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中国、欧盟与拉美

当前议题与未来合作

[德]克敏 牛海彬——主编

Birte Klemm & Haibin Niu (eds.)

China, the EU and Latin America

Current Issues and Future Cooperation

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Foreword

The Shanghai Institutes for International Studies (SIIS) and the Friedrich-Ebert-Stiftung's (FES) Office for International Cooperation in Shanghai have been cooperation partners since 1985. During the past 25 years the collaboration has progressively deepened, especially in the fields of International Relations and Global Governance, as well as Climate and Economic Policies. Numerous conferences and workshops organised by SIIS and FES have provided a platform for Chinese and international experts to exchange views and knowledge on new developments in these fields of study.

On 27 and 28 April 2009, SIIS and FES jointly hosted an international seminar on "China, the EU and Latin America: Current Issues and Future Cooperation" in Shanghai. How the trilateral cooperation might be enhanced and global challenges be dealt with was analysed and discussed by 32 participants from the UN, China, the EU and Latin America. It was the 7th international conference on Global Governance co-organised by the two cooperation partners. The previous seminars analysed important global issues related to Asia, Europe and Africa. With the rapid development of Sino-Latin American relations over the past decade, the deepening participation of Latin America in global affairs and the readjustment of EU-Latin American relations, the conference focused on the trilateral relationship between China, the EU and Latin America, and came up with some relevant future-oriented policy thinking.

With this publication we would like to share the profound analyses, considerations and findings related to the trilateral cooperation with a broader audience. We are confident that the conference and its publication will contribute to the common development of China，the EU and Latin America.

Shanghai，December 2010

Professor Jiemian Yang，President of SIIS

Dr. Rudolf Traub-Merz，Director of the FES Office in Shanghai

Contents

Introduction: Assessing the Emerging Trilateral Relations between China, the EU and Latin America

Niu Haibin and Birte Klemm

As an emerging global player, China is expanding its economic and diplomatic ties rapidly with the developing regions, especially Africa and Latin America. European concerns about the implications of China's enlarged presence in Africa also apply with regard to China's presence in Latin America. Latin America is becoming more independent and its integration in the world economy is deepening. China is enjoying an increasing share of the external economic relations of Latin American countries, while the EU, although still Latin America's largest trading partner, is diminishing in importance in this regard. Against this background, it is fair to say that both the EU and China are the main external players with regard to Latin America's future development. Thus it is necessary to review the perspectives of both China and the EU towards Latin America.

Latin America includes a fair number of emerging powers, such as Brazil, Mexico, Argentina and Chile. These emerging powers—plus China—are beginning to exercise much more influence in global affairs. Brazil hosted the second summit of BRIC countries (Brazil, Russia, India and China) in April 2010, and Mexico's Cancun held the UN Climate Change Conference in December 2010. Brazil, Argentina, Mexico, China, four European countries as well as the EU are members of the G20, the world's premier forum for economic cooperation. The share of global issues in their external affairs is gradually rising. In some areas of international cooperation, the EU is playing a strong role in addressing global challenges. In the context of pressing global challenges, among other multilateral agendas, trilateral coordination and cooperation between China, the EU and Latin America will contribute to global public goods.

The chapters in this conference volume provide a variety of perspectives on trilateral relations. Part I offers comparative studies of the EU and China's foreign policy towards Latin America and the latter's response to their Latin American policy. Part Ⅱ focuses on the transregional cooperation between the Southern Common Market (MERCOSUR) and China, as well as the EU, respectively. In Part Ⅲ, the different perspectives of China, the EU and Latin America with regard to issues of energy security and climate change are analysed. Part Ⅳ provides some future-oriented thinking on the prospects of trilateral cooperation and its influence on multilateralism. Overall, this volume is aimed at understanding the dynamics of trilateral cooperation in the context of a pressing global agenda and increasingly close ties between China and Latin America.

1. New Experiences of South-North and South-South Cooperation

Enhancing South-South cooperation has been a strategic choice for emerging powers such as China and Brazil to explore the potential of economic globalisation since the rise of major developing countries has changed the layout of the world economy. Most Latin American countries have integrated themselves well in the world economy, especially the South American countries with diversified and balanced trade relations worldwide. China is, in this regard, an attractive choice for them; moreover, closer ties with China have helped them to some extent to deal with the world economic recession since 2008. At the same time, the EU as a traditional partner still maintains strong and comprehensive linkages with Latin America. Against this background, comparing the Sino-Latin American relationship with the EU-Latin American relationship might be helpful for both China and the EU in their efforts to learn how to build up and deepen those relationships.

1.1 EU-Latin American Relationship

According to Maihold (Chapter 1), the performance of the EU-Latin American relationship is lower than its potential and thus much more effort should be put into it. Some new EU members' lack of political willingness to engage with Latin America, the lack of common foreign and security policies and the weakening of traditional shared values all contribute to the current stagnation of EU-Latin American relations. Based on this analysis, Maihold suggests that both sides should focus on concrete interests and possibilities for cooperation, invite more actors to participate in interregional interaction and encourage Spain to play a constructive leadership role. In Chapter 2, Sanahuja systematically examines the challenges facing the EU's policies on development cooperation with Latin

America. He argues that development cooperation is a key element of biregional relations, and the EU should not reduce its aid to the region. He suggests that the EU should cooperate with middle income countries in Latin America and provide greater aid in specific areas to consolidate developmental achievements.

Agreeing with the argument that the regions suffer from their lack of a single voice in bilateral summits, Ruiz argues in Chapter 4 that Latin America is even worse off because it lacks a regional institution like the EU. Although the bilateral summits take a normative and judgmental approach, their underpinning in terms of values and interests is weakening. Latin America will not become the ideal region the EU has expected it to be for the time being, and Latin Americans also should not think of Europe solely in terms of its individual states, especially Spain.

1.2 Sino-Latin American Relationship

Latin America and China are emerging as important global partners, reflected in the fact that they are seeking more diversified and balanced external economic relations. In trade relations, China's booming demand for raw materials has contributed greatly to the new continuous and stable growth of Latin America. China is also increasing its FDI to the region in the sectors of energy, agriculture and infrastructure. It is often argued that China's presence in Latin America is driven by economic reasons since Latin America is a huge potential market and a major supplier of commodities, as well as energy. However, other voices, especially from the Chinese perspective, emphasise China's strengthening of social and cultural ties with the region, which was underlined in the release of China's Policy Paper on Latin America and Caribbean in November 2008.

Maihold argues in Chapter 1, therefore, that there are a few challenges for the Sino-Latin American relationship from the EU's perspective, including:

(1) China's long-term demand for raw materials which reinforces the role of Latin America as a supplier of raw materials to the global economy;

(2) the competition between China and Latin America for external investments;

(3) the fact that most of the trade volume with China is concentrated in a few Latin American countries; and

(4) the Taiwan issue.

A major preoccupation in Europe with regard to China's activities in Latin America is the extent to which the region will manage to diversify its economic and political agenda and expand into fields other than raw materials exports. Concerning the influence of China's Latin American policy on the EU, Sanahuja (Chapter 2) points out that it is limited because the EU does not want to compete with China for the region's resources and China does not intend to exert its political influence on the region. Niu Haibin (Chapter 3) takes a positive and optimistic view of future Sino-Latin American relations. He argues that Sino-Latin American cooperation has global implications in the areas of climate change, food security, energy security and the rebuilding of the international economic system. Financial and mutual investment cooperation will make the bilateral relationship more balanced and sustainable. Both can learn from each other with regard to their development experiences. As to the third party factor in the Sino-Latin American relationship, he argues that all sides should follow logic of globalisation and win-win thinking rather than competition between spheres of influence.

From the perspective of Latin American scholars, Ruiz points out that China's presence in Latin America is both feared and needed (Chapter 4). China has a clearer understanding of the region's diversity and has more in common with the region than the EU with regard to the international system. Besides the economic influence, she points out that China's political influence should be noted. At the same time, Ruiz argues that China will not be a substitute for the US and the EU because real interests and values must be the basis for Latin America's relations with other regions and countries.

2. MERCOSUR's Relations with the EU and China

Many experts argue that the EU's trade relationship with MERCOSUR has a North-South character, but also underline that the China-MERCOSUR relationship has similar characteristic. Barral and Ribeiro (Chapter 5) suggest that MERCOSUR's integration into the Chinese economy in the first decade of the twenty-first century seems to be reminiscent of a North-South paradigm typical of the nineteenth century: the exchange of raw materials and manufactured products. MERCOSUR has witnessed not only booming trade with China, but also challenges to the region's local industries and competition in exports to third markets. However, the authors do not object to trade with China, and they argue that MERCOSUR should maintain this trade relationship, while increasing the competitiveness of its industrial products. Carvallo Spalding (Chapter 6) agrees with the above arguments and further suggests that relations with China are evolving into cooperation on value added production and infrastructure. He suggests that MERCOSUR should use design policies to enhance education, infrastructure, innovation, a favourable investment environment and cooperation between the public and private sectors. Lu Guozheng, too, emphasises this positive attitude to the future development of MERCOSUR-China relations in Chapter 7.

Although it is a kind of North-South trade relationship, Buck argues in Chapter 8 that aggregated EU investment in Latin America exceeds its stocks in China, India or even Japan, and that it is particularly strong in non-primary sectors, which contributes more to local added value and jobs. He also argues that the EU would benefit greatly from establishing an FTA with MERCOSUR, considering its huge service economy. While he points out that the agriculture issue is the key to the FTA, he thinks that the problem is whether the world can supply enough agricultural products rather than the level of subsidies in this sector, with rising global demand for agricultural products. The post-liberal agenda—including energy, infrastructure, migration, the environment and health care—would enjoy higher priority in bilateral cooperation.

3. Energy Security and Climate Change

In Part 3, Yu Hongyuan (Chapter 9) and Sun Hongbo (Chapter 10) provide Chinese perspectives on climate change and oil cooperation, respectively. Yu Hongyuan points out that China is seeking a model that will allow it to resolve the conflicts between energy consumption and environmental degradation by means of international cooperation. China's major approaches include domestic capacity-building, win-win cooperation, common but different responsibilities and a low-carbon economy. He argues that China's active attitude towards climate change issues will have many implications, while only by adopting a real low-carbon economy could China play a leading role in the developing world.

Sun Hongbo argues that Latin America is not yet China's main oil supplier, but it could be a strategic alternative allowing China to diversify its oil supply in the long run. China's oil strategy towards Latin America should target three objectives: market entry, investment protection and oil imports. While China has great potential with regard to investing in the Latin American oil sector, Sun Hongbo proposes that China's investment should also take into account the political uncertainty in some Latin American countries, local employment and the environmental situation.

In Chapter 11, Behrens provides a comprehensive and insightful analysis of the EU's climate change and energy security policy choices, as well as their implications for cooperation between the EU and emerging economies. He argues that climate change policy in the context of ambitious greenhouse gas reduction targets may be beneficial to the security of supply. Concerning the contradictory relationship between renewable energy and energy security, he suggests that international cooperation will be crucial in achieving a clean and secure global energy system. He points out that emerging economies are not only major greenhouse gas emitters but also producers of clean energy technologies; the EU should work together with them to develop clean energy technologies and especially to improve energy efficiency.

Silva Parejas (Chapter 12) offers a Latin American perspective on international cooperation in the areas of energy security and climate change. She states that Latin America has a stronger position to compete in the world market given its efforts to diversify its energy grid, incorporate renewable energies with a view to national independence and adopt sustainable energy strategies. Silva Parejas suggests that the region's diversity should be noted rather than focusing on Brazil alone with regard to the region's climate issues. In terms of external dialogues on energy and the environment, Latin America should be treated as a specially favoured party with a focus on cooperation and win-win solutions. Like Behrens, she emphasises the importance of the International Renewable Energy Agency as a leading institutional framework for possible trilateral or multilateral cooperation.

4. Is There Any Trilateral Cooperation?

Most experts do not think that there has been substantial trilateral cooperation between China, the EU and Latin America to date, although they do have different but promising visions when imagining future scenarios for trilateral relations. Among the factors which affect trilateral cooperation, the expanding role of China in Latin America and the pressing regional and global challenges, especially in so-called "low politics", will energise the emerging trilateral cooperation.

In Chapter 13, Jiang Shixue argues that, unlike the United States, which is uneasy about China's expanding presence in the Western Hemisphere, Europe, and particularly Spain, wishes to offer a helping hand to China to further develop its relations with Latin America. Because of common Chinese and EU concerns with regard to energy security, fighting poverty and inequality in Latin America trilateral cooperation might be developed. Taking Spain as a case study, Jiang Shixue examines Spain's possibilities as a promoter of Sino-Latin American cooperation in the areas listed in China's Policy Paper on Latin America and the Caribbean. His study shows that Spain can be helpful to China in the economic, cultural and social areas—in other words, areas belonging to low politics.

Global issues require global solutions. In Chapter 14, addressing global challenges and treating the world economy as a whole, Buck argues that triangular cooperation is promising even if there is little experience in this regard. He lists the following fields of cooperation: global institutional architecture, norms, actions and so on; labour and human rights; the Doha process; education and innovation; and non-traditional security issues. Buck also presents a case study of Africa to explore the possibility of trilateral cooperation there in positive terms. Noting the negative aspects of trilateral cooperation, such as higher transaction costs, he suggests that the focus should be on structural issues and building people-to-people contacts, as well as cultural exchanges.

Fortuna Biato argues in the last chapter of this conference volume (Chapter 15) that the best way to achieve trilateral cooperation is to go through established bilateral relationships. The institutional framework is still not ready for trilateral cooperation, and the regional integration of Latin America as a whole has not been accomplished, but there is already enough space for promoting joint projects. One approach is to promote the participation of the EU and China in developing major financial development tools in Latin America, such as the American Development Bank. The other approach is to find joint projects in the areas of astronavigation, satellites, and clean energy. Cooperation between emerging powers is gradually influencing the international system and the global agenda, which does not mean they can undertake major projects without cooperation with developed countries. The Rio Group is working to promote institutional dialogue with China and the EU, which has made some progress. In the long run, a broader and deeper global agenda will provide more and more instances for achieving trilateral cooperation between China, the EU and Latin America.

The Shanghai Institutes for International Studies (SIIS) and the Friedrich-Ebert-Stiftung (FES) would like to thank all the authors for their willingness to cooperate in this publication. As all papers were written for the joint SIIS-FES International Conference "China, the EU and Latin America: Current Issues and Future Cooperation" that took place in April 2009, they therefore reflect the state of knowledge at this date. Only some of the papers were updated during the editing process.

No bilingual volume is possible without knowledgeable translators. Dr Wu Xiaozhen, Dr Zhou Baowei, Zhao Ruoyu and Lu Yang translated the English contributions into Chinese. James Patterson revised all the English papers for publication. We much appreciate their professional efforts.

Part I

Comparison of China and the EU's Relationship with Latin America

Chapter 1
A Format in Search of Substance—An Overview of Relations between the EU and Latin America in a European Perspective

Günther Maihold*

1. Introduction

Former Brazilian President Fernando Henrique Cardoso commented on his last meeting with the presidents of Latin America and the European Union as follows (Maihold 2007: 149): "Although we feel very close in spirit, in reality we continue (to be) quite distant." Although he was referring to the Madrid Summit between Europe and Latin America in 2002, this also applies to the last Summit, held on 11 and 12 May 2006 in Vienna. This meeting included the participation of one-third of the nations represented in the UN General Assembly. It resulted, on the one hand, in the commencement of negotiations aimed at concluding a free trade agreement with the Central American countries and, on the other hand, in the decision to develop a negotiation perspective with the Andean Community of Nations (ACN). In contrast to these positive results, there was still no light at the end of the tunnel regarding a final conclusion of the ongoing free trade agreement negotiations with Mercosur. In addition, Latin America's partial loss of interest in the EU due to the rising presence of China in the region was obvious.

Therefore, it is necessary to look more closely at two aspects which currently determine relations between Europe and Latin America:

(1) Traditionally, Europe and Latin America have been defined—and have defined themselves—as "natural allies" with regard to common roots (cultural

* I would like to thank Jörg Husar for his assistance with the research for this article. In the following text the term "Latin America" also refers to the Caribbean.

values and so on), an approach linked to the expectation that the development of the relationship would be similarly "natural". In the meantime, however, it has become evident that the success of the ongoing "diplomacy by summit" is limited, not only in terms of scope, but also by the lack of care taken in defining an agenda and a coherent strategy of cooperation.

(2) A number of factors, including the format of the relationship, the number of and qualitative differences with regard to actors, and the timetables imposed on the mechanisms involved have raised doubts and fostered the deception because of the deficiency in implementing the results. Instead of the agenda of the presidents' meetings being refocused, however, it was extended and a process of alternative summits with their own agenda (Business Meeting, Alternative Summit) has been put in place. The growing rivalry between the official and the alternative summit processes now makes it even more difficult for governments to reshape summit development in a more sober fashion.

