Europe and Latin America: in need of a new paradigm

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» The relationship between Latin America and the European Union (EU) needs a new paradigm, with tools and strategies to tackle current and future challenges. European-Latin American relations are no longer what they once were. With China's rise, the EU begins to lose relevance for the region at a time when Southern Europe begins to share some of Latin America's problems. The two regions are at opposite ends of the spectrum: Europe's relative decline coincides with the ascent not only of Brazil and Mexico, but also of middle powers such as Colombia and Peru. Yet, in both regions there is a growing trend towards greater internal fragmentation. Latin America's relative rise and Europe's gradual decline are changing the cooperation paradigm. This calls for a fresh look at the relationship:

- First, Europe is less of a priority for Latin America. Although the EU remains its main investor, the Asia-Pacific region has become the main trading area for Brazil, Chile, Colombia and Peru. Meanwhile, Central America and the Caribbean have increased their interdependence with the US.

- Second, giving advice is no longer a one-way street. Based on their own experience, Brazil and other Latin American countries are participating in the debate on how to resolve Europe's debt crisis and openly criticise the austerity measures driven by Germany.

- Third, the Ibero-American Summit, held in November 2012 in Cádiz (Spain), marked the end of an era. This time it was not Latin America that called for solidarity, but rather Portugal and Spain which requested support from their Ibero-American partners. Madrid can no longer finance 70 per cent of the Ibero-American Community budget, as it had done to date; the Community's future now depends on other countries making a greater commitment.

- Fourth, the trend towards a North-South divide is visible in both Europe and Latin America. In the EU's case, this could cause a deepening gulf between the countries belonging to the core of the Eurozone in northern Europe and those in dire financial straits in the south. In Latin America, the divide is between a more autonomous

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South America (Mercosur/Unasur) headed by Brazil and a North America (Central America, Mexico and the Caribbean) which is interdependent with the US.

- Fifth, the relative decline of (southern) Europe and the rise of (southern) Latin America will not only change the balance of power but also create shared problems, which are familiar to Latin America but new to some European countries. These include poverty and inequality, populism and, in the worst case scenario, citizen insecurity.

These trends will affect European-Latin American relations, which are set to diversify through the creation of alliances among individual countries and multi-level initiatives. The current logic of relations, based on the North-South paradigm, inter-regionalism and the European experience, reflects the world of the 1990s rather than the new international context.

In the future, differences could grow further between the more and the less advanced economies in each region. In Europe, this division will primarily challenge Spain's leading role in European-Latin American relations and in the Ibero-American Community. A lesser role for Spain could lead to a decline in European-Latin American cooperation or encourage a leading role for other countries such as Germany and Brazil, which are emerging as regional powers.

1. The changing face of Latin America and Europe

1.1. Two fragmented players

It is clear that neither Latin America nor the EU is a unitary player. While Latin American fragmentation is nothing new, the growing North-South divide within the EU stemming from the economic and financial crisis certainly is. Another substantial change, compared to previous eras, is the regional leadership of Germany and Brazil. Strengthened by their relative economic stability and size, Brazil and Germany are consolidating their leading position in Latin America and the EU, respectively.

The EU has a double divide, one between southern Europe and the group of 'virtuous' countries led by Germany (Austria, Denmark, Finland, the Netherlands and Sweden); and another between the 17 Eurogroup members and the rest. The financial crisis, the accumulation of public debt and vastly different risk premiums accentuate the differences between the rich north and the impoverished south of Europe.[1] Meanwhile,

1. J. C. Espada, 'European Disintegration? The Sources of Extremism', *Journal of Democracy* 23:4, October 2012, pp. 15-23.

the *sui generis* case of the UK is most significant. Its threats to hold a referendum which could lead to its exit from the EU[2] may lead to even greater discord and risk of fragmentation within the Union.

Although such varied geometry and different speeds are not new, this political conjuncture within the EU is different given the level of disagreement about the way ahead in the midst of the most severe economic crisis since the start of European integration. Germany's prevalence in the handling of the crisis shows that preferences in Berlin are driving the EU agenda.[3] The crisis has brought to the fore a structural problem with the EU, as ten years of common currency have not reduced the asymmetries between the stronger economies (Germany, the Netherlands, Finland) and those less solid (Greece, Italy, Portugal and Spain). The Eurogroup's continual improvisation and the German government's cautious attitude, as it prepares for the next general elections in September 2013, do not herald a rapid solution but rather a 'lost decade' for southern European countries. Regardless of the outcome, the crisis will leave economic, political and social after-effects which will impact both the EU's internal cohesion and its international projection as a normative power.

The most likely outcome will not only feature an EU *à la carte*, which is already a reality, but also a 'smaller' EU – with the more sceptical countries, including the UK – alongside a 'deeper' EU, with a common currency and economic policy. The 2011 Stability Treaty, which was not signed by all member states, is the first sign of the growing internal division between the more and the less integrationist countries, pointing towards an EU of treaties *à la carte*. Another risk is that of a German European Union, with the EU's most powerful country as the sole guarantor of a stable euro created in the image and likeness of the deutschmark.[4] This prospect would create more cracks within the EU and confirm the weakening of its supranational structure in the face of new national priorities.

Trends in Latin America are contradictory. On the one hand, there are clear dividing lines. The most significant is that between a group of new (Brazil) and emerging (Colombia, Peru) powers and a group of countries with high levels of political and economic instability (Argentina, Venezuela) or which suffer from poverty and/or insecurity (Bolivia, Central America). On the other hand, the Community of Latin American and Caribbean States (CELAC) was set up in 2011 as a regional coordination body with a view to becoming an international organisation and future competitor to the Organisation of American States (OAS). The latter has been weakened by the lack of a common hemispheric project, as also happened to the Free Trade Area of the Americas (FTAA) initiative. Nonetheless, considering the lengthy trajectory of Latin American integration, the success of CELAC – which held its first summit with the EU in January 2013 – is not guaranteed, especially since it lacks a seat and a founding treaty.

