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Economy and integration in Latin America

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Political and economic relations between the European Union and Latin America

Gian Marco Moisé – Ellen Maene

Abstract: History of Latin American and European relations started long time ago, in 1492 with Christopher Columbus. Today there are a lot of international organisations on both continents, whose role was at a time when they were created to integrate and reinforce the ties between the countries part of the organisation, and to create a unique front of dialogue towards the countries that are not part of the organisation itself. Having that in mind, the question that we will deal with in this paper is: Do the regional organisations have a relevant role in nowadays international relations? European Union, supranational organisation with the most advanced level of integration between its 28 member countries, is protagonist of international relations. Picture is slightly different when it comes to Latin America – there are many organisations, though only four of them really counts – none of them have a level of integration as the EU and they are functioning properly only when the states composing them allow it. Today, relations between Europe and Latin America are highly developed, there are even biannual summits plus numerous agreements and pacts were created over the past years. Yet, on the other side, these parties are still facing some difficulties: EU immigration policy, its resistance to reform the Common Agricultural Policy which will open its market to Latin American products, Latin American strict economies, its dependence on EU and the major issue is a lack of ambitious long term agenda. Having that in mind, conclusion is that regional organisations have relevant role nowadays in international relations.

Keywords: political analysis, integration, economy of Latin America, EU

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Political analysis of Latin America and Europe

When we cite the Trans-Atlantic Relationship, we think of the US-Europe relations, often involving Canada, rarely Mexico. Anyway, the term could be technically referred also to the Europe-Latin America relations.

The first European-American relation was established by Christopher Columbus with his voyage of 1492. Since then, America has been conquered and colonised by Europeans. Especially South America was settled by the Spanish and Portuguese empires. Nonetheless, after the American and the French revolutions, at the end of the 18th century there were various uprisings in South America that led to the Latin American wars of independence. Anyway, close ties, especially economic, have been maintained between the motherland and the former colonies. After the end of the Second World War, the world has understood the importance of connection and the high interdependence between all the countries. This led to the creation of many international organisations after the United Nations. The European Union, unique for its features, is among these organisations. Nonetheless, many other regional organisations spread all over the world, even in South America. These organisations have a double purpose: to integrate and reinforce the ties between the countries part of the organisation, and to create a unique front of dialogue towards the countries that are not part of the organisation itself.

Therefore, the research question we will answer to, will be: do the regional organisations have a relevant role in nowadays international relations?

This chapter will be structured in this way: description of the European Union; description of the South American international organisations; description of the current relations between Europe and Latin America; analysis of the main differences between them; conclusion and answer to the research question.

The most advanced level of integration: the European Union

Europe was probably the greatest theatre of the Second World War. After its end, the economies and the political systems of the continent had to start from scratch. This was seen as a new opportunity to create a new climate of cooperation between the European countries. The first statement in this sense was the Ventotene Manifesto, written by Altiero Spinelli and

Ernesto Rossi while they were prisoners on the Italian island of Ventotene, during WWII. The Manifesto was completed in 1941, and circulated as the programme of the European Federalist Movement. Nonetheless, the idea of a federal Europe was far too advanced for that time.

The first alliances started in 1948 between the Benelux countries. Afterwards, the idea of linking the economies of two historical enemies like France and Germany, in order to prevent future wars, was used as the basis for a broader cooperation. Indeed, in 1952, the foundation of the European Coal and Steel Community became the opportunity to share the resources of the long disputed regions of Ruhr and Saar. Anyway, not only Germany and France, but also Belgium, Netherlands, Luxemburg and Italy became part of the community. Five years after, the bond between these countries was strengthen. Indeed, with the Treaty of Rome were created the European Atomic Energy Community and the European Economic Communities.

Since then, the future European Union has increased its functions and capabilities, and today is a protagonist of the international relations. With the Lisbon Treaty of 2009, all the previous European communities were absorbed in its framework.

Nowadays, the European Union counts twenty-eight members: Italy, Belgium, Netherlands, France, Germany, Luxemburg, United Kingdom, Ireland, Portugal, Spain, Greece, Malta, Cyprus, Poland, Czech Republic, Slovakia, Croatia, Slovenia, Hungary, Denmark, Sweden, Finland, Romania, Bulgaria, Latvia, Lithuania, Estonia and Austria.

The European Union cannot be considered a federal organisation, but a supranational organisation with the most advanced level of integration between its countries. In fact, the integration involves both the political and the economic issues of the country members. The main institutions of the European Union are: the European Parliament, the Commission, the European Council, the Councils, the Court of Justice of the European Union and the European Central Bank.

The European Parliament was elected for the first time in 1979. It has 751 members. Each state has a number of seats proportioned to the size of its population. Anyway, the members of Parliament do not form groups on the basis of the nationality, but on the basis of the political orientation. In fact, they represent the interests of the European population as a whole, not the peculiar interests of the states. The European Parliament, along with the

Commission, possesses the legislative power, with the possibility to promulgate binding laws for the member states.

The Council shares the legislative power with the Parliament. Today, it is composed by twenty-eight members, namely the ministers of the member states. There is a different Council for every different administrative sector. Hence, the Council represents the interests of the member states, balancing the action of the Parliament itself.

The Commission is conceived as the government of the European Union. Indeed, it possesses the executive functions and the legislative initiative. The representatives are elected by the European Parliament in accordance with the European Council. The representatives of the Commission represent only the interest of the European Union.

The European Council is composed by the president of the Commission and the head of the states or prime ministers of the member states. This institution has the duty to give a political orientation to the action of the European Union.

The Court of Justice of the European Union has the judiciary power. Its main duty is to apply the treaties founding the EU, and to solve the cases referred by the member states, the institutions, or the courts of the member states.

Finally, the EU has a Central Bank for the members part of the Eurozone. These states share a unique currency, the euro, and the European Central Bank has the duty to maintain a low level of inflation with the objective of the economic growth.

Thus, the EU has the legislative, the executive and the judiciary powers, as a proper state. These powers are exerted in the fields in which, progressively, the member states have delegated their functions.

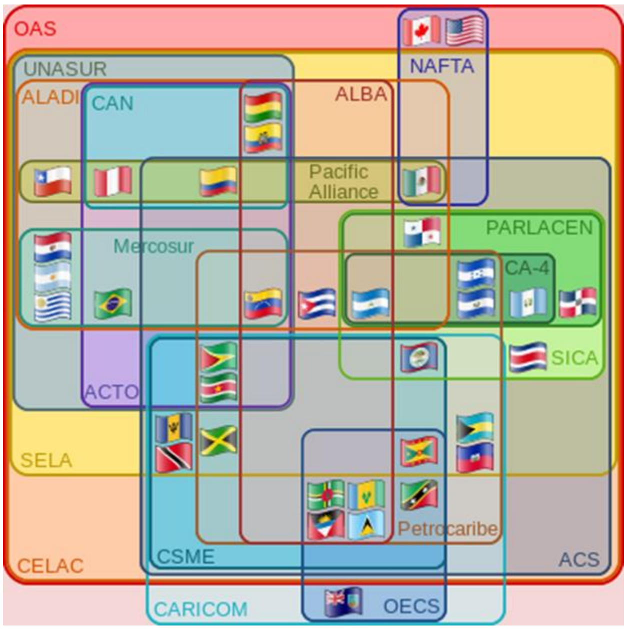
The EU has a democratic dimension represented by the European Parliament, a state dimension represented by the Council, and a bureaucratic dimension represented by the Commission. The level of integration of the economies of the member states is the most advanced in the world.

From many points of view, the EU could be considered a federal state, but it is not, or at least, not yet. Often there are too many uncertainties, and the cooperation between the states is not always effective. For instance, the Common Foreign and Security Policy should represent the standpoint of all the members of the EU towards the external states. Nonetheless, the states of the EU continue to act in foreign policy by their own. Another example is represented by the overwhelming role of the head of some key states over the European institutions. Surely, the EU is the most advanced supranational institution of the world, but it is still a work in progress.

International organisations: the picture of South America

Among the leaders of the battles for freedom there was Simón Bolívar, a Venezuelan statesman and military leader that was determinant for the independence of Venezuela, Colombia (Panama was part of its territory at that time), Ecuador, Peru and Bolivia from the Spanish empire. He became also known for his pan-Americanism, namely the will to create an alliance between all the people of South America. Indeed, he was responsible for the creation of Gran Colombia, a state including the territories of Colombia, Panama, Venezuela, Ecuador and part of Peru, of which he became president in 1821. He was so important that a country, Bolivia, was named after him. Still today, he is celebrated for his acts, and regarded as an example to aim to. Today, the countries of South America are often recurring to the name and feats of Simón Bolívar to justify the creation of new international organisations.

Indeed, the ensemble of the South American organisations is a complex panorama. Anyway, I will analyse every organisation, in order to give a clear idea of this reality. Below there is an Euler diagram showing the relations between the countries.



The Rio Group is an international organisation composed of various Latin American and Caribbean states. It was formed in the late 1986 with the Declaration of Rio de Janeiro, signed by the members of the Contadora Group. It was born as an alternative to the Organisation of the American States (OAS) with the objective to avoid the influence of the United States. The Rio Group has no permanent institutions, but it works on the basis of yearly summits of the heads of the country members. Today, the members of the Rio Group are: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay and Venezuela.

Conversely, the Contadora Group was an initiative of the foreign ministers of Panama, Colombia, Venezuela and Mexico to deal with the conflicts in Guatemala, El Salvador and Nicaragua. The group was later supported by the UN and other Latin countries, namely Argentina, Brazil, Peru and Uruguay.

Anyway, the Rio Group has not been sufficient for the objectives of the member states. In fact, during a summit of the group, in Playa del Carmen, Mexico, in 2010, it was established the creation of a new organisation.

The Community of Latin American and Caribbean States (CELAC) was officially constituted with the Declaration of Caracas, in 2011. The group of countries part of the CELAC are not only the members of the Rio Group, but also: Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago. This organisation is involving countries speaking five different languages, a complex panorama, but still far from the twenty-four languages of the European Union.

The reason for the creation of the group is in the words of the founders. Evo Morales, the Bolivian President declared in an interview:

> *"A union of Latin American countries is the weapon against imperialism. It is necessary to create a regional body that excludes the United States and Canada. Where there are US military bases that do not respect democracy, where there is a political empire with his blackmailers, with its constraints, there is no development for that country, and especially there is no social peace and, therefore, it is the best time for prime ministers of Latin America and the Caribbean to gestate this great new organisation without the United States to free our peoples in Latin America and the Caribbean" (Morales, 2012).*

A similar statement was expressed by Hugo Chávez, President of Venezuela:

> *"Now here, in Mexico, a document, a commitment, the creation of a body of Latin America and the Caribbean, without the USA, without Canada [...] Now we can say from Latin America, from Mexico [...] we have revived the dream and project of Bolívar"(Chávez, 2010).*

The CELAC is today the biggest organisation of American states after the Organisation of the American States itself. The OAS was born in 1948, a period of alliances spread all over the world. It has all the members of the CELAC, but includes also Canada and the United States. Nonetheless, as shown above, the US has been always perceived as an exploiter of the resources of these countries, more than an equal partner aiming for a common cooperation. In fact, in the creation of this regional organisation there are traces both of: the pan-Americanism of Simón Bolívar, and the will of the US to avoid the diffusion of communist movements in the American continent. Indeed, Cuba was excluded from the decisions taken within the organisation from 1962. Conversely, Honduras left the organisation in 2009, hours earlier its suspension due to a constitutional crisis.

Another difference between the OAS and the CELAC, is the fact that the first has permanent institutions that makes it more stable than the latter. In the first article of the OAS chart is written *"to achieve an order of peace and justice, to promote their solidarity, to strengthen their collaboration, and to defend their sovereignty, their territorial integrity, and their independence".* This objective is supported by the existence of a General Secretariat, a Permanent Council, the Inter-American Council for Integral Development, and various committees.

The Union of South American Nations (UNASUR from the Spanish) was officially constituted with the UNASUR Constitutive Treaty of 2008, but already conceived in 2004 with the Cusco Declaration. It is an intergovernmental fusion of two different customs union, the MERCOSUR and the Andean Community. The current members are: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Guyana, Peru, Paraguay, Suriname, Uruguay and Venezuela. The UNASUR is composed by: a Permanent Secretariat, annual meetings of the heads of the member states, meetings every six months of the foreign ministers of the member states, Sectorial Ministers' meetings, and a Presidency Pro Tempore rotated between all the members. Some of the member states expressed the idea to create a defence policy. Anyway, Colombia was never convinced by the idea, and rejected the plan. Another strong initiative of the UNASUR is the attempt to create a common market between the country members before 2019. The free movement of people has been partially guaranteed between the citizens of these countries. Indeed, for trips of less than ninety days it is not required any visa.

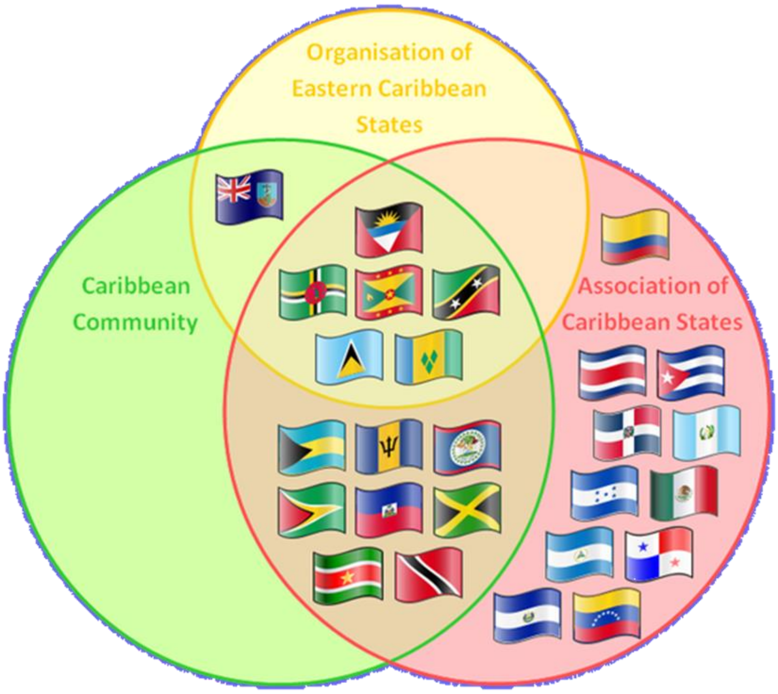
Moving to Central America, an organisation comparable to the UNASUR is the SICA. The Central American Integration System (SICA) is an organisation created with the purpose of the regional political and economic cooperation. It was created in 1991 with the Protocol of Tegucigalpa. The members are: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Belize and the Dominican Republic. Four of these countries, Guatemala, El Salvador, Honduras and Nicaragua, have experienced an even closer political and migratory integration. Indeed, the Central America Four, or CA-4, is a group that abolished internal borders and adopted a unique passport.

The SICA has some important institutions: the Central American Parliament, the Central American Court of Justice and the Central American Bank for Economic Integration.

The Central American Parliament, or PARLACEN, is an institution involving all the representatives of the SICA countries except Costa Rica, which decided not to sign the agreement. PARLACEN is an advanced institution with the power to propose bills in the sector of integration and cooperation. The Central American Court of Justice (CCJ) has jurisdiction over cases involving member states (or external states accepting its jurisdiction) and residents of the member states. This makes the CCJ another example of advanced institution in the field of the international cooperation. Finally, the Central American Bank operates to facilitate the economic integration.

There are also organisations that are real crossroads between Latin and Caribbean countries. For instance, ALBA, formally the Bolivarian Alliance for the Peoples of Our America, is an inter-governmental organisation based on the idea of integration of Simón Bolívar. It was proposed by the Venezuelan President Hugo Chavez as an alternative to the US idea of a Free Trade Area of the Americas. It is composed of eleven members: Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Grenada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Venezuela. Conversely, the Amazon Cooperation Treaty Agreement (ACTO) is an organisation aiming at a sustainable development in an area of serious environmental concerns like the Amazon Basin and Rainforest. The members are: Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela.