2. The Formation of a Common European Latin America Policy

2.1 The Glorious Époque: The 1980s

Europe's relations with Latin America evolved significantly in the 1980s, a decade marked by major conflicts in Central America. At that time, the European Union had to decide whether it could and should arbitrate in a conflict which was characterised by high levels of confrontation typical of the Cold War. With its decision to interfere, despite the extremely difficult scenario, in the United States's backyard, the European Union for the first time assumed the role of a global power led by individual member countries, including France and Germany. Thus, the San José Process is sometimes considered to be the beginning of the Common Foreign and Security Policy (CFSP) and was very helpful for defining common European positions in international politics, in which Latin America was Europe's first counterpart. The European Union facilitated the peace talks in the region and encouraged each country to start and to advance its national democratisation processes.

2.2 The Current Phase of Stagnation

Latin America's governments, as well as representatives of civil society have started to feel a certain distance from Europe. This feeling may in part be related to—but also confused with—the fact that Latin America is today only one of the partners Europe is interested in cultivating, having played the central role in EU foreign relations during the 1980s. To some observers, this feeling of disenchantment is due to exaggerated expectations with regard to Europe's interest in Latin America; for others it demonstrates a loss of interest in Latin America by the EU. Therefore, there is growing criticism of the European Commission which, from the standpoint of Latin American politicians, is not responding adequately to the changes in their region and the needs of their people. For instance, while Europe is offering political dialogue to its Latin American counterparts, the latter expect negotiations on free trade agreements and access to the European Single Market. In this context, a climate of suspicion and a loss of confidence has arisen.

2.3 The Structure of Relations

From the point of view of Latin American governments, bi-regional relations with Europe have changed in particular since the EU began to integrate new member states. First of all, the new member states have not shown much interest in the region and are keener on developing relations with Asia. The Eastern European countries consider Latin American markets to be not very interesting or not worth trying to conquer. Therefore the traditional member states, such as Spain, France and Germany, continue to be Latin America's preferred counterparts in Europe, even though it is also looking for more intensive contacts with the East. In addition, the growing diversity in the European Union, the disparity between new and old members and the different rates of integration in different policy areas have called into question European leadership in international politics in Latin American eyes. For Latin America, European politics lacks internal consensus, while the EU has developed a tendency to draw its wagons into a circle and to intensify relations with its near neighbours, in turn neglecting relations with regions further away, such as Latin America.

Spain continues to be the major port of entry for the Latin American countries, although Spain's participation in Latin American public services privatisation processes over the past decade has led to a certain distancing. The smaller and medium-sized countries of the region in particular seem to have difficulty acting strategically in the face of the so-called "European jungle", as a result of which they are looking for a "gatekeeper" in order to come to terms with the EU.

There is growing concern in Latin America about the European tendency to talk about the new "Left" movements, parties and governments in the region as if they comprised an homogenous development. From the Latin American perspective this simplifying and generalising view seems to prove once again the misinterpretation of recent changes in the region on the part of Europeans. Already, ignoring the known lack of coordination within Latin America, the European Union suspected that the negotiations with Mercosur were a clever move to put North America under pressure in the Free Trade Area of the Americas (FTAA) process, and vice versa. Furthermore, the protracted negotiations between the EU and Mercosur, in contrast to the successful association agreements with Mexico in 1997 and Chile in 2002, demonstrate in the eyes of Latin American governments that the bilateral approach is more effective. The European emphasis on regional and bloc negotiations is not accepted by the majority of Latin American countries, for several reasons. In response, the Europeans have, for example, taken a particular stance with regard to countries which have a specific profile with regard to size, level of income and role in international politics, declaring a "strategic partnership" with Brasilia. The meeting of Presidents at the Euro-Latin American Lima Summit in 2008 made evident the EU's new commitment to Brazil, which was afforded priority since it was considered to be a strategic counterparty for the EU in the bilateral summit held with Brazil in Lisbon on 4 July 2007. This decision, which was somewhat against the grain of the inter-regional approach of the EU itself, had initially raised concerns in other Latin American countries, such as Argentina, particularly because of Europe's interest in boosting cooperation with Brazil in the sphere of biofuels. This situation, which initially was something of a complication for other members of MERCOSUR, has so far had no further impact on bi-regional relations. In fact, Brazil has had to direct all its diplomatic efforts towards ensuring that its interest in promoting bioethanol was respected by other participants. While biofuels were initially seen as a viable alternative to help achieve energy security, in the past year criticism has arisen in Europe and Latin America with regard to the sustainability of biofuel production and its compatibility with various social and environmental standards. So the initial dynamic of the Euro-Brazilian relation has been abating, whereas a corresponding strategic partnership agreement is to be signed with Mexico (European Commission 2008).

From the point of view of some Latin American countries all these elements show that the EU is only very slowly drawing conclusions from its analysis of the region's heterogeneity and the new presence of powers such as China, Iran and Russia. Nevertheless, Latin America responded to the European regionalisation idea and its attendant requirements by creating in part (similar) supranational (regional) institutions, such as the Andean Parliament. From their perspective, however, it is up to the Europeans to reanimate the free trade negotiations with the region and in doing so to foster real integration. While in Latin American intellectual circles the region's identification as "the western end of the occident" is accepted, major groups within Latin American societies are fiercely opposed to defining Latin America and its people as a sort of extension of Europe. For all the reasons outlined above, Latin Americans measure the seriousness of the so-called strategic character of their relations to Europe only in terms of concrete results.

2.4 A New Competitor in the Region: China

Since Chinese leader Deng Xiaoping extolled the "Pacific century" when he met with then Argentine President Alfonsín in 1988 (Xu 2003: 99), Sino-Latin American relations have become a model for South-South cooperation. Although the volume of trade only grew from USD 1.3 billion to USD 1.8 billion during the 1980s, the political slant that had dominated China's Latin America policy until then gave way to a more strongly economic orientation (Mann 2005: 139f.). The phase of indifference, when China restricted itself to a weakly developed cultural diplomacy and selective contacts with revolutionary forces, was over. However, the overriding importance of the United States for the Americas as a whole imposed limits on any expansion of the Chinese presence, and the dominance of authoritarian regimes in the region also hindered the initiation of more comprehensive relations (Mora 1997a: 94). During the 1950s—not least under the sway of US hegemony over the continent—broad support for Taiwan had become established in Latin America, as a result of which developing relations with the People's Republic of China was not on the agenda. Following the Cuban Revolution of 1959 China promised the new regime "revolutionary solidarity" in the anti-imperialist struggle, but the relationship remained insular, and as the Cuban came to concentrate on the Soviet Union as his strategic partner, even Cuba dropped off China's radar.

China's growing international recognition following a rapprochement with Washington and admission to the United Nations in 1971 also reinvigorated its relations with the states of Latin America. Since 1970 the People's Republic of China has expended a massive effort on establishing diplomatic relations with the countries of the region. Chinese support in central questions of international law and diplomacy suited Latin American political interests. This applied to the establishment of the two hundred nautical mile exclusive economic zone; the transfer of sovereignty over the Canal Zone to the government of Panama; and the ban on nuclear weapons in Latin America (Mora 1997b: 42). To that extent, China's "opening-up", which began in 1978, also represented a turning point in relations with Latin America, in the sense that it ushered in the export-led development of the Chinese economy and the associated growing dependency on imports. During the 1990s, Beijing worked to build closer relations, especially with those Latin American states that strongly defended the notion of non-intervention in internal affairs. After the 1989 political turmoil, Latin American governments were restrained, while China faced strong criticism from Western countries. In recent decades, China has sought dialogue with the Rio Group and improved its relations with the Caribbean states in particular, one formal expression of which was its joining of the Caribbean Development Bank (CDB) in 1997 and the Inter-American Development Bank (IDB) in 2009.

The Caribbean basin and the Central American isthmus remain among the main concerns of China's political diplomacy, given that 12 of the 26 countries that continue to maintain "diplomatic relations" with Taiwan are located in this region; in South America, only Paraguay maintains such relations. The Caribbean also represents a crucial bridgehead for Chinese investments, because from here China can exploit existing preferential access agreements to gain access to the US market (Mann 2005: 136). Also during the 1990s, China stepped up its presence in the South and Central American regional organizations, gaining observer status at the Inter-American Development Bank (IDB), the Latin American Integration Association (ALADI), the Economic Commission for Latin America and the Caribbean (ECLAC), and the Association of Caribbean States (ACS).

For China's Latin American partners the new dynamism of the Pacific dimension expands their opportunities to develop a new strand of external relations alongside those with the United States and with Europe, where they had initially concentrated their diversification efforts. They hope in particular that expanding geoeconomic ties will allow them to reduce their one-sided concentration on the United States. Latin America regards budding Chinese interest as the amalgam that could fill the gap left in recent years by Europe's lack of interest. Although the European Union has concluded bilateral global agreements with Mexico and Chile, subregional units such as Mercosur, the Andean Community (CAN), and the Central American Integration System (SICA) are still awaiting the successful conclusion of the negotiations on free trade agreements with the European Union.

The majority of Latin American states have slipped, often without serious analysis, into the old role of raw material suppliers to the global economy, reinforced on a long-term basis by China's interest in raw materials (Husar and Maihold 2005). The predominant economic interests demonstrated so far by China do not appear likely to do anything for Latin American initiatives to expand their value-added chain to encompass products with greater manufacturing content. On the other hand, few of the states in the region have yet made any serious efforts to enlarge their range of exports for the Chinese market in such a way as to expand their manufacturing capacities.

Alongside immediate economic interests, the expectation that expanding trade with China will attract more investment to the region and lead to intensified non-economic cooperation also plays a role for Latin America. From the Latin American perspective, relations with China should not only help to integrate the region in international raw materials markets, but also ensure that China is permanently tied in to Latin America's development efforts in a "trade-cooperation nexus" that would generate cooperation over and above the current trading relationship and open up a joint dimension in the design and organization of development projects. That would allow further diversification away from the United States and European Union in this field, too.

China's arrival on the scene has caused worry not only in the US Congress; the EU is also concerned about the modalities of China's presence in the region. There does not appear to be a real developmental interest which would be very important for the region; in some ways, the "non-conditionality" of Chinese cooperation has raised doubts about its commercial interests, in some way paralleling the experiences with China's presence in Africa.

Ultimately, Latin America is competing internationally for European foreign direct investment, which is increasingly flowing not to Latin America but to China, largely due to the high growth rates there. This source of capital is indispensable for the region in view of its low domestic savings rates and is absolutely crucial for countries, such as Brazil, that continue to suffer from a very high level of debt. The decisive factor will probably be whether Latin America succeeds in offering better access and guarantees of good governance and stability than its Asian rival.

Sino-Latin American trade flows have been expanding at a high rate since 2000, and there is no other region in which Latin America registers such high growth rates: the volume of foreign trade with China rose from \$2.4 billion in 1991 to \$12.6 billion in 2000, before reaching \$40 billion in 2004. Altogether, China's share of Latin American foreign trade has risen from 1.2 to 4 per cent (although the increase is concentrated in just a few countries, including Brazil, Mexico, Chile and Argentina), while the composition has shifted somewhat from agricultural to mineral products. Labour-intensive products make up 86.3 per cent of China's exports to Latin America, while exports in the opposite direction are 76.1 per cent raw materials and 23.9 per cent industrial goods. North American Free Trade Agreement (NAFTA) member Mexico, which exports primarily electronics to China, must be regarded as a special case. The volume of

Sino-Latin American trade reached $100 billion in 2007, which represents more than a doubling of trade between the region and its new Asian partner (CEPAL 2008: 151ff.).

In the rankings of China's cumulative foreign investment Latin America has reached fifth place, but only three Latin American countries are among the twelve largest recipients: Peru at seven (not least due to the priority given to iron production), Mexico at nine (largely the consequence of the construction of a Chinese textile plant) and Brazil at twelve. Over the coming years billions of dollars of Chinese investment are expected to be directed into various raw materials sectors: copper (Chile and Peru), iron and steel (Brazil), nickel (Cuba) and aluminium (Jamaica), as well as the energy resources of crude oil and natural gas. In terms of agricultural products, China's foremost interests are in soya beans and in gaining access to Brazil and Argentina for Chinese products (CEPAL 2008: 152).

The dominance of the Chinese resource security strategy has brought with it an additional incentive to restructure the corresponding sectors in the countries of Latin America, a trade nexus quite different from the European one. Just as the external trading entities for the Chinese side are state-owned companies, the leading Latin American operators in the raw materials sectors are also increasingly companies that have returned to state ownership. That means that joint ventures are generally based on cooperation between state-run enterprises, which gives them a directly political character. The options for state control that this opens up, and conversely the economic vulnerability involved, give these ventures a direct intergovernmental dimension. The same applies to the appropriation of the respective returns. This is grist to the mill of domestic clientelism and bilateral diplomatic machinations. Closely associated with this is the question of the future development trajectory of such cooperative schemes, because once the "China hype" has died down, the Latin American side will have to achieve a substantial diversification of export products for the Chinese market if it is to enjoy a secure future.

The very limited success to date in making Latin America economically competitive and the fact that rent-seeking is embedded in the structures of the state (Boeckh 2002) provides small grounds for hope in the future. Whether Sino-Latin American cooperation will take on a long-term character will probably depend decisively on the extent to which Latin America succeeds in diversifying the economic and political agenda and expanding into fields outside raw material exports. If, however, its efforts fail, it will have missed yet another rare opportunity, a preoccupation quite prominent in Europe with regard to China's activities in the region.

2.5 Fears and Hopes

On the *economic level*, Latin America is particularly interested in commercial relations which, however, have turned out to be more difficult than before, due to the perception that the EU has been converting itself into a "European castle" in order to protect its agricultural producers. The major pressure is therefore coming from the agricultural producers in Latin America, who are keen on free trade agreements with the European Union in order to achieve better market access to the huge European market. At the same time, Latin America is trying more and more to attract European investors and thus to trigger a new period of European investment, which in the past decade has been dominated by Spain. The growing importance of migration to and the remittances of Latin American migrants based in the EU have encouraged interest in developing new ideas and programmes to determine how this money could also be used to satisfy development needs. The European perception that the FTAA negotiations and the negotiations with the European Union would be managed in a competitive way collapsed in face of the sudden and unexpected halting of the continental FTAA process by Latin America.

On the *political level*, a feeling of "alienation" and a divergence in terms of basic approaches—due to differing priorities with regard to the agenda—currently dominate. For Latin America, the migration issue and access to the European market are the most important issues. Europe, however, prioritises such matters as distribution and cohesion, the level of taxes and duties in state income, as well as the appropriate model of regional integration and the need for security for European investments in the region—all issues which evoke sovereignty concerns in Latin American countries.

Regarding the *development aid agenda*, the robust agreement between Latin America and the European Union on the basic questions constitutes a solid starting point for the discussions. The European Union continues to be the major donor to the region, but the Latin American side complains about the lack of coherence between the bilateral and the European development programmes which are based on different and in part even contradictory criteria. The fact that the European Union is represented in the International Monetary Fund (IMF) and World Bank by its individual member states, whose positions are pretty much unpredictable, is also a never-ending source of concern. Latin America's governments also criticise the conditionality of European aid, the constant prioritising of civil society cooperation programmes, which in the long term limit the control of national governments, and the entirely unresolved question of the handling of the drug problem, the Latin American position on which consists of asking for more action to reduce demand in the US and Europe at national level.

At the *global level*, Latin America has discovered in China a new counterpart in its efforts to broaden its range of export partners and to match its investment interests. This has changed the Latin American attitude towards Europe which is no longer the only diversification partner for the region, apart from the dominant relations with the US. At the same time, the governments of Latin America have started to suspect that the European Union has decided to sacrifice its strategic association with Latin America if other important counterparts at the global level seem more promising.

2.6 Perspectives and New Dynamics

Traditionally, common interests and cultural values have been seen as the basis of the relationship between the European Union and Latin America. With the increasing opening up towards the US way of life, the bond with European cultural values and its importance for political action has diminished. In consequence, the Latin American partners have shown an interest in readdressing or even questioning current positions and to do so demonstratively at the global level.

In this context, many people would also like to discuss new governance issues, especially the improvement of government systems, decentralisation processes, public-private partnerships and the like. Recognizing that governance issues are of growing importance beyond the national level, major countries in Latin America have become leaders and protagonists in the processes of reform in international regimes. Thus, the global agenda is of special interest to the bigger countries, such as Brazil, Argentina and Mexico, which are trying to stake a claim to be the leading countries in the region. In this context, the question of triangular relations between the US, Europe and Latin America may be increasing in importance, which-up to now-has not attained broad acceptance in the region. On the other hand, the Latin American governments are interested in developing transatlantic relations in such a way that South Atlantic relations might one day reach the same level of intensity as the North Atlantic ones. One major step in this process could be the development of common positions on multilateral issues in international politics and in this way give rise to some sort of Euro-Latin American alliance in international affairs.

Major groups of Latin American intellectuals still continue to look at Europe as their major source of inspiration and are therefore driven by the necessity to rebuild this relationship, starting from common values and norms. This fact has significant potential in the effort to develop a more coherent and substantial association not only between governments but also between civil societies, traditionally the most active players with regard to European-Latin American understanding.

3. European Interests and the Design of the Relationship

The stagnation of its own integration process due to the struggleto achieve consensus on the Constitutional Treaty—an essential element in deepening the Common Foreign and Security Policy (CFSP)—is a serious limitation on the European interest in expanding the cooperation with Latin America. Secondly, the European Commission and EU member states consider that Latin America and the Caribbean nations are insufficiently active in developing a common position in international affairs, for example by effective coordination of their foreign policies or at least by attempting to define a common foreign policy with regard to the EU in the current and upcoming negotiations. The Rio Group has not proved to be the forum for political dialogue that the EU expected it to be.

