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## EU and Latin America: Biregionalism in a globalizing world?

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# **EU and Latin America: Biregionalism in a Globalizing World?\***

von

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## **I THE ORIGINS OF THE BIREGIONAL RELATIONS. THE ROOTS OF A MULTIFACETED RELATIONSHIP**

Latin America must undoubtedly be considered as a place of contrasts. Racial, geographic and social differences make it impossible to elaborate a single picture for the whole region. Geographically, the fertile pastures in Argentina's Pampas contrast sharply with the arid planes in the Puna, the green opulence of the Amazon or the isolated Andean heights. Demographically, Latin Americans can be defined as a mixture of three racial groups: white Europeans, native Indians and black Africans (see *Skidmore/Smith* 1997). However, this mixture is not evenly distributed; the native Guatemalans could hardly be compared with the Italian/Spanish Argentinean population. Socially, Latin America comprises a wide variety of conditions and situations. On average, the countries of the region suffer from the greatest income inequality in the world, and many of the region's countries feature some of the widest income gaps in the world: in Brazil and Guatemala, almost 50% of the national income is concentrated in the top 10% of the population (*IDB* 1999a). Such a variety of situations renders an analysis of Latin America difficult, subjecting it to the initial assumptions of the researcher. The many stereotypes of Latin America and Latin Americans further complicate attempts to analyse the region and its biregional relations - even with the application of scientific method.

The complexity resulting from the existence of many contrasting realities is also the source of ambivalence. Throughout Latin America's history, prosperity and decadence, health and poverty, dependence and independence, change and rigidity, peacefulness and struggle have been equally mixed. Ambivalence has been typical not only of Latin America's own evolution; it has also marked the development of its relations with other regions, most specifically with Europe. The history of Latin American- European relations clearly reflects this ambivalence. The historical importance of European Union- Latin American relations is certainly widely accepted. However, when defining the concrete dimensions of this importance, the difficulties emerge. Historical analyses often remain at an excessively casual level, emphasising the contrasts in development without examining the transformation of the biregional relations over time. Taking into account the ambivalence in Latin America's development, an analysis of some particular aspects of the historical biregional relations could be helpful to our understanding of the current situation, or at least to reinterpreting some of the recent developments in the biregional ties. Given that past experiences condition present expectations, and

without being too deterministic, shedding light on Latin America's historical experiences with Europe will enable us to analyse Latin America's prospects in biregional relations.

## **1 Conquest and colonisation: the European heritage for the contemporary age**

The arrival of Spain and Portugal in Latin America signalled the beginning of the continent's Europeanisation process, which for Latin Americans has two different and opposite meanings: one of constructing a European order in the New World, and another of destroying the native Indian order. The arrival of Europeans in Latin America has thus been considered both as an encounter of civilisations and as an invasion, with several intermediate positions between both extremes. These two contrasting visions have permeated Latin America's interpretation of its modern and contemporary history since the very time of colonisation, and they subtly influence the nature of its relation with the mother continent.

With Spain's arrival in Latin America in 1492 (the controversial "discovery"), the region began the continuous, albeit heterogeneous, development of its links with Europe and with the world. This moment signalled for the continent the end of an era of isolation and the beginning of its political and economic inclusion in the world system. The main feature of this inclusion was, paradoxically, its involuntary nature. Initially, Latin America saw the European presence as a constraint that forced the region into an involuntary social, economic and political adaptation. By the time of the Spanish arrival in Latin America, the region had its own economic, political and social institutions, which in some cases (the Aztecs and Incas, for example) were the bases of vast, flourishing and powerful empires. As the conquest of the new territories implied the imposition of the Iberian order, those local forms of organisation were condemned to perish. Hernán Cortés in Mexico, Pedro de Alvarado in Central America, Francisco Pizarro in Peru and Pedro de Mendoza in Argentina were some of the adventurers and "men of the Crown" responsible for the imposition of the European flag and, more importantly, institutions on the new continent. The establishment of European economic, social and political structures was almost completed in less than a century (between 1492 and 1590). This is a short period of time considering the dimensions of the new territories and the level of development of the defeated empires.

It was not Europe in general but rather Spain and Portugal, that is, the Iberians, who were responsible for the first phase of Latin America's incorporation into the modern world. That Latin America was colonised by Spain and Portugal and not by England or Holland was the key factor for defining the region's institutions and culture. The Span-

ish and Portuguese established in Latin America a colonial administration which corresponded to their respective administrations in Europe at that time.

In 1492, the Iberian peninsula achieved the final expulsion of the Moors. Spain and Portugal developed a special type of political, economic and social order during this period. During the centuries before the expulsion of the Moors, the peninsula remained divided into many small and weak kingdoms, with a rigid feudal organisation and very militarised societies. Catholicism was very strong and deep-rooted, marking almost every dimension of social life. Consequently, the *reconquest* of the peninsula was considered a political as well as a religious imperative. Furthermore, Iberian Catholicism, which inspired a scholastic tradition, allowed virtually no social mobility, thus reinforcing the social and political hierarchies. Military courage, eagerness, religious fanaticism, social rigidity and despotic centralism were the main characteristics of the Iberian order by the time of the arrival in Latin America.

Those characteristics of the Iberian order were fully reflected in the colonisation. The urge to conquer territories was a consequence of the long, turbulent struggle of the kings to expel the Muslim invaders. The conquerors came with the idea of establishing their own empires, formally subordinated to the mother country but in fact enjoying the freedom of limited control possibilities. In contrast to the systematic conquest of territory achieved during the Anglo-Saxon colonisation of North America, conquerors in Latin America were mostly driven by the desire for gold and other valuable metals, harboring little interest in land *per se*. This motivation helps to explain why the *cabalgadas* in Spanish territories and the *bandeirantes* in Portuguese ones were so widespread (see *Rouquié* 1987). Furthermore, the conquest was carried out under the Crown and the Cross. Conquest and evangelisation were two complementary facets of colonisation, and the natives' religious subordination became another way of reinforcing the authority of the Iberian controlling power. Scholasticism, characteristic of Iberian Catholicism, rationally deduced the power of the Crown from God, thus helping to justify a political and social hierarchy and rejecting alternatives of change (*Wiarda* 1995). Finally, the centralism was the natural consequence of an effort to maintain control over territories, since extension and distance to the colonial powers could threaten Spain's and Portugal's political authority. Centralism, particularly strong in the Spanish colonies, was a strategy to counterbalance the power of individual entrepreneurs, who were the main pillar of the Americas enterprise.



By the end of the XVI century, with the conquest almost completed, a European economic, social and political colonial order was thus fully imposed on Latin America (see *Bethell 1984*).

### **Political order**

After the leading role of private entrepreneurs and individual conquerors, the King was compelled to resume control of the Latin American adventure. The Crown retained in its hands the ultimate authority over the colonies by creating a set of institutions aimed at granting the application of the royal law in Latin America. This organisation was hierarchically structured and functioned as a transmission system, where conflicts could always be referred to a higher level of authority. Below the King was the Council of the Indies, an institution located in Spain and charged with overall policy in the colonies. In Latin America, a viceroy, a King's personal representative, whose decisions had the same weight as royal decisions, headed the administration. Audiencias, courts of appeal with geographically limited jurisdiction, represented the judiciary. At the bottom of the hierarchy were the Cabildos, local institutions, usually controlled by the local elite, which retained some power of decision making despite the royal centralisation. A complicated labyrinth of edicts and decrees made changes in the political system almost impossible. Moreover, the whole political system contained a certain hypocrisy: laws were technically respected but not necessarily carried out. De facto judgement and particular local interests were given an important weight. The phrase "reverencio pero no cumplo" (I obey but I do not comply) used by colonial officials receiving an order was a pragmatic answer to the occasionally unrealistic decisions of the King.

### **Social order**

The social order imposed by the Iberians was characterised by both ethnic and class differences. Although the mixture of white and Indians or black people (whose presence was important in the Caribbean and Brazil) was not strange, a clear hierarchy was established according to ethnic origin. White people, comprising peninsulares born in the peninsula as well as American Spaniards (called criollos) born in the new territories, were at the top of the pyramid, holding the political and economic power in the colonies. Nevertheless, all administrative positions were reserved for peninsulares, which in the long term provoked profound resentment on the part of the Creoles. People of mixed blood occupied the intermediate level. Indians were at the bottom of the pyramid, subjugated to forced labour by the Spanish through different institutions such as repartimiento, encomienda and mita. Blacks were formally below the Indians, work-

ing in plantaciones in Brazil or as artisans in some cities along the Peruvian coast. Alongside this racial stratification, class differences made the social system even more rigid: posts in the colonial bureaucracy could be bought, which in turn allowed some to improve their social situation. Participation in political power was soon seen as a method to acquire a better economic position.

### **Economic order**

The colonies' economic structure reflected mercantilist precepts, the economic theory prevailing in Spain and Portugal at the time. According to mercantilism, economic activity should enhance the prestige and power of the State, measured on the basis of accumulation of gold and silver. Thus, the Crown's efforts were first concentrated in monopolising the wealth discovered in Latin America. Mining was the main activity, while agriculture and manufacturing were discouraged, since production in Latin America would compete with that of the mother country. Because Indian labour was the principal foundation of mining, the availability of a sufficiently large work force, voluntary or not, was a key to guaranteeing economic dominance. Due to the catastrophic fall among the Indian population provoked by the conquest, the import of black slaves from Africa offset declines in the work force. Regarding trade, the colonial powers established a strict monopoly and prevented the involvement of other European powers in the New World during the first centuries of colonisation.

During the XVIIth century, after Latin America had become an important part of European global power, changes in Europe unleashed a series of transformations in the colonies. With the defeat of the Spanish fleet in 1588 began the slow decline of Spain and the rise of England, Holland and France in the European power scene. These emerging imperial powers looked for possibilities in the Americas (England occupied Jamaica, Barbados and St. Kitts, Holland Curaçao and France Martinique, Guadeloupe and Dominica), threatening the integrity of the Spanish trading system. For the colonies, Spain's trade monopoly was a growing problem, as it hindered commerce with more dynamic and prosperous nations, such as England. In fact, trade took place in the form of smuggling, in spite of Spain's prohibitions, thereby increasing the interest of local elites in an open trade regime (see *Bulmer Thomas 1994*). The acquisition by the Bourbons of the Spanish Crown implied many changes for the colonies; however, the outcomes were not always the expected ones. The Bourbons launched some reforms aimed at centralising the colonial administration and making it more efficient. For the colonies, this was hardly acceptable after they had enjoyed *de facto* Hapsburg

flexibility. Dissatisfaction with Iberian dominance increased in Latin America, even though Europe still continued to represent the logical source of authority.

## **2. Latin America's struggle for independence**

The colonies' motivation to seek independence from Spain certainly resulted from the social, economic and political characteristics of the colonial order, but it did not automatically translate into a fight for freedom. The first struggles were aimed at obtaining some flexibility in the colonial rule, especially in the area of trade. Revolts against Spain took place not as a single act but at different times and with different characteristics, depending on the sub-region and the standing of its local authorities. The first revolts began in Alto Peru (today Bolivia and Peru) and Nueva Granada (now Colombia, Venezuela and Ecuador) in 1809, followed by Buenos Aires in 1810 (nowadays Argentina, Uruguay and Paraguay in the so-called Virreynato del Río de la Plata) and Nueva España (today Mexico and Central America). They were triggered by events in the Iberian Peninsula. The French occupation of Spain and Portugal that obliged Charles IV to abdicate and started a crisis of authority also served to trigger the Latin American revolts.

