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How can the EU help?**

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A cooperative scenario for Latin American regionalism and international insertion:
How can the EU help?

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This policy paper evaluates how cooperation among Latin American regional agreements may foster a better international insertion for the region and how can the European Union (EU) help the process. The first section discusses a cooperative scenario in Latin America, based on a longer study (Giacalone, 2017) of the interactions among MERCOSUR, ALBA, and the Pacific Alliance (PA) since the beginning of the 21st century, which concludes that presently there is an enhanced possibility of cooperating and improving the region's international insertion. The second section explores if the EU can help Latin American international insertion. As the global crisis has affected Europe's role model and relative position vis-à-vis Latin America while other dynamic economic actors appeared on the global stage, the EU needs to pay more attention to Latin American goals and change its strategies.

Is cooperation among Latin American regional agreements possible and can cooperation foster a better international insertion?

If we consider regionalism as an interstate alliance in which states announce their willingness to cooperate in several aspects, each regional agreement evolves due to its own decisions but also in response to evolving ties between other states (Warren, 2010). Decisions by other agreements create effects that would not be possible otherwise, affecting the perceptions and expectations of actors regarding future cooperation or conflict. Regionalism can be modelled as an alliance because it implies a written agreement establishing future coordinated actions, and the Latin American picture conforms to the assumption that actions by other groups influence the evolution of regionalism (ALBA responded to the FTAA negotiation, and the PA, to ALBA).

In Latin America, regionalism derives from different ideas regarding international insertion – the liberal or pragmatic idea of regionalism as an economic global insertion initiative (Chile/PA), the developmental idea of regionalism as an instrument to moderate the impact of global insertion upon national development (Brazil/MERCOSUR), and the transactional idea of regionalism based on oil resources as a weapon against US hegemony (Venezuela/ALBA).

Regarding their preferred forms of global insertion:

- 1) PA looks for global insertion in dynamic sectors of world trade by means of numerous trade agreements. In its search for opportunities, linkages with other regional agreements may be accepted.
- 2) Brazil uses MERCOSUR to advance its global insertion and considers subordinate or secondary the region's insertion but may accept links with other agreements if they foster its own development.
- 3) ALBA's ideological character and conflict inclination are obstacles for international insertion through concerted efforts with other agreements.

In summary, MERCOSUR and the PA can negotiate, compromise, and accommodate to promote the region's global insertion because their strategies and interests are closer. If in the 2000s Brazilian interest favored a MERCOSUR enlargement with ALBA members (Venezuela and Bolivia), in the 2010s it favors a *rapprochement* with the PA. This may be linked with increasing interest in fostering the group's participation in value-added global chains, granted that MERCOSUR has not negotiated enough trade agreements to make this possible.

At the beginning of the 21st century, Latin American regionalism was built around regional power dynamics and ideology, two factors that influenced its international insertion. Regarding power dynamics, in the 2000s, Venezuela and Chile tried to “soft-balance” Brazil, making it pay attention to their political-ideological and economic demands by developing their own regional alliances or networks of support (ALBA, PA, respectively). The dynamics of regional relationships limited global insertion – Latin America was *de facto* inserted as a commodity exporter – and the agency through regionalism gained by Chile, Brazil, and Venezuela magnified their divergent goals.

In the 2000s, MERCOSUR did not have an external policy agenda focused on the interests of the bloc and different from its largest members' national interests. MERCOSUR signed trade agreements with political partners rather than commercial partners (Egypt, Palestine, India), so the shift to political and social concerns weakened the group's economic possibilities (Bartesaghi, 2015) and limited the development of a common policy on global insertion. MERCOSUR became interested in an agreement with the EU after Brazil, Argentina, and Uruguay “*graduated*” as upper-middle- income nations in 2011 and lost preferential imports to the developed nations. Venezuelan membership in MERCOSUR added another obstacle, and Brazil was concerned about the development of a second potential regional power, Mexico.

Also, Venezuela's ideology promoted radical discourse and actions that exacerbated Brazilian preference for individual global insertion predicated upon presenting Brazil as a regional power able to maintain regional peace, attract and respect FDI, and diminish the risk of political or armed conflict in the region. Though differences between the governments of Lula Da Silva and Hugo Chavez in UNASUR looked like differences in strategies rather than goals, they had deeper implications regarding global insertion: Brazil's insertion requires regional peace and political stability, while the Venezuelan insertion depends on conflict with the US.

