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THE POLITICAL ECONOMY OF EU-LAC RELATIONS AFTER THE 2008 CRISIS

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Study on the Political Economy of EU-LAC Relations After the 2008 Crisis

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EXECUTIVE

The global economic crisis of 2008 has had a significant impact on political and economic relations between the European Union (EU) and Latin America and Caribbean (LAC), even if some elements of this impact were invisible at first sight or had only an indirect or preliminary character.

In order to comprehend the overall impact of the crisis, in this study we analyse changes in EU-LAC relations from a triple perspective: by looking at configurations of interests and identities as well as patterns of behaviour. Methodological aspects of this approach are explained in Chapter 1. The next three chapters correspond, along general lines, to the three above-mentioned perspectives. In Chapter 2, we analyse changing economic interests in the EU and LAC and their influence on the relationship between the two regions. A special case study is dedicated to EU-Mercosur relations. In Chapter 3, we examine the importance of socio-economic "megatrends" in both regions for the configuration of global identities inside the EU and LAC. We also summarize the most recent institutional developments in EU-LAC political relations. In Chapter 4, we analyse the case of EU-LAC relations inside the G20 in order to investigate changing patterns of behaviour between representatives of the two regions in this organisation. The Chapter 5 is dedicated to conclusions, possible scenarios and policy recommendations.

We conclude, first of all, that the global economic crisis of 2008 has had a significant influence on the economic dynamics, and a related configuration of interests, on both sides of the Atlantic. It modified growth convergence trends in both regions. It affected the dynamics of trade flows between the EU and LAC, by making the EU a slightly less important trade partner for LAC. The dynamics of Foreign Direct Investment (FDI) between the EU and LAC also changed, with a significant increase in LAC's relative importance within the EU's overall outward investment flows and also a slight increase in the EU's importance within LAC's outward FDI flows. Besides, the 2008 crisis contributed to the dynamism of global trade and investment initiatives, involving countries from LAC and EU, like especially the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP). Last but not least, the crisis has drawn attention

SUMMARY

to the phenomenon of the rise of LAC's middle class which may convert the region into a much more attractive market for European exporters and investors.

While the 2008 crisis has contributed to changes in the configuration of EU-LAC's interests, significant elements of this relationship have remained unchanged. Most of all, despite the crisis, trade compatibility has remained high for the EU-LAC relations. At the same time, however, trade exchange between both regions has been kept at a relatively modest level. This is all the more surprising given that the EU-LAC formal trade connections remain strong, with 22 out of all 33 CELAC members having signed Preferential Trade Agreements with the EU. In this sense, EU LAC trade links continue to constitute an unexploited potential for this relationship. It remains to be seen whether the modification of interests in the EU and LAC after 2008 will prove to be sufficiently strong in order to finally unblock the EU-LAC trade dynamics.

Secondly, despite the above-mentioned changes in the configuration of interests in the EU and LAC, it is still too early to conclude whether they have contributed to a meaningful reconfiguration of global identities in any of these regions. The rising economic and political presence of China in Latin America has had an ambiguous effect so far. There is, for the moment, no serious evidence which would signal the emergence of a strong global identity between LAC and China. On the contrary, despite the economic crisis in the EU, Europe (and the West in general) continue to be a cultural, institutional and political point of reference for the majority of Latin Americans. On the other hand, what the crisis has changed was the rise of a "critical mass" inside the EU, which in the long term should be interested in strengthening its economic and political relations with Latin America.

Third, the crisis has fostered new institutional arrangements, which in the future might prove to be beneficial for EU-LAC relations. To an important extent, it contributed to the establishment of the CELAC, as the LAC countries realised the need to coordinate their global efforts. Meanwhile, the EU contributed to the promotion of CELAC by recognizing the organisation as an official forum for the development of EU-LAC relations. Moreover, the revival of the EU-Mercosur trade negotiations in 2013 may also be seen as an indirect effect of the 2008 crisis. An increased postcrisis dynamism of international trade negotiations has also given a boost to the development of the Pacific Alliance. Last but not least, the 2008 crisis led to the upgrading of the G20 to the levels of Heads of State, providing an opportunity for the coordination of macroeconomic policies and the establishment of stronger relations between the group's Latin American members (Argentina, Brazil and Mexico) and its European members (France, Germany, Italy, UK and the representation of the EU as a whole).

However, the practical efficiency of CELAC remains an open question. Besides, as the G20 prior performance has demonstrated, LAC's political scene continues to be dominated by a sense of disunion, with ideological divisions and the adherence to a traditional notion of national sovereignty still constituting effective barriers to regional political cooperation and integration.

In our view, over the next years three processes will affect the interest and willingness of the EU and LAC countries to deepen or broaden their relationship. These processes are: the development of world commodity prices; the fate of the EU's global activism during the new institutional cycle and given serious political challenges that the region will have to confront soon; as well as the development of major trade and investment initiatives, especially the TTIP and TPP.

The "best-case scenario" would consist in a considerable rapprochement between the EU and LAC, which may be accomplished if:

– LAC countries become more interested in forging economic ties with the EU given their recognition of structural risks related to a commodity-oriented growth model;
– a strengthened "critical mass" behind the EU's global activity translates into the deepening of economic and political links with LAC, including the conclusion of a long-awaited deal with Mercosur;

– the EU and the US not only manage to conclude an ambitious trade and investment partnership between themselves, but also decide to open up this deal to other Western economies, including those of LAC.

In this case, we may see the emergence of a wide Western area of economic (and possibly also political) cooperation involving the EU, the US and all or part of LAC. In order to move towards this scenario, recommendations stemming from our analysis suggest that participants in EU-LAC relations should recognize the existence of a significant unexploited potential for economic and political cooperation, just as they should acknowledge an important institutional proximity of countries situated on both sides of the Atlantic. The discussion about EU-LAC relations should not be only about interests, but also about geopolitics and global identities. In practice, this means that "bridges" for the rapprochement between the EU and LAC should be built and well maintained by both counterparts. More specifically:

– the EU and Mercosur should demonstrate their dedication to conclude on-going negotiations over an Association Agreement in a bi-regional format;
– the EU should assume that, at the end of the day, the TTIP ought to be open also to other members of the West, including countries of LAC;
– countries of LAC should look for a more efficient form of dialogue with the EU, for instance by converting the CELAC into a full-blooded organisation;
– regardless of the attractiveness of relations with China (or Asia in general), governments of LAC should not neglect efforts to deepen their economic and political relations with the EU and individual European countries;
– finally, representatives of the EU and LAC inside the G20 should search for tangible areas of constructive cooperation on global issues, for instance in the area of income inequality reduction programmes.

1 INTRODUCTION

Discussing the relationship between Latin America and Europe is an essentially different exercise than discussing relations between *any other* two regions in the world.

It is no accident that Alain Rouquié, a French historian, referred to Latin America as Europe's "Far West" (Rouquié, 1987). Mutual bonds of economic, political, institutional and cultural character intimately tie the two regions together, being particularly strong and incomparable to Europe's relations with Africa or Latin America's links to Asia, as a matter of example. In the words of Laurence Whitehead, "the subcontinent has been referred to as, Latin America for a good reason" (Whitehead, 2006). It is not only that throughout the last five centuries populations of the whole region have been in intense exchange with Europe, or that the European institutional heritage has been apparent in its systems of liberal democracy and the modern organization of the State. Most of all, it is about symbolic ties at the level of collective imagination. On one hand, "Latin America has an integral place in the European imagination and in its selfunderstanding" (Whitehead, 2006). On the other hand, Europe – and later the United States – has always constituted a point of reference *par excellence* for Latin Americans. According to Shmuel Eisenstadt, "one of the most important differences between the various American civilisations and the Asian ones from the middle and end of the nineteenth century was that the confrontation with modernity, with the 'West', did not entail, for the settlers in the Americas, a confrontation with an alien culture, imposed from the outside, but rather with their own other origins. Such encounters often became combined with a search to find their own distinctive place within the broader framework of European, or Western, civilisation" (Eisenstadt, 1998).

Seen from this perspective, it would be hard to consider the global financial crisis of 2008 as a turning point *sensu stricto* in the historical relation linking Latin America and Europe. Connections between the two regions are simply too solid and too comprehensive to become "revolutionized" by a single event. Still, the global crisis may become one more in a long series of pivotal moments in this relationship, after the fall of communism in 1990 or terrorist attacks in the United States in 2001. Most of all, the crisis as well as its immediate consequences, including the designation of the G20 as the "premier forum of international finance" in 2009 and the initiation of the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the EU and the US in 2013, may enable a reconfiguration of interests and identities on both sides of the Atlantic.

The central objective of analysis undertaken in this report is to examine whether proofs or heralds of such a reconfiguration have already become visible and whether they may lead to any meaningful change in the shape or direction of actual EU-LAC relations, or simply in the behaviour of stakeholders on both sides of the Atlantic. Such a perspective is based on a number of assumptions regarding mutual dynamics between interests and identities, the relationship between spheres of international politics and the economy, the existence of anything close to bi-regional relations between Europe and Latin America, as well as a proper definition and description of the crisis itself. We elaborate on these four methodological questions in the remaining part of this chapter.

1.1 COMPLEMENTARITY BETWEEN INTERESTS AND IDENTITIES

We assume that there exists a complementarity between two distinct levels of analysis: interests and identities. On one hand, the existence of a common identity constitutes valuable "social capital" which may help the emergence of common interests, without being a necessary or a sufficient condition for this to happen. On the other hand, joint interest may over time lead to the establishment of new dimensions of a common identity. It is through these lenses that we look at the EU-LAC economic and political relations, especially in the context of trade and investment flows as well as cooperation patterns within the G20. The interrelation between interests and identities which we apply here to the analysis of Europe's and Latin America's behaviour is inspired by Alexander Wendt's "Social Theory of International Relations". According to Wendt, "identities refer to who or what actors are. They designate social kinds or states of being. Interests refer to what actors want. They designate motivations that help explain behaviour. (...) However, identities by themselves do not explain action, since being is not the same thing as wanting, and we cannot read off the latter from the former. (...) Without interests, identities have no motivational force, without identities interests have no direction. (...) They play complementary explanatory roles, and so rather than define them as rivals we should explore how they work in tandem" (Wendt, 1999). The use of this methodological insight in the particular case of EU-LAC relations enables us to ask about **the importance of global social identities for EU-LAC economic and political relations.** The largely European origins of Latin American nations should, at least in theory, constitute a favourable condition for political and economic rapprochement between the two regions, although there is surely no automaticity in that logic. As a matter of comparison, European history is replete with cases of interstate wars and conflicts, which have taken place irrespectively of the continent's shared culture; the stability and cooperation in a post-war period have been a relative novelty in the long history of the region. This, according to Wendt, demonstrates that "homogenization is not a sufficient condition for collective identity formation because as actors become alike along some dimensions, they may differentiate themselves along other, even trivial ones, in a "narcissism of small differences" (Wendt, 1999).

The same may concern EU-LAC relations, whereby common origins and strong economic ties have largely failed so far to translate into stable patterns of cooperation. Furthermore, the evolution of national identities in several Latin American societies has led them, at times, to attempts at detaching themselves altogether from the European or Western culture, associated with colonialism and external domination. All in all, it seems that the history of common origins constitutes an important asset which may be exploited politically if need be; yet, depending on the context, other dimensions of European and Latin American identities may take priority, leading to different patterns in their relationship.

Especially as the "Western" identity seems to compete in the case of Latin America with an equally important global identity of the "developing world", the "South" or the "periphery", as well as with strong indigenous identities in several parts of the region. This phenomenon may be underestimated by Europeans who tend to consider Latin Americans as their natural companions while at the same time repeatedly failing to include them in the categories of the "West" or the "Transatlantic". Still, several decades of existence of the Non-Aligned Movement, as well as the memory of colonialism and the legacy of de-colonisation, have left a powerful imprint on the identity of Latin American societies, creating favourable conditions for the strengthening of cooperation among themselves or with other emerging powers from Asia or Africa, but also distancing them from Europe or the US. It is through these lenses that we may analyse the establishment of the Bank of the South by seven Latin American governments in 2009, or the partnership among Brazil, Russia, India, China and South Africa within the BRICS, or even a booming trade and investment relationship of most Latin American countries with China. In some cases, we see things happening mostly for economic reasons, as seems to be the case of the Pacific Alliance – an economic platform created by Chile, Colombia, Mexico and Peru in order to streamline their trade and investment relations with Asia. Yet, it would be Precipitated to conclude that the development of economic and political ties within the global South is happening merely for conjunctural reasons, as this would overlook a powerful identity layer in Latin America, alternative to the one centred on Europe and the West, and having a potentially important impact on the behaviour of Latin American countries. All the more so since this would underestimate the possibility of this cooperation strengthening one day the foundations for a common identity formation between for example Latin America and China.

1.2 FEEDBACK BETWEEN POLITICS AND ECONOMY

The second assumption which lies at the core of this report is that there exists feedback between the spheres of politics and economy. This can be seen, first of all, at the international level. On one hand, a favourable international political context can produce a boost in economic cooperation between states or regions. On the other hand, an increase or a decrease in economic links may have a corresponding impact on the performance of their political cooperation. Secondly, an interdependence between the politics and the economy can be observed within the opposition between the internal and the international. For example, challenges faced by local economies (e.g. increased dependence on commodities exports in the case of several Latin American countries; focus on regional trade in the case of many European economies) may over time lead to their greater opening to international economic cooperation, and consequently also to a deeper political cooperation with other regions. While the above-mentioned assumptions are hardly revolutionary, they are presented explicitly in order to justify a joint presentation of economic and political phenomena, of both internal and international nature, under a single banner of EU-LAC relations after 2008.

We take Wendt's observation into account by acknowledging a complementary relationship between interests and identities (which we explained in the previous section) and by considering the interests/identities opposition as crucial for the explanation of international behaviour. The interplay between the two oppositions – interests/identities and politics/economy – is developed in Table 1.1.

Table 1.1: Interconnection between identities and interests, as well as between politics and economy, in the context of the EU-LAC cooperation.

	EU-LAC COOPERATION		
	INTERESTS COMPLEX		IDENTITY COMPLEX
		BEHAVIOUR	
POLITICS	(e.g. international political power and security)	political cooperation (e.g. at multilateral fora, including the G20)	(e.g. West, Transatlantic, European origins, modern state, liberal democracy)
ECONOMY	(e.g. economic growth and development)	economic cooperation (e.g. trade flows, Foreign Direct Investment, Free Trade Agreements, foreign aid)	(e.g. market-oriented paradigm of development)
	Common economic interests		Common economic thinking

As shown in Table 1.1, both interests and identities have an influence on the behaviour of actors in the global system, and this relates equally to the area of international economic relations and to international politics. Common interests and common identities tend to reinforce each other reciprocally. What is more, within the identity and the interest complexes we can distinguish two corresponding and mutually reinforcing dimensions: a political and an economic one. Assuming that the EU and LAC share some kind of a common global identity, centred around concepts of the "West" or the "Transatlantic" and related to common European origins and the legacy of modern state institutions, then this "closeness" should favour an identification of common political interests, for example in the area of international security. In practice, we should see the two sides behave in a cooperative manner at the global scene, including inside the multilateral fora, like the G20. What is more, the political dimension of the identity complex has its economic equivalent in the form of like-minded economic thinking. Assuming that the EU and LAC share their dedication to market oriented economic thought, then this should favour an identification of similar interests, especially in the form of economic growth and development as well as regarding the specific ways to accomplish these goals. In practice, we should see the two regions cooperating economically, be it through increased trade flows, foreign investments, the signature of free trade agreements or an alignment of votes at international fora.

1.3 EU AND LAC AS COUNTERPARTS IN BI-REGIONAL RELATIONS

The third assumption which we apply in the report refers to the existence of EU-LAC relations as such, or of the so-called "inter-regionalism". Once again, though this time for different reasons, we argue that discussing the relationship between Latin America and Europe is not the same as discussing relations between any two regions in the world. While previously we referred to a long history of political and economic relations to justify this claim, this time it is about the history of integration processes in both regions.

For some time, Europe and Latin America seemed to be the most likely candidates for the establishment of truly "inter-regional" relations. On the one hand, after the Second World War, the Old Continent entered a track of unprecedented deep integration. This was "new to the world" as it consisted in the creation of supranational institutions and in a progressive delegation of a growing part of national, sovereign competences to communitarian institutions: the European Commission and the European Parliament. Thanks to this process the EU made important steps towards a common foreign policy, which were culminated by the appointment of a High Representative of the Union for Foreign Affairs and Security Policy.[1] On the other hand, the European experience was for a long time treated as a prospective model to follow by many Latin American leaders, especially in the 1990s when the region liberated itself from the legacy of military dictatorships entering upon a path of accelerated democratization. Several attempts of regional integration, including the establishment of the Southern Common Market (Mercosur) by Argentina, Brazil, Paraguay and Uruguay as well as of the Central American Integration System (SICA) by Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama, both in 1991, were initially meant to repeat the most promising experiences of the EU. In those circumstances, the EU's possible agreements with Latin American regional groupings, especially with the economically and politically most promising Mercosur, were considered as paving the way for a new type of inter-regional cooperation.

Moreover, consecutive summits between the EU and Latin America, organized since 1999, were seen as proof of Europe's conscious attempt to compel Latin America into becoming a more coherent interlocutor (Sanahuja, 2013a). Many thought that the integration process inside Latin America could eventually lead to the establishment of a single, EU-like organization representing all or most of the region's countries. Should that happen, the EU and Latin America could become the first large regions in the world to cooperate on a supranational level.

1 Since the Lisbon Treaty's coming into force in 2010, this post has been combined with the one of Vice-President of the European Commission.

However, the many expectations regarding the progress of Latin American political and economic integration have been frustrated ever since (Malamud, 2010). Since mid-1990s we have seen a growing political stalemate inside the Mercosur, with Argentina and Brazil failing to coordinate their economic policies during the 1997 Asian Crisis, with members failing to eliminate all planned tariffs in mutual trade, not to mention the group's limited initiatives to conclude free trade agreements with important partners in the world. In a different corner of the continent, the Community of Andean Nations (CAN) received a decisive blow after the Venezuelan decision to leave the group in 2006, which was preceded by unilateral actions of its member States, including Peru's and Colombia's negotiations of free trade agreements with the US. Meanwhile, the whole Latin American region experienced a proliferation of other integration initiatives. Under Hugo Chávez, Venezuela led the establishment of the Bolivarian Bloc A*lianza Bolivariana para los pueblos de Nuestra América*, or ALBA, in 2006, composed of like-minded left-wing governments of Bolivia, Cuba and Venezuela, later joined by Nicaragua, Dominica, Antigua and Barbuda, Ecuador, Saint Vincent and the Grenadines, as well as Saint Lucia. On the other side of the ideological spectrum, a free-trade oriented Pacific Alliance was created in 2012 by governments of Chile, Colombia, Mexico and Peru. As a result, Latin America is nowadays increasingly seen through the lenses of a "continental divide" between two alternative blocs: the market-led Pacific and the more statist Atlantic (The Economist, 2013b).

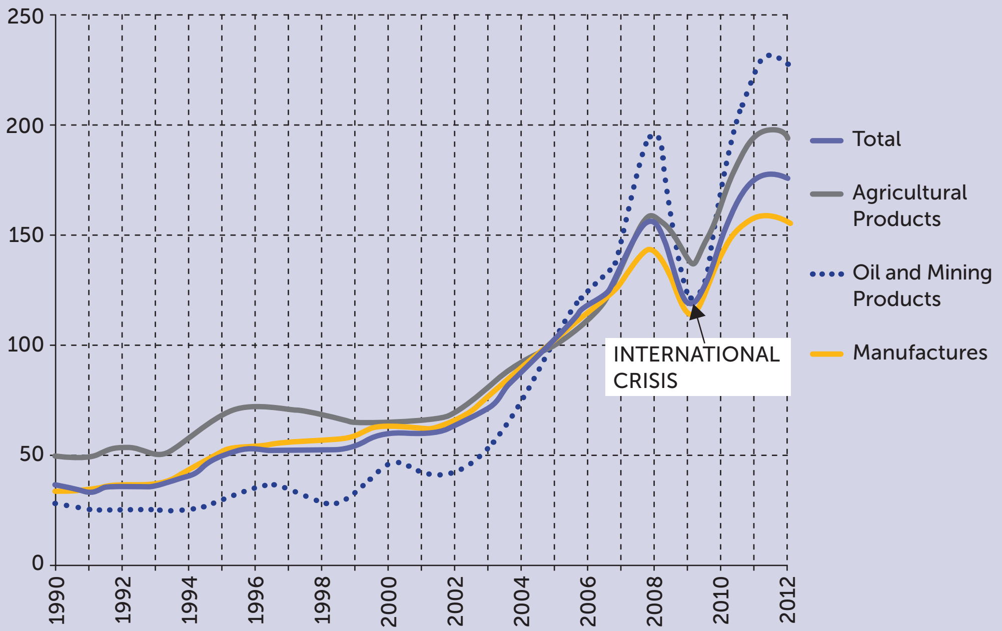
Most importantly, however, Latin America is still struggling to establish a stable and consensual form of global representation of the whole region. Currently, there are three institutions exercising this role: the Union of South American Nations (UNASUR), created in 2008 under Brazilian leadership and representing all countries of South America; the Community of Latin American and Caribbean States (CELAC), established in 2010 as a representation of the whole Western Hemisphere except for Canada and the US; and the Organisation of American States (OAS), created in the wake of the Second World War and including all the countries of the Western Hemisphere, apart from Cuba which was expelled in 1962.[2] The lack of one common organisation representing the whole region in its relations with the rest of the world may be considered as a joint effect of geography and geopolitics. In the words of Victor Bulmer-Thomas, "that there is a Latin America is not seriously in dispute, even if its membership – like that of Europe – is fuzzy at the edges" (Bulmer-Thomas, 2013). The vagueness of Latin American limits has repeatedly led to confusion regarding the eventual representation of the region. There are persistent doubts concerning Mexico: should it be included for historical and cultural reasons, even if economically it is integrated much more with the US than with South America? At the same time, can Latin America be reduced to countries south of Panama, thus excluding Central America and the Caribbean altogether? Different answers to those questions depended on rival geopolitical interests of major geopolitical players in the region, especially the US and Brazil. Following Bulmer-Thomas, "the opposition of the United States and the lack of active support of Brazil have made it very difficult to achieve the goal to which other countries have aspired.

2 It must be noted that the OAS was not created to represent LAC internationally but, on the contrary, it was formed to work on domestic problems. Still, it could be expected that the organisation would progressively work on an international agenda, which has not been the case.

The United States wanted to build an institution (...) in which the Latin American states would be subordinate to the US, [while] Brazil has never been comfortable with the notion of a Latin America embracing all former Spanish and Portuguese colonies in the Americas. Instead, just as Pope Alexander divided the Americas in 1494 by a vertical line, Brazil wish[ed] to do the same with a horizontal one just above Colombia" (Bulmer-Thomas, 2013). Over the last two decades, geopolitical transformations have opened a new context for these considerations. On the one hand, the US' inability to influence Latin American agenda after the end of the cold war eventually led to a failure of the G.W. Bush administration in 2003 to persuade Chile and Mexico (its long-time allies) to support intervention in Iraq during a vote in the UN Security Council, thus demanding a revision of Washington's Latin American strategy. On the other hand, having developed strong economic ties with Central America and having risen to the status of a regional power, Brazil seems to have finally come to terms with the idea of a Latin American (and not only a South American) representation of the region, as evidenced by its eventual support for the creation of CELAC.

Interestingly, it was the EU that gave a much needed boost to the CELAC initiative by accepting the newborn institution as its counterpart in inter-regional relations. The first summit between the EU and CELAC took place in January 2013 in Santiago de Chile, less than three years after the establishment of CELAC (we discuss this issue in more detail in Chapter 3). In this sense, the "strategic partnership" between both regions, established in 1999 at the Summit in Rio de Janeiro, could finally acquire a concrete representation on both parts. However, CELAC is still an institution without a secretariat or permanent bodies, therefore it would be premature to consider it as a sufficient expression of Latin American interests. It serves as a suitable "umbrella" for the EU's relations with the region, but apart from that it will have to find a niche for itself within a patchwork of regional institutions, alliances and divisions in Latin America. As a matter of illustration, the region's limited capacity to stop the escalation of political conflict in Venezuela at the beginning of 2014 demonstrated that the proliferation of regional institutions may hamper a coordinated response to regional crises. In the end, UNASUR took the initiative in bringing the Venezuelan government and the opposition to the negotiating table. Thus, UNASUR pushed the OAS and CELAC out to the sidelines of the process. In this context, it should not be a surprise that the EU is increasingly moving towards differentiated forms of dialogue with Latin America, including that at a subregional level (with Central America, the Caribbean, the Andean Community and Mercosur) as well as through bilateral relations (e.g. through strategic partnerships with Brazil and Mexico). We should expect that this tendency will continue as long as Latin America cannot boast of a full-blooded regional organisation, capable of representing its interest in relations with the EU. The creation of CELAC is a promising step in this direction, but so far the organisation lacks the necessary power, substance and credibility. To be sure, the EU itself is not always a unitary actor in its relations with Latin America. In extremis, this is evident in Europe's policy towards Cuba. For many years, this was constrained by the EU's 1996 Common Position on Cuba. Despite this contraint, there was active cooperation between Cuba and individual European countries. Only recently, in May 2014, negotiations for an EU-Cuba agreement were officially launched. The Cuban example is a borderline case, demonstrating

Figure 1.1: World Exports (in value) / Index 2005 = 100



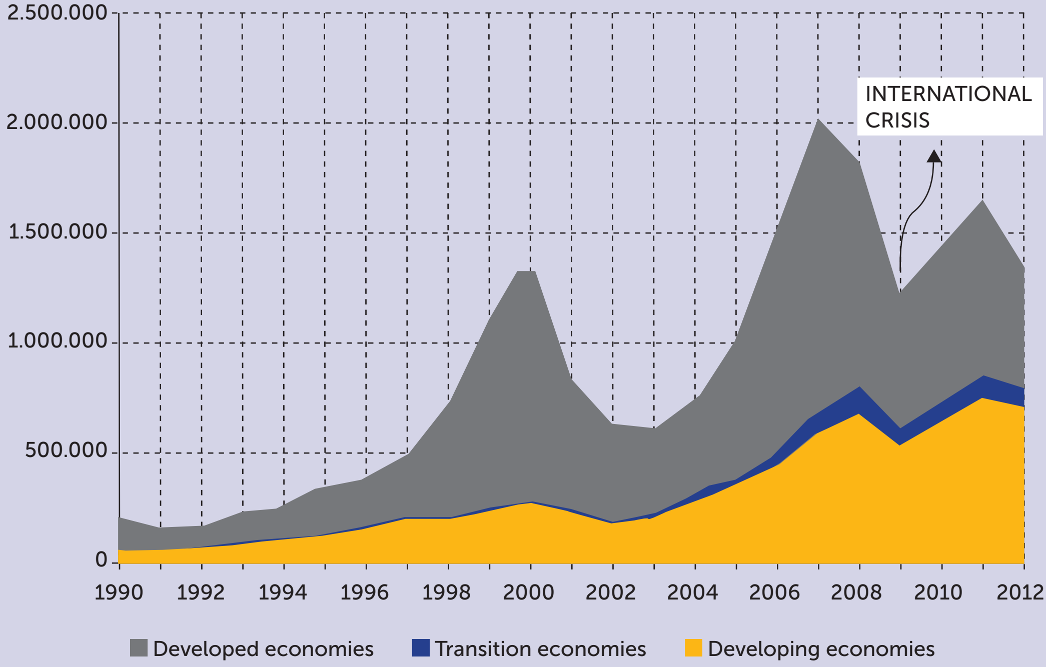
Source: Own calculations based on IMF, WTO and UNCTAD databases

the existence of several parallel channels in EU-LAC relations.[3] Nevertheless, this does not necessarily mean that the EU-LAC relations are equally fragmented on both sides. It may rather be the opposite case: the existence of a relatively unified voice provided by institutions of the EU may enable individual European countries, such as Spain, Portugal, France, Italy, Germany or the United Kingdom (the six states traditionally most interested in relations with Latin America), to gain an even greater diplomatic advantage vis-à-vis their Latin American counterparts, given that those relations are anyway largely asymmetrical for historical and economic reasons.

The assumption about the existence of EU-LAC relations and the resulting interregional perspective undertaken in this report has significant practical consequences. We take account of all existing channels in the relationship between both regions and of the fact that it is being shaped not only (and probably not so much) at Summits between the EU and CELAC, but also in the EU's contacts with subregional organisations or in bilateral encounters between individual countries. Yet, we always try to view these relations from a generalized perspective of a bi-regional relationship, irrespective of Latin America's continuous lack of an effective unified political representation and despite the fact that the European policy towards the region is coined not only (and not necessarily) in Brussels but also in other European capitals. The use of an aggregate

3 Yet another example of this phenomenon is the yearly Ibero-American Summit organised by Spain, Portugal and Spanish or Portuguese speaking countries, most of them located in Latin America.

Figure 1.2: Foreign Direct Investment Inflows by development level of receipt country USD Millions between 1990 and 2012



Source: Own calculations based on IMF, WTO, UNCTAD databases

level of analysis enables us to compare these relations with those that the EU and LAC individually maintain with other regions of the world.

1.4 THE NATURE OF THE CRISIS

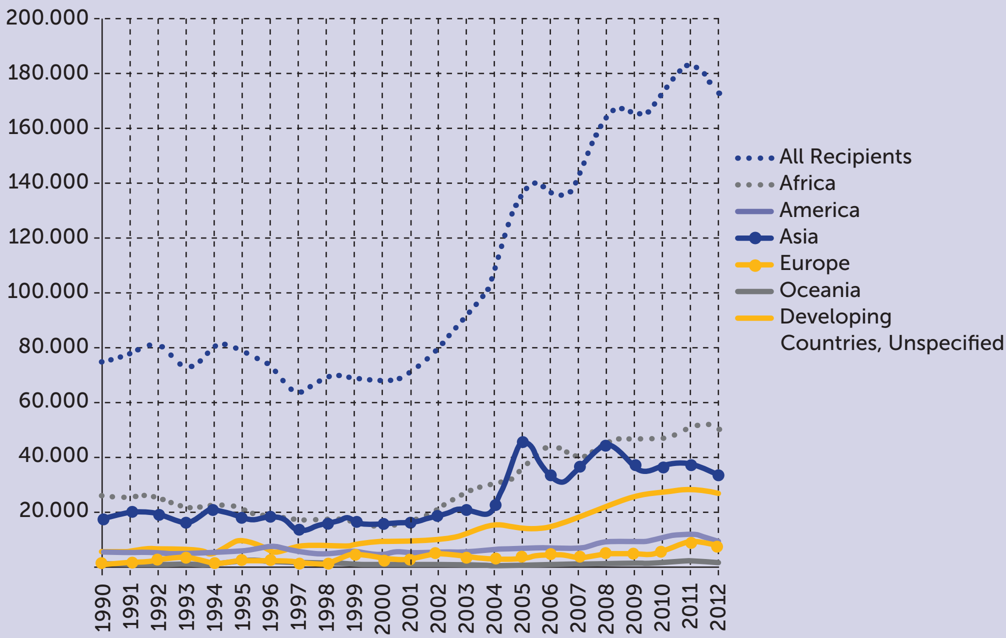
The fourth and final assumption underlying this report refers to the occurrence of a major global crisis in 2008.

The 2008 international financial crisis is considered as one of the most dramatic economic episodes since the Great Depression (1929-30).[4] Though its causes are still under scrutiny by scholars and practitioners, the consequences were vast and well-known: the meltdown of the financial markets resulted in a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign debt crisis.

In the immediate aftermath of the financial crisis, many countries adopted palliative fiscal and monetary policies to soften the impact of the shock on their economies. Moreover, the need for coordination to reduce the negative effects of contagion gave impulse to institutional and poli-

4 Several studies coincide in characterizing this crisis by a housing bubble in a context of rapid credit expansion, high risk-taking and exacerbated financial leverage, ending in deleveraging and credit crunch when the bubble burst. The epicentre of the crisis is usually placed in the US financial market (Hemmelgam and Nicodeme, 2010).

Figure 1.3: International Aid Flows / Total donors by recipient country, USD million

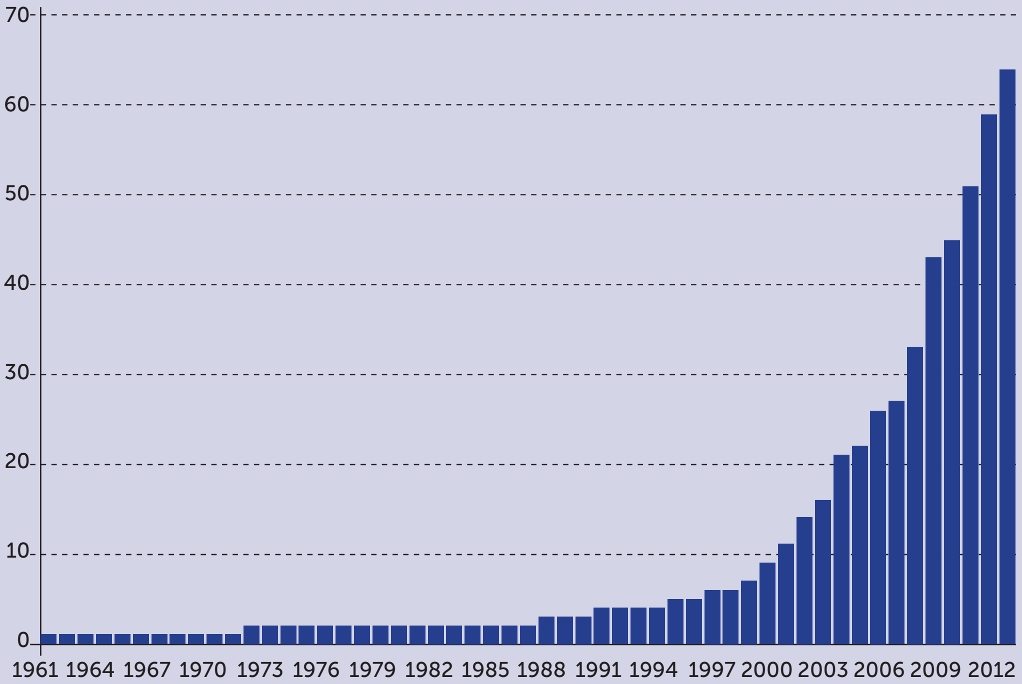


Source: own calculations based on IMF, WTO, UNCTAD databases

tical initiatives, such as the strengthening of the G20. Prior to the burst of the financial bubble, international food commodity prices had increased sharply so that by 2008 the world was also discussing the risks of an eventual "food crisis". In this work we are mainly concerned with the consequences of the international crisis for the development of EU-LAC relations. The main questions of our study are related to the impact of the 2008 crisis on both partners and on their bi-regional economic and political relations. To understand the effects of the crisis on the EU-LAC relationship, we first identify key economic channels for this relationship, and secondly, we provide a brief description of the observed impact. Four key dimensions of the EU-LAC economic relationship are trade, investment and aid flows, as well as initiatives of inter-regional economic integration, with the last one constituting a trademark of the EU's strategy towards Latin America (Roy, 2012; Krakowski, 2008).