The first movements did not aim at declaring independence from the colonial power, but rather adhered to Spanish rule and rejected French control. The majority of Creoles did not immediately seize the opportunity to cut ties with Spain but sought to preserve a relationship developed over three centuries. This attitude has been called by some Latin American historians "the mask of Ferdinand VII", and interpreted as a strategy to avoid a direct confrontation with the mother country while disguising the real intentions of the revolutionaries. However, this hypothesis should be analysed in the context of the socio-political situation in the colonies and the legacy of Spanish dominance. In the conservative, rigid and profoundly stratified Latin American society, revolutionary positions were an extreme option. Few intellectuals were convinced of the advantages of obtaining independence from Spain, and most people judged it convenient to remain loyal to the mother country. More autonomy, rather than independence, was the real aim of the first revolutionaries.

These initial reactions changed as the situation in the peninsula deteriorated, and European influences other than that of Spain began to penetrate colonial society. By 1800, many sons of Creole families had studied in and travelled through Europe, be-

coming influenced by liberalism and learning to admire the French revolution and English political culture. Simón Bolívar, José de San Martín and Francisco de Miranda were educated in Europe and soon became familiar with the writings of Adam Smith and (VV). In many select circles in all big colonial cities, European revolutionary philosophical works were regularly commented on and discussed. Progressively more supporters were gained for the cause of independence among the ranks of the Creole population. Supporters also increased as soon as the negative consequences for the natives of a counter-revolution became clear (events in the Río de la Plata after the British invasion, and later on in Chile and Mexico, showed that the return of the royalists represented a threat to the Creoles' wealth).

A further reason for the Creoles to opt for the struggle for independence stemmed from the conservative traits in their political ideology. The revolts in Mexico (the *Grito de Dolores*) had shown the Creole elite the advantages of controlling the mobilisation of huge, exploited masses and the necessity of assuming the position as guardians of the social order. Indians and blacks could be mobilised for political purposes as long as they were tightly controlled. They were, consequently, the first ones sent to combat and the ones who suffered most casualties in the wars of independence. At times, as in Peru, fears of mass mobilisations made the local elites join the royalists. In cases such as Rio de la Plata, where external influences and interests in open trade were stronger, the elites agreed to use the popular support to their advantage. Many Creoles in the colonies favoured authoritarian forms of government (usually under a presidential system that allowed a high concentration of power in the executive) in order to guarantee domination by the elite.

Although Latin America rejected the Spanish monarchy, many Creoles were not opposed to other kinds of European tutelage. For many patriots, Spain was in general seen as a decadent power with antiquated values that were in direct conflict with an enlightened ideology. Latin American elites embraced liberalism as an antidote to what they saw as the backwardness inherent in Spanish institutions and values. However, liberalism in Latin America soon assumed its own character. It was a particular version of the European model, and used as an instrument to maintain the existing social order rather than to introduce changes in the colonial structure (Vayssière 1999). England and France were highly admired; their benevolent support was seen by many Creoles as a desirable alternative to dependence on Spain, as well as a solution to the chaos of local governments. Furthermore, some initiatives were taken by Latin Americans to convince English representatives that they should assume formal responsibilities over

the former Spanish possessions (Zitat). Moreover, independence and monarchy went hand in hand: José de San Martín, the *libertador* of Chile and Peru, was a staunch monarchist, supporting even the idea of introducing an Indian monarchy. In the concrete constitutional design of the new nations, however, forces supporting a republican form of government outweighed those supporting alternatives. The U.S. constitution became the model for Latin Americans because the presidential system enabled the Latin American nations to strengthen the elites and the landowners, and thereby consolidate the position of the Church and the Army—the two political factors that would shape Latin American politics in the following years.

The independence of Brazil, a Portuguese colony, was a different case. However, it also featured continuity with Europe. When Napoleon invaded Portugal, the Portuguese Court fled to Brazil, where they implemented an extensive modernisation programme. King João VI opened Brazilian commerce with England, recruited French art specialists to modernise the country's architecture, and tried to attract European immigrants in order to reduce the predominance of the local population. The son of João, Pedro, who stayed in Brazil as the Prince regent after the French troops were driven out of Portugal, was the leader of the independence movement. Finally, an independent monarchy headed by Don Pedro was established in Brazil. This relatively smooth acquisition of independence allowed Brazil to escape the problems of material destruction, political instability and the traumatic decision to oppose the mother country (see *Skidmore/Smith 1997*).

The long period following the declarations of independence between 1820 and 1850 was for most of Latin America one of lacklustre growth, internal conflicts and civil war. During this complicated phase, the attention of the new nations was mainly concentrated on three tasks: a) the establishment of national boundaries, b) the fight against centrifugal forces stemming from a federalist form of government, and c) the building of civilian institutions aimed at counterbalancing the increasing militarism and the rise of *caudillos*. The ideological influence of Europe, especially of France whose cultural and intellectual achievements inspired the Latin American elites, remained high. English liberalism had an equally important influence, principally on the constitutional design of the new republics. The particularities of the regional political situation resulted in a mix of militarism and liberalism, and, subsequently, the emergence of authoritarian liberalism (see *Arnold 1999*). The local elites openly recognised the importance of liberal principles as the pillars of post-independence policies, but they also concluded

that the unstable political situation did not allow these principles to be applied in practice. The gap between the legal order and political practice prevailed.

Latin America's economic relationship with Europe at this time has been characterized as one of dependency. Although Latin America's exports to Europe increased, they were principally primary products (nitrates from Chile, guano from Peru, coffee from Brazil, meat and leather from Argentina, and cacao from Mexico) and thus less valuable than the European imports. Industrial products from Western Europe, especially from England, ruined many small producers in Latin America. The liberal principles prevailing after the wars of independence (with a few exceptions, such as the Argentine Confederation) kept the Latin American governments from protecting local production. Positions taken towards Europe became divided between those who suffered from European imports and called for protectionism, and those who profited from free trade and promoted closer ties with the Old Continent. Latin American countries were also financially dependent on Europe. European firms, principally those in London, had provided funds for the expensive wars of independence.

### **3. European industrialisation and Latin America's uncompleted modernisation**

The second half of the nineteenth century witnessed a deepening of the ties between Latin America and Europe. This was facilitated by Europe's industrialisation and the emergence of the Latin American nations from the chaos of the civil wars. The aftermath of independence was for the region a period of reconstruction and of uneven growth, led by the exports of primary products (see *Cardoso/Helwege* 1995). However, in the 1870s Latin American countries embarked on modernisation programmes, made possible by the local elites as necessary preparation for economic take-off. Continuity in socio-political conditions, enabled by the elites' control over the masses, was a key factor in allowing the untroubled development of Europe-Latin American relations. European influence on Latin America operated through various channels:

#### **Trade**

After the economic situation became more stable, Latin America witnessed a growth in productivity, and subsequently an increase in extraregional trade. On the one hand, the rising demand in Western European countries for primary products and inputs for

industrial production made Latin America a suitable supplier. On the other hand, Latin America provided a market for European products, given its European-type consumption patterns and Europe's competitiveness in industrial products (see *Bear* 1985). *Guano* and, later, cotton and sugar from Peru, coffee from Brazil, meat and cereals from Argentina, nitrates from Chile and minerals from Mexico gave rise to a rapid increase in the region's trade with Europe. With Latin America's concurrent modernisation, the composition of the region's import base evolved from consumer goods, such as textiles, to machinery and fuels used in industry and the mechanisation of agriculture (see *Stein/Stein* 1970). Nevertheless, the positive effects of the growing trade flows were offset by their negative impact on the region's economic development: a decrease in European demand caused a decline in production in Latin America, which in turn led to financial crises.

## **Immigration**

At the end of the nineteenth century, most Latin American countries initiated policies to attract European immigrants. Such policies were grounded not only in the need for a work force (as in Brazil) and efforts to inhabit national territories (as in Argentina) but also in the local elite's perception of European migrants as helping to boost modernisation and counterbalance the native populations. *Facundo*, a literary work of the former Argentine President Domingo Faustino Sarmiento, opened the discussion of the two alternatives: civilisation or barbarism. The former was identified with Europe and the latter with the natives, or *gauchos*. The book was a clear example of the local intellectuals' scorn of the native populations and of their profound admiration for (northern) European civilisation. The policies to attract Europeans included fully paid one-way tickets (*Wiarda* 1995). As a result, the demographics of some of the new republics changed dramatically. Between 1857 and 1930, Argentina's net immigration (mostly from Italy and Spain) reached 3.5 million, or 30% of the population in 1914. Brazil received 4.1 million immigrants between 1884 and 1939, mainly from Italy, Spain, Portugal and Germany. In Uruguay, European immigrants represented 18% of the total population by 1908 (*Rouquié* 1987, *Wiarda* 1995). Immigrants also had a direct political impact, as their socialist and anarchist ideas prompted labour in Latin America to organise. The founding of the Socialist Party in Argentina in 1895 was due to activism by European socialists. In Chile, European anarchists organised workers, becoming one of the most politically active groups by the beginning of the 20th century. In Mexico, where the European immigrants were less numerous, a Greek, Rhodakanaty, disseminated socialist ideas (*Hart* 1980).

## **Investment**

European foreign investment was the principal source of modernisation in most Latin American countries. Investment, especially from England, allowed to be renovated or built the infrastructure in the region. Britain was Latin America's most important foreign investor throughout the nineteenth century, accounting for two-thirds of investment by 1913 (*Cardoso/Helwege* 1995). Modernisation was principally accomplished in order to support the development of an export-oriented economy. Roads, docks, railroads and bridges were designed to transport produce towards the export hubs. Foreign investment in infrastructure shaped not only the physiognomy of Latin America's transportation system, but determined the location of population centres (*Baer* 1985). Concentrated in export-related activities, foreign investment also reinforced the political system, as local export sectors (that held economic and political power) shared an interest with foreign investors in the development of agriculture, mining and cattle farming. The role played by European investment was in some countries even larger than that of national investors. In Argentina from 1900 to 1929, 35% of the country's total fixed investment came from abroad, with England in the first position, followed by France and Germany (*Skidmore/Smith* 1997:74). By the end of the nineteenth century, European investors had penetrated the major export activity in Chile by gaining ownership of two-thirds of Chile's nitrate fields. In Brazil, telegraph, railroad and shipping industries were in the hands of British and American firms. Under the rule of Porfirio Díaz, Mexico as well attracted large numbers of U.S. and British investors (*Rouquié* 1987).

## **Finance**

The links between the national banking systems and the gold standard created another linkage between Latin American and European economies. Fluctuations in gold reserves provoked changes in the domestic money supply. Moreover, the need for finance to support modernisation policies and the apparent impossibility of mobilising sufficient amounts of internal resources pushed some governments into issuing bonds in order to attract foreign capital. Foreign investors received government subsidies in sectors like railroads (as in Brazil), as well as guarantees of profits on their investments. By the end of the nineteenth century, banking houses in London, Brussels and Paris were competing to provide loans to Latin America despite the domestic instability in the region. Since the Latin American governments' ability to pay their debts depended on export activities, changes in external demand or in international commodity prices could lead to defaults-which took place throughout the nineteenth century. Argentina and Brazil, for example, had economies vulnerable to international market fluc-



tuations (see *Marichal* 1989). However, British capital continued to flow thanks to the development of cheaper oceanic transport, refrigeration, low-cost steel and new mining techniques.