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2. C. Grant, 'How Britain could leave the EU', Center for European Reform, *Issue* 87, 2012/2013; 'Goodbye Europe', *The Economist*, 8 December 2012, pp. 8-9.
3. V. Vike-Freiberga and A. Vitorino, 'A German Europe?', *Project Syndicate*, 3 April 2012.
4. U. Guérot and S. Dullien, 'Why Berlin is fixed on a German solution to the Euro-crisis', *The Guardian*, 2 March 2012.

Given the failure of other past regional initiatives – the Latin American Free Trade Association (LAFTA) and the Latin American Integration Association (LAIA) –, the creation of a single Latin American and Caribbean body depends on many factors. These include an understanding between rivals Brazil and Mexico on the basis for the gradual institutionalisation and consolidation of CELAC. The inter-party consensual – Pact for Mexico –, which President Enrique Peña Nieto achieved in December 2012, also includes a new regional commitment which could, in turn, imply a greater rapprochement to Brazil.

Apart from CELAC, other new integration initiatives include the Pacific Alliance which Chile, Colombia, Peru and Mexico set up in 2011 to advance trade integration (and coordinate their policies towards Asia-Pacific). This is a positive step since it reconfirms the commitment to a greater level of intra-regional and international trade (the four countries have free trade agreements – FTAs – with the US and the EU, while Chile and Peru also have FTAs with China). Yet it also introduces more divisions by fragmenting the Unasur project dominated by Brazil and Venezuela, the latter of which also leads the Bolivarian Alliance for the Americas (ALBA).

Mercosur is expanding its membership: it now includes Venezuela, Bolivia will join soon and so will Ecuador in the future. However, its economic integration agenda remains paralysed by differences between Argentina and Brazil. These tensions will increase with Venezuela's membership. The country's internal political situation following President Chavez' serious illness casts doubts on the future of Chavism, which has also often opposed market integration projects. These intra-bloc uncertainties also have a negative impact on Mercosur-EU negotiations, which are unlikely to conclude successfully.[5] The creation of an *ad-hoc* bilateral committee for investments during the sixth Brazil-EU Summit held in January 2013 in Brasilia suggests that both partners could proceed bilaterally.

Brazil has assumed clear leadership in the region and does not have an immediate rival which could replace its regional commitment. In economic terms, Brazil is a global power which is consolidating its position in Latin America, especially in the south of the continent, while Mexico remains the sub-power in Central America and the Caribbean. Both Mercosur and Unasur form part of the Brazilian project to create a bloc in the south of the continent. Its aims are not only political but also economic, since Brazilian investment is concentrated in South America.

All this contributes to further uncertainties regarding Latin America's internal and external profile. The confusing scenario of integration and regional cooperation once again reveals a low level of institutional commitment, the focus on national sovereignty and the existing asymmetries between countries. The different aims and changing members of different bodies suggest flexibility but undermine the credibility of Latin American integration. Since the beginning, it has lacked a solid institutional

5. S. Gratius, 'How to Renew the European "Brand" in Latin America' in G. Grevi and D. Keohane (eds) *Challenges for European Foreign Policy in 2013: Renewing the EU's Role in the World*, FRIDE, Madrid, 2013, pp. 95-103.

basis and the prospect of fulfilling its promises.[6] In this sense, it will continue to offer a 'light multi-level regionalism'.[7]

1.2. The external face of the EU and Latin America

Outside its borders, the EU is recognised for its economic strength and its status as the largest donor of official development assistance (ODA). It continues to be the world's main economic bloc, accounting in 2011 for 23 per cent of global nominal GDP, 15.5 per cent of total trade in goods and 23 per cent of services. However, considering the EU's recession (-0.3 per cent in 2012) and that it accounts for only 7 per cent of the world's population, its leading position is more heavily disputed than five years ago. China is already the world's second economy after the US and the leading exporter, on a par with the US and the EU.

The EU's external economic relations are increasingly concentrated in Asia. In 2011, 40 per cent of EU imports came from Asia. The same year, the EU's extra-regional trade focused almost equally on the US (13.8 per cent of the total) and China (13.3 per cent), followed by Russia. Among the emerging economies, Turkey was its sixth trading partner, India its eighth and Brazil its ninth. Mexico, the EU's other strategic Latin American partner, only came twentieth.

Latin America represents around 6 per cent of the EU's extra-regional trade according to 2011 figures, with a much lower volume than Africa. According to *Eurostat*, due to the crisis the EU's large trade deficit since 2002 with 17 Latin American countries was substantially reduced, as the EU imported less from the region. After contracting the previous year, EU exports to Latin America grew again by 36 per cent in 2010.

The EU remains the world's main source of foreign direct investment (FDI), accounting for a third of the total, and the first in Latin America.[8] However, between 2008 and 2009, FDI from the EU fell by 24 per cent, affecting also Brazil and Mexico, the main recipients of European FDI in Latin America. Since 2008, the region has received around 15 per cent of annual European investment flows and represented 9 per cent of the EU's stock. Brazil is the third destination of European FDI, after the US and Switzerland. Spain is the only European country that concentrates its foreign investment in Latin America: Spanish companies account for around half of European FDI in the region, which represented 30 per cent of Spain's total investment stock between 2006 and 2011. Lagging a long way behind is FDI from Italy (15 per cent of European FDI), France (16 per cent), Britain (12 per cent) and Germany (7 per cent), for the same period.