The crisis deeply affected components of those dimensions. The international recession following the crisis translated into a sharp decline of international trade in 2009 and 2010. International investment exhibited a similar pattern, although FDI flows demonstrated a higher level of fluctuation when compared with trade flows. Interestingly, 2011 was the first year in several decades when developing countries achieved more FDI inflows than developed countries. Finally, as a result of political dedication of major donors, international aid flows did not suffer a decrease during the crisis but stagnated after an initial slump. Figures 1.1 to 1.3. demonstrate these developments.

Figure 1.4: LAC RTAs (FTAs, Customs Unions & Economic Integration Agreements), cumulated by year of entry into force



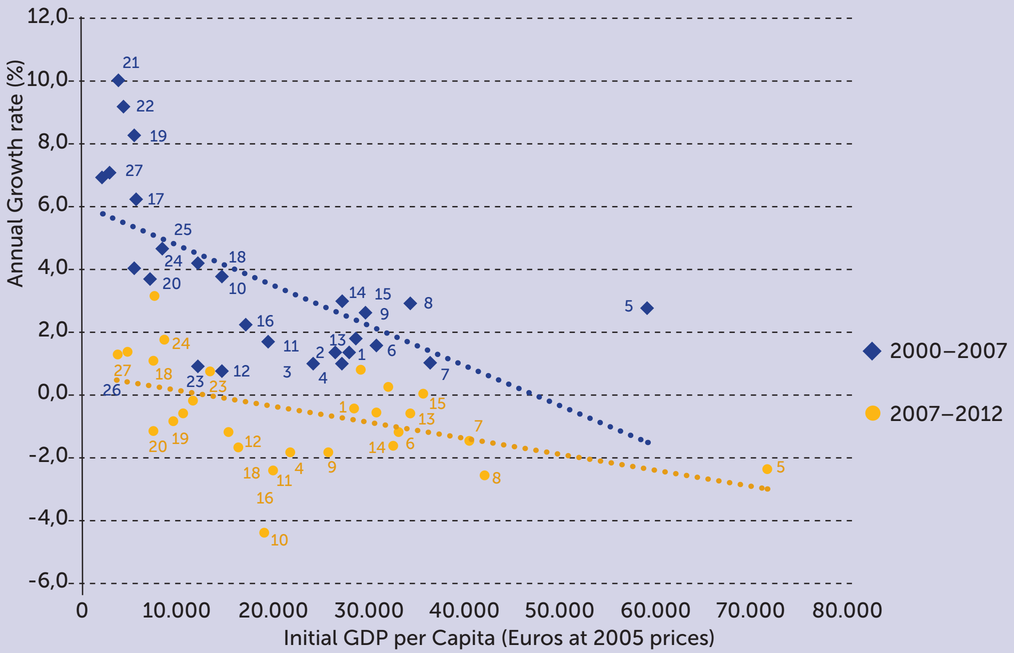
Source: Own estimates based on WTO

As regards international trade and preferential agreements, the crisis provoked fears that a new wave of protectionism could follow the collapse of trade flows. However, international coordination, particularly through the G20, managed to prevent this negative scenario. Despite this undeniable success, advances in multilateral liberalization of trade were curtailed and the Doha Round in the World Trade Organisation (WTO) remained stalled until very recently. Instead, there has been a trend towards the establishment of regional preferential trade agreements. Latin American countries have been particularly active in this field, as demonstrated in Figure 1.4.

Thus, evidence suggests that the 2008 crisis affected the economic relationship between the EU and LAC by changing the dynamics of almost all channels (except for financial aid flows) through which the two regions are connected, that is trade, investment and preferential agreements and political cooperation (Sanahuja, 2013b).

Since the beginning of the crisis, national policies and international coordination mechanisms have gradually managed to restore macroeconomic stability and growth in the world economy. International trade dynamics were restored more rapidly than expected. Recovery is still under way but the most dramatic consequences of the crisis seem to have been overcome. However, the outcomes of the crisis have been very different for the EU and LAC. In 2010-2012, several countries in the Eurozone faced a severe sovereign debt crisis which affected mostly the Euro-

Figure 1.5: Convergence in European Union; 2000–2012



1 Germany	10 Greece	19 Estonia
2 Belgium	11 Spain	20 Hungary
3 France	12 Portugal	21 Latvia
4 Italy	13 Austria	22 Lithuania
5 Luxembourg	14 Finland	23 Malta
6 Netherlands	15 Sweden	24 Poland
7 Denmark	16 Cyprus	25 Czech Republic
8 Ireland	17 Slovakia	26 Bulgaria
9 United Kingdom	18 Slovenia	27 Romania

Source: Own estimates based on Eurostat

zone members (17 out of the total 28 EU members). In the case of LAC, most of the countries were affected by the disruption in the international trade and the reversion of capital flows to the region. However, their strong macroeconomic position allowed them to achieve a faster than average recovery.[5] Currently, LAC's growth perspectives are not as optimistic as they were at the beginning of the 2000s; even so the overall picture is still encouraging (De la Torre et al., 2013a; 2013b). Interestingly, developments inside both regions led to the reversal of their respective growth convergence dynamics (as illustrated by Figures 1.5 and 1.6). According to the standard model of economic growth, developing or less advanced countries should grow faster than developed ones due to larger productivity of capital in the former ones. This process of convergence did occur in Europe between 2000 and 2007. However, the speed of convergence has decreased significantly after the crisis. In contrast, the convergence of GDP growth rates

5 The financial crisis has caused the emerging and developing economies to replace the advanced economies as engines of the global economic growth between 2007 and 2013.

Figure 1.6: Convergence in Latin America and the Caribbean 2000–2012

1 Antigua & Barbuda
2 Argentina
3 Bahamas
4 Barbados
5 Belize
6 Bolivia
7 Brazil
8 Chile
9 Colombia
10 Costa Rica
11 Dominica
12 Ecuador
13 El Salvador
14 Grenada
15 Guatemala
16 Guyana
17 Haiti
18 Honduras
19 Jamaica
20 Mexico
21 Nicaragua
22 Panama
23 Paraguay
24 Peru
25 Dominican Rep.
26 Saint Kitss & Nevis
27 Saint Vicent and the Granadines
28 Saint Lucia
29 Suriname
30 Trinidad and Tobago
31 Uruguay

Source: Own estimates based on World Economic Outlook of IMF was not observed in Latin America during the rally of commodity prices in the 2000s, but has been evident after the crisis. This raw measure of regional growth convergence may suggest that reasons and forces leading to regional economic integration may be gaining ground in LAC, while at the same time they may be weakening inside the EU.

1.5 PLAN OF THE STUDY

A general assumption underlying this study is that not a single but several perspectives are needed to adequately describe the dynamics of EU-LAC economic and political relations after 2008. This tendency towards multiple insights is reflected in the plan of the study. The three chapters that follow correspond to different methodological approaches.

In Chapter 2, we provide an analysis of economic relations between the EU and LAC after 2008. We examine the dynamics of trade and investment flows between both regions, as well as the dynamism of their Preferential Trade Agreements (PTA) initiatives. We develop a compatibility index for trade flows between EU and LAC (the so-called Michaely Index) and we identify key changes in their current economic exchange. Finally, we develop a case study on EU-Mercosur relations in order to better understand political consequences of the 2008 economic crisis on EU LAC relations. This part of the analysis has mostly to do with the configuration of interests on both sides of this relationship after the crisis.

In Chapter 3, we situate the EU-LAC political relations within the context of long-term social, political and economic phenomena, defined as “megatrends” and identified in both regions separately. We analyse recent transformations in the inter-regional political dynamics by making reference to these background phenomena. This part of the analysis is to a large extent focused on the importance of identity transformations for the relationship between the EU and LAC.

However, we assume that the EU-LAC relations are being shaped not only through economic flows or by social, political and economic megatrends, but also via actual cooperation between the actors from the two regions on the global political scene. Therefore, in Chapter 4, we provide a case study on EU-LAC relations within the G20, considering them as a litmus test for the post-crisis relationship between the two regions. In contrast to the previous approaches, which had mostly to do with interest and identities respectively, in this part of the analysis we concentrate on patterns of behaviour expressed by European and Latin American representatives on the global arena.

In Chapter 5, we formulate conclusions stemming from the three above-mentioned analytical insights. We identify three “key variables” for the development of EU-LAC relations in the years to come (the development of world commodity prices; geopolitical effects of the EU’s internal political debates; as well as the consequences of TTIP and TPP) and we define the “best case” and “worst-case” scenarios for the future of EU-LAC relations. Finally, we suggest recommendations for policy-makers regarding the optimal use of existing and emerging opportunities for the strengthening of cooperation between the two regions.

2 THE ECONOMICS OF EU-LAC RELATIONS

In this chapter we develop the analysis of economic relations between the EU and LAC, taking particularly into account their links through trade, foreign direct investment (FDI) and preferential trade agreements (PTAs).

Up to the 1990s, economic relations between the two regions corresponded largely to a divide between the global North and the global South. Yet, during the 2000s, both partners underwent significant transformations and therefore a different pattern of economic relationship started to emerge. On the one hand, through consecutive enlargements, the EU increased the number of its members from 12 in 1992 to 28 in 2014, which contributed to its increased concentration on its internal market. On the other hand, LAC took advantage of favourable international demand for commodities which enabled many countries in the region to improve their growth performance.

After the 2008 crisis and the ensuing Eurozone crisis, the scenario for EU-LAC rapprochement turned much more complex. There is a growing consensus among scholars pointing out to the emergence of a new context in economic international relations. On the one hand, developed countries (including the EU) have propelled changes in their external strategies with the declared aim of improving growth and productivity. The emergence and permanence of China as a world economic power has operated as a decisive factor to explain these changes.[6] More recently, and partly anticipating that a less buoyant world could affect commodity trade, LAC

6 In the case of the EU, a good example of this trend can be found in the new guidelines on external economic relations prepared by the European Commission to contribute to the objectives of the Europe 2020 Strategy, in 2010. In the case of the USA, the Pivot to East Asia strategy summarized by the Secretary of State H. Clinton in 2011 (America's Pacific Century) is another example. Finally, an acceleration of Transatlantic negotiation between EU and USA after 2011 would also conform to this new scenario.

7 Peña (2014) observes that: "The trends towards the fragmentation of the international trading system, a result of the possible combined effect of the proliferation of mega interregional preferential agreements and the deadlock of the Doha Round as the ambit where to encourage multilateral trade negotiations, increase the importance for Latin American countries - and particularly for South American ones- of strengthening joint work in trade and mutual investment and the articulation of their national production systems." In this context, Chile is promoting the initiative of including Mercosur, particularly Brazil, in the TPP, where Mexico is already present.

has also shown initiatives towards improved regional coordination, trying to take advantage from both the Pacific and Atlantic overseas markets.[7] These actual or potential transformations may not necessarily jeopardize the EU-LAC relationship as long as a new approach towards these relations is developed between the two regions. As the EU has already signed economic association agreements with 22 Latin American countries, out of 33 belonging to CELAC, there are strong bases for such a platform of cooperation.

We identify the EU-Mercosur ties as the most important of the remaining areas for the consolidation of EU-LAC relations. Given the current free trade negotiations between the two regions, we evaluate the post-crisis economic rationale and analyse political perspectives for the EU-Mercosur agreement yet to be concluded in the years to come.

2.1 GLOBAL ECONOMIC DEVELOPMENTS BEFORE AND AFTER 2008

Political and economic relations between the EU and LAC have deep roots in history. LAC's inheritance of political, legal and economic institutions from Europe set a common ground between the two regions that enabled permanent dialogue and kindled mutual interest in working together. In this regard, the 1990s were a decade of intense relations between the two regions, crowned with the establishment of the EU-LAC strategic partnership in 1999.

At that time, important forces were already reshaping the world economy. Globalization and the trend towards the organization of global value chains in manufactures greatly affected international trade and direct investment. At the same time, the trade map of the world was changed by the emergence of Asian countries, especially China and India, as suppliers of massive amounts of products manufactured by unskilled workforce at very low wages.

At the same time, both the EU and LAC embarked on domestic strategies to boost growth in their economies. The EU launched the "Single Market" initiative as a mechanism to gain competitiveness on a global scale and to level the economic playing field for all Member States. Meanwhile, LAC attempted ambitious market-oriented reforms, albeit with results varying by country. Improving presence on world markets and gaining productivity started to be perceived as an important challenge for middle-income, semi-industrialized countries like Mexico, Brazil or Argentina.

In the 1990s, the world trend towards open regionalism coexisted with enhanced multilateralism, as demonstrated by the transformation of GATT into the World Trade Organisation (WTO) in 1995. What is more, the US showed significant interest in increasing economic ties with Latin America by promoting an ambitious trade preferential agreement (the so called Free Trade Area of the Americas) under the strategy of adding new countries to the already existing North- American Free Trade Agreement (NAFTA) comprising Canada, Mexico and the US. Coincidentally, the EU also launched several initiatives aimed at enhancing economic and political links with Latin America, such as the aforementioned Strategic Partnership of 1999.

At that moment, the European strategy towards LAC was organized under the idea of "interregionalism". Under this strategy, the EU periodically approved regional programmes that applied to the entire LAC region. The creation of Mercosur as a customs union in 1991 seemed to provide a natural partner for such a strategy. Nevertheless, the efficiency of this approach applied to a heterogeneous mix of Latin American countries has raised serious doubts (Gratius, 2013). In reality, economic associations that were reached between the two regions took only the form of bilateral agreements with individual countries (like Mexico, Chile, Peru and Colombia) or agreements between the EU and small groups of countries (as in the case of Central America or Cariforum). For a summary of these initiatives, see Table 2.8.

Throughout the 1990s, EU-LAC relations intensified thanks to FDI flows coming from the EU and due to Europe's position as one of LAC's leading trade partners. Links between the two regions corresponded to the idea of a North-South divide, where the EU played an important role in enabling LAC's development. Yet, despite apparent convergence of economic interests between the EU and LAC, their relationship was complicated by a series of internal and international transformations over the next decade. In the case of the EU, the process of enlargement altered EU-LAC relations by adding new actors with new interests, and by weakening the position of the intra-European coalition of supporters of these relations. On the Latin American side, different economic and political outcomes of previous market-oriented reforms led to a divergence of policy orientation among the countries: with some sticking to the market-oriented model and others introducing modifications or even reversals in their development paths. At the same time, China's economic influence in the region increased substantially, especially given its demand for Latin American commodities.

Prior to the 2008 global financial crisis, the EU, LAC, the US and China were experiencing rapid rates of GDP growth, with international trade and investment serving as the main channels for the dissemination of growth. After the 2008 crisis, China continued to lead the international recovery, which was particularly important for LAC given that the permanence of high commodity prices enabled many countries of the region to maintain high rates of growth and to avoid negative consequences of the crisis. Nevertheless, in 2013, China launched a new development strategy under which its role as an international growth engine might be curtailed, while the **accent** will be put more on domestic consumption. This ongoing transition may be seen as a harbinger of lower growth rates in the world in the near future.

From the perspective of EU-LAC relations, the international economic context is currently characterized by a moderate growth rate, as compared to the situation before the crisis. According to the IDB annual report (IDB, 2014) the Latin American and Caribbean region is expected to grow at levels close to its overall potential growth of around 3% in 2014. Mexico, Central America and the Caribbean may benefit from a scenario of higher growth in the United States and lower growth in China, while South America may face lower growth as a result of these developments. The somewhat lower pace of growth in Europe as compared to US, according to IMF projections, casts doubts on the attractiveness of the EU for LAC in the near future. However, as we will explain in the following section, many reasons for the EU-LAC rapprochement are already in place. The question is whether the crisis has led to the emergence of a sufficiently strong political rationale in favour of such rapprochement.

Table 2.1: Regional Trade Agreements; LAC countries : Agreements with the European Union				
Country	Agreement name	Date of signature	Date of entry into force	End of implemen-tation period
Antigua and Barbuda*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Bahamas*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Barbados*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Belize*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Chile*	EU - Chile	18.11.02	01/02/2003 (G). 01/03/2005 (S)	01.01.13
Colombia*	EU - Colombia and Peru	26.06.12	01.03.13	
Costa Rica*	EU - Central America	29.06.12	01.08.13	
Dominica*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Grenada*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Guatemala*	EU - Central America	29.06.12	01.08.13	
Guyana*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Honduras*	EU - Central America	29.06.12	01.08.13	
Jamaica*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Mexico*	EU - Mexico	08.12.97	01/07/2000 (G). 01/10/2000 (S)	01.01.10
Nicaragua*	EU - Central America	29.06.12	01.08.13	
Panama*	EU - Central America	29.06.12	01.08.13	
Peru*	EU - Colombia and Peru	26.06.12	01.03.13	
Dominican Republic*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Saint Kitss & Nevis*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Saint Lucia*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
Suriname*	EU - CARIFORUM States EPA	15.10.08	01.11.08	01.01.33
* Coverage: Goods & Services / Type: Free Trade Agreement & Economic Integration Agreement				
http://www.wto.org/spanish/tratop_s/region_s/rta_pta_s.htm				
Source: Own based on WTO				

2.2 EU-LAC ECONOMIC RELATIONS BEFORE AND AFTER 2008

Trade, foreign direct investment (FDI) and preferential trade agreements (PTAs) constitute the most important channels of economic relations between the EU and LAC. Below we analyse the effects of the 2008 crisis on each of these channels.

(a) Trade openness and compatibility

The launching of the EU-LAC biregional Strategic Partnership in 1999 created new expectations in Latin American and the Caribbean countries regarding a possible intensification of economic relations with Europe. Yet the 2000s confirmed the emergence of China as the "world factory". The importance of China as a trade partner of Latin America evolved from 3,9% of total LAC imports in early 2000s up to 14,2 % in 2010-12. Within the group of selected large countries in LAC (shown in Table 2.2a) we have seen an increase in the share of China as a provider of imports from 4,1% to 15,1% over this period. Noticeably, this increase was present among all the analysed countries. In this process, the United States was the main displaced origin, particularly in the Mexican case. Interestingly, the EU was only slightly displaced, passing from 14,9% to 13,4% of total LAC imports.

In the case of Latin American exports (see also Table 2.2b), China became an important destination evolving from 2,1% of total LAC's exports in early 2000s up to 8,2 % in 2010-12. In the group of selected large countries, Chile was the country that exhibited the highest increase in the share of exports to China, from 7,2% to 23,5% over the analysed period. China also became a relevant destination for Brazil and Peru. In turn, in the case of Mexico's exports, China's importance passed from 0,4% to merely 1,6% (contrasting with the 15% share of China in Mexican imports) as the US maintained the position as the main destination for Mexican exports. Yet, overall, the US reduced its importance as a market for LAC exports from 56% to 37,3% over the analysed period, with a trend generalized among the larger countries of the region. It is worth noticing that, at the same time, China became also the major trade partner of the US. In contrast, the EU generally kept its share as destination of LAC's exports, passing from 12,9% to 12,2% for all LAC between 2001 and 2012, although this evolution varied largely among Latin American countries.

The geoeconomic change brought by the emergence of China as a competitive global trader was reinforced by the country's commitment to play by multilateral trade rules through its accession to the WTO in December 2001. In the case of the EU, China expanded its role as trade supplier displacing other countries, particularly the US (see figures 2.2a and 2.2b).

Apart from the "Chinese factor", an important structural change in EU-LAC economic relations stemmed from EU enlargement. From the point of view of LAC, the EU15 served traditionally not only as the main importer of food, metals and other commodities, but also as an important market for semi-industrialized products. The expansion of EU imports in the 2000s was characterized by a reduction of intra-trade from 57% to 49% in the case of EU15. Part of this reduction in EU-15 intra-trade was due to the effect of "trade creation" that followed the 2004 enlargement.[8] However, LAC was able to take only a small advantage of the EU15's import growth

Table 2.2a: Trends in Latin American and the Caribbean IMPORTS ; Selected Origins; As a % of Total Imports; 2001–2012

Selected Countries	China		United States		Euro Area		Other Origins	
	2001-2003	2010-2012	2001-2003	2010-2012	2001-2003	2010-2012	2001-2003	2010-2012
Latin America and the Caribbean	3,9	14,2	44,5	29,8	14,9	13,4	36,7	42,5
Argentina	4,7	14,1	18,3	11,2	22,3	16,9	54,6	57,8
Brazil	3,4	14,7	21,9	14,9	27,8	21,0	46,9	49,4
Chile	7,3	17,3	16,5	20,0	18,7	13,6	57,5	49,2
Colombia	4,3	15,0	32,1	25,1	16,1	13,4	47,5	46,5
Mexico	3,9	15,1	64,4	49,4	10,3	10,9	21,5	24,6
Peru	6,2	17,4	20,3	19,4	13,9	11,1	59,6	52,1

Table 2.2b: Trends in Latin American and the Caribbean EXPORTS; Selected Destinations; As a % of Total Exports; 2001–2012

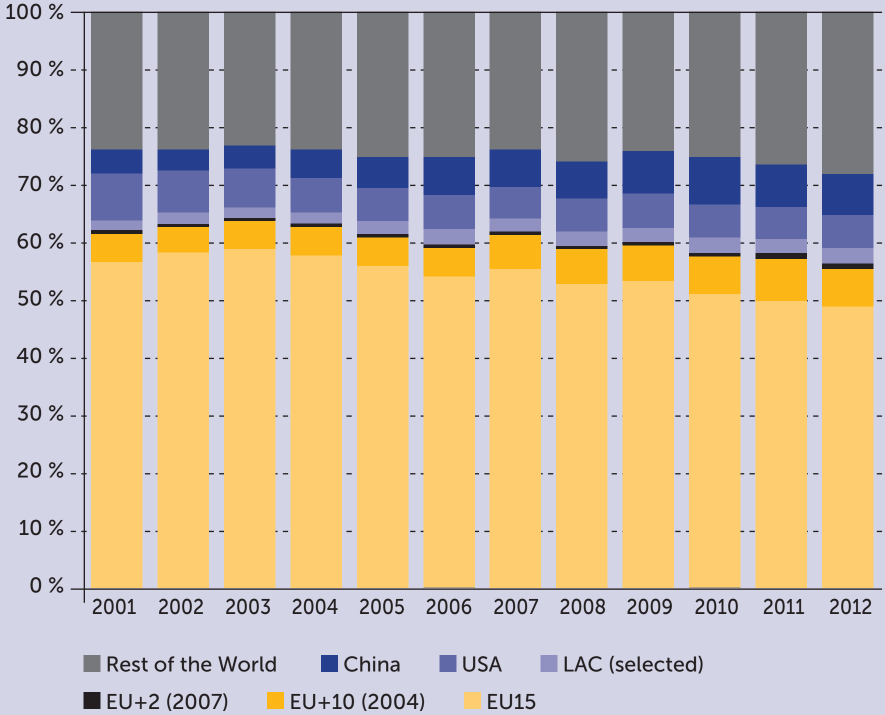
Selected Countries	China		United States		Euro Area		Other Origins	
	2001-2003	2010-2012	2001-2003	2010-2012	2001-2003	2010-2012	2001-2003	2010-2012
Latin America and the Caribbean	2,1	8,2	55,8	37,3	12,9	12,2	29,1	42,3
Argentina	5,6	7,4	11,0	5,2	19,5	16,0	63,9	71,4
Brazil	4,5	16,6	24,5	10,3	26,1	20,9	44,8	52,2
Chile	7,2	23,5	18,7	11,1	24,6	16,8	49,5	48,6
Colombia	0,3	4,7	45,1	39,5	14,2	14,4	40,3	41,4
Mexico	0,4	1,6	86,6	78,8	3,6	5,4	9,4	14,2
Peru	7,2	15,9	25,9	14,7	27,0	17,7	39,9	51,6

Note:[1) Figures for Euro Area according to DOTS-IMF: Austria; Belgium; Luxembourg; Cyprus; Estonia; Finland; France; Germany; Greece; Ireland; Italy; Malta; Netherlands; Portugal; Slovak Republic; Slovenia; Spain.

Source: Own based on TradeMap-Intracen

8 The entry of the Central and Eastern European countries (CEECs) into the EU in 2004 was preceded by extensive efforts to integrate them into the European economy. Important steps in this process were: 1) the gradual liberalization of trade between the EU and the CEECs, as laid down in the Europe Agreements (EAs) and 2) the promotion of trade integration among the CEECs. The trade provisions of the Europe Agreements created a free trade area including the EU and the CEECs from 1 January 2001. Most goods were to be traded without tariffs and quantitative restrictions, and technical standards in the CEECs were adjusted towards EU standards. However, agricultural products were not traded freely and rules of origin applied. When the EU was enlarged on 1 May 2004, the new member states introduced EU external tariffs and agricultural products were then traded without tariffs. For a detailed account of this process and its consequences on trade, see Wilhelmssom et al. (2006).

Figure 2.1: Trends in EU15 imports, 2001-2012.



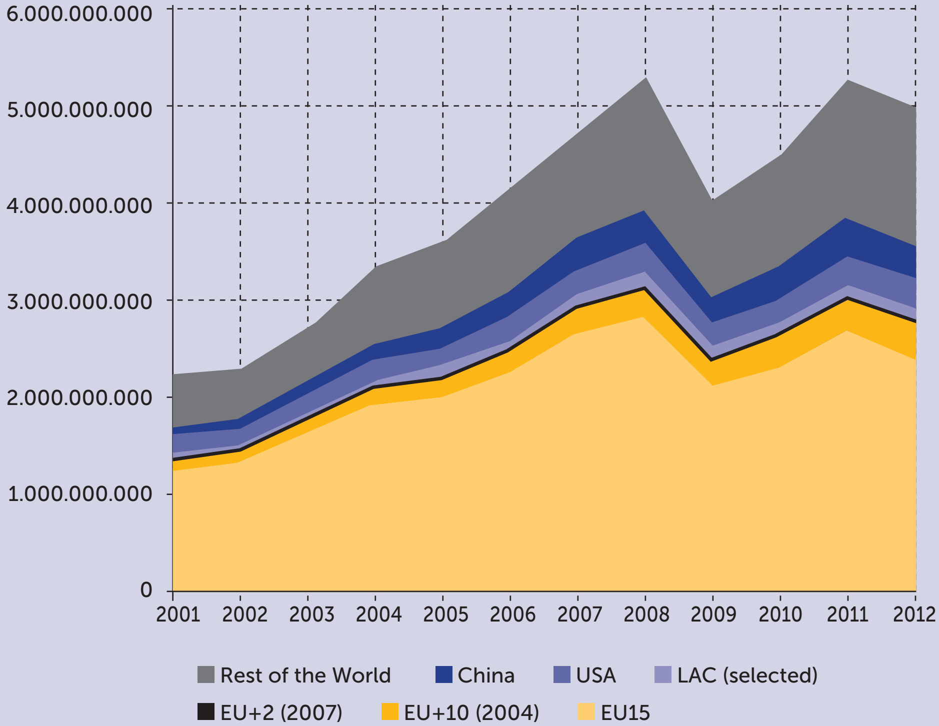
Note: There are 28 EU members. Here, the EU15 corresponds to intra-EU trade, EU+10 are imports of EU15 from the Central and Eastern European countries which entered the EU in 2004 and EU+2 are imports of EU15 from Bulgaria and Romania which entered the EU in 2007. Croatia entered the EU in 2013.

Source: own based UNCTAD and Eurostat

by increasing the share from 1,9% in 2001 to 2,74% in 2012. Most of the trade opportunities were captured by China and other Asian developing economies. At the beginning of the 2000s, expectations for a rapid progress in EU-LAC economic relations were positive and high on both sides. Whereas the EU represented an important market for most of LAC, the latter was only a small market for EU imports and exports, yet a growing economic openness of both regions and the fact that they had traditionally exhibited high complementarities in trade allowed for a prevailing sense of optimism.

Table 2.5 and 2.6 demonstrate a very simple measure of openness in the trade of goods by country in EU and LAC. This indicator corresponds to the average of exports and imports over GDP. In the European case, the average coefficient for the 2007-12 period reaches 34,1% for the EU28. It has to be noted that most of the new entrants are relatively more open than the countries belonging to EU15. The trend in the evolution of openness in EU15 suggests that in the 2000s the region committed to a deeper international integration through trade. Instead, the LAC region exhibits a landscape of relatively closed economies, particularly in the case of

Figure 2.2: Trends in EU15 imports, 2001-2012.



Note: EU members are 28. Here, the EU15 corresponds to intra-EU trade, EU+10 are imports of EU15 from the Central and Eastern European countries which entered the EU in 2004 and EU+2 are imports of EU15 from Bulgaria and Romania. Croatia entered the EU in 2013.

Source: Own based on Eurostat and UNCTAD

Mercosur. This fact is due to the prevalence of trade protectionism as an inertial characteristic deriving from the importsubstituting development strategy that was implemented during the 1960s and 1970s by most LAC countries. During the 1980s and 1990s, several countries in the region (e.g. Chile, Mexico) decided to significantly open up their economies. Others remained reluctant to do so in order not to jeopardize their manufacturing development in view of new competition from Asia. Moreover, in South America, the 2008 crisis reinforced the status quo regarding international integration through trade. This is why in the case of the Mercosur-4 the index of openness decreased from 13% to 11,6% on average before and after the crisis. In contrast, countries such as Chile, Colombia, Peru, Mexico, Bolivia as well as Central America as a whole demonstrated a consistent path towards greater economic openness.

Apart from changes in trade openness, what is striking about the economic relations between the EU and LAC is a high compatibility of their trade, which we demonstrate below by estimating the Michaely Index [9] for the two regions (Table 2.7 and 2.8). For this exercise we arranged LAC countries in different sub-groups. First, we consider the Mercosur-4 case. Then we follow the classification presented by IDB (2011) that distinguishes between the “Brazilian cluster” and the “Mexican cluster”. The members of the Brazilian cluster share a particular set of structural characteristics with Brazil, such as being net commodity exporters, having relatively high international trade exposure in goods and services with emerging markets and low dependence on remittances from industrial countries. In the case of the Mexican cluster, its members share much stronger commercial ties, both in goods and services, with industrial countries (particularly the US); they are also mostly net commodity importers and have a relatively high dependence on remittances from industrial countries. Finally, we also analyse a group of all Latin American countries (excluding the Caribbean region).

These indexes indicate an ex-ante increase in the opportunities for trade and, in essence, the demand patterns between selected groups of LAC countries (Mercosur, Brazilian cluster, Mexican cluster, LAC excluding Caribbean) versus the EU15 and EU28, both before and after the 2008 crisis. Patterns of trade by country and bilateral compatibility indicators tend to be stable over short periods of time unless a sudden change in the productive structure of a partner introduces an alteration in its advantages in trade (for instance, the discovery of oil or the enlargement of the territory). Thus, our exercise was designed to check for this kind of disruptions in the trade pattern between the two regions and, consequently, to verify their mutual trade compatibility.

The tables above demonstrate that trade compatibility between the EU and LAC is very high, as all the indicators are higher than 50. In general, trade compatibility is higher for the EU exports and LAC imports, rather than for the LAC exports and EU imports. This means that EU importing needs are somewhat different from the supply offered by LAC and should be covered by other trade partners. The Mexican cluster is more compatible than the Brazilian one as an exporter to the EU, no matter whether we talk about the EU15 or the EU28. Most interestingly, **neither the EU enlargement process nor the 2008 crisis seem to have introduced noticeable changes in the trade compatibility between the two regions.** The EU and LAC are highly compatible in their trade flows which anticipates high potential benefits of improving free trade between them.

Yet, while openness and compatibility indicate reasons for a closer economic cooperation between the EU and LAC, it is also worth analysing what this cooperation should be about. For this purpose, we analyse the impact of the 2008 crisis on the EU15 imports by group of products.

9 Michaely developed the compatibility indexes as a pretest for the feasibility of economic integration in Latin America. For a detailed explanation, see Rajapatirana (1994). The index of compatibility of country j’s imports with the exports of country k can be defined as: Smjxk. = 1 - ((SUM (Imij - xik l) / 2) where Smjxk is the index of compatibility of imports of country j with exports of country k, mij is the share of commodity i in total imports of country j, and Xik is the share of commodity i in total exports of country k. This index ranges between zero and one hundred. Zero means that trade flows are not compatible (implying highly dissimilar trade flows), while an index of 100 means that trade flows match fully (implying perfect compatibility or identical flows). Similarly, to assess the compatibility of country j’s exports with the imports of country k, a compatibility can be defined as: Sxjmk = 1 - SUM((lxij, -mikl) / 2) where Sxjmk is the index of compatibility of exports of country j with imports of country k, xij is the share of commodity i in total exports of country j and mik is the share of commodity i in total imports of country k.