### **Culture and consumption patterns**

Most Latin Americans from the upper classes openly expressed their admiration for European culture. France was seen as the highest civilisation, acquiring an extraordinary importance for Latin American cultural life. The influence of the Old Continent was vivid in such domains as literature, education, the arts and fashion. Positivism and scientism, the two main streams of European philosophy at the end of the century, had a great impact on Latin American societies, especially in education and politics. Europe was the main point of reference for the Latin American nations in the arts, even though local expression mixed imported influences. The identification with European culture reached the point that many members of Latin American elites defined themselves as half-Europeans, imitating the European lifestyle (*Vayssière* 1999). European influence was particularly notable in consumption patterns, which in turn had direct consequences for local production. Elites preferred European imports to national goods, although quality differences were not marked in many areas. Imitation of European consumption patterns was of instrumental value in denoting high social standing. European influence was strong in Latin America by the end of the 19th century. A subtle difference, however, distinguishes this influence from the one a century before: instead of a passive reception of a colonial inheritance, there was now a conscious and active search for focused bilateral relations. However, Latin Americans differed over the forging of ties with the Old Continent: while those holding conservative positions emphasised the modernising benefits of the ties with Europe, others saw the modernisation process propelled by the European presence as neo-colonialism.

## **4. New hegemonies, dependence and populism in Latin America**

After World War I, the United States replaced Great Britain as the global leader, and Europe stagnated. The new international scenario affected European- Latin American relations. The inter-war period marked the end of strong European engagement in the

continent, and the emergence of the United States as the principal extraregional power; Europe's decline is a key factor in explaining the increasing importance of the United States in Latin America (see *Drekonya Kornat* 1984).

On the economic side, the United States became Latin America's principal creditor, imposing new requirements for financial stability in the region. Latin Americans accepted the gold standard after World War I in order to facilitate foreign investment flows, which were still mainly of British origin (*Díaz Fuentes* 1998). However, the impressive economic development of the United States boosted the expansion of U.S. investments abroad, threatening Europe's position as Latin America's foremost creditor. While British investment in Latin America barely increased between 1913 and 1929, U.S. investments in the region grew from 173 million to 2.3 billion dollars during that period, or to represent more than 50% of the British investments in the region (*Cardoso/Helwege* 1995:49). Also U.S. firms stepped up their activities in Latin America: the United Fruit Company, International Petroleum, and General Motors transformed into giant corporations, becoming seen as more powerful than their host governments in the region. U.S. "dollar diplomacy" aimed at reducing European investments, especially in Central America, served as the economic counterpart of the increasing U.S. political interest in Latin America.

On the political level, the United States adopted an increasingly active Latin American policy in the 19<sup>th</sup> century. The 1823 Monroe Doctrine (which stipulated that any European intervention in Latin America would be considered a hostile act towards the United States) revealed U.S. interest in the region. However, the United States was chiefly concerned about the European presence in Central America and the Caribbean, paying less attention to the strong European presence in South America. With the discovery of gold in California, the U.S. expanded to the west and southwards: Texas was annexed in 1845, followed by California, New Mexico, Arizona, Utah and Nevada in 1848. However, British capital continued to dominate in South America. But in the early twentieth century, the U.S. stepped up its activities in Latin America. Cuba's war of independence (1895-1898), and subsequently the island's becoming a U.S. protectorate, brought Spanish presence in the Americas to an end. Theodore Roosevelt's 1903 corollary to the Monroe doctrine (which justified U.S. intervention in the Hemisphere) provided a stepping stone for U.S. military interventions in Central America and the Caribbean (*Vayssière* 1999), including in Panama in 1903, Nicaragua in 1911, Haiti in 1914 and the Dominican Republic in 1916. However, U.S. political influence remained limited in South America, and its efforts to build a Pan- American

movement were opposed by the most pro-European countries (Argentina and Uruguay, in particular). From the first Conference of American States in 1889 (*Roger, 1985*) and during the first two decades of the twentieth century, Latin American countries voiced fears about U.S. imperialism in the region.

The Great Depression and World War II prompted Latin American countries to industrialise. The decline in international commodity prices limited Latin American governments' access to foreign currency to purchase imports; governments were thus forced to substitute for imports through domestic means. The subsequent import substitution industrialisation (ISI) policies found support in intellectual circles. The Economic Commission for Latin America (ECLAC), particularly its director Raúl Prebisch, became fierce advocates of the new strategy. The main argument for the ISI was that the terms of trade of developing countries, whose exports are concentrated in primary products, were facing a secular decline; ISI strategies would protect infant industries, thereby boosting the accumulation of capital and developing national industries that would be internationally competitive (see *Rosales 1988*). Governments were to assume an active role in implementing the strategy. Subsidies, credits, export facilities, high import tariffs, import quotas and exchange rate restrictions formed the core of the ISI policies (see *Jaguaribe 1973*).

However, by the end of the 1950s, criticism of the ISI model increased, especially in intellectual circles. The bulk of the gross domestic product (more than 50% in most of the main Latin American countries) was generated by the State (*Wiarda 1995*), while private sector activities were weak. Although growth rates in some cases were quite impressive, external indebtedness remained high. National production was geared to meeting internal demand, and few productive activities were internationally competitive. Exports were mainly composed of primary products. State bureaucracies, meanwhile, had become bloated and inefficient. The regional integration called for by CEPAL was impeded by the ISI strategies, and political obstacles impeded integration. The rise of populism in many Latin American countries, moreover, complicated efforts to correct the obvious deficiencies of the ISI (see *Dornbusch/Edwards 1991*).

Notwithstanding the rather loose ties between Latin America and Europe during this period, the development strategy followed by most Latin American countries resembled the European model. U.S. free market strategies were seldom adopted in Latin America prior to the 1970s, when the oil crises impeded the continuation of the state-led industrialisation model in the region. Despite differences in types of government,

Latin American countries by and large followed the European definition of the role of the State. The conservative military government in Peru, the authoritarian albeit modernising government of Getulio Vargas in Brazil, the conservative military regime and populist government under Peron in Argentina, the populist *caudillismo* of Cárdenas in Mexico and the various populist governments in Chile held similar views of the State's role in economic development. In some countries, such as Argentina and Brazil, the fascination with European development models ran particularly deep, with their governments being openly sympathetic to the corporatist and fascist models in vogue in the Mediterranean countries.

With American participation in World War II, the pressure for Latin American governments to break political links with Europe increased dramatically. Although the Latin American governments decided to be neutral in the European conflict at the 1939 Conference of Panama, by the beginning of the 1940s their positions were already split. Central American and Caribbean countries declared war on the fascist powers in 1941, with Mexico, Brazil and Chile following. Argentina was the last nation to declare war, abandoning its neutrality only just before the end of the conflict. The Cold War, meanwhile, brought U.S. political, ideological, military and economic influence to Latin America:

- ?? On the political level, the U.S. pressed for the establishment of a new Pan-American organisation. The Organisation of American States (OAS), a regional body with permanent institutions and a secretariat in Washington, was created in April 1948. According to the principle of collective security harboured by the OAS, every act of aggression by a State against the territorial integrity, sovereignty or political independence of an American state would be considered an act of aggression against the other American states. OAS priorities also included co-operation on cultural issues and addressing regional social and economic problems.
- ?? In the military sphere, several agreements were signed to support co-operation between armies in the Americas and to provide U.S. technical assistance for the military in Latin American countries. The School of the Americas, based in Panama, became the principal U.S. instruction centre for the Latin American military (Vayssière 1999:132); it trained more than 45,000 Latin American officials in its 30 years of existence. The Rio Pact and the Chapultepec Act provided mutual defence arrangements in case of an attack from outside the hemisphere. The imple-

mentation of these agreements was, however, ambiguous: when Argentina went to war against Great Britain in 1822, the U.S. did not assist Argentina.

- ?? On the ideological level, the Cold War was characterised by the fight against communism and the U.S. priority to prevent a "second Cuba" in the region. Direct U.S. intervention in Dominican Republic (1965), Chile (1970), Central America (1979) and Grenada (1983) aimed at avoiding the installation of supposed Marxist-Leninist regimes. U.S. support for different national security institutions such as *Escuela Superior de Guerra* (ESG) in Brazil and *Servicio Nacional de Inteligencia* (SNI) in Chile can be considered complementary to the U.S. strategic interests (see *Stepan 1988, Rouquié 1984*).
- ?? Paradoxically, and although the U.S. supported free market strategies, on the economic level the U.S. based Ex-Im Bank provided financing for many state-led industrialisation projects in Latin America, including in Brazil and Argentina. The presence of U.S.-based firms in Latin America increased rapidly. The U.S. was a prominent player also in the area of development co-operation: Kennedy's Alliance for Progress, launched in Punta del Este in 1961, promised 20 billion dollars for Latin America over the following 20 years, with Johnson setting the amount at 3 billion a year in 1967 (*Vayssière 1999*).

## **II LATIN AMERICA FROM THE 1980S TO THE 1990s: A NEW CONTEXT FOR BIREGIONAL LINKS**

### **1. The 1980s in Latin America**

The debt crisis signalled a turning point for Latin America, especially in respect of development strategy. The sudden interruption of external financing sources – provoked by the international reaction to the Mexican moratorium – made it difficult to continue with the import substitution strategy (ISI) that had been pursued until then. Due to the dependency of national production on imported supplies, the limited capacity of Latin American countries to import (because of the lack of foreign exchange) had a negative impact on domestic activity. The policy of protectionism and isolationism followed by Latin American states in the framework of import substitution could no longer be pursued. However, the ill-feeling left by the liberalisation policies implemented by the military governments in some Latin American countries during the 1970s (*Cardoso/Helwege* 1995:181ff) meant it sometimes became difficult to re-orientate policy. In the 1980s, therefore, an internal debate raged in many Latin American countries on the convenience of opening the national economy to foreign capital vs. the importance of continuing with a model that sought to maintain the independence of national industry. Although the debate was not always completely resolved, the policy orientation was modified. The conditionality of restructuring loans made by international financial institutions was a key external factor in reinforcing this new orientation of development strategies (see *Burki/Edwards* 1995, *Aszkenazy* 1988).

Biregional relations must be examined within the framework of that strategic change. Since modification of the development strategy indirectly altered the foreign policy of Latin America in general, it also changed the pattern of relations with Europe in particular (*Van Klaveren* 1991). Not only did the (conscious) formulation of foreign policy change, but also the internal political and economic conditions in the region, thereby creating a different overall framework for biregional relations. Since World War II, Latin America's foreign relations were conditioned by its inward-oriented development strategy, which implied a policy of detachment from the world economy and the search for regional integration through protectionist policies. After the debt crisis, growing evidence about the impossibility of continuing with this development strategy forced Latin America to re-define its development strategy. This dramatically changed Latin America's physiognomy. The difficult but progressive replacement of an inward-oriented by

an outward-oriented development strategy led to a parallel reformulation of regional and subregional integration processes. Democratic consolidation also directly affected the fundamentals guiding the formulation of foreign policy. Biregional relations were affected, both positively and negatively, by changes in three areas: integration, internal political conditions, and debt management and economic policy.

