



Towards San Salvador: where Europe meets Latin America

by Lorena Ruano

In the run-up to the bi-regional EU-CELAC summit in El Salvador in October, there is talk of a unique opportunity to boost this relationship, due to a rapidly shifting international context. The change of administration in the US, the leading partner for both regions, has triggered a sense of urgency and underlined the need to strengthen political and economic ties. Successive EU-LAC summit declarations have stressed the commonality of values now under question (multilateralism, peaceful resolution of disputes, democracy and human rights). Federica Mogherini, the EU's High Representative for Foreign Policy, had already identified Latin America and the Caribbean (LAC) as a priority region, and she has intensified her visits there this year. But, what sort of partner will the EU encounter in San Salvador this autumn?

Economic vulnerability, shifting partnerships

Latin America has made considerable progress in the reduction of poverty over the last decade, but this achievement remains fragile now that the commodities boom of the 2000s has abruptly come to an end. According to the World Bank, GDP contracted by 1% in 2016, and it is expected to grow by only 1.8% in 2017. Brazil is facing the worst recession in its history, with negative growth for two years in a row, and a forecast just above 0%

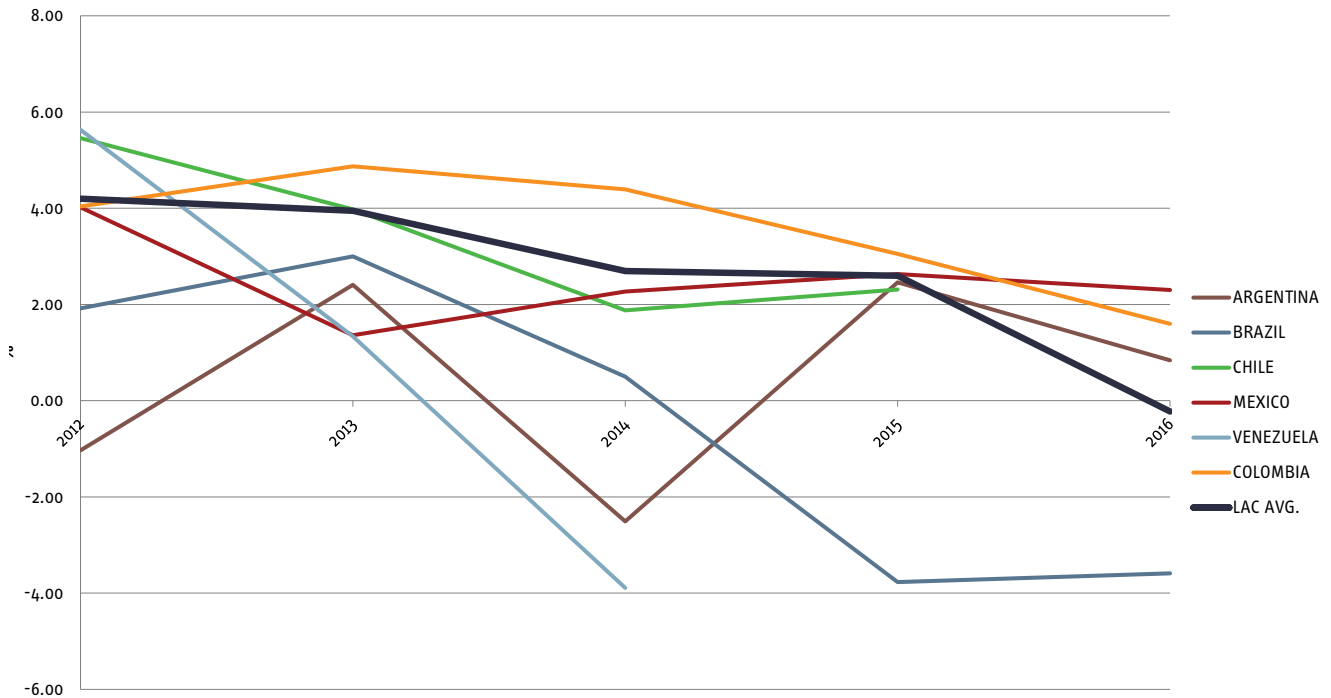
for 2017. Argentina is still recovering from a severe adjustment last year. Mexico has seen its currency tumble since November 2016 and is now facing the renegotiation of NAFTA. Venezuela is in complete disarray, with the highest inflation rate in the world and shortages of food and medicines that have led to an explosive social and political situation.

The region's integration into the world economy is still precarious: the external sector represents only 20% of GDP, it is dominated by commodities exports, and it is concentrated in three main partners, the US, China and the EU. Intra-regional trade is secondary (18% of the total) and declining, while domestic markets are relatively weak due to widespread poverty. LAC is therefore highly vulnerable to the destabilising effects of changes in the US – which is still, unquestionably, the regional hegemon and main economic partner. It accounts for 37% of its total trade, more than half of foreign direct investment, and it is the first aid donor. Thus, the mere announcement of a renegotiation of NAFTA has dramatically affected Mexico's prospects and cast uncertainty over the future of Central America, Chile, Colombia and Peru – which also have free trade agreements (FTAs) with the US.