Table 2.3: Openness Coeficient [1]; Selected Periods; % of GDP					
Countries/regions/ blocs	1980-89	1990-99	2000-03	2004-06	2007-12
LAC	11,6	12,6	18,0	20,6	19,2
Mercosur 4 Partners	8,6	7,3	11,0	13,0	11,6
Argentina	6,1	7,5	13,1	18,9	17,5
Brazil	10,5	6,9	10,4	11,4	10,1
Paraguay	10,7	19,5	29,2	38,3	39,1
Uruguay	14,3	12,8	14,3	21,8	21,2
Mercosur 6 Partners	9,3	8,3	12,3	14,9	13,4
Chile	19,3	21,9	25,3	30,1	31,3
Bolivia	17,8	17,7	19,0	26,8	31,9
Mercosur 7 Partners	10,6	9,2	13,2	16,2	14,2
Venezuela	19,3	22,0	20,7	26,5	20,6
Other LAC	13,2	17,8	22,6	25,3	27,0
Antigua and Barbuda	38,3	31,8	28,0	29,6	26,2
Bahamas	78,4	22,1	17,6	18,9	23,4
Barbados	30,6	21,6	21,7	25,0	24,7
Belize	57,4	37,1	39,9	36,4	38,4
Colombia	8,5	10,9	13,0	14,7	15,5
Costa Rica	29,9	32,8	37,5	41,7	35,8
Dominica	39,7	32,9	26,9	27,4	27,6
Ecuador	14,1	18,1	20,9	24,3	28,2
El Salvador	29,5	23,8	29,2	30,2	31,4
Grenada	30,4	23,7	24,8	23,6	23,2
Guatemala	16,5	19,4	25,1	29,7	27,6
Guyana	51,2	51,8	46,4	50,5	53,0
Haiti	19,1	20,5	20,3	22,9	23,3
Honduras	20,1	37,0	51,2	58,7	52,4
Jamaica	38,5	29,6	25,0	28,7	30,3
Mexico	11,4	18,3	23,3	25,7	28,8
Nicaragua	23,1	25,6	22,9	27,7	35,3
Panama	16,9	18,7	16,4	41,6	54,4
Peru	11,2	11,4	13,6	18,8	22,1
Dominican Republic	20,5	29,8	30,3	27,4	22,8
Saint Kitts & Nevis	42,1	28,3	25,7	22,7	22,2
Saint Vincent and the Grenadines	49,6	34,8	25,2	25,3	28,2
Saint Lucia	46,9	34,0	26,3	30,1	32,4
Suriname	29,0	29,0	38,2	43,6	42,1
Trinidad and Tobago	34,9	36,8	43,2	49,3	46,4

[1] Average of exports plus imports / GDP in percentage

Source: Own based on WTO and WEO-IMF

Table 2.4: Openness coefficient [1]; Selected periods; % of GDP					
Countries/regions/ blocs	1980-89	1990-99	2000-03	2004-06	2007-12
European Union 15	22,8	22,1	29,2	30,6	32,8
Germany	26,9	21,3	27,8	32,0	35,5
Belgium - Luxembourg	58,0	57,8	77,1	83,2	83,6
France	18,1	19,0	23,5	22,7	22,6
Italy	17,5	17,1	20,8	21,5	23,1
Netherlands	44,5	46,0	54,5	60,2	70,3
Denmark	26,6	26,4	30,2	31,1	30,8
Ireland	46,4	53,6	58,1	43,1	41,0
United Kingdom	20,6	20,1	20,1	19,8	21,5
Greece	14,9	14,6	16,0	15,3	16,6
Spain	13,9	16,6	21,8	21,4	21,7
Portugal	24,1	24,2	25,7	26,6	28,7
Austria	26,0	27,5	37,6	41,4	42,2
Finland	23,9	25,0	30,4	32,2	30,9
Sweden	25,7	25,9	30,5	32,7	33,5
European Union 25				31,5	34,1
Cyprus				22,0	21,5
Slovakia				71,7	77,3
Slovenia				55,5	64,5
Estonia				64,2	64,0
Hungary				61,3	72,1
Latvia				42,8	44,2
Lithuania				51,9	60,2
Malta				52,2	53,3
Poland				32,9	36,4
Czech Republic				61,3	66,7
European Union 27					34,1
Bulgaria					53,1
Romania					34,0
European Union 28					34,1
Croatia					29,2

[1] Average of exports plus imports / GDP in percentage

Source: Own based on WTO and WEO-IMF

Table 2.5: Compatibility Index for Exports and Imports; Michaely Index

Exporters	Importers			
	EU15		EU28	
	2005-2006	2011-2012	2005-2006	2011-2012
Mercosur	62,0	55,5	61,9	55,4
Brazilian Cluster [1]	53,6	53,4	53,4	52,7
Mexican Cluster [2]	75,0	74,0	74,9	74,5
LATAM (ex Caribbean)	73,0	71,7	73,1	70,9

[1] Brazil; Argentina; Bolivia; Chile; Colombia; Ecuador; Paraguay; Peru; Trinidad and Tobago; Uruguay; Venezuela.

[2] Mexico; The Bahamas; Barbados; Belize; Costa Rica; Dominican Republic; El Salvador; Guatemala; Guyana; Honduras; Jamaica; Nicaragua; Panama; Suriname.

Source: Own based on Trade Map

Table 2.6: Compatibility Index for Imports and Exports; Michaely Index

Importers	Exporters			
	EU15		EU28	
	2005-2006	2011-2012	2005-2006	2011-2012
Mercosur	76,3	76,7	76,3	77,8
Brazilian Cluster [1]	81,2	80,6	81,5	81,7
Mexican Cluster [2]	80,6	77,9	81,3	79,1
LATAM (ex Caribbean)	81,8	80,9	82,3	82,0

[1] Brazil; Argentina; Bolivia; Chile; Colombia; Ecuador; Paraguay; Peru; Trinidad and Tobago; Uruguay; Venezuela.

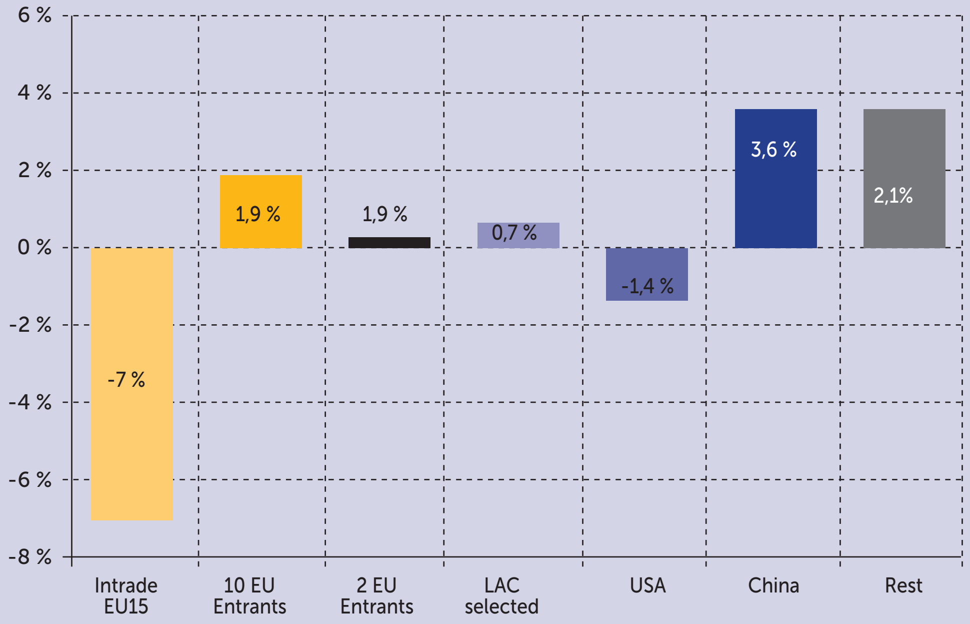
[2] Mexico; The Bahamas; Barbados; Belize; Costa Rica; Dominican Republic; El Salvador; Guatemala; Guyana; Honduras; Jamaica; Nicaragua; Panama; Suriname.

Source: Own based on Trade Map

Our aim is to identify which are the trade chapters where LAC has been gaining participation and which are the trade flows where LAC has been displaced by other competitors.

Figure 2.6 demonstrates changes in the participation of each of the selected partners in the EU15 imports in two sub-periods: before and after the crisis. It demonstrates that China has been the country with the highest increase in the share of the EU15's imports, while the US have seen the highest trade displacement. LAC countries exhibited a modest growth in their participation in EU15 imports. Most importantly, however, when we break down these trade changes by major trade chapters, we may distinguish two different patterns. On the one hand, there is a small group of products (22 out of 97 chapters of the Harmonized System) in whose case the EU15 increased its share, increasing its intra-regional trade and restricting the space for external competitors. On the other hand, there is a long list of products in whose case the EU15 decreased its share of intraregional trade allowing for the entrance of new partners. The former case can be explained

Figure 2.3: EU15: Imports-Change of composition by partners, avg. 2009-2012/2001-2004



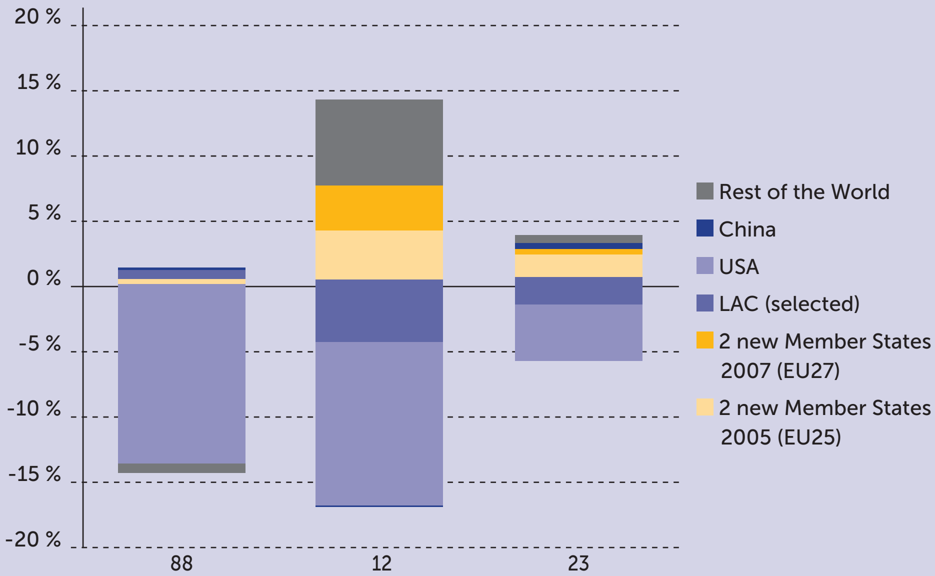
Source: Own based on Intracen, UNCTAD

by a productivity gain of EU15 members or by an implementation of some form of defensive trade barriers. Meanwhile, the latter case can be explained by trade creation or diversion resulting from the EU enlargement or from an increased competitiveness of countries from the rest of the world. In general, LAC countries have not played a central role as a displaced region within the EU15 imports. Instead, they have gained in participation on average, especially in selected areas. Figures 2.4 - 2.7 demonstrate those trade chapters where changes have been the most relevant for LAC countries.

Figure 2.4 represents an interesting case where the intensification of trade within the EU15 displaced not only the US but also the LAC countries as providers of agricultural products (mainly oil seed products and by-products) extending the effect to the new EU entrants that increased their provision to the EU15. Interestingly, in a technologically advanced chapter such as that of aircrafts, the displacement of US corresponded to a small increase in the LAC's participation. On balance, the figure illustrates a recurrent issue of agricultural protectionism in the EU that has traditionally constituted a major barrier in the trade negotiations between Mercosur and the EU. At the same time, this case allows for moderate optimism in terms of new opportunities in the manufacturing activities being open for LAC as a provider of goods to the EU.

Figure 2.5 demonstrates two products where China was the country suffering the greatest displacement in favour of an increase in the EU15 intra-regional trade. In the case of LAC, de-

Figure 2.4: EU15 imports : Case a. Trade chapters with increased participation of intra-trade. Main dicplaced origins: USA and LAC, avg. 2009-2012/2001-2004



Note:
88. Aircraft, spacecraft and parts thereof
12. Oil seed, oleagic fruits, grain, seed, fruit, etc.
23. Residues, wastes of food industry, animal fodder

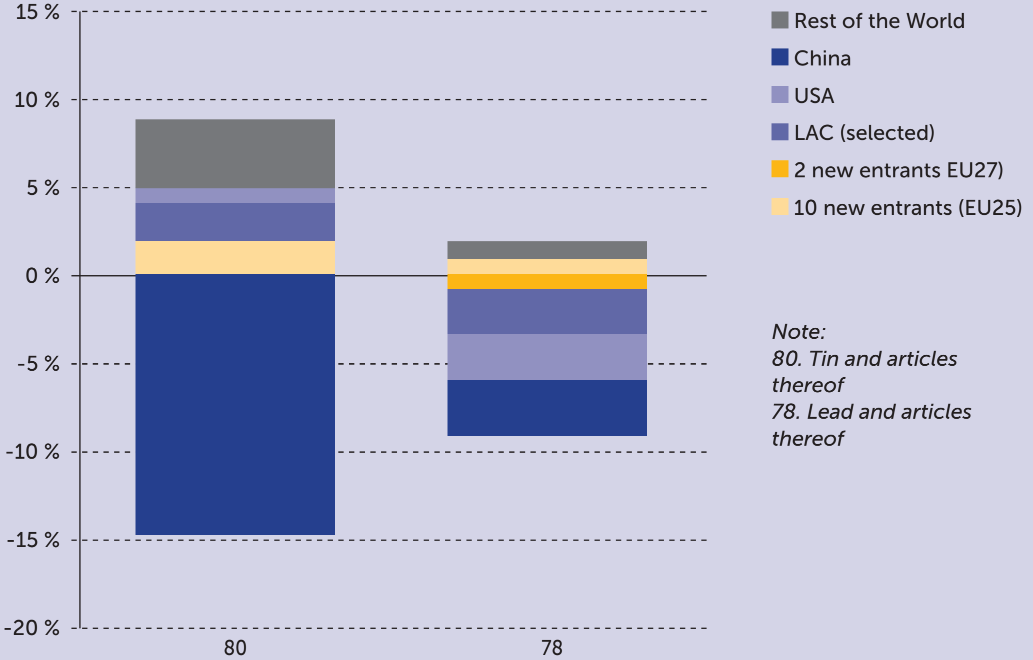
Own graph (Source: UNCTAD)

spite increased EU15 intra-regional trade, LAC's participation increased in the area of tin and byproducts but decreased in lead and by-products. It is worth noting that the intensification of EU15 intra-regional trade is the worst scenario for LAC insertion on the European market, and nevertheless in some cases LAC was able to improve its participation (most probably due to the effects of intra-industry trade).

In turn, Figure 2.6 demonstrates the cases where LAC was the major beneficiary of the reduction in the EU15's intra-regional trade in favour of other sources. Three of the product chapters where LAC managed to increase its participation are sugar, fruits as well as vegetables and their food preparations, mostly originating from Central America and the Caribbean. The other two are metals and chemicals, which demonstrates the importance of industrial commodities in EU LAC trade.

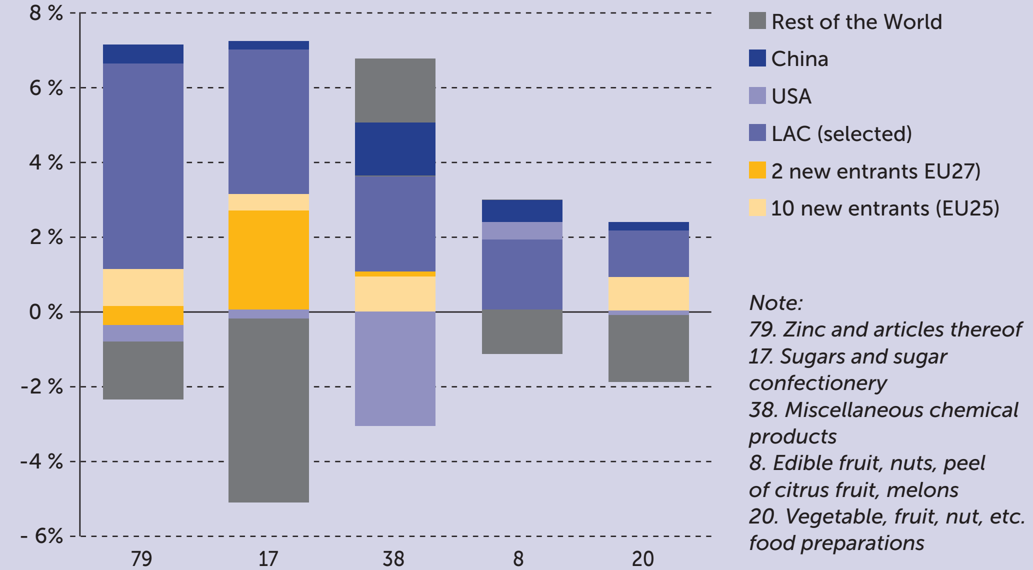
As regards the competition between the EU's new entrants (2004 and 2007) and LAC, it turns out that LAC was displaced only in few cases (e.g. copper) and was able to gain participation in several others (e.g. meat, fish and other seafood preparations, as well as edible vegetables and certain roots and tubers). At the same time, in many of the products provided by new EU

Figure 2.5: EU 15 Imports Case a. Trade Chapters with increased participation of intra-trade
Main displaced origin: China Avg 2009 - 2012/ Avg 2001 - 2004



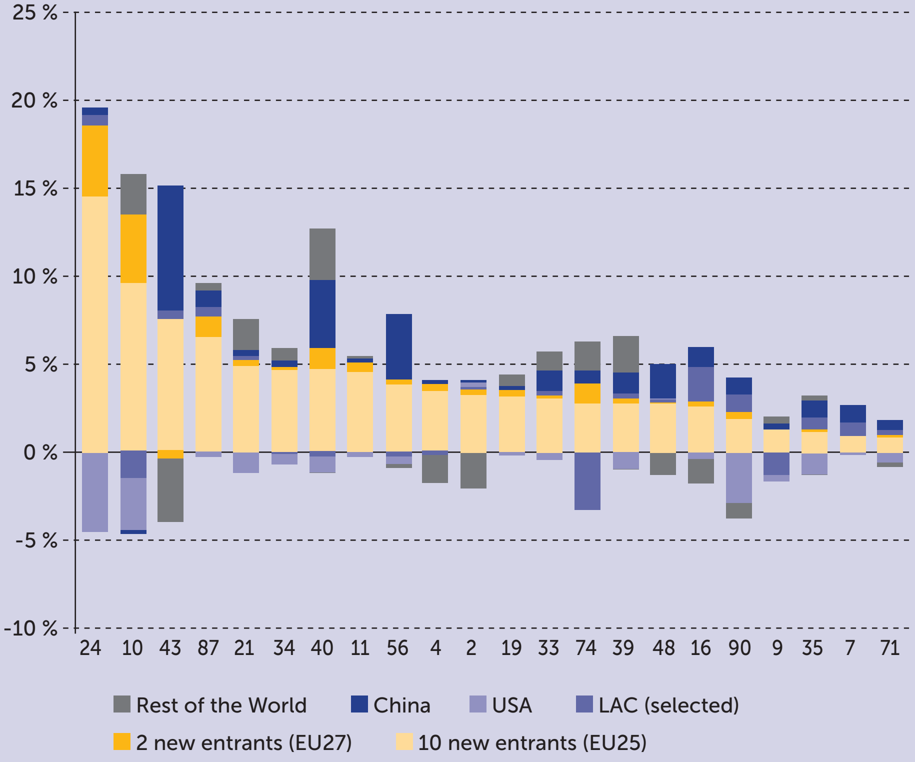
Source: Own based on Intracen, UNCTAD

Figure 2.6: EU15 imports Case b. Trade chapters with decreased participation of intra-trade
Main origin of import increase: LAC Avg 2009 - 2012 / 2001 - 2004



Source: Own based on Intracen, UNCTAD

Figure 2.7: EU15 imports Case b. Trade chapters with decreased participation of intra-trade Main origin of import increase: 10 new entrants (2005) Avg 2009 - 2012 /2001 - 2004



Note:
24. Tobacco and manufactured tobacco substitutes
10. Cereals
43. Furskins and artificial fur, manufactures thereof
87. Vehicles other than railway, tramway
21. Miscellaneous edible preparations
34. Soaps, lubricants, waxes, candles, modeling pastes
40. Rubber and articles thereof
11. Milling products, malt, starches, inulin, wheat gluten
56. Wadding, felt, nonwovens, yarns, twine, cordage, etc
4. Dairy products, eggs, honey, edible animal productness
2. Meat and edible meat offal
19. Cereal, flour, starch, milk preparations and products
33. Essential oils, perfumes, cosmetics, toiletries
74. Copper and articles thereof
39. Plastics and articles thereof
48. Paper and paperboard, articles of pulp, paper and board
16. Meat, fish and seafood food preparationsness
90. Optical, photo, technical, medical, etc. apparatus
9. Coffee, tea, mate and spices
35. Albuminoids, modified starches, glues, enzymes
7. Edible vegetables and certain roots and tubers
71. Pearls, precious stones, metals, coins, etc.

Source: Own based on Intracen, UNCTAD

entrants, the LAC countries could also have become competitive providers, if only a free trade arrangement was signed between the EU and Mercosur, see Figure 2.7.

Finally, China's gain in import share occurred in 36 out of the 99 trade chapters, mostly consisting of final consumption products (e.g. textiles, footwear, toys, furniture, electrical products). This is the same variety of products that compete with LAC producers in its own market, indicating a low probability of gains in the case of an EU-LAC free trade association.

(b) Foreign Direct Investment

The most important participants in Foreign Direct Investment (FDI) have traditionally been the transnational companies (TNCs). Yet, two other types of participants increased their share in this process over the last decade: private equity funds and sovereign wealth funds. The latter focus their interest as direct investors in the financial and service sectors through mergers and acquisitions, mainly located in developed economies. FDI constitutes a financial vehicle for investment that demands deep involvement on the part of the investor. FDI substantiates a closer relationship between the foreign company and the local area. This implies a greater risk owing to lower liquidity of this kind of transactions. This situation helps explain why it is also more difficult to attract FDI compared to other kinds of financing, as conditions that guarantee legal security are needed.

The expansion of FDI flows in the past 20 years can be explained by a global trend towards more economic integration and especially by the determination of developing countries to carry on with political and economic reforms. From Asia to Latin America, growth, economic deregulation, privatization programs and the lifting of diverse restrictions on FDI flows made those economies increasingly attractive to international companies.

FDI flows traditionally show greater fluctuations over time than trade flows. Besides, "financial turmoil reshapes the perception and magnitude of bilateral FDI flows in both host and home countries; host countries governments see in FDI a means for overcoming the sluggish economic situation and hence become eager to stimulate FDI inflows, while for the same reasons home countrie's governments, and investors become more cautious about their decisions to invest abroad" (Abdelaal Mahmoud, 2011).

In the 2000 - 2012 period, FDI overall flows in the world contracted three times: first, after the burst of the "dot-com bubble" in 2000; then, during the 2008 crisis; and finally, after the Eurozone crisis. In the second case, after five years of continuous growth, global FDI was seriously affected by the international economic crisis, especially in 2009 when the total inflow of FDI fell to around USD 1.198 billion (in 2008 this flow was US$ 1.791 billion and in 2012 it was of 1.311 billion).[10]

During the crisis, it became apparent that the flows to developing countries were more resilient than those directed to developed countries, and that South-South flows were increasing their relative importance in the total amount of FDI. In fact, before the crisis, developing economies were recipients of less than a half of total FDI but after the crisis their participation increased and since 2010 they have received more than 50% of those flows (see corresponding Figure 1.2 in the introductory chapter). In LAC's case, Brazil kept the 8th position in the international ranking of FDI receivers.

At the same time, the internationalization of companies established in emerging economies gave rise to an increase in the reverse direction of investment flows: from developing towards developed countries. Finally, trade agreements creating enlarged markets have also become factors attracting FDI flows. In the Mercosur case, Cristini and Amal (2006) found that one important factor attracting FDI was the enlargement of the domestic market due to the Mercosur agreement.[11]

Although the US and countries of the EU continue to be the largest investors in Latin America, investments made by firms from LAC countries increased substantially in 2012, to 14% of all FDI entering the region that year. In 2012, the sectorial distribution of FDI for the region as a whole was similar to the average for the past five years, although the share going to services (the largest destination sector) edged up to 44% of the total in 2012. Manufacturing slid slightly but continues to represent 30% of the total. The proportion going to sectors based on natural resources was the same in 2012 (26%) as during 2007-2011 (ECLAC, 2012).

EU has been traditionally a key provider of FDI to LAC. In the 1990s, the EU became the principal investor in the LAC region, surpassing the participation of the US in practically all countries, except for Mexico. European companies considered Latin America to be the main target for investment in the developing world. Their participation showed a significant rise throughout the 1990s, passing from 34% in 1992 to more than 50% in 2000. At that time, European FDI to the region was a very important source of financing for infrastructure.[12] Particularly, the EU became the most important FDI source for Mercosur. In Latin America as a whole, Brazil was the most important host country (43%) for EU investment, followed by Argentina (16%) and

10 Factors that led firms to cut back capital spending at home, such as scarce credit, weak profits and uncertainty about demand, also hurt cross-border investment. The worst-hit countries were the developed ones, particularly in the European Union (FDI into Britain and Germany was around a half of its 2007 level, in Italy it fell by 94%). Flows into the United States, the biggest recipient of FDI, reduced only by 6%. Big emerging markets such as Brazil, China, India and Russia, exhibited increasing flows. This was also the case of South Africa, which showed the biggest increase, of 111% (UNCTAD, 2009).

11 An econometric exercise showed that an increase of 10% in the joint GDP due to the customs union (Argentina + Brazil + Paraguay + Uruguay) would cause a 1,2% increase in FDI stock. It must be noted that the formation of Mercosur as a "signal" to investors seemed to be more important than the "size effect".

12 In retrospect, the then-emerging scenario of private participation in public infrastructure investments turned out to be much more complex than expected. Lack of experience, excessively low bids by concessionaires, weak governance systems and weak regulators contributed to contract renegotiations. Serious cases of breach of contract also occurred. Unfortunately, the economic and political crisis that assailed Argentina in the early 2000s was a source of deep concern about regulation and enforcement of infrastructure contracts. This was the most serious case of contractual instability in the region in a long time and it remains still unresolved.

Mexico (10%). Spain accounted for 65% of FDI flows, the United Kingdom for 15%, France 7%, Germany 5% and Portugal 4%.

After the 2008 crisis, the value of EU outward FDI flows decreased slightly, but not in the case of LAC. In consonance with the world trend, developing countries significantly gained in participation as recipients of the EU's FDI. Latin American countries more than doubled their share (see Table 2.6) led by Brazil, which increased its participation as a host country for the EU's FDI from less than 1% to an outstanding 4,3% (approximately a third of EU's outward flows to USA and Canada taken together). Investment from Spain dropped sharply, from 10% in 2011 to 5% in 2012 of the total FDI in LAC (ECLAC, 2012). This happened largely due to disinvestments that followed after the Eurozone crisis. In fact, some trans-Latin American companies expanded due to business opportunities that arose as a result of asset divestments by European firms (UNCTAD, 2013).[13]

Regarding the inflows to the EU from the rest of the world, they primarily come from other OECD countries, although – interestingly – LAC has increased its share from 1,4% to 2% after the crisis (see Table 2.7). This increase corresponds to a general trend whereby outward FDI flows coming from LAC economies expanded in 2012 to an all-time high of US$ 48.704 billion. These investments came mainly from Brazil, Chile, Colombia and Mexico.

(c) Preferential Trade Agreements

LAC countries participated in preferential trade negotiations since 1960 when the ambitious Free Trade Latin-American Association (ALALC) was launched.[14] However, the strategy of creating a large internal market in the region was frustrated by the prevalence of trade protectionism, particularly on the part of the largest economies in the region.

Another incomplete project was the Andean Community of Nations (CAN) organized in 1969. In the Caribbean, 15 small nations established the CARICOM in 1973. In Central America, the Common Market (MCCA) was organized in 1960 but its effectiveness was then seriously affected by the political instability in the region. In the 1990s, with the advance of globalization and economic reforms in many LAC countries, the region adopted the idea of **"open regionalism"** as a complement to multilateralism (GATT/WTO) and unilateral reduction of trade barriers. Under this new strategy, various countries in the region searched for new partners, particularly among the most advanced countries. Chile and Mexico have been the most successful examples of this strategy so far. Other countries decided to reinforce economic ties with their neighbours, reformulating the idea of a broader regional market as a platform for enhanced competitiveness. This was the case of the early stages of the Mercosur, established by Brazil, Argentina, Uruguay and Paraguay in 1991 in the form of a customs union.

[13] According to ECLAC (2012), seven out of the ten largest acquisitions by "Trans-Latinas" in 2012 consisted of asset buys from European companies, such as in the case of the public offering of 25% of Banco Santander's subsidiary in Mexico, for US$ 4.1 billion.

[14] It was replaced by ALADI in 1980.

Table 2.7: EU direct investment outward flows by extra EU country of destination				
Millions EUR	Millions EUR		As % of total inward flows	
	2001 - 2008	2009 - 2012	2001 - 2008	2009 - 2012
All countries of the world	706.467	637.817	100	100
OECD countries	562.202	444.331	79,6	69,7
Extra-EU-15	309.701	381.895	43,8	59,9
Extra EU-25	283.058	346.007	40,1	54,2
Extra EU-27	329.059	341.051	46,6	53,5
Africa	13.558	15.736	1,9	2,5
America	140.055	164.388	19,8	25,8
Northern America	95.784	108.096	13,6	16,9
Central America	31.592	22.418	4,5	3,5
South America	12.678	33.876	1,8	5,3
Latin American countries	18.984	40.978	2,7	6,4
Argentina	1.993	1.577	0,3	0,2
Brazil	6.708	27.494	0,9	4,3
Chile	1.515	1.646	0,2	0,3
Mexico	5.158	4.324	0,7	0,7
Uruguay	344	446	0,0	0,1
Venezuela	1.051	1.671	0,1	0,3
Asia	43.636	60.242	6,2	9,4
Oceania and southern polar regions	5.532	6.541	0,8	1,0

http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/main_tables

Notes: Figures correspond to average annual outflows of EU direct investment to the rest of the world (2001-2008 and 2009-2012). The definition of each group comes from EUROSTAT's "Balance of Payments Vademecum" (http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/documents/7724_14228_2007_EN_3.pdf). Latin America includes 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Uruguay, Venezuela. South America includes 13 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Falkland Islands (Malvinas), Guyana, Peru, Paraguay, Suriname, Uruguay, Venezuela. Central America includes 30 countries: Antigua and Barbuda, Anguilla, the Netherlands Antilles, Aruba, Barbados, Bermuda, Bahamas, Belize, Costa Rica, Cuba, Dominica, Dominican Republic, Grenada, Guatemala, Honduras, Haiti, Jamaica, St Kitts and Nevis, Cayman Islands, Saint Lucia, Montserrat, Mexico, Nicaragua, Panama, El Salvador, Turks and Caicos Islands, Trinidad and Tobago, St Vincent and the Grenadines, Virgin Islands, British, Virgin Islands.

Source: Own based on Eurostat

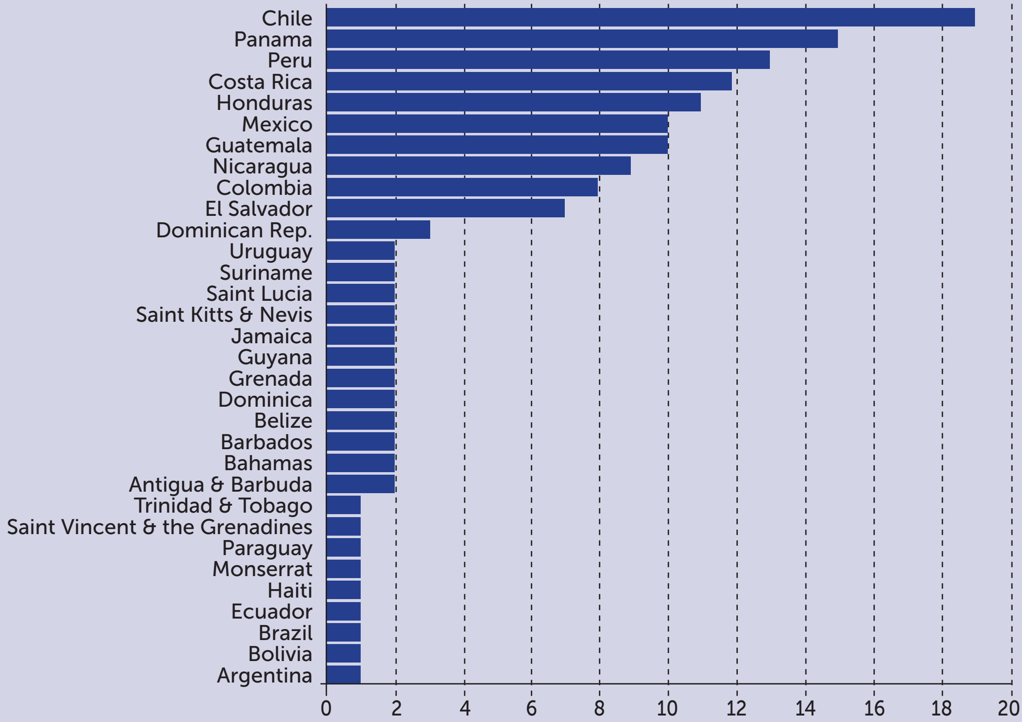
In the 2000s, the idea of a **multifocal external strategy** prevailed in the region's more market-oriented countries, such as Chile, Mexico, Colombia, Peru, the Caribbean and Central America. At the same time, Mercosur members, as well as Bolivia, Ecuador and Venezuela, focused on arrangements within the region while rejecting the US-promoted idea of a Free Trade Area of the Americas in 2005. A year before, in 2004, negotiations for a trade agreement between Mercosur and the EU stalled, mostly due to a disagreement on agricultural bilateral trade liber-

Table 2.8: EU direct investment inward flows by extra EU investing country				
Millions EUR	Millions EUR		As % of total inward flows	
	2001 - 2008	2009 - 2012	2001 - 2007	2008 - 2012
All countries of the world	575.477	578.470	100	100
OECD countries	506.889	480.757	88,1	83,1
Extra-EU-15	186.941	310.061	32,5	53,6
Extra EU-25	178.963	303.304	31,1	52,4
Extra EU-27	206.684	303.233	35,9	52,4
Africa	2.951	6.085	0,5	1,1
America	103.075	188.379	17,9	32,6
Northern America	80.209	149.920	13,9	25,9
Central America	15.586	29.921	2,7	5,2
South America	7.281	8.539	1,3	1,5
Latin American countries	8.040	11.455	1,4	2,0
Argentina	239	38	0,0	0,0
Brazil	5.522	6.589	1,0	1,1
Chile	485	333	0,1	0,1
Mexico	611	2.554	0,1	0,4
Uruguay	491	259	0,1	0,0
Venezuela	262	577	0,0	0,1
Asia	26.400	39.141	4,6	6,8
Oceania and southern polar regions	3.650	2.579	0,6	0,4
Source: Own based on Eurostat				

alization. Figure 2.8 demonstrates the number of preferential trade agreements signed by each Latin American country; Figure 2.9 serves as an illustration of different strategies employed by LAC countries in this respect; see also Figures A2.1 and A2.2 in the Statistical Annex for more details.