**Integration processes** were mainly initiated in the 1960s, but these stagnated in the 1970s after being criticised for their lack of concrete achievements and the obvious contradictions between the political integration discourse and the practice of protectionism and mutual mistrust. By the beginning of the 1980s, the impression that integration schemes needed to be reformulated became widespread (see *Chaparro* 1991, *Sunkel* 1998). The *Asociación Latinoamericana de Integración* (ALADI) replaced the Latin American Free Trade Association (*Asociación Latinoamericana de Libre Comercio* or ALALC) in an effort to revitalise the integration idea. The Andean Group tried through the Protocol of Quito (1987) to overcome some of the contradictions of the process. Moreover, although the economic environment, affected by the debt crisis, was certainly not very promising, multilateralism flourished and many Partial Scope Agreements (*Acuerdos de Alcance Parcial*) were signed. Obstacles to significant integration still remained, but some of the contradictions were overcome or at least identified, and there was a growing realisation that a more active policy within the region and towards other regions (especially Europe) needed to be formulated.

**Economic performance** in the region remained closely tied to the problem of debt management and the resulting decline in economic activity. In respect to debt management, Latin America expected Europe to be more understanding towards its possibilities of refinancing its external debt. In 1985, Latin America owed US\$ 235 billion to private creditors, 15.4% of which was in the hands of British banks, 8% with French banks, 3.5% with German banks and 2.1% with Spanish banks (*SELA* 1988). Due to the good provision made by European banks (in case Latin American countries defaulted), conditions for re-financing credits were more flexible than with other creditors in public banking. However, the relatively minor importance of European creditors compared with US creditors reduced the significance of Europe's position. As regards trade, in the first half of the decade biregional trade was marked by the recessionary economic situation in Latin America. Imports from the European Community (EC) fell from US\$ 18.3 billion in 1980 to US\$ 11 billion in 1982 and only began to recover in 1985. Latin American exports to the EC also performed relatively badly, falling from

US\$ 22.7 billion in 1980 to US\$ 21.3 billion in 1982. These gradually increased until 1985, when they reached the same level as in 1980 (SELA 1988:124).

As regards **political developments**, two interconnected events need to be highlighted: the democratisation wave in South America and the peace process in Central America. The return to democracy in Peru (in 1980 with the election of Belaúnde Terry), Argentina (in 1983 when Raúl Alfonsín was elected), Uruguay (in 1984 with the election of Julio María Sanguinetti), Brazil (in 1985 when Tancredo Neves won the elections) and Chile (in 1990 when Patricio Aylwin was elected) and the end of the Stroessner dictatorship in Paraguay (1989) fundamentally transformed the political basis for inter-regional relations. Since promotion of democracy was one of the aims of Europe's foreign policy in Latin America, the replacement of military governments with democratic presidents was viewed by Europe as a positive development favouring closer contacts with the region. In the 1980s, therefore, political dialogue was more relevant for the biregional relationship than economic and trade links (Barrios 1999). Furthermore, Spain's incorporation in the EC was an important factor in renewal of explaining a dialogue on issues of democracy. The victory of the *Frente Sandinista de Liberación Nacional* (FSLN) in Nicaragua in 1979 and the United States' subsequent application of the "Reagan doctrine", boosted links between the EC and Central America. EC support for the Contadora Group (formed by Colombia, Panama, Mexico and Venezuela) was a first step towards a qualitative new engagement in the region. The San José meeting thus marked the start of Europe's new protagonism in the region.

### **1.1. Integration schemes: euphoria, decadence and renewal**

Efforts to achieve integration have formed part of Latin America's political discourse since the first independence movements. The Bolivarian ideals of building a single Latin American nation did not, however, become a concrete proposal until well into the twentieth century. By the 1960s, several parallel initiatives had been launched in an effort to create different sub-regional schemes that sought to achieve economic integration. In 1960, El Salvador, Guatemala, Honduras, Nicaragua and later Costa Rica signed a general agreement on economic integration aimed at creating a Central American Common Market within 10 years. In 1969, Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Agreement, which sought to reinforce sub-regional integration, but with the long-term goal of achieving regional integration. The most comprehensive initiative also dated from 1960: the Latin American Free Trade Asso-



ciation (Asociación Latinoamericana de Libre Comercio, ALALC), which sought to promote intraregional trade through the gradual elimination of tariff and non-tariff trade barriers between Latin American countries. All these initiatives used periodical negotiations to establish a common list of products to be exempt from duties and discussed different agreements for achieving industrial complementarity in key sectors.

These first Latin American attempts at integration (see Schembri Carrasquilla 1996) were influenced by the European integration model. The Andean Group (now the Andean Community) is the clearest example of this European influence. In many ways, the Andean Group seemed to resemble the integration model adopted by the EC. The wide ranging goals of the Andean Group – the promotion of balanced, harmonious development in the member states through economic integration, the reduction of their foreign dependence, and the improvement of their position in the world economy – were similar to Europe's integration aims. Moreover, the ambitious design of an institutional organisation with supranational bodies, including a sub-regional court and a parliament, were closer to the European model than any other integration initiative. European integration policies were also used as a model by the Andean Group in more specific areas. Even the idea of introducing some sort of social compensation fund, such as exists in Europe, was discussed by the members (IRELA 1999). In view of these similarities to Europe's integration model, it is not surprising that relations between both blocs were the first to be established between the European Community and a Latin American integration scheme. The two blocs signed a cooperation agreement in 1983.

In spite of the laudable aims established by these first integration initiatives, the creation of sub-regional or regional markets fell short of their declared aim. After a phase of euphoria, the schemes stalled politically and trade liberalisation proved to be limited. Many factors explain the lack of success in the integration processes and the crisis that affected them by the beginning of the 1980s. Those factors were partly inherent in the internal situation at regional level, and could be partly attributed to the external environment. As regards internal factors, the political instability and the surge of military dictatorships in many countries made it difficult to improve relations between Latin American countries. A lack of mutual trust and the threat of territorial conflicts characterised the period, and made difficult any kind of cooperation at the bilateral level. The overall economic strategy was another factor that hindered economic integration. Protectionist policies following the ISI stage were in fact hardly compatible with the dismantling of trade barriers. Protectionism not only favoured state monopolies but also

hampered new export-oriented activities, thus reducing the interest in opening the economy. Negotiations for the establishment of a Common External Tariff (CET), which was viewed as an immediate first step towards closer integration, could never be accomplished because of difficulties in harmonising different national strategic interests. Paradoxically in some cases, while most of the tariff obstacles were dismantled, trade was still hindered by non-tariff barriers (*Pulgar 1996*). As regards external factors, the permissive international situation of the 1970s gradually changed, and this became another obstacle to regional integration. After a period of constant expansion, world trade stalled, and the stability of the 1960s disappeared. The oil crisis and the liquidity of the international system led to the recycling of Petro-dollars that favoured external financial permissiveness. Under these circumstances, a greater Latin American commitment to regional integration was discouraged.

In the 1980s, dissatisfaction with the achievements of regional integration led Latin American nations to modify their approach to the issue. In 1980 the ALALC was transformed through the Montevideo Agreement into the *Asociación Latinoamericana de Integración* (ALADI). The incorporation of tolerance, flexibility and convergence principles in the agreement allowed Latin American countries to pursue their own national interests while developing a common integration strategy. This pragmatism enabled a compact network of agreements to be developed, not only among ALADI members but also with extra-regional partners. Strengthening bilateral relations was conceived as a first step to achieving regional integration. Although bilateralism was considered insufficient to support integration on a regional scale, it was certainly a more realistic alternative to allow some progress in integration within a critical context. Participation in the preliminary negotiations by the business sector and other relevant pressure groups, whose views were taken into account, was another key feature of ALADI's strategy, which explains the better results of this second regional integration initiative (*Rojas/Juan 1996*). However, after changes agreed in 1980, the results did not match expectations. Multilateralization, which should be the second step after the promotion of bilateral preferences, was very modest, and the achievement of a Regional Tariff Preference (*Preferencia Arancelaria Regional* or PAR) remained an uncompleted task.

The Caribbean states grouped in the CARICOM also reformed their instruments for sub-regional integration in order to adapt to new internal and external situations. In 1987 the Andean countries also modified the legal nature of their agreement, in order to give the integration process more flexibility and pragmatism for the achievement of their objectives. Ambitious goals – such as the design of an industrial programme

aimed at sharing the benefits of integration proportionally to the development level – were postponed, as well as some of the liberalisation programmes. With the signing of the Quito Protocol, an effort was made to incorporate civil society sectors into the negotiations. Consideration of the social aspects of integration was another new feature of the agreement, which also included some modifications at the institutional level. However, the development of intra-regional trade remained at a low level, frustrating expectations that internal economic conditions would improve. Under the new dispositions, the cooperation agreement signed with the EC came into force in 1987. This indirectly benefited the new impulse given to the integration process.

In the Southern Cone, the rapprochement between Argentina and Brazil initiated in the early 1980s culminated in 1986 with the signing of the Integration and Economic Cooperation Programme (*Program de Integración y Cooperación Argentina-Brasil*, PI-CAB). This agreement was a significant step forward with regard to the traditional and mutual mistrust fed by the strategic considerations of sovereignty typical of the military period. Although the economic asymmetry between both countries gave rise to some concerns – especially on the Argentine side – about the eventual distribution of integration benefits, Argentina and Brazil signed a series of sectoral Protocols regulating the development of bilateral cooperation (see *Campbell/Rozemberg/Svarzman* 1999). The critical evolution of the internal political situation by the end of the 1980s in both countries temporarily impeded a further deepening of the agreements. However, this process was given renewed impetus with the coming to power of new governments in Argentina and Brazil in 1989. In 1991 Argentina and Brazil, together with Paraguay and Uruguay, signed the agreement in Asunción creating the *Mercado Común del Sur* or MERCOSUR, that would prove to be the most dynamic Latin American integration initiative in the 1990s.

This relaunch of integration processes gave the impression of a more flexible and open Latin America. It also enhanced the prospects for improving relations with Europe. Latin American sub-regional schemes also began to look for greater support from European countries, since they expected that a greater European presence in the region could better counterbalance that of the United States. Given the fact that the new approach of regional integration seemed to emphasise an active interaction with the world market, and that the political changes accomplished during the decade made the region a more accountable partner, European support for closer regional integration was, in the view of Latin American leaders, a viable alternative. Economic instability, however, would severely limit the scope for cooperation in integration issues, since

progress stopped at an early stage in several economic restructuring processes. Nevertheless, the foundations were laid for closer biregional cooperation in the coming decade.

## **1.2. Democracy in Latin America: a necessary condition for a closer relationship**

Relations between Europe and Latin America have been based on common principles and values, particularly those of representative democracy, the rule of law and constitutional order (*IRELA* 1997). For most Latin American countries Europe represented those democratic ideals (see *Rodríguez Zúñiga* 1988), and Latin America's identification with them has always been a typical feature of its political culture (*Grabendorff* 1988), even if democratic practice has sometimes been erratic. In fact, both regions supported democracy in the past. During the Spanish civil war, some Latin American intellectuals cooperated closely with the Republican side (*Vayssière* 1999). On the other hand, the authoritarian coups that proliferated in Latin America during the 1970s were energetically condemned by European countries. Not only did individual countries and European authorities, especially the European Parliament, make general declarations about the internal political situation in Latin America, but they also issued specific statements about, for example, concrete violations of human rights (*CELARE* 1996).