On the other hand, the Europeans are trying to promote their model of effective multilateralism as defined in the European Security Doctrine. This approach, however, demands from the EU's partners—with regard to bi-regional relations—high levels of policy coordination and the ability to commit themselves in international conflicts. These are elements which up to now seem underdeveloped in Latin America and represent a major challenge for the countries of the region. Nevertheless, the European Union insists on making its concept of political dialogue between regional blocs the central modality of interchange with its Latin American counterparts.

The major problem the European Union is facing in its political dialogue with the Latin American states is the latter's different interpretation of the term "multilateralism": while the European states are living an "effective multilateralism", in the Latin American states a sort of "defensive multilateralism" predominates, which means that there is a lack of will to transfer sovereignty to superior institutions, such as international organisations or regimes. The primary concern of most Latin American countries is still the guarantee of national sovereignty. The European Union has not yet recognised Latin American difficulties with its new heterogeneity and regional cohesion.

Last but not least, the EU is discovering that Latin America has lost importance in comparison to other world regions, a factor which reduces the attractiveness of Latin America as an essential EU partner.

Concerning implementation of its political interests, the European Union faces a problem of deficient congruency with the Latin American sub-region. This is revealed clearly by a recent communication of the European Commission, in which it states that:

> The Commission wishes to send a positive signal indicating that Europe is interested in the region. There would appear to be an erroneous perception that the EU is too absorbed by its own enlargement, its immediate neighbours or problems elsewhere in the world. This perception also raises the issue of the visibility of the EU on the ground, given the complexity of its structures and its means of action. The Commission wishes to reaffirm that the association with Latin America is not merely a matter of fact but is also vital for the interests of both regions, for both the present and future. However, if Europe is ready to commit itself further to Latin America, it also expects a firm commitment in return (European Commission 2005).

3.1 European CFSP and New Challenges

There seem to be major problems with the Common Foreign and Security Policy's (CFSP) structure and the format of the relationship, to the point of a growing disenchantment on the part of the partners in Latin America. On the one hand, the European CFSP demands high performing counterparts in Latin America with the ability to understand and handle the three European strands of (1) common and (2) intergovernmental parts of foreign policy on the European level and (3) member states' external relations at the national level. On the other hand, the strategy of inter-regionalism is opening up new roads of bilateral arrangements which are undermining the original concept of political dialogue. At the same time, we are witnessing the emergence of new leading nations in the region which are to be the objects of major attention from the Commission and in future could take on some sort of regional representation.

Nowadays, some observers are characterising EU-Latin American relations as a "relationship without emotions". This is true insofar as the emotional parts of this old bi-regional association have been suffocated at the political level and neglected at the social level on both sides of the Atlantic for a long time. Therefore, new constitutive elements on the political level and in (civil) society are required to ground and embed the strategic relationship.

Here are some essential elements of the project to reform the European-Latin American relationship: (1) The impracticability of summit diplomacy must be overcome; (2) The Rio Group no longer functions as a representative of all Latin American partners and needs to be reformed; (3) There seems to be a need for differentiation in Europe's external relations, as well as in integration policy; (4) The bilateral agenda in Europe and Latin America includes mostly "soft" topics, which means that topics such as security are not covered by the cooperation agreement; (5) The mixing of the topics of the political dialogue agenda with those of the development agenda creates confusion between the

Latin American partners; (6) The values and cultural identity shared by Europe and Latin America include serious but often not explicit matters for political action which have to be defined and made explicit; (7) The European point of view which considers regional integration as the ultimate objective and the preferential way of coping with the problems of international relations is basically not shared or likely to be adopted in Latin America; (8) The selectivity of contacts and the growing importance of secondary relations confuses the partners: explicitly, the specific role being played by Spain in the Ibero-American context is not organically related to the EU process; (9) The potentials and dangers of the role of Spain as "intermediary", "bridge" or "main door or channel" for relations between Europe and Latin America have not been evaluated by either side; (10) This raises the question of the Europeanisation of Spain's relations with the region or the "Ibero-Americanisation" of EU-Latin American relations.

3.2 The Challenge of Asymmetry

Almost 10 years after their declaration of strategic partnership in Rio de Janeiro, the Heads of State and Presidents of Latin America/Caribbean and the European Union (EU) met in Lima on 16-17 May 2008. Since this meeting relations between the two regions have reflected their basic asymmetry. This asymmetry, pivotal in the Latin American interventions in the last EU-Latin American Summit, not only expresses the interest in the differentiated treatment of Latin America in trade negotiations between the EU and Central America (SICA), the Community of Andean Nations (CAN) and Mercosur, but also reflects contradictory political priorities in terms of thematic interests. The agenda of the presidential meeting, which tackled, on the one hand, poverty, inequality and inclusion (at the request of Latin America and the Caribbean) and, on the other hand, sustainable development, the environment, climate change and energy (which are of particular interest for the EU) encountered significant difficulties when it came to finding a common denominator. Although at first glance, in the Lima Declaration, the food price crisis played a central role, transversely permeating all themes, the interest expressed by Latin American countries in finding a new framework of relations with the EU is much more notable. In almost all the thematic agreements it is possible to perceive a lively interest in clearly conveying the heterogeneity of the countries that form the sub-continent, and the request that these differences be taken into consideration, with the EU implementing multi-speed mechanisms accordingly.

This situation is even more significant considering the scant interest expressed in integration in the final declaration; integration has indeed all but disappeared from the official discourse in bi-regional relations. If, furthermore, we take into account the pre-summit conflicts between the members of CAN with regard to the method of negotiating the Free Trade Agreement (FTA) with the EU, we will clearly see the centrifugal forces in operation between the position of Bolivia, on the one hand, and the joint position of Peru and Colombia, on the other. It should come as no surprise that, ahead of the summit, the Peruvian President clearly called for a decision by the EU to hold talks between the aforementioned countries on an individual basis, a decision the EU's negotiators had to accept in order to advance further in the process. A similar fate could await the currently stalled negotiations with the Central American countries.

Greater flexibility on the part of the EU is the dominant expectation in Latin America. Although the Presidents have confirmed their intention of upholding the sovereign equality of all states, at the Lima Summit their interest in revamping their relations with the EU was visible. Leaving behind—at least partly—the message of social cohesion used since the Guadalajara Summit in 2004, the Latin American participants have shifted their approach by asking Europe for greater flexibility in the design of cooperation programmes and compliance with the Millennium Development Goals, emphasising the specific role which middle income countries (MICs) must play. The same is true of references to the quest for effective social policies, which are being differentiated by national capacities, taking into account such instruments as the direct budget support modality and debt cancellation for social investment. As for the environment and sustainable development, the differences in how these matters are perceived are patent.

3.3 Looking for New Formats

It is not just institutional political dialogue in parliamentary, executive and civilian formats that has proved to be an effective instrument in building systems for cooperation; industry-focused dialogues have also flourished. The persons responsible for issues relating to the environment, drugs and immigration met ahead of the Summit and showed that this format might help to overcome the traditional low productivity at these events, with their ad hoc multilateralism. Accordingly, greater continuity has been achieved in the periods between summits, although the matter of supervising implementation of the agreements achieved at the presidential meetings is still pending. The proposal of the Peruvian host Alan García to commission the supervision of the agreements achieved in Lima by the *pro tempore* secretariats in Madrid and Buenos Aires until the next summit is held in Spain seems to be a good suggestion, although it does not meet the expectations of generating a more flexible institutional format.

The following points should appear on the agenda:

(1) Europe and Latin America need to develop a *new culture to shape their relationship*, and that means focusing on concrete interests and possibilities for cooperation in order to move beyond the limited and generalising politics of "let's get together" or "do me a favour";

(2) Together, the Europeans and Latin Americans must generate a *new dynamic in their relationship* to the point that they need less "cafe para todos" and more the identification of relevant counterparts in specific policy areas;

(3) There is a need to create *a new order of interaction*. That means developing new formats for interregional dialogue, for example in the sense of the "convention methodology" experienced within the context of the European constitutional process by bringing together members of Parliament with free/independent personalities, businessmen and representatives of civil society in order to prepare the decisions and reform inputs for summit diplomacy;

(4) Spain must be induced to take on a new role of constructive leadership with respect to Latin America which could give a more European dimension to the traditional bilateral focus of its engagement in the region;

(5) In addition, a new agenda should be defined for the bi-regional relationship. Commercial and trade issues, the political dialogue and the cooperation agenda should not be treated as distinct issues but more in terms of a major integration which permits a new synergy;

(6) The open thematic agenda should be reduced in order to concentrate on specific priorities;

(7) Impetus should be given to the political process between summits in order to make the relationship more continuous and substantive.

A major boost has been given by the parliamentary initiative "EuroLat". In comparison to the Lima Declaration, which entails 57 agreements covering 17 pages, the message from the second plenary session of the Euro-Latin American Parliamentary Assembly (EuroLat), addressed to the presidential summit in Lima on 1 May, was more refreshing, with more political content and a longer-term vision. This message adequately accommodates asymmetry in Euro-Latin American relations and the aim is to reflect this on the basis of a concept of solidarity and complementarity. At the same time, it proposes a global inter-regional partnership, which could (along with progress in peace and security cooperation) offer a whole new approach to bi-regional cooperation.

The message concisely and adequately sets forth the next steps for focusing and strengthening institutional and cooperation mechanisms between the parties, starting, for example, with a bi-regional centre for conflict prevention and a centre for monitoring migration. These recommendations clearly point towards real possibilities for cooperation and could form part of a system in terms of their institutional scope with regard to cooperation. This shows the virtue of cooperation and dialogue that is not obliged to cover every area, with repetition of the various global initiatives that do not allow or reflect specificity in Euro-Latin American cooperation. In this regard, parliamentary action seems to yield more results than summit diplomacy, which is unable to shake off tradition and is inevitably shaped by international events. We might therefore deduce the need to achieve greater convergence between the parliamentary initiatives and executive dynamics to tap the virtues of each of the processes.

4. Final Remarks

China's policy towards Latin America has had only a limited impact on the EU's policy. First of all, the trade interests of these two partners in the region are quite different and no "trade war" has emerged with regard to the region's resources. The Latin American countries could diversify their external trade relations more, which has indeed always been one of their major endeavours. Up to now there is no clear sign that China is intent on developing an explicit political role in the region, presumably motivated more by a reluctance to impinge on US interests than a fear of possible clashes with European ones.

US policy towards Latin America was characterized, up to the recent Summit of the Americas, by a sort of "benign neglect", especially with regard to South America. Washington relied especially on Brazil as the major force in this subregion. An open conflict has existed since the EU changed its common position on Cuba and commenced, under Spanish leadership, a policy of detente, which is what the Obama administration is now offering the Cuban government. For the European side the impact of US policy on its actions in Latin America has been more systematic on certain issues, for example the drug war and the concepts used by the US in the implementation of its strategy. In general terms, both sides have had to reconcile their positions in multilateral or regional fora and within the framework of transatlantic relations. Within the framework of the EU's policy on Latin America the concept of a transatlantic triangle between Latin America, the US and the EU has never gained much purchase.

For Europe's CFSP, Latin America was the starting point. The compatibility of common and intergovernmental elements has therefore always been present as a major challenge due to the prominent role that Spain has played in the region and the interplay between the Ibero-American process and the EU-Latin American dialogue. With EU enlargement, the elaboration of a Common Position on Cuba has been more difficult and, in general, interest in Latin America may have diminished in favour of the different regional priorities of the new member states. Unity within the EU on policy towards Latin America may be difficult to achieve on some points, but no new dynamic has emerged to serve as the general consensus-building mechanism of the CFSP. The possibility that general interest in Latin America might be more difficult to maintain is a different issue.

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Chapter 2
Challenges to EU Policies on Development Cooperation with Latin America

José Antonio Sanahuja

1. Introduction

This chapter examines EU development cooperation with Latin America. First, it considers the changes in the international development agenda that are relevant to the region. This includes the debate on cooperation with middle-income countries (MICs), implementation of the Paris Declaration on aid effectiveness and South-South development cooperation in Latin America. Second, it analyses EU development policy towards Latin America, focusing in particular on its regional dimension, the strategies adopted and the challenge represented by adapting cooperation to the creation of a "network" of Association Agreements. Special attention shall be paid to policy proposals to improve development cooperation within the framework of EU-Latin American relations.

2. International Context of Development Cooperation Policies with Regard to Latin America

Development cooperation and aid policies are going through intensive change, with regard to both ideas and practices. A broad international consensus has been achieved on the objectives of poverty reduction, social development and the Millennium Development Goals (MDGs), which form a "social agenda for globalisation". The Millennium Development Goals—and Goal 8 in particular—also aim to establish a "global partnership for development" with regard to the means needed to achieve these goals, particularly more and better aid, an open trading system, debt relief and access to technology. This agenda is not only the responsibility of advanced countries, but also expresses the developing countries' responsibility for improving their poverty reduction policies and good governance.

The European Union (EU) has been an important driving force behind this consensus and the establishment of global development goals. It has incorporated them into its own development policy. In some respects, it has tried to go further than what has been agreed at international summits. With regard to increasing aid, the EU has maintained its international commitment to spend 0.7 per cent of the Gross National Income of the most advanced countries, despite the resistance of other countries—such as the United States—and has unilaterally adopted a timetable to achieve this figure no later than 2015 (Economist 2005; European Union 2006).

The Millennium Development Goals and the Monterrey Consensus, adopted in 2002 at the UN Summit on Financing for Development, have led donors to reallocate Official Development Assistance (ODA) to basic needs and to the poorest countries, including the least developed countries (LDCs) and low-income countries (LICs). That means focusing ODA on sub-Saharan Africa, as well as on East and South Asia, reducing or even stopping ODA to middle-income countries (MICs) and especially to upper MICs. ODA is also being increased for countries involved in the so-called "Global War on Terror", such as Irag, Afghanistan and Pakistan.

This trend is more visible in Latin America and the Caribbean, where all countries, except Haiti, are classified in these income groups. Data published by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) reveal that the ODA received by this region has increased in absolute terms, from about USD 5 billion in 1998, to USD 8 700 billion in 2008; but in a context of strong aid increases, the Latin American share of total ODA shrank from 12.3 per cent in 1998 to 7.9 per cent in 2008. A number of countries—USA, Canada, Japan, Netherlands and Italy—have reduced their aid commitments to the region; the UK and Sweden have closed their offices and cooperation programmes there; and the strong increase in aid from Spain and the European Commission has not been sufficient to compensate these trends (Development Assistance Committee 2010).

Overall, the effect of the Millennium Development Goals in Latin America has been to foster a more progressive pattern of aid allocation and therefore less aid to upper MICs, although "donor darlings" and "donor orphans" were included. Between 2001 and 2006, Official Development Assistance (ODA) to upper MICs fell by over 60 per cent for Costa Rica, Mexico and Uruguay, and by roughly 30 per cent for Argentina, Chile and Panama. Lower MICs exhibit an uneven pattern, with aid reductions for some countries, such as Brazil, Ecuador, El Salvador and Paraguay. In contrast, there have been aid increases to other countries, such as Bolivia, Colombia, Cuba and Honduras. Given that changes in aid amounts are not directly related to income levels, it can be concluded that they are an outcome of donor preferences towards the so-called *donor darlings* to the detriment of the so-called *donor orphans*, as well as of a lack of coordination among donors. Finally, aid to Nicaragua, the only low-income country (LIC) in the region, also grew. In 2005, 70 per cent of Latin American ODA went only to Nicaragua, Bolivia, Honduras, Colombia and Peru; in 2006-2008 Colombia, Nicaragua, Haiti, Bolivia and Honduras received 45 per cent of total ODA for Latin America (Development Assistance Committee 2010).

Colombia is a special case. This country received—at more than 300 per cent—the largest increase in ODA during the period. The US-led "Global War on Terror", albeit unrelated to the motives and dynamics of the internal conflict in this country, became the main driver behind the strong rise of Colombia's ODA. According to OECD data, from 2006 to 2008 Colombia remained in first place in the ranking of Latin American aid recipients, receiving about 1 billion US dollars per year, or 11 per cent of total ODA to Latin America and the Caribbean (Development Assistance Committee 2010).

However, it is important to remember that ODA flows are becoming less relevant for Latin American MICs in the wider context of development finance. Private flows (foreign direct investments, portfolio investments, private loans and remittances) are increasingly important for Latin America, moving official flows down into second place. This has significant implications for development cooperation policies. ODA is losing relevance as a financing mechanism, but gaining importance as an instrument to foster policy changes. At the same time, it is necessary to address a wider development agenda related to the financial vulnerability caused by the greater volatility of private flows and the risk of financial shocks, as seems to be confirmed by the economic crisis of 2009.