The Caribbean states are divided between three different intergovernmental organisations: the Caribbean Community, the Association of Caribbean States and the Organisation of Eastern Caribbean States. It is to be noted that a group of countries is "more integrated" than others, because it is part of all these organisations.



The Caribbean Community, or CARICOM, as all the other organisations analysed until now, has the purpose to integrate economically and politically the country members. It was established in 1973. The current members are: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago. As the SICA, the CARICOM has its own court, the Caribbean Court of Justice. Moreover, it aims to create a single market economy between its members.

The main thing, in which CARICOM differs from the other organisations, is a special tie with the European Union. In fact, since 2013, CARICOM and the Dominican Republic are, with the European Commission, part of a special Economic Partnership Agreement, known as CARIFORUM. Conversely, the European Court of Justice deals with the conflict resolution.

The Organisation of Eastern Caribbean States (OECS), was created in 1981 with the same purpose of the other organisations. The members are: Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, British Virgin Islands, Anguilla, and Martinique.

Finally, the Association of Caribbean States (ACS) was founded in 1994. Its members are twenty-five countries of the Caribbean Basin: Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago and Venezuela.

From the standpoint of the economic integration, several organisations have been created. The MERCOSUR, Mercado Comun del Súr, is a regional custom union, created in 1991 with the Treaty of Asúncion. The members take part in the organisation is five: Brazil, Argentina, Paraguay, Uruguay and Venezuela. The aim of this organisation is the creation of a common market between the members. After the creation of the UNASUR, the objective has been pursued within its framework and with the cooperation of the Andean Community. There is the will to create: the free transition of goods and services, a common external tariff, a common tax system and a common currency. The model is the European Union's common market and Eurozone.

The CAN, namely the Andean Community, but called the Andean Pact until 1996, is another custom union. As seen above, today is operating along with the MERCOSUR in the framework of the UNASUR to achieve the objective of the common market. The current members are four: Colombia, Bolivia, Ecuador and Peru.

The Latin American Integration Association (ALADI), is another international organisation with the objective of facilitating the creation of a common market between the South American countries. It was born in 1980 with the Treaty of Montevideo. The current members are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

The Latin American Economic System (SELA), was born in 1975. The seventeen per cent of its budget is funded by Venezuela and the objective is the coordination of the economies of the country members in a larger economic framework. In fact, the SELA has operated in the General Agreement on Tariffs and Trade (GATT) in the past, and nowadays in the World Trade Organisation (WTO). Today the country members are: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

The Pacific Alliance is a trade bloc with the objective of reducing the economic barriers. It was formed in 2011 between Mexico, Peru, Chile and Colombia.

Petrocaribe is an oil alliance initiated by Hugo Chavez, with special ties with ALBA and including large part of the members of CARICOM. The objective of the organisation is facilitating the purchase of oil between the state members on the basis of preferential payments. The states part of the alliance are Venezuela and the countries of CARICOM except Barbados, Montserrat and Trinidad and Tobago.

Finally, the North American Free Trade Agreement (NAFTA) is another custom union created between the US, Canada and Mexico. It is less progressive from the standpoint of the objectives than MERCOSUR and CAN. In fact, the only purpose of the NAFTA is the elimination of the barriers between the country members. Anyway, the existence of the NAFTA, and its prerogatives, explains why Mexico is for now just an observer in the UNASUR framework.

The current relations

Today, the relations between Europe and Latin America are highly developed. Between the two blocs there were biannual summits that took place with the participation of all the countries involved: Rio de Janeiro in 1999, Madrid in 2002, Guadalajara in 2004, Vienna in 2006, Lima in 2008, and Madrid in 2010. In addition to this schedule there were meetings between the EU and the Rio Group. In 2009 the EU-Rio Group Ministerial Meeting took place in Prague. The EU dealt with the Central American Integration System, the Andean Community, MERCOSUR and the Caribbean, and of course with single countries of this bloc.

The Central American countries have maintained good relationships with the EU. Since the implementation of the San José Dialogue of 1984, they implemented various political agreements and development cooperation. In 2004 there was the negotiation of an Association Agreement using as a base the EU-Central America Political Dialogue and Cooperation

Agreement of 2003. The EU is the major investor in the area immediately after the United States.

The Andean Community was founded in 1969 as a reformation of the Andean Pact. The approach with the EU began in 1996 with the Declaration of Rome, followed by the Political Dialogue and Cooperation Agreement of 2003. Negotiations for a complete Association Agreement failed in 2008, but new negotiations started.

In 1995, MERCOSUR signed with the EU an Interregional Framework Cooperation Agreement.

Chile was a member of the Andean Community, but abandoned it under the dictatorship of General Pinochet. Anyway there are advanced agreements between EU and Chile: in 1990 and 1996 there were Framework Cooperation Agreements and a complete Association Agreement took place in 2002.

The Caribbean Community with CARICOM and the CARIFORUM were established on the model and with the help of the EU. Thus, there is a strong level of cooperation between these institutions (Roy, 2012).

Finally,

> *Regional Summits take place every two years since January 2013, date of the first summit between the EU and the Community of Latin America and Caribbean states (CELAC), established in 2010 as a new region-wide political organisation and therefore new counterpart for the EU. (European Union External Action website, 2015)*

Hence, the European Union, as sole representative of Europe, has developed, or tried to develop a relation with all the political actors in the Latin American panorama, regardless their relevance or the date of their creation.

The difference between Europe and Latin America

Since the creation of the European Union, Europe has turned into something more than a continent. It has become the political dimension of a geographical area, and an objective to aim to for the other countries of the world. Nevertheless, it is true that the EU is more effective between its members than towards the external countries. A real European foreign policy is what lacks in the development of the ultimate regional international organisation.

According to Joaquín Roy, Latin America does not integrate because it lacks of a foundational justification as the European wars. These countries do not have a political commitment. Moreover, there is no juridical respect for international norms and codes. The Community of South American Nations re-baptised as South American Union (UNASUR) has not advanced as expected. The Bolivian Alternative of the Americas (ALBA) later renamed Bolivarian Alliance of the Peoples of Our America, did not make any step further. Moreover there is confusion in the use of the terms: community, alliance, union, common market and system (Roy, 2012).

Maybe the number of the Latin American international organisations is not relevant to understand why the area does not reach the integration. Indeed, also in Europe there were considerable numbers of communities before the unification under the name of European Union imposed by the Treaty of Lisbon. Nonetheless, all of these Latin American projects have been left incomplete. Always a new one is created, but apart from spectacular announcements, there is no real progress. Even if, in the future, the CELAC, or another organisation could be able to develop as the EU did, imposing a new dimension of discussion in the international relations.

Economic analysis of Latin America and the European Union

In order to build a veritable alliance with Latin America, the European Union has taken several steps over the last decade to join forces in a strategic partnership. A bi-regional strategic alliance was set up between both parties, aiming a creation of solid links on a political, cultural and economic level. The Union, which now has 28 member states (European Union, 2013), can be seen as the largest foreign investor in Latin America, as it is the primary trading partner for many Latin American countries. These two world players have found each other in several agreements and cooperation activities; hence numerous pacts were established between the European Union and MERCOSUR, the Andean Community and Central America. Moreover, an economic partnership with the Caribbean was created. The continuation of the trade between the two regions has to be maintained for the beneficence of this strategic partnership. However, the perception exists the European Union would be too dominant in this story and pays too much attention to its own expansion and its immediate neighbouring countries. Nevertheless, the European Commission underlines that the Latin American alliance is key for both players, for present and future. Considering the small size of some Latin American countries, a joined regional market where goods and services can move freely is beneficial for both players (European Commission, 2006). It is safe to say the strategic partnership between the European Union and Latin America is from great value, for 58 sovereign states, over one billion people and over a quarter of this world's GDP are involved in this alliance (Krakowski, 2008). In the official protocol of 2009 between the European Economic and Social Committee (EESC) and the Euro-Latin American parliamentary Assembly (EuroLat Assembly), both parties recognise the importance of the participation of civil society organisations and above all of economic and social organisations, in order to create an effective dialogue between the two continents.

We shall investigate the economic relations between these two word players; moreover we pose and answer following questions: what are the main problems and challenges and what is the level of interdependence between these parties? What are the accomplishments so far?

Colonisation

The process of economic expansion and hegemony of Latin American countries increased on a fast level under European colonisation, when adopting European urban patterns and urbanisation models. During the first two centuries of Latin American colonial dependence, metal production became the major area of commerce in Latin America, mainly providing raw materials to the European Union market. Although the region de-colonised, interdependency continued, rather through economic structures of global markets than political structures. Still, the interest in raw materials is the essential in the international relations between the two parties. On a national level, this culture of interdependence can also be seen, for countries become largely dependent on the economic activities of their cities. The dominance of external markets has shaped the economic growth of Latin America (Izábal, 2012).

The Latin American regional groups

According to Krakowski (2008) Latin America can be divided in four regional groups in which integration processes have taken place: trade agreements CACM, CAN, MERCOSUR and CARICOM. In other words, they represent the three main regional integration grouping in the broader alliance Latin America. Two countries are not fully members of one of these sub-regions; Chile and Mexico. These pacts with these organisations are negotiated on a “region-to-region” level to further develop the regional integration process, for this is key to foster stability, progress and economic development in the region for the benefit of its citizens (Krakowski, 2008).

As formerly mentioned, CACM (Central American Integration System) or SICA is an economic and political organisation of Central American states. Members states are Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Belize and the Dominican Republic. The Central American countries and the European Union have an ongoing dialogue for at least 25 years, establishing an advantageous trade environment for both regions (Roy, 2012). CAN or Andean Community is the name of the trade bloc of Bolivia, Ecuador, Colombia and Peru. In 2009 the European Union started negotiations with Peru, Colombia and Ecuador. In the case of the first two countries, results were successfully one year later. Ecuador was opting for delay, angering Bolivia. The country condemns Venezuela’s decision to leave the Andean Community and join Mercosur. In other words, an internal crisis occurred (Roy, 2012). In order to create a comprehensive Association Agreement between both regions, negotiations started officially in Bolivia in 2007. One of the main goals is to increase and facilitate bi-regional trade and investments. Several agreements have been created, including a common starting-point for tariff reduction, however, this starting-point was achieved for only 79.8% of imports to the CAN from Europe. This reveals the diverging economic interests of CAN members, for Peru has a low level of tariff protection whereas Colombia protects more heavily its industry for example. Yet, the free movement of European goods in the region is still restricted, for the draft of common customs code has not been approved yet (Krakowski, 2008). In certain cases negotiations reached a dead end, therefore Europe developed some alternative approaches. An attempt to conclude a region-to-region Association Agreement did not have any result, EU therefore offered these members the opportunity to conclude a trade agreement with a regional perspective in 2012 (Commission of the European Communities, 2009). Its main objectives are to open their markets and increase the stability and predictability of the trading climate. In 2014, negotiations with

Ecuador to join this agreement were held and currently the country is following the internal procedure for its approval. Furthermore, the accession of Bolivia is taken in consideration (European Commission, 2015).

As earlier mentioned in the political part, MERCOSUR is a sub-regional trade bloc between Brazil, Argentina, Uruguay, Paraguay and Venezuela. Their main goal is to organise free trade and it aims to enhance fluid movement of persons, goods and currency. MERCOSUR is considered to be the most significant unit in Latin America and EU started a dialogue with this organisation as an economic bloc quite early. The European Union is the largest investor in MERCOSUR (Roy, 2012). For MERCOSUR is an important international trade partner, these negotiations also led to a strong link between the interregional dialogue and the multilateral debates within the World Trade Organisation (Krakowski, 2008). In 2001 negotiations for an Association Agreement started, based on the three pillars for this kind of relationship between European Union and Latin American groups: political dialogue, cooperation and free trade area (Roy, 2012). Negotiations between EU and MERCOSUR are currently continuing, as part of the bi-regional Association Agreement. Among others, this dialogue focus on trade in industrial and agricultural goods, customs and trade facilitation and technical barriers to trade. However, the two players are still preparing their market access offers, in other words, the exchange of market access offers has not been held yet (European Commission, 2015). The negotiations between EU and MERCOSUR continue regarding free trade. The EU is the main development partner of the Latin America and the Caribbean (LAC) region, its second largest trade partner and its first investor . The largest trade partner of the LAC region is the United States (EEAS, 2015).

Current state of affairs

Nowadays Latin America is considered to be an expanding economy in the international scene, in particular the influence of major players Brazil and Mexico is worth to point out. The Union has several reasons to focus and maintain this partnership, such as the opulence of raw materials and human resources and the export of agricultural products to EU. In other words, with a 4.3% growth in Latin America and 2.5% in the Caribbean in 2005, it is safe to say Latin America’s market is considered as highly valuable. Today, most Latin American countries have a democratic system and have undertaken several economic and social reforms. In the past twenty years European businesses made many investments in Latin

America. One of the reasons for this investment potential is the existing opportunities in several sectors, including information and communication technologies, energy and transport. Furthermore, the presence of these European businesses ensures growth and employment and can reduce social inequalities. Know-how is transferred and local businesses can get sub-contracts. The aim of the Commission is to stimulate the expansion of a legal climate to ensure the predictability and security of these investments. In the framework of World Trade Organisation, mutual standards and development in market access would allow business firm to trade and invest more easily (European Commission, 2006).

Reality has shown Latin America is not existing as a bloc, therefore bilateral approaches are necessary (Roy, 2012). Regarding its international trade policy, Europe traditionally assumed only multilateral agreements could evade the distortions. However, this opinion was reshaped after a meeting in Cancun, where the difficulty of substantial and rapid advance in multilateral negations became apparent (Krakowski, 2008). A shift from multilateral dialogue to bilateral dialogue can now be seen, in some way caused by the internal crisis of the Andean Community (Roy, 2012).

As previously mentioned, Brazil and Mexico are two major Latin American economies. As biggest country and largest economy in Latin America, Brazil is considered as a crucial global economic and political player. The EU and Brazil hold annual summits at the highest political level since 2007. Regarding regional integration, Brazil can take a leading role in regional integration and this is one of the major goals of the EU's strategy towards MERCOSUR (European Commission, 2006). Mexico is the second largest economy in Latin America. One of the very first Association Agreements between Latin American countries and EU concerned Mexico and Chile. The dialogue between Mexico and EU started in 1998 and was finalised one year later. These negotiations led to stronger bilateral relations and enhances political, economic and trade relations (Commission of the European Communities, 2009). Besides tariffs and agricultural products, the subject of the most important negotiations were rules of origin and services. This country appears to show the most dynamic growth of trade. According to Krakowski (2008) both Mexican exports and imports exposed the most important growth in foreign trade with Latin America, moreover, it surpassed the growth of the total European foreign trade. However, all Latin American economies are slightly small in comparison with major economies United States, Europe and Japan (Bezmen and Selover, 2007). Since 2000 free trade areas have been fully established in Mexico. Steps are undertaken in order to modernise these two agreements (EEAS, 2015). Miotti, Plihon and

Quenan (2002, pp.31–32) emphasise the effect of the introduction of the euro on Latin American countries. Economic ties between the two regions became more intense, especially because of the increasing flows of direct European investment toward Latin America and because of the fast growing commitment of European banks in the region. Two aspects are involved regarding the euro's impact on trade relations between Europe and Latin America; the transaction costs will be reduced and the competition will increase within the euro zone. Moreover, there will be variations in the euro exchange.