This common pro-democratic ideology constituted the grounds for a close political dialogue. The first European-Latin American parliamentary conference, held in 1974 in Bogotá, is the oldest example of Europe's interest in strengthening democratic values in the region. The conference marked the establishment of the main channel for political dialogue at the biregional level. The following inter-parliamentary conferences, held every two years, further confirmed Europe's commitment to democracy in the region. Such commitment consolidated Latin America's perception of Europe as a valuable partner for the critical task of supporting democracy. Indeed, the political links between both regions at the parliamentary level survived even under precarious conditions. Even when Latin American parliaments were dissolved, representatives of the different parties continued to participate in the inter-parliamentary meetings. In 1979, therefore, members of the dissolved parliaments in Argentina, Uruguay and Chile took part in the fourth inter-parliamentary conference in Rome.

Due to the specificity of Latin America's political situation in the 1970s, biregional political relations assumed very particular characteristics. The lack of internal political stability and the lack of critical democratic conditions perceivable in the dominance of dictatorships shifted the relationship between Europe and Latin America from governments to political parties. Parties were the real actors in political dialogue. Among them, social democrats were certainly the major protagonists. The Socialist International has been present in Latin America since the installation of a permanent secretariat in Montevideo in 1955, but it began to act at the more technical level with the arrival of the Friedrich Ebert Stiftung (the research organisation of the German SPD). The increasing relevance of Latin America for European social democracy was made evident by the celebration of the Conference of European and Latin American Leaders for International Democratic Solidarity, organised by Willy Brandt in 1976. Latin American groups opposing military dictatorships met their European counterparts to denounce the situation in the region and coordinate a common position. European influence was also evident in the organisation of Latin American parties. The Peruvian *Alianza Popular Revolucionaria Americana* (APRA), the Venezuelan *Acción Democrática* (AD), the *Liberación Nacional* (LN) of Costa Rica or the *Partido Revolucionario Dominicano* (PRD) of the Dominican Republic were some of the parties from the democratic left that were organised according to European social democratic ideas (see Saarbach 1980).

In the 1980s, the region experienced general – albeit heterogeneous – progress towards the establishment of democratic conditions. Contrary to a sometimes unrefined conceptual generalisation (see O'Donnell 1979), countries in Latin America had different starting points and went through specific transition processes in order to achieve democracy. Authoritarian governments in each country had different levels of institutionalisation and repression, and the socio-political conditions prior to these authoritarian governments also differed (countries like Uruguay or Chile with a long democratic tradition cannot be compared with others like Argentina or Brazil, that fluctuated between democracy and authoritarianism). Consequently, the transition to democracy was not similar in all countries. In spite of those differences, Europe was a strong supporter and an attentive observer with regard to Latin American progress towards democracy. The European indifference and lack of public statements on Latin America's situation, characteristic of the 1960s and 1970s, was definitively broken. Several declarations from European institutions and analyses of different issues relating to the consolidation of democracy further confirmed Europe's interest in Latin American democratisation processes. Once democracy was re-established, a significant political

obstacle to closer relations between Europe and Latin America was eliminated, and the basis set for common action at the political level (*Van Klaveren* 1991).

Europe's closer political identification with Latin America was largely due to the incorporation of Spain and Portugal in the European Community in 1986. Latin American countries viewed the incorporation of both countries into the European integration scheme with scepticism,

since they feared that it would have a negative affect on bilateral relations. However, it proved to be a positive step in the long term, especially for increasing awareness of Latin America in Europe. The incorporation of both countries was marked by their clear and repeated willingness to promote relations between both regions and to make Latin America a European priority. Evidence of this was the joint declaration of intentions that formed part of Spain's and Portugal's annexation contract to the EC. Moreover, a Spanish proposal was adopted at the European Council of The Hague in 1986 for strengthening relations with Latin America and supporting the peace initiative of the Contadora Group (see *Flores* 1988:87). The significance of Iberian influence was particularly evident in the Central American peace process. With the support of Spain and Portugal, the first San José conference was held in Costa Rica in 1984 (*Flores* 1988). The conference was attended by the five Central American countries and the four members of the Contadora Group (Mexico, Venezuela, Panama and Colombia). The continuity of these meetings institutionalised a political dialogue between both parties in respect of finding a political solution for the conflict in the sub-region.

The role of Spain was also important for the transition processes, especially in the Southern Cone. Spain's transition to democracy quickly acquired a special relevance for the democracy debate in the region. Spain's successful management of the transition to democracy from the Franco regime became a model and a point of reference for most of Latin America. Felipe González, the Spanish Premier Minister, and King Juan Carlos emerged as influential figures in the political debates in Latin America. Even if the similarities were limited and the disparity of situations more than evident, some Latin American academics proposed a *Moncloa Pact à l'espagnole* as a way of expressing the commitment of all main social forces to democracy. Comparative studies were also in vogue, trying to extract some lessons from the Spanish experience that could prove useful to Latin America. Moreover, Spain quickly became aware of its potential influence on Latin America, and recognised the possibility of using the region as a convenient instrument to improve its relative position in the European arena (*Roy*

1997, *Grugel* 1997). By the end of the 1980s, Spanish intellectuals were beginning to discuss the idea of creating an "Ibero-American space" (see for example *del Arenal* 1992, *Valdés* 1992 and articles in *Roy/Galisonga Jordá* 1997). This resulted in the organisation of the first Ibero-American Summit in Guadalajara (Mexico) on 18-19 July 1991.

The process of democratisation initiated in the 1980s made it possible for Latin America to overcome the international political isolation typical of the military period, and to increase its accountability at the international level. In addition, the consolidation of Europe's position in the international system and the higher profile adopted in the definition of its areas of interest, allowed the design of a more concerted action between both regions in respect of political issues. However, economic instability in Latin America, which reduced the region's attractiveness and made it more difficult to consolidate democracy, indirectly conditioned the development of biregional relations. As far as economic problems became a threat to democracy, foreign relations and foreign economic relations were negatively affected. The case of Argentina (where the Alfonsín government, threatened by hyperinflation, suffered a number of military uprisings and was finally forced to relinquish power earlier than anticipated) was a clear example of the pervasive influence of negative economic conditions.

### **1.3. Latin America's economy in the 1980s: against a background of debt crises**

The 1980s were critical years for Latin America. The scope of the so-called "lost decade" was marked by a sharp deterioration of the main economic and social indicators (see *Schneider* 1989), especially in the first half of the period. According to *UNCTAD* (1989) total GDP in the region grew by only 1.3% per year between 1980 and 1985, the value of imports fell 8% and that of exports by 0.8%. *Per capita* income in Argentina stood at US\$ 2,862 in 1988, almost 15% below that registered in 1980; in Uruguay it stood at US\$ 2,989 in that same year, 7% below the 1980 level; and in Brazil it was US\$ 2,449, 1.3% below the 1980 level (see *Sangmeister* 1990). Income distribution dramatically worsened: in the 1980s, the GDP share of the higher income decile increased by over 10% at the cost of all other income deciles, while the poorest 10% suffered a 15% drop in its share of GDP (*IDB* 1999). The dismantling of social services

provided by the state was a logical consequence of the public administration reforms that were implemented, with significant impact on middle sectors.

The restrictions on internal demand introduced to combat the debt crisis led to a sharp and prolonged recession. The uncontrolled increase in domestic prices (inflation) was another side-effect. Although Latin America had long been affected by inflation, in the 1980s rates increased sharply, breaking past records. Inflation in Argentina reached an annual rate of 1,392% between 1986 and 1989, Peru 1,169% and Brazil 795% during the same period (*Helwege/Cardozo* 1995:141). As an inflationary environment reduces the scope for manoeuvre with regard to planning, it has a negative impact on production strategies. Consequently, falling productivity was another secondary effect of unstable macroeconomic conditions. Internal production thus fell due to economic instability and the restrictions imposed by adjustment measures. This had a negative impact on the utilisation of available production capacity and the investment level necessary to maintain machinery and a qualified work force (see *CEPAL* 1995:154f).

Adjustment policies that were at first applied just to cope with the crisis had by the end of the decade become a general reorientation of the development strategy. This reorientation would profoundly change Latin America's physiognomy in the 1990s. Export orientation, reduction of regulations, more reliance on market forces and an incipient elimination of protection mechanisms were the main results of the new strategic direction. The reorientation towards the world market was evident in the general reduction of trade barriers in the region. Thus, the coefficient of openness (the ratio of exports to GDP) in the region increased to 21% in 1990 from 14% in 1980, with some cases (Argentina, Costa Rica, Mexico, Brazil, Paraguay, Uruguay and Chile) increasing by more than 50% (*CEPAL* 1995:66). This marked openness and growing export dynamism was, however, insufficient to offset the negative effects of falling prices for primary products, which account for the greater part of exports from the region. Moreover, it did not offset a trend in world trade, somewhat worrying for developing countries: the increasing concentration of world trade between the regions of the "Triad" (European Community, United States and Asia-Pacific). By 1991, this group accounted for 85% of world trade (*Bormann et al.* 1995).

As a result of the debt crisis, Latin American access to the international capital markets remained restricted throughout the decade. Between 1983 and 1989 Latin America and the Caribbean countries received just US\$ 8.1 billion, an insignificant amount compared with the US\$ 20.1 billion and US\$ 39.8 billion received in 1982 and 1981



respectively (CEPAL 1995). The near impossibility of receiving new loans placed Latin America in a *de facto* default situation. Capital restriction was aggravated by capital flight from residents, which according to World Bank estimates represented almost US\$ 90 billion (World Bank 1993). High interest rates in the international markets and uncertainty about the final outcome of adjustment programmes applied in the region exacerbated the capital flight. The impact on internal investment rates was tremendous. In Argentina, for example, investment fell to 11.3% and 8.5% of GDP in 1984 and 1985 respectively compared with 18.8% in 1981. Investment in Uruguay also fell sharply: to 9.9% in 1984 compared with 15.4% in 1981. In Brazil the fall was less severe, from 21.1% in 1981 to 15.5% in 1984 and 16.7% in 1985 (IDB 1989). This situation began to be reversed in 1989, when Latin American countries gained access to the bonds market. However, a restoration of investment flows, which could allow a certain accumulation of capital and the recovery of structural investment, only began in the 1990s.

With the democratisation wave and the parallel intensification of biregional contacts, Latin American governments hoped that the political will shown by Europe would also translate into progress at the biregional economic relations level (see *Van Klaveren*, 1991). Latin America's perception of the European Union as a flexible and non-coercive international actor in political issues raised expectations that it would behave similarly on economic questions. Furthermore, with economic modernisation Latin American governments expected greater European commitment. Expectations were partly based on the assumption that Latin America's recovered democracy was a fulfilled pre-requisite for closer cooperation. However, even if the prevalence of democracy was certainly a necessary condition, it was not sufficient by itself. In that sense, the results of cooperation at the economic level in the 1980s remained behind Latin American expectations. Although European investment in the region increased compared with previous periods, it remained at a modest level. As for trade, the traditional structure of exchanges did not basically change. Latin America's exports to Europe continued to be concentrated in food, agricultural products and raw minerals, which represented 52.3% of exports between 1970 and 1989 (*Puyana* 1994:57). Moreover, imports from Latin America as a proportion of total European imports fell steadily. European imports from Latin America, which represented more than 8% in 1970, dropped to 5.9% in 1980 and to 5.5% in 1990. European exports to Latin America as a proportion of total Latin American imports also fell, from 6.4% in 1980 to just 3.7% in 1990 (see *Lerman Alperstein* 1998:271). As the figures show, Latin America's expectations in terms of its economic relations with Europe were not fulfilled.