Following the Millennium Development Goals agenda, in the Monterrey Consensus of 2002, donors openly recognised the need to improve aid effectiveness and change the way in which it is distributed through an increasing number of bilateral and multilateral donors, and increasingly fragmented channels of aid delivery. Thus they decided to harmonise their operational procedures in order to reduce transaction costs; to strengthen the absorption capacity and financial management of recipient countries; to make resource flows more predictable; to use more appropriate instruments, in particular, budget support; and to provide aid for development and poverty reduction decided on by developing countries, for which the latter were also responsible. The High-Level

Forum on Aid Effectiveness (HLF), comprising bilateral and multilateral donors, as well as a number of recipient countries, has adopted important documents, such as the Rome Declaration on Harmonisation (2003) and the Paris Declaration on the Effectiveness of Aid (2005). The latter, in particular, defined a new paradigm in the relationship between donors and recipients, calling the latter "partner countries", in a spirit of co-responsibility. The declaration, signed by more than 100 donors and developing countries, was intended to phase out relationships based on conditionality and to tackle the problems resulting from the proliferation of donors and the fragmentation of aid. Furthermore, all of this is based on the principles of ownership, alignment, harmonisation and mutual accountability.

2.1 Development Cooperation Policies with MICs: Relevance for Latin America

The existence of "pockets of poverty" has been claimed as justification for the maintenance of aid flows to middle-income countries (MICs). But the aid reductions to MICs have often been justified on the grounds that the real problem in many of these countries is inequality, not poverty. It is argued that it is not justifiable to hand over external resources when the internal actors themselves reject the redistributive policies needed to reduce poverty and inequality. However, this argument would be correct only if reducing aid was likely to encourage internal changes and pro-poor policies in developing countries, but this is unlikely.

There are other important reasons for maintaining aid to MICs and they are particularly applicable to the situation in Latin America. As Alonso (2007) has indicated, if the aim is to eradicate poverty, progress must also be made in the MICs, given the numbers of poor people in these countries. Second, the aid system would be establishing a perverse system of incentives and raising a moral hazard issue if progress in development were to be penalised by a reduction in aid. Third, it is important to avoid backward steps in countries where progress has not been consolidated, and in countries at high risk due to their external vulnerability to financial or other crises. Fourth, these countries also often act as regional "anchors" in terms of economic development and regional stability (for example, Mexico with regard to Central America and Brazil with regard to the Andean and South American countries). Fifth, the fight to reduce poverty and promote sustainable development partly depends on the adequate provision and maintenance of global and regional public goods and these cannot be ensured without the support of the MICs. Finally, in addition to being recipients of aid, these countries can also be donors through innovative South-South cooperation mechanisms. This means that aid to MICs may mobilise more resources and encourage the developing countries themselves and their regional organisations to take more responsibility for attaining the Millennium Development Goals. Attainment of the Millennium Development Goals, notably in Latin America and the Caribbean, requires consideration of specific features of the region's MICs. Many MICs have had periods of strong growth but have not been able to sustain it due to institutional weakness and the lack of social cohesion. Furthermore the vulnerability of their international position, particularly with regard to finance and trade, and a lack of technological capabilities in their economic systems has hindered growth. Therefore, a pervasive agenda of development cooperation with Latin American MICs, against the voices calling for a reallocation of aid to the poorest countries in Africa or Asia, must deal with three major development challenges:

(1) *Institution-building and social cohesion*: Fragile institutions undermine the capacity to provide public goods, manage distributive conflicts, deal with external shocks, regulate markets, ensure social cohesion and tackle the high level of inequality that characterises Latin American countries. All these factors contribute to impair the legitimacy of institutions. Therefore, an effective cooperation policy with MICs should include improvements in public policies through institutional reform, the reinforcement of specific health and education programmes and support for social forces favourable to change. One key aspect that illustrates both institutional weakness and the lack of cohesion is Latin American countries' fiscal weakness, which is why supporting tax reform is crucial.

(2) *Financial stability and counter-cyclical policies*: As the crises of recent years have shown, the vulnerability of MICs to financial shocks stems from their highly volatile financial situation. This requires better regulation of the international financial markets through a "new international financial architecture"; stronger national financial systems; solutions to the problem of sovereign debt by adequate international regulation, which is still lacking (International Monetary Fund proposals on this after the Argentine crisis of 2001-2002 became bogged down); and greater autonomy for MICs to apply anti-cyclical policies to preserve the progress made in reducing poverty. Within the framework of G-20 agreements addressing the 2009 economic meltdown, a number of Latin American countries are applying already successful anti-cyclical packages with these goals.

(3) *Policies to foster competitiveness and improve access to external markets*: Investments in infrastructure, human capital and technology transfer to production are better suited for MICs than poor countries. This will break the

"vicious circle" of exporting goods intensive in natural resources and low productivity jobs, as well as fiscal policies that hinder much-needed spending in education, research, development and innovation (RDI) capacities. The regulation of intellectual property rights by the World Trade Organisation (WTO) and regional trade agreements could also be an obstacle by reducing the scope for national policies in this field. What cooperation policies might play a key role here? First, well-planned trade liberalisation is required, through agreements (both regional South-South integration or "South-North" trade agreements) that ensure access to external markets, increase external investment and encourage innovation and competitiveness, but that also recognise asymmetries and allow for the application of active policies to mitigate the costs of adjustment and promote a transformation of production patterns. This is true particularly in the case of "South-North" agreements, in which asymmetries are greater. EU and external partners can play a key role in supporting these policies. Cooperation in science and technology programmes that help to generate domestic capacities and technology transfer programmes are also key elements in this competitiveness agenda.

Within the framework of the international consensus on the Millennium Development Goals, there have been various initiatives to promote the development agenda of MICs and avoid simplistic approaches to aid, with the backing of the MICs themselves, some donor countries and the multilateral development banks. The MICs' agenda was included in the *European Consensus on Development* of 2005 (European Union 2006), which maintained the priority allocation of ODA to low-income countries, but recognises the different approaches needed to deal with MIC development problems. This agenda has also been backed by the United Nations (UN) Inter-Governmental Conferences on MICs (Madrid and San Salvador 2007) and the Ibero-American Conferences.

2.2 "Post-liberal Regionalism" and "South-South Cooperation" in Latin America

Post-liberal regionalism and South-South cooperation (SSC) are both important elements in the development landscape of Latin America at the beginning of the twenty-first century. SSC is not new in the region, but it has expanded in recent years, developed bilaterally by a number of countries and also by regional organisations. The development of SSC in Latin America is a response to several factors. It is part of a "post-liberal" reinterpretation of regionalism and regional integration. It should also be seen as the expression of the more active role being played by some countries, their leadership aspirations and more assertive foreign policy (Sanahuja 2010a, 2010b), as well as their capacity to contribute to attaining the Millennium Development Goals as donors and not only as recipients. However, as middle-income countries (MICs) are not members of the OECD's Development Assistance Committee (DAC), their contributions are not recorded and do not fit into DAC categories. This makes it difficult to estimate their magnitude.

SSC is of considerable relevance to the MICs' development agenda, as it generates benefits for both donors and recipients. The MICs themselves believe that it may be a better way of meeting their needs, making greater use of local resources and generating a greater sense of ownership. Latin American SSC modalities include "horizontal" and "triangular" SSC. The horizontal type involves only developing countries, but triangular SSC also involves financial resources from a traditional donor (advanced country or multilateral agency), while the human resources and know-how come from developing countries. Recognising the importance of South-South cooperation, some DAC donors—especially Germany, Japan, Belgium, the United Kingdom and multilateral agencies (FAO, UNFPA, IICA)—have promoted triangular arrangements. Mexico, Chile, Argentina, Brazil and Colombia have been actively involved in implementation and the main recipients have been the poorest Central American and Andean countries, Paraguay and the Dominican Republic (Xalma 2007). Some modalities of SSC are constructed within the framework of regional policies. This is explained by the appearance of new regionalist strategies sometimes called "post-liberal" (Motta et al. 2007; Sanahuja 2010), in particular the Venezuelan Bolivarian Alternative for the Americas (ALBA) and the attempt to redesign South American integration within the framework of the Union of South American Nations (UNASUR). These proposals are characterised by the primacy of their political agenda, their focus on state actors rather than the liberal strategies of the so-called "open regionalism", more emphasis on common policies in energy or infrastructure than in trade liberalisation and concerns for social issues and asymmetries of development. Financial cooperation is also part of this agenda, as illustrated by the "South Bank". Additionally, regional "structural funds" are emerging to tackle regional asymmetries, such as the Mercosur Structural Convergence Fund (FOCEM). Different patterns of SSC could be seen in the region:

(1) Technical assistance and higher education cooperation focusing on the poorer countries of Latin America (Argentina and Chile).

(2) Technical assistance, infrastructure and oil financing on preferential terms for Central American countries (Mexico) through the San José oil

agreement and the "Plan Puebla-Panamá".

(3) The Brazilian decentralised model of cooperation based on semi-public actors and focusing on Africa and Asia, particularly Portuguese-speaking countries. This programme, which serves the foreign policy goals of Brazil as both a regional and a global player, includes technical assistance from the Brazilian Cooperation Agency, preferential loans from the National Economic and Social Development Bank (BNDES) and HIV/Aids drugs provided by the Osvaldo Cruz Foundation (Economist 2010).

(4) The "Bolivarian project" of Venezuela and Cuba (Petrocaribe and ALBA) is the most extensive programme of SSC in Latin America and openly linked to foreign policy goals. It represents an SSC framework based on ideological affinity rather than economic complementarity and would be inconceivable without Venezuelan oil. There are six areas of cooperation: (a) oil financing (Petrocaribe); (b) social cooperation, including Cuban doctors' missions, literacy and cultural initiatives; (c) economic cooperation through joint ventures and the People's Trade Treaty (TCP); (d) a framework to foster barter trade; (e) infrastructure and communications (TeleSur and the Cuba-Venezuela submarine cable); and (f) monetary and financial cooperation via the ALBA Fund and Bank.

3. The EU, the Architecture of Aid and Reform of Development Policy

The EU has tried to develop a common development strategy, shared by the Community and the Member States alike, in accordance with the coordination and complementarity of EU development policy. The European Development Consensus of 2005, which confirms the EU's commitment to the Millennium Development Goals (MDGs) and the Rome and Paris Declarations on Aid Effectiveness, establishes common objectives, defines common priorities and reaffirms the need for a differentiated approach to middle-income countries (MICs) and low-income countries (LICs). It establishes the following nine priority areas: (1) trade and regional integration; (2) the environment and the sustainable management of natural resources; (3) infrastructure, communications and transport; (4) water and energy; (5) rural development, territorial planning, agriculture and food security; (6) governance, democracy, human rights and support for economic and institutional reform; (7) conflict prevention and fragile states; (8) human development; and (9) social cohesion and employment.

The EU, which accounts for more than half the world's Official Development Assistance (ODA), has specifically committed itself to the principles of alignment, ownership, harmonisation, mutual responsibility and management by results, as well as to the Paris Declaration. In addition, through the European Development Consensus, the EU has undertaken to play a leadership role in this process, with commitments additional to those adopted by the OECD's Development Assistance Committee (DAC). In order to achieve this, Commission proposals assume 50 per cent of total ODA through national systems and the doubling of budget aid. This involves a significant change with regard to cooperation with Latin America, especially with LICs, which have hardly received any budget aid from the EU (Ayuso 2006). In May 2007, the Council adopted a new policy on the division of labour between the European Commission and the Member States which, in accordance with the Paris Declaration and the European Development Consensus, will encourage greater complementarities, as well as geographic and sector specialisation.

Since 1998, the EU has also undertaken an ambitious agenda of administrative reform that has tried to overcome a dysfunctional organisational structure, a lack of personnel and bureaucratic bottlenecks. There has been a "deconcentration" of Commission services and personnel towards Delegations in developing countries and improvements in staffing. Another important aspect has been the adoption of new budgetary instruments, which has rationalised the wide-ranging but fragmented panoply of budget lines and rules that were in force hitherto.[1]

The new Development Cooperation Instrument (DCI) replaces the previous "geographical budgetary lines" and at least ten thematic budgetary lines. It has an indicative budget of EUR 16 897 million for the period 2007-2013, of which EUR 2 690 million (16 per cent) has been allocated to Latin America to finance the following priorities:

(1) *promoting social cohesion*: through tax and social welfare policies, employment, the fight against illegal drugs, education and health;
(2) *regional integration*, including the interconnection of infrastructures in coordination with the European Investment Bank (EIB);
(3) *institution building*, good governance and protection of human rights, including the rights of indigenous people and minorities;
(4) supporting the creation of a *common EU-Latin America higher education area*;
(5) *promoting sustainable development*, particularly the protection of forests and biodiversity. The DCI also has an indicative budget of EUR 5 596 million for "thematic programmes"[2] covering all regions, including Latin America.

4. The "Strategic Partnership": Policy Dialogue, and EU-Latin American Development Cooperation

From its inception in the 1980s, the EU-Latin American political dialogue has evolved in a number of regional and sub-regional settings, with the ministerial dialogue between the EU and the Rio Group as the most significant. In 1999, a "Strategic Partnership" was launched, including bi-annual summits of heads of state and government. This Strategic Partnership has to its name such notable achievements as the EU association and free trade agreements with Mexico (2000) and Chile (2002). Since it was established, the Strategic Partnership has had to deal with an unfavourable international context, and Latin America seems to have slipped down the EU's foreign relations agenda. This is due to factors such as the demands of EU enlargement, and the displacement of European priorities towards the east and the Balkans. Another important factor is the primacy that security and the war on terror have acquired in international relations since the 11 September attacks, pushing development issues into the background. Moreover, with regard to trade, the EU and some Latin American countries gave preference to trade talks in the WTO which, with the enlargement of the EU, meant tackling the difficult reform of the Common Agricultural Policy (CAP). This reform, which took place in 2002 and 2003, hindered the EC's bargaining position by maintaining a "productivist" agricultural model. The difficulties posed by the agricultural chapter and the "WTO option" meant that negotiations with Mercosur have been going on for more than ten years without success. By prioritising Mexico and Chile, the countries that opted for free trade with the United States, the EU fostered, albeit involuntarily, the perception that those agreements were a "reactive" move following on from US policy.

Beyond political dialogue, a key element behind the Strategic Partnership is EU policy towards Latin America, as drafted by the European Commission and endorsed by the Council and the European Parliament. Since the first adoption of a strategy on relations with Latin America in 1994 (Council of the European Union: 1994),[3] the EU—and in particular the European Commission—has set out its regional strategy for Latin America in a series of documents.[4] The Communication *A Stronger Partnership between the European Union and Latin America*, adopted on December 2005, was endorsed by the Council Conclusions of February 2006, and set out priorities adapted to the new political cycle and to changes in Latin America. According to this Communication, the EU aims to step up political dialogue. It also proposes to complete the "network" of association agreements with the rest of Latin America and to support regional integration processes. Also on the table is more intense dialogue on the environment, and a more active role of the European Investment Bank in support of regional infrastructure. It states that social cohesion is a "priority area" of EU-Latin American relations and calls for the creation of a Euro-Latin American Parliamentary Assembly—later approved at the Vienna bi-regional summit in 2006, and an EU-Latin America higher education area.

The Communication adoptedin 2009, *The European Union and Latin America: Global Players in Partnership*, which calls for a more focused political dialogue, concerning not only bi-regional issues, but global ones, and for the first time the EC states that a specific dialogue could be established with the Union of South American Nations (UNASUR). It also suggests complementing EU support and cooperation with regional groupings, as well as a stronger bilateral relationship with countries in the region. New cooperation instruments are envisaged, such as the Latin America Investment Facility (LAIF). This initiative, inspired by the Neighbourhood Investment Facility (NIF), will pool grant resources from the Community and possible additional grants from the Member States in order to finance investment projects in the three areas of infrastructure, social cohesion and adaptation to climate change. A new instrument has also been proposed, namely an EU-Latin American Foundation to foster the participation of civil society, academic actors and mutual knowledge.

5. Regional Cooperation and Support for Integration, Regionalism and Social Cohesion

The European Community is one of the few supporters of regional cooperation in Latin America and the only one involved in bi-regional cooperation. The budget framework exclusively for regional cooperation with Latin America during the period 2002-2006 amounted to EUR 264 million for regional programmes (see Table 1). The Community has also established the European Investment Bank (EIB) funding lines of EUR 40 million for the Andean Development Corporation (CAF), and EUR 35 million with the Central American Bank for Economic Integration (BCIE). Regional cooperation has been lopsided because of the serious and ongoing problem of defining a counterpart, since there is no Latin America-wide integration organisation. Thus the EU has opted for regional programmes based on thematic "networks" and consortia largely made up of decentralised stakeholders that promote "bottom-up" regionalisation rather than formalised and institutionalised "top-down" regionalism.

Table 1 Budget Framework Exclusively for Regional Cooperation with Latin America, 2002-2006

Name and time span	Budget	Aim
Al-Invest 1993-2007	EUR 53 million in stage Ⅲ	Provision of services to EU and Latin American business to foster trade and investment
URB-AL 1996-2006	EUR 50 million (stage Ⅱ)	Local government and local development exchange and cooperation
ALFA 1994-2005	EUR 54 million (stage Ⅱ)	EU-Latin America academic networks
ALBAN 2002-2010	EUR 88 million	Scholarships for Latin American students to undertake postgraduate studies in the EU
@LIS 2002-2006	EUR 77 million	Latin America Information Society: to reduce the "digital divide" between the two regions and to promote dialogue on standards and rules
Euro Social (since 2006)	EUR 30 million	Thematic networks to exchange good practices in education, taxation, health, justice and employment
OBREAL/EULARO 2004-2007	EUR 1.3 million	EU-Latin America Relationships Observatory: Research and exchanges to monitor bi-regional relations

Source: European Commission 2002, 2007.