All in all, **the analysis of LAC initiatives regarding regional agreements suggests a divide of the region into two distinctive groups: one advancing a multifocal strategy and the other keeping an inward-oriented trade strategy.** In the case of South America, this classification largely corresponds to a geographic divide opposing the Pacific and the Atlantic coast. The economies on the Pacific coast are smaller, in both geographic and economic terms, and at the same time most of them have experienced a solid progress in their economic organization and performance. They have been very active in terms of preferential agreements with partners out of the region. For example, as of 2010, several countries on the Pacific coast decided to join negotiations on the Trans-Pacific Partnership (TPP) agreement.[15] In contrast, the Atlantic economies remained relatively closed to international trade and their preferential agreements are concentrated in Latin America.

Figure 2.8: LAC: PTAs in force (FTA, Custom Unions & Economic Integration Agreements) By Country



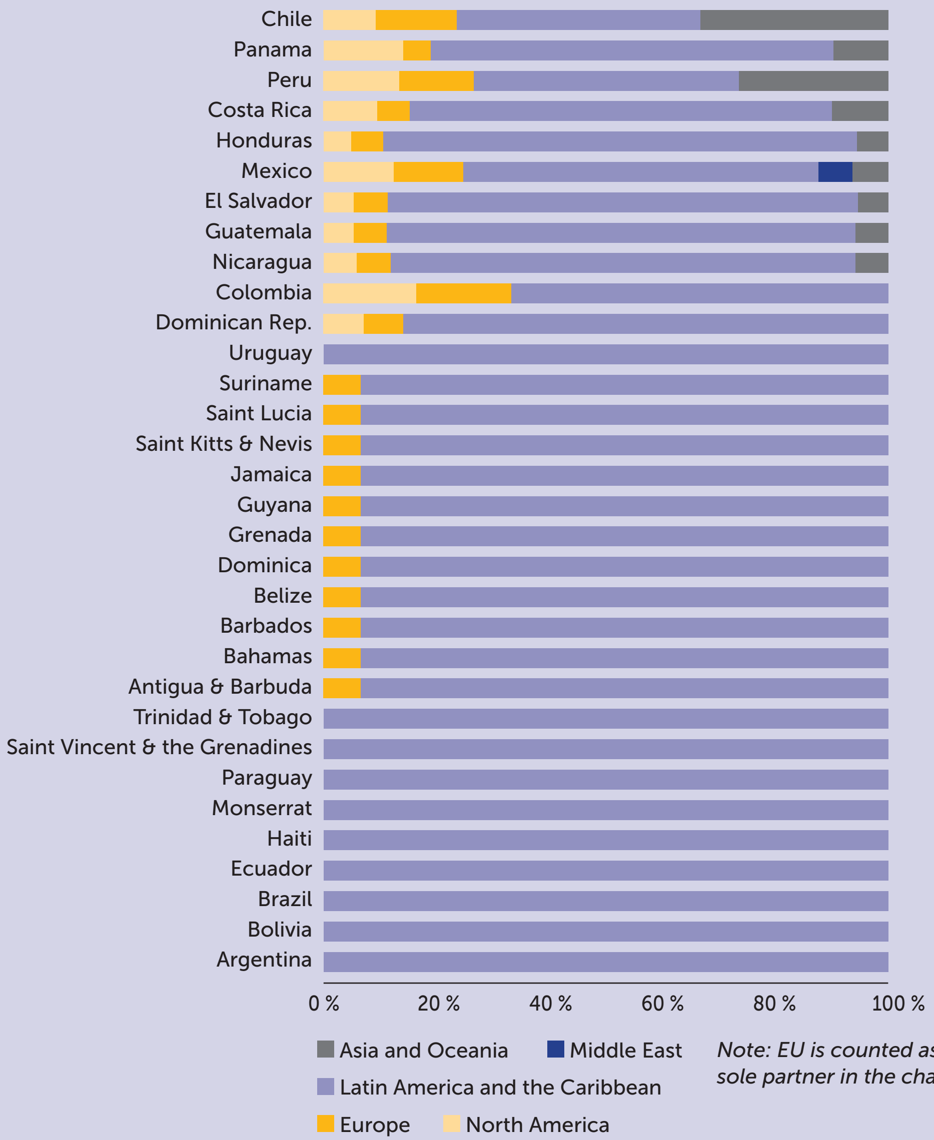
Source: Own based on WTO

As illustrated in Figures 2.8 and 2.9, **the EU has been the most frequent partner of LAC, being bound by different preferential agreements with economic effects with 22 out of 33 members of the CELAC**.Among these cases, Mexico and Chile are those with the longest association with the EU. It is worth analysing those cases in more detail, as they may provide useful lessons for other agreements between the EU and LAC.

The EU and Mexico concluded an Economic Partnership, Political Coordination and Cooperation Agreement in 1997, and this included trade provisions that were developed in a comprehensive Free Trade Agreement that entered into force in October 2000.This negotiation took place at the time when the EU was preparing for the 2004 enlargement. The EU and Chile concluded

15 TPP negotiations build on the Trans-Pacific Strategic Economic Partnership Agreement (P4) between Brunei Darussalam, Chile, New Zealand, and Singapore, which was signed in June 2005 and entered into force in May 2006. The aim of the TPP negotiations is to create an ambitious preferential trade agreement involving the P4 countries and Australia, Peru, the United States, Vietnam, and Malaysia. In November 2011, Canada, Mexico, and Japan stated their intent to join the TPP negotiations. The United States decided to join the initiative in September 2008 partially abandoning the diplomatic effort in the Doha Round (in 2012 the "US pivot to East Asia strategy" was announced).

Figure 2.9: LAC: PTAs in force (FTA, Custom Unions & Economic Integration Agreements) By Country & Partner



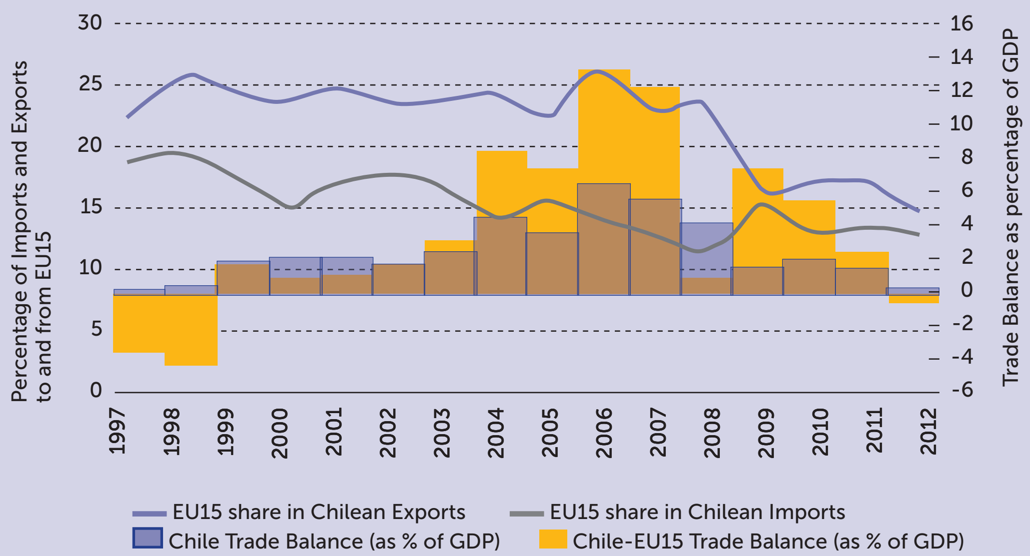
Note: EU is counted as a sole partner in the chart.

Source: Own based on WTO

their Association Agreement in 2002, and this included a comprehensive FTA agreement which entered into force in February 2003.

From several evaluations of the two agreements of the EU with Chile and Mexico, it may be pointed out that the EU-Chile agreement triggered a relatively small aggregate economic gain for the Chilean economy, being beneficial mainly for the unskilled labour. Moving to a situation of unrestricted bilateral free trade would make little difference, with gains concentrated mostly

Figure 2.10: Chile-EU15: Annual Trade Flows Selected Indicators

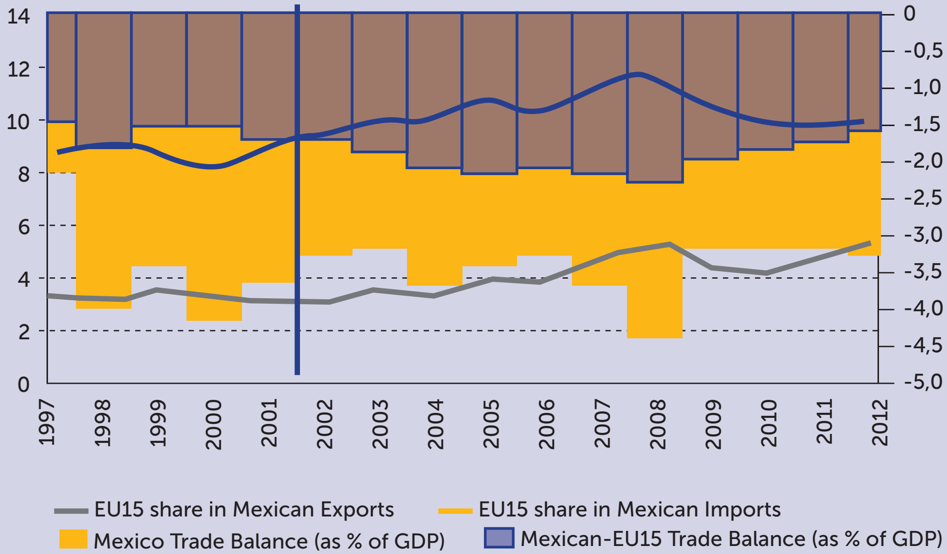


Own graph (Source: UNCTAD)

in the meat sector (Jean, Mulder and Ramos, 2012). Moreover, the impact on EU imports from Chile was much smaller than the impact on EU exports to Chile, given that prior to the agreement 86% of the EU imports from Chile were already entering free of duty. In the case of the Mexico-EU agreement, the phasing out of trade barriers was significantly slower than in the Chilean case. Accordingly, trade effects appeared with a lag. Here, the agreement did not lead to a significant increase in EU exports to Mexico. Instead, EU imports from Mexico exhibited a more important growth. In fact, the impact on EU imports from Mexico was larger than the impact on EU imports from Chile (Copenhagen Economics, 2011).

Both agreements were expected to have positive trade impacts for its participants. Nonetheless, trade dynamics of Chile in terms of increasing flows and strategic construction of new partnerships led to a moderate growth of EU15 participation in its total trade. Moreover, this participation shrunk visibly after the 2008 crisis. In the case of Mexico, the importance of the EU as a client and a provider grew slightly in relation to other trade partners, and this relationship was less affected by the crisis than in the Chilean case (Figures 2.11 and 2.12 illustrate those effects). All in all, both agreements proved to be beneficial for their partners, but they only played a complementary role in the Mexican and Chilean globalization strategies, same as in the European case. Besides, they did not manage to prevent negative effects of the international crisis on bilateral trade. It should be noted that PTAs with the EU recently signed by Colombia and Peru are based on a similar LAC strategy of multiplying preferential trade partners as an instrument of accession to the largest developed markets. In the case of Central America, the situation is similar in terms of diversification of partners, but outcomes for its participants on the LAC's side may be limited due to the small size and lower development of the countries involved.

Figure 2.11: Mexico-EU15: Annual Trade Flows Selected Indicators



Own graph (Source: UNCTAD)

2.3 MERCOSUR – EU ECONOMIC RELATIONS: A CASE STUDY

The establishment of Mercosur in 1991, to some extent under the inspiration of the European model of regional integration sealed a historical biregional alliance between the Southern Cone and the EU15. Their economic links were developing thanks to EU investment in the region, apart from traditionally high trade flows. Both regions shared democratic values as well as political and legal institutions that formed a common ground for the development of stronger ties. An important step in this direction was the 1995 Framework Agreement which involved three priorities: support for the strengthening of Mercosur institutions; development of economic and trade structures in the region, in order to prepare for the establishment of a future Association Agreement; and support to civil society. Within a typical North-South agreement, the EU was supposed to assist Mercosur countries in their regional integration.

Negotiations of the Association Agreement between the EU and Mercosur were launched in June 1999. An initial timetable was established and divided into three areas: political dialogue, cooperation and trade liberalization. The EU-Mercosur FTA, which could become an interregional agreement sui generis, was supposed to be completed by 2004. However, the two sides failed to agree on each other's final offers. Among other things, Mercosur was not satisfied with the EU's agricultural market access provisions while the EU complained about the lack of Mercosur's proposal to open their telecommunications sector. After a short impasse, the resumption of negotiations was put off indefinitely.

At that time, perspectives for the EU-Mercosur agreement looked attractive for both partners, although its limitations had already been acknowledged.[16] **Negotiations were officially re-**

Table 2.9: Mercosur and European Union 27; Selected Indicators					
Indicator			Mercosur (4)		European Union (EU27)
Gross Domestic Product Growth	Annual rate 2010 - 2013 (%)[1)]		3,9		0,8
Gross Domestic Product per Capita					
Average	Based on USD PPP avg. 2010 - 2013	Average	12.665	Average	30.444
Max	Based on USD PPP avg. 2010 - 2013	Argentina	17.474	Luxembourg	78.199
Min	Based on USD PPP avg. 2010 - 2013	Paraguay	6.199	Romania	12.538
Inward Foreign Direct Investment Flows	Proportion of Global Flows (%) (annual avg. 2009-2012)		4,3		25,6
Exports	USD millones avg. 2010-2013		328.527		5.273.447
	% Intrazone trade		15,2		63,6

[1)] Annual growth weighted average by population.

Source: Own based on WTO, WEO-IMF and UNCTAD

launched in May 2010, during the recovery of the international crisis and just before the most difficult period of the Eurozone crisis.

Current negotiations of a trade agreement between the EU and Mercosur constitute a part of an overall negotiation for a biregional Association Agreement, which covers also political and cooperation pillars. The objective of the European Commission is to negotiate a comprehensive trade agreement, covering not only trade in industrial and agricultural goods but also in services, improvement of rules on government procurement, intellectual property, customs and trade facilitation, as well as technical barriers to trade. Since 2010, nine negotiation rounds have taken place. Yet, the two regions are still working on the preparation of their individual market access offers.

For various reasons, current negotiations are taking place in a significantly different context as compared to the moment when they were initiated in 1999. First of all, the EU now includes 28

16 TPP As Estevadeordal and Suominen (2004) argued: "should the EU's preferential tariff-lowering schedule offered to Mercosur come to resemble the schedules in place in the EU-Mexico and EU-Chile FTAs, the EU-Mercosur agreement would have the quickest and most substantial impact on Mercosur's manufacturing exports to the EU. However, the greatest trade and welfare gains for Mercosur would arise from the EU's opening of its agricultural market."

members in comparison with just 15 in 1999. The enlargement resulted in a reduction of the average income of the group, so that the less developed members of the EU have a per capita income similar to the Mercosur average (See Table 2.9). Also Mercosur has enlarged to include Venezuela, although this country will not take part in negotiations because it has not completed its accession process yet. Bolivia is going to join Mercosur soon, while Ecuador has also declared its interest to join. Secondly, there are diverging growth dynamics between the two regions. The EU is struggling with high unemployment and low growth perspectives. Forecasts for Mercosur are more optimistic, even if 2014 proves to be a year characterized by low growth. However, the sheer size of the EU as well as its importance as a world importer and provider of financial flows suggest that a cautious approach to an association agreement will be beneficial for members of Mercosur.

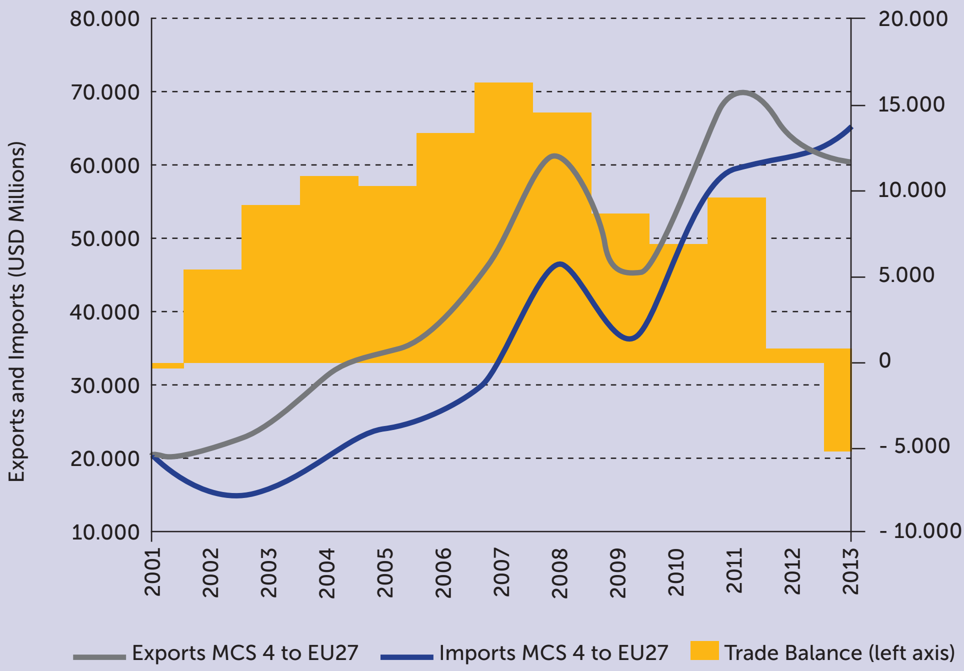
Many factors are behind the new round of EU-Mercosur negotiations. It can be seen as a reaction of the EU to a growing interest of China in LAC, particularly evident in the case of Brazil. Similarly, it may be seen as EU's reaction to a renewed presence of the US in South America through the TPP and given Brazil's potential convergence to this agreement. The 2008 crisis may prove to be important in that it changed international growth dynamics, increasing the attractiveness of large emerging countries, like Brazil, while at the same time exposing structural problems for long-term growth in the EU. Europe's engagement in the negotiations may also stem from its recognition of a successful Asian PTA strategy in Latin America. Meanwhile, Mercosur countries may be mobilized by the fact the EU cut down its unilateral preferential arrangements within the Generalized System of Preferences, affecting mostly Mercosur members.

Mercosur has historically kept an inward-oriented strategy. Consequently, it signed only a handful of trade agreements with countries in the rest of the world, all of them of limited scope (in force: India and Israel; negotiated: Southern Africa Customs Union, Egypt, Palestine). This is partly due to the fact that Brazil and Argentina were convinced about the benefits of promoting multilateralism as a means to achieve the liberalization of agricultural trade. This also explains why Brazil tried to establish itself as a key 'voice' of the emerging and developing economies in the trade and economic debates since the mid-1990s, and even more so since the early 2000s. Both Brazil and Argentina were key actors in the disentangling of the Uruguay Round, contributing to its successful conclusion in 1994 (Messerlin, 2013; Machado Oliveira, 2013).

For the EU, a prospective deal with Mercosur would constitute an important step in its rapprochement towards the LAC, as bilateral and regional PTAs would then cover 26 out of 33 countries belonging to the CELAC. This outcome would be a convenient step in the ambitious strategy of the EU to engage in mega-agreements.[17]

17 In November 2012, the European Council gave a mandate to the European Commission for negotiating a PTA with Japan, negotiations with US are being held through the TTIP, and the EU keeps open a bilateral channel with China since the late 90s where a new ambitious agenda was agreed to achieve results towards the year 2020.

Figure 2.12: Trade Mercosur (4) and European Union (27) Exports, Imports and Trade Balance Million USD



Source: own calculations based on UNCTAD

Unfortunately, in the case of the EU-Mercosur negotiations, international conditions do not seem to have changed offensive interests of the EU that continue to be limited to a few sectors where Mercosur has traditionally been protectionist or has developed divergent interests from the European ones; examples can be found in the chapters of manufacturing, investment, public procurement and intellectual property rights. Defensive interests in the EU against Mercosur comparative advantages are limited and concentrated in some EU Member States, best illustrated by the EU's agricultural sector. The EU continues to be the main trade partner of Mercosur with around 20% of the total Mercosur trade. Nonetheless, a progressive diversion of the EU's and LAC's trade towards China suggests a decrease in imports from Mercosur in the near future, unless new bases for exchange and cooperation are established. Meanwhile, China's emergence as a leading extra-regional player in Mercosur has altered the region's foreign trade dynamics. In fact, the idea of a Mercosur-China FTA has been proposed by Chinese authorities in 2012.

Figure 2.13 illustrates **the evolution of bilateral trade between Mercosur and the EU**. After the international crisis, both exports and imports resumed. Then, since 2011, **the Eurozone crisis has led to a reduction in Mercosur exports to the EU, leading to a reversal in the trade balance between the regions.**

Table 2.10.1: Trade EU27 - Brazil; EU27 Exports; 10 Main Chapters; Average 2009-2012; Millions of USD and %

Rank Position	Chapter		All Destinations	Brazil	Brazil as % of All Destinations
	All	products	5.273.446,8	42.615,4	0,8
1	31	Fertilizers	13.806,9	904,7	6,6
2	5	Products of animal origin, nes	3.128,1	63,6	2,0
3	38	Miscellaneous chemical products	75.763,5	1.276,1	1,7
4	88	Aircraft, spacecraft, and parts thereof	109.872,3	1.758,7	1,6
5	13	Lac, gums, resins, vegetable saps and extracts nes	2.314,5	36,9	1,6
6	11	Milling products, malt, starches, inulin, wheat gluten	6.867,8	106,0	1,5
7	29	Organic chemicals	161.919,5	2.296,4	1,4
8	84	Machinery, nuclear reactors, boilers, etc	749.770,3	9.947,1	1,3
9	86	Railway, tramway locomotives, rolling stock, equipment	14.712,5	174,5	1,2
10	37	Photographic or cinematographic goods	6.976,5	79,4	1,1
Rest			4.128.314,8	25.972,1	0,6

Source: own calculations based on Intracen-UNCTAD

The analysis of the trade flows by product in the Brazilian and Argentine case demonstrates the concentration of Mercosur exports in the food and commodity products, and in a broad variety of manufacturing products in the case of EU exports (Tables 2.10 and 2.11). The last columns in these tables show the relative importance of the largest Mercosur countries in EU trade.

Brazil stands out as the main supplier of food and feed staples and mineral commodities. Argentina, instead, has a smaller share in all the chapters apart from the one corresponding to soybean and products thereof.

It should be noted that agriculture and the agroindustry, which have been at the core of the EU-Mercosur negotiations, currently constitute the central point of the global debate on food security, energy security and climate change. According to ECLAC (2013), the world population is expected to reach 9 billion by 2050. In order to meet the demand for food, agricultural production will need to increase by 70% over 2006 levels. All of this creates challenges and opportunities in the agricultural and agro-industrial sector, particularly in the case of grains, oilseeds, sugar cane and other flex crops. These can be used for human consumption, animal feed or production of biofuels, yet they compete for the same basic inputs: land and water. Mercosur

Table 2.10.2: Trade EU27 - Brazil; EU27 Imports; 10 Main Chapters; Average 2009-2012; Millions of USD and %					
Rank Position	Chapter		All Origins	Brazil	Brazil as % of All Origins
	All	products	5.363.149,0	47.649,1	0,9
1	26	Ores, slag and ash	37.652,9	8.314,6	22,1
2	9	Coffee, tea, mate and spices	18.238,6	3.273,5	17,9
3	12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	21.293,1	3.524,3	16,6
4	47	Pulp of wood, fibrous cellulosic material, waste etc	15.953,7	2.349,6	14,7
5	23	Residues, wastes of food industry, animal fodder	28.126,1	4.060,3	14,4
6	20	Vegetable, fruit, nut, etc food preparations	24.933,1	1.866,3	7,5
7	41	Raw hides and skins (other than furskins) and leather	9.565,9	601,5	6,3
8	24	Tobacco and manufactured tobacco substitutes	18.100,6	988,2	5,5
9	16	Meat, fish and seafood food preparations nes	18.913,3	1.012,9	5,4
10	17	Sugars and sugar confectionery	13.741,0	701,1	5,1
Rest			5.156.630,8	20.956,9	0,4
Source: own calculations based on Intracen-UNCTAD					

already belongs to the main food providers in the world, but the above-mentioned processes indicate that its importance should increase even more in the near future.

Some analysts have recently pointed out that, from the EU's perspective, the importance of Mercosur is largely related to the importance of Brazil, particularly since Argentina has shifted to a more protectionist stance offering little prospect for fulfilling the EU's general demand of deeper market access (Messerlin, 2013). Others are even more pessimistic, stating that the international scenery is not favourable to the conclusion of such a comprehensive and ambitious type of agreement (Tomazini, 2013). Messerlin (2013) suggests that, "unless there are dramatic changes in Mercosur's present trajectory, the goal of negotiating a fully-fledged Mercosur-EU PTA should be set aside for some time – at least for a decade or so. This does not mean leaving the negotiating table, but rather focusing on topics that remain attractive for both sides in the current context". Peña (2013) allows for a more optimistic view, as he interprets the process of negotiations between the EU and Mercosur as the development of a "building block for a global governance upon the cooperation of two regions with significant links and common interests between them and, at the same time, with clear democratic values and social concerns". He recalls that "promoting trade and investments was important, obviously. It was even seen as

Table 2.11.1: Trade EU27 - Argentina; EU27 Exports; 10 Main Chapters; Average 2009-2012; Millions of USD and %					
Rank Position	Chapter		All Destinations	Argentina	Argentinas % of All Destinations
	All	products	5.273.446,8	9.706,9	0,2
1	45	Cork and articles of cork	1.531,1	33,8	2,2
2	14	Vegetable plaiting materi-als, vegetable products nes	123,1	1,6	1,3
3	13	Lac, gums, resins, vegetab-le saps and extracts nes	2.314,5	13,7	13,7
4	31	Fertilizers	13.806,9	65,3	0,5
5	37	Photographic or cinemato-graphic goods	6.976,5	24,4	0,3
6	38	Miscellaneous chemical products	75.763,5	247,8	0,3
7	84	Machinery, nuclear reac-tors, boilers, etc	749.770,3	2.215,1	0,3
8	35	Albuminoids, modified starches, glues, enzymes	11.987,2	34,3	0,3
9	83	Miscellaneous articles of base metal	25.175,2	71,8	0,3
10	32	Tanning, dyeing extracts, tannins, derivs,pigments etc	37.934,7	103,6	0,3
Rest			4.348.063,8	6.895,4	0,2
Source: own calculations based on Intracen-UNCTAD					

crucial, but not necessarily as the only reason to undertake such complex negotiations; nor even the main one".

In this context, the effective progress of EU-Mercosur agreement may require a different approach by "moving away from a strategy that has so far been almost exclusively based on formal trade agreements to a strategy that reflects more accurately the importance of the obstacles that lie, literally, on the ground" (Mesquita Moreira, 2007). In this respect, Cristini (2007) proposed a closer association for investment in infrastructure through the creation of a special fund for investment in transport infrastructure.[18] A useful precedent to build up these kinds of commitments between Mercosur and the EU is the Association Agreement signed between

18 Such a fund would aim at achieving the geographic integration of Mercosur. It would be accompanied by the organization of special financing facilities to develop social infrastructure in poor urban areas and rural areas with the aim of improving social cohesion and civil society participation in Mercosur. It would also involve the establishment of a Consultative Group that could evolve in the future into an Arbitration Authority (with the completion of the Association Agreement) for the enforcement of infrastructure contracts and the solution of disputes in public service concession contracts (Cristini, 2007).

Table 2.11.2: Trade EU27 - Argentina; EU27 Imports; 10 Main Chapters; Average 2009-2012; Millions of USD and %					
Rank Position	Chapter		All Origins	Argentina	Argentinas % of All Origins
	All	products	5.363.149,0	13.422,3	0,3
1	23	Residues, wastes of food industry, animal fodder	28.126,1	4.795,1	17,0
2	12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	21.293,1	672,5	3,2
3	41	Raw hides and skins (other than furskins) and leather	9.565,9	220,5	2,3
4	38	Miscellaneous chemical products	64.628,1	1.444,9	2,2
5	3	Fish, crustaceans, molluscs, aquatic invertebrates nes	34.208,4	748,0	2,2
6	26	Ores, slag and ash	37.652,9	814,6	2,2
7	51	Wool, animal hair, horsehair yarn and fabric thereof	5.061,7	109,3	2,2
8	8	Edible fruit, nuts, peel of citrus fruit, melons	40.009,6	751,4	1,9
9	2	Meat and edible meat offal	44.146,6	748,8	1,7
10	43	Furskins and artificial fur, manufactures thereof	1.904,2	28,0	1,5
Rest			5.076.552,4	3.089,4	0,1
Source: own calculations based on Intracen-UNCTAD					

Chile and EU in 2002 that included cooperation initiatives in infrastructure (transport and energy) and a comprehensive agreement on trade in services. In the same vein, Messerlin (2013) argues that “a lot can be done on crucial matters: norms in goods, possibly regulations in some services, climate change, energy, technology and some regulatory cooperation. Successful negotiations on these topics would not change dramatically the current level of market access. But they would create the much needed trust between the two sides of the Atlantic”.

2.4 CONCLUSIONS

High trade compatibility between EU and LAC is a demonstration of potentially significant benefits which would stem from the tightening of their economic relations. In general, trade compatibility is higher in the case of EU exports and LAC imports than in the opposite direction. The Mexican cluster is more compatible than the Brazilian cluster as an exporter to the EU, no matter whether we take EU15 or EU28 into account. Mercosur compatibility index in trade with the EU is higher than in the case of the Brazilian cluster but lower than in the case of the Mexican one. Neither the EU’s 2004 and 2007 enlargements nor the 2008 crisis have significantly modified this pattern of EU-LAC trade compatibility. After the 2008 crisis, China turned out to be the

Figure 2.13: Growth of World Exports and Preferential Trade Agreement Initiatives 1992–2013

Elaboración propia (Fuente: UNCTAD)

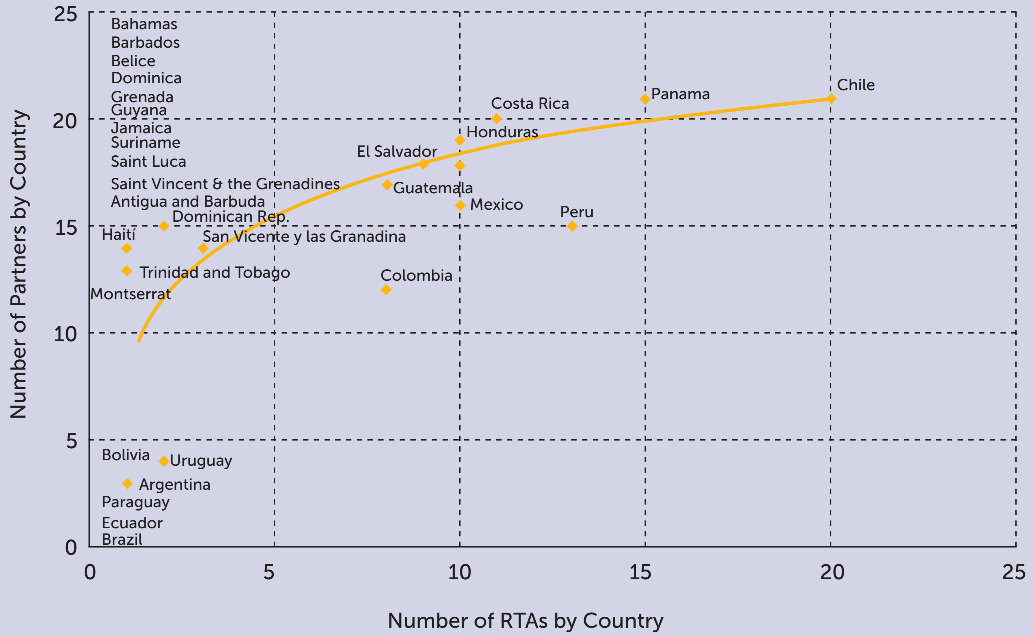
main "winner" as a provider of goods to the EU. LAC also increased its share in EU imports, but its participation in EU imports increased only modestly when compared to China's gains.