The recession has also affected European development cooperation. Spain concentrates its ODA in Latin America and was its main donor in 2008. Although the EU as a whole has only recorded a modest reduction in ODA since 2008, the cuts in Spain

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6. A. Serbín, 'De despertares y anarquías: de la concertación regional, *Foreign Affairs Latinoamérica* 10:3, Mexico D.F., 2010, pp. 6-11.
7. A. Malamud, 'Sovereignty is back, integration out, Latin America travails with regionalism', in Joaquín Roy (Ed.), *The State of the Union(s), the Eurozone crisis, Comparative Regional Integration and the EU Model* , University of Miami, 2012, pp. 177-191.
8. OECD, *FDI in Figures*, Paris, October 2012.

have been dramatic: the country spent 0.43 per cent of GDP on ODA in 2010, but after slashing half of its budget between 2011 and 2012, the percentage has decreased to 0.29 per cent, with few prospects of an increase. Other European countries such as Italy and France have also reduced their ODA to the region.[9] In addition, given its status as a middle-income area, Latin America will also be affected by the redirection of European ODA towards poorer countries.

This trend is due to Latin America's greater global weight, albeit with clear divisions between countries and sub-regions. In general, in 2011 the region accounted for 9 per cent of the world's population, 8.1 per cent of global GDP and 6 per cent of global trade. Compared to the past, its social situation has improved: poverty levels decreased from 44 per cent in 2002 to 30.4 per cent in 2011. This same positive trend can be seen in lower levels of social inequality measured by the Gini coefficient, and less inequitable income distribution.[10]

The region is more integrated into the global economy and has gradually diversified its external economic relations. Apart from the traditional Atlantic axis of close relations (including summits) with the US and the EU, Latin America has opened up towards Asia and the Pacific. Clear signs of this are the Pacific Alliance, the membership of Chile, Mexico and Peru to the Asia-Pacific Economic Cooperation (APEC) forum, and the project to sign a trans-regional free trade agreement. Latin America's external economic relations are split along a clear North-South divide between a northern pole (Mexico, Central America) closely linked to the US and a southern pole which is increasingly dependent on Asia. The EU remains the main commercial partner of Mercosur only and it has increased its exports to Mexico, which is less dependent on China. Nonetheless, in general the US and the EU have lost ground in the region's purchases.

Trends in Latin American imports, as a percentage of the total (2000-2010)

Latam	Asia-Pacific		US		EU	
	2000	2010	2000	2010	2000	2010
Argentina	13.9	21.4	18.9	10.7	23.5	17.2
Brazil	13.6	31.7	23.3	14.9	26	21.5
Chile	16.3	32.3	19.7	16.7	17.4	13.2
Colombia	11.8	18.6	33.2	25.8	16.7	13.8
Mexico	9.7	32.5	71.2	48.2	8.4	10.8
Peru	16.1	32.1	23.4	19.4	14.1	10.6
Venezuela	8.6	13.3	37.8	25	19.4	17.1
Latam	2	14	49	32	14.2	13.7

Source: ECLAC, Latin America and the Caribbean in the World Economy 2010-2011. Santiago de Chile, 2011, p. 68.

9. OECD, *Development aid at a Glance: Statistics by Region*, 3. America, Paris, 2012 Edition.
10. Economic Commission for Latin America and the Caribbean (ECLAC), 'European Union and Latin America and the Caribbean: Investments for growth, social inclusion and environmental sustainability', Santiago de Chile, January 2013.

Trends in Latin American exports, as a percentage of the total (2000-2010)

Latam	Asia-Pacific		US		EU	
	2000	2010	2000	2010	2000	2010
Argentina	9.4	18.2	12	5.2	18	16.6
Brazil	10.3	28.2	24.3	9.6	28	21.4
Chile	26.1	49.7	16.5	9.9	25.5	17.2
Colombia	2.6	8.6	50.4	42.5	13.9	12.5
Mexico	1.4	4	88.2	80.1	3.5	4
Peru	16.9	26.5	28	16.3	22	17.8
Venezuela	1.9	16.4	59.6	49.5	5.8	10
Latam	1	8	58	40	11.6	12.9

Source: ECLAC, Latin America and the Caribbean in the World Economy 2010-2011. Santiago de Chile, 2011.

China is already Brazil's main market and became in 2010 its first investor (in terms of flows) and the second trading partner of Argentina, Chile and Peru.[11] In terms of the region as a whole, China accounted for 9 per cent of its total trade in 2011, equivalent to half of Latin America's with Asia. China has already signed FTAs with Chile, Costa Rica and Peru. Other countries such as Japan, India (which signed a preferential agreement with Mercosur), Korea or Malaysia (which signed a free trade agreement with Chile) also have a greater economic presence in Latin America, which has diversified its partners.

The US remains the main trading partner for the Caribbean and Central American countries, most notably Mexico, which develops 90 per cent of its trade in goods with North America. Although the US remains the number one, between 2001 and 2011 its share in Latin American trade clearly declined (from 58 per cent to 39 per cent), while China has become the third supplier and market for the region as a whole. Latin America's top ten trade partners also include, in this order, Japan, Germany, Canada, South Korea, the Netherlands, Spain and Italy.

The EU represents 13 per cent of the region's total trade, the same percentage as Latin American trade with Asia. It is important to note that in the last five years, 12 Latin American countries replaced the EU with China as their main exports market.[12] The downwards trend continues: in 2012, ECLAC calculated a 5 per cent drop in Latin American exports to the EU.[13] This means that China will replace Europe as Latin America's second trading partner. With around 20 per cent, Europe is Mercosur's main supplier and market. Nonetheless, stagnation in negotiations over an association agreement and the diversion of trade towards China, which in turn has offered to liberalise trade, herald a decline in the coming years.