## **2 Latin America in the 1990s**

### **2.1. A changing global system**

The 1990s witnessed a series of important changes in the global system at the economic and political level. Those changes in part continued processes launched during the preceding decades but partly were the result of qualitatively different transformations resumed in the increasing density of multidimensional networks of interdependence between international actors (see *Keohane/Nye* 2000). Phenomena like the increase in cross-border investment, the confluence of information technologies and the rise of cross-country strategic planning were observed. At the same time, the debate on the State's authority intensified, and international politics witnessed the rise of new international actors. Moreover, increasing factor mobility and the homogenisation of development strategies and consumption patterns were impacting on the global, inter-regional, sub-regional and domestic systems, transforming the patterns of economic and political interaction between actors.

At the political level, the main changes were unleashed with the end of the Cold War. The fall of the Berlin Wall in 1989, the dissolution of the U.S.S.R. and the consequent mutation of a bipolar system into a multi-polar system caused strategic and political calculations to suffer important transformations:

?? First, the dissolution of the U.S.S.R. implied a redefinition of the power structure within the international system. New opportunities and threats appeared for medium powers trying to adapt to different rules in the strategic game and looking for a better position in the international hierarchy. Not only Cuba and other countries in Latin America that received direct support from the U.S.S.R. were obliged to re-think their extra-hemispheric policy. Central America in particular had the chance to re-address the problem of U.S. intervention in the sub-region, but also other countries in the region saw a window of opportunity to give a new orientation to their hemispheric relations. Given Latin America's disposition to counterbalance the U.S. influence in the region, an approach to Europe, the only power with the possibility of becoming a global player in a short time, rapidly became an important option in Latin America's new global strategy. However, a certain ambivalence persisted about how Latin America should define an active external insertion pattern and how it should deal with the U.S.- European option. The U.S. was not the asser-

tive hegemonic power it had been during the Cold War, nor did Europe seem to be ready to assume a global role. Thus, unilateral alignment from the Latin American perspective was difficult to justify and, with the exception of Argentina under Menem's Presidency, was not adopted. Most of the countries preferred to take advantage of playing both sides.

- ?? Secondly, assuming that during the Cold War intercontinental interdependence was limited to those regions under the protection of one of the two powers, it was logical that the end of bi-polarity would create new possibilities for intercontinental networking. This opening of a window of opportunity for more intense interregional relationships and the existence of a common language for discussing mutually interesting fields was conducive to expectations of progress in biregional cooperation. The existence of a common interest in historic, cultural and political matters between Europe and Latin America made the efforts of both regions to come closer more reasonable. Another implication of the emergence of a multi-polar system was the consolidation of democratic values in the political doctrine. Thus, consolidating democracy helped Latin America to reinforce its membership in western civilization. Europe's support for democracy in Latin America in the previous decades had already created many reliable channels of political dialogue between both regions. These channels seemed likely to be expanded and consolidated.
- ?? Thirdly, for Latin American in particular, the political transformation achieved in Eastern Europe introduced a new factor in the field of financing development. The fall of communism in Eastern European Countries (EEC) was accompanied by the decision to adopt democratic systems and free-market mechanisms. This new political orientation eliminated the main obstacle at the political level to becoming candidates for entering the European Union, which in turn was interested in incorporating them in order to stabilize the area and to secure natural economic partners for the EU. The conflicts unleashed in the Balkans showed Europe the risk in abandoning the region and reaffirmed the necessity of helping to improve their socio-economic conditions. Incorporation implied significant amounts of capital transfer and direct aid in order to support the reforms required for placing the EECs at a development level compatible with the EU. Latin America feared a concentration of European investment in the EECs and eventually a concentration of trade as well.

?? Fourthly, the triumph of liberal democracy after the collapse of communist countries made an alternative model no longer viable. Consolidating electoral processes, improving representation and decision-making systems and strengthening general democratic conditions became clear imperatives. Most Latin American countries made considerable progress in consolidating their democracies, in spite of adverse conditions (see *Barrios/Boeckh* 2000, *Nohlen/Thibaut* 1993). Even if the stability of democratic regimes sometimes seemed to be challenged by their national armies, many countries like Argentina (1989), Brazil (1989), Uruguay (1989) and Chile (1993) inaugurated a second democratic period during the decade. As a consequence of the need to respect the procedures of liberal democracy, the orientation of foreign policy as well as regional strategy had to be reformulated. Foreign policy was reformulated in order to consolidate Latin America's position among the democratic nations and to reinforce its commitment to human rights and the rule of the law. In spite of a trade-off between the new foreign policy orientations and sovereignty restrictions typical of Latin America's political code, countries made significant efforts to establish more friendly relations with neighbouring countries. Therefore many frontier conflicts were solved during this period (the only notable exception being the Peruvian/Ecuadorian conflict).

At the economic level, four typical features characterised the economy during the 1990s. First of all, there was the lowered dynamism displayed by industrialised countries. With the exception of the U.S., which had begun its recovery by the middle of the 1990s, growth in industrialised countries was slow. This is especially true when compared with previous decades (3.1% between 1970 and 1980, 2.6% between 1980 and 1990, and 2.1 between 1990 and 2000). Secondly, there was a noticeable peak in the rhythm of technological change that modified the conditions for technology transfers. Thirdly, there was a significant increase in the mobility of capital flows and new instruments appeared in the international financial structure. Capital mobility certainly facilitated the necessary capital inflow for many developing countries, but it was not free of collapses. The Mexico crisis in 1995 was overcome principally thanks to the U.S. intervention trying to preserve the financial stability of its NAFTA-partner. In 1997 Asia, a region that assumed an increasingly protagonist stance in the global economy during the first half of the decade and received large-scale foreign capital, suffered a sudden withdrawal of private funds, unleashing one of the sharpest crises after the debt crises of the 1980s. Finally, there was a general re-structuring of the international markets (see *CEPAL* 1995), marked by the increasing role of Asia and the significant growth in world trade compared with world production. The Final Act agreed upon at the end of

the GATT's Uruguay Round seemed to give a promising sign for developing countries about the new possibilities for insertion into a re-structuring world market (see *IRELA* 1994:145ff for prospects before ending the Round).

Closely connected with the changes mentioned at the political level and with the uncertainty derived from them is the multiplication of "defensive" economic strategies like the creation of economic blocs. This phenomenon can be signalled as one of the most characteristic developments at the economic level for the 1990s. As *Axline* (1996:199) points out, the emergence (or resurgence) of regional trade blocs represents a different form of regionalism, characterised by its major objective of guaranteeing bloc members greater security in their international economic relations in a context of increasing vulnerability. Since the European region overcame the Euro-pessimism of the 1980s and the objective of a single market seemed closer, a trade bloc fever attacked other world regions. The consolidation of European integration meant that many countries would have to question how to react to such apparently dwindling alternatives to a diversion of trade. The establishment of a Common Market in 1993 was seen as a clear example of increasing isolationism in the industrialized countries and likely to have a negative impact on developing countries (see *Meller* 1993, *Hufbauer* 1991, *Krugman* 1991). In the light of this, promoting one's own regional alternatives seemed a quite rational option. It is necessary to point out that, although evidence on the negative consequences of the European Single Market for Latin America is mixed, governments in the region adopted a pessimistic position (*IRELA* 1994). They considered local regionalist strategies as instrumental in offsetting, at least partially, the expected effects of trade diversion.

Another important transformation with impact on Latin America was provoked by the decreasing relevance of strategic considerations typical of the Cold War, which implies re-formulating strategic safety areas into economic interest areas. Strategic reflections, at least as they used to be during bipolar confrontation, were no longer the basis for foreign policy decisions. The U.S. initiative for the creation of a free trade agreement with Mexico was probably the clearest example of this transformation. As *Tulchin* (1997) notes, the NAFTA initiative was first and foremost

a possibility to preserve a safety area without risking a real "open-regionalist" alternative and based on domestic economic considerations. A similar type of consideration also helps to explain a previous American initiative: the Enterprise for the Americas Initiative (EAI) launched by George Bush Sr. on June 27, 1990. EAI first and NAFTA

second represent an American response to adapt to new conditions in the world system following the transformations produced in Eastern Europe. The U.S. thus conceived regionalism as an instrument to counterbalance multilateralism and to consolidate America's regional position vis-à-vis Europe.

In Latin America in particular, some developments at the economic level can be mentioned due to their relevance to the biregional relations:

- Policy orientations in most countries seemed to confirm the direction adopted timidly during the 1980s. Privatization, deregulation, trade openings and State reforms represented the core of an economic strategy trying to achieve a more dynamic insertion into the world market. Moreover, the strategies for promoting export activities were aimed at overcoming the Latin American tendency to discourage the export sector. Moreover, in spite of this general trend, national experiences differed from each other. Timing and sequence of the reforms varied from one country to another. For example, while Argentina had already reformed its exchange, tax and tariff systems early in the 1990s, some Brazilian reforms were still pending at the end of the decade.
- Although it was decreasing, a bias against added value on export products still persisted. In general, Latin American countries preferred to expand traditional exports, like foods and agricultural products, while just a modest effort was made to support new activities or products with more value added. The decline in protection of domestic markets (unilateral tariff reduction was a common strategy in the whole region) was not accompanied by aggressive export promotion programme as happened in Asian countries (*Bird/Helwege 1994*).
- Net capital flows increased, especially during the first years of the decade, reflecting investors' confidence in macroeconomic conditions and the attractiveness of high interest rates and privatization programme. Capital flow was not due to a return to bank lending, but mainly linked to direct high investment. Although high investment flows were seen as a positive sign, short-term maturity of bonds was a cause of concern. Moreover, the impact on domestic currencies, which suffered a significant appreciation in most cases (*CEPAL 1995*), was a disquieting feature of the economic context and likely to have long-term negative impacts on export performance.

- Changing global conditions led to the consolidation of the direction of regionalism. Integration approaches tended to emphasize flexible instruments and to set less ambitious temporal limits to achieving integration goals. Unilateral tariff elimination in Latin America during the previous decade had reduced the obstacles for intra-regional trade, inaugurating a dynamic phase. The signing of the Asuncion Treaty between Argentina, Brazil, Paraguay and Uruguay in 1991 created the Common Market of the South (Mercosur). This will prove to be the most dynamic sub-regional integration scheme during the 1990s following the new direction of regionalism.

## **2.2. Biregional relations in the 1990s**

In the rapidly changing context of the post-Cold War era, Latin America's political and economic transformations can be considered a result of, as well as an answer to, adapting to new global conditions. In the 1990s, the region was definitely committed to a new type of action at the international level in order to support its long-term development goals. While Latin America's radical economic reforms created new prospects for its policies of openness, democratic conditions bestowed a greater level of accountability on its external policies. Following *IRELA* (1997), some common elements can be identified in the foreign policies of Latin American countries:

Diversification efforts. The region was clearly committed to gaining a competitive position and exploiting market opportunities in other regions of the world. Furthermore, the region looked to take advantage of the new impulse for diversification policies conferred by an increasingly interdependent world economy.

- New regionalism. Integration was seen as an instrument to achieve a more competitive position in the world economy and to consolidate regional stability. Following increasing intra-American ties, a new balance was reached in the hierarchy of relations with other regions and/or countries of the world.
- International concern for domestic political issues. As a result of democratization, Latin America began to adopt a more open attitude towards international concerns about issues traditionally under national sovereignty, like democracy and human rights.