Import, export and investments

Data from the research of Krakowski (2008) appear to show that EU imports from Latin America and the Caribbean grew faster than EU exports to the region of the last five years. LAC countries had a trade surplus of 9 billion euros with the EU in 2005. The imports of the European Union from Latin America and the Caribbean amounted then 67.4 billion euros, exports to the region 58.2 billion euros. Agricultural products, raw materials and energy are the three key exports from Latin American countries to the EU, where the EU has a trade deficit with the LAC countries. The EU exports to the LAC countries tend to be more diverse, transport equipment and chemical products being the main sectors. Diverging approaches to the negotiations may be expected as the three blocs show different structures of trade with the EU. The import of Latin American sub-regions includes mainly machinery, transport equipment and chemicals. All three regions export a high number of food and live animals, only MERCOSUR and the Andean Community appear to export numerous basis manufactures and crude materials. The two regions are relatively rich in minerals. According to Bezmen & Selover (2007) much of the export of Chile, Brazil, Bolivia, Colombia, Mexico and Peru involve minerals and ores, whereas exports of Colombia, Ecuador, Mexico, Peru and Venezuela mainly consists of petroleum. Bananas, coffee, beef and cocoa are other important regional exports. Many of the Latin American countries are therefore dependent from the volatility of world commodity prices. When countries produce similar wares, these prices can bring the national business cycles into synchronisation. Brazil for example is significantly correlated with Peru, Paraguay, Ecuador and Colombia, but also with Europe and Japan. Europe tends to have the strongest influence upon Latin America and has a significant positive effect upon Argentina, Mexico, Brazil, Colombia and Venezuela. Europe has the largest impact on Brazil (11.05%). The same appeals for Mexico, Argentina and Colombia.

Since 2002, the European Union has noted a deficit in trade in goods with the seventeen countries composing Latin America. In 2010, the deficit amounted 5.9 billion euros, by far the low point since 2002. After the 20% drop in 2009, exports to Latin America rebounded with a 36% growth to reach a new high in 2010. Only Panama and El Salvador failed to share this growth. Brazil and Mexico are the main markets (Xenellis, 2011). Moreover, a significant increase regarding trade flows can be seen over the last fifteen years in absolute terms, however it should be noted that the growth potential of trade has been underutilised (European Commission, 2006). For the current seven-year period, the European Union has an impressive budget of 3 billion euros. Furthermore, each member state is maintaining its own development assistance programs as well, the same appeals for NGO's. Investment figures show that Foreign Direct Investment in Latin America and the Caribbean has continued the long term positive trend. Investment in South America has picked up after the economic crisis in 2008, while investment in Central America and Mexico remained steady. The European economic crisis certainly had its impact on the flowing towards Latin America, although Europe is still the major investor. United States invested 18%, Japan 8% and European Union around 40% (Roy, 2012). According to Bezmen and Selover (2007) the European business sector has to some extent a stronger influence upon most Latin American economies than the influence of the American business sector. According to the repercussion model an importing country will increase imports when experiencing an economic boom, thus stimulating the economy of the exporting country.

Economic relationship between Central and Eastern Europe and Latin America

Éltető (2014) examines the economic relationship between Central and Eastern European (CEE[1]) and Latin American and Caribbean (LAC[2]) countries. Nowadays, the economic contacts between CEE and LAC countries are less intense than during the socialist times in the CEE countries. Loans provided by the state promoted CEE export, while state-owned businesses exported to LAC countries. When the political system liberalised and the economies from the CEE countries were opened, these activities reduced significantly. The common economic relations and company interactions decreased heavily and due to the focus

[1] CEE countries considered include: Estonia, Latvia, Lithuania, Poland, Hungary, Czech Republic, Slovenia, Slovakia, Bulgaria and Romania. Cuba and Croatia are not included.
[2] The LAC countries under consideration in the study of Éltető are the following: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru, Panama, Paraguay, Surinam, Trinidad and Tobago, Uruguay and Venezuela.

on EU integration, the attention to Latin America faded away. However, in most CEE countries, a renewed interest can be noticed towards the LAC region from the business and government sector. It is safe to say trade among CEE-LAC countries increased to some extent in the past years. LAC countries export less than they import from the CEE region, in other words their trade balance is negative. The main Latin American partners for CEE countries are undoubtedly Mexico and Brazil. Mainly, the imports to CEE from LAC countries consist of fruit, vegetables, raw materials, minerals and metals. Regarding the foreign direct investment from LAC countries to CEE countries, a rather low volume and high year-to-year volatility can be noticed. Certain Central and Eastern European countries (Hungary, Latvia and Poland) developed specific strategies for enhancing their relations with Latin America during the past years. In 2011, the Hungarian government announced its “Southern Opening Policy” and one year later, a two-day-Hungarian-Latin American forum was organised by the Ministry of Foreign Affairs, in order to establish new relationships. Furthermore, a few high level visits between Hungary and LAC countries were established. Éltető also mentions some advantages of doing business with LAC countries, including the major growth and market potential LAC countries offer to CEE companies. The numerous free trade agreements between LAC countries and Mexico and Chile should also be taken into account, providing an advantage for CEE companies to improve their status in the regional market. However, certain difficulties can still appear in this attempt to manage mutual relations, like tariff and non-tariff barriers, policy towards foreign investors and the economic uncertainties in LAC countries, for example the possible devaluation of the LAC currencies.

Main problems regarding the Latin American – European relationship

Although numerous agreements and pacts were created between Latin America and European Union over the past years, the two parties are still facing some difficulties. On one hand European Union resists to reform the Common Agricultural Policy (CAP). This reformation implies opening its market to Latin American products, which are still subject to quality limitations and quotas. Furthermore, European Union member states also restricted immigration, in order to stop economic deterioration and the rising of unemployment in Europe, caused by the financial crisis. On the other hand, many Latin American countries (cases of Mercosur and Central America) refuse to liberalise their economies to the level of European expectations in specific areas. At the same time, they do not answer the call of EU regarding the formation of effective harmonisation of tariffs. Roy (2012) underlines the importance of the future impact of the financial crisis. Hence, the focus of this crisis is the banking industry, a major field in European activities in Latin America, thus raising questionable prospects for an increase of European influence in Latin America. Time is needed to oversee the precise impact of the crisis and its legacy on EU-Latin American relations. Also, European businesses are faced with particular difficulties which may obstruct their development, including an uncertain economic environment, access problems to tariff and non-tariff barriers, bureaucracy, regulations and standards and so on. Therefore, a way to facilitate trade and European investment in Latin America has to be found (European Commission, 2006).

Perera (1995, p.105) states the lack of an ambitious long term agenda, along with practical measures to face appearing challenges is a major issue. The most plausible course of events may be dominated by short-term problems and bureaucracy, if there is no strategic vision to guide the process of establishing more comprehensive relationships. Additionally, in 2010 social movements in Latin America and Europe were *criticising* the new European trade agreement. They claim the trade agreements emphasise too much on the economic aspect, while Europe always stated three pillars are central regarding this cooperation, namely political integration, development aid and trade. Eventually only the trade aspect remains in the agreement (De Walsche, 2010).

Krakowski (2008) points out that, so far, none of the negotiation processes between RTA (regional trade agreement) and EU have been concluded. Therefore, it suggests it is complex to negotiate between these two blocs. Moreover, when strong regional institutions in one of two blocs are missing, it causes certainly a problem. The author states this is clearly the case in the Latin American- European negotiation, for Latin American regional institutions are still rather weak. So, an agreement between two RTA's was never signed.

Interdependence

As formerly mentioned in the introduction, perception exist EU has too much power and Latin America is somehow dependent on the power of the European Union. The indicators of economic interdependence between two parties are the trade flows over time. In 1970, 33.5% of ten Latin American countries (excluding Mexico) went to Europe, 27.5% went to the

United States and 10.6% were traded within the ten Latin American countries. In 2000, a decrease in the importance of the European market can be noticed (18.4%) while the American market gained force (29.1%). Moreover, the intra-regional market highly increased (24.1%). Even though the United States is the major trading partner of most Latin American countries, the member states of the European Union as a group are an even more dominant trading partner of the Mercosur countries and Chile. Nevertheless, an increase of intra-regional trade can be seen over time, while trade to Europe is slightly weakening. It is clear most of the trade relations of Latin American countries are with the outside world, rather than with each other. This is mainly caused by the historically nature of the trading relationships in which Latin American countries mainly supply natural resources and agricultural commodities, whereas the developed world export many manufactured consumption and investment goods for Latin America. Nevertheless, this pattern is changing, for Latin American countries are nowadays exporting a larger percentage of GDP than before and an increasing percentage of trade is established with other Latin American countries (Bezmen and Selover, 2007).

According to Krakowski (2008) Latin American countries that lack a strong bureaucracy, a well-organised private sector and civil society risk losing the negotiation process regarding the free trade agreements with EU. The same applies to groups that lack strong regional institutions. Moreover, trade relations can also be seen as very asymmetrical. Latin America has not the same position in the EU total trade as vice versa: the EU is indeed the major trading partner of many Latin American countries, while Latin American countries do not have a high position on the European trade ladder at all (European Commission, 2006).

While investigating Mercosur and Chile, Bezmen and Selover (2007) conclude Europe appears to have an important effect upon almost all countries in the region, particularly on Uruguay and Brazil. Latin America still shares many cultural and ethnic ties with Portugal, Spain, Italy and Germany, this effect translates into trade in goods, capital, services, foreign investment and migration, moreover a macroeconomic influence can be seen. The authors highlight the overall strength of the transmission of Europe and the relative weakness of transmission from the United States to Latin America. In the case of the Andean Pact (Mexico included), Europe again appears to exert a greater transmission influence on the region with significant effects on Mexico, Colombia, Ecuador and Venezuela. The authors conclude the strongest ties of Latin American nations are with their major trading partners European Union, the United States and Japan, and not among the Latin American countries.

Challenges for a beneficial cooperation in the future

According to the European Commission (2006) one of the main goals for this partnership is to create a stable framework to attract more European investment in Latin America and in that way, stimulate economic development. A prosperous climate to trade and investment between Latin America and European Union should be created in order to strengthen this alliance and to ease the access to the commodity and service markets. More strict common rules on trade policy instruments (especially antidumping), services, investments, intellectual property rights should also be established. Technology transfers, productivity progress, the expansion of its infrastructure and diversification of its markets would be beneficial in Latin American terms, to develop and unite its market positions and to carry on a dynamic investment policy would be valuable in European terms (European Commission, 2006). European Union and Latin America should also organise a dialogue on barriers to trade and investment and a macro-economic dialogue to enhance macro-economic stability, a key factor in stimulating trade and investment. According to the European Commission, special attention should be paid to the productive investment for more and better jobs. In order to support Latin America in implementing policies to create jobs and decrease poverty, EU want to set up a bi-regional dialogue to share its experience regarding how to combine economic growth, employment and solidarity. Regarding the territorial integration and interconnectivity, a more efficient and coordinated infrastructure is needed in order to improve the trades of Latin American exporters. EU wants to support by means of interconnective network infrastructures, including energy, water, transport and telecommunications sectors (ec, 2006). The EU has to take into account the diversity of every Latin American country and also pay more attention to the current situation of each country or sub-region when negotiating in terms of political, trade and cooperation relations and the recent developments there. According to the Commission of European Communities (2009) various Latin American countries are still suffering from inequality and social exclusion, one of the key objectives of this strategic partnership is therefore establishing a dialogue on social cohesion in order to develop skills to meet labour market needs and improve youth employment.

Moreover, due to economic exclusion, numerous Latin Americans migrate to seek work abroad. Migration flows to Europe are increasing, therefore migration become a main challenge for the countries of origin, in economic, social and political terms (European Commission, 2006). Since 2005, the environment in which both parties operating has changed dramatically. Latin America and Europe have both experienced the serious effects of volatile food and community prices, caused by the financial and economic crisis. Due to economic reform and sustained growth in recent years, Latin America managed to slowly recover. Still, the level of foreign direct investment was affected, while exports are decreasing. Key is to reverse these trends to restore economic confidence (Commission of the European Communities, 2009). A high degree of macroeconomic interdependence among nations was revealed when facing the economic crisis in 2008, thus the assumption can be made macroeconomic policy practice in Europa can both influence the European countries and other economies, according to Dias, Dias and Punzo (2012). Some of the new strategies of the European Union include promoting global trade and investment and step up bi-regional macro-economic and financial dialogue. Designing cooperation programs with Latin America to generate sustainable growth and employment (Commission of the European Communities, 2009). In order to negotiate tariffs on a regional level, they should be somehow identical. One of the goals of the European Union is identical treatment of its exports at all borders and free circulation within the region. (Krakowski, 2008).

Lastly, a weakness regarding the integration process can be noticed. If the results of an agreement only apply to member states and not to all Latin American countries, their bargaining position is limited. The results of the negotiations may therefore be less ambitious than the bilateral dialogue with specific countries. EU prefers agreements with regional integration processes which pose a risk and is not necessarily sustainable. This approach should be reconsidered if the negotiations do not result in an acceptable outcome in a certain timeframe. Bilateral or multilateral agreements are the alternatives. It seems that bilateral negotiations with the most important trading partners could be the most attractive, as the multilateral approach may be rather difficult (Krakowski, 2008).

Conclusion

The research question that we posed at the beginning of the political chapter was: do the regional organisations have a relevant role in nowadays international relations? The answer is positive, even if the states are still more relevant than anything else. Considering the case study, it is possible to say also that the EU is becoming the sole European dimension for the international relations, even if the path to follow is far from over. For what concerns Latin America, the situation is still confused, and there is no clear evidence of which organisation could become the EU of this part of the world. Moreover, it has to be said that the international organisations are strong and work properly only when the states give them the power to do it. The EU is what it is because of the will of the European states to overcome their narrow perspectives. Thus, the Latin American organisations will work only when the states composing them will allow it. Therefore, another answer to the research question could be: the regional organisations have a relevant role until the states want them to have it.

It is clear the economic cooperation between Latin America and the European Union is still valuable, for numerous trade agreements and pacts have been established. Furthermore, EU is the largest investor in Latin America, although United States and China are emerging. The European Union has negotiations going on with four Latin American regional groups; MERCOSUR, the Andean Community, CACM or SICA and CARICOM. MERCOSUR is considered to be the most important group. The EU and MERCOSUR focus on trade in industrial and agricultural goods, customs and trade facilitation and technical barriers to trade. Notwithstanding this continuous dialogue, the exchange of market access offers has not been held yet. The EU also has individual agreements with Brazil and Mexico, which are considered to be the major economies of Latin America.

On one hand the two word players undoubtedly took benefit of the numerous agreements, such as the opulence of raw materials and human resources and the export of agricultural products to EU. Latin American and the Caribbean for instance had a trade surplus of 9 billion euros with the EU in 2005. Moreover, investment figures show that the foreign direct investment in Latin America and the Caribbean has continued the long term positive trend. On the other hand, we can say the economic relationship between Latin America and European Union still face some major challenges. Reality has proven the difficulty of the negotiation processes. Latin American countries have different interests and cannot be viewed as one homogeneous whole. For that reason, bilateral approaches are needed. Furthermore, Latin American products still have to face quality limitations and quotas on the European market and several Latin American countries did not liberalise their economy to the level of European expectations yet.

Regarding the interdependence question, we can state the economic dependency of Latin American countries still exists at some level, even at times of de-colonisation. Hence, Latin American countries became mainly dependent of economic activities of their cities. While the European Union is the most important trading partner of most Latin American countries, these Latin American countries are certainly not the major economic partners for Europe. Some

Latin American countries have a weak bureaucracy and private sector, for these reasons they can lose the negotiation process with the EU. Therefore, the European Union should respect the diversity of Latin American countries and take into account the current political and economic situation of each country, while negotiation. More European investment should also be attracted to Latin America, thus stimulating Latin American economic development. Moreover, common rules regarding trade policy instruments, investments and services should be more strict. Today, it is clear the cooperation among these two world players is a necessary, but challenging alliance.

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Economic competition in Latin America

dr. Adrienn Prieger

Abstract: Latin America's economic systems have often been viewed terribly by its European counterparts, but after the CELAC summit meeting in Santiago de Chile, this opinion has changed.

Latin America's economies are very different as a result of a long colonial past. Latin America economy has shown promise and growth for quite some time. With global demand for commodities, the region was able to grow at an average of 3.8% between 2004 and 2013.