Sub-regional programmes with Mercosur, the Andean Community and Central America have been allotted more importance with regard to the provision of support for integration and regionalism. They involved the regional institutions as a contact point, although the financial commitment was fairly low: from 1996 to 2003, Latin America received a total of EUR 3 480 million, which includes both allocations from the Regulation concerning aid to Latin American and Asian developing countries (so-called Regulation PVD-ALA, to use its French acronym) and horizontal budget lines. Of these funds, 72 per cent correspond to bilateral actions, 17 per cent to regional programmes and 12 per cent to sub-regional programmes.[5] Although some are not related to specific integration agreements, European Community (EC) projects in areas such as cross-border cooperation or water basin navigation also meet that objective (Development Researchers Network 2005).

A basic premise which will help regional cooperation to produce positive results is the degree of intra-group cohesion and the commitment of Latin American governments themselves to regional integration and its institutions. The EC has nevertheless provided support during a period of serious crisis for integration, which has conditioned the results of EC projects. The failure of regional integration not only damages the reputation of these groups and its members, but also affects the EC.

The relationship between social cohesion and free trade agreements also raises an important issue of policy coherence for the EU as it concerns the treatment of asymmetries and the links between trade, employment and the environment. It is doubtful whether this type of agreement fosters a positive relationship between free trade and social cohesion, a crucial issue in development and the poverty reduction agenda in Latin America. In particular, the possible negotiation of association agreements with Central American and Andean countries raises major problems regarding the treatment of asymmetries and their impact on social cohesion.

6. Roads Ahead: Relevant Strategies for EU-Latin American Cooperation

This chapter has highlighted the principal changes arising in the EU's development cooperation with Latin America, including the adoption of an international development and anti-poverty agenda dominated by the Millennium Development Goals (MDGs). Moreover, it has highlighted the strategies for achieving those goals in the middle-income countries (MICs), the increasing involvement of the latter in development cooperation by means of "post-liberal regionalism" policies and the growth of "South-South" cooperation, as well as the new principles of the Paris Declaration on Aid Effectiveness.

Against this background, EU development cooperation over the past ten years has changed positively and significantly to adapt itself to the above requirements, particularly in its strategic orientation towards the Millennium Development Goals and poverty reduction, administrative reform, planning and programming. It has also adapted the three "Cs" (coordination, complementarity and coherence) and the rationalisation of budget instruments and lines. [6]

A great effort has been made in the area of cooperation with Latin America to adapt to the above demands, notably in terms of national and sub-regional programming. Significant challenges remain, however, partly due to the change in the economic and political cycle taking place in the region. These challenges are especially visible in regional cooperation. Through the strategy devised by the EU for "stronger partnership" and the commitments assumed at the Vienna Summit in 2006, EU-Latin America relations are moving towards the building of a "network" of association agreements that will require significant changes in the years to come. In this context, the following strategies and proposals are relevant to EU-Latin America cooperation:

(1) *Maintain Aid to Latin American MICs*: Development cooperation is a

key element of bi-regional relations, and the EU's and its member states' commitment to the Millennium Development Goals should not lead to a reduction in aid to the region, since that would have a negative effect on poverty and inequality reduction, the achievement of other development goals, democratic governance and its contribution to the provision of regional and global public goods. This also means playing an active role in achieving an international consensus on cooperation with the MICs, as described above.

(2) *Greater Aid Concentration in Areas Relevant to the Specific Needs of MICs*: According to the European Consensus on Development, the EU must continue to direct resources towards the region's low-income and lower MIC countries, particularly in the Andean area and Central America, using tools such as budget support through national development and poverty reduction strategies. At the same time, cooperation with upper MICs should continue to focus on areas in which it can be most effective, such as: macroeconomic and international financial stability; institutional capacity-building and/or policy design, in particular to make public policy more effective and efficient; tax reforms ensuring sustainable redistributive policies and investments in human capital; policies for improving international competitiveness, particularly investment in infrastructure, research, development and innovation systems (R + D + I); and support for social stakeholders promoting political, institutional and legislative changes at both national and international level, and those with the capacity to mobilise additional funding, such as multilateral or sub-regional banks.

(3) *Improving Aid Effectiveness*: EU Leadership. According to the European Consensus on Development, the EU and the European Commission in particular must take the lead in applying the Paris Declaration and international commitments on aid effectiveness, which in Latin America are particularly relevant for lower MICs and LICs. Improving coordination and complementarity with Member States is particularly important, avoiding the risk of overlooking civil society stakeholders, who continue to play an important role in national development agendas and democratic governance.

(4) *Key Role of Association Agreements*: When generating development opportunities for MICs, association agreements can play an even more important role than aid transfers, since they ensure access to external markets, promote external investment and foster innovation and competitiveness. If they are to play a positive role in development, however, asymmetries must also be duly recognised and they must be designed to deal with adjustment costs and the transformation of production patterns, particularly in the case of agreements with the Andean Community and Central America.

(5) *Association Agreements, Social Cohesion and Policy Coherence*: As already mentioned, the relationship between social cohesion and the free trade component of association agreements raises a significant problem of policy coherence for the EU. Concerning trade, ensuring that these agreements have a positive impact on social cohesion requires the appropriate treatment of asymmetries, support for policies to improve competitiveness and the establishment of incentives connected to labour and social rights, good governance and the environment. [7]

(6) *Enhanced Strategy Supporting Regional Integration*: Support for regionalism and integration is a key element of the development agenda of Latin American MICs because of its potential and actual contribution to development, employment, competitiveness, governance and institutional capacity-building, and to the provision of regional public goods. The EU must maintain this support through a broader strategy, not limited to trade. It is important to be aware of the changes occurring in the regional integration "map", particularly as regards Andean Community-Mercosur convergence, the enlargement of Mercosur and the formation of the Union of South American Nations (UNASUR). Cooperation with sub-regional groups must also adapt to the "post-liberal" integration agendas, which go beyond trade liberalisation and extend to regional policies in fields such as peace and security, transport and energy infrastructure, and cross-border cooperation; environment and climate change, disaster risk reduction and mitigation; "bottom-up" regionalisation by the formation of regional civil society networks that can play an active role in the process; and the correction of regional asymmetries to ensure income convergence as well as social and territorial cohesion. The new program "Euroclima", launched at the 2008 Vienna Summit, and also the new Latin America Investment Facility (LAIF) could play an important role in these fields.

(7) *Greater Attention to South-South Cooperation by Means of Triangular Cooperation Mechanisms*: The increase in SSC confirms the growing role of the more advanced Latin American countries in the region's integration processes and development. Such cooperation provides opportunities for the EU in terms of the following: the mobilisation of additional resources, financial, human and technical; adaptation to the region's needs; greater involvement of Latin American stakeholders; and the strengthening of the institutional capacities of donors and recipients alike. In some respects, the regional programmes and their methodology of working with "networks" of decentralised stakeholders may be an appropriate basis for promoting this type of cooperation.

(8) *Improvement of Mutual Knowledge and Social Participation in Bi-regional Relations*: A permanent bi-regional organisation must be established

whose priorities include expanding the participation of the many stakeholders involved in bi-regional relations and monitoring the bi-regional agenda. This organisation, already proposed as a Euro-Latin America Foundation, would be a public-private initiative, with the Commission and the European Parliament playing an important role in its implementation, strategic orientation and funding.

(9) *Comprehensive Strategy for Cooperation in Science and Technology*: The increasing importance of research, development and innovation (R+D+I) for Latin American and Caribbean MICs requires a comprehensive strategy that encompasses EU-Latin American/Caribbean (LAC) relations as a whole. Political dialogue at ministerial level has already begun, and significant development cooperation initiatives exist. It is nevertheless important to ensure the consistency of technology transfer commitments adopted within such dialogue, the current design of the association agreements regarding rules for protecting intellectual property rights and the need to introduce policies for improving competitiveness. The current dispersal of EC instruments must be corrected in order to ensure that they help to strengthen national R + D + I capacities.

(10) *Towards a Euro-Latin American and Caribbean Higher Education Area*: The building of an EU-LAC common area of higher education and research is part of the bi-regional agenda of social cohesion, regional integration and mutual knowledge of the "strategic partnership". A broad programme of academic mobility between the two regions must be designed, and it could be based on existing educational and research institutions and networks. It is therefore important to ensure the convergence between accreditation systems. More than offering individual scholarships, this programme must foster and develop research-based centres of excellence and must bring mobility into both parties' research projects.

Notes

1. These new instruments are: the European Neighbourhood and Partnership Instrument; the Instrument for Pre-Accession Assistance; and, covering Latin America, the Financial Instrument for Development Cooperation (DCI); the Financial Instrument for the Promotion of Democracy and Human Rights (which replaces the previous European Initiative for Democracy and Human Rights); as well as the Instrument for Stability (which replaces the previous Rapid Reaction Mechanism). The most important, because of its coverage and resources, is the new DCI.
2. *Investing in people* (social and human development) with a budget of EUR 1,060 million; *non-state actors and local authorities in development* (cofinancing with NGOs and local governments), with a budget of EUR 1,639 million; *environment and sustainable*

management of natural resources including energy, with funding amounting to EUR 804 million; *food security* (Millennium Development Goals on hunger and malnutrition), with a budget of EUR 1,709 million; and *migration and asylum* (management of migration flows), with a budget of EUR 384 million.

3. This policy document, albeit named a "strategy", is not a "Common Strategy", the most relevant policy planning document in the framework of the European Common Foreign and Security Policy (ECFSP). So far, there have been only three Common Strategies: for the Mediterranean region, Russia and Ukraine.
4. They include Commission Communications to the Council and the European Parliament defining European Community policy towards Latin America, and are therefore part of the Community's decision-making process. In addition, there are programming documents for development cooperation called Regional and Subregional Strategy Papers (RSPs) and Country Strategy Papers (CSPs). In fact, the existence of a coherent programming framework is relatively recent. The period 2007-2013 is the first in which these programming frameworks have been fully set out. The two latest Commission Communications setting political priorities were published in 2005 and 2009 (European Commission 2005a, 2005b, 2009).
5. The sum is slightly higher than 100 percent because of rounding up.
6. These changes have been recognised by the Development Assistance Committee's evaluation of EC cooperation (Development Assistance Committee 2007).
7. Some of these incentives were already built on in the trade preferences of the GSP plus, covering both regional groupings.

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Chapter 3
A New Era for China-Latin American Relations: More Opportunities than Challenges

Niu Haibin

1. Introduction

Separated by the Pacific Ocean and cultural differences, hitherto Latin America and China have had little knowledge of one another and only loose ties. In an increasingly global world, however, the distance seems to be rapidly diminishing and trans-Pacific countries are becoming good neighbours. China's integration into the world economy is transforming it from a regional player into an emerging global player. Latin America and other developing regions are becoming new forefronts of China's global reach. General Bantz Craddock, former head of the US Southern Command, has said that China's influence in Latin America is an emerging dynamic that cannot be ignored (Bachelet 2005). With their increasing economic and diplomatic independence, countries in Latin America have also expanded their relations with outsiders, including China and India. Many people in Latin America look to China as an economic and political alternative to US hegemony (Hakim 2006). In the course of globalisation, China and Latin America have become close partners.

This bilateral relationship has witnessed rapid growth in trade volume, but also in cultural exchanges and political interaction over the past decade. The bilateral trade volume increased from just USD 12.2 billion in 2000 to USD 102 billion in 2007 (Chinese Ministry of Commerce 2007). At the regional level, China has been involved in the most important regional institutions as either full member or observer. China's contribution to regional infrastructure and other public goods is highly valued by Latin American countries. China issued a policy paper on Latin America and the Caribbean on 16 November 2008, after issuing papers on the EU and Africa (Chinese Government 2008). At the global level, both sides are working together to promote reform of the current international system and effective governance on global issues. The relationship between Brazil and China has been the model for South-South cooperation and has increasing global implications.

As a newcomer and an emerging global player, China also faces special challenges in Latin America. Issues such as trade competition, Taiwan, development models and geopolitical factors complicate bilateral relations significantly. How these challenges are dealt with will be crucial in the development of future Sino-Latin American relations.

2. China's Latin Leap Forward

China's 30 years of growth have been heavily reliant on foreign investments and overseas markets, which have helped it to become an active international player. Motivated primarily by its economic development, the economic linkages between China and Latin America have become much stronger. China has improved its relations with Africa and Latin America greatly since the end of the Cold War. While these relations have mainly involved economic activities, a comprehensive engagement is developing at various levels. It is fair to say that Sino-Latin American relations have entered a new phase.

2.1 Comprehensive Bilateral Cooperation

In 2004, President Hu Jintao outlined three objectives in the development of Sino-Latin American relations: first, supporting each other politically and building an all-round friendship; second, complementing each other economically and building a mutually beneficial, win-win partnership on a new basis; and third, enhancing cultural exchanges and serving as a model for dialogue between different civilisations (Hu 2004). What China is pursuing is a comprehensive relationship with Latin America.

In the political sphere, China and many Latin American countries maintain close ties and considerable political trust. There have been unprecedented and intensive high-level official visits by China to Latin America over the past decade. Regular communications between parliaments were established between China and Brazil, as well as between China and Chile. Such political visits have not only enhanced bilateral political trust but have also promoted economic cooperation. China has established strategic partnerships with Brazil, Argentina, Mexico, Venezuela and Peru. All partners share the vision of a multi-polar world order. Among them, Brazil is accorded special importance: President Hu called the bilateral relationship one of global influence when he met with his counterpart

President Lula during the G20 London Summit in April 2009. Besides these big countries, China also values its relations with smaller ones, such as Costa Rica, in a long-term perspective.

In the economic arena, bilateral cooperation has been win-win. China has emerged as the second-biggest trading partner of Latin America and the Caribbean. In his 2004 visit to Latin America, President Hu Jintao committed China to attaining USD 100 billion in bilateral trade volume by 2010: however, the figure was surpassed as early as 2007, which shows the great potential of bilateral trade (Zhou Wenzhong 2009). China surpassed the USA as Brazil's largest trade partner in 2009 (Xinhuanet 2009). The Bilateral Free Trade Agreement (FTA) with Chile is working well, and similar FTA negotiations with Costa Rica and Peru are set to be concluded. China is the most frequent user of the Panama Canal after the USA and Japan. China's direct investment in Latin America totalled USD 24.8 billion in 2008 (Moxley 2010). China's investment in the exploration of Brazil's newfound deep-sea oilfield is a more recent example of win-win cooperation. Financial cooperation has also gained momentum in recent years. Against the background of the current international financial crisis, China's booming economic relationship with Latin America sends out a hopeful message to the currently unbalanced and vulnerable world economy.

In the cultural arena, both sides value the development of people-to-people links. Bilateral tourism and cultural exchange have been promoted by the Chinese government as part of public diplomacy. China has designated more than 16 countries in the region as approved destinations for Chinese citizens to travel as tourists. Confucius Institutes and language and cultural institutes have been established at selected universities across the region. Learning Mandarin is becoming increasingly popular in Latin America, not least for the business opportunities it brings with it (Forero 2006). Networks of informal summits and meetings, either in China or in Latin America, have been established to bring opinion formers together (Kurlantzick 2006). China's development experiences and visions of peaceful development and a harmonious world have a very strong cultural and historical background. But to understand them properly, an adequate knowledge of Chinese culture is required. Such personal linkages, including bilateral exchanges between academia and think tanks, are playing a positive role in deepening mutual understanding.

2.2 Institutionalising Regional Involvement

With deepening and broadening cooperation, increasing importance is being given to regional institutions. Institutionalised dialogue through various channels has been established between Latin America and China, while similar bilateral channels between the EU and Latin America are lacking. Among them the most notable are China's becoming a permanent observer at the Organization of American States (OAS) in 2004 and a member of the Inter-American Development Bank (IDB) in 2009. In addition, China is an observer at the Latin American Parliament and has ties with the Rio Group, the Andean Community and Caricom, as well as Mercosur. Obviously, strong support from the majority of Latin American countries is the key to China's involvement in these institutional platforms. China attaches considerable importance to this institutional cooperation.

The Chinese leadership sees joining multilateral groups as a way of reducing possible apprehension of China and also as a platform for institutionalised and predictable interactions. China became the forty-eighth member of the Inter-American Development Bank (IDB) in 2009, the third from East Asia, following Japan and South Korea. Zhou Xiaochuan, governor of the People's Bank of China, highly praised the IDB's efforts to reduce poverty and promote development in the region and said that the IDB has become "the most important platform" for China's collaboration with this region when he participated in the annual governor's assembly of the IDB held in Medellin in 2009 (Zhou Xiaochuan 2009). China's financial community is ready to expand cooperation with Latin America following China's joining of IDB. China has contributed USD 350 million through the IDB to fund initiatives to help Latin American countries cope with the current global economic slowdown (IDB 2009).

2.3 Cooperation on a Global Agenda

China highly values Latin America's overall importance in the international system. In 1988, Mr Deng Xiaoping had the foresight to state that the twenty-first century should be the century of both the Pacific and Latin America. Latin America enjoys a much higher status in China's foreign strategy than as a raw materials supplier, as some observers believe. China sees Latin America as an important partner in dealing with global issues and reforming the current international system.