After the 2008 crisis, the EU's outward FDI flows decreased slightly, but not in the case of LAC. In consonance with the world trend, developing countries gained participation as recipients of the EU's FDI. Latin American countries more than doubled their share, and Brazil's share increased fourfold. In 2012, due to the Eurozone crisis, Spain's traditionally high FDI in LAC dropped sharply. Over the past decade, the number of preferential trade agreements negotiated or concluded in the world increased substantially. As a matter of fact, regional activism seems to be linked to the evolution of international trade, gaining in intensity both when trade is increasing significantly and when it is decreasing, as happened after 2008 (see Figure 2.10). East Asian economies have been the main stakeholders in this development. After 2008, the Pacific countries of LAC adhered to this multifocal external strategy, multiplying their PTAs, including their rapprochement towards the EU. In contrast, Mercosur remained stuck in the inertia of an inward-looking strategy. The EU maintained its position as the most frequent partner in PTAs signed by LAC countries, with EU agreements signed with 22 out of 33 members of CELAC so far. Mexico and Chile are the LAC countries with the longest experience of association with the EU.

Currently one of the most important issues for the consolidation of EU-LAC economic relations refers to the proceedings of the EU-Mercosur Association Agreement. Many factors are behind a new round of negotiations launched in 2010 and accelerated since 2013. There exists a genuine interest on the European side to take advantage of trade and investment opportunities in Mercosur, particularly due to the impact of the 2008 crisis and the ensuing Eurozone crisis on the EU's growth dynamics. In the case of Mercosur, its engagement may be explained by the reconsideration of an unsuccessful inward-looking strategy, as well as by the termination of the EU's Generalized System of Preferences which affected most of the Mercosur members. Unfortunately, international conditions do not seem to have changed the offensive interests in the EU, while the defensive interests in the EU against Mercosur comparative advantages are limited and concentrated in some EU member states, mostly regarding the EU's agricultural sector. The diversion of the EU's and Mercosur's trade towards China may augur a declining interest in concluding the deal in the near future, unless new bases for exchange and cooperation are established. Opinions on the potential success of the ongoing negotiations continue to be divided.

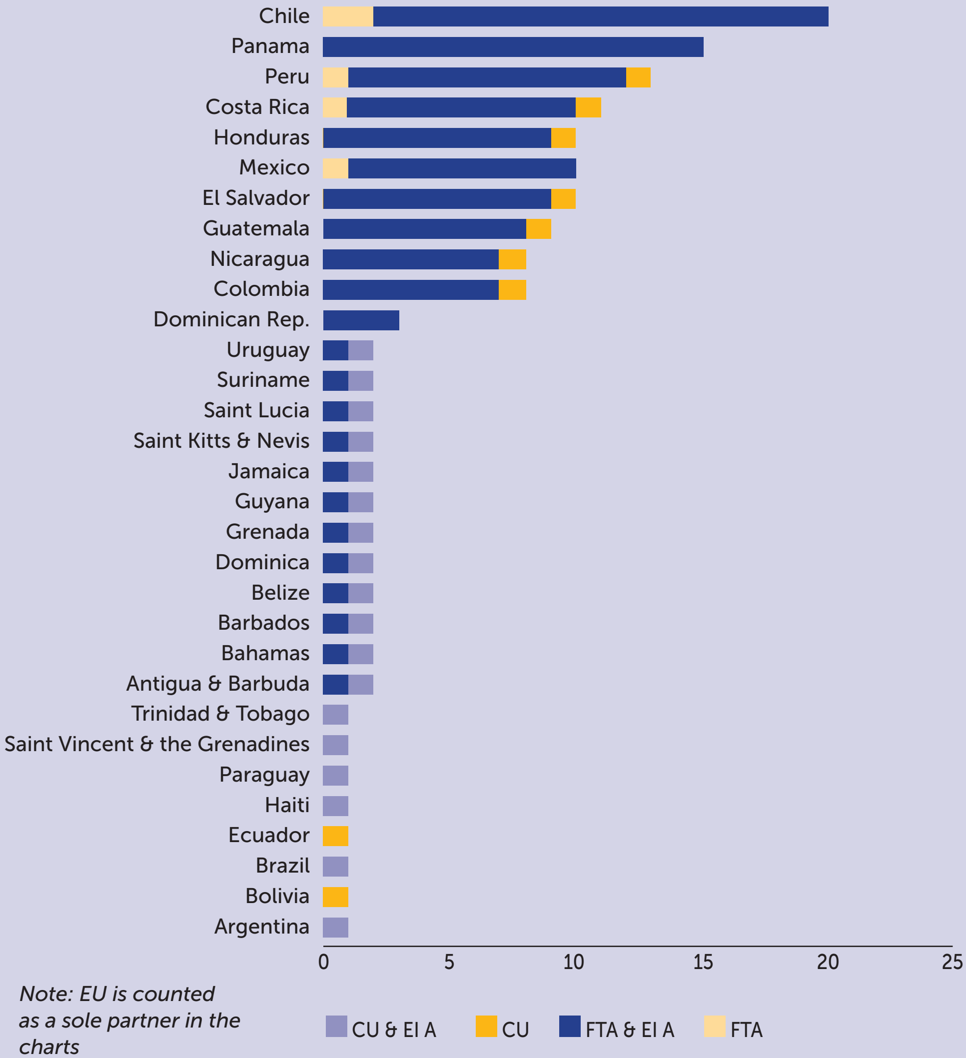
ADDITIONAL FIGURES FOR CHAPTER 2

Figure A2.1: LAC: PTAs in force (FTA, Custom Unions & Economic Integration Agreement)



Own graph (Source: UNCTAD)

Figure A2.2: LAC: PTAs in force (FTA, Custom Unions & Economic Integration Agreements) By Country & Type



Note: EU is counted as a sole partner in the charts

Source: Own based on WTO

3 MEGATRENDS AND EU-LAC POLITICAL RELATIONS AFTER 2008

The aim of this chapter is to examine the driving forces and major structural barriers to EULAC political cooperation. This analysis is undertaken from two different perspectives. On the one-hand, we analyse overarching political, economic and social dynamics (or megatrends) inside both regions with the aim to bring out those elements which could explain the corresponding changes inthe regions' approaches to one another after 2008. On the other hand, we reproduce an institutional history of EU-LAC relations before and after the crisis, in order to expose the under lying institutional dynamics of this relationship and thus highlight opportunities and limitations for future cooperation between the two regions. The major research question which we intend to answer in this part of the report is to what extent – if at all – the 2008 global economic crisis has constituted a juncture for political relations between the EU and LAC.

3.1 THE BACKGROUND OF EU-LAC RELATIONS

Five major elements of the social, political and economic background (which we define as **megatrends**) are crucial in order to understand and adequately explain the dynamics of the current relationship between the EU and LAC. They need to be taken into account when constructing predictions regarding patterns of EU-LAC cooperation in the future. In the case of Latin America, particular attention must be paid to China's growing economic and political activity in the region; to diverging paths of LAC's socio-economic models; as well as to the rise of the regional middle class. In the case of Europe, challenges to European integration exposed by the Eurozone crisis must be taken into account, as well as the appearance of a new globalization dynamics, mostly among the region's new Member States and the countries of the region's Southern periphery. Below we describe one by one the above-mentioned megatrends. Their concrete impact on the dynamics of this relationship is analysed in the next section.

(a) The Chinese factor in Latin America

While Chinese relations with Latin America date back to at least the 16th century (due to the Spanish colonisation of the Philippines), and taking into account China's growing diplomatic tieswith many of the region's governments during the Cold War, we may still distinguish a new periodin this relationship since the beginning of the 21st century. After president Hu Jintao's first tour around Latin America in 2004, the Middle Kingdom has emerged as an increasingly important economic and political actor in the region.

This was possible due to a progressive transition of the international system from a conflictual Cold War bipolarity, through an American “unipolar moment”, up to the emergence of the current multi-polarity which turned out to be surprisingly favourable for international cooperation.[19] At the same time, China’s interest in Latin America grew substantially because of thecountry’s shortage of natural resources and agricultural products, which are abundant in the region while being indispensable for China’s long-term growth. For all of the above-mentioned reasons,China has established itself during the last decade as one of the key global actors in Latin America, in some cases overtaking the US and the EU in trade and investment numbers. This led to the emergence of a new multi-vector structure of global interregional relations. According to Susanne Gratius, “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, inrelation to FTA negotiations with Mercosur”. In her opinion, the final effect is a trend towards “amulti-level network of variable geometries [whereby] the inter-regional format [between the EU and Latin America] will lose relevance and relations will fragment further, while also opening new opportunities for cooperation” (Gratius, 2013).

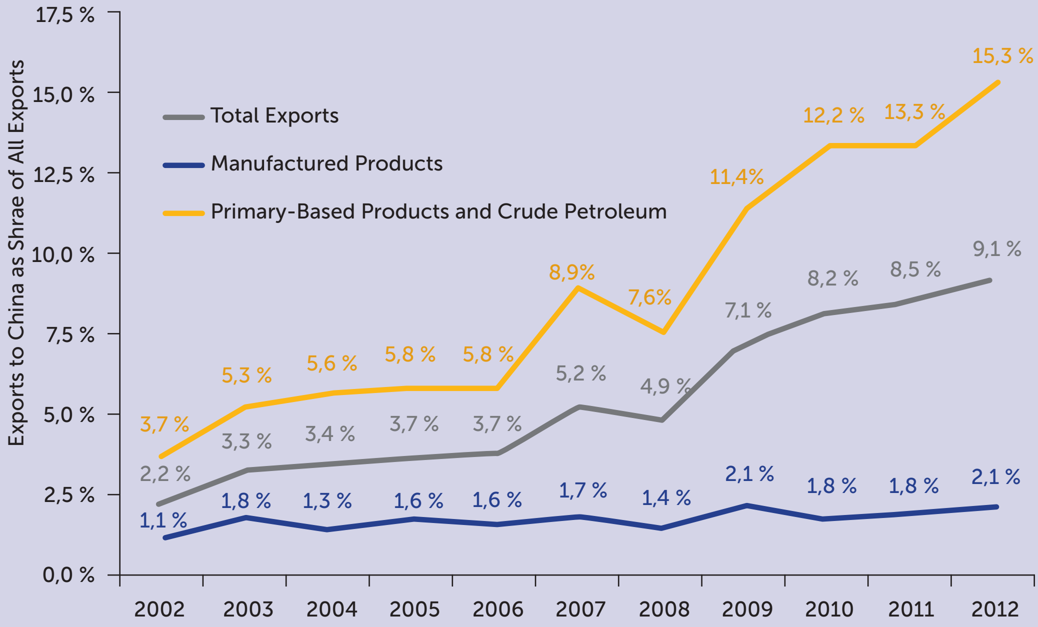
China’s growing **economic presence** in Latin America is evident. According to research undertaken by the Global Economic Governance Initiative (Ray and Gallagher, 2014), China has gained the position of one of Latin America’s major export destinations. Between 2002 and 2012, China has more than quadrupled its share in LAC total exports, from 2,2 to 9,1%. The most important increase took place after the 2008 crisis. Since 2008, China’s share in LAC’s exports hasmore than doubled, from 4,9 to 9,1%. The rising significance of China is particularly strong in the exports of primary-based products and crude petroleum, where its share in LAC’s exports expanded from 3,7% in 2002, through 7,6% in 2008, and up to 15,3% in 2012 (see Figure 3.1).

Interestingly, during the last decade, LAC’s exports towards China have become concentrated among just a few commodities and in just a few countries, including Brazilian iron ore; Brazilian and Argentine soy-beans; Brazilian, Colombian and Venezuelan crude oil; Chilean copper; as well as Costa Rican and Mexican transistors and valves. Between 2002 and 2012, the share of the six above-mentioned commodities in LAC’s total exports to China exports expanded from less than a half to nearly three-fourths. These characteristics of LAC-China trade relations are particularly striking when we observe that neither total LAC exports, nor total Chinese imports, are equally concentrated in primary products as in this specific bilateral relationship (see Figure 3.2).

Therefore, in its trade with China, LAC is increasingly dependent on just a few commodities which are, in turn, particularly **vulnerable to world price swings**. In contrast, Chinese export-

[19] There is a notorious disagreement among IR scholars on whether the current world order is really multipolar, or rather bipolar, unipolar, zero-polar, etc. To make matters worse, there is no consensus over which of the above mentioned orders would be the most conducive to international cooperation. For classic voices in these debates, seee.g. Gilpin (1981), Keohane (1984), Waltz (1979), Wendt (1999). In this report, we consider the current world orderas tending towards multipolarity and we observe its exceptional propensity to international cooperation, as evidenced e.g. by the development of the G20 or by a boost in international trade and investment over the last decade.

Figure 3.1: Importance of China as a destination for LAC s exports, by product category (Ray and Gallagher, 2014).



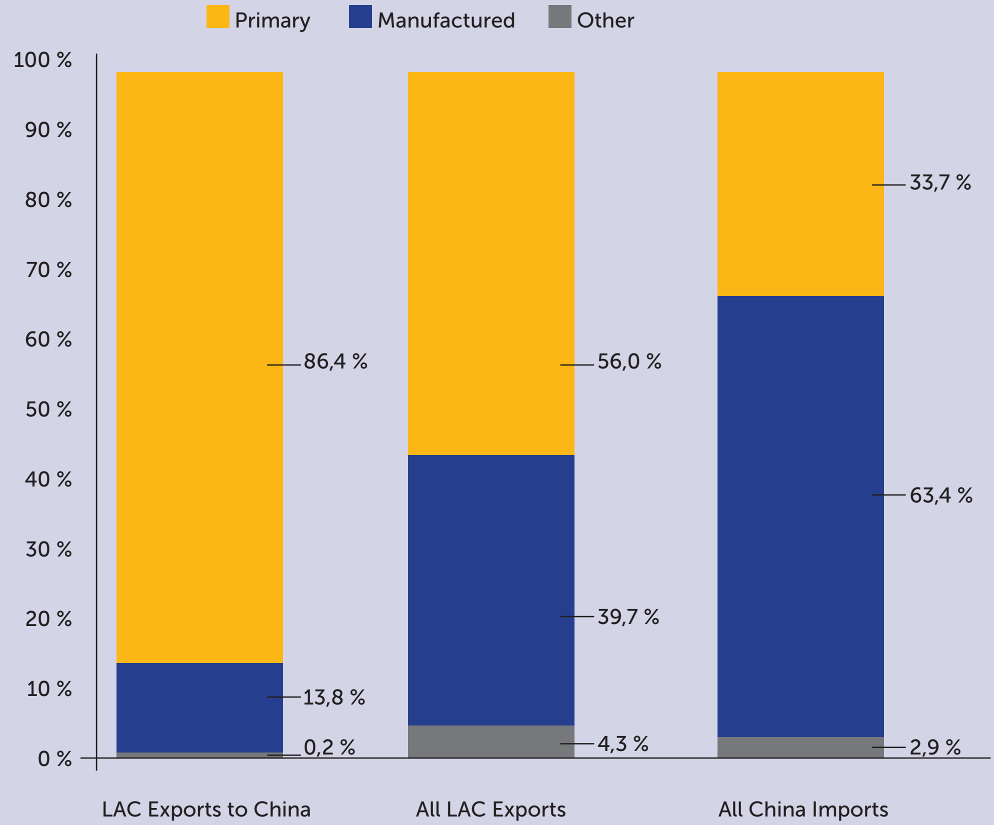
Source: Ray and Gallagher, 2014

ers benefit from a much lower level of vulnerability, thanks to their specialization in a wide range of manufactured goods. In 2012, LAC's exports to China continued to grow in volume, but fell inprice, thus leading to stagnant total exports values. As a consequence, since 2010 Latin America's deficit in trade with China is rising.

Apart from a boost in trade relationship over the last decade, China has also increased its investment in Latin America. However, it must be noted that its share in total FDI in the region has remained marginal (CEPAL, 2014).

While it is clear that China's *economic presence* in Latin America has increased over the last decade, there is much more controversy around its *economic impact* on the region. In this case, Jenkins (2012) distinguishes between direct and indirect effects as well as between complementary and competitive effects. Increased trade between China and LAC may boost Latin American exports, while at the same time leading to a decline in consumer goods. However, it can also cause a displacement of local producers by Chinese imports. Most importantly, the development of trade relations may produce indirect effects: on the one hand, leading to an increase in world commodity prices, but on the other hand reinforcing competition from Chinese goods in third markets. The effects of FDI flows are mitigated as well. While Chinese investments may bring in new technology and capital to LAC countries, they may also lead to a displacement of local firms by Chinese investors. Indirectly, Chinese FDI may help Latin American

Figure 3.2: LAC exports of goods to China compared to LAC total exports of goods and Chinese total imports of goods.



Source: Ray and Gallagher, 2014

producers to integrate into China's chains of added value, but they may also divert FDI coming from OECD countries towards China(Jenkins, 2012).

Thus, overall effects of Chinese growth on Latin American economies are mixed, creating both opportunities and significant risks, producing both winners and losers. Probably LAC's labour-intensive economies, like Mexico, Central America or the Dominican Republic, are more on thelosing side, while commodity-rich countries of Southern America, like Brazil, Chile or Peru, may face a more favourable outcome. But the general picture is much more complicated than that. Observations made by the Inter-American Development Bank in 2006 remain valid, as "it would be simplistic to view China as a vast market for some LAC countries and a fierce competitor for others. For a number of countries, most notably Brazil and Mexico, China is both a growing export market and a direct competitor. Mexico does face stiff competition from China, but there is also intra-industry trade between Mexico and the Asian economies. With respect to Brazil, China has been a rapidly growing market for Brazilian commodities exports, but it also competes with some Brazilian intermediate products, such as auto parts and chemicals" (IDB, 2006).

Unlike that of the economic aspects, the significance of the political dimension of the developing relationship between Latin America and China is hard to evaluate. According to Jörnand Goodman, “while reasons behind China’s economic interests toward Latin America are no mystery (...), related political and geostrategic motives are harder to assess” (Jörn and Goodman, 2012). In fact, the relationship between LAC and China has made a long journey since the quid pro quo strategy of the 1970s and the 1980s, when China aimed at the diplomatic isolation of Taiwan and sought Latin American support for its entry into the United Nations, while Latin America needed the Chinese assistance in its claims for 200-mile territorial sea limits during the negotiations on the international Law of the Sea. Today’s cooperation between the two regions in many waysfulfils the necessary characteristics of a conscious and long-term foreign policy strategy. For example, a strategic partnership between Brazil and China, established in 1993 and upgraded to a status of a comprehensive strategic agreement in 2012, currently covers also fields of scientific and technological cooperation, apart from trade and investment issues or joint infrastructural projects.China maintains particularly strong relations with Venezuela, as evidenced by a strategic partnership signed in 2001. China shares technology with the Bolivarian Republic, having launchedinto orbit the first two Venezuelan satellites and having chosen the Caribbean republic for theHuawei’s first company store outside the country of origin. Both countries cooperate in infrastructure, including in energy and railway sectors. Their relations include military ties, with Venezuela being supplied by Chinese jet trainers. Last but not least, China maintains strong political and military links with other countries of ALBA, including Cuba, Nicaragua, Bolivia and Ecuador. In the case of Nicaragua, a Chinese company won a contract to build an inter-oceanic motorway supposed to rival with the Panama Canal.

Still, arguments presented by some scholars – about China posing a security threat for the United States in the Western Hemisphere or about its use of booming economic relations with the region in a strategic move to create a new transpacific alliance within the emerging world order – seem to be largely exaggerated. Following Jörn and Goodman, “China is an increasingly important factor in Latin America, but it is one among many. (...) All Latin American governments have diversified their foreign relations. Their main interest is moderating US hegemony, not substituting it. As part of this strategy, and particularly in times of economic hardship such as in the wake of theglobal economic crisis of 2008-2009, every trade and investment opportunity is welcome. (...) There sult of opportunity-maximising in Asia - Latin America relations is a growing and quickly tightening (but not yet deeply institutionalised) trans-Pacific network comprising trade, investment, political and even security links in both bilateral and (increasingly) multilateral contexts” (Jörn andGoodman, 2012). Within this complex network, China maintains more politically-oriented relations with ideologically close governments of the Bolivarian Bloc, while at the same time it seeks totranslate its economic ties with the region’s top commodity producers into meaningful political cooperation. **It is too early to see any convincing proofs which would demonstrate the emergence of a common global identity across the Pacific, be it based on a recognition of theSouth’s socio-economic similarity or on a common objective of transforming the current global order.**

(b) Diverging paths of LAC's socio-economic models

Latin America has always served as a battlefield in a struggle between great political andeconomic projects, such as (neo)liberalism, socialism and the state-led development.[20] Since the beginning of the 21st century, the region has diverged into at least three different socio-economic models.

First of all, Venezuela's ambitious programs of social inclusion attracted attention of many Latin American societies. In consequence, during the first half of the 2000 decade, the region saw left-wing candidates take over the power in consecutive countries. This led to the establishment of ALBA, a coalition of like-minded left-wing governments, including Venezuela, Bolivia, Cuba, Ecuador, Nicaragua and others. A common trait of their model was the development of vast programs of social inclusion and a growing involvement of the state in the economy. However, doubts regarding the sustainability of the model have emerged since.

Meanwhile, in the second half of the decade, a different left-wing model started to attractincreased attention of regional leaders and populations. Brazil in particular, but also Uruguay and Chile, began to be seen as having reached an adequate mix of social inclusion, market economy and attachment to democratic standards. They became a source of inspiration for governments of Peru, Colombia and several other countries. During the first decade of the century, Brazil experienced impressive rates of economic growth which, together with ambitious instruments of social inclusion (including Bolsa Família, the world's largest conditional cash transfer scheme worth $10,8 billion over eleven years) helped reduce poverty by 40 million in a population of 200 million. At the same time, it enabled a rise of the middle class by another 40 million. Nevertheless, Brazil's economic growth has recently slowed down, opening up new challenges to the model.

20 Mostly free trade and export-oriented at the beginning of the 20th century, the region moved massively to the model of import substitution industrialization (ISI) due to the global economic crisis of the 1930s and as a consequence of the Second World War. At that time, the ISI model was supported and legitimized by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and it was seen as an in-house, grassroots achievement.The ISI model consisted in the development of a national industrial base through a vast use of subsidies, state contro land trade barriers. However, over decades its effects turned out to be disappointing. Meanwhile, the success of the 1959 revolution in Cuba and its consecutive shift to the left attracted many Latin American intellectuals and activists to socialist and communist ideas, while at the same time mobilizing the US to launch a more determined ideological battlein the region. As free market ideas were progressively re-gaining their leading position within American academia, they became a cornerstone of Washington's political strategy towards Latin America. In the 1970s and the 1980s, the US supported many governments (including military regimes) which promised to introduce neoliberal reforms. Later on, during the 1980s, the emergence of debt crises in many Latin American countries provided a favourable context for international financial institutions to condition assistance to indebted governments upon their dedication to free market reforms. These were introduced by a vast majority of the region's governments, usually with massive support of their societies and within the context of an advancing democratic transition. However, in the regional perception, the neoliberal paradigm received a powerful blow at the end of the 1990s, following the Asian and Russian crisis, the Brazilian devaluation in 1999 and the Argentinian crisis of 2001.

After the global economic crisis, yet another socio-economic model gained pre-eminence inlarge parts of the region. Governments of Chile, Colombia, Mexico and Peru have weathered the global storm and the merit for this achievement was attributed to their dedication to market reform sand trade opening. It is worth mentioning that their free market policies have also been accompanied by instruments of social inclusion, especially after 2008. Recently, the four countries have made an unequivocal bet on regional economic integration. In 2011, their leaders established the Pacific Alliance as a regional economic bloc focused on common trade and investment objectives. Thus, the three Latin American socio-economic models may be associated with three alternative integration projects: the Mercosur, ALBA, and the Pacific Alliance respectively.

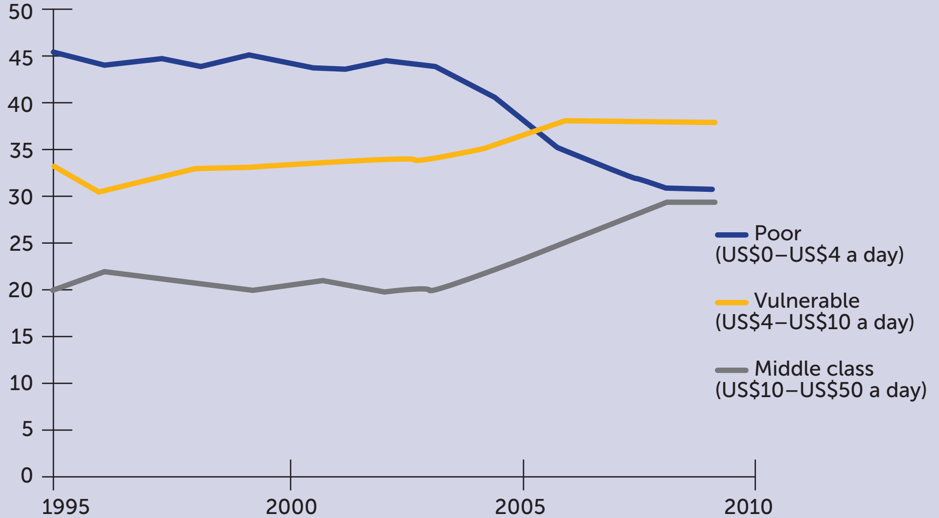
While in the last decade we have seen a divergence of Latin America into these three-socio-economic models, the global financial crisis of 2008 seems to have contributed to reversing this trend, at least in the two latter cases. On the one hand, the export-oriented economies of the Pacific Alliance, especially Chile, Colombia and Peru, had to increase social spending in order to mitigate the effects of the crisis on their populations. On the other hand, the more closed economies of the Mercosur, especially Argentina and Brazil, became more conscious of the need to reduce public spending and increase international competitiveness in order tomaintain positive growth perspectives. This, in turn, mobilized their business communities to pressure governments for a greater economic opening. In this sense, we may have observed heralds of a renewed convergence of socio-economic models, based on a nascent confluence of interests within Latin American societies. Still, prior fluctuations in the region's socio-economic tendencies should prepare us for further changes in the respective models, especially since they provide answers to different (even if highly interrelated) Latin American challenges – such as low productivity of some economies, high levels of poverty and income inequality of others, as well as along-standing difficulty to build up a common political identity of the region as a whole.

(c) The rise of the Latin American middle class

According to the World Bank (Ferreira et al., 2013), the size of the middle class in Latin America and the Caribbean has, after decades of stagnation, increased by 50 per cent between 2003and 2009, up to 152 million who now correspond to 30 percent of the region's population. At the same time, the proportion of people living in poverty fell from 44 to 30 per cent. In consequence, the middle class and the poor now account for roughly the same share of Latin American population (as demonstrated at Figure 3.3). Higher incomes as well as redistribution mechanisms aimed atreducing income inequality constituted two driving forces of this change, leading to a decline in poverty levels and the corresponding rise of the middle class.

However, the rise of the region's middle class has given ground to both increased expectations and renewed fears regarding the shape of social contract in Latin American countries. On the one hand, according to modernisation theories, middle classes are often perceivedas agents of institutional change and democratization. In particular, higher incomes are supposed to reduce conflicts over income distribution and they promote greater stability (Banhabib and Przeworski, 2006); middle classes are also associated with higher human capital which is considered

Figure 3.3: Trends in middle class, vulnerability, and poverty in Latin America and the Caribbean, 1995–2009



Source: Ferreira et al., 2013

favourable for sustaining good institutions (Glaeser et al, 2004). On the other hand, there is no strong empirical evidence supporting the above-mentioned hypotheses. Contrary to modernization theories, Latin America's rising middle classes may support policies that are good only for them. This, in practice, may signify that they will prefer to opt out of some elements of the social contract (e.g. public primary and secondary education, subsidized social insurance schemes or public health) from which they see little benefit, or that they would increase political pressure for public financing in areas where they benefit disproportionately (as in the case of public higher education). Should that happen, it might make the situation of the poor even more difficult than before, thus effectively blocking current channels of inequality reduction.

In this sense, the rise of middle class may lead to increased tensions within Latin American societies regarding the division of scarce public resources: with middle class favouring the improvement of public services while the poor and the vulnerable would support further development of redistribution schemes. This may lead to massive protests, as events in Brazil and Chile already seem to confirm. Still, according to analysts of the World Bank, there is some roomfor optimism, as "recent boom in commodity prices, coupled with new oil and commodities discoveries, and improved macro economic management has given to many countries the fiscalspace necessary to invest in the quality of services without engaging into a zero-sum competition for a limited pool of resources between the poorer and the wealthier segments of society" (Ferreiraet al., 2013).

While the rise of the middle class risks giving a boost to political tensions between the poor and the middle class over scarce resources, it may have some positive impact by curbing the political power of leading business groups. In fact, a distinctive characteristic of Latin American countries is that despite a large similarity of their economic and political institutions to the Western ideal-type, the efficiency and stability of these institutions is significantly lower than in the case of North American or European countries. This is often explained by the power of pressure groups in Latin America, which are able to influence the shape of public policies in disregard of the democratic process (IDB, 2010). From this perspective, the rise of Latin American middle classmay be important because this process could finally lead to the improvement of Latin American economic and political institutions, by limiting the space for "behind-the-door" pressure and subordinating public policies to a democratic deliberation.

Meanwhile, current social tensions in several Latin American countries draw attention to the importance of a cultural – and not only economic – background. First of all, there are germs of disillusion as the creation of Latin America's new middle class has generated a widespread "revolution of expectations" regarding the standard of living (Financial Times, 2014a). Secondly, inseveral cases economic growth has been fuelled by domestic consumption, often on credit or thanks to official cash transfers. A pertinent question in this context is whether the region has seen a rise of the consumer society or rather one of the middle class society. Finally, there is a risk of a cultural clash between the region's "old" and "new" middle classes.

All in all, Latin America's economic growth may have turned its societies into more promising markets for foreign exporters of products and services; yet we should not assume that this will automatically lead to the development of more open societies and enable them to avoid the traps of authoritarianism or populism. The eventual political and social importance of the phenomenon of middle class emergence is surely among the key "unknowns" of the current situation in Latin America.

(d) The European integration under strain

The 2008 crisis, and the ensuing Eurozone crisis in particular, uncovered deep divides among the EU's Member States regarding their individual rationales for European integration. According to a group of experts from leading European think-tanks, "the crisis has prompted the most intense debate about the European Union's future in its history. Deep cracks have appeared in the European project, posing the most serious test it has ever confronted, complicated by the fact that Europe faces not one but a number of highly complex, multi-rooted and interlinked crises". More specifically, "since 2010 the unthinkable became thinkable: that one or more countries could leave the euro; that the Eurozone could implode; or even that the European Union could disintegrate" (Emmanouilidis, 2013).

The most evident expressions of the European crisis are: the current discussion about some form of Great Britain's exit from the EU (the so-called "Brexit"); uncertainty related to Scotland's and Catalonia's independence bids; the Eurozone's incapacity to move towards a fiscal union; as well as the rise of populist forces on both the left and the right of the political spectrum in most Member States, which was confirmed during the elections to the European Parliament in May 2014. Nevertheless, when seen in more detail, the crisis turns out to be much more profound and multidimensional. Until now, most of the emphasis has been put on its socio-economic dimension: a rising economic divergence between the European economies; lack of sufficient mechanisms for fiscal policy coordination inside the Eurozone; as well as persistent problems related to high levels of public debt and youth unemployment in several Member States. But the crisis does also have an important political and institutional dimension: a widening breach between the Brussels technocracy and European citizens; the related crisis of democratic legitimacy of the EU's institutions; and the rising popularity of populist parties. It has a societal dimension: with national stereotypes and historical resentments having revived after the outbreak of the crisis; and with a weakening of the continent's shared and common vision of European integration; one that could serve as an engine and a warrant an ambitious political and economic project. Finally, there is an external or global dimension to the EU's crisis: with Europe risking gradual marginalisation as well as loss of attractiveness and credibility on the global level and in the EU's neighbourhood due to the Eurozone crisis and in consequence of a sluggish way of tackling it (Emmanouilidis, 2013).

All of this does not necessarily mean that the European project faces an immediate danger to its existence. As authors of the above-mentioned report rightly observe, "despite a long list of heavy blows, the European project has always bounced back and, up to recently, emerged stronger than before (...) Although European integration had not been crisis-resistant, it had proven to be crisis-proof. This probably reflected a conscious or subconscious awareness that integration might not have been perfect, but probably the best option to secure peace, freedom, stability, security and prosperity" (Emmanouilidis, 2013). The question is whether the EU will be able to "bounce back" from the latest of its crises in the same way that it used to do; or whether the European project is bound to remain in limbo for a prolonged period, with the Old Continent progressively losing significance in the world.

It remains to be seen whether the coming EU political leaders (to be appointed in the second half of 2014) will be able to provide "fresh air" and a new narrative which would re-assemble Europe's citizens and leaders. Apart from that, the "Brexit" scenario may constitute a major challenge to Europe's integration dynamics, at least until 2017 when a possible referendum on Britain's further membership in the EU would be organized. This issue is important also because of its potential reverberations in other Member States. All in all, European leaders may become subordinated to opposite tensions – on one hand, recognizing the need to think more "globally" (as we argue below), while on the other hand being continuously challenged with the EU's pressing internal problems.

(e) Europe's new reasons to go global

Thanks to the Lisbon Treaty, which entered into force in December 2009, the EU became better equipped to increase its activity in the global arena. Among several important transformations of institutional character, the post of the High Representative of the EU for Foreign Affairs and Security Policy was created, and the function was merged with the one of a Vice-President of the European Commission. Apart from that, the European External Action Service was created, supposed to serve as a de facto foreign ministry and the diplomatic corps of the EU.