Growing multilateralism. Latin America intensified its participation in multilateral forums for economic issues (like the World Trade Organization, WTO) and for political issues (like the United Nations, UN). This was the result of a new attitude towards such organizations, reflecting the growing concern with the regional impact of international and transnational problems.

All these elements characterizing Latin America's new form of external relations were reflected in Latin America's relationship with Europe during the 1990s. Thus, contrary to some opinions predicting an increasing gap between both regions, the relationship made significant progress during the past decade. However, this progress was quite heterogeneous. As Latin America's physiognomy transformed and changes in the European Union continued, a new range of needs and expectations challenged the biregional relations. Three simultaneous, complementary and somehow partially excluding processes characterized the biregional relations during the 1990s: the broadening of the biregional agenda, the deepening of inter-regional relations and the focusing of interest.

#### **a) Broadening the agenda**

With the economic and political transformations that occurred in Latin America, new topics entered the agenda of the relations with Europe. As shown in the European Commission's communication to the Council of 23 October 1995, "The European Union and Latin America: Present Situation and Prospects for Closer Partnership, 1996-2000 Guidelines for Cooperation", new fields like drugs, corruption, integration, environment and security appeared during the 1990s on the agenda of biregional relations.

**Drugs.** Since the end of the Cold War, drug trafficking has emerged as one of the most potentially conflictive fields in the biregional relations. The supranational and multidimensional character of drugs (including aspects like organized crime, money laundering and consumption) made the issue a cornerstone in EU- Latin American cooperation. The traditional distinction between "producers" and "consumers" became more vague, helping to merge Europe's and Latin America's positions on the subject. The first High Level Meeting on Drugs between the EU and Latin America was held in Brussels on 23 and 24 March 1998.

**Environment.** Environmental issues were increasingly considered as the other side of the liberalization of international trade, even if there is no consensus about how the first would be affected through the second. However, there is agreement that environ-



mental restriction impacts on the conditions of competitiveness, because they increase production costs. The EU considers developmental cooperation not as a special kind of cooperation but as a sort of consideration to be included in all areas of biregional cooperation. On their side, developing countries tend to see the implementation of international environmental standards as a form of disguised protectionism (see *Drekonja Kornat* 1997).

Corruption. The fight against corruption increasingly occupied the attention of both regions. Corruption is seen as a source of distortion of market forces, of instability for the political climate and of destruction for democratic institutions. The reduction of corruption is considered to be one of the most relevant aspects to be reinforced in order to allow closer political and economic cooperation between both regions. Charges of corruption are often at the base of problematic relations between both regions.

Integration. The new dynamic showed by the integration processes in both regions allowed a certain convergence between established integration programme. Deeper integration within both regions is not considered an obstacle for intensified relations between Europe and Latin America. Moreover, the nature of the relations between the regions will depend on the outcome of each integration process.

Security. From the outset, the reduction of arms and the prevention of proliferation of weapons of mass destruction have been on the agenda of biregional relations. However, both regions faced very different security issues. With the end of the Cold War, Europe and Latin America found themselves facing more similar issues resulting from the end of bipolarity and the obsolescence of traditional defence and security doctrines.

## **b) Deepening the relationship**

During the past decade, agreements between Latin America and the EU adopted a qualitatively different approach. The 1990s saw the signing of several so called "third generation agreements", such as the Andean Pact, which differed qualitatively from previous agreements (first and second generation). Third generation agreements were much more ambitious than their predecessors because they covered new issues of bilateral relations like development, technical and scientific cooperation. They also included a democratic clause setting democratic conditions as a necessary requirement to participating in the agreements. Furthermore, an "evaluative" clause allowed transformations in the conditions of existing negotiations without major re-formulations.

Thus, negotiations with individual countries could be driven through in parallel with those for regional schemes, where those individual countries were included (see Lamothe 1996).

Analysing the recent development of the biregional relationship, progress can be observed mainly in three areas: political dialogue, cooperation and the commercial and economic aspects of the relationship.

Political dialogue. The political dialogue between the EU and the different sub-regional schemes was particularly intense during the 1990s. A greater institutionalization of the existing mechanisms and the creation of new channels characterized the political dialogue throughout the decade.

1. The San José Dialogue, the oldest forum for political discussion between the EU and a Latin American sub-region, was fundamentally renewed during the 12th Ministerial Meeting held in Florence in 1996. Through a Common Solemn Declaration both parties agreed to hold the Ministerial Meetings every two years and to organize intermediate meetings between the Presidency of the SICA (Central American Integration System) and the European troika. The EU reiterated its support for the Central American peace process and reaffirmed its commitment to support reconstruction in the sub-region (Arrieta Munguía 1999).
2. The Rio Group- EU dialogue celebrated its first decade in 2000 during the Vilamoura Meeting held on 23 and 24 February in Portugal. During the meeting both parties agreed on the main issues that will occupy the biregional dialogue during the next decade: the establishment of a strategic partnership, the creation of an economic association, the consolidation of cooperation, cooperation on security issues and shared responsibility on drug issues. The Rio Group- EU dialogue has helped to facilitate Latin American access to European programme for science and technology. It also allowed the beginning of a discussion on one of the main Latin American problems: European protectionism and low Latin American competitiveness in industrial production.
3. An informal political dialogue was initiated between the CAN and the EU in 1994 following the guidelines set by the Framework Agreement which was signed on 23 April in Copenhagen. Presidential meetings, regular ministerial encounters and meetings between the European Parliament and the Andean Parliament constituted the main instruments of this dialogue. In 1996 the dialogue was institutional-

ized through a Joint Declaration. A bi-regional Commission was charged with supervising the application of the resolutions adopted at biregional level (see IRELA 1999).

4. The Summit of Heads of State and Governments of Latin America, the Caribbean and Europe held in Rio de Janeiro on 28 and 29 June, 1999 constituted the most recent and relevant event for the bi-regional political dialogue. The Summit had historical importance regardless of the concrete achievements, because it showed the political commitment existing in both regions to the idea of establishing a strategic partnership. The "new" political dialogue between Mercosur, Chile and Mexico differed from the traditional European orientation that tended to give priority to regional dialogues. This new orientation was expressed in the document elaborated by the German Presidency of the Council in October 1994, where dialogue was not only defined as a priority for the whole region but also with sub-regions and countries as well.
5. Cooperation. As a direct consequence of the economic transformation registered in Latin America, cooperation between both regions changed fundamentally during the 1990s, reflecting a new emphasis on economic and trade relations. The EU continued to represent the major source of Official Development Aid (ODA) for Latin America, accounting for half of the total ODA received by Latin America during 1998, exceeding Japan (12.7%) and the U.S. (12.3%). U.S. aid represented 492 million dollars, half the amount registered in 1994, while Japan, with 508 million, represented half the aid for 1995. ODA has decreased since the mid-1990s from \$5.6 billion in 1995 to \$4 billion in 1998 (*IRELA 2000*). This reduction reflects the confluence of some negative trends: a recession in the European continent, political pressures to cut government expenditures (especially by the main donors, France and Germany) and to meet convergence criteria, and the incorporation of EEC in the group of aid receptors (*Calderón 1996*). However, in per capita terms the region still features as the second most important recipient of global ODA after Africa. As for regional distribution, Bolivia, Peru and Nicaragua were the principal destinations for European aid, accounting for more than 35% of the total European ODA received by Latin America (*IRELA 2000*).
6. The evolution of cooperation with the European Union during the 1990s was not especially satisfactory for Latin America. Although economic cooperation increased, financial and technical cooperation declined as a result of the higher de-

velopment achieved by Latin America. However, according to Latin America, improvement in quantitative indicators hid increasing disparities between sub-regions. The different programs and budgetary lines (Technical and Financial Assistance, Humanitarian Aid and Economic Cooperation, see *Alperstein* 1998) channelling the European resources to Latin America modified its relative weight during the 1990s. Technical and Financial Assistance, representing almost 70% of total aid by the beginning of the 1990s, declined to 39.3% in 1998. Humanitarian Aid also reduced its importance in the total aid package, decreasing to 46.4% in 1998. Moreover, Emergency Aid tended to absorb an increasing part of the Humanitarian Aid, to the detriment of "regular" aid. This tendency was reinforced after the creation in 1992 of the European Community Humanitarian Office (ECHO). In contrast, during recent years Economic Cooperation has increased its importance in the total amount of cooperation. Several specific programmes for Latin America, subsumed under Economic Cooperation, were launched during the 1990s:

7. AL-INVEST. Initiated in 1994, the programme aims at promoting direct investment in the region, technology transfer, strategic alliances and joint-ventures between Europe and Latin America. The programme was financed with 20 million ECUs. Several Eurocenters were created in Latin America to organize and facilitate contacts between both regions.
8. ALURE (Amérique Latine Utilisation Optimale de Ressources Énergétiques). The program was initiated in 1996 to support the modernization of energy systems in Latin America and promote regional energy integration. The program has at its disposal over 50 million Euros, and it is complemented by SYNERGY, another programme created to support environmentally friendly energy policies.
9. ALFA (América Latina-Formación Académica). The programme was created in 1994 to contribute to Latin America's scientific, academic and technological development. It works through cooperation and exchanges between institutions of higher education in Europe and Latin America, with a budget of more than 40 million Euros for a six year period.
10. URB-AL. The programme aimed at establishing permanent networks between European and Latin American cities, having a budget of 21 million ECUs over a period of four years. Projects by URB-AL cover issues such as urbanization management, urban democracy and social policy.

Trade and economic relations. Economic relations between Europe and Latin America did progress, but in an ambivalent way. Biregional trade has recently been marked by a sustained expansion, but it has grown at a lower level than the expansion of trade within both regions or with other regions of the world. Trade between both regions increased from 56 billion dollars in 1990 to 90 billion in 1997. This development was mainly explained by the evolution of European exports to Latin America. For Europe, Latin America became one of their most dynamic markets during the past few years. Furthermore, European firms showed that they were prepared to take advantage of the transformation process experienced by the region during the prior decade (see *Iglesias* 1999). However, although annual trade flows between the EU and Latin America grew steadily in terms of value during the 1990s, the EU's share of Latin America's external trade fell during most of the period (from 23% in 1990 to 15% in 1997, with a modest increase to 16% in 1998 (*IRELA* 2000)). Moreover, Latin America's specialization in agricultural products remained invariable in its relations with the EU. Partly as result of the trade diversion effects registered after the creation of the single market (*IRELA* 1994:398), and partly due to the lack of European incentives to modify its specialization pattern, Latin American continued concentrate its political effort on the liberalization of the European agricultural sector.

The signing of the Inter-regional Framework Cooperation Agreement between Mercosur and the EU on December 15, 1995 represented a milestone in biregional economic relations. The agreement, aimed at establishing a free trade zone between both regions (see below), opened new perspectives for the commercial relationship between Europe and Latin America. This was especially true considering the expansion ambitions of the southern bloc. Another agreement for liberalizing trade and enhancing cooperation was signed between Mexico and the EU on May 2, 1995. This agreement resulted from recognizing the negative impact of Mexico's incorporation into NAFTA for the European trade interests. From 1994 to 1995 European exports to Mexico fell by 29.4% while Mexican imports in the EU increased by 28.3% (*IRELA* 1997). The signing of an FTA-agreement was seen as an instrument to avoid a further deterioration of the European market share in Mexico, and to favour investment, especially since Mexico is the second main destination for European investors after Mercosur.