Building a prosperous domestic economy in a globalising world is a common task for both China and Latin American countries. In doing so, both sides should seek to make the established international economic system more reasonable and favourable for developing countries. The current world recession has made it clear that even the USA is vulnerable to the limitations of the international financial system, while most developing countries are surely in a weaker position. Learning lessons from the Asian financial crisis in 1997, most Latin

American economies have accumulated sizeable foreign exchange reserves, making them stronger and safer in the current situation. Even so, a more responsible and accountable US currency policy is necessary to maintain the value of their foreign exchange reserves. In this connection, China and Latin American countries should join hands to make the current international financial architecture gradually more accountable.

Institutional cooperation is increasing between emerging powers, including China and its Latin American counterparts. Brazil and China are key members of the emerging G/O5[1], BRIC and the G20. Mexico, a member of the North American Free Trade Agreement (NAFTA) and the Organisation for Economic Cooperation and Development (OECD), plays an important role in coordinating relations between the G5 and the G8. Argentina also plays a visible role in the increasingly important G20. Cooperation of this kind can cultivate shared visions of a future international system and enhance mutual political trust and common interests. Both China and Latin American emerging powers need to enhance cooperation in dealing with global issues such as climate change, energy security and Doha round negotiations. Transregional arrangements such as APEC and the Forum for East Asia-Latin America Cooperation (FEALAC) also have their function. China also works through UN peacekeeping missions to facilitate regional stability, and both China and Brazil have a major say in implementing UN tasks in Haiti.

3. Challenges in Current Sino-Latin American Relations

The leap forward in this relationship does not mean that the road will always be smooth. Half the countries which have "diplomatic" relations with Taiwan are located in Latin America. The win-win strategy must also survive the test of trade deficits and economic competition. As a newcomer in Latin America compared to the Western countries, China must pay attention to the concerns of the USA and the EU, but also avoid the mistakes that the USA and the EU have made. Trade competition, the Taiwan issue, development models and geopolitical factors are issues which could have a significant influence on future Sino-Latin American relations.

3.1 Shared Gains and Asymmetric Hopes

The booming economic cooperation has generated shared and mutual gains for China and Latin America. At the same time, reactions differ across Latin America and there are even higher expectations in some countries. Feelings with regard to China's growing presence in the region are mixed. While most South

American countries see China as a major potential partner for new trade and investments, Mexico and most of the Central American and Caribbean countries see China more as a competitor, entering the US market with similar labour-intensive products. Blame for the private sector's poor performance in some Latin American countries often falls on the growing presence of China in world markets (Lederman, Olarrega and Perry 2009). Some thought that by granting China free-market status they would automatically gain more trade and investments (Wu 2007). Furthermore, China has often encountered severe anti-dumping measures in some Latin American countries which offered China free-market status. These difficulties suggest that both sides face the urgent task of thinking of more effective ways of maintaining the momentum of bilateral economic cooperation.

Despite competitive pressures, China's rapid growth should be seen as an opportunity, which has actually been helping regional economies, not only because of the rapid growth in purchasing power, but also because of the growing foreign direct investment (FDI) and financial flows. In the past decade, South American countries with a comparative advantage in commodities have benefited a lot from China's growing demand for oil and other commodities. Latin America ranks second as a recipient of Chinese FDI, which has gone mainly into energy, commodities and infrastructure. It has great potential for expansion to other sectors, such as manufacturing, however. Innovation cooperation in science and technology has been heavily promoted—for example, the cooperation between China and Brazil on satellite projects. China's potential for becoming an important source of financing for Latin America is considerable. Argentina has already signed a currency swap deal totalling about RMB 70 billion with China in April 2009, making it the biggest financial deal in both Chinese and Latin American history (Turner 2009). With its sizable foreign currency reserves and increasingly active private sector, China will be one of the top creditor nations with global reach. A favourable investment climate in Latin America will be very helpful in attracting FDI from China.

China's presence in Latin America to some extent puts pressure on the region's specialisation patterns, shifting toward higher natural-resource and knowledge-intensive activities and products (Lederman, Olarrega and Perry 2009). Nations must further explore their competitive advantages in a highly segmented global market. It is therefore natural for Latin American countries with rich resources to focus on natural-resource-related industry. However, relying on a single industry will inevitably lead to vulnerability in the future. Just as China's plentiful labour supply, now mainly devoted to manufacturing, could be used to build a knowledge economy in the future, Latin American countries can improve their natural-resource sector, while strengthening know-how and innovation. If Latin American countries can do so, China and Latin America can avoid competition in manufacturing industries while being partners in building a knowledge economy. If we look further into the future, strong China-Latin American economic relations will be a positive factor in a healthy and balanced international economic system.

3.2 The Taiwan Issue

Taiwan is a sensitive issue in current and future Sino-Latin American relations. First of all, most countries in Latin America adhere to a "One China policy", which is the mainstream policy stance. Taiwan in the past took advantage of "chequebook diplomacy", FTA negotiations and loans to consolidate "diplomatic relations" with the Caribbean, Central America and Paraguay, respectively. The absence of formal diplomatic relations with these countries to some extent prevents China from developing a comprehensive regional relationship. Recently, the two sides divided by the Taiwan Strait achieved a common policy framework of peaceful development, and cultural and economic integration are being developed rapidly. Within the policy framework of peaceful development for cross-Strait relations, Beijing will continue to develop normal commercial and cultural relations with those countries with which it does not have diplomatic relations. Considering the needs of Taiwan's economic development and the practical interests of Taiwan's compatriots, the Chinese government will not object to these countries maintaining non-governmental cultural and economic ties with Taiwan.

Against this background, Taiwan's leaders came up with the idea of a diplomatic truce, to which the mainland did not react directly, although the striving for diplomatic relations in Latin America clearly decreased. It is therefore fair to say that the policy adjustment has deepened economic integration across the Taiwan Strait and has made competition less intensive in Latin America. Meanwhile, China's basic stance on Taiwan will never change, regardless of the so-called diplomatic truce. Double recognition of both sides across the Taiwan Strait is not an acceptable option to China. The Chinese government declared in 2008 that China is "willing to establish and develop state-to-state relations with the countries in Latin America on the basis of the One-China principle" in its first policy paper on Latin America and the Caribbean (Chinese Government 2008).

As some researchers have observed, the fact that a majority of the countries that still recognise Taiwan are located in the Americas reflects the sphere of influence of the United States (Tokatlian 2008). With the development of China's economy and cross-Strait relations, however, the US influence on the Taiwan issue is declining. To seize the opportunity of China's dynamic growth and adapt to the rising international influence of China, the motivation to establish formal relations with China is growing in the region. Costa Rica, an influential sub-regional country, in June 2007 became the first Central American nation in the post-Cold War era to switch its diplomatic recognition from Taiwan to mainland China. And even Latin American states that recognise Taiwan frequently adhere to the common Latin American voting stance in the UN General Assembly.

3.3 The Chinese Development Model and Its Implications

Since the Washington Consensus entered rough seas during the international financial crisis from 2008 to 2009, there have been growing concerns about the emerging competition between development models in Latin America. The Washington Consensus, the Beijing Consensus and the Santiago Consensus are probably the most influential development models in Latin America currently.

The turn to the centre or the left of Latin American politics over the past decade is a remarkable political development. It is also an important part of the background for understanding the development model discussion in Latin America. In the 1990s, most countries in the region adopted the Washington Consensus formula as a free-market recipe for restructuring their crisis-hit economies, which helped them to improve efficiency, while exacerbating many social problems, such as poverty, inequality and public security. Nearly 37 per cent of the population of the region still lives in poverty, and it remains one of the most unequal in the world in terms of wealth and income. The widely cited "turn to the left" in Latin American elections in 2005-2007 reflected the economic realities and concerns of the average voter (O'Neil 2008). Citizens need not only democracy to achieve their political rights, but also a strong and effective government to address social issues, including unemployment, public safety, education and quality of life for the majority of citizens.

In these circumstances, the participants in the World Economic Forum on Latin America in 2007 re-emphasised and shaped the Santiago Consensus, introduced in 1998. They agreed on five priorities for the region, aimed at achieving and sustaining higher productivity and growth with equity: education, the environment, R&D investment, efficient taxation and infrastructure. These priorities are intended to improve income distribution as economies grow and to take full advantage of the opportunities and innovation potential afforded by the globalisation of trade, cultural and financial flows. Take the example of infrastructure. If Latin America is to secure its place in the global supply chain and to improve regional energy security, it must invest in upgrading its infrastructure. The Santiago Consensus represents a new policy paradigm shift in the region. Chile is the best example of the Santiago Consensus so far: it has achieved the highest per capita income growth in the region.

While Latin America has achievedrapid economic growth in recent years, it has still been much slower than other regions, especially Asia, in terms of GDP growth rate. In this context, China has been a model for Latin American countries to discuss. While the so-called "Beijing Consensus" is an attempt to sum up China's growth experience, China still has no official description of what the Beijing Consensus is. According to China's own development experience, it would be wrong to follow the same path that others have taken without considering a country's own situation. In reality, both sides have been working hard to learn from each other's development experience. A large part of Chinese development studies focused on Latin America's development experience, including its economic take-off, the "lost decade", neoliberal reform and the current left-turn (Xu and Zhang 2006). Some Latin American countries are also very interested in China's successful development story. Such mutual learning can deepen our understanding of development and consolidate diverse development models.

It should be noted that even the left-leaning governments in Latin America are divided into two groups, "right left" and "wrong left", as a number of US scholars have observed (Castaneda 2006). This colourful left-wing politics warns us not to try to simplify the world too much. As the Obama administration has found out, the role of government becomes enlarged in dealing with economic recession. The World Bank's leaders have also argued that the Washington Consensus should be followed by the Santiago Consensus (World Bank 1999). In dealing with the challenge of globalisation, there will be more consensus or convergence among these three models in the long run.

3.4 Geopolitical Thinking versus the Logic of Globalisation

Last but not least, geopolitical factors confer a trilateral aspect on Sino-Latin American relations. Whether China is a threat in America's backyard or Latin America has become China's backyard are questions being discussed by US scholars and reflect a strong geopolitical approach to current Sino-Latin American relations. Closer Sino-Latin American ties have resulted in mixed reactions in US policy circles. Most analysts appear to agree that China's primary interest in the region is to gain greater access to needed resources and markets by means of trade and investment. They have confidence in America's economic and geographical advantage over China. Meanwhile, some analysts argue that China's involvement in the region could pose a future threat to US influence. They even argue that some Latin American countries look to China as an economic and political alternative to the Washington Consensus and US hegemony. China's ties to those countries ruled by left-leaning politicians with an anti-American character have also been criticised. These mixed US reactions toward China's presence in Latin America reflect the competing perspectives of globalisation and geopolitics.

Chinese scholars have also argued that it is necessary to explain and clarify by all means that China will not harm third-party interests and will look on the confrontation with the U.S. when it enters Latin America (Zhu and Liu 2008). Because of China's low-profile diplomacy, neutral political position and regular dialogues with the USA on Latin American affairs, Washington is watchful but not alarmed (Hakim 2006). The USA is confident that it will continue to be the long-term partner of preference for the region.

To assess trilateral relations between the USA, China and Latin America in a positive light, we need to clarify what their common interests are. For the USA, Latin America is the largest foreign supplier of oil, a strong partner in developing alternative fuels and one of the fastest-growing trading partners. If it is to properly address its own concerns, including illegal migration and drug trafficking, the USA needs to help the region to deal with poverty and inequality, public security, migration and energy security. China, on the other hand, needs access to regional energy and markets, and to ensure the cooperation of the region in reforming the current international system. Latin America needs investment, trade and technology to meet the challenges of development and globalisation. Based on these individual interests, a number of shared interests can be derived. China's investments in the energy sector can increase the energy supply to all, stabilise world energy prices and boost regional development. And as already mentioned, a prosperous Latin America will also send out a good message for the global economy, which benefits all.

This is similar to the situation in Africa, where booming China-Africa relations have encouraged the EU to improve its relations with Africa. A closer China-Latin America relationship will also persuade the USA to pay more attention to the region's needs since its focus has shifted to other regions since September 11. A comprehensive approach on the part of both the USA and the EU to these two developing regions will also help to develop China's foreign policy. The Chinese government attaches importance to local job creation and environmental protection. In order to minimise mutual suspicions and enhance mutual cooperation, more inclusive trilateral dialogue forms should be established. Leadership matters. In the long run, how China uses its influence and how the USA and the EU see China's increasing role in Latin America will have implications for the future direction of the international system.

4. Conclusion

Both China and Latin America represent a key focus of their respective foreign policies. Both sides are engaging with the other in a comprehensive way and at various levels. Economic cooperation has great potential not only in trade but also in investment and finance. Chinese investment in Latin America could help to upgrade the latter's industry across the board and minimise the trade deficit in Latin America. In comparison to traditional cultural and migration ties between the EU, the USA and Latin America, China's cultural linkages with Latin America are very weak. More public diplomacy, cultural exchanges and educational cooperation are needed. Both sides should encourage their citizens to get to know one another better in order to achieve shared gains and realise symmetrical rather than asymmetrical hopes (Dominguez 2006). Mutual political trust and cultural understanding could help to develop cooperation opportunities and to improve economic cooperation.

It is notable that Sino-Latin American relations have reached the regional and global level, beyond the bilateral dimension. *China's policy paper on Latin America and the Caribbean* further clarifies the goals of China's policy towards the region and outlines guiding principles for future cooperation. It marks an important milestone in Sino-Latin American relations because it treats Latin America as a whole and covers many global issues. China aims to participate in dynamic regional integration by providing public goods through regional institutions, which can promote China's soft power in the region and make bilateral relations more sustainable. Global issues such as combating climate change, disaster reduction, poverty alleviation and non-traditional security issues were included in the policy paper, which means that Latin American countries will be treated as important partners in dealing with global challenges. As emerging economies, Mexico, Argentina, Brazil and China should become more active and cooperative in shaping a more favourable world for developing countries.

Obviously, China's expanding presence in Latin America will affect third-party interests to some extent. What is most important, however, is to regard trilateral relations as win-win rather than as zero-sum. China's involvement in the region's institutional networks will make its behaviour more predictable and acceptable. China's participation in regional institutions led by the USA will also help it to reduce US suspicions. China's politically neutral position and economic focus in its engagement with Latin America will not threaten regional democracy, prosperity or integrity. In addition, China's positive engagement with Latin America will promote regional prosperity and social cohesion, which will not only benefit the region but also serve the regional interests of the USA and the EU.

Notes

1. G/O5 is the abbreviation of the so-called "outreach 5" countries, namely China, Brazil, India, South Africa and Mexico. Leaders from these five countries have regularly been invited by G8 leaders to engage in dialogue during G8 summits in recent years.

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Chapter 4
The EU, Latin America and China: Geometrical Patterns in Current and Future Relations

Erika Ruiz Sandoval

1. Introduction

The debate on what the world order will look like in the not so distant future is not only pertinent, but also urgent. Global governance and future cooperation schemes depend on what kind of structure the international system will take after the economic crisis triggered by the collapse of Lehman Brothers. However, at this point it is not easy to predict either what shape the international order will assume or what type of cooperation schemes will be best suited for the world to come and the interests of the different players. Despite this inability to make accurate predictions, certain features can already be distinguished through the fog in which we are ending the first decade of the twenty-first century.

The main purpose of this chapter is to reflect on the current issues and future cooperation opportunities between three important players in the international community: the European Union (EU), Latin America and China. Each of these players seems to be in a different position to face the challenges of the world order that is gradually taking shape. Potential cooperation schemes will depend on how each player responds to these challenges, according to country-specific characteristics. If a prediction must be made, China will be in a much better shape to participate fully in the "new world order" than the European Union and, therefore, Latin America should be planning its future alliances right now.

2. The International System: Altered States

At this point, it is hard to speak with much certainty about the state of any foreign policy or of any bilateral, bi-regional or multilateral relationship. The problem lies in the fact that the international system is in flux or, if I may say so, in an "altered state", in which nothing that we knew before seems to hold true any longer, at least not without considerable modification.

However, there are at least some facts that we can be sure of:

(1) China has become a major world power, not only because of its outstanding economic growth in recent years, but also because of the attractiveness of its development model.

(2) Europe has lost part of its soft power due to enlargement and the constitutional debacle. It has certainly lost its ascendancy over Latin America, given its inability to act on issues of particular concern in the region, its obstinate adherence to so-called shared principles and values and its ad hoc solutions when push comes to shove, as seen in the latest change of position vis-à-vis the pending agreements with the Andean Community members. Furthermore, despite being the most successful integration scheme in the world, the current economic crisis is certainly putting all EU institutions under strain, even its core principle of solidarity, as shown by the discussions surrounding the Greek debacle.

(3) Latin America has become more diverse and is moving farther and farther away from a unified position or voice on international affairs, despite the recent attempts to create a Latin American community. At the same time, it has resumed a pre-existing role as a producer of raw materials, which has given it a temporary and somewhat artificial relevance in today's world, including its apparent resilience during the current economic crisis. Nonetheless, the challenges facing the region are still many and diverse.