Coincidentally, the 2008 global economic crisis and the ensuing Eurozone crisis led to are invigoration of the global orientation in many Member States, especially in non-Eurozone countries (such as Poland or Sweden[21]), as well as within the Eurozone's Southern periphery. Business elites of these countries have increasingly started to experiment with markets beyond the EU, aiming for diversification. This phenomenon is most noteworthy in the case of Central European countries whose foreign and economic policies were, during two decades before the 2008 crisis, almost entirely concentrated on Europe. Meanwhile, after 2008, their business sector became engaged in important foreign ventures, mainly in Eastern Europe, the US and China, but in some cases also in Latin America[22] This trend has already been considered by some observers as an example of a "positive externality" generated by the crisis (Bacaria, 2014).

The justification behind this process of diversification differs significantly depending on the country; still, two crucial factors come to the forefront. First of all, governments and elites of Central Europe have become increasingly conscious of the problem of the "middle-incometrap".[23] The recent economic troubles of Greece, Portugal and Spain worked as a wake-up call, reminding Central Europe that a long-term growth perspective demands an earlier progress in economic competitiveness, innovation as well as participation in the world's most buoyant chains of value added. Secondly, economic slowdown in the Eurozone has motivated both non-Eurozone countries as well as the most affected of the Eurozone members to look for geographically more distant markets in order to hedge against risks of relying too strongly on in-house consumption and continental trade. Throughout Europe, an overall reaction to this double challenge has been agreater economic opening and a more resolute political support for internationalisation (Zerka, 2014; Świeboda and Zerka, 2013). For example, many Spanish companies have managed to survive the most severe period of the Eurozone crisis by putting stronger emphasis on their operations in Latin America. All in all, the emergence of new grounds for Europe's economic activity in the rest of the world, as well as the constitution of a greater critical mass supporting such a shift, may provide new dynamics to the EU's relations with other regions, including Latin America.

3.2 MEGATRENDS PUT TO THE TEST

Each of the phenomena presented in the previous section has had – or may potentially have – an important effect on the dynamics of the EU-LAC relations, both in a positive and a negative sense (see Table 3.1). In many respects, the 2008 crisis served to catalyse changes for which the ground had already been prepared before. In this sense, the crisis may be considered as the next in a series of junctures in a long-term relationship between the two regions.

21 Both of them among the EU's six foreign policy leaders according to the ECFR 2014 Scoreboard (ECFR, 2014).

22 For example, in 2012, the copper-mining enterprise KGMH, Europe's largest by output, made the biggest overseas investment by a Polish company in over 20 years: its acquisition of Canada's Quadra FNX Mining made it the majority stakeholder in Chile's Sierra Gorda mines. More in Brudzinska (2013).

23 The concept of the "middle-income trap", despite methodological shortfalls, is recognized as useful for guiding policy discussion. It is described as a "phenomenon of hitherto rapidly growing economies stagnating at the middleincome levels and failing to graduate into the ranks of high-income countries". It is assumed that "at middle levels of income, growth and structural upgrading become more arduous" (Im and Rosenblatt, 2013; Aiyar et al., 2013; Jankowska et al., 2012).

Table 3.1: Matrix demonstrating major crisis-related opportunities and risks for EU-LAC relations stemming from the analysed megatrends.		
Opportunities for EU-LAC relations	←→ MEGATRENDS ←→	Risks for EU-LAC relations
Anxious about their vulnerability to commodity prices and risks of isolation from major global trade and investment agreements, Latin American countries (especially Brazil and/or Mercosur) may seek a greater economic opening and rapprochement towards the EU.	(a) The Chinese factor in Latin America	Anxious about further economic instability in the EU and in the US, countries of Latin America (especially of the Pacific Alliance) may seek to develop stronger economic ties with China and/or Asia, probably at the expense of their relationship with the EU.
An emerging Latin American convergence towards an open, market-oriented model may create an opportunity for the tightening of EU-LAC relations, based on economic opening and political pragmatism.	(b) Divergence/convergence of Latin American socio-economic models	A prolonged divergence of Latin American models would make it more difficult for the EU to pursue a homogeneous policy or strategy towards the region. It may also prevent LAC from speaking with one voice in relations with the EU.
The rise of Latin American middle class may create new economic opportunities for the European business, just as it may contribute to the region's greater respect for democratic standards and better functioning of economic and political institutions.	(c) Rise of Latin American middle class	Temporarily, this phenomenon may lead to a rise in social tensions, thus making Latin America's economic and political consolidation more difficult, while at the same time limiting the potential rise in attractiveness of LAC markets.
Greater emphasis on global activity, if it is seen in the EU as a prospective "exit strategy" from the crisis, may boost the development of closer economic and political ties between the EU and LAC.	(d) European integration under strain	Yet, the EU may also concentrate even more on regional or national problems, especially in the case of "Brexit", independence of Scotland or Catalonia, or a further rise in extreme populism.
(Re)discovery of Latin America by a larger number of EU Member States may strengthen the critical mass around the EU's policy towards the region.	(e) Europe's new reasons to go global	Yet, economic pressures may also lead to a greater subordination of the EU's Latin American policy to narrow national or economic interests, thus compromising the EU's international prestige and its leadership position.
		Source: Own analysis

First of all, the 2008 crisis has enabled Latin Americans to look at **Chinese engagement** in their region from a different, though by no means unambiguous perspective.

On the one hand, given that the crisis occurred in the United States and in Europe, several Latin American governments realized that they should search more actively for new trade and investment partners and channels. The creation of the Pacific Alliance in 2012 constituted the clearest expression of this logic. Chile, Colombia, Mexico and Peru recognized the value of regional economic integration aimed at turning them into more attractive economic partners, especially for China and the rest of Asia. Such a logic was understandable in their case, given that their growth models were already largely based on export orientation and participation in globalchains of value added chains. Nevertheless, while Chile and Peru benefited from earlier economic ties with China, confirmed through free trade agreements, the overture towards China signified an important and relatively novel phenomenon in cases of Colombia and Mexico. Both countries were previously focused predominantly on the development of trade and investment links with the traditional “West”.[24]

On the other hand, several Latin American economies, including Brazil, Argentina and Venezuela, which over the last decade lived a sort of “golden age” thanks to a spectacular rise of world commodity prices (driven partly by China), started to face structural risks related to this growth model. While massive exports of raw materials helped them finance expensive social programs and public administration, they also had a negative and worrisome effect which consisted in rising pressure exercised on their exchange rates and in growing vulnerability of their economies to volatile prices of commodities on international markets. Brazil’s business community, increasingly concerned about major economic agreements being negotiated since 2013 by other global players (in particular, the Transatlantic Trade and Investment Partnership between the EU and US, as well as the Trans-Pacific Partnership between Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam), asked theirgovernment to re-open and conclude free trade talks with the EU. However, Brazil’s room for manoeuvre is limited given the country’s participation in the Mercosur. The conclusion of EU Mercosurtrade negotiations, under way since 1999 but practically frozen from 2004 until 2013, demands consent from all of its original member states: Argentina, Brazil, Paraguay and Uruguay.[25] Given the increased interest of Brazil, Paraguay and Uruguay to reach an agreement with the EU, much depends on Argentina’s willingness to give the green light to a potential deal.[26]

Secondly, the divergent development of Latin American socio-economic models has created both opportunities and risks for the EU-LAC cooperation. On the one hand, the possibility of convergence to an open, market-oriented model might enable a smoother cooperation between LAC and the EU, established on a more pragmatic basis and focused on greater economic openness. Costa Rica is soon going to become the fifth member of the Pacific Alliance. Other countries, such as Guatemala, Panama and Paraguay, have also expressed their interest in joining the bloc. At the same time, on the initiative of the Chilean government, “bridges” are being created for political and economic rapprochement between the Pacific Alliance and Mercosur. These processes may be interpreted as a harbinger of Latin America‘s nascent convergence towards a new model based on both a market-oriented approach and social inclusion. The global crisis of 2008 contributed to creating a convergence momentum between them.

24 The opening towards China has also been seen in the case of Brazil, with strengthened economic ties as well as political cooperation within BRICS and at other international fora.

25 Venezuela, which joined Mercosur in 2013, does not participate in EU-Mercosur trade talks.

26 We discussed this question in more detail in the previous chapter, section 2.3.

Yet, for the time being, the region's socio-economic divergence and differences between the three regional blocs (Pacific Alliance, Mercosur and ALBA) make it difficult for the EU to pursue a homogeneous bi-regional strategy and policies towards Latin America. Instead, it creates the need for Europe to diversify its offer by seeking a different basis for its relations with Brazil, Mexico or Venezuela. This is not only a complication, but also a barrier to the development of a fully-fledged strategy of the EU towards Latin America.

Thirdly, the rise of **Latin America's middle class** may boost the EU's economic interest in the region, because of an expected increase in consumption of sophisticated products by Latin Americans. What is more, this process may enable a smoother political cooperation between the EU and LAC, if modernisation theories which associate middle class formation with democratisation improvements and a better functioning of institutions prove right.

Fourthly, the course of political events inside the EU throughout the next 2-3 years mayhave a decisive impact on the region's engagement in EU-LAC relations. On the one hand, thanks tothe Lisbon Treaty, the EU has been equipped with mechanisms eventually enabling a more activeand efficient engagement of the whole region in global affairs. Besides, the strengthening ofrelations with other regions of the world (especially in the economic domain) may now start to beseen as a prospective "exit strategy" from the economic crisis. However, on the other hand, the EUmay also come back to its historical self-confinement. This negative scenario may prove to be trueshould populist movements inside the EU keep experiencing further growth; and if Catalonia's and Scotland's independence bids or the "Brexit" referendum in 2017 dominate the continent's attention.

Finally, while Europe has clearly gained new reasons to go global over the last years, this may also have both positive and negative consequences. On the one hand, this phenomenon may strengthen the critical mass inside the EU interested in developing relations with Latin America. Until recently, and despite consecutive EU enlargements, no major country joined the traditional "big six" of its most active proponents, comprising Spain, Portugal, France, Italy, Germany and the UK. One of the most important effects of the crisis may consist in the emergence of new stakeholders, including countries like Poland, Sweden, Czech Republic or Hungary. Yet, on the other hand, there is also a risk that economic pressures inside the EU would lead to a progressive subordination of the EU-LAC agenda to narrow national or economic interest, thus threatening to compromise Europe's normative leadership in other parts of the world, including Latin America.

3.3 THE BI-REGIONAL RELATIONSHIP BEFORE AND AFTER THE CRISIS

Against the background of the above-mentioned risks and opportunities, EU-LAC relations have undergone significant transformations since the beginning of the crisis.[27] Before we move to

[27] The following paragraphs aim at summarizing key moments in EU-LAC relations after 2008. A more detailed reanalysis of these bilateral relations (including changes in the political dialogue, bilateral Association Agreements, regional Association Agreements, European cooperation programmes, etc.) can be found elsewhere (e.g. Bacaria, 2014).

the analysis of these dynamics, a quick reminder of the history of EU-LAC political dialogue is necessary.

The strategic partnership between the EU and Latin America was announced in Rio deJaneiro in 1999. It was supposed to become the basis for the first and main bi-regional relationship in the world. Geopolitical circumstances were propitious, as ideological divisions of the Cold War seemed to finally become a thing of the past. Both Europe and Latin America experienced aprolonged period of fast economic growth, accompanied by market-oriented reforms. Several countries on both sides of the Atlantic (especially Argentina, Brazil, Mexico and Peru as well ascountries of Central and Eastern Europe) were passing through vivid democratic and market transitions, with the hope to enter the club of developed nations in the near future. Both regionswere undergoing dynamic integration processes: with the EU enlarging from 12 to 15 members in 1995, and preparing for a massive accession of post-communist countries; and with a progress in integration projects within Mercosur as well as in the Andes and in Central America. The development of EU-LAC relations was supported by the most important stakeholders on both sides of the ocean: Brazil and Mexico in Latin America; Germany and France in Europe. In 1999, a formal decision was taken to hold EU-LAC summits every two years at the level of heads of state.

Nevertheless, the “golden age” of EU-LAC interregionalism turned out to be very short (Sberro, 2013). The terrorist attacks of September 11th, 2001, led to a radical transformation in the global political context by re-focusing international agenda on security questions and by bringing the concept of the “clash of civilizations” back to the fore. At the same time, political and economic circumstances inside Latin America changed substantially. Mercosur’s integration experienced a hard blow after Brazil’s unilateral currency devaluation in 1999 and Argentina’s bankruptcy in 2001.The turn to the left in Latin American politics, initiated by Venezuela in 1998 and observed afterwards in Bolivia, Ecuador, or Nicaragua, augured a comeback of the continent’s ideological divide.

In this context, already the second summit between the EU and Latin America in Madrid in 2002 – dominated by issues of terrorism, drug trafficking and immigration – revealed a clear loss of political impetus for interregional rapprochement. On a positive note, the conclusion of negotiations for the EU-Chile Association Agreement was announced, EU-Mercosur negotiations were relaunched, while at the same time a commitment was made to negotiate agreements between the EU and the Community of Andean Nations as well as between the EU and Central America. During the third summit in Guadalajara in 2004, the first practical bi-regional project, EUROsociAL, was initiated. Yet, the sense of a declining strategic importance of the EU-LAC strategic partnership loomed large in the general mood.

In the meantime, the EU itself faced a serious challenge to the dynamics of its regional integration, with the Constitutional Treaty being rejected in 2005 in national referenda by two of the EU’s founding members, the Netherlands and France. A year before, the EU experienced the largest enlargement in its history, with ten countries (most of them post-communist states of

Central and Eastern Europe) entering the organisation at once. All of this led to Europe's rising concentration on internal affairs, thus inevitably relegating the rest of the world to the second plane. At the same time, previous interests of many Latin American countries in deepening their relations with Europe weakened substantially, as they experienced their "golden years" thanks to the global commodities boom. This coincided with the emergence of a new integration project in the region, ALBA. The new organisation demonstrated sharp divergences vis-à-vis the nascent interregional consensus onquestions of international order, democratic values and economic management. This was aparticularly important lesson for Europe which had hoped for a smooth relationship with Latin America as a whole but had to adapt its position to internal divisions in the region later on.

The next two EU-LAC summits, in Vienna in 2006 and in Lima in 2008, were largely seen as a confirmation of the sense of exhaustion of the bi-regional formula. Instead, the focus moved progressively towards bilateral relations. Given a stalemate inside the Community of Andean Nations (CAN), Peru and Colombia chose to push forward their relationship with the EU individually. All of this did not mean a complete retreat from bi-regionalism. In the shadow of ageneral sense of disappointment, negotiations for the EU-Central America Association Agreement were officially launched in Vienna, while in Lima the second EU-LAC interregional project was initiated: the EUROCLIMA programme aimed at cooperation in the area of climate change mitigation.

Over the next two years, the global political and economic context changed radically. The occurrence of the global financial crisis in 2008 and the designation of the G20 as the "premier forum for international economic cooperation" in 2009 brought EU-LAC relations to a new dimension, especially since three Latin American countries (Argentina, Brazil and Mexico), four European countries (France, Germany, Italy and United Kingdom) as well as the representation of the EU as a whole had to work hand in hand on paving the way out of the crisis for the international economy. At the same time, the election of a new president of the US in 2008 raised expectations in Latin America as to a long-awaited re-prioritization of the Western Hemisphere in Washington's foreign policy. In a similar vein, the entry into force of the Lisbon Treaty since December 2009 was expected to strengthen foreign policy dimension of the EU, thus enabling it to re-focus on the rest of the world after several years dedicated to internal problems. As a foretaste of its opening towards Latin America, the EU concluded two strategic partnership agreements with Brazil in 2007 and another one with Mexico in 2008.

In this context, the sixth EU-LAC summit was held in Madrid in 2010. It became a pivotalmoment in relations between the two regions, by merits of both Spanish diplomacy and favourable geopolitical circumstances. Two practical instruments for the promotion of bi-regional relations were launched in Madrid: the Latin America Investment Facility (LAIF) as well as the EU-LAC-Foundation. Thus, a new impetus to bi-regional relations was given, while at the same time the importance of developing further bilateral relations was acknowledged. Finally, the EU agreements with Peru and Colombia were concretised, EU-Central America Association Agreement was completed, and negotiations for an association agreement between the EU and Mercosur were relaunched. In the words of a Mexican scholar, “Madrid was a double success, being able to offerlong-term political perspectives as well as concrete results; a double triumph that only few international summits have accomplished in the last decades” (Sberro, 2013).

It would be exaggerated to explain the relative **success of the 2010 EU-LAC Summit in Madrid** with the workings of the global economic crisis alone. First of all, an adequate preparation for the summit had been among the priorities of the Spanish diplomacy for many years, irrespective of the world economic situation. Secondly, participants of the summit did not let it become overshadowed by the crisis, maintaining discussions in a rather business-as-usual way. This is because most Latin American countries were passing relatively well through the global turmoil, while Europe’s attention was centred on Greece, believed to constitute an isolated problem. All in all, the summit’s political success should rather be considered as a crowning achievement of pre-crisis efforts undertaken by participating countries (and Spain in particular) to assign a proper rank to EU-LAC relations. Still, the Summit has surely led to a long-awaited re-invigoration of the political agenda between the two regions.

By the same token, **a successful signature of the EU’s agreements with Colombia and Peru in June 2012** should be considered as an effect of long-term efforts, dating back to the launch of negotiations between the EU and the Andean Community in 2004, rather than as a crisis-related phenomenon. Still, the “happy ending” to these negotiations has clearly led to a renewed interest in EU-LAC relations on the part of both other Latin American countries – as evidenced by Ecuador’s recent return to the negotiation table and new dynamics in EU-Mercosur talks – as well as inside the EU.

Another crucial moment for EU-LAC relations was **the creation of the Community of Latin American and Caribbean States (CELAC) in December 2011.** This, in many respects, can be seen as a consequence of the crisis which contributed to the belief that coordination of individual LAC countries’ relations with the rest of the world was necessary in the context of increasingly volatile economic circumstances. Most importantly, CELAC was established under a joint initiative of Brazil, Mexico and Venezuela, finally opening the door to an effective political coordination of LAC’s relations with the rest of the world. The EU contributed to CELAC’s development by announcing that it would consider the organization as an official forum for EU-LAC relations and by scheduling the first CELAC-EU meeting just before the first formal meeting of CELAC.

While the **1st CELAC-EU Summit**, organized in Santiago de Chile in January 2013, did not achieve spectacular results (apart from minor successes like the announcement of a provisional enforcement of agreements between the EU and Colombia, Peru and Central America respectively), it had a huge symbolic importance by “bringing hope for a greater institutional symmetry between the two regions” (Sberro, 2013) and thus reinvigorating the idea of bi-regionalism. Still, it remains to be seen whether CELAC, an organization without a seat or a founding treaty, will prove to be a strong enough counterpart in EU-LAC relations. For this to happen, its gradual institutionalisation and consolidation seem to be necessary, which in turn would demand strong political support from the biggest Latin American countries, especially Mexico and Brazil (Gratius, 2013).

In more general terms, another direct impact of the 2008 economic crisis on the EU-LAC relations can be found in the already discussed convergence of the region's socio-economic models. The creation of the Pacific Alliance in 2012 by Chile, Colombia, Mexico and Peru constituted a response to new global challenges which became exposed by the crisis. At the same time, the movement towards external opening became visible in other countries of the region. The governments of traditionally more inward-oriented economies of Mercosur became subject to rising internal pressures forcing them towards greater external opening. At the beginning of 2013, during the 1st CELAC-EU Summit, **the revival of long-paralysed trade negotiations between the EU and Mercosur** was announced. Both sides were supposed to present their negotiation positions by the end of the year, but the moment of launching negotiations has been postponed ever since.

An important moment in EU-LAC post-crisis relations was related to **the official launch of negotiations for the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US, in February 2013**. The underlying logic of this project is to foster economic exchange across the Atlantic given the increasingly volatile global economic situation, the existence of large unexploited potential for trans-Atlantic trade and investment, as well as the need to reassert the "West's" leading position in the world economic order. The EU and the US are supposed to sign a final agreement during the next two years, thus setting standards for the next generation of trade and investment partnerships in the world. Over that period, the TTIP's consequences on the situation of individual Latin American countries will surely remain a highly debatable issue. According to some studies, most Latin American countries will be on the losing side if the TTIP is signed (Bertelsmann, 2013). Yet, at this moment, any forecasts are highly dependent on methodological assumptions adopted by researchers.[28] The TTIP process already constitutes an important factor for EU-LAC relations. It favours further development of the Pacific Alliance and, indirectly, has triggered a re-launch of the EU-Mercosur trade negotiations. In the former case, the export-oriented economies of the Pacific aim at positioning themselves as natural candidates for an enlarged TTIP area, once the deal is achieved. In the latter case, TTIP negotiations have mobilized the business community in Mercosur countries to press their governments for a greater economic opening, given a rising fear about their countries becoming increasingly marginalized in the global market. Although negotiations between the EU and the US still have a far way to go, they have already encouraged diplomatic efforts aimed at including some LAC countries (especially Mexico and Central America) in a potential trade and investment area. Depending on the success of those efforts, the conclusion of TTIP negotiations may have either a highly positive effect on EU-LAC relations through creation of a wide Western market; or just the opposite, it may lead to the LAC's renewed marginalization on the EU's economic and political agenda as well as within the Western or transatlantic community. The course of events is very uncertain so far and would most probably remain so throughout the next years.[29] Last but not least, the most recent in a series of crucial events in EU-LAC relations after 2008 has been the official opening of negotiations for a partnership

28 For different forecasts, see also CEPR (2013), Swedish National Board of Trade (2012), and CEPII (2013).

29 We return to this issue in the concluding chapter.

agreement between the EU and Cuba, in May 2014. In this case, it may be exaggerated to look for direct connections between this process and the 2008 crisis. Different factors seem to have played a decisive role in pushing the EU and the communist regime in Havana towards the negotiating table. First of all, Cuba has taken consistent steps towards economic liberalisation over the last years, which in turn have encouraged the EU to strengthen its dialogue with the island. Secondly, there is a rising feeling inside the EU these steps should be recognised and that guaranteeing a peaceful political and economic transition in Cuba should now become the main focus of diplomatic action. A potential agreement may have important long-term consequences for the EU-LAC relations, just as it may have an important impact on Europe's geopolitical standing in Latin America.

3.4 CONCLUSIONS

Political relations between the EU and LAC have made undeniable progress since the beginning of the global economic crisis in 2008. Some elements of this phenomenon can be attributed to the crisis (as in the case of a renewed focus on bi-regionalism in the form of the EU-CELAC dialogue or in the case of the return to the EU-Mercosur trade negotiations), while others were related, most of all, to internal dynamics of processes initiated already before the 2008 crisis (as in the case of the conclusion of the EU-Peru and EU-Colombia free trade agreements in 2013) or simply had different causes, not necessarily related to the crisis (as in the case of the opening of the EU-Cuba partnership negotiations in 2014).

The 2008 crisis provoked important institutional transformations on both the Latin American and the European side, which in turn may have a substantial impact on the shape and intensity of EU-LAC relations in the future. In the case of Latin America, this relates to the establishment of the Pacific Alliance in 2012 among the export-oriented economies of Chile, Colombia, Mexico and Peru; as well as to the creation of CELAC in 2011, a political forum which might enable the emergence of a unified voice of Latin America and the Caribbean in its relations with other parts of the world. In the European case, we have seen the launch of TTIP negotiations between the EU and the US in 2013, with a potentially important impact on EU-LAC relations (even though the eventual direction of this impact still remains unknown). Moreover, independently of the crisis, EU foreign policy was equipped with new institutions in 2009 – the High Representative and the European External Action Service – providing a more suitable ground for the development of the region's relations with the rest of the world, including Latin America.

T**he crisis has contributed to the upgrading of the G20** to the level of Heads of State and to its transformation into a major forum of discussion on global financial issues. Due to the participation in the G20 of three Latin American countries (Argentina, Brazil, Mexico), four EU countries (Germany, France, Italy and UK) as well as the representation of the whole EU, the group has become a new and a very important element in the overall geometry of EU-LAC relations. We analyse this issue in more detail in the following chapter.

Yet, apart from the formal or institutional transformations observed after 2008 globally or in the two regions individually, a number of less noticeable background processes **(megatrends)** have also had – or could potentially have – a significant influence on the shape of EU-LAC relations and on the content of global identities inside both regions. In this respect, **the significance of the crisis consisted in the fact that it served to uncover or modify the underlying dynamics of these processes.**

This concerns, first of all, the importance of China's relations with LAC for the relationship between the EU and LAC. On the one hand, thanks to China's strong demand for commodities, their international prices remained relatively stable and high over the last years, enabling several Latin American countries (e.g. Argentina, Brazil, Chile) to experience high rates of GDP growth despite the global economic slowdown, and mobilizing other countries in the region (e.g. Colombia, Mexico, Peru) to develop closer economic ties with Asia. This may indicate that Latin America is moving closer to China, potentially to the detriment of its relations with the EU. Yet, on the other hand, we can also observe a renewed interest of the region in the rapprochement with the EU (e.g. in Mercosur), given the realization about structural risks related to rising dependence on commodities exports. Therefore, the "Chinese factor" seems to work for EU-LAC relations in a bi-directional fashion so far. Despite the economic crisis in the US and in the EU, thus far both of them seem to maintain a position of major cultural, institutional, and political points of reference for Latin America.[30]

In a similar vein, despite harbingers of LAC's convergence towards a consensual socio-economic model (based on market reforms and social inclusiveness), the current political reality in the region is still one of diversity with at least three alternative models in place. As long as this pattern continues, it may be harder for Latin America to speak with one (or at least a similar) voice with other parts of the world, and for the EU to consolidate its strategy towards the region.

Thirdly, while the rise of Latin American middle class may eventually convert the region into a politically more predictable and economically more attractive partner for the EU, it may also contribute to a temporary rise in social tensions which – again – would complicate the development of smooth relations between the EU and LAC.

Another strand of challenges can be identified on the European side. While economic opening to the world, including to Latin America, might be considered as an attractive "exit strategy" from

30 It should be recognised that empirical evidence on this issue is scarce, mostly because measuring identity is an extremely debatable matter. According to Pew Global (2014), a generally favourable opinion of the EU in LAC has not changed significantly after 2008. A favourable opinion of the US in LAC has even increased, notably in cases of Argentina, Brazil and Mexico. However, LAC's opinion of China is also very favourable, in some cases even more so than the opinion of the EU. When we analyse the support for democracy in LAC (Latinobarómetro, 2013), we may conclude that the West maintains its privileged position as an institutional and political point of reference forLatin America. However, recent data indicates that the opinion of the EU in LAC has in fact deteriorated significantly after the 2008 crisis (Latinobarómetro, 2014). Still, these short-term changes in the public mood do not seem to have reversed much deeper, long-term trends. For a broader meaning of cultural bonds between LAC and the West, see Hirschman (1971), Malamud (2010) and Whitehead (1996).

the economic crisis, the many temporary problems of the EU, most of them of a political nature (e.g. rise of populism and the popularity of extreme parties in many Member States; the “Brexit” scenario; and the unknowns related to Catalonia’s and Scotland’s independence bids) may again force the EU to concentrate on internal issues, hindering its global opening.

On a positive note, the group of Member States supporting the development of a Latin American strategy inside the EU might finally be strengthened by new countries (especially from Central and Eastern Europe) which have found new political rationale to go global after the 2008 crisis. Yet, even in this case, there is also the risk that the EU’s Latin American strategy would become dominated by economic issues, instead of encompassing also the political, social and cultural dimensions.

All in all, the 2008 crisis has triggered or uncovered contradictory tendencies. On the one hand, the EU and LAC may converge closer towards a common global identity, based on such concepts as the West, the market, economic opening, democracy, middle class values or global engagement. However, on the other hand, they may also drift further apart, with LAC’s attention shifting progressively towards the Pacific whereas the EU returns to its tendency towards economic and political introversion. It is through the EU’s and LAC’s actual behaviour on the international scene that the relative importance of these two identity bundles will be determined.

4 EU-LAC RELATIONS WITHIN THE G20 AFTER 2008

According to the central hypothesis of this report, the global economic crisis of 2008 constituted a potential turning point for the balance of interest and the constitution of mutual identities in the relationship between LAC and the EU. In the previous chapters we have demonstrated that the political and economic dynamics on both sides of the Atlantic have changed substantially over the last years. What remains to be seen is whether they have translated into new patterns of behaviour, such as an effective tightening of political relations between Europe and Latin America. We chose the G20 (an organisation whose geopolitical rise to power was one of key consequences of the crisis) as a litmus test for the actual relationship between the two regions after 2008.

The question that we intend to answer is to what extent the G20 has played the role of a "testing ground" for the EU-LAC post-crisis relationship. For this purpose, we situate the G20 process within post-2008 multilateralism. We then move on to the comparative analysis of strategies of individual European and Latin American countries inside the group. Finally, we discuss patterns of cooperation within and between the two regions.

4.1 THE G20 AND POST-CRISIS MULTILATERALISM

In the wake of the 2008 financial crisis, G20 meetings were raised from the level of ministers of finance and governors of central banks to the level of Heads of State. They thus gained pre-eminence in global economic governance. Originally, the G20 was created in 1999 in the aftermath of the Asian financial crisis as a grouping of the world's "systemically" important countries.[31] Their agenda focused on international financial matters. Member countries were chosen to represent their own interests, not the interests of their region, even if some regional consultative practices have emerged over the years. In other words, from the outset the G20 was not intended to be an inclusive or representative body.

When the 2008 crisis hit, the G20 became the "natural" forum of debate on global finances (Vestergaard, 2011), as it represented 90% of the global economy, 80% of global trade, 66% of the world's population and included representatives of all of the world's major regions (OECD, 2014). At the same time, however, its legitimacy started to be contested, especially as the G20 permanently excludes over 170 countries from taking part in discussions important for the whole

Table 4.1: G20 actual members versus what the G20 would look like if strict membership criteria were employed. Notes: 2013 GDP in current prices, in billions of US dollars. For methodological reasons, the EU as a whole is included only in the first two columns.

	G20 Members	If GDP (nominal) were the criterion – 2013, in billions USD	If GDP (PPP) were the criterion - 2012 If population were the criterion	If population were the criterion
1	European Union	European Union (17,267)	United States	China
2	United States	United States (16,724)	China	India
3	China	China (8,939)	India	United States
4	Japan	Japan (5,007)	Japan	Indonesia
5	Germany	Germany (3,593)	Germany	Brazil
6	France	France (2,739)	Russia	Pakistan
7	United Kingdom	United Kingdom (2,490)	Brazil	Nigeria
8	Brazil	Brazil (2,190)	United Kingdom	Bangladesh
9	Russia	Russia (2,118)	France	Russia
10	Italy	Italy (2,068)	Italy	Japan
11	Canada	Canada (1,825)	Mexico	Mexico
12	India	India (1,758)	South Korea	Philippines
13	Australia	Australia (1,488)	Canada	Vietnam
14	Mexico	Spain (1,356)	Spain	Ethiopia
15	South Korea	Mexico (1,327)	Indonesia	Egypt
16	Indonesia	South Korea (1,198)	Turkey	Germany
17	Turkey	Indonesia (867)	Iran	Iran
18	Saudi Arabia	Turkey (822)	Australia	Turkey
19	Argentina	The Netherlands (801)	Saudi Arabia	Democratic Rep. Of Congo
20	South Africa	Saudi Arabia (718)	Taiwan	Thailand

Source: An update and adaptation of a table proposed by Vestergaard (2011), based on data from IMF (2013a).

31 Such was the original criterion employed by Canadian finance minister Paul Martin and the U.S. Treasury secretary Larry Summers, when selecting the G20's future members. According to J. Kirton, "membership in the G20 is basedon systemic significance: countries that have enough connectivity as well as capability, so if they fail, they can bring the whole system down, or can run to the rescue when others fail" (Kirton, 2013a).

system of global governance. Although the jury is still out on the historical importance of the G20, the sheer fact that the President of the US, George W. Bush, decided to gather leaders of the both traditional and emerging global powers to cope collectively with the immediate consequences of the crisis, instead of turning to the proven G8 club of the world's most developed countries, signified a major geopolitical breakthrough of its own. For a brief comparison of the G20 members and other big economies see Table 4.1.

There is no doubt that, at least during the first two years after the outbreak of the 2008 crisis, the G20 played a critical and a very constructive role by enabling a coordinated political action of the world's leading economies (Tiberghien and Hongcai, 2013). The G20 was efficient in designing and coordinating crisis management measures, including coordinated central banks' measures to provide more liquidity in the system and the loosening of monetary policies. The G20 members were acting together in their fight against trade protectionism and in the initial coordination of fiscal stimulus. They seemed to have broken down a long-lasting impasse in discussions over the reform of international financial institutions' governance schemes. They agreed to create the Financial Stability Board[32] tasked with the creation of global financial standards and – along with the IMF – with the monitoring of global financial risks. They launched a peer review process of macroeconomic policies run by individual G20 members (the so-called Mutual Assessment Process). Finally, they institutionalized the G20 Summit as a regular political mechanism and established a rotating presidency of the Group among all of its members, with the troika system where the present, past and future chairs work together to prepare the next summit (Kirton, 2013b). For a brief summary of the G20's summits see Table 4.2.