The regional divide extends beyond trade. The region is blessed with geographical location and can use it to its advantage in terms of trade, transport of goods among others. Co-operation in various sectors could help make the regional economies become more competitive.

As part of this paper, I investigate into various economies and try to analyse the future prospects of the region. In this document I would like to highlight the competition between Latin American countries, and focusing especially the economy of Brazil, Chile, Colombia and Peru. This region has various economic groups with different agendas and future prospects.

To my mind, South America is remarkably interesting; it has an intangible, special atmosphere. This document explored Latin America's future and mentioned some possible alternatives. These days cultivating international relationships is really essential, this is another reason why I find it useful to get acquainted with the culture of distant countries.

Keywords: economic comparison, South America, development, financial strategy, Brazil, Colombia, Peru, Chile

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Introduction

Latin America's economic systems have often been viewed terribly by its European counterparts, but after the CELAC summit meeting in Santiago de Chile, this opinion has changed. The CELAC was established between the European Union and Latin America. The Chilean head of state told, that Latin America's speed of development is rapid, compared to the other parts of the word. (Klopfstein-László, 2013)

As of this year (2015), Péter Szijjártó, the Hungarian Minister of Foreign Affairs and Trade announced the launch of the "southern door policy". With this program, the Hungarian government would focus their interest to Africa and Latin America. Szijjártó explained that within a year four new embassy will open up, namely Ecuador, Ethiopia, Ghana and Angola. (mandiner.hu, 2015)

Latin America's economies are very different as a result of a long colonial past. Latin American economy has shown promise and growth for quite some time. With global demand for commodities, the region was able to grow at an average of 3.8% between 2004 and 2013. (Pezzini and Melguizo, 2015) But with the slowing global economy, the demand has dwindled and it has exposed the region's over-dependence on the commodities sector.

The region is currently divided among economies, some of which are expected to grow like Colombia, Chile while at the same time some are facing downturn like Brazil, Argentina and Venezuela. The countries contribution to regional growth is limited and this can be understood from the fact that the intraregional trade is dismal accounting to just 18% of the total international trade. (Muñoz, 2015)

The regional divide extends beyond trade. The region is blessed with geographical location and can use it to its advantage in terms of trade, transport of goods among others. Co-operation in various sectors could help make the regional economies become more competitive.

Though over the years region has undergone economic growth but the benefits have been limited to the elite. There is a widespread inequality and cases of land grabs. In Guatemala, 1% of the population holds 40% of the land. (CIDSE press release, 2015) The Latin American people face ironic situations. While their countries are increasing export of commercial agricultural goods, malnutrition is widespread in the region.

The countries must work towards diversifying their exports, investing in infrastructure development, and better connectivity, setting up manufacturing plants to rejuvenate growth. All this should be supported which focus on improving the intra-regional trade.

As part of this paper, I investigate into various economies and try to analyse the future prospects of the region.

In this document I would like to highlight the competition between Latin America, and focusing especially the economy of Brazil, Chile, Colombia and Peru.

Latin American economies

This region has various economic groups with different agendas and future prospects. These economies though regionally close are diverse in the economic policies and industry; each having its own strengths and weaknesses. As part of this document, I attempt to look into few of them namely Brazil, Chile, Colombia and Peru.

Brazil

Brazil in the last 20 years due to economic stabilisation and growth is now touted as a major economic power. Brazil has been a WTO member since 1 January 1995 and a member of GATT since 30 July 1948. Brazil's economy has stagnated from 2011 to 2014 and is contracting further. The currency has fallen by almost 50 percent since 2011. (Biller, 2015) The current economic situation can better be understood by comparing it with Russia. The contraction in Brazilian economy is in line with that of Russia. The concerning part here is that while Russia's economy is hurting because of sanctions against oil and finance companies resulting in weaker oil prices. Brazil is not under any such sanctions and in fact enjoys good relations with other countries. Also Brazil's economy is diverse unlike Russia's economy which is over-dependent on the single commodity. (Rapoza, 2015)

The economy is under pressure due to high inflation and declining consumption. Inflation is running at a more than 11-year high. (MercoPress, 2015) This is being considered as the deepest recession in 25 years. Some of the notable price rise is in the aviation sector where airfare rose by a whopping 29%.

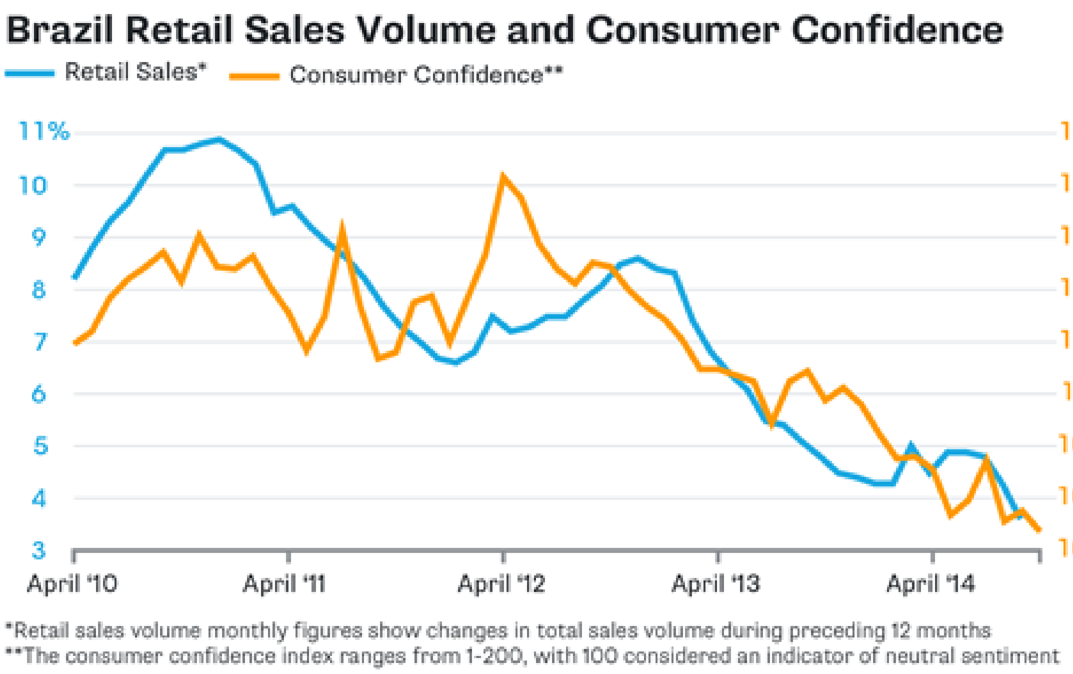

Figure 1. Brazil retail sales volume and consumer confidence (Source: Biller, 2015)

We can see in figure 1 that how the consumption has dwindled in recent years owing to high inflation. The decrease in consumption is attributed to the decline in commodity prices, the profits from which had earlier beefed up the Bolsa Familia social welfare program. Bolsa Familia social welfare program is known as an international model for poverty eradication and had generated the new middle class. With the Bolsa Familia program, which is a social program in Brazil they could prevent child mortality. The people, who registered in this program, got special vaccinations which fight against very dangerous illnesses, for instance measles and poliomyelitis. (Latin-Amerika Társaság, 2013)

In October 2014, Dilma Rousseff was victorious in Brazil's General Election and was sworn in to continue her presidency. She stated that in her second term in office, she would like to continue with the work on the social welfare program that she setup. It will be especially important for the president to develop the health care system, education and the public safety. (Gumhert, 2015)

Brazil continues to lose jobs. In May, the figure stood at 115,599 payroll jobs which was an increase from 97,828 jobs in April. (Cascione, 2015) The unemployment rate rose to 6.7% in

May 2015, which was the highest since 2010 (7.5%) and is accompanied by declining wages. (IBGE, 2015)

The Brazilian government is working to bring the economy back on track. Part of the strategy is to raise taxes and to cut government spending. It has also crimped some pension and government benefits. Critics say that Brazil needs to reduce tax burden, bureaucracy, steep tariffs and introduce flexible labor laws. These steps would help boost investment and productivity. Also they have raised concerns regarding the country’s over-reliance on consumption which along with government spending accounts for 8% of the GDP.

Colombia

This country has been ridden with various problems for a long time namely- drugs, violence and kidnappings. But things have changed over the last decade. The business atmosphere has improved and campaigns have been carried out to promote the country as a tourist destination. Colombia’s economy grew by 4.8% in 2014 and is expected to grow by above 4% in 2015, despite a near 50% fall in oil prices.

Business outlook has improved which can be confirmed by the high end showrooms opened by the likes of Mango, Zara, Louis Vuitton and Armani. This stability and certainty have helped to push Colombia up to the 34th place in the World Bank’s “Doing Business” index in 2014, from 53rd place in 2013. This is above larger economies such as Brazil and Mexico – and even above Belgium and Italy. Colombia’s middle class is on the rise, climbing from 16% of the population in 2002 to 27% in 2011. Poverty rate (defined by World Bank) has fallen from 50% to 34%.

There has been a surge in entrepreneur spirit and people are readily selling food items, clothes, shoes, etc. on the street. Colombia has negotiated free trade agreements and has been successful in securing a dozen deals around the world, including with the UK through the EU, America and Switzerland.

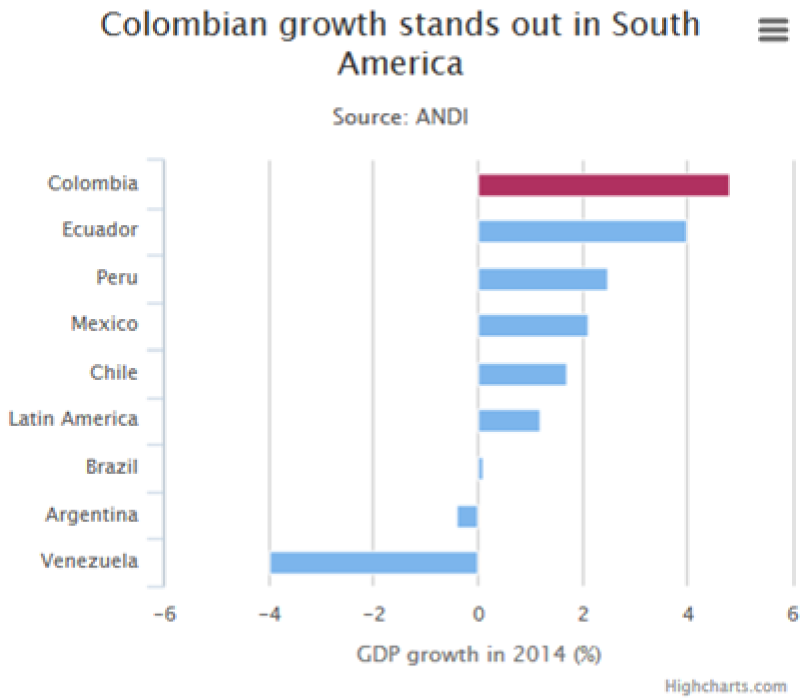

Figure 2. GDP growth of Latin American countries (Source: Szu Ping Chan, 2015)

Colombia’s growth has been stable compared to the regional strong economy Brazil. While Colombia’s central bank have been successful in controlling inflation to its near target of 3% for more than half a decade, prices have increased in Brazil by nearly 6 to 7% while Venezuela is suffering from hyperinflation of about more than 70%.

Though the growth has been good, it lacks infrastructure. The country lacks motorways or duel carriageways. Transport is a major problem and is a deterrent to businesses. With capital being scarce, Colombia is looking for development using public private partnerships (PPP).

A lot of opportunities remain available for the country. The country must work towards decreasing poverty, improving education system, infrastructure and most importantly maintain peace.

There are many challenges that lay ahead, namely the weakening peso against the dollar. *(The Colombian peso [COP] weakened by 32% against the US dollar [USD] between July 2014 and March 2015).* (Scotiabank Economics, 2015) The decline in oil prices which may require spending cuts, postponement of investment projects, and decrease in national income and thereby impact on growth. Moreover, how domestic demand and exports behave is yet to be seen. Slowdown in global growth especially in key regional trading partners is also expected to impact exports.

As decline in oil prices will decrease revenue, other sources of revenue are required. Tax reforms might help. Substituting personal income tax with VAT, replacing traditional corporate taxation with CREE's simplified exemption structure could help generate revenues and prevent tax evasion.

The recently re-elected President Juan Manuel Santos that gained new trading partners and has concluded agreements, plays an important role in growing the economy of Colombia. However, the rapidly modernizing country has a dark secret of vast human rights violations, 4,000 people are behind bars suspected to be political prisoners – although some estimates put their number at 9,500 and little local or international media attention will be given. (Latin-Amerika Társaság, 2014)

The government should focus on infrastructure development like roadways connectivity and social reforms like providing women access to maternity leave which could facilitate their inclusion in the labor force. In addition to that, government should work towards supporting first time job seekers with employment opportunities and try to combat poverty by carrying out pension reforms which would help build social security net. (IMF, 2015)

Peru

Over the last decade, Peru has been one of the best performing Latin American economy with growth being 6% on average. This growth was accompanied by low inflation and poverty reduction. Poverty rate has reduced from about 60% in 2004 to 30% in 2014 which is quite a remarkable achievement. (UNIfeed, 2015)

Growth in recent months can be attributed to domestic and foreign demand for primary products such as cotton, gold and sugar. There is a recovery in mining, manufacturing and the fishing sector. These sectors have contributed to 60% productivity growth. Though, for agriculture and construction the growth was negative.

The investment outlook is positive and there are new projects being undertaken. Backing on new metal mining projects and hydrocarbon production grew by 9.25%. (Andina, 2015a) Spanish firm Enagas has shown interests in the region's potential gas transportation pipeline projects. Recently, it had increased its stakes in Transportadora de Gas del Peru (TgP) who are in charge of the Camisea pipeline, from 20% to 24.34% and also holds a 25% stake of the Peruvian South Pipeline Project. (Andina, 2015b)

Peru’s construction sector is getting a boost with public investment projects executed by subnational governments. Their main project includes the building of the Lima Metro Line 2. This will increase demand for raw materials like cement, steel and create jobs for its labor force. (Andina, 2015c)

Peru’s government is seeking special powers to tackle the economic slowdown. Last year, the government had increased spending and tax cuts to boost economy. This was accompanied with social and labor reforms. Red-tape was removed and permitting rules were eased. Though these reforms helped but the extent of impact was little. The government‘s economic proposal comprises of expansion in real estate sector and plans to speed up projects under its infrastructure concession and taxes-for-works programs. They have also proposed administrative measures for industries in various sectors varying from housing to electricity to mining. (Quigley, 2015)

The IMF in its recent report acknowledged that Peru continues to be one of the best performing economies in Latin America and has solid fundamentals and policy frameworks. With successful implementation of the stimulus, the country’s growth is expected to recover to 3.75% this year. The growth needs to be backed by proper implementation and withdrawal of stimulus, structural reforms to focus on employment opportunities, investment, and productivity. (IMF, 2015)

Peru is not only interested in the economic system of Hungary, it is also interested in the possibilities of higher education in Hungary. Peruvian students can now take part in the Hungarian University system. (MTI, 2013)

Chile

Chile was the first country in South America who signed up as an OECD member on 11 January 2010. This is a major milestone for Chile with a mission to build a stronger, cleaner and fairer global economy. (OECD, 2010)

Chile’s economy is based on the trading of mined ores, it is also the world’s largest copper exporter. The Chuquicamata mine is the most prominent open pit mine, which is located in the driest region. Chile is one of the world's top ranking fish exporter. However, the Chilean society is struggling with many problems: overpopulation, drug trafficking, prostitution. (MEOT, n.d.)

Chile's economy has been booming in recent years thanks to its investment friendly approach. The government took various measures like protecting property rights, promoting private sector growth over public spending, low taxes and embracing free markets. The extent of focus on free markets could be understood from the fact that Chile entered into trade agreements with 57 countries including European Union, Mercosur, China, India, South Korea, and Mexico.