(4) Any reflection on relations between the EU, Latin America and China cannot exclude the "elephant in the room", namely the United States. Despite its apparent loss of steam and its difficulties during the current crisis, the USA is still a world power that will influence the formation of any type of new world order. Therefore, perhaps it would be better to talk not of a triangle but of a rhomboid that includes the USA.

(5) The world is becoming multipolar. However, this means not only that power will be distributed more evenly among states, but also that other actors must be considered in the equation. In that sense, whatever predictions are made now, it will be necessary to take into consideration the factor of power fragmentation and redistribution among different actors, including states, markets and other, more diffuse players, such as rating agencies, which have demonstrated their capacity to make or break states.

(6) Last but not least, the economic crisis we are in the middle of will certainly have an impact on all actors and will redefine many of these relations in terms of priorities and scope of action. At present, the need for cooperation is obvious. However, it does not seem to be taking place as might have been expected, regardless of the recently acquired profile of the G20 and its potential to become the basis of a new international financial architecture. Up until now, both the EU and the USA seem to have been hardest hit by the crisis and that has begged the question of their ability to remain at the helm of the international order. However, there is still hope. Jean Monnet, the father of the European integration process, once said that crises can make people do what they would not do otherwise. Can that be the case this time around?

3. Four Important Actors in the International System

3.1 The European Union: A Troubled Process and an International Actor in the Making

The European Union has changed dramatically in recent years, not only because of its enlargement to the east, which has certainly had an effect on its foreign policy priorities, but also because of the troubles experienced by the integration process itself in the wake of the constitutional debacle and the traumatic approval of the Lisbon Treaty. Today, the severity of the economic crisis is proving to be a tough test for the most advanced integration scheme in the world. Despite the advances in economic integration, the Greek debacle has pushed the EU onto the ropes, revealing that this important economic actor still has a long way to go in terms of economic governance and that even its most basic principles are moot when short-term interests are at stake. It is hard to imagine how the innovations of the Lisbon Treaty with regard to foreign policy will be able to overcome these challenges by themselves and to make the EU a strong and coherent international actor.

In recent years, as the world underwent a period of recalcitrant realism in international affairs promoted by the Bush administration, Europe was unable to take advantage of the situation to position itself, not as an alternative but as a wiser voice that could guide the reform of international institutions. The Union's own issues vis-à-vis its international relations prevent it from being the world power it should be.

Even worse, the EU is losing ground on the international stage. Regardless of its being the largest market in the world, it is being said more and more frequently that Europe will be a less important player in the world to come, especially given its incapacity to act as a single international actor and its diversity and complexity. Others point towards the imminent arrival of a new bipolar system, in which the main actors will be China and the USA, to the exclusion of the EU.

Seen from the outside, the Union is a very complex actor that few understand. There is a permanent feeling that no one is in charge and if, at any given point, someone does seem to be in charge, there are cries on all sides that it should have been someone else, as happened with the appointment of Mr Van Rompuy as President in November 2009. The same can be said of Baroness Ashton. In that sense, the European model seems to be too complex and too taxing for outside observers.

Furthermore, Europe has not yet lost its image as a paternalistic actor in terms of its cooperation schemes. Its self-assigned role as a "normative power" is not easy to sell to less developed partners, who have the constant feeling of being judged on the basis of unfair or unattainable standards. This, in the end, leads to the perception that the Union clearly has double standards. Even if this is not the case, its foreign policy, based on principles and values, lacks credibility.

3.2 Latin America: A Region in Search of Itself

Latin America has undergone an enormous transformation in the past few years. Politically, the continent is barely recognisable. The switch to the Left—or to many Lefts—has perplexed many observers. Nonetheless, the Left does not govern all of Latin America, as we can see in the cases of Mexico and Colombia.

The issues that affect the region are diverse. Drug trafficking and the associated effects of organised crime in Mexico, Colombia and some parts of the Caribbean can scarcely be categorised together with energy plans in Brazil or political turmoil in Argentina. If one issue is common to the whole region, it is migration. The effects of the veritable haemorrhaging of population in recent decades are yet to be seen, but will certainly impose a cost on the future development of the region.

In terms of values, Latin America has also suffered many changes. The region is letting slide many former values, but has adopted many new ones from the outside world. That is certainly the case with regard to the configuration of its societies and the influence of migration, for example, on traditional ways of life. However, a note of caution is in order: the so-called "Americanisation" of values in Latin America varies depending on the country and the region. If we look at the Andean countries, "Europeanisation" might well be in the works given the intense migratory flows between the two regions in the past decade.

Nonetheless, "Latin America" remains a conceptual shortcut and a political tool, given that most Latin American countries on their own would have no significance in an altered international system. However, the need to recur to the global concept of Latin America misleads partners and gives the wrong idea to outside observers.

As already noted, things in Latin America have changed, not all of them for the better. In that sense, it is understandable that some of our partners, specifically the European Union, seem permanently disappointed with the region's inequality indicators, for example. The region went from being the poster child of Western policies to being the child left behind, especially in the wake of the Asian boom. Politically, although many polls seem to confirm that democracy is healthy in Latin America, the truth is that this is hardly the case in most countries. Traditional party systems are gradually deteriorating and democratic governments are less able to solve the main problems affecting their populations. The return of populism or neo-populism, which is a style, not a form of government, has set the region back a number of decades.

The same has happened with regard to the raw materials boom in the international economy. Latin America, which seemed to have moved far away from what the authors of the dependency theory lamented decades ago, has returned to its role of commodity provider. This would not be a problem if it were not for the artificial growth provoked by the sale of these raw materials and the consequences of such growth for the political environment. Venezuela is a case in point.

Despite all these challenging issues, there is still hope in Latin America. Brazil has definitely become the new poster child for the region and its aspirations to rise from the status of regional power to that of world power must be taken into account in any future cooperation schemes. Through the Union of South American Nations (UNASUR), but also through South-South cooperation schemes, Brazil is starting to position itself as a powerful and influential actor, not only in Latin America, but worldwide. As a member of the G5, the G20 and the BRICs, Brazil will certainly have a role to play in the formation of the coming world order.

3.3 China: The Unknown Actor with a Different Vision and the Power to Produce Change

In the past few years, China has made overwhelming progress on the international scene. We now face a modern, wealthy and strong China that is eons away from the former image of this Asian country. China has presented itself as a very different international actor. In many ways, it does not seem to have the unavoidable need the Europeans have to sugarcoat its policies and interests. Just as Europe once exported its own system of international relations among states to the rest of the world, it seems that it is now the turn of Asia to reconfigure the international system. The conditions within the international system are changing in favour of large countries with strong states, and China is definitely playing an important role in this process.

An important characteristic of many Asian countries is that their governments are willing to intervene extensively in the international economy to achieve political goals that directly serve their own strategic interests. As these countries, led by China, emerge as powerful players in the system, they are changing the rules of the game. Smaller countries and countries with open economies have more difficulty being heard. The ascent of the large Asian countries, therefore, has accelerated, as European countries lose influence. Europe can only keep up with these changes if it develops a coherent strategy that integrates political and economic goals in policies directed towards the new emerging powers.

China's economic influence is global, something that is evident in many fields, including trade and financial relations. Developing and developed countries alike benefit from the ascent of China, whether it is in terms of market access, the availability of cheap labour, Chinese imports or Chinese investments and capital.

European governments also use economic means to achieve political goals, for example, through trade and aid programmes, regardless of whether they are bilateral or multilateral. The main difference is that Europeans depend, overall, on their established position within international institutions, instead of using their international economic relations as tools to gain influence. Moreover, the potential of Western governments to practice economic realism is more restricted, given that their states interfere much less in the domestic economy than is the case in Asia. Thus, when the Europeans use economic means to achieve political goals, they typically seek to achieve a normative change in a third country. By emphasising their attractiveness in terms of culture, political ideals and public policies, they seek, for example, to advance their political interests and ideals, including democratisation, the promotion of respect for human rights and good governance.

The political goals of Asian countries' foreign policies tend to be more specific and more directly related to their security and economic interests. In consequence, at least in the short and medium terms, the European strategy cannot compare with or be a counterweight to that of Asia.

These changes and Europe's relative loss of power are felt strongly in Latin America, where there are also individual actors pursuing strategies that are more similar to those of Asia than to those of Europe in terms of their search for power and hegemony, first regional and then global, as might be the case with regard to Brazil or Venezuela. In these circumstances, Latin America is also looking for a place in the new international system and is taking advantage of some of the new rules of the game being put forward by Asia.

3.4 The Elephant in the Room: The USA

It became customary to dismiss the USA as a partner other countries could talk to during the Bush era. Now we are at the beginning of a new epoch in US foreign policy. President Obama's first visits to Europe and Latin America have, if nothing else, changed the tone of these very important relations, even if, in retrospect, they did not produce fundamental changes in terms of the importance of these partners for the USA. Likewise, US links with China, given that it is dependent on Chinese credit, are of the utmost importance.

The Obama Administration will probably continue to concentrate on domestic politics. Certainly, the economic crisis has forced his government to focus on the domestic agenda, before reaching out to old or new international partners. Nonetheless, it can be said that US relations are not particularly smooth either with the EU or with Latin America, and definitely not with China. Despite this, the USA will remain an actor to be reckoned with in the years to come, even if it is still impossible to predict with certainty what kind of role it will play. On the one hand it would be good to have a USA that does not seem all powerful, because it could adopt a humbler attitude and policy and might be more willing to listen to others. However, if the USA emerges terribly debilitated from the crisis, the world will lack a leader. It is a case of "can't live with'em, can't live without'em".

4. Specific Relations between the Main Actors

4.1 Latin America-European Union

The year 2009 marked the tenth anniversary of the establishment of the so-called "strategic bi-regional association", which started with the first EU-Latin America/Caribbean (LAC) Summit in Rio de Janeiro in June 1999. The EU-LAC scheme professes to maintain a political dialogue at the highest level among partners that, in practical terms, are considered to be two homogeneous regions; hence its characterisation as "bi-regional". On the one hand, it is assumed that Latin America and the Caribbean form a single region that speaks with one voice—an assumption that can only be considered pure political fiction—and, on the other hand, that there is an EU of 27 members that, even though it is the most advanced integration process in the world, is not always capable of speaking with one voice about international issues.

Ultimately, EU-LAC summits are meetings of 60 representatives of very different states, with diverse agendas and interests which, although held dutifully every two years, produce few concrete results, beyond the obligatory declarations based on the shared values these two regions are supposed to uphold. The tenth anniversary of the EU-LAC mechanism was celebrated during the last EU Presidency with the format that prevailed before the entry into force of the Lisbon Treaty in December 2009, which meant that it was in the hands of Spain, a country for which ties with Latin America and the Caribbean are very important and which has served as the main promoter of such relations within the EU.

If the truth be told, after ten years of the so-called "strategic bi-regional association", the format has proved to be awkward and is now old and obsolete. The two-level strategy—values and interests—does not seem likely to hold for much longer. It is not a strategic relationship, it is not a bi-regional relationship and it is hardly a true association. As things stand, the "natural alliance" is no longer a reality in this partnership and it is also safe to say that Europe's regionalisation strategy in Latin America has failed, only adding to what is perceived to be a normative and judgmental approach, based on double-standards.

The main issue is still the same: Europe wants Latin America to be what it cannot be: a single region, a region with no inequality, a region with developed democracies, a region that respects the environment, a region that has economic sustainability and so on. Most of these things are unattainable for the time being, or at least they will not be achieved via foreign pressure and conditionality. Latin America is diverse, unequally developed, never too poor, never too rich, with many conflicts but of a different nature from those who call for intervention. The conversation, then, is lopsided. Last but not least, even though the USA paid little attention to its traditional backyard under the Bush administration, its strategy of signing bilateral agreements with many countries in the region basically killed the European regionalisation and group-to-group negotiation strategy for good. In that sense, when Latin Americans demand from Europeans free trade agreements and access to the European single market, it means that the rest of the many beautiful institutions—a sort of "mobile" that looks pretty but just hangs there, without touching the ground—and practices that the relationship seems to have are irrelevant for the region's countries.

Moreover, as with China, but even worse given the history of the relationship, there is a deep lack of understanding of how the European Union works and functions. Latin Americans keep thinking of Europe in terms of its individual states, especially Spain. Spain has had a controversial role in this relationship that has become evident in the past few years. It is certainly the member state that has insisted most that the European Union maintains strong relations with Latin America. However, it has started to act more as a proxy of the European Union than as a true ambassador, bridge or whatever other metaphor one might choose. This has become particularly evident on the issue of migration. It is true that Spain has been the main destination of most Latin American flows. However, whenever the European Union has launched common initiatives in the realm of migration policy, such as the infamous Return Directive, Spain has failed to act as the Union's representative and, to prevent its relations with Latin America from suffering, has even declared that the Directive would not apply in Spain.

Even if for political reasons that could be considered acceptable, in terms of the future of EU-LAC relations this is a heavy blow to mutual understanding and the strategic bi-regional association based, supposedly, on political dialogue at the highest level. Moreover, it has prevented a true dialogue between both regions on migration issues that could be taken to the multilateral level on the basis of genuinely shared interests. In the end, it calls into question the need or the relevance of the so-called bi-regional strategic association. Would it be better to keep dealing with these issues and others of a similar character within the Ibero-American fora? Overall, then, Spain is hardly representative of the current European Union, while Latin Americans are deceiving themselves by taking Spain's positions and policies as equivalent to those of Europe.

4.2 China-Latin America

China's presence in Latin America is both feared, in terms of its strength as a trade power, and needed, given that it is the sole survivor of the international crisis actually able to provide much-needed cash to Latin American economies that are in dire economic straits, such as Venezuela. The Chinese have established a bridgehead in Latin America and they will not want to leave for quite a while. They have come with a clearer understanding of the region, vis-à-vis the common misconceptions of Europeans and Americans, who still want to talk about a single Latin America. Perhaps China's relations with the region's countries will have the same result as it did for the Europeans: it will cement China's role as a major global power. After all, Latin Americans and Chinese share many more things than Europeans and Latin Americans: perhaps not from the point of view of traditional culture and values, but as members of the G5 and G20, for example. The international economic crisis will certainly be a litmus test for these relations and the coincidence of interests. Nonetheless, China has to take baby steps in terms of its relations with Latin America. Providing cash-starved governments with resources may be a double-edged sword.

From the Latin American perspective, it would be a mistake to think that China is a substitute for its relations with either the USA or the EU. None of these actors can substitute for one another. True interests—and some would say, values too—must be at the basis of relations, beyond the sempiternal need to diversify.

If facts must be taken into account, it should be noted that China will displace Europe and will be close behind the USA as a destination of Latin American exports in about a decade, according to a recent study published by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), "The People's Republic of China and Latin America and the Caribbean: Towards a Strategic Relationship". If the current growth rate of Latin American exports to its main markets is maintained, China's participation will rise from 7.6 per cent in 2009 to 19.3 per cent in 2020. In the same period, the EU will maintain participation of around 14 per cent and will be surpassed by China in 2015.

According to this report, the growth of China as a destination of Latin American exports will be achieved as a result of the persistent fall in the region's exports to the United States, from 38.6 per cent of the total in 2009 to 28.4 per cent in 2020. The ECLAC does say, however, that the importance of China as an export market varies notably among Latin American countries, given that it is a key destination for Chile, Peru and Argentina, for example, but not for Central America, with the notable exception of Costa Rica. In the case of Mexico, its exports to China represented less than 1 per cent of the total in 2009.

In terms of China's imports, the study predicts a similar evolution, or an even more radical one, given that China could surpass both the EU and the USA in 2020 and become the main origin of Latin American imports. The growth in Chinese imports will concentrate on the same capital goods that already have a presence in the region. These changes, predicted to take place in the next decade, will certainly alter the range of options available for constructing triangular relations either with the USA or the EU, Latin America and China.

However, beyond China's extraordinary economic power, it must be noted that it can have a huge political influence in the region. The Chinese development model is proving to be extremely attractive for Latin American countries hungry for high growth rates and fast industrialisation. Moreover, since the model does not include the same value-led agenda that has been pushed by the EU, focusing on democracy, social cohesion and human rights, it certainly could be attractive for Latin American elites prone to authoritarianism and populism and in search of a political discourse based on a strong state and the defence of sovereignty.

4.3 USA-Latin America

Regardless of how the USA emerges from the economic crisis, it will remain a fundamental partner for all three actors: Latin America, Europe and China. It is yet to be seen how the change in US leadership will affect its relations with the outside world. Nonetheless, the future of all three actors will, in many ways, be determined by the involvement with the USA, even to the point of being demographically intertwined, as is the case with many countries in Latin America, and especially Mexico, given the shared history of migratory flows.

Nonetheless, the future of US-Latin American relations will certainly be different from in the past. Today, Latin America seems to be more capable of standing its ground and, especially the Southern Cone, given its successful diversification strategy, to speak with its own voice. The years the USA has been absent from the region or present only through militarised relations—as has been the case with Colombia, for example—will be costly for the future of US power in the region. Likewise, the strong competition the USA will face from actors such as China will certainly impose a different character on these relations.

5. Final Remarks: Of Triangles and Rhomboids—It Depends on the Lens You Use

In conclusion, even if these all predictions prove false, the importance of China is unequivocal. Likewise, the importance of the USA or of the European Union cannot be totally dismissed yet. Latin America will remain where it is, neither the poorest of regions nor the most developed. It will probably be, yet again, the testing ground of the many policies that emerge after the economic debacle.