The sense of collective responsibility was reflected in the "Leaders' Declaration" at the 3rd G20 Summit in Pittsburgh, in September 2009, whereby they described the G20 as the "premier forum" for global economic cooperation, thus relegating the G8 into the second plane, at least temporarily. However, only a year later, the G20's incapacity to work out further beyond-the-emergency agreements led many to perceive it as an "increasingly divided, ineffectual and illegitimate" club (Financial Times, 2010). Today's opinions about the group spread from more moderate[33] to much more critical views putting an emphasis on the G20's ineffectiveness and dubious legitimacy.[34] However, two strands in the criticism must be distinguished. On one hand, gradual recovery of the world economy has diluted the willingness of the G20's members to cooperate, thus enabling a justified opinion that the coordination of their policies is weakening. On the other hand, the more efficient the G20 was in the past, the more it was criticized for bullying

32 As the successor to the G7's Financial Stability Forum (FSF).

33 Like in the following excerpt from the Financial Times: "The more general problem for the G20 is that with no pressing crisis to resolve, and fairly benign global growth, it is hard to keep the sprawling summits on track for outcomes better than the lowest common denominator" (Financial Times, 2014a).

34 As the following opinion by a Danish scholar, Jacob Vestergaard: "The larger truth is that the G20 has so far failed to have substantial political impact on any of the key problems haunting the global economy. It has shown itself to be little more than the 'toothless talk shop' many feared it would be" (Vestergaard, 2011).

Table 4.2: Review of the G20 Summits.				
Summit No	Year	Host city	Host country	Major results
1	2008	Washington	USA	Focus on immediate reaction to the global financial crisis. Pledge to coordinate financial regulatory reform. Focus on expansionary macroeconomic policies. Pledge to refrain from protectionist trade policies. Agreement to reform international financial institutions. "Washington Declaration" signed. Concerted action.
2	2009	London	United Kingdom	Focus still on immediate reaction to the global financial crisis. Pledge to treble resources available to IMF to $750 billion, support a new Special Drawing Rights (SDR) allocation by $250 billion, support at least $100 billion allocation by Multilateral Development Banks (MBDs) and ensure $250 billion of support for world finance. In total, $1,1 trillion programme to restore credit, growth and jobs in the world economy. Besides, commitment to coordinate fiscal stimulus. Agreement on creation of Financial Stability Board (FSB). Signature of "G20 Action Plan for Recovery and Reform". Concerted action. Europe's successful leadership. China's demonstration of strength.
3	2009	Pittsburgh	USA	Announcement that G20 would be the "premier" forum for international economic cooperation. Less focus on immediate issues, more on medium term strategy. Announcement of "G20 Framework for Strong, Sustainable and Balanced Growth". Initiation of debate on increase in voting power of emerging nations at international financial institutions. China's demonstration of strength. Summit considered a herald of a G2 (US plus China) rather than a G20 world.
4	2010	Toronto	Canada	Summit held against the backdrop of growing uncertainty regarding situation in the Eurozone. Developed countries announce targets for fiscal consolidation. Austerity versus stimulus debate. Global bank tax proposal blocked by US and Canada. Discussion on the reform of the Bretton Woods institutions' quota and governance. Weakened position of Europe due to the Eurozone crisis and Europe's reluctance to accept the reform of quotas in the Bretton Woods institutions.

Sources: OECD (2014), University of Toronto (2014), and own observations.

Table 4.2: Review of the G20 Summits.				
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5	2010	Seoul	Canada	Summit held against the backdrop of growing uncertainty regarding situation in the Eurozone. Developed countries announce targets for fiscal consolidation. Austerity versus stimulus debate. Global bank tax proposal blocked by US and Canada. Discussion on the reform of the Bretton Woods institutions' quota and governance. Weakened position of Europe due to the Eurozone crisis and Europe's reluctance to accept the reform of quotas in the Bretton Woods institutions.
6	2011	Cannes	France	Summit organized under heightened concerns about the situation in the Eurozone. Inconclusive debate on global financial tax and food price controls. Agreement to accept greater use of currency controls. Discussion on the reform of the international monetary system. Europe's divisions on global and regional issues exposed. G20's further effectiveness in question.
7	2012	Los Cabos	Mexico	First summit organized by a Latin American nation. At height of Eurozone crisis, which dominated the agenda. Further discussion on food and commodity price volatility. Inconclusive debate on "green growth". Decision to further recapitalize the IMF. Announcement of the "Los Cabos Growth and Jobs Action Plan". The UK/Argentine dispute over Falklands in the background. Heated debate on Syria. Growing sense of disillusion with the G20, given a lack of global consensus over ways to solve the Eurozone crisis. China challenged for alleged exchange rate manipulations. Lack of Latin American political cooperation despite favourable occasion.
8	2013	Saint Petersbourg	Russia	Eurozone no longer the priority. Discussion on competitive devaluations and an agreement to avoid currency wars. Summit dominated by issue of Syrian civil war, exposing strategic division among the G20 members. Global divisions between the US-led and Russia-led blocks on the issue of Syria. European divisions also exposed, with Germany declining to sign the US-drafted joint statement. Commentators call for the G20 to establish a separate foreign policy track. Japan challenged for "Abenomics".
9	2014	Brisbane	Australia	–
10	2015	tbc	Turkey	–

Sources: OECD (2014), University of Toronto (2014), and own observations.

other countries, as it frequently predetermined decisions of formal bodies (like e.g., IMF). This shows an interesting trade-off between the group's efficiency and legitimacy.

Consecutive presidencies in the G20 have tried to add new subjects to the group's agenda, partly in order to get around an apparent stalemate, and partly as a nod to the developing nations which were altogether less affected by the financial crisis and therefore showed different priorities and preferences (Gnath and Schmucker, 2011). This is why South Korea, which presided over the G20 in the second half of 2010, initiated the debate on development topics, while Mexico came up with the idea of "green growth" in 2012. Still, as a side-effect of this proliferation of subjects, we observed a progressive dilution of attention from the G20's original priorities onto new, "softer" domains, thus reinforcing the criticism about the group's actual leadership.

Irrespective of controversies around the G20, the post-crisis emergence of the group has already meant a major geopolitical breakthrough. The system of global economic governance became much more multipolar and symmetrical thanks to the recognition of the power of the world's hitherto underestimated and "voiceless" economies which were given a say in the direct management of global finance.

Nevertheless, although the group is still presented as the merger between the world's developed nations on the one hand and the emerging powers on the other, in practice the picture turns out to be much more complex. The G20 is clearly not about the divide between the global North and the global South. Especially since "coalitions have arisen and won *across* the advanced-emerging country divide" (Kirton, 2013b) and, furthermore, divisions were pronounced both among the developed nations and among the developing ones. This was seen during the discussion on the G20-wide bank levy, where Canada together with emerging countries successfully resisted the European proposal. Then, on the reform of the IMF voting quotas, the US and Canada, together with emerging countries, overcame European resistance. On contributing funds for an IMF firewall fund, most of the emerging countries and all of the European members supported the idea, opposing Canada and the US on this point. Divisions within both the developed and the developing 'blocks' were even broader on non-economic issues, like the military action against Syria. This question was a subject of heated debate during the 2013 Summit in Saint Petersburg. Russian opposition to military action was supported by India, South Africa, Argentina, Brazil, China and Indonesia, but other emerging countries – including Saudi Arabia, Turkey and South Korea – signed a joint statement drafted by the US calling for a "strong international response". Germany became the only European nation at the G20 declining to sign the joint statement (Reuters, 2013).

The developing world members of the G20 demonstrated their ability to participate actively, and not as mere spectators, in the group's debates after 2008. Still, they are a long way from becoming strong agenda setters or veto players, even if they have improved their relative position markedly over the last two years. In 2011, analysts from the College d'Europe in Bruges argued that "their leeway to shape outcomes has so far largely depended on the ability to strike coalitions among each other and with G8 countries, such as with IMF reform or financial taxes and levies" (Gnath and Schmucker, 2011). They have not been able "to influence and shift the formal agenda of the leaders' G20 single-handedly. (...) [But] the cacophony of G8 voices has given emerging countries a room to manoeuvre at the G20". However, in 2012 we observed a major turning point in this respect when the five members of BRICS (Brazil, Russia, India, China and South Africa), at their 4th Summit in Delhi, committed themselves to coordinating positions at G20 summits. This agreement could have the potential of turning BRICS into a G20's agenda setter, especially given the strong positions of its members on a number of issues: Brazil's repeated call to liberalise global agricultural trade, Russia's and India's opposition to the financial transaction tax, or China's defence of a sovereign monetary policy (Stuenkel, 2012). The G20's progressive shift of attention towards development issues, once the global financial emergency has ended, may already be considered as their agenda-setting success. However, the 2014 Crimea crisis and the ensuing diplomatic isolation of Russia may limit the leadership potential of the BRICS. Besides, many doubts remain as to the BRICS's interest – and that of emerging powers in general – in supporting the G20 as the premier forum of the global economic cooperation. While they may be eager to pursue their goals via G20 rather than in the IMF (where they have significantly less power); they could also move to completely new arenas of debate, including the BRICS itself or the Shanghai Forum of Cooperation.

In this light, the G20 may be seen as an important geopolitical experiment still in the making, rather than as a stable form of cooperation between the world's developed and emerging economies. For the time being, it is still a crucial forum where post-crisis capitalism and multilateralism (including economic relations between Europe and Latin America) are being shaped and tested. But expectations as to the role of the G20 should be neither exaggerated nor too far-reaching. In the case of further progress in the global economic recovery, and with the arrival of "good times", the G20 will most likely lose a lot of its efficiency and political importance.

4.2 THE EU'S AND LAC'S POSITIONING INSIDE THE G20

The upgrading of the G20 to the position of a "premier forum" for the global economic cooperation in 2009 signified a major turning point both for Latin American countries and for the European Union.

Latin America, at least from a formal point of view, obtained an unexpectedly strong position within the new institution, given that three countries from the region (Argentina, Brazil and Mexico) were invited to participate in the grouping, as compared with only one representative from the African continent (South Africa). Still, this may be considered little when compared with the European "paradox of plenty". Four European G8 members (Great Britain, Germany, France and Italy) were joined in the G20 by the representation of the entire European Union. The EU has been personified at the level of leaders by both the President of the European Commission (José Manuel Barroso) and – since the entry into force of the Lisbon Treaty in December 2009 – by the President of the European Council (Hermann Van Rompuy). Before that date, José Barroso had been accompanied at G20 summits by leaders of countries presiding the European Council: France, Czech Republic and Sweden correspondingly. Apart from that, thanks to the French and Latin American support, Spain became a de facto permanent guest at the G20, be-

Table 4.3: Additional country guests at consecutive G20 Summits.			
Summit No	Host city	Year	Extra country guests
1	Washington	2008	none
2	London	2009	Spain, the Netherlands
3	Pittsburgh	2009	Spain, the Netherlands, Ethiopia
4	Toronto	2010	Spain, the Netherlands, Ethiopia, Vietnam, Nigeria, Malawi
5	Seoul	2010	Spain, Vietnam, Singapore
6	Cannes	2011	Spain, Ethiopia, Singapore, United Arab Emirates
7	Los Cabos	2012	Spain, Ethiopia, Colombia, Chile, Cambodia, Benin
8	Saint Petersbourg	2013	Spain, Ethiopia, Singapore, Switzerland, Kazachstan, Brunei, Senegal
9	Brisbane	2014	Spain, Singapore, Senegal, New Zealand, Myanmar
			Source: own investigation

ing present at all Summits so far. Other European countries – the Netherlands and Switzerland – were repeatedly invited to selected meetings of the group, which in the case of Latin American countries happened only once, with the invitation of Chile and Colombia during the Mexican Presidency of the G20 (for a full list of the G20's extra guests at consecutive summits see Table 4.3.). Last but not least, the establishment of the G20 has had an effect on the EU's medium-size countries (e.g. Poland, Portugal or Sweden) that have been indirectly included in the G20's discussions through an institutionalised consultation mechanism inside the EU.

From the perspective of relations between the EU and LAC after 2008, it is pertinent to compare different countries' positioning inside the G20. This may be symptomatic of their way of thinking about intraregional and interregional cooperation just as it may influence the shape of the EU-Latin American relations in general.

(a) Brazil

Out of the three Latin American countries inside the G20, Brazil has been the most successful in building up political influence and gaining an important voice. This has been the result of both the government's conscious strategy to position Brazil as a constructive and cautious partner inside the group, as well as of its general geopolitical and economic attributes which make it the strongest candidate for leadership in Latin America.

Brazil's positioning inside the G20 has been a mixture of assertiveness on a selected number of issues where the country's direct interests were at stake, and of a prudent reticence in the remaining part of the agenda. The latter led some commentators to conclude that "although it is in the middle of a boiling cauldron, Brazil surprisingly has no definite strategy for the G20" (Barbosa and Mendes, 2010). Others tried to explain this phenomenon by arguing that "this behaviour, at first sight somewhat reckless, reflects actually a well-thought approach. More pragmatically than many other actors in the international system, Brazil has been waiting for the big powers to disclose their positions, thus avoiding previous alignments with any specific country, including the BRICs" (Tedesco Lins and Pignatari Silva, 2011). Moreover, Brazil has not exploited the opposition between the North and the South and has distanced itself from the third-world discourse (Fagundes Visentini, 2011), thus positioning itself as a moderate member of the G20. This helped Brazil's invitation to the Financial Stability Board and to the Basel Committee. A turning point in this strategy of multi-vector diplomacy was Brazil's initiative to coordinate the BRICS position ahead of the G20 summits. This was first tested at the 2011 summit in Cannes. Then, in March 2012, during the 4th BRICS Summit in India, the five countries formally committed themselves to coordinating their positions at the G20 (Stuenkel, 2012). While the BRICS countries do not yet behave as a block, they do constitute a network with a rising role inside the G20.

Until now, Brazil has demonstrated its explicit commitment on at least four major issues discussed at the G20: the remodelling of the Bretton Woods institutions, the "currency wars", the strengthening of the IMF's intervention capacity in financial terms, and the regulation of the commodity market.

In the first case, the G20 proved to be a favourable arena for Brazil to come back to its years-old request to reform representation and voting quotas in key global governance institutions, especially in the International Monetary Fund and the World Bank. A preliminary agreement on these issues was reached at the 3rd G20 Summit in Pittsburgh in 2009. Then, at the Seoul Summit in 2010, Europe agreed to give up two seats on the Executive Board of the IMF and to shift IMF voting quotas in favour of dynamic emerging markets, developing countries and under-represented countries by over 6 per cent in 2012 (Jokela, 2011). While China would be the main beneficiary of the reformed system, the agreement was considered a major progress for all the emerging powers, including Brazil. Still, the whole IMF reform package, encompassing also the doubling of the IMF's equity capital apart from shifts in voting quotas and directorship seats, suffered a serious blow in January 2014, after the US Congress refused to ratify it. This setback would certainly complicate the G20's future discussions. A new opportunity for US Congress approval would open in 2015. In the words of Domenico Lombardi from the Center for International Governance Innovation in Ontario, "The delay has clearly 'broken' an implicit contract underpinning the G20 spirit or contract whereby advanced economies would support a greater voice for emerging economies in global governance arrangements and the latter would take more responsibility as full-fledged stakeholders of the global economy" (Financial Times, 2014c).

In the second case, Brazil's Minister of Finance, Guido Mantega, was a leading political figure denouncing the risk of "currency wars" and justifying the need to accept the use capital controls in the context of large exchange rate imbalances. On a meeting of the G20 Ministers of Finance in October 2010, a month before the G20's 5th Summit in Seoul, he warned of a currency war, while in the run-up to the April 2011 meeting he argued that each country should be free to use capital controls as a means to deal with excessive global liquidity. Despite lobbying by the US Treasury that wanted Brazil to join its calls for the revaluation of the Chinese renminbi, the country decided not to support either side of the conflict. These discussions clearly demonstrated that Brazil could become a determined participant in multilateral discussions on substantial matters. They also contributed to an increased global acceptance of the policy of capital controls that Brazil, among others, introduced in order to moderate the negative impact of capital flows on its exchange rate.[35]

Meanwhile, Brazil provided unequivocal support for coordinating stimulus packages aimed at reviving the global economy soon after the outbreak of the crisis. According to Jean Pisani-Ferry, Director of Bruegel, "the full participation of the emerging group to the concerted stimulus was a remarkable achievement. Emerging countries were traditionally viewed as passive players in a global macroeconomic coordination game dominated by the members of the G7. The fact that they fully took part in the stimulus was indicative of their new global role and was an ex-post vindication of the very creation of the G20" (Pisani-Ferry, 2012). Apart from that, Brazil contributed twice to an increase in IMF "firepower". First, after the 2nd G20 Summit in London, where a decision was taken to treble the IMF's lending capacity to $750 billion, Brazil contributed $10 billion – which was comparable with contributions from Canada, India, Russia and South Korea each (IMF, 2013b). Then, in 2012, when Ministers of Finance from the G20 countries decided to add another $456 billion to IMF's lending capacity, Brazil pledged further $10 billion, in a concerted move with all the rest of the BRICS countries. However, they did not make this new contribution without conditions, as their joint statement said that "these resources will be called upon only after existing resources (...) are substantially utilised", and that the money was provided "in anticipation that all the reforms agreed upon in 2010 will be fully implemented in a timely manner, including a comprehensive reform of voting power and reform of quota shares" (Ministry of External Affairs of India, 2012).

Finally, in the case of the G20's dispute over commodity prices, Brazil demonstrated a constructive engagement but failed to transform it into a lasting regional leadership afterwards. In the first half of 2011, during the French presidency inside the G20, President Nicolas Sarkozy centred the agenda on the idea of curbing commodity price volatility by introducing a sort of price controls. This idea was overtly criticized by the Brazilian Minister of Finance, Guido Mantega. "Brazil totally opposes the use of mechanisms to control or to regulate the price of commodities," he said. "Most of the prices of these commodities will fall naturally as the market re-establishes itself" (Financial Times, 2011). Brazil was an informal leader of a one-off coalition, the so-called

35 In October 2009, the Brazilian government began to introduce what would become an extensive set of controls on inflows of foreign capital. It started with a 2% tax on financial transactions on foreign investments in portfolio debt and equity, collected at the initial currency conversion, similar to the Tobin tax. Several other measures followed. Since 2012 many of these controls have been relaxed or eliminated.

G4 composed of Argentina, Australia, Brazil and Russia, which successfully blocked the French initiative. In the end, at the G20 Summit in Cannes, leaders endorsed an Action Plan prepared earlier by their agricultural ministers whereby they committed themselves to improve market regulation and transparency, but put aside the controversial idea of price controls.

All in all, thanks to its moderate position on most issues discussed at the G20 and due to an unequivocal support to global growth, Brazil managed to position itself as point of reference, a vocal advocate of the developing world and a necessary participant in global governance. At the beginning, Brazil took care not to become associated with any rigid block inside the G20, though it clearly showed more readiness to cooperate with emerging powers (BRICS, BASIC[36]) rather than with the representatives of the developed world, as was evident during the US-China controversy over macroeconomic imbalances in 2011.

(b) Mexico

Mexico has been, as of today, the only Latin American country to host a G20 Leaders' Summit. This was the most important source of the country's strengthened position inside the group. The fact that Mexico was preparing for its G20 Presidency made its opinion during the 2010 and 2011 meetings increasingly relevant. At the same time, the preparatory work forced Mexico to develop its own expertise in previously neglected areas. However, despite its increased exposure and a relatively smooth coordination of the G20 operations in 2012, Mexico has not managed to establish a durable leadership inside the club for two basic reasons.

On the one hand, Mexico for long has not claimed leadership, neither in Latin America nor in the developing world, mostly due to its close relations with the US through the North American Free Trade Area (NAFTA) where over 90% of its exports go. Yet, this is also because of its unilateral withdrawal from the LAC political arena. In the lead-up to the first G20 Summit in Washington, the Mexican president Felipe Calderón consulted his NAFTA partners, the US and Canada (both of them G7 members), instead of looking for rapprochement with the other Latin American or developing nations. Indeed, being the first Latin American member of the OECD since 1994, Mexico presented itself and was increasingly considered as leaning towards a status of a developed country (Kirton, 2014). Participation in the G20 summits constituted a highly symbolic event in the history and identity of the country, demonstrating the long way it had travelled since being a consumer of the international financial bailout in 1994 up to becoming a foundational member of a group responsible for the stabilisation of the global economy in 2008. Nevertheless, economic and political closeness to the Northern, liberal, developed world impeded the country from playing a constructive role as a representative of emerging nations or as a bridge between the North and the South. Instead, Mexico proved to be a quiet, not very outspoken, but productive G20 member.

Most of all, Mexico has benefited from an increased political exposure, especially given the fact that the meeting in Los Cabos coincided with a critical period for the G20's strategic role. A com-

36 BASIC is an informal grouping which includes Brazil, South Africa, India and China. BASIC has been particularly active in the area of global climate negotiations.

mon perception before the summit was that it would give the final answer as to whether the G20 would remain the centre of global economic management or not. In the words of Chris Giles, the Economics Editor of the Financial Times, “after a string of failures, the task for the Los Cabos G20 summit [was] to stop the rot and prevent the organisation becoming irrelevant”. He also quoted Eswar Prasad from the Brookings Institution, who predicted that “the Los Cabos summit [faced] the real risk of being seen as the nadir of the G20’s ability to act collectively to ensure global financial stability” (Financial Times, 2012a). A general fear was that the summit would repeat the experience of the previous meeting in Cannes which was dominated by burning problems in the Eurozone and left an after-taste of acrimony. The Mexican summit did not dispel those fears.

The event coincided with a recession in Europe as well as with an economic slowdown in the US and in most emerging economies, including BRICS. Given these difficulties, the government of Felipe Calderón took a conscious decision not to pack the agenda with too many ambitious issues, limiting expectations of any long-term deliverables stemming from the summit (Financial Times, 2012b). Despite that, a general impression after the meeting was that it had not fulfilled even the basic expectations, perpetuating the trend of the G20’s declining relevance (Goodliffe and Sberro, 2012). An increase in the IMF’s bailout fund by $456 billion was seen as the only concrete decision taken at Los Cabos. In contrast, Mexico failed to achieve meaningful results in its bid to advance green growth and fight against climate change. After the summit, some commentators argued that taking global action on complex problems demands strong political leadership which an emerging country, like Mexico, could not perform. Yet others put the blame on the construction of the G20 as such, considering its failure as a typical example of the collective action problem (Goodliffe and Sberro, 2012).

Irrespective of its limited role as a leader, Mexico has managed to project a stable, consistent and attractive profile inside the G20, largely compatible with its long-term strategy. Most of all, during both Felipe Calderón’s and Enrique Peña Nieto’s mandates, the country has positioned itself as a defender of free trade and market liberalization. At the Summit of Americas in April 2012, Mexico’s outgoing president reminded his regional counterparts that “commerce remains the way forward, as it has been for millennia [and] we have to be very clear that the way forward is not protectionism but openness” (Financial Times, 2012d). According to John Paul Rathbone, “it was a passionate and rare public statement by a leading international politician in favour of free trade; in today’s economic climate, it is hard to think of any other G20 leader who would stick out his or her neck so far on the issue” (Financial Times, 2012d). Mexican support for free trade stems from its successful experience with economic opening. Once an extremely closed economy, it has become a standard-bearer for openness, having signed 12 free trade agreements with 44 countries in the world and having trade constitute around 60% of its GDP. Enrique Peña Nieto, who took over the reins of the country in December 2012, has reinforced Mexico’s liberal image through his reform agenda, by making the necessary first steps in a complicated process of the liberalization of the telecommunication and energy sectors.

(c) Argentina

When compared to Brazil and Mexico, Argentina is the least active LAC participant in the G20.

This is mainly the result of its still fragile economic situation after the 2001 bankruptcy. Historically, Argentina has a long tradition of contributing to forge principles of international legal institutions. Besides, the country is currently a member of the UN Security Council and has actively participated during GATT/WTO rounds. At the moment of G20 integration in 1999, Argentina was a dynamic emerging economy, though already highly indebted. At that time, G20 formed precisely to prevent international financial risks. Unfortunately, Argentina's delicate financial situation of 2001 caused a severe crisis whose consequences have not been overcome to this date.

This situation limited the country's interest in the G20 agenda to a short list of matters directly connected to its national interests (Petrella, 2012). At the same time, this fragility impeded a full commitment of the country regarding costly initiatives, such as the IMF's capitalization.

A decrease in Argentina's relevance as a dynamic emerging economy, along with unsolved issues with the international financial markets put the country's membership in the G20 into question in 2008.[37] Simultaneously, the critical role of the IMF during the Argentine crisis of 2001 led the country to limit its relations with this multilateral financial institution, refusing to submit itself to periodic reviews. Since the IMF and its operations were at the core of the G20, Argentina's criticism restrained the country from active participation in the group's discussions. More recently, recourse to trade protection through the use of import licenses, anti-dumping duties and discretionary non-tariff barriers caused the enactment of a WTO panel against Argentina by 40 commercial partners. This further diminished Argentina's influence in the G20.

Argentina has not established a strong political position inside the G20. At the beginning of the global crisis, the government of Argentina tried to position itself as a defender of free trade, denouncing protectionist measures introduced by developed countries (FLACSO, 2010). In order to strengthen its voice on the issue, it coordinated positions with Brazil. Yet in the years that followed, the country itself put up some barriers to international trade. As a result, Argentina has been pushed towards the periphery of trade-related G20 discussions. From the point of view of the national interest, the G20 forum allowed the country to advance its political causes: focusing on the Falkland issue during the 2012 Summit in Los Cabos or, during the 2013 Summit in Saint Petersburg, denouncing a systemic threat that the handling of Argentina's "vulture funds" problem poses to international finance.

(d) European countries

Despite their larger number, European countries have demonstrated a much more coherent profile inside the G20 than their Latin American counterparts. This has largely to do with two factors, both of institutional character.

On the one hand, members of the EU have taken an informal decision to speak with "agreed language" during the G20 discussions. Apart from the four European countries that participate

37 Such propositions have tended to appear ever since, e.g., in 2012 the US Republican Senator Richard Lugar introduced a non-binding "Sense of Congress" resolution that called on the US to suspend Argentina from the G20.

in the debate as regular members (Germany, France, United Kingdom and Italy), the EU is also represented by the President of the European Commission and by the President of the European Council, an institution created by the Treaty of Lisbon. Before every G20 summit, the EU's common position is consulted among all Member States, acquiring the form of "terms of reference". Only sporadically have European countries found themselves at odds with each other on individual subjects discussed at the G20 (as we will see in the next section). Two of the first G20 summits were organized before the Lisbon Treaty entered into force. In those cases too, the European G20 members aimed at coordinating their actions. For example, over a month before the 2nd G20 summit in London, the four European member countries plus Spain and the Netherlands met in Berlin, at the initiative of Chancellor Angela Merkel, and agreed to seek greater regulation of the financial markets while at the same time advocating the doubling of funds available to the IMF. This agreement reconciled different priorities of the United Kingdom, which promoted the idea of a further fiscal stimulus, and of Germany and France, which strived for a more stringent regulation.

On the other hand, a large part of internal disagreements in Europe are settled during summits of the European Council, organized in the EU at the level of Heads of State at least four times a year. Over the last years, these summits have constituted a privileged arena of debate on the Eurozone crisis. Thus, although between 2010 and 2012 Europe was in the global financial "eye of the storm", its G20 members represented a relatively unified front on most issues discussed at G20 summits, or simply did not allow for the discussion to include questions which, in their opinion, should be treated as the EU's internal matters.

This separation of the global and the European political arenas has sometimes led to a general sense of exasperation about the G20's inefficiency – for example, after the 2011 summit in Cannes and the 2012 summit in Los Cabos when global leaders were criticized for not arriving at substantial conclusions regarding the resolution of the Eurozone crisis. It must be noted that the existence of political institutions and formal mechanism of consultation on the European side constituted one of the major differences in the region's positioning inside the G20 when compared to Latin America. Yet, it may also be argued that Europe's two-level coordination has been one of the important obstacles to the G20's smooth functioning. According to Jean Pisani-Ferry, "Europe is difficult because of its internal coordination process. It takes time for the Europeans to agree among themselves and when they have reached an agreement they are not ready to reopen it in the context of G20 discussions" (Pisani-Ferry, 2012).

Two of the European members in the G20, United Kingdom and France, have left a substantial imprint on the direction of the debates, since they hosted the summits in 2009 and in 2011 respectively, and given that they represent the most significant divide in Europe – that between the free-trade Anglo-Saxon world and the social democracies of the continent. Interestingly, the summits in London and in Cannes generated radically different views as to the relevance of the G20 as such. On the one hand, the 2nd G20 Summit in London was largely seen as a success, as it led to an unprecedented coordinated state intervention in the markets. The announced stimulus package provided the necessary 'shock and awe effect', thus preventing the feared collapse of the global financial system. The brokerage skills of the UK Prime Minister, Gordon Brown, as well as the expertise provided by the European Commission, were seen as key sources of the success. On the other hand, the 6th G20 Summit in Cannes generated an increased criticism about the group's ineffectiveness, as "the meeting was overshadowed by disputes within the European Union on how to tackle the escalating sovereign debt crisis" (Jokela, 2011). One of the controversies included the financial transaction tax, promoted by the French presidency but without the support of the EU as a whole.

In the context of the possible influence of G20 on EU-LAC relations, it is important to acknowledge Spain's "invisible presence" during the group's summits. Spain participates in the meetings only as an observer, yet it is seen as a valuable backstage broker, especially in relations between Europe and Latin America. It benefits from a unique position as the G20's "permanent guest". There is some disagreement as to how this position was obtained. The most prevalent theory speaks about Nicolas Sarkozy lobbying for Spanish participation before the 1st G20 Summit in Washington and then ceding its neighbour a place at the table given France's dual role of both G20 member and the country presiding the European Council (Torreblanca, 2008). However, according to John Kirton, this would not be possible without Latin American, and in particular Mexican support. President Felipe Calderón lobbied for Spain during his conversations with George W. Bush and Barack Obama, and this played a decisive role in securing a place at the table for Spain (Kirton, 2012). If the latter version is true, it would demonstrate an interesting reversal of traditional roles in EU-LAC relations, with their transition towards greater equality among partners.

4.3 THE G20 AND PATTERNS OF INTRAREGIONAL COOPERATION

Have European and Latin American countries respectively managed to institutionalize forms of intraregional cooperation within the G20? Did they speak with one voice during summits? Or have regional divisions become replicated on a global level?

In the European case, these questions have partly been answered in the previous section. Despite and to some extent "because of" a strong representation inside the G20, the EU countries have developed coordination mechanisms in order to speak with agreed language during the group's meetings. Of course, the EU is still far from being a monolith. For example, at the 6th G20 Summit in Cannes, there was a clash between France and the United Kingdom over the proposal of a global financial transaction tax. The British did not accept the idea that the French chose to promote despite a lack of consensus within the EU. Yet this example, rather than demonstrating an incapacity of Europeans to coordinate their actions, reflects most of all a long-lasting difference within the West. The free-market Anglo-Saxon countries (UK, US) and social democracies of continental Europe (France, Germany) usually disagree about the nature and extent of financial regulation and most recently about an approach to resolve the European sovereign debt crisis (Goodliffe and Sberro, 2012). This explains why, at that particular moment, the UK and the US were calling for more stimulus whereas Angela Merkel's Germany and Nicolas Sarkozy's France were seeking more austerity.[38]

While the EU sought a unified voice on economic issues, this unanimity proved to be more difficult to maintain when the G20's discussions moved to other domains, including international security. Notably, at the 8th G20 Summit in Saint Petersburg, Chancellor Angela Merkel provoked controversy when Germany became the only EU member declining to sign a US-drafted declaration on Syria (Allen, 2013).

Nevertheless, what needs to be underlined is that the G20 has never constituted a crucial arena for the European countries to arrive at a common position. The EU members have a long tradition of coordinating their economic, social and foreign policies within the process of European integration. This coordination has become strengthened as part of the post-crisis "Europe 2020" Strategy, aimed at smart, sustainable and inclusive growth in Europe and including greater coordination of national and European economic policies. This encompasses the European Semester, an annual cycle of macroeconomic, budgetary and structural policy coordination; apart from that, in 2012 and as a reaction to the Eurozone crisis, European leaders resolved to establish the "banking union", under the official name of the Single Supervisory Mechanism. All in all, Europe's coordination of economic policies is most of all the result of an on-going European integration, rather than being driven by the G20's unifying power. Needless to say, individual European countries, especially France and Great Britain, are used to being present at global fora where they represent most of all their own national interests (as in the case of the UN Security Council or the G7/G8). The G20 constitutes only one more opportunity for these European countries to influence the course of global events and to practice their search for unity. Although the fact that the representatives of the EU's institutions participate at G20 meetings on an equal basis with national leaders constitutes an important and very symbolic novelty, it should not change much in practice as long as other, "emerging" European countries do not engage themselves in drafting the EU's positions for the G20 meetings.

In contrast, the G20 created a groundbreaking opportunity for Latin American countries to establish forms of regional coordination, which seem to be necessary if they wish to exercise a meaningful influence on the shape of global settlements. Nevertheless, so far we have seen mostly "instances" of regional cooperation. On a couple of occasions, Brazil and Argentina coordinated their actions and positions. At the beginning of the crisis, they spoke in unison when denouncing cases of European protectionism and calling for a reform of the Bretton Woods institutions. Brazil and Argentina also cooperated on the issue of the regulation of global commodity prices. In May 2011, Argentina hosted a meeting of G20 officials to address the volatility of commodity prices. At that occasion, the country's Finance Minister, Amado Boudou, announced the existence of an informal "G4" coalition composed of Argentina, Australia, Brazil and Russia.

38 This continental divide may also explain other minor differences between the UK and other European countries, as for example David Cameron's audacious comments about Francois Hollande's tax policies at the 7th G20 Summit in Los Cabos. The British Prime Minister said that "when France sets a 75 per cent top income tax rate, [he] will roll out the red carpet and will welcome more French businesses which will pay their taxes in Britain. That will pay for [Britain's] public services and schools". This caused a storm in France, overshadowing Hollande's broader G20 summit agenda of seeking support for a European economic growth pact (AFP, 2012).