A part of this growth could be attributed to higher copper prices and the demand for raw materials from developing economies like China. This co-relation could better be understood by noting that exports account for more than one fourth of the country's GDP, with commodities making up some three-quarters of total exports. Copper alone provides one-third of government revenue. (NationMaster, n.d.)

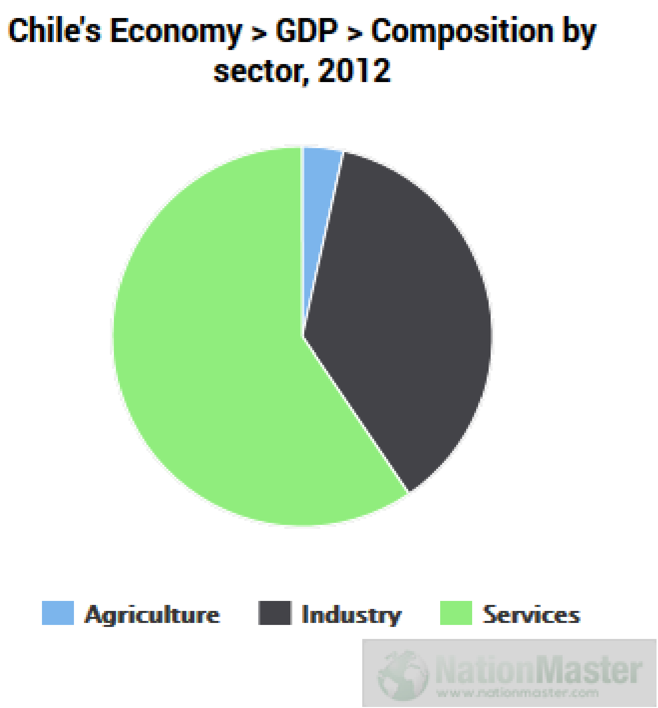

Figure 3. Chile's economic composition 2012 (Source: NationMaster, n.d.)

However in recent years, the country has moved towards diversification. As we can see in the pie chart above, the service sector now forms a major part of the economy.

The growth facilitated wealth generation for the poor and helped reduce income inequality. (Owen, 2015)

The recent slowdown in global demand including that of China has impacted the economy. Depreciating peso, declining commodity prices have all contributed to decrease in investment, inflation, job loss among others. China is a big consumer of Chile's copper, buying nearly 40 percent of it. (Porter, 2014)

The Chilean government is trying to revive the economy but it has been criticised for tempering with the 30 year long growth model. The measures comprise the tax increases, which is expected to lift fiscal revenue by 3 percent of gross domestic product, and are designed to help ensure free education for all and narrow inequality. Inequality in Chile is a matter of grave concern and can be understood from the country's Gini index, a measure of the income gap in which zero represents perfect equality and 1 complete inequality, reached 0.503 in 2011. Chile has the highest income inequality among the 34-nation Organisation for Economic Cooperation and Development.

The Chilean government is also looking into any reforms required in the health care services to meet the needs of the poor. The government has spending plans which is planned to be up by 27%. The economy has responded and copper output surged by 13% and fiscal investment jumped by 60%. Chilean analysts have raised their growth expectations for Chilean economy to 2.8% from earlier 2.7%.

The Chilean government is also working to tackle unemployment and plans to train 300,000 women and 150,000 young people. It is also looking into the country's need to generate sufficient and less expensive energy. Chile's copper production which is third of world's copper is impacted by the energy inflation. (Quiroga and Winkler, 2015)

Comparison of the economies

From all the economies I have considered above, Colombia stands to be strongest. With stable policies and macroeconomic policy management, the country has been able to keep inflation in control and is still attractive to direct foreign investment. The close proximity to its important trading partner, the US and the improvement in US economy does help.

Chile though stable and diversified faces tough political situations. The change in the governmental approach from investment friendly to socialist would be of keen concern to the investors. The increases in taxes may dampen the FDI in the country. In addition to that, the country faces tough climatic changes. The country is facing scarcity of water and it is impacting on power generation, agriculture, mining, among others. However, in the long run, it may lead to innovation in terms of desalinization plants and cleaner energy production. (ThinkAdvisor, 2015)

Peru's economy had performed well in recent years, thanks to its solid fundamentals and policy framework. The economy does face short term issues. The reforms have been slow and almost ineffective. Their governments plan to speed up the reforms and boost infrastructure investment but it may take some time before these reforms make an impact. It is also important that the government properly implements and withdraws the stimulus.

Recently, we can say that Brazil has the weakest economy of the lot. The depreciating currency and rising inflation have impacted demand and productivity. The government is facing serious charges of corruption. Meanwhile, government plans to cut red tape and carry out labor reforms to boost investment. Infrastructure investments are expected to help the region.

Conclusion and future prospects

Future of the region and developing international relations

Having looked into various economies and regional policies, I attempt to analyze the growth prospects of the region.

While the region is trying to diversify exports from commodities and raw materials to other sectors like services, manufactured goods, it is important for the region to engage with developed and emerging economies and work towards trade agreements, resolving tariff disputes and look for exchange of knowledge and technology.

For decades the countries focused on culturally related and regionally closer economies like the US, EU but now they see ample opportunities in Asian countries. The mutual interest between the region and Asia is supported by the fact that trade between the two regions doubled over the past decade and reached as high as $500 billion US dollars in 2014. (Wignaraja, 2015)

Asia houses some of the growing world economies like China, India, and Japan. These growing economies need raw material for manufacturing, food for their growing population which Latin America can help with. In exchange the Latin American economies could benefit from technology transfer and seek investment in infrastructure etc. As an example, experts suggest that in exchange for commodities, Latin America should ask for investment in solar panels in the region. (Porter, 2014)

The focus on trade could be understood from the various free trade agreements signed between the two regions. The number stood at 22 in 2013. But still a lot needs to be done. If the region could come together and be part of transpacific partnership, it would help accelerate greater exchange between the region and new sectors like services could be covered. While countries like Chile and Peru have taken a lead in signing these FTAs, Brazil has a dismal number of just 1.

Latin America needs to carry out labor reforms, cut red tape and facilitate co-operation between the two regions.

Promoting intra-regional trade and co-operation and resolving social issues

Countries across the globe are working on trade agreements like transatlantic trade and investment partnership (TTIP) between EU and US, TPP (Trans pacific partnership) among others, it is the need of the hour for Latin American countries to step up, resolve their differences. The region has some of the world major economies like Mexico and Brazil but still the intra trade within the region is dismal. It accounts for just 18% of the total international trade. The region remains divided between the Pacific Alliance – Chile, Colombia, Mexico and Peru – and Mercosur, whose full members are Argentina, Brazil, Paraguay, Uruguay and Venezuela. The key is to co-operate and find mutually beneficial common-ground. (Muñoz, 2015)

The region need not look far to realise the advantage of intra-regional co-operation. Looking into regional group Mercosur itself, one can see the potential which is waiting to be unleashed. Since the creation of the block, internal trade has multiplied eleven times. In 2014, the exports and imports within the block stood at $52 billion. (EUBrasil, 2015)

Despite undergoing good growth in recent years the region is marred with income inequality. The region faces issues of land grabs, violence among women and exploitation of the poor. This region is seeking help of its trading partners to facilitate in the social balance. It is requesting trading partners to not only trade based on goods but also on the business conduct of the parties involved i.e. parties be accountable for actions. As an example, if an EU company is importing agricultural products, it should also look into exactly where these products are coming from. Therefore, as oppose to EU companies awarding offenders with deals, they should refrain from doing business with businesses carrying out social injustice which may vary from land grabs to inhumane conditions of the workers among others. Expectations are high from the EU as they happen to be Latin America's third largest trading partner. (Sullivan, 2015)

As mentioned above, this region is blessed with natural resources and has high economic potential. The region enjoys proximity to the developed and emerging markets and should try to take advantage of its geographical location. Economically, they should not only focus on international co-operation but also on intra-regional co-operation. Most importantly, while the region works towards growth and economic well-being it must consider the interests of its people and target creation of jobs and decreasing income inequality.

To my mind, South America is remarkably interesting; it has an intangible, special atmosphere. This document explored Latin America's future and mentioned some possible alternatives. The reason why I have chosen this topic is because I have been interested in the future of South America, and I have read several books on this topic. Many people do not take interest in this issue in Europe because they feel that they are culturally different. Finding the "truth" in this topic is very difficult and may not be possible at all. These days cultivating international relationships is really essential, this is another reason why I find it useful to get acquainted with the culture of distant countries.

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Changes in economic relations:
The case of the strategic partnership between Latin America, the Caribbean and the European Union

Geralda Wessels

Abstract: The Strategic Partnership between the European Union and the countries of Latin America and the Caribbean exists for about 15 years, to be precise it was founded in Rio de Janeiro in 1999. Cooperation between these two interested sides reflected on various fields of interest, like cultural issues, science, technology, trade and investment, economic, political and security issues, migrations, poverty, etc. However, in this paper I will point out the strategic partnership, mainly focused on economic relations and agreements. Relationship based on mutual interests between these two regions was beneficial for both sides. Trade was growing rapidly, EU was a leading foreign investor, and the other way around, Latin America and the Caribbean countries were also investing in Europe. Still, in the last couple of years, situation has changed, EU re-assessed its priorities after the start and still ongoing Euro crisis and likewise Latin America had shifted its focus towards Asia and Pacific. On the other hand, rising on the China at east, influenced severely this strategic partnership, due to the fact that China is more interested in the economic rather than political aspects. So, the European Union's share in Latin American trade has declined. Yet, EU is still the second largest trading partner, though it can lose its position to China in the years to come. In order to keep its position, opportunity for the European Union lie in the regional market, stronger business alliances, strategic partnership in supporting global recovery, and of course promoting integration.

Keywords: trade, FDI, China's influence, global financial crisis, economic cooperation and integration, institutions, renewed strategic partnership

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Introduction

The Strategic Partnership between the EU and the countries of Latin America and the Caribbean (LAC) was founded in Rio de Janeiro in 1999. In the first summit the goal was to build up a partnership of equals. The underlying assumptions were that both sides benefit from working together. This agreement expressed itself in an active and ongoing cooperation in several fields, such as trade and investment, economic, political, security issues and environment. Till now there were six EU-LAC Summits held, which resulted in cooperation on a extended range of issues, such as; cultural issues, climate change, migration, the fight against illegal drugs, promotion of human rights, education, cultural issues and science and technology. But due to the rising influence of China in the Latin American region the role of Europe is decreasing. Furthermore the shift in interests of European companies and the still ongoing financial crisis have severe consequences for the strategic cooperation between the two regions. In this paper I will point out the strategic partnership, mainly focused on economic relations and agreements. Furthermore this paper will focus on the changes in this strategic partnership, importance of this relationship for the two regions, recent developments, challenges and the increasing importance of China in the Latin American region. In the last section some recommendations are given.

Strategic cooperation

Since 1999 the biannual summits between Latin America and the European Union have sought to deepen bi-regional integration and strategic cooperation. These biannual meetings served as a monitor progress towards integration and cooperation between these two regions. A constant issue was the economic and commercial integration between the two markets, through agreements between the European Union and CARIFORUM, Chile, Mexico, Central America, Colombia and Peru. According Meyer & Jung the meetings also supported cooperation in other areas for economic and social development such as democracy and human rights, strengthening multilateral approaches to fostering peace, stability and international law, terrorism, drugs and organised crime, the environment, energy, growth and development, fight against poverty, inequality and social exclusion, cooperation for development and international finance, migration and knowledge sharing and training (2012). The European Union's cooperation with Latin America and the EU is a medium-term strategy lasting from 2007 to 2013, which is focusing on social and territorial cohesion, regional integration and higher education. Latin America is benefiting from a major program of cooperation with the European Union, amounting 556 million euro (UNCTAD, 2012). The Latin American Investment Facility (LAIF) was established in 2009 as a new mechanism to promote social and territorial cohesion and regional integration. LAIF helps to mobilise additional financing, by stimulating recipient governments and public institutions to make investments. The goal of LAIF is to support the European Union's regional strategy towards Latin America with three specific and interconnected objectives, these are: enhance interconnectivity between and among Latin American countries by establishing better energy and transport infrastructure, improve environmental protection and support climate change mitigation and measures, and promote equitable and sustainable socioeconomic development through upgrading social services infrastructure and supporting SMEs (AECID, 2012). Another program is the AL-INVEST program, which aims to support the internationalisation of SMEs in Latin America. This is also an important program because it helps the local development by taking advantage of the opportunities provided by globalisation, regional integration, trade agreements and business cooperation with the European Union (ECLAC, 2010).

Economic relations

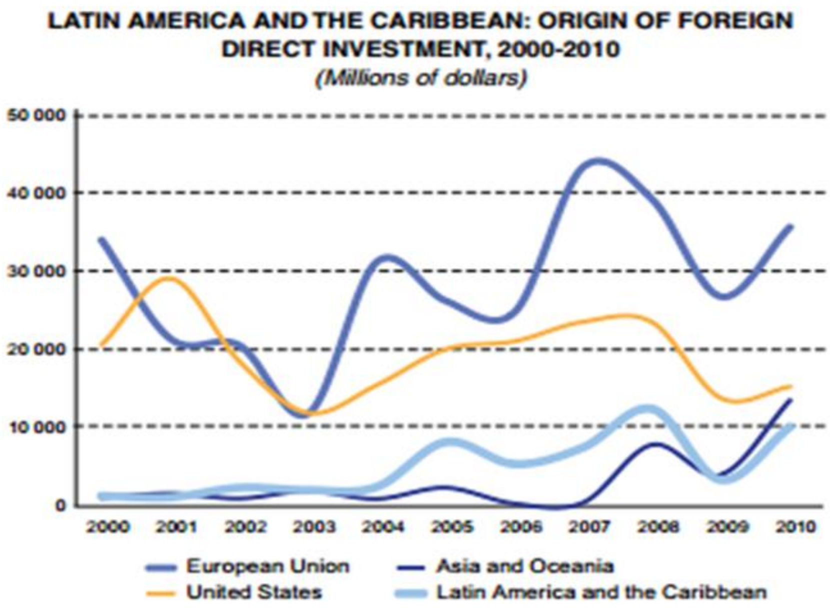
First of all the EU is the leading foreign investor in the CELAC countries, to give an idea the total stocks FDI represents 43% of the region's total FDI. Furthermore the EU's FDI in the countries of Latin America and the Caribbean is higher than Russia, China and India FDI combined. EU investment in these countries contributes to an increase of competitiveness and to social and economic development. Now it just looks like that only the EU is investing in this region and not the other way around, but that is not true. The relationship is mutually beneficial because Latin American and the Caribbean countries also invest in Europe. Trade between the EU and the CELAC region has been growing rapidly over the last couple of years. However, in this field the relationship should be further developed. The EU should develop the relationship with Mexico and Chili further and should held negotiations with the MERCOSUR region. It is important to promote open trade and refrain from protectionism to make the relationship more beneficial for both sides. So far this partnership seems to be really successful but there are some serious challenges posed by the global economic and financial crisis (European Commission, 2013).

Shift in interests

Both partners always stressed the historical and cultural links between the two regions. It can be mentioned that the mutual interest has decreased on both sides the last couple of years. It is not only the European Union that re-assessed its priorities after the start and still ongoing Euro crisis. On the other hand Latin America is focusing towards other regions of the world as well, especially towards Asia and the Pacific. Due to the changing global order it is likely that the Strategic Partnership that was agreed between the EU and CELAC in Rio de Janeiro in 1999 will be disappointing. The recent years showed that Latin America is struggling to move their partners towards more regional integration. This can pose a problem or a disappointment for the EU, because one of the EU's goals was to operate on a bi-regional level, thus to bolster Latin American regional integration. Furthermore the recent neglected relations between the EU and Latin America is a loss for both sides. Latin America should acknowledge that the EU remains the largest foreign investor in their region, but there is still hope that both sides of the Atlantic will realise the importance their Strategic Partnership and agree to closer cooperation (Jung and Meyer, 2012). Before I point out other benefits, challenges and struggles of the Strategic Partnership, I will first go deeper into the investment topic.