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11. ECLAC, 'China and Latin America and the Caribbean. Building a strategic economic and trade relationship', Santiago de Chile, 2012.
12. ECLAC, 'Latin America and the Caribbean and the European Union: Striving for a renewed partnership', Santiago de Chile, 2011.
13. ECLAC, 'Latin America and the Caribbean in the World Economy 2010-2011', op.cit., 2012.

This same downwards trend can be seen in foreign investment, where the EU was in the lead in 2011, representing 40.6 per cent of total foreign capital. European FDI is concentrated primarily in Brazil, which receives half of the flows destined to Latin America. In 2010, China became the main source of new FDI in Brazil and the second in other South American countries. For the region as a whole, 9 per cent of FDI comes from China, which was the third investor in 2010 after the US and the Netherlands. Yet Latin America is not only a recipient but also an increasingly important source of FDI. According to ECLAC, 15 per cent of FDI from Brazilian companies is directed to Europe, specifically the Netherlands, Portugal and France. In 2010, with an overall volume of $80 billion of investment stock, Brazil thus seems to have emerged as the fifth largest direct investor in the EU.[14]

In terms of development, Latin America is a middle-income region which, thanks to economic growth and more effective social policies, has managed to substantially lower its poverty levels. Nowadays, the region is both an aid recipient and a source of development assistance. As noted above, the EU continues to be its main donor, although European aid flows are decreasing. At the same time, China has increased its commitment in this sphere.[15] Unlike traditional donors, Chinese funds are centred on infrastructure and other economic sectors, benefitting above all countries such as Brazil, Argentina and Venezuela, with which China has a close commercial relationship.

On the other hand, Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru and Venezuela are most active in South-South cooperation. While some (Brazil, Colombia, Mexico) are new donors (Colombia and Mexico are also OECD members), others participate in technical cooperation and exchanges among developing countries. Therefore, aid conditionality (the democratic clause) is no longer a valid instrument in a region which is shifting towards Asia-Pacific and relies more and more on transferring its own development experiences than on importing those of others.

However, South America's economic repositioning towards China is not risk-free. The region's exports towards the US and the EU are much more diversified than those to China and less concentrated on natural resources and products of little added-value. Therefore, a return to primary commodities poses a serious threat, since it could reproduce the past cycle of high external vulnerabilities and low levels of industrial production, innovation and technology. There are also political risks, including China's low regard of democracy and human rights, which for example has adverse consequences for Chinese companies' labour rights and prevents the construction of a more fluid political dialogue.

The EU's and Latin America's internal and external profiles have changed substantially, resulting in less mutual attention. This relative neglect, China's economic rise and the partners' different economic patterns are reflected in a reduction in trade flows, investment and development cooperation. Yet, it has also led to a more horizontal relationship which opens up new opportunities to tackle common problems.

14. Council of the European Union, *VI Brazil-EU Summit. Joint Statement*, Brasilia, 24 January 2013.

15. See T. Lum, 'China's Foreign Aid Activities in Africa, Latin America and Southeast Asia', *CRS Report for Congress*, Congressional Research Service, Washington DC, 2009.

2. Shared problems

For many decades, Latin America has been an unstable region, suffering from constant political, economic and social crises, the last of which was the Argentina's financial collapse in 2001. Although some countries continue reproducing the vicious circle between external debt, austerity programmes, social decline, lawlessness or populism, others have escaped this dynamic thanks to more distributive economic policies and greater democratic consolidation. This positive evolution contrasts with the recent bleak period in the south of Europe. While differences are to be acknowledged, given the very different starting points, some European countries are following a dynamic similar to those in Latin America's past.

2.1. Lessons from Latin American financial crises

In Latin America, repeated financial crises have led to conservative fiscal policies and a 'dull' and almost risk-free banking sector, according to Ibero-American Secretary General Enrique Iglesias.[16] This situation contrasts with the European banking sector, which was deeply affected by the 2008 crisis.

Alike Latin America in the 1980s, EU states nationalised a large part of their banking debt. Notwithstanding the differences between the 17 Eurogroup countries and Latin America, even in Germany, the country least affected by the crisis and which barely pays interest on its public debt, the latter stands at 85 per cent of GDP, the same level as that of Mexico during the 1982 debt crisis. Today, Latin America's external public debt is less than half that of Europe's.

Public debt in relation to GDP in Latin America and Europe

Countries	Debt/GDP (%)
Latin America (2011)	
Argentina	40
Brazil	54.2
Colombia	41.2
Chile	16.5
Mexico	35.5
Peru	19.2
Latam	**38.7**

Countries	Debt/GDP (%)
European Union (2012)	
Germany	85
Belgium	105
Spain	80
France	90
Greece	150.3
Italy	126.1
Portugal	117.5
EU	**90**

Sources: ECLAC/OECD, Latin American Economic Outlook 2013. Santiago de Chile, 2012;
Eurostat news release Euro-indicators, October 2012.

16. Joaquín Almunia and Enrique Iglesias, 'Visión de la crisis a los dos lados del Atlántico', *Política Exterior* (March-April), Madrid, 2012, pp. 90-102, p. 92.

Latin America has extensive experience in financial crises. The proposals which have been circulating in the Eurozone to rescue Greece resemble those implemented in Latin America in the 1980s, when the US created the Baker Plan and later the Brady Plan including significant public debt reductions. These experiences provide three lessons for the current Eurozone crisis:[17]

1) Nationalising private debt mortgages the state for a long period and weakens it, negatively affecting the welfare model – one of the EU's emblems. Austerity and the consequent reduction of the state – which occurred in Latin America via the IMF's adjustment programmes and the Washington consensus – are not a magic formula to resolve the debt crisis. Rather, spending cuts provoke recessions with serious political consequences, which in the Latin American case included political crises, populist leaderships and citizen insecurity.