Regarding the ideological dimension of regionalism, international norms are dynamic elements subject to fluctuations due to the ups and downs of promoting actors (norm makers). A policy norm is akin to a policy fashion – a regulative ideal that sets the standard for behavior by others (Krampf, 2010: 7). Seeing policy norms as policy fashion implies that, if norms cannot be successfully applied or are affected by negative views of their norm makers, they would not last. Domestic political instability can be a strong limiting factor of regionalism if it affects the view of its promoting government as an effective political entrepreneur, and this fact is stronger in the case of regionalism with a strong discursive dimension. As this type of regionalism relies on the willingness of others to listen to its messages, a decline or disappearance of political legitimacy may undermine that willingness (Fuchs, 2007: 61). This is the situation of Venezuela/ALBA in the 2010s.

With their economies weakened by the global crisis and post-crisis, MERCOSUR members are currently more willing to reconsider the economic/trade dimension of the group. Efforts at enlarging their agency in the international system also ratified that, except for nations like Brazil, the international agency of developing nations is difficult to individually obtain and maintain. In consequence, after the end of the commodity exporting boom, Latin American governments need regionalism to improve their international agency through concerted efforts at global insertion. With Venezuela's influence diminished by the end of the oil boom and its domestic political and economic problems, Brazil and MERCOSUR need to re-evaluate their global insertion as a group.

On the positive side, the loss of Caracas' financial capacity and Mexico's more active role in South America led Venezuela to take concrete steps to enter MERCOSUR, like converting bilateral trade agreements into ACE 70 of ALADI in 2013. It meant recognizing that it can no longer aspire to the role of regional power. But domestic political events in Brazil have produced a deep rift between the two governments since 2016. As a result, Brazil must take decisions about Venezuela in order to define MERCOSUR's international insertion (options: Brazil moves forward alone and drags MERCOSUR partners, Brazil acts together with MERCOSUR, converges with the PA, or negotiates via CELAC).

In power terms, Mexico has re-entered South America through the PA and reintroduced "*the possibility of a bipolar [regional] structure that enhances the degrees of freedom of small and medium South American nations*" (Flisfich, 2011). But even before, events in Honduras (2009) showed that Brazilian capacity as a stabilizing power did not extend beyond South America, where Mexico and Venezuela were more influential. Brazil is powerful in material elements, but to project its power in Central America and the Caribbean it needs to displace Mexico and Venezuela. So far, Brazil has limited itself to compete with Mexico for preferential market access to Cuba before the opening of the island economy and has left undisturbed Venezuelan influence through Petrocaribe. Mexico needs to combine with the PA and CELAC to be recognized as a Latin American regional power, while its foreign policy of repositioning Mexico in the international system as a defender of democracy and human rights (to anchor domestic democratic reforms with international instruments) increases clashes with Cuba and Venezuela.

Though Brazil seems to be South America's regional power, several factors conspire against it:

- 1) More actors in MERCOSUR and CELAC increase the possibility of developing alliances to "soft balance" Brazil;
- 2) A relative deactivation of Venezuelan regional policy diminishes its perception as a threat so other governments feel less pressure to support the regional power of Brazil;
- 3) Brazil's domestic economic situation is under serious stress when it needs more cooperation resources to gain influence in Central America and the Caribbean, and
- 4) PA offers an alternative to MERCOSUR for South American nations that want to explore other regional and global options.

As a result, the present regional architecture will not be stable in the short term because there are more than one aspiring regional powers, but this fact may also lead to intra-regional cooperation if the extra-regional context remains threatening. Other factors that create a favorable context for cooperation in the region are that Venezuelan influence gets diluted in a context with more political

actors and that neither Mexico nor Brazil have enough power to determine the region's future (Malamud, 2016).

In sum, the most important changes in Latin America have been in the relative powerpositions of the promoters of regional agreements. Brazil and Chile's perceptions of their situations in the 2000s and now are different and the mixed success of their regionalism inclines them to make concessions and negotiate their international insertion, while Venezuela has lost power in the region, but refuses to negotiate or make concessions. The regional landscape suggests that AP-MERCOSUR convergence of policy norms may be possible. Other two contributing factors are:

- 1) the recognition of Brazil and Chile as regional and global actors by extra-regional powers; and
- 2) a more protectionist global context that affects external opportunities for the region.

The question remains if cooperation between regional agreements can promote a better international insertion for Latin America. Tough divergent domestic pressures, development policies, and models of regionalism precluded cooperation among regional agreements, during the exporting boom all nations and groups grew regardless their development and integration models. In the 2010s, with a global landscape that increases Latin American economic and political uncertainty, the main problems still affecting the region are: insufficient links with the most dynamic trade areas, primary goods exporting orientation, and lack of technology, capital, and infrastructure.

Establishing cooperative links among regional agreements diminishes these problems by creating opportunities to develop exports with more value added (combining natural resources of a group with industrial bases of another), enlarging the capital pool, increasing infrastructure development, and attracting technology and capital from outside the region.

Cooperation among Latin American regionalism is possible and should be encouraged to enhance the possibility of upgrading the region's international insertion in an uncertain global context.

How can the EU help this process?