Meanwhile China, a fast rising partner, is displacing the EU from its traditional second place.



GDP growth in LAC, 2012-2016



Source: Inter-American Development Bank

China is today the primary buyer of exports from Venezuela, Brazil, Argentina and Chile, and, in several cases, has become the second source of imports (17.8% of LAC imports in 2015). For the ALBA countries, and especially Venezuela, China is also a major source of capital, since its loans and cooperation programmes come with no ‘governance strings attached’, as Beijing does not follow the OECD’s Development Aid Committee (DAC) guidelines. In this context, the question for the EU is whether it will be able to fill the vacuum that a US retrenchment may leave – or whether the Chinese will. For LAC, the value of the EU as an economic partner remains high, not just in terms of trade but, crucially, also as a source of foreign direct investment – usually accompanied by more research and development, as well as local capacity building, than its Chinese equivalent. EU development cooperation, however, is being transformed or phased out, a process that has been criticised across LAC.

In the current context, LAC needs the EU to uphold the liberal economic order that most countries of the region have embraced. Thus, the speeding up of the negotiations for the modernisation of the agreements with Mexico and Chile has been welcome, not just for their economic impact but, more importantly, for their political significance. The revival of talks with MERCOSUR carries similar symbolism, although they entail a high risk of failure, because the underlying protectionist

forces that have blocked them for years remain powerful on both sides.

It would be worth pursuing further rapprochement with the Pacific Alliance (PA) of Mexico, Chile, Colombia and Peru as a group, because it is currently the integration scheme closest to the EU’s approach. Its method, reminiscent of Monnet’s, is different from previous LAC schemes in that it tries to work ‘from below’ towards the removal of as many barriers as possible among its members, through small practical steps. The EU has already established a basis (bilateral FTAs, cooperation and political dialogues with each of its members) on which to work towards an agreement for the accumulation of origin, to which Central America (CA) could be added. The consolidation of all the bilateral FTAs the EU has with the region should not be too difficult to achieve and could send a powerful political signal.

Political fragility, elusive consensus

LAC has recently seen the ebbing of the ‘pink wave’, after centre-left governments were replaced by centre-right ones in Brazil, Argentina and Peru in 2016. However, the continent has not regained the liberal consensus of the 1990s over free trade, democracy and human rights that made it such an attractive partner for the EU. Domestically, many countries are facing difficulties over the institutional consolidation of democratic regimes,



dominated by strong presidencies and polarised by economic slowdown: impeachment in Brazil, post-electoral conflict in Ecuador, re-election dispute in Paraguay, and political crisis in Venezuela. Almost everywhere, democratic governance is also threatened by violence and organised crime (drug and human trafficking, extortion, gangs), compounded by high rates of impunity (in the case of murders, over 80%) and corruption, with the consequent de-legitimisation of state authorities.

On the bright side, the Colombian peace agreement is bringing an end to the longest civil war in the continent, through a difficult and contested process that should receive strong international support from both regions. The EU has committed a special fund to that purpose and could explore triangular cooperation schemes with CELAC to accompany the enormous task ahead. The *détente* between Cuba and the US, initiated under Obama – and not yet reversed by Trump – has also been welcome across the region. It facilitated the signature of the EU-Cuba agreement in December 2016, another piece of good news for the area.

At the regional level, although this is a comparatively peaceful area of the world endowed with a multiplicity of cooperation schemes, a number of cleavages dilute its capacity to act as a coherent group. First, in terms of economic development strategies, some countries pursue the opening of their markets and further integration into the world economy (PA, CA), especially with the US and the EU, while others follow a more protectionist course that privileges their domestic producers (MERCOSUR). For its part, most of the Caribbean retains a marked dependent, post-colonial link to Europe, while Cuba remains an autarkic island, reforming at a glacial pace, and the Dominican Republic is closer to Central America than to its surrounding neighbours. Venezuela and its allies (Cuba, Nicaragua, and to a lesser extent Bolivia and Ecuador) remain openly critical of liberalism, which they equate with imperialism, and pursue nationalist economic policies with varying degrees of hostility towards the outside world.

Second, in terms of power, the two regional giants, Mexico and Brazil, seldom display a concerted approach in global instances like the G20 or UN reform. Although there is no open rivalry

between them, Mexico is often weary of Brazilian attempts at regional leadership that exclude it (e.g. UNASUR) while Brazil, in turn, disapproves of Mexico's neglect of the Global South and regards the PA as a Mexican attempt to undermine South American unity. At a meeting in Argentina last month, the MERCOSUR and PA foreign ministers tried to minimise these divisions, but the differences in their economic frameworks remain formidable, and a meaningful agreement is unlikely to emerge soon between the two blocs.