2) It takes decades to remedy the high costs of economic adjustments that destroy jobs and increase inequality. Thirty years after the debt crisis and in spite of more distributive policies, Latin America remains the most inequitable region in the world with unacceptable poverty levels and deficient education and health systems.

3) Delaying decisions is not a solution. During the 1982 debt crisis, which affected Mexico in particular, Washington took eight years to adopt the Brady Plan, exacerbating the economic crisis throughout the region.

Under German leadership, the Eurozone seems to be replicating some of the same mistakes: prescribing austerity and cuts, nationalising debt and delaying important decisions. For the past five years Germany has thus prevented the adoption of more convincing measures such as Eurobonds, which remain a taboo in the German debate. If the Eurozone follows Latin America's path, the most affected countries could pay similar costs: poverty, inequality and, under a worst case scenario, even citizen insecurity.

2.2. Latin-Americanisation of southern Europe?

While Latin America started a positive growth cycle which facilitated the reduction of poverty and inequality, southern Europe has entered a vicious circle: the debt crisis is undoing social progress and increasing poverty and inequality levels. In the medium term, these countries could face the problems which previously affected Latin America. There are already some signs of this.

In Spain, in only three years, relative poverty (less than 60 per cent of the average income) increased by more than two percentage points, from 19.5 per cent in 2007 to 21.8 per cent in 2010. At the same time, inequality, measured by the Gini

17. S. Gratius and J.A. Sanahuja, 'Enseñanzas latinoamericanas a la crisis del Euro', *Política Exterior* (January-February), Madrid, 2013 (forthcoming), pp. 144-154.

coefficient, rose from 31.2 to 33.9.[18] As a result, Spain – together with Bulgaria and Romania – has the highest poverty level and the highest unemployment rate of the EU. The future looks unlikely to reverse this negative trend: a recent study forecasts a poverty index of 40 per cent in 2022[19] in a scenario of protracted recession or weak economic growth.

With poverty levels in the range of 18-20 per cent, Greece, Italy and Portugal also evidence social decline caused by severe adjustment programmes, which have provoked a continual income reduction and a recession which has now lasted over five years. The situation in these countries reveals the social costs of an incomplete monetary union, without a banking or fiscal union, among asymmetric economies with very different structures. But the trend towards inequality is not only limited to the countries most affected by the crisis: in Germany too, the most economically stable country in the EU and one of the few that keeps growing, the middle class has shrunk, increasing the disparity between rich and poor.[20]

As some Latin American countries have shown, social decline can unleash political crises which encourage the rise of populism. Although the situations are different, the successive governments of Silvio Berlusconi and the rise of the Five Star Movement (*Movimento 5 Stelle,* M5S) led by Beppe Grillo in Italy, or the electoral success of Marie Le Pen in France, the True Finns party in Finland or the extreme right-wing party Chrys Avgi in Greece, suggest that Europe is not immune to this phenomenon that gains momentum in difficult times.[21] Thus, the repeated political crises and the experience of the government of Mario Monti in Italy show that the crisis has decreased the quality of democracy in some EU countries.

Eurobarometer surveys confirm the decreasing credibility of democratic institutions at the national and, to a lesser degree, EU level. The lowest rated are national governments and parliaments: only 24 per cent of Europeans trust their governments, 27 per cent their national parliaments and 34 per cent EU institutions.[22] In Latin America the results are better: according to the 2011 Latinobarometer, 40 per cent of survey respondents trust their governments and 32 per cent their national parliaments.

Although there are still some differences,[23] part of Europe is starting to share some of Latin America's problems. A first indicator is GDP per capita in 2012: at $22,991, Portugal, for example, is closer to Argentina ($18,205) than to Germany ($38,696). Since the differences in development levels between some European and Latin American countries will continue shrinking, in the long term this will also re-balance relations, thereby changing the scenarios for inter-regional cooperation. ›››

18. *Barómetro Social de España*, Colectivo Ioé, April, 2012 (www.barometrosocial.es).
19. Intermón Oxfam, 'Crisis, desigualdad y pobreza: aprendizajes desde el mundo en desarrollo antes los recortes sociales en España', *Report* 32, Madrid, 2012.
20. Bertelsmann Stiftung (Eds.), *Mittelschicht unter Druck,* Gütersloh, 2012.
21. J. Birdwell and M. Morris, 'Europe's new populist leaders', *Open Democracy*, 7 November 2011.
22. European Commission, *Eurobarometer 76: Public Opinion in the EU*, Standard Eurobarometer, Brussels, December, 2011, p. 19.
23. According to ECLAC figures, in per capita terms, the differences between the EU ($31,600 in 2011) and Latin America ($11,863) are enormous.

3. Prospects and scenarios: North-South divisions

If previsions are correct, the centre of power will move from West to East.[24] In the 'Asian century', not only Latin America but also the EU will become more peripheral and/or form part of one of the larger Atlantic and Pacific spaces that could emerge in the future. However, the outlook is less favourable for Europe and more promising for Latin America.

3.1. A bleaker future for Europe?

Europe's future is in question. Both the report of the Reflection Group on the Future of Europe and the Global Europe 2050 study foresee a reduction in the EU's wealth and role in the world. According to the former document, without greater integration Europe will be marginalised and will become the Western peninsula of Asia.[25] The Global Europe 2050 report[26] confirms the trend towards Europe's relative decline in terms of its economic and military capacity and demographics. Other forecasts suggest that in 2050 not a single European country will feature among the world's ten most important economies, though two Latin American countries will, Brazil and Mexico.[27] In 2025 the EU is expected to account for 17 per cent of global GDP, 5 per cent less than at present.[28] Moreover, given its limited natural resources, Europe will compete against others in the global energy market where demand is going up. Total energy needs are expected to grow by 50 per cent by 2050.