Foreign Direct Investment

It is important to mention the FDI flows between the European Union and Latin America and the Caribbean, this aspect is namely one of the original goals of the Strategic Partnership. In this section I will focus on the FDI patterns and the strategies used by transnational companies and its contribution to the region. If we look at the investment flows we see a long history of investment flows of the European Union to Latin America. Before the economic opening of the 1990s the total stock of Europe's FDI accounted for almost 75% in the large economies of Brazil, Mexico and Argentina. The biggest investors were the United Kingdom, France and Germany followed by Italy and the Netherlands (ECLAC, 2002). This partly was encouraged due to the structural reforms and modernizing production by using FDI as a source for achieving this. In 1995 Spain and Portugal entered with their investment flows. The investment flows occurred as well partly due to the cultural, social and economic characteristics of the European Union that are useful for Latin America to develop. But the other way around Latin America can be useful for the European Union because it can be a source of stimulus for the European economies especially in the current economic crisis. However, the investment flows are stagnating the last couple of years. This stagnation has been due in part to the accession of new European Union members, the growing relevance of the Middle East and North Africa for Europe (ECLAC, 2010).



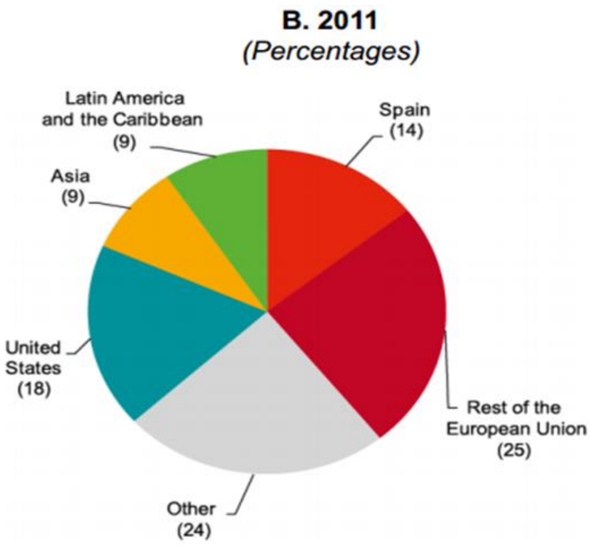
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the central banks of the Latin America and Caribbean countries.

Other global factors were also a cause of the fall in European investments; one of them is the financial crisis. With the accession of the new member States to the European Union the focus of European business shifted away from Latin America to these new Member States, because it opened up a wide range of investment opportunities. Another explanation can be that Latin America is still very natural resource oriented and put lesser effort to the development of technology and innovation (UNCTAD, 2013).

FDI is not evenly distributed among the region of Latin America. European FDI was mainly directed to South America. For example Brazil received 53% of the total FDI in the period between 2006 and 2010, which makes it the main receiver of European FDI. Other main receivers were Argentina, Colombia and Chili. Mexico and Central America are not main destinations of European FDI. A possible explanation for this uneven distribution of European FDI can be the dominant presence of the United States in Mexico and Central America. Only in the last five years the share of FDI flow from the European Union increased due to the drop of FDI flows from the United States in Mexico. Spain was for a couple of years the dominant player of FDI in Chili and Argentina. Nevertheless, the European Union should be careful with its position due to new actors as a source of FDI in Latin America and Caribbean, by companies in developing countries such as China (ECLAC, 2010).

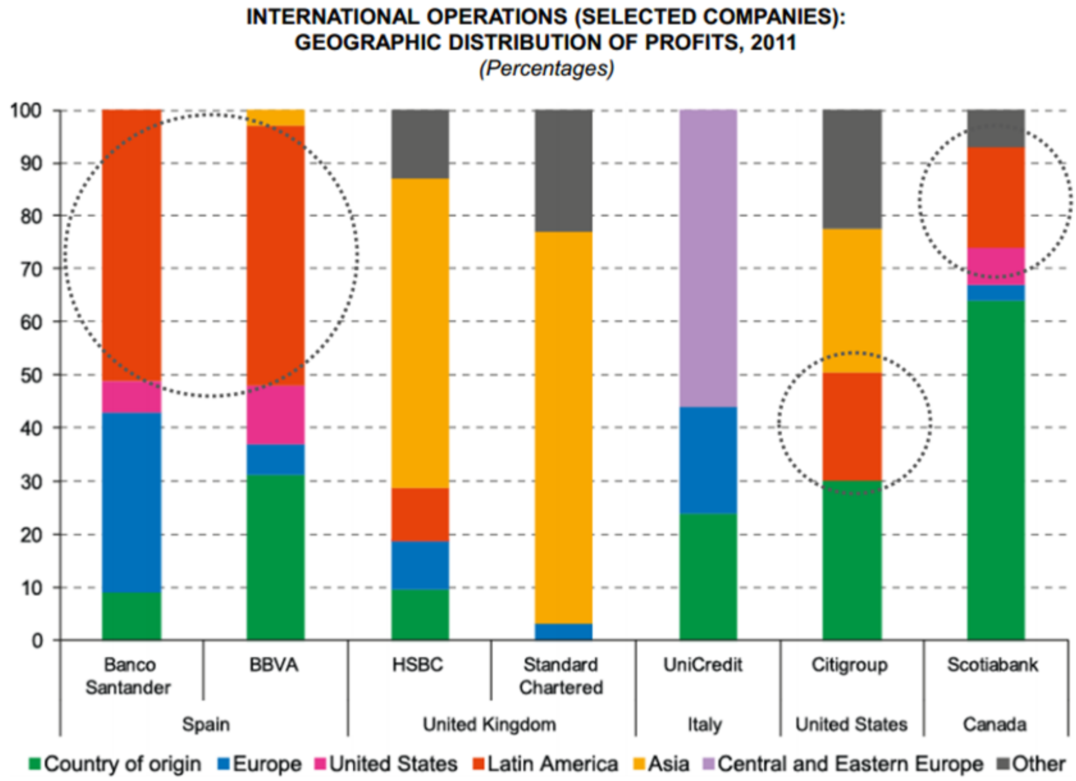
The pattern in European countries

Spain had over the last 10 years the main position as European investor in Latin America. Large Spanish companies in the service sector were involved in some of the largest acquisitions that this region has seen. The preferred destination countries were Brazil, Mexico, Chile and Argentina. For example 65% of the Spanish assets abroad are in Latin America. But Spanish investments decreased in the past few years, due to structural and situational reasons. These are the renewed interest in other European Union member States and other developing regions and the impacts of the crisis for Spain's economy affected the investments in the region as well. Germany is one of the traditional European investors in the region. Germany its focus is mainly on Brazil, Mexico and Argentina, in capital-intensive sectors. Although the amount of German FDI is small, the innovation and research and development of the German FDI is important for Latin America (FDI Intelligence, 2014). France has also a long history with Latin America. The French companies are focusing on the service sector. They took advantage of the privatisation process in this region for example. The share of French FDI is bigger than the share of Germany in this region. French companies focused the last couple of years on the telecommunication and energy sector and manufacturing sectors in Latin America. The United Kingdom its assets abroad is lower than all the countries mentioned above and FDI concentrated in mining, financial services and food and beverages. Italian investments increased over the last couple of years. They made acquisitions in telecommunications and infrastructure. The share of total European flow of FDI for Italy is comparable with the share of France. The Netherlands focused mainly on Brazil and Mexico and on manufacturing sectors such as beverages and steel and the service sector (FDI Intelligence, 2014).



European strategies

In the last couple of years the European companies mainly focused on natural resource seeking strategies. The European companies that are the largest in the region are oil and mining companies such as Anglo American PLC (United Kingdom/South Africa), Royal Dutch-Shell (United Kingdom-Netherlands), Repsol (Spain) and British Petroleum (United Kingdom). The region's good economic performance encouraged the European companies to follow strategies based on the search for national and regional markets for manufactures. But due to the global economic crisis European companies recently expanded their operations (UNCTAD, 2013). There are new opportunities as well due to the appreciation of a few Latin American currencies against the dollar, growing middle class and growing purchasing power of the population opened business opportunities for companies whose strategy is to seek local and regional markets for manufactures (FDI Intelligence, 2014). Still some investments were put on a hold in the current financial crisis in Europe. They did not cut back on production capacity but they have postponed some expansion projects. A few of these companies were in the automobile sector, such as Volkswagen (Germany), Fiat (Italy), Renault (France). In electronics, Phillips (Netherlands), Nokia (Finland), Siemens (Germany). In food and beverages, Danone (France), Parmalat (Italy), Heineken (Netherlands), Carlsberg (Denmark) and Unilever (Netherlands). These companies described above have a long history in this region, they were one of the early internationalisers and focused themselves on larger economies such as Brazil, Mexico and Argentina, but a lot of their operations went into other countries in the region as well (ECLAC, 2011). Still the preferred destination is Brazil. Besides the European companies have been very active in the steel sector as well, again mostly in Brazil. Due to the structural reforms and the privatisation in the 1990s the companies could start to operate in the service sector. Investment in telecommunications, energy, banking and infrastructure was booming. According the European Commission, the European companies were involved in some of the largest acquisitions in the region making them leaders in their markets. In the last couple of years some factors lead to the expansion of operations in the service subsectors in the region (2013). The diversification in the terms of sectors is also higher, new investments were made in retail, tourism, construction, logistics and financial activities. The new companies in these subsectors are smaller than those who established earlier. This points out that these positive signals gave a boost to Latin America and the Caribbean as an attractive destination for European companies (ECLAC, 2011). To show how important Latin America is for some banking sectors to some countries. I will illustrate a figure below.

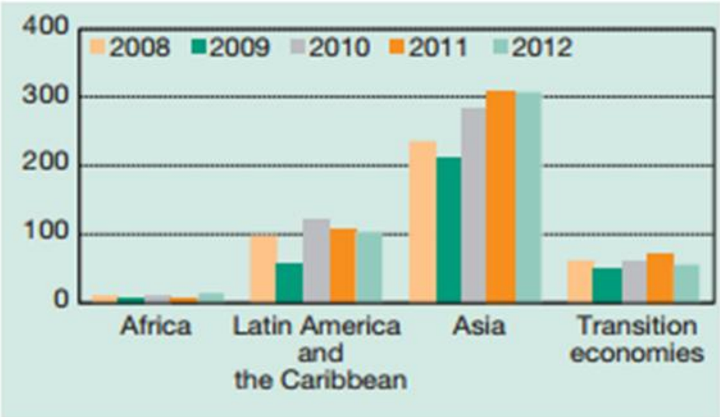


In this figure above we see that Latin America is really important for Spain and to a lesser extend for United States, Canada and United Kingdom for the banking sector. This figure shows namely the geographic distribution of profits in 2011 in percentages. So we can conclude here that Latin America is a crucial element of their business strategy (ECLAC, 2011).

Outward foreign direct investment and trans-Latin companies

The growth of outward FDI from the Latin American and Caribbean is growing fast. Besides it is becoming an important investor globally. The highest outward FDI is from Mexico. Brazil, Chili, and Colombia. Largely focused on basic industries, mass consumption manufactures and some services. A large proportion of the outward FDI is going to the neighbouring countries (UNCTAD, 2013). Trans-Latin Greenfield investments also largely stay in the region, so this shows the importance of trans-Latins. A different picture is presented here, while the data is easy accessible for the European investments this is not the case for the Latin American ones. Only recently the topic of internationalisation by Latin American firms were connected by policy debate and found their way to the region's research agenda. The decision whether to pursue a proactive policy in this field is a recent political debate (EC, 2013). A shift towards a greater use of industrial policy is occurring in some countries in the region, with a series of measures designed to build productive capacities and boost the manufacturing sector. These measures include higher tariff barriers, tighter criteria for licenses and increased preference for domestic production in public procurement. These policies may put a barrier for FDI into the region and appear to have an effect on companies investment plans (UNCTAD, 2013).

Figure I.5. FDI outflows, by region, 2008–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

We see in this figure above that Latin America and the Caribbean is the second biggest developing region with outward FDI between 2008–2012, it comes after Asia.

Outward FDI trends of Latin America and the Caribbean: to Africa

According UNCTAD, Brazilian FDI to Africa is growing in the last couple of years. The Brazilian development bank called (BNDES) has an active role in the expansion of Brazilian TNCS into the African industry. They focus on countries such as Angola, Ghana and Mozambique. But still the largest proportion of the outward FDI is going to the neighboring countries (2013).

Rising Chinese influence

The established relationship between Latin America and the Caribbean and Europe can undergo some challenges imposed by China. China its massive economic growth and increased integration with the global economy over the last few years has been one of the most striking features of the globalisation. Due to the its official exchange rate and big economy China rose rapidly, thereby it became more open than before (Jenkins, 2009). OECD predicts that China will become the largest exporter by the beginning of the next decade. The rise of China has therefore major consequences for other countries. The cheap imports of Chinese products to the USA and the European Union has a negative effect for the manufactures, although the consumers benefited from low prices of clothes and electronics. Furthermore China would like to invest and provide aid to Africa, but there are serious critics about China's support for some of Africa's regimes. All the aspects described above are known globally but the impact that China can have in Latin America gets less attention. According Jenkins, the influence of China in Latin America can pose a problem for the United States and Europe, because their hegemony position is at danger. China is mostly interested in the economic aspect rather than political aspects. So there is a growing economic relation between China and Latin America (2009).

In the last 10 years the trade increased ten-fold between China and Latin America. China is also starting to invest in Latin America. The relation is not one sided, Mexican, Brazilian and other firms from Latin America are starting to invest in China as well. Thereby China is amongst the top three of trade partners for a couple of Latin America countries, but the relationship is asymmetrical, China's influence is bigger in Latin America than the other way around. Brazil is the largest Latin American exporter to China, no other country among Latin America ranks in the top twenty for import sources for China (Jenkins, 2009). Due to the size of China it has direct (FDI) effects and indirect effects on Latin America but also at a global level, China can affect the world prices with its trade and investment flows, this is an indirect impact (FDI Intelligence, 2014). There can also be an increase in competition between Latin America and China for exporting to third markets. It is a question whether these impacts are more positive than negative for Latin America its economy. According Blazquez-Lidoy et al. these impacts can be different in different countries. It will depend on their nature if they are competitive or complementary (2007).

The importance of Chinese FDI

In 2004 President Hu Jintao promised that China is going to invest for 100 billion dollars in Latin America in ten years' time. Although it is difficult to estimate the exact numbers due to the use of data, it appears that the number of FDI is misleading, a part of total flow to Latin America went to the Cayman Islands and the British Virgin Islands, two tax havens of the Caribbean. This means that the numbers of FDI flows to Latin America can show a difference with real numbers.

China invested mainly in Argentina, Brazil, Mexico, Peru and Venezuela. Much of the FDI was for resource seeking strategies. Such as oil and minerals but there are also Chinese investments in manufacturing, textiles, electronics in Mexico. In Brazil, China is mainly investing in electronics and telecommunications (Jenkins, 2009).

Latin American exports to China

Latin American exports started at the end of the 1990s. Not all Latin American countries have participated in the boom in exports to China. For example, Central American countries except Costa Rica, do not have diplomatic relations with China, have a low level of exports as do Colombia and Ecuador. This is one reason why the impact of China its influence in the region is unevenly felt across the region. Some Latin American countries have simply a stronger relation with China compared to others (Blazquez-Lidoy et al., 2007). Trade is driven by China's demand for raw materials and this reflects the composition of the region's exports. The exports to China by the major Latin American exporters are concentrated on a narrow range of products. These exports are mostly concentrated on primary products like, iron ore, soya, fishmeal and copper. So Latin American exports have not been able to diversify their exports beyond primary products (Jenkins, 2009).