However, this grouping dispersed soon after the issue of commodity prices became relegated to the second plane, in the wake of the 2012 Summit in Los Cabos. Already before, in 2011, Brazil demonstrated its preference towards coordination within BRICS, which became institutionalised a year later during the BRICS 4th Summit in Delhi.

At the same time, there have never been serious attempts to coordinate positions among Argentina, Brazil and Mexico. From the outset, these Latin American countries acted separately, according to the "continental divide" between the market-led Pacific and the more closed Atlantic (The Economist, 2013b). Before the 1st G20 summit, Mexico consulted its position with the US and Canada, and not with South American countries. When the Mexicans hosted the 2012 G20 Summit in Los Cabos, they invited two other members of the Pacific Alliance, Chile and Colombia, as extra guests. This provoked criticism of some observers that called for the participation of countries representing also the centre-left or left governments in the region (Wahl, 2012).

Finally, the most demonstrative proof of Latin America's lack of cooperation was the Mexican "green growth" proposal at Los Cabos, which the government failed to consult with Brazil despite the fact the Rio+20 summit was starting only a couple of days later. According to Mexican scholars, "progress at Los Cabos would have made it possible for Mexico to bridge the North-South divide on the issue of sustainable development, thereby enhancing the country's diplomatic prestige. Alas, nothing significant was achieved regarding this item, with only a hollow reference to climate change included in the final declaration" (Goodliffe and Sberro, 2012).

Some commentators argue that the development of the G20 has even become an obstacle to Latin American integration, especially since it concentrated Brazil's diplomatic attention around global instead of regional affairs. According to Graciela Rodriguez from the Eqüit Institute, "since Brazil joined the G20, its regional role has been somewhat diminished. Participating more actively and directly in global governance, mainly in the G20 but also in the BRICS process, has apparently become a priority of Brazilian political and diplomatic interventions, shifting its emphasis away from the regional space. And although the Brazilian government continues to participate in the negotiations and coordinating efforts related to the regional integration process, it apparently tries to maintain a lower degree of institutionalization in these agreements, in order to ensure greater freedom of action at the multilateral level" (Rodriguez, 2011).

In brief, although individual Latin American countries – especially Brazil and Mexico – have managed to boost their international standing thanks to the participation in the G20, they seem to have squandered an extraordinary opportunity for the development of efficient forms of regional cooperation, particularly considering their historical commitments towards LAC economic integration. Latin American representatives in the club chose to promote their national agendas, rather than establishing a consultation mechanism. This has been in stark contrast with the European positioning within the G20. Despite persistent internal divisions between free traders and defenders of the European social model, the EU has managed to maintain a relatively unified front, in part thanks to a direct involvement of the Brussels institutions in the G20. The paradox is that for Europe, the G20 may constitute an initiative of a much lesser geopolitical importance than for Latin American countries, given that Europeans already benefit from a strong and comfortable position within the established political and economic world order (e.g. in G7/G8, IMF, World Bank, OECD).

4.4 THE G20 AND COOPERATION BETWEEN LAC AND THE EU

This leads us to the final question about the relationship between the EU and LAC after 2008. Has the G20 influenced the shape of these relations? What have we learned about the perspectives and obstacles to cooperation between the two regions based on the G20's performance so far?

An immediate hypothesis is that joint participation of several European and Latin American countries in a forum devoted to the global economic governance should have led to some rapprochement of their agendas and priorities as well as to some coordination of their actions. In this sense, the G20 would play a role of an "incubator" for EU-LAC post-crisis relations. However, when analysed in more detail, it seems that the process has not lived up to these expectations.

On the one hand, the EU and LAC countries have demonstrated a capacity and willingness to cooperate on crucial aspects of the global agenda after 2008. Brazil was among the first countries in 2012 to promise another contribution to increase the IMF's lending capacity in reaction to the crisis in the Eurozone. A year before, European countries had finally agreed to transfer part of their seats and voting rights in the Bretton Woods institutions to the world's emerging powers, including Brazil. Apart from these direct effects of the G20 talks, it is worth observing a number of indirect consequences. Most importantly, a recent revival of the EU-Mercosur free trade negotiations may partly be seen as a practical demonstration of the G20's "icebreaking power".

Yet, on the other hand, the "rapprochement effect" has so far been selective and limited at best. Rather than closing the gap between the world's developed and developing nations, the G20 has exposed persistent differences in their respective priorities and interests.

Although forms of communication between the EU and Latin America have undoubtedly been improved, this achievement fades when compared to much stronger rapprochement among the developed countries (as evidenced by the initiation in 2013 of the Trans-Atlantic Trade and Investment Partnership negotiations between the EU and the US) as well as among the developing ones (as shown by the institutionalisation of BRICS summits since 2009). The G20 meetings have helped Latin American countries to develop stronger ties with Asian countries, especially with China. For example, at the margins of the 2012 Summit in Los Cabos, the BRICS nations discussed establishing a local currency swap agreement among themselves (Financial Times, 2012c), while the 2013 Summit in Saint Petersburg served Mexico and China for discussing greater cooperation (Financial Times, 2013).

At the same time, the passage from the G8 to the G20 has led the US and the EU to seek better coordination of their policies. Notably, in the EU's case, the overcrowding of the G20 is seen with a growing impatience. "We are not coming here to take lessons on democracy or on how to handle the economy", said the President of the European Commission, José Manuel Barroso, ahead of the 2012 Summit in Los Cabos.[39]

Last but not least, the G20 has clearly failed to become a privileged forum for EU-LAC relations, although we must bear in mind that the two regions discuss their bilateral issues at several different fora, including the EU-CELAC biannual summits, the EU-Brazil and the EU-Mexico strategic partnership summits, as well as several other settings. If we look at the G20 as a litmus test for the EU and LAC's capacity to cooperate, then a conclusion from the experience so far should be rather critical. As we have seen, there have been neither major joint initiatives, nor any breakthrough in political relations between the two regions (with the only exception of the recently revived EU-Mercosur talks). However, the bar should probably not be raised that high. Instead of leading to their bilateral rapprochement, the G20 has forced the EU, its four biggest members, as well as the three Latin American countries to re-position themselves within an increasingly multipolar world order.

The dominance of economic issues in the G20's agenda has automatically led to the ordering of member countries according to a "developed versus developing" divide, with some notable exceptions: like the Mexican determination to be seen as a member of the former bloc. Still, it remains to be seen whether the resurgence of international security issues – due to the stabilisation of the global economy and after the 2014 Russian occupation of Crimea– could lead to a reshuffle of alliances. At that point, we may see whether historical links between Europe and Latin America would prove sufficiently important and resilient in order to secure their strengthened cooperation. Yet, as long as the G20 remains a predominantly economy-oriented club, we should not be surprised that its members use it mostly as an opportunity to pursue an apparently chaotic but inherently rational multi-vector diplomacy, based pragmatically on their economic interests and not necessarily on their global identities.

4.5 CONCLUSIONS

Irrespective of persistent controversies around the G20's legitimacy and effectiveness, the rise in the group's profile since 2008 has meant a major geopolitical breakthrough, leading to a strengthened global position of three Latin American countries (Argentina, Brazil and Mexico) as well as to the recognition of a key geopolitical role of the EU as a whole.

Out of the three Latin American countries inside the G20, Brazil has been the one with the greatest political influence and a most resonant voice. Mexico has managed to present itself as a competitive and open economy, aspiring to join the club of developed economies. In contrast, Argentina's position inside the group has remained more limited.

39 This led the Director of the ECFR, Mark Leonard, to conclude that the G20 is increasingly seen as a disaster for Europe's vision of global order. "Los Cabos may come to be seen in the future as the place where EU governments lost their religion on multilateralism. While EU diplomats joke that they don't need tips on balancing budgets from the Americans, free trade from Russians, climate change from the Indians, or the democratic deficit from the Chinese, their concerns about the G20 go much deeper than an aversion to posturing" (Leonard, 2012).

As expected, European countries have demonstrated a much more coherent profile inside the G20 than Latin American countries, largely due to the existence of institutionalised forms of regional coordination of positions.

In the case of Latin America, we have merely seen “instances” of regional cooperation, overshadowed by a general sense of disunity. Argentina, Brazil and Mexico have squandered an opportunity to turn the G20 process into an instrument supporting regional coordination and integration. Still, there are probably insufficient reasons to expect that they would cooperate in the same manner that EU members inside the G20 do.

Rather than closing the gap between the European and Latin American nations, the G20 has exposed differences in their respective economic and political priorities. The rise of the G20 has triggered the rapprochement between the EU and the US, while at the same time it gave a political boost to the development of relations between Latin American countries and the rest of the world, especially with China.

EU-LAC relations do not constitute a central strand in the G20 configurations. Instead, relations between the US and the EU, as well as between the US and China, are key for the functioning of the group.

The G20 has clearly failed to become a privileged forum for EU-LAC relations. This is however justified by the fact that the two regions continue to discuss their bilateral issues at several different fora, while at the same time the G20 was originally not meant for streamlining transatlantic political cooperation but for tackling global (and mostly financial) issues.

As long as Latin American countries remain under-represented at established global institutions (e.g. in IMF and World Bank), they may prefer to pursue their goals via the G20, or may choose to support the development of alternative global institutions, such as the BRICS or the Shanghai Forum of Cooperation.

5 CONCLUSIONS, SCENARIOS AND RECOMMENDATIONS

The central hypothesis of this study is that the global economic crisis of 2008 proved to be a crucial juncture to the economic and political relations between the EU and LAC. Throughout the report, we aimed to present both actual and potential transformations in this relationship which, in a direct or indirect way, were related to the crisis. In this chapter we summarize, first of all, indications of such impact which stem from the analysis so far. Secondly, based on this diagnosis, we discuss "scenarios" for the development of EU-LAC relations in the near future. Finally, we formulate some policy recommendations for governments of the EU and LAC on what they could and should do in order to support the development of EU-LAC relationship in the post-crisis economic and political context.

5.1 CONCLUSIONS – WHAT DID THE 2008 CHANGED?

The global economic crisis of 2008 has had an important impact on all three dimensions of EU-LAC relations analysed in this report: interests, identities and behaviour. Below we summarize the observed consequences and confront them with the "constants" of this relationship (see Table 5.1).

First of all, the global economic crisis of 2008 has had a significant influence on the economic dynamics, and the related configuration of interests, on both sides of the Atlantic.

To begin with, it modified trends in the convergence of GDP growth in both regions (see Figures 1.5 and 1.6 in Chapter 1). The EU's growth convergence slowed down, while at the same time LAC's growth convergence became apparent, indicating an increased alignment of economic performance in the latter region. These trends may have an important impact on the behaviour of the EU's and LAC's governments in the near future: by mobilizing the EU's "catch-up countries" to look for additional sources of growth (e.g., in the form of stronger links with other regions in the world, including Latin America), and by creating a more suitable ground for economic cooperation and integration in LAC.

Apart from that, the 2008 crisis has affected the **dynamics of trade flows** between the EU and LAC. The EU became a slightly less important trade partner for LAC, although its relative position has not changed as much as it did in the case of the US (significant slump in LAC's overall

Table 5.1: Changes and constants in EU-LAC relations after the 2008 crisis.		
Impact of 2008 crisis on EU-LAC relations	Changes	Constants
Interests	**Regional convergence patterns:** Reversed dynamics of GDP growth convergence in the EU and LAC: less convergence in the EU and more convergence in LAC, as compared with the pre-crisis period. **Trade:** A slight decrease in the EU's relative importance as importer of goods from and exporter to LAC. A slight increase in the LAC's relative importance as an EU imports partner. Reversed trade balance EU-Mercosur (from the EU's traditional deficit to EU surplus since 2013). **FDI:** A significant increase in the relative importance of LAC (mostly Brazil) as an EU FDI destination. A slight increase in the importance of the EU as a LAC (mostly Mexico) FDI destination. **Global PTAs:** Increase in trade agreements involving LAC or EU countries (e.g. TTIP, TPP). Underlying trend towards greater trade openness of both regions. **LAC's** middle class: Uncovered growth of LAC's middle class as a potentially attractive target for EU exporters and investors, and a possible supporter of structural reforms. **Harbingers of LAC's convergence towards a similar socio-economic model,** based on global economic integration and social inclusion.	**Trade compatibility** between the EU and LAC remained high. **Trade exchange** between the EU and LAC remained below its potential level. **EU-LAC PTAs:** the EU-LAC interrelation through PTAs remained strong, thanks to the EU's agreements in force with 22 out of 33 members of CELAC.
Identities	**Chinese factor:** ambiguous effects of China's increased economic importance for LAC's global identity. On the one hand, closer ties with China through economic links. On the other hand, rising consciousness of structural risks related to this pattern. **EU's pro-LAC critical mass:** rise in the number of EU members interested in strengthening economic and political ties with LAC.	**LAC's perception of the EU:** although the EU was hit by the crisis, Europe (and the West in general) remained a point of reference for the majority of LAC countries, due to historical and cultural ties as well as the ensuing institutional proximity.
		Source: own

Table 5.1: Changes and constants in EU-LAC relations after the 2008 crisis.		
Impact of 2008 crisis on EU-LAC relations	Changes	Constants
Behaviour	**CELAC:** creation of CELAC as a forum enabling a more unified LAC voice. Inauguration of EU-CELAC summits in 2013. **EU-Mercosur:** revival of trade negotiations between the two regions in 2013. **Global trade and investment repositioning**: development of the Pacific Alliance as a potential candidate for an enlarged TTIP between the EU and the US. Chilean initiative to bring Mercosur into the TPP. **G20:** Increased EU-LAC interaction due to the establishment of regular G20 Summits at the level of Heads of State.	**LAC's political dissonance:** as the G20 demonstrated, LAC countries still fail to cooperate intraregionally or speak with one voice at global fora. **EU's multi-channel approach towards LAC:** the EU continues to develop forms of dialogue with the region as a whole (CELAC) as well as with its regional groupings (Mercosur) and individual countries (e.g. Brazil, Mexico, Chile).
		Source: own

trade) or China (significant boost in LAC's overall trade). Interestingly, since 2013 a reversed trade balance has emerged in the EU-Mercosur relationship, with Mercosur experiencing trade deficit for the first time over more than a decade (see Figure 2.13 in Chapter 2).

The **dynamics of FDI** between the EU and LAC also changed, with a significant increase in the LAC's relative importance within the EU's overall outward investment flows and also a slight increase in the EU's importance within the LAC's outward FDI flows. These phenomena have mostly had to do with the rapidly growing attractiveness of Brazil as a destination for foreign investment, as well as with the development of multilatinas (Latin American multinationals), most of them coming from Mexico and Brazil.

Besides, the 2008 crisis contributed to the **dynamism of global trade and investment initiatives,** involving countries from LAC and the EU. It has led the EU and the US to open negotiations on the Transatlantic Trade and Investment Partnership (TTIP), which would have an important impact on EU-LAC economic exchange, no matter whether some or all the countries of the region eventually are involved in a possible deal or not. The crisis has also provided a boost to negotiations over the Trans-Pacific Partnership (TPP), where several Latin American countries (Chile, Peru, Mexico) play an active role, others (Colombia) have expressed their interest, while yet others are increasingly mentioned as potential adherents in the future (e.g. Chile's initiative to attract Mercosur to the TPP). In these contexts, a trend towards greater economic openness may be observed in both the EU and LAC, exemplified inter alia by a revival of the EU-Mercosur negotiations.

The crisis has also drawn attention to the underlying phenomenon of the **rise of LAC's middle class**. While the phenomenon itself does not constitute an effect of the crisis, it became apparent over the last years thanks largely to LAC's high growth rates, and most of all it became seen as a potentially important factor for EU-LAC relations. On the one hand, due to the rise of the Latin American middle class, the region may be seen as a much more attractive market for European exporters and investors. On the other hand, social tensions that are in many ways related to the rise of Latin American middle class draw attention to significant investment needs in this region, especially when it comes to education, health, basic infrastructures, and public services. In turn, this may constitute an attractive area for investors from the EU whose ageing populations are increasingly looking for possibilities of long-term investments.

Last but not least, **after the crisis harbingers of convergence occurred between socio-economic models of LAC countries.** The generally more open and export-oriented economies of the Pacific Alliance had to increase their social spending in order to mitigate the impact of the economic slowdown on households. In turn, the traditionally more closed and domestically-oriented economies of Mercosur started to exhibit some willingness to open up to international economic exchange. Cuba seems to have entered a path of gradual reforms characterized by greater economic freedom. While significant differences between socio-economic models of individual LAC countries remain, and while there are countries that do not participate in this process of convergence, the process itself may create a more suitable ground for economic and political cooperation (or even integration) in LAC and facilitate the development of EU-LAC relations over the next decade.

While the 2008 crisis has contributed to changes in the configuration of EU-LAC interests, it should be noted that **significant elements of this relationship remained unchanged.** Most of all, despite the crisis, **trade compatibility** has remained high for EU-LAC relations. At the same time, however, **trade exchange** between the two regions was kept at a relatively modest level. This is all the more surprising given that the EU-LAC **formal trade connections have remained strong**, with 22 out of all 33 CELAC members having signed PTAs with the EU. In this sense, EU-LAC trade relations continue to constitute unexploited potential for this relationship. It remains to be seen whether the modification of interests in the EU and LAC after 2008 will prove to be sufficiently strong in order to finally unblock the EU-LAC trade dynamics. This would probably demand tackling at least some of its crucial bottlenecks, such as high barriers of access to the EU's agricultural market or non-tariff barriers frequently used by LAC countries.

Secondly, despite the aforementioned changes in the configuration of interests in the EU and LAC, it is still too early to conclude whether they have contributed to a meaningful reconfiguration of global identities in any of these regions.

Most notably, the rising economic and political **presence of China** in Latin America has had an ambiguous effect so far. On the one hand, significant growth in LAC-China economic ties may provide a suitable foundation for the development of a common identity between the two regions in the future. In particular, such an identity could make reference to already existing and popular concepts of the South or the Periphery. Yet, on the other hand, while many LAC countries benefit from economic exchange with China, their governments are also increasingly aware of structural risks related to this relationship, especially when it is focused on the exports of LAC's commodities or China's FDI in extractive sectors. There is, for the moment, no serious evidence which would signal the emergence of a strong global identity between LAC and China. Just the opposite seems to be true: despite the economic crisis in the US and in the EU, and regardless of its short-term effects on public opinion in LAC (Latinobarómetro, 2014), thus far the West still seems to constitute a major cultural, institutional and political **point of reference** for Latin America.

If the 2008 crisis has led to a meaningful change in EU-LAC relations as far as identities are concerned, it was about the rise of a **"critical mass" inside the EU** interested in strengthening its economic and political relations with Latin America. An emerging "re-discovery" of Latin America by societies of Central and Eastern Europe and other EU Members can be attributed to the crisis, as the latter served as a wake-up call for local economic and political elites that became conscious about structural limits of their previous EU-oriented growth models. In parallel, due to the engagement of new European actors in the EU's policy towards LAC, Latin Americans may modify their perception of the EU by recognizing new potential areas for cooperation with countries that had not been active in EU-LAC relations before the crisis.

Thirdly and finally, it is still necessary to verify whether the observed transformations in the areas of interests and identities have contributed to an actual change in the EU's and LAC's behaviour within their mutual relationship. Here, again, the picture has been mixed so far.

One of the crucial developments, which may largely be attributed to both the 2008 crisis and to intra-regional political dynamics, has been the **establishment of CELAC in 2011,** a formal organization encompassing all the 33 countries of Latin America and the Caribbean. It seems that the crisis (together with the ensuing proliferation of global trade initiatives, as well as the demonstrated rise in the LAC's growth convergence) has drawn attention of the region's political leaders to the need of coordinating their international efforts. Most notably, CELAC was established despite the differences separating the countries of Mercosur, ALBA and the nascent Pacific Alliance. The EU contributed to the promotion of CELAC by recognising the organisation as an official forum for the development of EU-LAC relations. The first **EU-CELAC summit** took place in January 2013, and it clearly contributed to reinvigoration of the EU-LAC agenda.

Moreover, the **revival of the EU-Mercosur trade negotiations** may also be seen as an indirect effect of the 2008 crisis. The global slowdown has led to the reinvigoration of major trade initiatives (e.g. TTIP, TPP), thus mobilizing both the EU and the countries of Mercosur to look for new economic opportunities. In particular, the business elites of Mercosur started to pressure their governments for a deal with the EU in fear of becoming marginalized within the emerging geometry of global trade. The increased post-crisis dynamism of international trade negotiations has also given a boost to the development of the Pacific Alliance, which positions itself as a logical candidate for an enlarged TTIP; just as it has contributed to initiatives leading to LAC's greater economic opening and integration (as in the case of Chile's ideas to attract Mercosur to the TPP). Last but not least, the 2008 crisis led to the upgrading of **the G20** to the level of Heads of State, providing an opportunity for the coordination of macroeconomic policies and the establishment of stronger relations between the group's Latin American members (Argentina, Brazil and Mexico) and its European members (France, Germany, Italy, UK and the representation of the EU as a whole).

However, the barriers to EU-LAC cooperation remain daunting. The practical efficiency of CELAC remains an open question. It continues to be an organisation without a permanent secretariat or formal institutions. During the 2014 political crisis in Venezuela, it was UNASUR that remained the key broker in regional politics. Besides, **LAC's political scene continues to be dominated by diversity**, with political differences and the adherence to a traditional notion of national sovereignty still constituting effective barriers to regional political cooperation and integration (Malamud, 2010). The performance of Argentina, Brazil and Mexico inside the G20 has constituted an illustrative case study, demonstrating a lack of LAC cooperation on the global scene. It has also shown that expectations about Latin America's readiness to speak with one voice at this moment must be cautious. In this context, it should not come as a surprise that the **EU continues to pursue a multi-channel policy towards LAC**: looking for a form of dialogue with the region as a whole (CELAC), but at the same time considering its major regional groupings (e.g. Mercosur), as well as individual countries (e.g. Brazil, Mexico, Chile), as privileged political counterparts.

5.2 SCENARIOS – WHAT COMES NEXT?

Not only has the 2008 crisis modified the context in which EU-LAC relations are taking place, but it has also drawn attention to several underlying processes whose development may have a decisive impact on the shape, intensity and direction of this relationship in the near future. In our opinion, three of these processes will play a crucial role over the next years, affecting the interest and willingness of both counterparts to deepen or broaden their mutual relationship.

First of all, the **development of world commodity prices** may affect LAC's interest in streamlining their economic and political relations with the EU. Considering that commodity prices could maintain a growing trend in the future, many LAC countries (with the exception of the less commodity-oriented Mexico, Central America and the Caribbean) might be tempted to base their GDP growth on commodity exports without substantially increasing their productivity or gaining access to geographically new markets. While it would be unwise for Latin American countries not to exploit this extraordinary opportunity for growth, there is a serious risk that they will squander this opportunity in a more general sense – if profits are not invested in the modernization of their economies – or if their strategy fails to understand the need to adapt to the emerging global economic geometry. This situation – which is definitely unfavourable for EU-LAC relations – may continue as long as upwards trends in world commodity prices remain (for recent trends in commodity prices, see Figure 5.1). Nevertheless, as we already mentioned in Chapter 2, an on-going transition in China's growth model – with more focus dedicated to internal consumption – may augur less buoyant international growth rates in the next years. Such a

Figure 5.1: Development of international prices of metals, food and all commodities since 1990 until 2013, with 2005 prices considered as the base level

Source: own calculations

development, or at least a rising consciousness of its advent, may persuade LAC economies to open up more to global trade and investment initiatives, including in their relations with the EU.

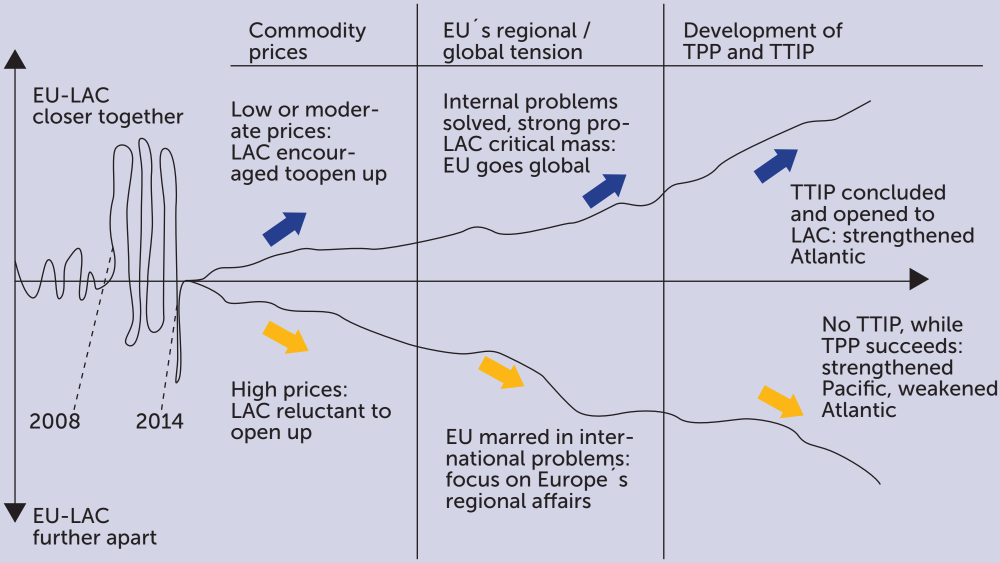
On the European side, the biggest unknown relates to the **EU's global activism during the new institutional cycle** and given the serious political challenges that the region will have to confront over the next years. The last elections to the European Parliament in May 2014 confirmed a long-feared rise in the popularity of extreme left and extreme right parties: many of them anti-EU, most of them highly populist. Although they may turn out to play a marginal role within the European Parliament, they may also force Brussels to re-focus attention back on internal affairs. Especially because, at the same time, the EU will have to confront important challenges related to the Scottish and Catalan independence bids as well as the "Brexit" scenario. In the case of the UK's decision to leave the EU in 2017, Europe may become a significantly more closed and protectionist organisation, probably also less active globally (Oliver, 2013). Furthermore, while institutional reforms resulting from the 2009 Lisbon Treaty should make the European Commission a much more autonomous and institutionalised body than in the past, there are serious doubts over how much the decision on the appointment of the next High Representative on Foreign Affairs and Security may affect the efficiency of Europe's global strategy. Last but not least, while the EU's "critical mass" in support of cooperation with LAC has been strengthened thanks to a renewed interest of several new countries (including Poland or Sweden), this phenomenon may turn out to be insufficient to prevent Europe's introvert tendencies; especially in the context of rising geopolitical uncertainty after Russia's annexation of Crimea in April 2014. If we really see a comeback to the 'great power politics' (Mearsheimer 2001; 2014), then this may also hinder EU-LAC practical rapprochement.

This is the place where the third variable comes to the fore. The future of EU-LAC relations will also depend largely on the **development of major trade and investment initiatives**, especially the TTIP and TPP. While there is still a long way to go before these deals are concluded, the mere way in which they are steered may have an important impact on EU-LAC relations (for example, on the development of EU-Mercosur negotiations). Here, it must be noted that a crucial difference between the Trans-Pacific and the Trans-Atlantic initiative consists in the open character of the former and a basically closed nature of the latter. If the TPP is concluded before the TTIP, it may focus the attention of LAC countries even more on the Pacific, to the detriment of the Atlantic's attractiveness. Besides, if Chile succeeds with its idea to attract Mercosur to the TPP (Peña, 2014), this may contribute to an economic and political opening of the traditionally more introvert Southern Cone, but at the same time it may pull Mercosur even further away from the EU. Similarly, if the EU and the US conclude the ambitious agreement among themselves, this may encourage some or all LAC countries to raise their interest to become involved in the deal. However, it is still unclear whether Brussels and Washington will be eager to open up their initiative to other parties. If they decide not to open, this may provoke a renewed wave of disappointment on the part of Latin American countries. In turn, if the EU and the US do open the door to other countries – for example to members of the Pacific Alliance – this should increase the interest of the whole region in deepening its relations with both the EU and the US. Last but not least, the development of TTIP negotiations may be indirectly important for the UK's further membership in the EU. The Trans-Atlantic deal is frequently perceived as an important factor that may help persuade Great Britain to remain inside the EU. In this sense, the eventual success of the TTIP negotiations is also important from the point of view of the EU's future internal dynamics and for its corresponding willingness to engage in global affairs, including EU-LAC relations.

From the perspective of this relationship, the **worst-case scenario** would consist in the EU and LAC drifting further away from each other. This would come true if LAC countries failed to change their development strategy from one based in high world prices of commodities into a new one oriented towards higher overall productivity growth, thus creating obstacles to an economic rapprochement with the EU; if political difficulties inside the EU prevented Europe from pursuing political dialogue with other parts of the world, including Latin America, instead drawing its attention to internal affairs; and finally, if we saw the success of the TPP negotiations and a collapse of the TTIP talks, which would effectively put the Pacific (instead of the Atlantic) in the centre of LAC's attention and of the world economy.

In turn, the **best-case scenario** would consist in considerable rapprochement between the EU and LAC. This may come true if LAC countries become more interested in forging economic links with the EU, given their recognition of structural risks related to a commodity-oriented

Figure 5.1: Three factors, two scenarios for the development of EU-LAC relations in near future.



Source: Own estimates based on IMF

growth model; if the strengthened "critical mass" behind the EU's global activity translates into the deepening of economic and political ties with LAC, including the conclusion of a long-awaited deal with Mercosur; and finally, if the EU and the US not only manage to conclude an ambitious trade and investment deal between themselves, but also decide to open it up to other Western economies, including those of LAC. In such a case, we may see the emergence of a wide Western economic (and possibly also political) area of cooperation involving the EU, the US and all or part of LAC.

Taking account of the fact that there are countless possible developments in between the two scenarios presented above,[40] and being aware of the possibility that other variables (for example, from the domain of international security) may eventually turn out to have a stronger impact on the development of EU-LAC relations, we nevertheless concentrate on the proposed best-case scenario considering it as a desirable destination point for the two regions. In the following and final section, we formulate policy recommendations which should favour the accomplishment of this scenario. Figure 5.1 illustrates the dynamics of the three aforementioned factors.

40 Notably, there may not necessarily be a zero-sum rivalry between the Pacific and the Atlantic. For instance, Mercosur's accession to the TPP may "unblock" this organization, thus favouring (rather than impeding) a successful conclusion of EU-Mercosur negotiations.

5.3 RECOMMENDATIONS – WHAT THE EU AND LAC CAN DO TO IMPROVE THEIR COOPERATION

From a general perspective, **participants in EU-LAC relations situated in both regions should recognize the existence of a significant unexploited potential for economic and political cooperation**, just as they should acknowledge an important institutional proximity of the countries situated on both sides of the Atlantic. Even if reduced to purely economic interests, the argument about the need to deepen the EU-LAC relationship would remain valid. The scale and dynamism of trade and investment flows between the EU and LAC does not currently correspond to the global economic importance of the two regions, especially as we may expect an above-average intensity of this exchange given the proximity of their institutional systems. However, our belief is that the discussion about EU-LAC relations should not be about interests only, but also about geopolitics and global identities. Within the global political order, the EU, the US and LAC constitute natural companions inside the Western community. However, the growing intensity of economic and political ties between LAC countries and other members of the global "South", especially China, may in the long run lead to a re-configuration of these global identities.

In practice, this means that "bridges" for the rapprochement between the EU and LAC could be built at several different levels and that they could be well maintained by both partners.

First of all, the EU and Mercosur should demonstrate their dedication to concluding the on-going negotiations in a bi-regional format, even if this demands concessions to be made by both partners. These talks are not only about trade and investment but also about effective political cooperation. In order to break the political deadlock, it would be a good idea to add new content to the partnership: for example, by tackling the issue of infrastructure development in Mercosur countries. This subject, while being vital for Latin Americans, may also prove to be attractive for European investors, given the need of the EU's ageing societies to invest in long-term projects. The conclusion of the EU-Mercosur agreement would fill an important gap in the geometry of the EU's partnerships with LAC. It should facilitate access to the attractive Brazilian market for European companies. Last but not least, it would re-invigorate Mercosur itself as one of LAC's most important projects of regional integration.

Secondly, the EU should consider promoting an opening of the TTIP also to other members of the West, including the LAC countries. While the US is pursuing a double-track strategy of negotiating with the Atlantic and the Pacific at the same time, for the EU the TTIP is a crucial instrument in order to ensure its participation in the mainstream of the global economy. The EU can achieve this goal best by promoting the development of a wide Trans-Atlantic area, involving the EU, the US and all or part of LAC. Again, there are not only economic, but also significant strategic and geopolitical interests involved.

Thirdly, countries of the LAC should consider more efficient forms of dialogue with the EU. The establishment of the CELAC constitutes an important step in this direction. However, progressive institutionalisation of this organisation might be necessary if it is supposed to become a robust partner in inter-regional dialogue.

Fourthly, while the growing interest on the part of the LAC countries in forging their economic relations with China and other countries of Asia is understandable and justified, **governments of LAC should not neglect efforts to deepen their relations with the EU and with individual European countries.** This refers not only to Mercosur, which is currently negotiating a long-awaited deal with the EU, but also to other countries which – despite the existence of suitable channels for their cooperation with the EU – may be tempted to progressively shift their attention from the Atlantic to the Pacific. Putting aside questions of identity and geopolitics, the countries of LAC should consider the structural importance of relations with the EU for their modernization perspectives given the high level of sophistication of the European market, its high standards and its potential as an important source of long-term investment.

Finally, representatives of the EU and LAC inside the G20 and in other international fora should search for areas of constructive cooperation on global issues. One prospective area may reside, for instance, in programmes aimed at the reduction of income inequalities. This is an important issue in both regions and offers the potential for joint learning, as to some extent has already been demonstrated by the EUROsociAL programme. Joint work on such a subject could create a solid “bridge” for intraregional Latin American as well as interregional EU-LAC cooperation on the global level.

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