10. How to renew the 'Europe brand' in Latin America

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The January summit between the European Union (EU) and Latin America in Santiago de Chile and a possible EU-Cuba cooperation agreement will be prominent on the inter-regional agenda during 2013. The Santiago summit offers both Europeans and Latin Americans an opportunity to critically revise their relations, which are in urgent need of improvement and up-grading. The Ibero-American summit, celebrated in November 2012 in Cádiz, Spain, has already begun this exercise by creating a high-level group on the future of the Ibero-American community.

Respected principles but declining presence

The EU should not only compete with China and the United States (US) for markets and political clout in Latin America; it should also renew its distinctive brand in the region. Although its influence is declining, the EU still has a unique and solid position in Latin America. The EU stands out from other external actors due to its experience of regional integration, its track record in conflict resolution, and its flagship values of democracy, the rule of law and the welfare state.

Based on those principles and achievements, the EU has been a significant player in Latin America, providing an alternative to US influence in the region. Until the end of the 1990s, the US and the EU had been Latin America's most important external partners, pursuing parallel strategies of engagement. Both were committed to different projects: the US pushed for the Free Trade Area of the Americas (FTAA); the EU bet strongly on the Southern Common Market (Mercosur), whose initial objectives followed the European model. In 1995, the US accounted for 60 per cent of Latin America's commercial flows, and the EU represented 25 per cent. Both Washington and Brussels began organising summits with a region that featured prominently on their international agendas.

This has all since changed. Now the US represents 40 per cent of Latin American trade and the EU accounts for only 14 per cent (the same as Asia); summits have lost traction; and big projects such as the FTAA or the EU-Mercosur partnership agreement have either evaporated or are in deadlock. The EU is still Latin America's main external investor and donor – particularly Spain (the second) and Germany (the third) –, but the economic crisis will further diminish these flows.

The 2013 summit in Santiago de Chile will likely pose two questions: how can the EU and its member states work together more effectively in Latin America? And what can the EU do to recover its position and influence in the region? The culturally close but geographically distant region is in some ways a test case for the attractiveness of the EU model of regional integration. Plus, with high economic growth rates across Latin America (an average of 4.3 per cent in 2011 and an estimate of 3.2 per cent in 2012), deepening commerce there could help Europe's economic recovery.

A rising but fragmented Latin America

Latin America is an increasingly complicated area that requires differentiated policies beyond a conventional region-to-region strategy. Apart from the rise of Brazil, expected to be the fifth world economy in 2013, there are other economic success stories in Latin America. Peru, Chile and Colombia attained a much higher growth rate than the estimated regional average in 2012. All of them are increasingly shifting their commerce towards Asia; in each case, China has already become their first or second economic partner.

The more multi-polar world and the diminishing influence of the United States offer Latin American governments more options for their global engagement. First, they can build blocs of their own; second, they can further engage Asia; third, they can maintain their traditional links with the US and Europe. These options are not mutually exclusive, but they have strengthened a trend towards regional fragmentation.

According to the first option, the Latin American and Caribbean Community of Nations (CELAC), created in 2011, could pave the way to a revival of regionalism, albeit on different terms from the focus on economics in the past. However, given enormous differences between member countries and the rivalry between Brazil and Mexico, the emergence of an institutionalised Latin American bloc – which the EU would see favourably – is not a very likely scenario.

The second option, closer links with Asia, has become a reality for many countries. Chile, Mexico and Peru are already members of the Asia-Pacific Economic Cooperation (APEC). Moreover, Chile, Costa Rica and Peru have signed free trade deals with China in recent years. In June 2012, Chile, Colombia, Mexico and Peru established the Pacific Alliance, which will both create a free trade zone (harmonising bilateral agreements) and help coordinate their trade relations with the Asia-Pacific. This bloc also represents a counter-weight to a declining Mercosur (a customs union bringing together Argentina, Brazil, Paraguay, Uruguay and Venezuela), and a challenge for the Brazil-dominated South American Community of Nations (UNASUR).

The third option, maintaining traditional relations with the United States and Europe, suggests a further division between Central and South America. While Central American countries, including Mexico, would prefer to expand their traditionally strong relations with the United States, South America – especially Mercosur – would like to foster economic relations with the EU. The European presence in South America is still strong. The EU is the largest foreign investor in Mercosur and accounts for more than 20 per cent of its trade. Nonetheless, bloc-to-bloc trade negotiations have long been stalling, and Venezuela's entry into Mercosur in 2012 makes it almost impossible to reach a deal in the foreseeable future, given the current regime's opposition to North-South free trade deals.

Weakening inter-regionalism?

Three factors account for Europe's loss of influence in Latin America. First, the failure of trade negotiations with Mercosur; second, China's growing presence in the region; and third, the EU's economic crisis. The result has been not only reduced visibility and presence of the EU in Latin America, but also the erosion of what could be called the 'Europe brand'.

Paradoxically, this has been happening while a large part of Latin America is adopting policies that Europe has long embraced and promoted beyond its borders. These include building a welfare state (all Latin American governments have increased their spending on social justice), regional cooperation (new initiatives such as CELAC and the

Pacific Alliance) and the peaceful resolution of conflicts (the ongoing Colombian peace process). While there is an increasing demand for European values and concepts in Latin America, the EU seems to be less confident about its ability to exert distinct influence in the region.