Challenges

China's impact on prices and Latin American export earnings

China contributed to the price increases of commodities such as copper, iron, zinc, aluminium, petroleum, soybeans and fishmeal. Latin American exporters benefited from the increases in the prices of these commodities. To give an indication, China accounted in 2007 for more than half of the world consumption of iron and aluminium. Likely the prices of these commodities will increase in the next couple of years, if the demand of China continues to grow. The estimates are for Latin America as a whole and the gains are ones again not spread evenly amongst the countries of the region. The main beneficiaries are oil and mineral exporters such as Chile, Peru, Venezuela and Mexico (Blazquez-Lidoy et al., 2007). Besides net importer countries, particularly of oil, are more likely to be net losers as a result of the impact of China on their trade. The key in this is whether the countries are complementary to China, in the sense of exporting those commodities in which China is a net importer or compete with China for imports of the same products (ECLAC, 2012).

The rapid growth of Chinese imports over the last years created concerns within Latin America. The consumers' benefit from cheaper products, manufactures complain that they are losing markets to imports and have accused the Chinese of dumping. There we see a similarity between Latin American and the Caribbean and the EU. The reaction of some countries was to increase the protection of the domestic markets. This has led in some cases to protectionist moves such as measures to restrict imports of toys, clothing, footwear, textiles from China and other Asian countries taken by the Argentine government in 2007. Still it is difficult to determine the consequences of the Chinese increased influence in the region. There is evidence from the manufacturing sector in Argentina and Brazil that China has an influence on a few domestic producers such as office equipment, computers, TVs, furniture and sports goods. But here again there is a problem with the exact numbers. The impact can be way bigger, because it does not take into account the unregistered imports of Chinese goods. For example in Mexico there are estimations that up to 65% of domestically sold textiles and clothing are imported illegally, while in Brazil the textile and clothing trade associations claimed losses of 60 million US dollars in 2006 as a result of illegal imports from China (Jenkins, 2009).

China as a threat

According Blazquez-Lidoy et al. like other emerging countries Latin America is concerned that China's emergence poses a threat to their exports and especially of manufactured goods to the third markets. These concerns increased after China its accession to the WTO in 2001 and the ending in 2005 of the Agreement on Textiles and Clothing (ATC), in which countries were allowed to use quotas to restrict imports (2007). As a result, the European Union has fallen in ranking of the most important trading. The European Union's loss of importance as a trading partner caused it to drop several places in the ranking of destination markets for exports and sources of imports for Latin America and the Caribbean, for nearly all Latin American countries. In 1980, The EU was the first or second most important export market for all Latin American countries, except Venezuela, Ecuador and El Salvador (Jenkins, 2009). As already described in this paper, in 2009 the EU maintained the top position in just four out of sixteen countries and elsewhere was displaced in several cases by China. The declining importance of the EU as a trading partner can also been seen in terms of its position as a source of Latin American imports (ECLAC, 2012).

After the crisis

The trade between the Latin American region and the European Union recovered more slowly than trade with other regions. Trade between Latin American and Caribbean countries and their key trading partners both within and outside the region grew after the crisis as they recovered for the fall in trade in 2009. Exports and imports to Asia grew the fastest. The trade with the USA and within the region grew at modest rates, trade with the EU has not yet regained pre-crisis levels (UNCTAD, 2013). This is also a challenge for the strategic cooperation between the two partners.

Future aspect

The forecast is that China will continue to grow its relative importance as an export destination till 2020. If the demand for Latin American products continues to grow at its current rate in the United States, European Union and the rest of the world. If China's demand increases by a half of that during this decade, China will surpass the EU around 2015 to become the region's second largest export market (UNCTAD, 2013). A similar pattern is foreseen for imports, where China also expected to overtake the EU, although this trend may develop more slowly (Jenkins, 2009).

Services the new trade focus element between the regions

So far we saw a decline of importance of the EU in the Latin American region. But on the other hand trade in services grew faster between the EU and Latin America than between the European Union and the rest of the world (UNCTAD, 2013). In the 1990s and the decade prior to the crisis, trade in services between the EU and Latin America grew almost six-fold whereas trade in services between the EU and the world only tripled. So Latin America and the Caribbean grew in importance as a market for European exports and Latin American exporters also managed to grow their share of the European market (ECLAC, 2012). Although there are big differences between the categories of services, it may be a challenge for the future.

Agreements

In general the agreements negotiated by the EU and the USA is comprehensive and includes removing tariffs on the majority of goods and commitments on trade in services, property, investment and intellectual property. These commitments go beyond those agreed by the EU, USA and Latin America and the Caribbean in the World Trade Organisation (WTO) agreements. But there are differences as well, the agreements negotiated by the EU aim to strengthen regional integration mechanisms in Latin America and the Caribbean. The Association Agreements negotiated by the EU are usually more comprehensive and include provisions on political dialogue and cooperation on a broad set of topics apart from trade such as culture, education, energy, science and technology, tourism and more. The agreements negotiated by the USA include removal of tariffs, mostly focused on agricultural products, whereas the EU agreements maintain exceptions in this field. Thereby the EU agreements use a positive-list approach for negotiating services and investments where commitments on national treatment and market access apply only to the sectors specified by both. In contrast, the agreements negotiated by the USA use a negative-list approach in which only those sectors to be excluded are listen. This approach is more transparent but unclear whether it leads to greater liberalisation. The agreements signed with the USA are usually more demanding to clarify intellectual property rights compared to the European ones (ECLAC, 2012). The challenge here will be the harmonisation of the agreements and to get coherent agreements, to make it easier to develop and establish a good and transparent strategic cooperation.

Security challenges

There is a growing number of safety problems in food imports from Latin America and the Caribbean reported by the European's Food Safety Authority. The consequences of the growing number of safety problems are the additional costs through loss of shipments, negative impacts on product prices and the potential loss of certain markets. To give an idea Brazil got fewer notifications in 2006–2011 than in the period of 2000–2005, whereas notifications on exports from Argentina increased a lot, Chilean exports had an smaller increase in notifications, Peru had a five-fold increase of notifications in this period. The safety problems were mostly to be found in nuts, seeds, fruits, vegetables, fish and meat products.

Trade facilitation

Normally trade facilitation is understood as a reduction in the number of bureaucratic formalities in foreign trade or in the time required to complete them. But it should also be seen as an integrated approach that seeks to make trade transactions more efficient by making transport and ICT infrastructure available. Trade facilitation can play a significant role in a country's international competitiveness. An integrated logistic system can attract FDI and contribute to the modernisation and globalisation of small medium enterprises. Customs and infrastructure are the areas in which the Latin American and Caribbean region has it weakness (ECLAC, 2012). So here lays the challenge. Measures are needed to upgrade customs procedures and improvement of infrastructure. Cooperation between Europe and Latin America and the Caribbean could play an important role in assisting the facilitation development. Thereby the development of physical infrastructure is a challenge.

Improve institutions

There are already some proposals for improving the trade facilitation that could have a positive effect on regional integration but as well international transport costs. Europe and Latin America and the Caribbean should speed up the implementation of legal agreements that will permit the usage of modern business tools. The European Union can help Latin America and the Caribbean region to strengthen their national and regional capacities in each of these areas (ECLAC, 2012). This will also stimulate trade and investment links with the region. The challenge is to develop and implement such legal agreements, to strengthen the capacities of Latin America. The difficulty is the timing, because of the global crisis and the decreasing importance of the EU in this region.

Conclusion and recommendation

The European Union's share in Latin American trade has declined, mainly because China and other developing Asian countries have gained larger shares in trade. Though the European Union is still the second largest trading partner but it could lose its position to China in the next coming years. The bilateral trade in goods between the two regions is highly asymmetrical. Latin America and Caribbean region mainly import manufactured goods from the European Union and their exports are mainly focused on processed primary goods. The EU was also the main source of FDI in Latin America and the Caribbean in the last decade but recently its growth has slowed down. Among the EU countries, Spain remains the largest investor. Latin American and Caribbean countries also deepened their trade ties with China and other Asia-Pacific countries. Over the years the EU and the Latin American region sought for partnership agreements. Thereby the EU has a special relationship with the most important trading partners in the region, namely Brazil and Mexico.

There are also recommendations, major opportunities and challenges for the strategic partnership between the Latin American region and EU. In the today's international economic situation with low growth in the European Union and sustained growth in Latin America and the Caribbean, the regional market represents a major opportunity for European exporters and investors. On the other hand the EU remains a major destination for Latin American, the EU produces goods and services that are important as inputs in the region and increases the competitiveness. So the EU is important as well in the aspect of the transfer of technology and knowledge to the region. Another opportunity is that European firms are global leaders in the areas of environmental protection, climate change and corporate social responsibility. Stronger business alliances between Europe and Latin America and the Caribbean can help with less carbon intensive competitiveness.

According ECLAC, at the multilateral level, the two partners can be strategic partners in supporting the global recovery. They should not impose new trade barriers but seek for common ground on global issues. On bilateral trade relations between Latin America and the Caribbean and the EU it is important that the negotiations between MERCOSUR and EU will be completed as soon as possible. The EU should continue to promote integration. The experience of the EU can be valuable in the areas of free movement of goods, the harmonisation of technical standards and elimination of non-tariff barriers to regional trade. The EU could also help the Latin American region to let these exporters adapt to new demands from governments and business on climate change. Thereby the EU could also help the exporters in meeting requirements on quality and technical standards. Another recommendation could be to promote a stronger relation between the business associations of the two regions. Initiatives such as the MERCOSUR- EU business plans and promotions of business networks in different areas could be an idea (2012). Other recommendations would be to develop better security agreements, the improvement of institutions, trade facilitation and to forecast China's impact. In other words they should strive for renewed partnerships.

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Background

Rise and decline in Latin America:
the current state of the three largest economies

Luca Varga

Latin America's GDP forecast has got worse as analysts cut it from 2.0% to 1.8% in June. If the 2014 results will underline this number, the country will face the slowest pace of growth since 2009. Apart from Colombia and Mexico, the GDP growth in the Latin American economies decelerated in the first quarter of the year. The region has relatively subservient global liquidity conditions, however, the United States' monetary policy still can cause harm to them. But now let us see what the Latin American countries have managed to achieve so far in 2014.

Mexico

According to the OECD, 95.5% of the businesses in Mexico have only ten or fewer workers. Manuel Molano, a member of a think-tank called Mexican Competitiveness Institute, named this phenomenon "Peter Pan system". It means that the businesses prefer to stay small because of the taxes and regulation. However, there is a really interesting fact as for these small and informal businesses, since they contributed more to the growth of employment in the country between 1998 and 2008 than the legal firms – who are, by the way, more valuable for the economy. But the local firms are far less productive which means they produce only the one-fiftieth of the larger companies' productivity and it sets back the GDP growth. These little firms operate also like a social safety net by legally paying their employees in cash without contributing to the official health-care and pension scheme. Only 8% of bank loans is lent to small and medium-sized enterprises (SMEs) and according to McKinsey the ratio of loans to GDP in Mexico matches with Ethiopia's. Maybe its most important cause is that they do not trust in the banks. However, it is really hard for a firm to grow without credit. The other problem with the Peter Pan syndrome is the lack of efficiency, innovation and technology, since they do not have the capacity or the necessary sources for that. But the government is about to help the SMEs by weakening the dominance of oligopolies with the constitutional reforms. President Enrique Peña Nieto's aim is to cut the prices of banking services, electricity, gas and the internet. According to a fiscal reform the SMEs would get a year tax holiday to have time and opportunity to enter the formal economy instead of the informal. And the state development banks provide them loan guarantees and allow them to obtain credit. The country is using e-invoicing to help these businesses find their way to the formal economy.

The most important reform which is being implemented is about the liberalisation of the energy sector. The state oil firm, Pemex brings the third of the revenues to the government but its production levels have been declining. The industrial electricity prices are much higher than in the United States – it means 80% – but the electricity industry will be liberalised as well. And in August, 2014 the Congress in Mexico decided to open the Mexican deepwater and shale fields to foreign investment.

In the first quarter of the year the public spending rose by 13.2% and so did the non-oil exports by 5.2% but the total sales fell for the first time in 30 years. So the president still has to take steps to revive the country's economy which is expected to grow by 2.4% this year. However, the costs of the reforms – such as higher taxes and denser accounting rules – have come faster than their benefits so far. The fastest way to get the economy out of the shadows would be spending money on the infrastructure; therefore the priorities include new natural-gas pipelines and a new airport in Mexico City. Independent regulators will be needed if the government wants to facilitate competition in the economy. And Mr. Peña has to implement the reforms to be beneficial not only for a privileged class but for everyone in the country.

Brazil

Last year Brazil had an economy growth by 2.3% thanks to the public spending and investment. President Dilma Rousseff managed to raise the investment by 6.3% - it means $65 billion foreign direct investment altogether – to convince the firms that the confidence is returning. The interest rates were increased by 10.75% by the Central Bank and it helped to make the inflation shrink to 5.6%. But Brazil somehow still has to overcome the relapse after the dependence on the Chinese market ceased in 2010. This year the economy is expected to grow by 1.8%.

A forecast report about boosting Brazil's economy by the FIFA World Cup 2014 said that thanks to the event the infrastructure would be improved, the new stadiums would revive urban economy and real estate development; increase tourism; and the feel-good factor would be also better. But the benefits will be seen only in the next few years, not immediately. The costs of organizing the event is estimated to be about $15 billion and it should be paid back into the economy in time. However, the World Cup generates positive revenues, as well, by corporate promotion and merchandising. According to the minister for strategic affairs, Marcelo Neri, Brazil is starting to open towards foreigners – it has been indicated by easing the way for them to get a work permit in Brazil and inciting businesses to invest and participating in world economic forums already in the past two years.

Several causes contribute to the underperformance of Brazil. One of them is the tax structure, since it takes about 1,200 hours a year for a company to prepare the taxes. The other problem is related to the strict labour requirements as the employees have broad rights to strike and employers can easily find themselves in the legal system for dismissing one of their workers. The Brazilian bureaucracy is another barrier: it takes a lot of time to get the government's approval for a business transaction – for instance, it can take six month for the government to approve a new label on a product.

In July, 2014 the Central Bank released forecasts about the Brazilian economy and according to them the economy is weakening. The IBS-Br index – which is used by the Central Bank as a monthly economic indicator to forecast the GDP growth monthly and yearly – confirms this statement as it shrank by 0.18% monthly and 0.2% in the year. So the economy did not expand in the first half of this year but the chief of the Central Bank, Alexandre Tombini, says growth can be expected in the second six months.

Argentina

In the beginning of the year the forecasts about the Argentine economy were positive saying the country will avoid recession, but will still struggle with financial volatility, unemployment and inflation. The United Nations Commission for Latin America also predicted a 3.2% GDP growth. But there are some more uncertain issues apart from unemployment and inflation, like the government budget balance and the limit of external credit. One of the most relevant problems that have contributed to the underperformance of the economy is the climate change, the draught to be precise. The currency dropped last year by 20% but this year it was supposed to be more stable. By April, 2014 the inflation hit 40%, according to unofficial estimates the inflation rate was above 25%.

The government could stop the further drop of the currency but the fiscal deficit and the government spending is still significant. The rising incomes, the inflation and therefore the growing consumer spending, along with the remarkable sales of soybean caused the reduction of the reserves below $30 billion. As a consequence, the devaluation is accelerating. The inflation made the people spend more or move their money abroad – but this is beneficial for the automobile industry, since the sales of the machines hit the record last year.

According to an emerging markets economist, Michael Henderson, the cause of the inflation can date back to the government's decision in 1991 when it accepted a currency board which fixed the Argentine peso with the US dollar at 1:1 rate. By this move some economic problems could be stabilised but only a few options were left for the country to protect its economy against external shocks. Though, the devaluation of the currency has been managed at a certain level, as mentioned above, the consumer price inflation is still hitting about 14%.