The European integration process and its greater interest in Eastern Europe and Asia-Pacific in the 1990s created concerns about Latin America becoming more peripheral. In the 2000s, its governments looked for alternative options (moving MERCOSUR's Southern Cone emphasis to South America, signing free trade agreements with developed nations, or looking to Asia-Pacific). Each strategy implied the diversification of external markets by means of which nations attempted to maximize their "*room of maneuver in the international system*" (Faust, 2004, pp. 747, 749). Foreign policies included proactive market-driven integration into the world economy (Chile) and a reactive movement in the same direction (MERCOSUR) after China attracted more regional exports.

Latin American attempts at diversification aggravated tensions between modified state-society relations and the needs of diversification, when governments attempted to implement policies to foster an open international insertion. In most countries, the result has been that governments and domestic actors pursue short-term political and economic interests due to the collective action

problems arising from the parallel process of political and economic transformation¹ (Faust, 2004, p. 763).

The need to combine specific macroeconomic objectives (current account stabilization, investment, and trade diversification) and microeconomic ones (technology transfer, diversification of export products, and gain of competitive advantages) (Faust, 2004, p. 748) with the tackling of domestic redistributive problems remains the main obstacle to international insertion. Therefore, the contribution of the EU to Latin America should be measured for its capacity to help remove that obstacle and/or else not to become an impediment to regional cooperation.

Interregionalism has been the preferred strategy for EU's external negotiations since the 1990s, but from a Latin American perspective it is asymmetrical, based on the material superiority of Europe vis-à-vis other negotiating partners, and the inclusion of development cooperation does not remove its top-down character. The EU recognized preferential trade agreements as an instrument to foster development but did not consider them a priority in relations with Latin America. In the 1990s, strengthening democratization and fostering regional integration were the EU's goals and were later replaced by competition with the US and China for Latin American markets (European Parliament, 2016, pp. 10-11). In both stages, the EU leveraged its market power via trade negotiations to pursue other foreign policy objectives (for example, linking trade preferences with democracy or environmental measures) (European Parliament, 2016, p. 16). Due to the asymmetrical character of the relationship, the EU developed cooperation, usually based upon capacity-building programs to implement conditions imposed by the EU.

In parallel, the EU has used interregionalism to negotiate the inclusion of themes not covered by the WTO negotiations (services, intellectual property, etc.) (European Parliament, 2016, p. 16), a fact that adds complexity to the negotiation. Granted that the EU refuses to discuss trade in agriculture (mainly the elimination of its subsidies to farmers) at the interregional level, the outcome of the EU-MERCOSUR trade negotiation is expected to be more positive for the EU than for MERCOSUR (Gardini and Ayuso, 2015). An agreement may increase the number and volume of MERCOSUR primary exports to Europe but will not grant reciprocal market access to the EU.

Additionally, the EU-MERCOSUR relationship has changed since they forwent negotiations in the 2000s, due to changes in the situation of MERCOSUR, the region, and the EU. As a result, they face a rather changed world from that in which interregionalism was born. In the 1990s, the EU was considered a soft power wedge between a dependent Latin America and the hegemonic US (Van Klaveren, 2015), but the European competitors for exports and investment in the region are now emerging economies, and the EU looks weaker after the global crisis and Brexit.

Also, in the EU-CELAC negotiations the EU has tried to impose its normative upon Latin America. The first EU-CELAC meeting produced a plan to create cooperation in sustainable development, corporate social responsibility, education, and poverty eradication which meant that the EU recognizes that, though Latin America lacks sufficient economic interest for European trade and investment, it is a necessary partner in the fight against common problems (illegal migration, drug trafficking, global warming, and others) that negatively affect global governance. Factors conspiring against this partnership are not only that CELAC has no juridical personality, no

¹ Faust considers Chile an exception because diversification rests upon a relatively stable political and economic environment and informal agreements among political elites

secretariat, and its pro-tempore presidency is powerless but also that both actors have divergent positions on key themes such as sustainable development and climate change (European Parliament, 2016). Also, enhanced reciprocal market access for Latin America offers more possibilities of improving the region's international insertion and encouraging additional attention to those problems.

The EU crisis is adversely affecting the theory and methodology of integration and this poses the question if the model and method proposed "*are universal and mechanical truths for other regions*" (Caldentey and Casas-Gragea, 2015, p. 127). Already, the German national interest in Eastern European markets inspired the enlargement of the EU over the deepening of its internal structures or the going back to basic aspects. In Latin America, where the EU was the key reference for regional integration, the process of implementation has shown the shortcomings of the model. Now regional groups following the EU model (MERCOSUR) can no longer claim a superior position vis-à-vis groups inspired by alternative logics (PA, ALBA).