EU policy has been shifting from inter-regionalism to bilateralism, shown for instance by the free trade agreements with Mexico (2000), Chile (2002), Colombia and Peru (2012). Plus, the EU has established 'strategic partnerships' with Brazil and Mexico. Bilateral agreements are partly a pragmatic response to inter-regional stalemates, but they also ape the narrower approach of other external powers like China and the US, and suggest a shift away from supporting Latin American integration. For example, it is important to acknowledge the weight of new powers, but the EU's strategic partnership with Brazil has not helped EU-Mercosur trade negotiations.

This trend towards bilateralism is also partly a response to the increasing weight of certain EU member states. Beyond Spain, Latin America's other main European economic partners, such as Germany and the United Kingdom (UK), have renewed their commitment there. Greater member state involvement in Latin America is a positive development, but it also carries the risk of weakening the EU's political profile in the region.

A multi-level strategy towards Latin America

The EU should not simply replace regional cooperation with privileged partnerships with Latin America's most important countries (Brazil, Colombia, Chile, Mexico and Peru), especially when regional coordination is making progress within UNASUR and CELAC. Distinguishing between two types of partners (more and less strategic) could send the message that the EU prefers bilateralism to regional integration.

The challenge for Europe is to re-engage a fragmented but rising Latin America without losing the attractiveness of its brand: regional integration, social market economy and peaceful conflict resolution. In other words, there is a need to pave a new path between 'business as usual' and a more differentiated, multi-level approach. Although the EU has begun to pursue engagement with Latin America along regional, sub-regional and bilateral lines, there is no clear division of labour between these different tracks. The EU needs to define a more coherent approach encompassing different modes of cooperation and focusing on issues where it carries comparative advantages.

Renovate the summits

Santiago de Chile will be the first test case for a new regional format: EU-CELAC. These summits should not only discuss EU development projects in Latin America – an increasingly outdated North-South approach – but should also be used to debate regional issues in both Latin America and the EU (drugs, regional integration, economic crisis and social cohesion, amongst others). While Europeans can offer their experience with welfare models, Europe could also learn from Latin American experiences, particularly from Brazil's unorthodox economic policy mix. With a view to the next G20 summit in 2013 in Russia, the EU should launch a regular economic and financial dialogue with Argentina, and strengthen those with Brazil and Mexico.

Modify sub-regional and sectoral dialogues

The EU should engage with new sub-regional groupings such as UNASUR or the Pacific Alliance that have begun to replace older formats like Mercosur and the Andean Community, and continue to work with two smaller blocs, namely the Caribbean Community (Caricom) and the Central American Integration System (SICA).

The dialogue with UNASUR should concentrate on infrastructure, security and the drugs problem, while China should be a key topic for consultations with the Pacific Alliance. A more flexible approach should be applied to sectoral dialogues (climate change, drugs, social cohesion, environment, migration) where an inter-regional format may not always be the most suitable. For example, climate issues could be addressed with Brazil and Mexico, drugs with the Andean countries and Mexico, social cohesion with sub-regional entities, and migration with Ecuador, Colombia and Argentina.

Targeting bilateral relations

The EU has pursued multiple forms of bilateralism in Latin America. Beyond Caricom and SICA, trade and investment are discussed in bilateral formats with those countries that have already signed free trade agreements (FTAs). Moreover, given their political weight Brazil and Mexico are singled out as 'strategic partners' of the EU. Strategic partners should engage on global topics, such as climate change, development, international conflicts or the reform of the United Nations (UN) and the future of the financial system. On some issues like development, it could even be useful to have a trilateral dialogue between the EU, Brazil and Mexico.

A further bilateral challenge will be negotiations with Cuba. The EU has decided to explore (for a second time) an agreement with Cuba in recognition of the economic reform process undertaken under Raúl Castro. An EU-Cuba cooperation agreement would last beyond the Castro regime. But a bilateral formula with Cuba during 2013 could send the wrong message: the EU singling out a country with an authoritarian regime instead of abiding by regional commitments. The EU, therefore, should negotiate with Havana bilaterally, but link such negotiations to the 2008 inter-regional agreement with Caricom.

Addressing security challenges

In 2013, drugs will be the major concern of President Enrique Peña Nieto in Mexico. The lucrative cocaine business has contributed to high levels of insecurity in the region with violence reaching record levels in parts of Mexico, El Salvador, Honduras, Guatemala and Venezuela. The EU is Latin America's second and fastest growing market for cocaine. An open and regular transatlantic debate on drugs policy between the Americas, Africa and Europe is required. The preventive and comprehensive drugs policy successfully introduced in many EU member states can provide a useful basis for sharing experiences with Latin American countries such as Mexico that have been experimenting with similar approaches.

Conclusion

The January 2013 EU-CELAC summit offers the EU an opportunity to rethink its approach to Latin America, and address the future of relations between the two regions. In the course of 2013 and beyond, the EU should renew its brand in Latin America by adopting a multi-level, flexible and differentiated strategy to better respond to the ongoing changes in the region. This means shaping a new model of cooperation with Latin America that builds on the EU's unique features and renews its attractiveness.