Europe's future depends mainly on two factors: immigration and regional integration. Although current unemployment levels (an average of 16.4 per cent in the EU) suggest the contrary, attracting more qualified immigrants would allow for greater innovation and creativity, a more sustainable welfare state and the reversal of the trend towards the steady ageing and decrease of the population. Without immigration, in 2050 Spain will be the country with the highest percentage of people over 65 years of age in the EU. Currently, the opposite is happening: internal immigration from southern to northern Europe, a brain drain in favour of other regions and greater restrictions on immigration.

Integration is the main factor that will decide Europe's future. Despite the crisis there are reasons for optimism. The long history of integration shows that crises have always ended up providing new momentum to further the European project. This time too, there are signals pointing in this direction. First, faced with the scenario of European

24. National Intelligence Council, *Global Trends 2025: A Transformed World*, Washington DC, 2008, p. 12.
25. *Project Europe 2030: Challenges and Opportunities. A report to the European Council by the Reflection Group on the Future of the EU 2030*, Brussels, May, 2010.
26. European Commission, *Global Europe 2050*, Brussels, 2011.
27. Knight Franklin, Citi Bank, *World Wealth Report 2012: A Global Perspective on Prime Property and Wealth* (www.thewealthreport.net).
28. The Conference Board, *Global Economic Outlook 2013*, New York, 2012 (www.conference-board.data/globaloutlook.cfm).

relative decline, there is a wide consensus that only a united EU can maintain a significant quota of economic and political power. Returning to a fragmented Europe of nation states is not a viable prospect even for Germany, which benefits the most from the current Eurozone crisis since it attracts foreign investment, enabling it to pay very low interest rates on its external debt. Given the huge levels of interdependence among member states, the costs of failing to integrate would be very high.

3.2. The way ahead for the EU

European politics are in a state of flux and the future of the EU is a hotly debated issue. A possible option would be the evolution from a 'German Europe' to a more integrated EU. In the last few years, Germany has played a leading role in managing the crisis and the political weight of supranational institutions has been reduced. But this may prove to be a temporary phase of crisis management. Stabilising the Eurozone in the medium to long-term will require greater integration under the supervision of supranational institutions and substantial net transfers from north to south. Paradoxically, a 'German Europe' could result in a more integrated Europe with more competitive economies following painful structural reforms.[29]

European disintegration[30] would possibly follow the failure to address the crisis through 'more Europe'. A break-up seems a real threat following Angela Merkel's warning that 'if the euro fails, the EU fails' and David Cameron's announcement that he will call a referendum on the UK's membership of the EU in 2017. Levels of indebtedness, slow decision-making processes and the lack of consensus on the path to renewed growth could lead some countries to exit the Eurozone. However, given the existing levels of interdependence, a retreat from the integration project is unlikely since it would not benefit any European country.

A more realistic outcome is an EU featuring bigger divisions between north and south. The crisis has highlighted not only the economic asymmetries among the 17 Eurozone countries but also their political differences. The austerity prescribed by the German government reveals fears deeply rooted in the country's history, such as of hyperinflation and economic instability, but it also owes to an economic model based on exports – which represent 45 per cent of German GDP – instead of on consumption. In contrast, the French government and the group of southern countries call for growth policies and measures to stimulate internal consumption to overcome the recession. If North-South divergences continue, it will be difficult to build consensus on the implementation of the banking union and a greater transfer of sovereignty to supranational institutions.

The elections taking place in Germany in September 2013 may prove an important turning point and open up more political space to work out a shared agenda and complement austerity with growth oriented-policies. Under any of the three scenarios briefly sketched out here, however, the crisis in Europe will be long-lasting and growth rates will be lower than in previous decades and also than those of Latin America. ›››

29. F. Bergstein, 'Por qué el euro sobrevivirá', *Política Exterior* 150, Madrid, p. 110-122.
30. See I. Krastev, 'European Disintegration: A Fraying Union', *Journal of Democracy* 23:4, 2012, pp. 23-30.

GDP growth in Latin America and the EU (%)

Countries	2011	2012	2013	2014	2017
Argentina	8.8	2.5	3	3,8	4
Brazil	2.7	1.4	3,9	4.1	4,1
Colombia	5.9	4.2	4,4	4,4	4,5
Chile	5,9	4.9	4.4	4,6	4,6
Mexico	3.9	3.1	3.2	3.3	3,5
Peru	6.9	6	5,7	6	6
Venezuela	4,1	5,7	3,2	3,3	2,5
LA	**4.3**	**3.1**	**3.8**	**2.9**	**4.0**
Germany	3	0.9	0.8	1.3	1,2
France	1,7	0.1	0.3	1.1	1,8
Greece	-6,9	-6	-4	0	3,5
Italy	0,4	-2.3	-0,7	0,5	1,4
Portugal	-1,6	-3	-1	1,1	1,7
Spain	0,4	-1,5	-1.3	1	1,7
EU		**0.2**	**0.1**	**0.3**	**1.7**

Sources: OECD Economic Outlook, Paris 2012; ECLAC/OCDE, Latin American Economic Outlook, Santiago de Chile 2012; Conference Board, Global Economic Outlook 2013, New York 2012; IMF, World Economic Outlook, Washington DC, October, 2013.