As a result, the present Latin American integration map diverges sharply from the integration picture which the EU took as a reference when designing its interregional strategy (Del Arenal, 2010). For Van Klaveren (2015: 176), Latin American-EU relations should move from a single asymmetrical and all-encompassing region-to-region association to associations around specific subjects with nations ready to move forward.

From a Latin American perspective, the key interest for negotiating with the EU is economic and focuses on the reciprocal opening of markets², while from the EU viewpoint, economic interests are mixed with political/cooperation/normative dimensions and do not include reciprocity of market access. Present negotiations (EU-MERCOSUR, EU-CELAC) show the continuity of the disagreement in Latin America-EU relations regarding the importance of the economic/trade dimension for the former, and the latter's interest in spreading European norms and regional model.

Meanwhile, the EU has also engaged in minilateralism, in which a group of nations attempt to supplement or complement the activities of international organizations in tackling subjects too complicated to be addressed at the multilateral level. The phenomenon of small groups of actors working together, inside or outside the multilateral context, is not new and groups have been formed by the EU (the G20) and rising economies (BRICS), as voluntary coalitions to tackle concrete aspects of governance before addressing the wider problem (Moret, 2016). Minilateralism may offer a second-best alternative to multilateralism rather than interregionalism because when the EU faced negotiations with Latin American divided groups (CAN), it ended up signing agreements with individual nations and fueling competition and division instead of integration (Sberro, 2009).

If the presence of a third actor (the US, China) rekindled the EU interest in negotiating with Latin America, the difference regarding the element being negotiated still hampers the possibility of success together with the refusal of Europe to assume responsibility for the economic and social cost of applying European norms in developing nations. This aspect has been absent from negotiation because cooperation programs centered on capacity building to implement European

² Latin American declarations and official documents have highlighted that EU cooperation is not a substitute for reciprocal trade treatment because it maintains the asymmetrical insertion of the region. Examples in CELARE (1995).

norms and ignored the distributive problems that the incorporation of those norms creates in developing nations.

Presently, EU-MERCOSUR and EU-CELAC offer the opportunity for Europe to foster a better international insertion for Latin America by paying more attention to the region's economic goals in the negotiation or by assuming some responsibility in solving the problems created by applying the European normative. In this case, the development of new EU strategies may be necessary.

The EU interregionalism and unilateralism neither help tackle the redistributive problems posed by export diversification and implementation of European norms nor recognize the economic goals of the region as an interlocutor, so do not necessarily help Latin America develop a better international insertion.

Conclusion

The current situation of Latin America, in which regional agreements act as separate units without cooperating among them, is an obstacle to the region's global insertion because it weakens its negotiating power with external actors and prevents the development of value-added exports. Negotiation between Latin American agreements may surmount these weaknesses. The present conjunction looks favorable for beginning the process through MERCOSUR-PA convergence because Venezuela is suspended from MERCOSUR and its regional influence has diminished.

Justification for the previous regional integration policy rested upon the EU model that inspired CAN and MERCOSUR, pressure of domestic actors and development politics, a global context in which the US and Europe were the main external trade options, and a regional economic growth dynamic that allowed Brazil to carve its sphere of influence in South America, Mexico, Central America, and the Caribbean. In the 2010s, Latin American nations have moved from economic growth to economic uncertainty and political instability and the EU crisis has questioned its regional integration model. Brazilian supremacy in South America is affected by the return of Mexico to regional politics and the birth of the PA that offers an alternative integration model for South American nations. Meanwhile, the CELAC represents an enlarged space for regional and external negotiations but lacks the capacity to implement decisions.

Interregionalism with its mixed normative/political/economic goals seems to have run its course in a global landscape in which multilateral regionalism seems to give way to decentralized multipolarity (Garzon, 2015) and so far, unilateralism by itself does not represent an alternative. Both are based on an asymmetric perspective of EU-Latin American relations, in which the former pays attention to the latter whenever a third actor threatens that relationship. Now the EU crisis has affected its role model and relative position vis-à-vis Latin America at the same time that other dynamic economic actors appeared on the global stage. Accordingly, the EU should re-evaluate its strategies and develop new ones – combining unilateralism, reciprocity or at least simplification of non-tariff norms, and new programs now that most Latin American economies have been graduated by the World Bank in the 2010s –, if it wants to disseminate its principles and values and enlarge its presence abroad.

Recommendations:

- 1) For Latin American governments: to link regional agreements and promote international insertion in dynamic trade currents because cooperation among agreements helps to diversify exporting and importing markets, add value to exports, improve regional

infrastructure and enhance negotiation power abroad and attraction of capital and technology.

- 2) For the EU: to re-evaluate if strategies like interregionalism and multilateralism and take into account that Latin American nations are interested in reciprocity in market access and to design new forms of cooperation to help to surmount the distributive problems that the implementation of European norms creates in the region.

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