Third, in terms of values, Venezuela's mounting political, economic and humanitarian crisis is straining the consensus around democracy and human rights that used to characterise the region – and made it so attractive for the EU. For years, most LAC governments have ignored this elephant in the room, for fear of being accused of siding with US interventionism or shattering Latin American unity, and hoped that the problem would somehow wither away through a domestic solution. Today, as the possibility of an agreement between Maduro and the opposition has given way to mass demonstrations and street repression, and as hundreds of thousands flee to neighbouring countries, the question of what to do about it has returned to haunt LAC governments, spilling over regional institutions. Mexico and Argentina have recently invoked the democratic clauses of regional organisations, triggering Caracas' 'suspension' from MERCOSUR and its withdrawal from the Organisation of American States (OAS). Then, however, Cuba announced that it would not seek to re-join the OAS, just when the resolution that prevented it from doing so had been removed as a result of the rapprochement under Obama.

This is an important blow to the strongest democracy and human rights regime outside Europe, albeit an increasingly contested one. The Inter-American Commission on Human Rights and its associated Court, both part of the OAS system, had already been facing a less cooperative attitude from governments across the region in the past decade. Court rulings over respect for freedom of the press, energy projects that overlooked the rights of indigenous populations, and Commission reports on the killing of journalists, the death of 43 students, and the failure to try human rights abuses by military in civilian courts were met with defensive

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responses. There have been attempts to prohibit extra-regional funding for the Commission, some of which comes from European sources, and a series of 'light' reforms in recent years have curtailed its attributions.

CELAC: what partner for the EU?

In this difficult economic and political context, the EU's expectations of what CELAC can produce in the run-up to the October summit with the EU may have to be modest. CELAC remains a loosely articulated mechanism for diplomatic consultation, intended to coordinate regional positions in multilateral fora and with extra-regional actors. It can hardly be called a regional integration project, as this is normally understood in Europe, since it does not seek to establish common policies, nor promote economic exchange.

CELAC suffers from very thin institutionalisation and has no proper bureaucratic underpinning (it does not even have a website). It consists of a *pro-tempore* Presidency, whose work is accompanied by a *troika* (the previous and following presidencies) plus one Caribbean country, which also rotates. This 'quartet' is in charge of organising ministerial and sectoral meetings on topics agreed by consensus, normally reflecting the priorities and capacities of the host. Given the current divisions in the region, even the basic function of choosing the Presidency is a highly contentious affair: after time had run out, El Salvador was elected for 2017, only after it was agreed that it would be Bolivia's turn afterwards.

CELAC's greatest merit has been inclusion, not policy output. Born as a merger of the Rio Group and the CARIFORUM (CARICOM plus the Dominican Republic), it is the only regional mechanism that encompasses all the Latin American countries (including Cuba and now Venezuela, in contrast to the OAS) and the French, Dutch and English-speaking Caribbean. It was also a way for Mexico and Central America to become linked to the South American reconfiguration process that had led to the establishment of UNASUR in 2008. CARIFORUM, on its side, was established as an interlocutor for the EU in its reorganisation of policy towards the area, due to the replacement of the Cotonou Agreement by the Economic Partnership Agreement (EPA).

CELAC's diversity and light institutionalisation mean that its main output consists of long declarations at a very general level, often replicating agreements reached in wider global organisations (UN) on issues that are already settled,

like support for multilateralism and the peaceful resolution of disputes, the de-nuclearisation of the area, or respect for sovereignty. However, some specific issues attract consensus, like the rejection of US hegemony in the region (lists and certification processes, the Cuban embargo, Guantánamo and measures against Venezuela) or support for Argentina in the Falklands /Malvinas conflict.

Unfortunately for the EU, among the issues generating consensus inside CELAC is criticism of its development policy reform, especially the new metrics that are leading most LA countries to graduate from bilateral aid programmes, and to the phasing out of EU Official Development Aid (ODA) for them. It has been widely blamed for 'not conveying the complexities' of the most unequal region in the world, where poverty is still widespread. This issue could easily bog down discussions at the summit, so the EU needs to make a PR-cum-accounting exercise to explain clearly how ODA is only a small fraction of all the EU funds going to the region from various budget lines, and how it will be replaced by new instruments. The salience of this issue comes from the fact that technical cooperation with outside partners is the focal point of CELAC, which has also held meetings with South Korea and China – while the 'quartet' has had talks with India and Russia on the margins of the UN General Assembly.

In sum, at the San Salvador gathering, the EU will encounter a violent and corrupt region, with institutional consolidation problems and increasingly contested human rights and democratic values. It is facing an economic downturn that threatens the gains of the past decade and is vulnerable to the vagaries of its external partners, especially changes in US policy. For that reason, the EU is a necessary ally in the perpetual struggle to diversify LAC's political and economic links.

Despite a multiplicity of regional cooperation schemes, coordination remains elusive, and expectations about what CELAC can produce should be modest. Deeper cooperation is more viable at bilateral and sub-regional levels, but for some countries of the region this dialogue is the only structured political and cooperation forum they share with the EU.

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