3.3. More light than shadow in Latin America

Latin America has a brighter economic outlook. Although in 2012 the average economic growth (3.1 per cent) was more modest than the previous year (4.3 per cent), the positive economic cycle started five years ago continues. In the coming five years the region will keep growing, with Chile, Colombia, Mexico and Peru set to record the fastest rates. Controlled inflation (5.5 per cent on average in the region in 2012) and the substantial increase in international reserves, half of which are held by Brazil, also demonstrate macroeconomic stability.

But the region's development also brought about heavy dependence on raw materials exports linked to Chinese demand, and an attendant deindustrialisation and limited progress in technological and scientific development, in part compensated for by a growing demand for European investment in infrastructure.[31] These factors, together with higher salaries and the appreciation of the Brazilian real, have contributed to slower economic growth in Brazil from 2012.

Economic growth and new social policies have reduced poverty and inequality, although levels remain high. However, there are clear differences within the region. With a poverty index of less than 20 per cent, Chile, Costa Rica and Uruguay are the most advanced countries. President Dilma Rousseff announced that Brazil will meet the millennium goal of reducing poverty by half by 2015. On the other hand, poverty levels in countries such as Honduras, Nicaragua, Bolivia and Paraguay remain above 50 per cent.

31. See, for example, Ecuador's PROMETEO mobility programmes and Brazil's 'Science without Borders', created to attract foreign skilled labour.

Another positive effect of economic development is the expansion of the middle class[32] which, according to World Bank data, grew by 40 per cent in the last decade.[33] The region's infrastructure deficit, which – according to ECLAC – requires investments worth around 8 per cent of annual GDP until 2020 to reach the same levels as Asia,[34] offers new FDI opportunities for external actors.

Latin America's future will not be homogenous. While some countries like Brazil (fifth) or Mexico (eighth) could feature among the world's top ten economies by 2020, others like Honduras will be among the less developed or, in the case of Guatemala, classified as fragile states. Within the region, one group of countries is advancing (Brazil, Chile, Colombia, Mexico, Peru); another is developing more slowly (Central America except for Costa Rica, Bolivia); a third group is more unstable in economic and political terms (Argentina, Ecuador, Nicaragua, Venezuela); and a fourth comprises fragile states (Guatemala, Honduras, Haiti).

High levels of violence and populism contribute to these differences. If the current trend continues, violence which has reached record figures in El Salvador, Honduras, Guatemala and Venezuela, and affects a large part of Mexico, will continue affecting governability and undermining economic growth. Populist leaders are governing Argentina, Bolivia, Ecuador, Nicaragua and Venezuela.

Owing to its natural resources, Latin America – and above all South America – is and will continue to be an important source of energy exports. With the largest reserves of oil and gas in the world, Venezuela will continue to be a key country in the region. Brazil possesses a third of the world's freshwater reserves, 12 per cent of the land suitable for cultivation globally, and 21 per cent of tropical forests. Similarly, following the latest findings in Brazil, the region is estimated to account for 20 per cent of global oil reserves[35] and it represents 48 per cent of the world's soya production. Brazil is also rich in minerals, accounting for 65 per cent of global reserves of lithium, copper, tin, iron and 44 per cent of silver and nickel, among others. Argentina, Bolivia, Chile, Mexico and Peru also have important natural resources sought after by China, the US and the EU.

In population terms, some countries are witnessing a demographic 'Europeanisation'. Just as in the EU, but less steeply, the demographic curve in Latin America slopes downwards. The widening of the middle class and higher living standards are starting to reduce birth rates. This trend, together with greater life expectancy, means that some countries such as Cuba face the challenge of an ageing population and concomitant problems similar to those in Europe. The United Nations' projections anticipate a decline in demographic growth and calculate that by 2025 the number of people over the age of 65 in the region will triple. The current average

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32. A. Bárcenas and N. Serra (eds), *Clases medias y desarrollo en América Latina*, ECLAC, CIDOB, SEGIB, Barcelona 2010.
33. The World Bank defines middle class as the part of the Latin American population with a daily income of $10-15.
34. In Asia, it was primarily the state which invested in infrastructure, while in Latin America the public sector only invested 0.7 per cent in infrastructure between 2007 and 2008. Latin American Development Bank (CAF), 'La infraestructura en el desarrollo integral de América Latina', Caracas, 2011.
35. América Economía, 'América Latina, un protagonista en el mercado de petróleo mundial', 2 September 2011 (www.americaeconomía.com).

age of Latin Americans is 26 years but in 2050 it will be 40 years. As a result, the Latin American population will be older than that of the US (35)[36] but younger than that of Europe (52).

3.4. Scenarios for Latin America

A united Latin America. Current fragmentation and the poor coordination of regional organisations such as CELAC do not support this option. However, ongoing efforts to create a more autonomous Latin American space could bear fruit in the case of a) greater leadership by Brazil and b) a consensus between Brazil and Mexico regarding the organisation of the Latin American space which requires, in the medium term, an institutional structure and a treaty if it is to last. This medium- and long-term scenario would confirm the growing decline of the OAS which, according to some experts, has lost relevance as an institutional core for the continent.[37]

North-South divide. The current North-South divide supports the scenario of a South America under the leadership of Brazil and closer to Asia-Pacific, and a North America under US hegemony. Factors pointing in this direction include South American ongoing integration through Mercosur at the sub-regional level and Unasur as an umbrella for infrastructure projects and political concertation. Both projects have been promoted by Brazil, which also concentrates its investment and infrastructure projects in this sub-region. Similarly, figures confirm that Asia-Pacific – in detriment to the US and, to a lesser extent, the EU – will become a fundamental partner of South America, including Brazil. Meanwhile, Mexico, Central America and the Caribbean maintain close links with the US and weaker relations with Asia-Pacific. However, this trend contrasts with the recent creation of the Pacific Alliance which integrates Mexico with three South American countries supposedly under the influence of Brazil. Likewise, the lack of a proper institutional structure for Unasur and the stagnation of Mercosur, as well as the economic dependence of some South American countries (Colombia, Ecuador, Venezuela) on the US pose obstacles which contradict this scenario and may lead to fragmentation.