### **c) Focusing the interest**

Continuing the guidelines adopted between 1995 and 2000, Latin America, in its communication "A new European Union- Latin America partnership on the Eve of the 21st

Century (2000- 2006)", stated policies towards the region should further differentiate between countries and regions in Latin America. The European emphasis on a differentiated approach to the region was officially based on the imperative of recognizing the specific nature and needs of the different sub-regions in Latin America. Moreover, it reflects a differentiated European interest in the region. This strategy proved to be not only a temporary orientation, but a clear indication of European priorities in the region. This sub-regionalization of European policy towards Latin America was reflected in the signing of two agreements with sub-regional partners:

?? Mexico: On 2 May 1995, the EU and Mexico signed a Solemn Common Declaration expressing their intention to negotiate an agreement aimed at intensification of the political dialogue, the strengthening of bilateral cooperation and a progressive liberalization of trade. On 26 June 1996, the Council of Ministers approved the mandate authorizing the formal beginning of the dialogue. Negotiations were concluded on 24 November 1999, and the agreement was officially adopted during the Summit in Lisbon, last 23 and 24 March.

?? Mercosur: On 15 December 1995, the EU and Mercosur signed an inter-regional cooperation agreement, which should be in force until the approval of a more ambitious agreement for a biregional association, including the creation of a Free Trade Zone. However, the mandate could not be approved until June 21, 1999 (IRELA 2000). This also authorized the beginning of parallel negotiations with Chile. So far, three rounds were organized during 2000, but the type of agreement that will finally be reached is still far from clear.

### **3. The EU- Latin America/Caribbean Summit**

#### **3.1. The dynamics of the convocation**

Coinciding with the end of the old Millenium and the beginning of a new one, the Heads of State and Governments of Latin America, the Caribbean and the EU celebrated a first biregional meeting in Rio de Janeiro on June 28 and 29, 1999. The meeting was the result of a Spanish- French combined initiative. President Aznar first presented the idea of organising a meeting after the fourth Ibero- American Summit in Viña del Mar (Chile) on November 11 1996. President Chirac took the initiative again during a visit to South America in 1997. He stated on this occasion that Latin America's future should not be conceived just within the narrow framework of north- south hemispheric relations, but was also closely related to Europe, with whom a relationship

was easier to conceive due to cultural and historical links (Sotillo 1998). On 2 June 1997 the Council of General Affairs approved the proposal to hold a biregional summit, suggesting careful preparation of the event to provide the best chance of achieving concrete results. The convocation was officially approved at the European Council of Amsterdam on 17 June 1997 and Commissioner Marin suggested holding the meeting during the first half of 1999. Furthermore the agenda was to include the three main issues of cooperation, political dialogue and trade. His final suggestion was that all countries from both regions should be represented in spite of the probable practical limitations.

For Latin America and the Caribbean, the organisation of a Summit presented an unusual opportunity to examine the different aspects of biregional relations, highlighting their strengths and weaknesses (De Brito 2000). Latin American expectations for the Summit were high and, from their perspective, the meeting was to give a clear sign of the priority that the relationship with Latin America would have for the EU in the future. According to SELA (1998) the Summit was to indicate action in five main fields:

- ?? The definition of issues to be covered by a strategic biregional alliance based on the principle of "common shared interests" and "mutual benefits". This would imply the replacement of the traditional criteria of "aid" and "structural differences" by those of "reciprocal cooperation" and "equilibrated partnership".
- ?? The adoption of common policies aimed at addressing the current international crisis and contributing to a mutually binding solution for future global problems. The formulation of a common strategy aimed at positioning the biregional relation more advantageously in the global system.
- ?? The creation of a biregional framework for designing cooperative policies enhancing the transfer of technical expertise necessary to alleviate the region's poverty and inequality and improving the quality of life.
- ?? The strengthening of the political commitments adopted during the discussions and the establishment of procedures to grant their implementation and follow-up.
- ?? The demonstration of a political will for deepening and broadening the biregional relation in accordance with progress achieved at multilateral levels.

### **3.2. The results: between criticism and optimism**

In spite of some criticism by certain specialists about the modest results of the Summit, a Latin American evaluation generally emphasises the broad agreement on the general principles of the biregional relations. In the Joint Declaration issued after the Summit, the participants expressed their conviction that a strategic partnership should be based on full compliance with International Law, the purposes and principles contained in the Charter of the United Nations, the principles of non-intervention, respect for sovereignty, equality among States, and self-determination. The relationship should be built upon and contribute to the furthering of common objectives, such as strengthening representative and participatory democracy and individual freedom, the rule of law, good governance, pluralism, international peace and security, political stability and building confidence among nations (*Council of the European Union* 1999). This shared political vision of the relationship is repeatedly signalled as an important basis for establishing a strategic alliance.

Latin America was aware that the Summit could not resolve several conflicting points shaping the biregional relationship in other domains (especially at the commercial level) but hoped that it could represent a step towards a mutually satisfying solution. Tendencies in biregional trade confirm an increasing Latin American deficit and a decay in the relative importance of European markets for Latin American exports. Global Latin American exports were augmented between 1990 and 1997 by almost 90%, while exports to the EU increased by just 16%. In comparative analysis, exports to the US increased by 118%, to Asia by 80% and intra-regionally by 150% during the same period (see *Iglesias* 1999:38). Unless this tendency can be reversed, Latin American incentives for participating in a strategic partnership giving this relation priority over other hemispheric alternatives will be reduced. If Latin America do not see the possibility of having profits equal to the EU in *all* domains included in the partnership, efforts to overcome the existing conflicts will diminish.

The expected parallel announcement of the launching of negotiations with Mercosur and Chile was probably the most concrete sign of the European commitment to free trade negotiations and the Summit's most concrete outcome. Mercosur actually accounted for more than half of European sales to Latin America (*OECD* 1998) but the subregion has a large trade deficit with Europe in the industrial sector. Free trade between the EU and Mercosur is likely to be advantageous for some European sectors, like automobiles, pharmaceuticals, chemicals, machinery or even alcoholic beverages and pastries, because Mercosur actually applies high duties (round 30% on average)



and European products are more competitive and enjoy a better reputation (*Rubiolo 2000a*). As for Mercosur, the trade agreement would basically grant easier access to the European market for food, agricultural and fishery products, which account for almost half of Mercosur exports to Europe. However, the difficulties found in the EU for approving the launch of the negotiations and the European objection to modifying the Common Agricultural Policy (PAC) in the context of negotiations with Mercosur have already shown that reaching a trade agreement will not be an easy task, even if agreements in the other two domains of the negotiations (political dialogue and cooperation) are achieved.

As *Crawley (2000:13)* states, the "EU's stress on interdependence and mutual benefit in its relations with Latin America contrasts with what has been perceived as Washington's exclusive pursuit of national interest" in the region. European support for Latin American integration efforts is contrasted with US initiatives that apparently compete with regional alternatives (see the likely incorporation of Chile in the NAFTA vs. Mercosur enlargement plans). Moreover, the European concept of "co-responsibility" on drugs is contrasted with the US award on drugs (*IRELA 1999*). These contrasts, as well as the traditional links already mentioned, made any European initiative in the past likely to be a more "balanced" alternative than its U.S. counterpart. Nevertheless, this initial European advantage has been partially offset during recent years.

The lack of substantial results on economic issues has increased Latin America's scepticism about European commitment to a responsible commercial attitude, which is from the Latin American point of view a necessary requirement for Europe's global role. Without a serious commitment to further trade liberalisation, Europe is considered to be hardly handicapped in competition with the U.S. for a global position. The continuity of protectionist agricultural policy in Europe is, according to Latin America, incompatible with the establishment of strategic alliances. Moreover, words like those of Commissioner Franz Fischler, saying that "the multifunctional aspect of the Eus' agricultural policy is not up for negotiation and we have no intention of sacrificing it on the altar of free trade", (*IRELA 1999*) were interpreted negatively in Latin America. If the EU fails in the present decade to fulfil at least partially Latin American expectations, the region will definitely not support its global ambitions.

However, the 54 political, economic and cultural priorities for action listed at the final declaration certainly constitute an auspicious beginning for building a strategic alliance and establishing free trade between both regions. Actions like reinforcing existing insti-

tutional dialogues between both regions, preserving democracy or protecting human rights constitute the framework in the political field. Strengthening the multilateral trade system and open regionalism constitutes some of the priorities in the economic field, while assigning more resources to address urgent social demands or encouraging interregional exchanges between educational actors were some of the main priorities in the cultural field. Considering that Europe paid relatively little attention to Latin America during the 1980s, setting such ambitious priorities for action and qualifying a biregional association as "strategic" represents a promising change. However, only concrete progress in specific negotiations (like those held with Mercosur and Chile) will show the real commitment beyond the European rhetoric (see Rubiolo 2000). On the contrary, the lack of results at those negotiations is likely to discredit the political aims of a partnership and would probably force Latin America into closer cooperation with the U.S. for the establishment of an American Free Trade Area. In that context, the words of Cardoso are very enlightening: "Has the EU the conditions to rethink its agricultural problems? If it wants to have a role in the world it must. If it does not want to, all is well; we will talk to the USA - with which we get on very well, I stress very well - [and] with NAFTA" (Público 1999).

### **3.3. Final reflections: biregional relations and global governance**

Global changes pose a new range of challenges for Europe as well as Latin America. The current international context and the stage achieved by the European integration process oblige the EU to establish itself as a single, coherent, political actor at world level. Europe's possibilities for redefining its global position will be increasingly determined not only by further progress on internal issues but especially by its capability of assuming a leading role in the establishment of extraregional partnerships. The scope and depth of those partnerships will represent a measure of Europe's global leadership. A strong commitment to the creation of biregional structures could further represent a valuable contribution to the assessment of global issues. As regards Latin America, its position in the global system is so far not clear. Changes undergone in Latin America in the past modified its international role, giving the region more possibilities for participating in the reorganisation of the global system. But processes are still ongoing and the outcomes are not certain. A responsible, intelligent management of the biregional dialogue could contribute to augmenting Latin America's weight in the

international arena, would reshape positively its position in the world economy and would further help strengthen intraregional mechanisms.

The Summit delineates a first move on both sides to analyse those instruments and mechanisms able to represent a contribution to managing globalisation in a shared way. It was not only a valuable effort to discuss the present and future of a biregional relationship, but also was especially an attempt to define common strategies for granting both regions an adequate position in the emerging global system through concerted action. Regardless of the obvious asymmetry in the relationship, the Summit proved that the possibility of discussing common proposals while considering specific interests in both regions exists. In that sense, the Summit must be analysed as an answer to the challenges that globalisation has posed for both regions, and the results achieved - even if modest - as a milestone for the management of global issues. Although the possibility of achieving concrete decisions at this kind of forum would probably remain limited, the institutionalisation of these types of meeting would enable certain guidelines to be established for assessing some of the issues impacting at a global level.

The integrated approach applied to Latin America and Europe in the definition of a strategic association between both regions made a unique case for analysing the implications of this kind of partnership for the global system. The fact that not only economic aspects but also political, cultural and cooperation issues are under discussion gives the outcomes of this dialogue a special "global" relevance. In contrast with other biregional dialogues established by Europe (as with Asia), the incorporation of political aspects, including actions like the harmonisation of positions at multilateral fora or the formulation of common policies, makes a Latin America- Europe partnership a potentially more relevant relationship at the global level. Even if the (more conflicting) economic issues seem to outline the scope of the relationship it is definitely the political quality of the future partnership that will have the greater impact on the discussion of globalisation issues.

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