The latest and most important problem for Argentina right now is the legal battle between the government and the US holdout bondholders over a $1.3 billion debt as the Argentine law does not allow the country to pay more to the holdouts that the other holders. There have been months-long negotiations between the two sides but the Argentine delegation, led by Axel Kicillof, the Minister of the Economy, could not satisfy the demands of the hedge funds and in the end of July, without stay and payment, the country defaulted. But as a consequence of the default, the exchange bondholders – who took bonds in 2005 and 2010 in exchange for the bonds they held following the default in 2001 – are likely to sue for all their money at once which will cost much more for Argentina – about $29 billion. The government is not willing to make any steps that can hurt the country's economy and still has a chance to reach a settlement with the holdouts in order to access the international debt markets but it is uncertain how much time it will take to find a solution. Analysts say that an agreement can be made earliest by the first months of 2015.

In conclusion, as for the three largest economies in Latin America we can observe progress since there have been reforms launched in Mexico which seem to have more costs than benefits right now but will help the country to find the way to development. Brazil's economy is also expected to grow after the first six months. The biggest bunch of problems is ahead of Argentina and the government has to find the way out of darkness protecting its economy and citizens and without seeming weak.

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What are the main objectives and the potential of the union of South American nations (UNASUR)?

Oguz Mermut

Abstract: The most recent addition to the trend of intergovernmental and regional organisations in South America is the Union of South American Nations (UNASUR). The UNASUR is fundamentally different from the other organisations in the region such as Mercosur, as it aims to be much more than just an economic organisation. However, the UNASUR is still in its infancy, therefore it is uncertain what its future holds or what the minds behind it desire it to be. Scholars and academics have begun to analyse the UNASUR, its objectives and potential future, albeit from very different perspectives. This paper provides an overview of the central approaches to the topic by gathering the arguments of various scholars, which can be categorised within three relevant theories of international relations: realist, liberal and regionalist. Since the UNASUR is not the first intergovernmental organisation in South America, it is viewed in its historical context for the purposes of this paper. While the theoretical approach forms the main framework of analysis with regards to the future of the UNASUR, empirical evidence is made use of where appropriate. Exploring the organisation from these theories of international relations offers insight into how the member states might view the UNASUR. Nevertheless these approaches have limitations and cannot fully predict the future of the project.

Keywords: UNASUR, regionalism, integration, supra-nationalism

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Introduction

Regionalism continues to grow as a phenomenon in juxtaposition with globalisation in the twenty-first century. The existence of many trade blocs such as the ASEAN Free Trade Area (AFTA) and political unions such as the European Union are a testament to the increasing importance of regionalism. One such organisation that is currently being established is the Union of South American Nations (UNASUR). There is already an abundance of literature available about the future of the union and the direction it might take. However, most of it currently remains to be speculation since only time will show how this organisation will progress. This essay aims to identify the possible objectives of the UNASUR and demonstrate its potential to become a powerful and integrated supranational organisation, by assembling the arguments of various different scholars.

A brief history of integration in South America

The ideas of integration and even unification in South America date back to the nineteenth century independence movements in the continent. Most notably, Simón Bolívar and some of his contemporaries are referred to as the champions of an independent and integrated South America. In addition to being the first president of Gran Colombia[1], Bolívar is often associated with the idea of "Patria Grande"[2] (Spanish: Great Homeland). Although Gran Colombia disintegrated and the idea of a unified South American state was never realised, regional integration survived throughout the history of the continent. There were several initiatives to bring the American states in close cooperation in the late nineteenth and early twentieth centuries, in which the USA was also included. These eventually led to the establishment of the Organisation of American States (OAS) in 1948 which still exists today.

The OAS consists of all the independent nations of the Americas including the United States and Canada. However, many have lost faith in the OAS and it has been criticised more than once, both by scholars and political figures[3], mainly for the influence of the United States within the organisation (Rosnick, 2011). As a result, many South American nations have been

[1] The name historians use to refer to the Republic of Colombia that was established in 1819 which included today's Colombia, Venezuela, Ecuador, Panama, Peru, Guyana and northwest Brazil.
[2] Pan-Hispanic political idea commonly associated with Simón Bolívar. The term was coined by Manuel Ugarte in 1922.
[3] Venezuelanalysis.com, 2010. *Venezuelan President Chavez: "The OAS is a like a corpse that must be buried"* venezuelanalysis.com [online] Available at: <http://venezuelanalysis.com/news/5220> [Accessed on 25 December 2014].

looking for a way to promote integration and cooperation among themselves without the influence of the US.

The UNASUR is preceded by two important trade organisations: Mercosur and the Andean Community. Mercosur is a customs union and a trade bloc, which consists of Argentina, Brazil, Paraguay, Uruguay and Venezuela. The Andean Community is a customs union and its members include Bolivia, Colombia, Ecuador and Peru. The UNASUR is largely seen as a merger of these two important trade organisations with broader political and social agenda. If the UNASUR follows in the footsteps of the European Union to become a supranational entity, Mercosur and the Andean Community could be compared to the European Economic Community (EEC).

The UNASUR is the latest and the most promising chapter of South American integration in the twenty-first century because it is independent of the US and it is not only an economic union but also a political one. However, before exploring the UNASUR further, there is another organisation that is worth mentioning. It can be argued that the idea of a shared identity is more likely to be accepted by the peoples of South America as opposed to Europe, due to the shared languages and traditions in many nations as well as their history with colonialism. The Bolivarian Alliance for the Peoples of Our America (ALBA), as the name suggests, demonstrates that there is a desire for a fully integrated South America. Do the architects of the union desire it to be an instrument of unlimited integration, or even unification, going beyond what the European Union has managed to accomplish so far? Is it simply a platform for cooperation? Or do all the states which participate in it see the UNASUR as an opportunity to increase their power? Arguments can be found for all approaches but none of them are perfect answers since the UNASUR is still in its early stages.

The official objectives of the UNASUR

To what extent the architects of the UNASUR aspire it to be a supranational political entity, or perhaps even a “United States of South America”, like the EU is sometimes accused of moving towards to, is yet unknown. Even if there was such an aim behind the union, it would not be clearly visible. Article two of The Constitutive Treaty of the UNASUR (2008) states the main objective of the union as “…to build… an integration and union among its peoples in the cultural, social, economic and political fields…” The same article also mentions "strengthening the sovereignty and independence of the States." At the very least, it can be said that officially, the union respects sovereignty and aims to be an organisation for regional cooperation.

More specifically, the UNASUR has started the creation of electoral monitor teams that could replace the monitors of the OAS, which is one area in which the union might come in conflict with the organisation which also includes the US. Another initiative of the UNASUR is the creation of a single market. To complement the creation of a single market, The Bank of the South will finance economic development projects. Other than economic integration projects, the South American Defence Council signals the beginnings of political integration and military cooperation, similar to what the EU is trying to achieve with its Common Foreign and Security Policy. These ambitious plans suggest that the UNASUR will not simply be a trade union.

Undoubtedly, the UNASUR will extend its jurisdiction further in the near future, yet to what extent the union will become a supranational organisation with great administrative powers is open to discussion. Some of the theories of South American integration, in relation to the UNASUR, will be explained in the next part of the paper.

Different approaches and the theories of South American integration

Although a considerable number of theoretical approaches to the UNASUR have already been established, for the sake of this short essay they will be simplified and divided into three major categories: neorealist, liberal and regionalist, corresponding to the theories within the field of international relations.

(Neo-)realist

As it can be expected, the realist approach puts emphasis on the power politics behind the UNASUR and views the union as a political arena for nation-states to assert influence over the region, based on their national interests. The scholars in this category view the UNASUR largely in the context of the major powers in the region. Jose Antonio Sanahuja (2012, p.9) suggests that the "UNASUR is largely a result of a Brazilian geopolitical design…" Brazil, arguably being the most powerful nation in South America, is seen to be likely to attempt to project its power through regional organisations. Indeed, the organisation has been called "…an essential building block of Brazilian grand strategy" (Tussie, 2009, p.22). While Brazil will consolidate its influence in the region within the UNASUR, other major countries such as Venezuela and Argentina can be expected to emerge as rivals to Brazil which will affect the dynamics of the union. The fact that Brazil finances a third of the budget of the UNASUR (see Figure 1) already indicates that it will have an unprecedented influence within the union.

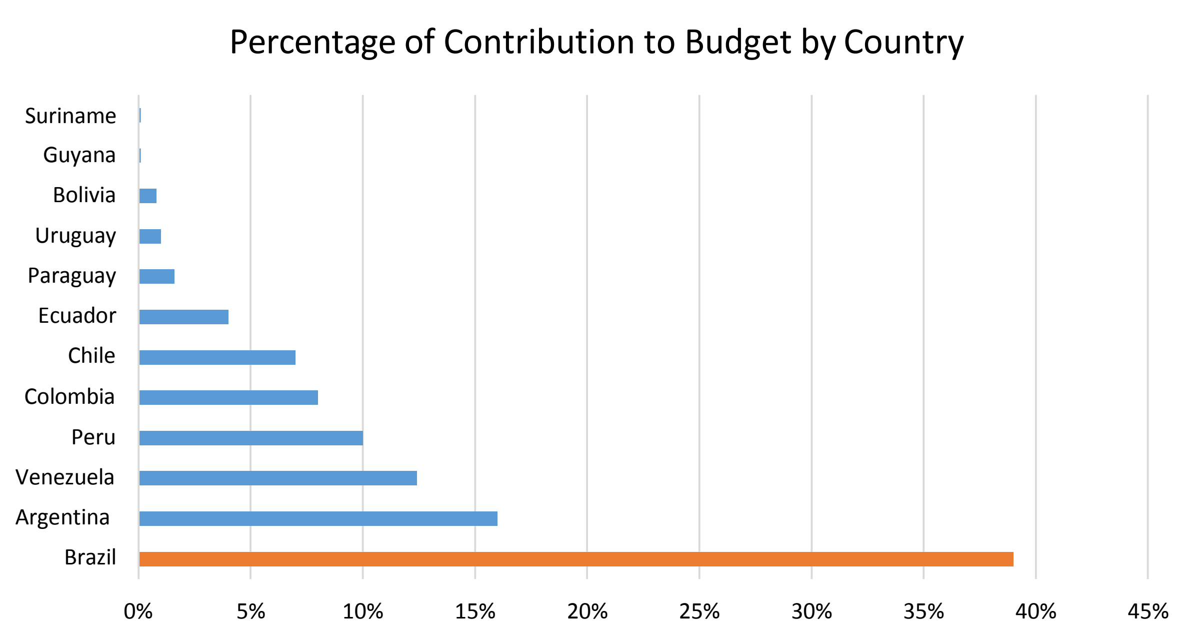

Figure 1. Data by Rios (2013, p.121)

Observing the UNASUR from the realist point of view, it is difficult expect the union to become a supranational organisation through cooperation since the competing states would only allow it to have limited authority. Three hypotheses regarding the nature and the future of the UNASUR can be derived from the realist theory:

a) The UNASUR will be undermined by the "struggle for leadership between Brazil and Venezuela" (Briceño-Ruiz 2010, p.223),
b) The rivalry between Brazil and Venezuela will be elevated to the level of international organisations: ALBA led by Venezuela, MERCOSUR led by Brazil and the UNASUR as an attempt by Brazil to keep Venezuela in check,
c) Brazil will seek to take advantage of the UNASUR, trying to create a vibrant market in South America for Brazilian products (Burges cited in Briceño-Ruiz, 2010, p.223).

Overall, the neorealist approach puts great importance on Brazilian ambitions for regional hegemony when analysing the UNASUR.

Liberal

The liberal approach, in accordance with the liberal and institutional theory of international relations, emphasises not only the importance of the nation-states but also the influential factors or groups within them, as well as the mutual benefits of cooperation between nations. In that sense, the UNASUR can be seen as an organisation that will benefit all of its members, which is why they participate in it.

Aside from economic integration, from which many businesses will benefit by gaining access to a greater market, other areas of cooperation will be beneficial, some argue, because the South American nations are already interdependent in many areas: trade, energy and the struggle against drug trafficking (Dabène, 2013). Initiatives such as the Bank of the South and electoral monitors could tackle some of the continent's most problematic issues ranging from poverty, inequality to political instability. From this point of view, it can be argued that the UNASUR is the result of a "new developmentalism" which is gaining momentum in countries "whose democracies are becoming stronger"(Rosales, 2013, p.40).

Secondly, although the South American manoeuvre to achieve autonomy and independence from the US influence can be seen within the traditional context of realpolitik, the willingness of South American nations to cooperate and establish an international or even a supranational organisation based on that common goal can prove to be a valuable source to the liberal approach.

To sum up, the neoliberal approach points to the proliferation of regional organisations in South America suggesting that the countries in the continent realise the potential gains of cooperation and integration in political, social and economic areas.

Regionalism

Lastly, the UNASUR must also be viewed from the regionalist point of view. Although the proliferation of international organisations have become a trend, establishment of supranational organisations are particularly difficult as they require more than just economic incentives. Not everyone agrees that the member states of the European Union share a common identity yet it is not fully denied that there is such a thing as a European identity. That, among others, is one of the primary reasons why the EU has been successfully transforming into a supranational organisation and a political entity of its own. However, the EU has also been facing difficulties, since despite their cooperation, based on the European identity and other factors, is often overshadowed by the member states' national interests. The UNASUR already promises more efficiency due to the shared languages and cultures of the peoples of the continent which can make cooperation certainly more achievable.

The unificatory movements of Bolivar in the nineteenth-century and contemporary organisations such as ALBA are a testament to the existence of a desire for integration or even unification in South America. These factors "provide a shared narrative and a common image of Latin American self-preservation…" (Sanahuja, 2012, p.1). Therefore, the UNASUR already possesses a great amount of potential in terms of being a supranational entity. Eurosceptics often criticise the EU "elites" for creating a supranational entity that diminishes national sovereignty. As mentioned earlier, the official language of the UNASUR is very cautious when it comes to sovereignty. It is difficult to predict the long term intentions of the minds behind the UNASUR, yet an integration based idea certainly exists within the political geography of the region. Hugo Chavez was a self-proclaimed Bolivarian, he even changed the name of Venezuela to the Bolivarian Republic of Venezuela, and he praised the UNASUR. Since Chavez's death, the UNASUR has even "taken a step toward creating South American citizenship and freedom of movement" (Robertson, 2014). This "South American narrative" of integration is particularly important since the left wing governments in the region are expected to be ideologically sympathetic to the ideas of integration, cooperation and solidarity.

Conclusion

The process of South American integration is not necessarily limited to the three theories explained in this paper, however they provide the framework for analysis in the majority of the scholarly works in this area. There is, as of now, no single way of analysing the UNASUR, since only time will tell what it can and will become. This essay has attempted to briefly explain the three major theories in analysing the UNASUR and all three have strengths of their own. However, they also have limitations. The neorealist approach accurately draws on the likely rivalry between Brazil, Venezuela and Argentina within the UNASUR, yet it ignores the fact that the union has been developing at a very fast pace despite these possible rivalries. It can even be said that the potential rivalry between the major players has been exaggerated (Muhr, 2013). The liberal approach offers a valuable explanation of the union through the benefits of economic cooperation for all members, while emphasizing the need to analyse the effect of domestic politics on how each member state develops its policy on UNASUR. The limitation of the liberal approach can perhaps be its undermining the regionalist ambitions behind the UNASUR, as the liberal theory fails to explain why trade has lost its importance on the agenda of the union and initiatives such as the South American Defence Council have become more important (Dabène, 2013). Lastly, regionalism successfully applies the Bolivarian desire that is being implemented by some left-wing governments in the region to the UNASUR. However, to what extend can we realistically expect the UNASUR to become a supranational organisation let alone becoming a United States of South America?

It is likely that the UNASUR will not be a fully supranational organisation in the near future. It will, however, continue to develop at a fast pace. While competition between Brazil and Venezuela will not easily disappear, it will not necessarily hinder the process of integration since the UNASUR can be the platform to mediate between the two powers. Therefore, the analysis and observation of the process of integration in South America, and particularly the UNASUR, should continue from the perspectives of various different theories.

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