A continental bloc. This is the least probable scenario, since the US has lost political and economic weight following the failure of the Free Trade Area of the Americas (FTAA) project in 2005 and given the growth of a more independent South America looking towards Asia. Cooperation between Latin America and the US and the configuration of a new Atlantic space, possibly including the EU, seemed more likely in the 1990s than they do now. However, the fact that the US and the EU are revisiting the idea of negotiating a free trade agreement would also change the position of Latin America, which has signed numerous agreements with both partners. This will make the Atlantic option more attractive for Latin America and might prove a strong driving force for closer triangular relations between the EU and the Americas.

36. R. Roett, 'The Changing Face of Latin America', *Saisphere 2011-2012*, Johns Hopkins University, Washington DC, 2012.
37. P. Hakim, 'The OAS in Trouble, Again', *Latin Pulse*, 30 November 2012.

4. The future of relations: a taboo-free *à la carte* menu

» In both regions there is a growing trend towards greater internal fragmentation which will be reproduced at the inter-regional level. The profound changes in Latin America and the EU will create a different cooperation paradigm. The new context requires breaking with past thinking and embracing a new vision for relations that reflects the present and future of each region.

Cooperation *à la carte* instead of inter-regionalism. European-Latin American relations still have an inter-regional focus, which is ever less valid. It makes little sense to keep treating the region as a whole, approving regional programmes to benefit countries as different as Honduras and Brazil. At the political level, it is not feasible either to build a European-Latin American alliance, which has not materialised in the terms proposed during the first bi-regional summit in 1999 due to the lack of common interests, asymmetries and the fragility of the so-called community of values. Given the new realities in the south and north of both Europe and America, bilateralisation, cooperation *à la carte* and the emergence of trans-regional spaces like the Atlantic and Asia-Pacific, which include countries from different regions, are the options that will replace the old inter-regionalism formula.

Not 'one size fits all' but three speeds. Consolidating a three-speed cooperation looks very likely: horizontal, special relations with the strategic partners (Brazil and Mexico) including free trade; a privileged dialogue with the middle powers (Argentina, Colombia, Chile, Peru, 'post-Chávez' Venezuela); and traditional north-south inter-regional cooperation with small economies and/or less developed countries (Bolivia, Central America). Cooperation instruments should be adapted to each group instead of the current 'one size fits all' policy.

Two-way development cooperation. Looking to the future, it makes little sense to expect middle- and high-income countries in Latin America to maintain a significant position in European ODA flows. Albeit under the umbrella of 'South-South cooperation', Brazil and other Latin American powers belong to the group of new donors. Triangular cooperation between the EU and the new Latin American powers in third countries both within and outside the region will become the future formula for cooperation. In the future, Brazil could also be an important investor in European countries.

A special Germany-Brazil axis. In their respective regions, Germany and Brazil are economic and increasingly political leaders. Despite their differences, they are expected to consolidate mutual links. This would also change the panorama of European-Latin American relations by adding a bilateral partnership for the first time. The group led by Germany could establish closer relations with Brazil, Germany's main ally in Latin America and the region's most important global

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player. In this regard, at the inter-regional summit in January 2013 in Santiago de Chile, Chancellor Angela Merkel stated that she would speak to Brazil to speed up negotiations on an EU-Mercosur free trade agreement.[38]

A Latin-Americanised Ibero-American Community. The weight of Spain and, to a lesser extent, Portugal in European politics and the Ibero-American Community are set to decline. The latter requires greater commitment from Mexico and Brazil if it is to avoid becoming irrelevant. This calls for a complete overhaul of the Community's focus, which to date has been heavily centred on Spain's interests and financial generosity. This exercise would also include a closer look at the usefulness of a community whose objectives and results have not been at all clear.

Bilateral relations. Bilateralisation is currently increasing through strategic associations and/or free trade agreements that the EU has signed with Brazil and Mexico, Chile, Colombia and Peru. This trend can also be seen in special partnerships between some EU member states (Germany, Spain, Italy, France) and individual Latin American countries. Bilateralism will intensify compared to inter-regional schemes which will be maintained for dealing with smaller countries (Caricom minus Cuba and the Central American Integration System, SICA).

The EU's added value versus China and the US. The orientation of both the EU and Latin America towards Asia-Pacific changes the traditional Atlantic space in which their relations were devised. From Latin America's perspective, the EU is no longer just an alternative to the US but also to China, which is a competitor to the EU in the Latin American market – for example, in relation to FTA negotiations with Mercosur. The EU will continue to be an important investor with a long tradition and prestige in the region. Since it shares values, traditions and interests with Latin America without hegemonic aspirations, the EU is also an important political partner for the region and a counterweight to other external partners.

These trends will lead to a multi-level network of variable geometries and expose the limits of regional integration in Latin America and also in Europe, despite progress in the latter being much more advanced. Given the internal divisions in both regions, the inter-regional format will lose relevance and relations will fragment further, while also opening new opportunities for cooperation.

In the future, similarities between both regions will grow, calling for a mutual learning process to create a new dynamic and a different model of cooperation. This involves replacing outdated formats with an *à la carte* menu offering bilateral, mini-lateral and inter-regional cooperation, depending on the issues in question, the international weight of the respective partners and common interests.

38. *Clarín*, Buenos Aires, 27 January 2013.

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