How different or how similar are these actors? It depends on the type of lens we use, whether a microscope, a telescope or tinted glass. Addressing the same question again in ten years' time, it cannot be said whether we will be speaking of triangles or rhomboids. Nonetheless, geometry will still matter.

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Part Ⅱ

MERCOSUR'S Relationship with the EU and China

Chapter 5
Empirical Analysis: Trade between MERCOSUR and China/EU—Trends and Figures

Welber Barral and Gustavo Ribeiro

1. Introduction

In this paper we conduct an empirical analysis of the trade between MERCOSUR and China (Section 3) as well as MERCOSUR and the EU (Section 4). Our inquiry focuses on bilateral trade data, export and import trends and the composition of MERCOSUR exports to those markets. There is a critical analysis at the end of Section 3 and 4. Trade data were compiled before the advent of the global crisis.

Some remarks about the methodology and sources of data deserve attention at the outset. We gathered data from the following sources: Aliceweb and Aliceweb-MERCOSUR (Brazilian data), SICOEX (MERCOSUR members, except Brazil), COMTRADE (world trade data) and Eurostat (EU). Export and import figures are expressed in US dollars (USD) and free on board (FOB) and refer only to trade in goods.

China's foreign trade figures do not include Hong Kong, Taiwan and Macau. The EU figures include the current 27 members. EU aggregated data are compiled from Eurostat and are in accordance with the Community Guidelines, which means that they may differ from national data. EU figures were gathered in euros and converted to USD using annual average rates available from the US Federal Reserve Bank. [1]

2. MERCOSUR: An Overview

MERCOSUR is the Southern Common Market, occasionally referred to as the Common Market of the Southern Cone. [2] The origins of MERCOSUR lie in the broader process of political realignment between Brazil and Argentina that occurred in the

1980s. The process reached its climax in July 1990, when Brazil and Argentina signed the Protocol of Buenos Aires aiming at the establishment of a common market.

At the same time, negotiations were initiated to include Uruguay and Paraguay. Eventually, on 26 March 1991, the Treaty of Asunción established MERCOSUR and expanded the project to include those countries. The Ouro Preto Protocol, signed in December 1994, brought integration a step forward with the establishment of a common external tariff (known as "TEC") and the launch of a customs union.

A common misapprehension with regard to MERCOSUR concerns the status of Venezuela, Bolivia and Chile in relation to the bloc. Although one can find sources pointing out that Venezuela and Bolivia are already full MERCOSUR members, this is not accurate.[3] Venezuela applied for MERCOSUR membership in 2009 and its request is pending approval by Paraguay's National Congress. Bolivia's request has not even achieved official formulation and only informal meetings have been convened. Chile is not a full member of MERCOSUR, but only an associate member.

As the 2007 figures illustrate, MERCOSUR comprises a population of approximately 241 million (Brazil and Argentina account for 96 per cent of the total population). MERCOSUR's GDP reached USD 2.4 trillion, with Brazil's and Argentina's economies dominating (accounting for 76 per cent and 22 per cent of total MERCOSUR GDP, respectively). By way of comparison, China's and the EU's populations are 5.5 and 2.0 times bigger than MERCOSUR's, respectively, while their GDPs are 2.9 and 6.1 times larger, as shown in Table 1.

Table 1 Population and GDP (2007)

	Population	GDP (USD), PPP	GNI (USD) per capita (PPP)
Brazil	191.6 million (5)	1.83 trillion (8)	9,370 (98)
Argentina	39.5 million (31)	523 billion (22)	12,990 (77)
Uruguay	3.3 million (130)	37.3 billion (92)	11,040 (86)
Paraguay	6.1 million (101)	26.5 billion (103)	4,380 (133)
MERCOSUR	240.5 million (≈4)	2.4 trillion (≈6)	9,979 (≈94)
China	1.32 billion (1)	7.0 trillion (2)	5,370 (≈122)
EU-27	497 million (≈3)	14.8 trillion (≈1)	33,400 (≈34)

Note: Numbers in parentheses refer to the rank of the country (or bloc) in the statistics. The symbol "≈" indicates an estimate.

Source: World Bank for GDP and GNI, CIA World Fact Book for population and Eurostat for European figures.

3. Bilateral Trade between MERCOSUR and China

While China's economic importance for Latin America, and for MERCOSUR in particular, has increased exponentially over the past few years, countries in the region should be wary of potential competition in their domestic markets.

Since the opening up of the Chinese economy and the reduction of export and import controls, Brazil's and Argentina's foreign trade has shown sustained growth, which accelerated after China undertook trade reforms—including significant tariff cuts—in the 1990s. China's accession to the WTO in 2001 further contributed to this dynamic.

From the Chinese perspective, however, MERCOSUR remains a relatively unimportant export destination. In 2007, MERCOSUR's imports from China represented around 1.3 per cent of total Chinese exports. In fact, if we aggregate some of the destinations of Chinese exports (Latin America, CIS, Africa and the Middle East), each of them represents, on average, 3.8 per cent of Chinese exports. The bulk of Chinese goods are channelled to Asia, North America and Europe. Individually, the United States and Japan are China's main trade partners.

Table 2 China's Exports, by Region and Selected Economies, 2006-2007 (USD billion)

		2006	%	2007	%
World		968.9	100	1,220.1	100
North America		219.3	22.6	252.5	20.7
	United States	203.8	21.0	233.2	19.1
Europe		215.4	22.2	288.4	23.6
	European Union	190.0	19.6	245.6	20.1
CIS*		28.0	2.8	48.1	3.9
Latin America		32.8	3.3	48.1	3.9
	MERCOSUR	10.1	1.0	16.1	1.3
Africa		26.6	2.7	37.4	3.0
Middle East		36.9	3.8	54.8	4.5
Asia**		410.7	42.3	501.0	41.0
	Japan	91.6	9.4	102.1	8.3

Notes: * The Commonwealth of Independent States (CIS) comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
** South, East and South-East Asia.
Source: Prepared by the authors based on data from COMTRADE statistics.

As far as MERCOSUR members are concerned, the major destinations for Brazilian exports were (2008, 2007): the United States (14 per cent, 15.8 per cent), Argentina (8.9 per cent, 9 per cent), China (8.3 per cent, 6.7 per cent) and the Netherlands (5.3 per cent, 5.5 per cent). The EU is ranked first, if its members' figures are aggregated (the Netherlands, Germany, Italy and Belgium are the main markets, in that order), based on Ministry of Development, Industry and Foreign Trade statistics (Aliceweb data). On the other hand, the major countries for Argentina's exports were (2008/2007): Brazil (18.6 per cent, 18.7 per cent), China (9.3 per cent, 9.4 per cent), the US (7.4 per cent, 7.4 per cent) and Chile (7.5 per cent, 6.6 per cent). The EU ranks first in 2008 if its members' figures are aggregated, based on MERCOSUR statistics (Aliceweb Mercosur data). Taken as a bloc, MERCOSUR's major export partners (2008/2007) were the EU (26 per cent, 27 per cent), the US (13.9 per cent, 15.9 per cent) and China (9.8 per cent, 8.5 per cent) (Gambini 2008: 32; Aliceweb Mercosul data).

3.1 Export and Import Trends

In the 1980s and early 1990s, both Brazilian and Argentinean exports to China represented less than 3 per cent of those countries' total foreign sales (Barral and Perrone 2007). Although trade increased steadily in the mid and late 1990s, truly spectacular growth occurred only in the following decade, as presented in Figure 1, Figure 2 and Figure 3.

Figure 1 Brazil/China Trade Balance 2002/2008 (US$ millions)

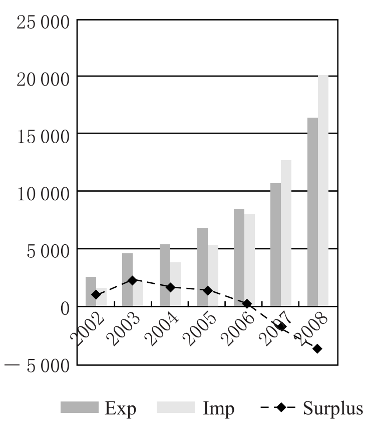


Figure 2 Argentina/China Trade Balance 2002/2008 (US$ millions)

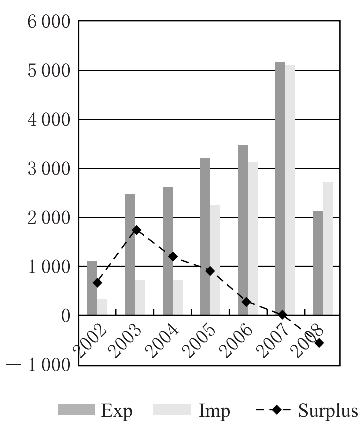
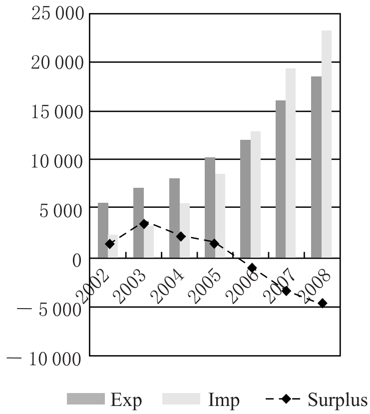


Figure 3 Mercosur/China Trade Balance 2002/2008 (US$ millions)



Source: Prepared by the authors based on data from Aliceweb and SICOEX.

In the period 2002-2007, for instance, Brazilian exports to China rose by 326 per cent (551 per cent for the period 2002-2008). Import growth rates soared to four digit figures—around 1,200 per cent—during the period 2002-2008. Argentina's trade with China followed a similar pattern of growth in the period 2002-2007, when exports and imports grew by 372 and 1,442 per cent, respectively (see Table 3).

Table 3 Exports and Imports, Annual Change (%)

Year	Brazil-China		Argentina-China		MERCOSUR-China	
	Exports	Imports	Exports	Imports	Exports	Imports
2003/2002	79.8	38	127	118	91	49
2004/2003	20.0	73	6	95	15	79
2005/2004	25.6	44	21	60	24	48
2006/2005	22.9	49	9	40	18	51
2007/2006	27.9	58	49	63	33	50
2008/2007	52.6	59	－58	－47	16	20
2007/2002	326.4	712.2	372	1,442	332	792
2008/2002	550.7	1,190	97	720	401	974

Source: Prepared by the authors based on data from Aliceweb and SICOEX.

Nonetheless, the growth rates of trade between Brazil/Argentina and China differed significantly in 2008. On the one hand, Brazilian exports to China reached USD 16.8 billion and imports USD 20 billion (up 53 per cent and 59 per cent, respectively, in comparison to 2007). Argentina, on the other hand, exported USD 2.2 billion and imported USD 2.7 billion (falls of 58 per cent and 47 per cent, respectively, in comparison to 2007). Argentina's decline can be explained by several changes in import policy, such as non-automatic licensing procedures, implemented in the second semester of 2008.

With regard to MERCOSUR's trade balance, as one might expect, the difference between the lower growth rates of exports in comparison to imports caused MERCOSUR to register the first deficit in its trade balance in 2006 (USD 875 million). That year represents the inflection point of the curve after many years of positive surplus: subsequently, the deficit reached roughly USD 3 billion in 2007 and USD 5 billion in 2008. A contributory factor in this reversal is that imports from China are concentrated in products of higher aggregate value, while basic products represent most of MERCOSUR's exports. In the wake of the world financial crisis, basic products suffered more from the fall in international prices for mineral and agricultural commodities, especially in the second semester of 2008.

In general, the two smaller MERCOSUR partners, Uruguay and Paraguay, do not significantly affect MERCOSUR export figures. In the period 2002-2008, Uruguay's average exports to China amounted to USD 126 million a year (approximately 1 to 2 per cent of MERCOSUR's exports). Paraguay's average was even lower in 2002-2008: USD 23 million, accounting for less than 0.5 per cent of MERCOSUR's exports. The impact of the two partners on MERCOSUR's imports is more significant, however. As shown below, Uruguay and Paraguay are responsible for an enduring deficit in MERCOSUR's trade balance, with a peak of 14.1 per cent of total imports in 2006 (USD 1.6 billion).

Table 4 Consolidated Trade between Uruguay/Paraguay and China, 2002-2008 (%)

	Exports	%	Imports	%	Surplus
2002	111,304	3.0	286,679	12.0	−175,375
2003	112,108	1.6	361,660	10.6	−249,552
2004	157,407	1.9	661,181	10.8	−503,774
2005	189,222	1.9	958,451	10.6	−769,229
2006	184,794	1.5	1,825,514	13.5	−1,640,720
2007	214,119	1.3	2,163,477	10.3	−1,949,358
2008	264,590	1.1	3,379,310	10.5	−3,114,720

Source: SICOEX.

3. 2 Composition of MERCOSUR Exports

Between 2001 and 2003, primary products made up 55. 5 per cent of Brazilian shipments to China, double the proportion of such products in the country's total exports. Semi-manufactured goods represented 20. 1 per cent of exports to China compared to 14. 7 per cent in overall foreign sales. While shipments of fully processed manufactures accounted for 55. 1 per cent of Brazil's total exports, they amounted to only 24. 1 per cent of goods shipped to China. As Barral and Perrone point out: "[i] n addition, Brazilian exports were concentrated in just eight sectors, with agrifood and extractive minerals representing 47 per cent of the total. Interestingly, this ratio is virtually unchanged since 1985. " (Barral and Perrone 2007)

Particularly since 2004, primary products' participation in Brazilian exports to China has increased even more. In the period 2004-2008, basic products made up 72. 5 per cent of Brazilian shipments to China (reaching a peak of 77. 5 per cent in 2008). Iron ore and soybeans were the main products shipped.

In the period 2001-2003, the level of export concentration was also high for Argentina: three products—soya seeds (41 per cent), unprocessed petroleum oil (25 per cent) and soya oil (18 per cent)—accounted for 84 per cent of all goods exported to China. Industrial manufactures represented only 4 per cent of the total. In the period 2003-2006, the share of agrifood shipments reached 72 per cent. These products involved no (or very little) processing, a figure far higher than the 49 per cent that primary agricultural and industrial products (excluding fuels) represent in the country's total exports (Barral and Perrone 2007). Recent data from 2007 and 2008 appear to corroborate Argentinean primary exports to China at the 80 per cent levels: soya seeds accounted for an average of 50. 5 per cent, while unprocessed petroleum and soya oil together represented an average of 31. 2 per cent of those exports (SICOEX, aggregated by NCM chapters).

3. 3 Trade Barriers

In accordance with China's trade policy review (TPR) carried out by the WTO, China's simple average applied tariff is 9. 7 per cent (the same as in 2005). The average most favoured nation (MFN) tariff rates for agricultural and manufactured products were 15. 3 per cent and 8. 8 per cent, respectively (also the same as 2005) (WTO 2008: 43). The highest applied tariffs are levied on footwear, processed food and vegetable products (WTO 2008: 50).

As Barral and Perrone emphasise, "[t]he Chinese tariff structure contains significant peaks. While these are more pronounced in the sector of industrial goods, they remain relevant in the agrifood sector. For instance, high tariffs are levied on unprocessed agricultural products, such as strawberries (30 per cent), plums (25 per cent), wheat and rice (65 per cent) and sugar (60 per cent). In contrast, market access for minerals and fuels is largely duty-free, or tariffs are very low" (Barral and Perrone 2007).

Overall, trade and trade-related measures, both at the border and internally, are still used as instruments of Chinese industrial policy. Tariffs remain one of China's main trade policy instruments. In addition to high tariffs for processed food products, Argentina's and Brazil's exports to China continue to face considerable non-tariff barriers, including taxes, subsidies and phytosanitary measures.

3.4 Critical Analysis

MERCOSUR provides the Asian giant with products that are immediately processed and either exported to third markets or consumed locally. To some extent, MERCOSUR's export frenzy towards China can be explained by the phenomenal growth of the Chinese economy, as well as certain complementarities between the individual economies involved. Indeed, imports from China have registered their highest growth in sectors in which Argentina and Brazil have major competitive advantages. This trend can also be explained by China's strategy of enlarging the list of its trade partners and reducing its dependency on commodities suppliers.

A similar strategy is being pursued by China towards Africa, which also involves massive investments in the infrastructure of that continent.

Although bilateral trade between MERCOSUR and China is, at least in theory, based on comparative advantages, intra-industrial trade remains almost non-existent. This is not the case with other Asian developing countries, where the trade pattern reflects the partners' specialisation and division of labour at the global level (Barral and Perrone 2007).

There is no doubt that the principal challenge MERCOSUR is facing is to maintain and improve its integration into the Chinese economy, while at the same time preserving the competitiveness of its industrial products and eventually increasing the value-added content of its exports. The Brazilian government, for instance, has launched a specific programme ("Agenda China") aiming at enhancing Brazilian exports of technological products and higher value-added products to the Chinese market (Agenda China 2008: 17).[4]

On the imports side, the Brazilian government is frequently pressured by local producers with regard to the opening up of the Brazilian market to allegedly unfair Chinese competition, for instance in sectors such as steel, textiles and electronics. In 2010, the pressure escalated in the wake of global claims that China has been keeping its currency undervalued, which amounts to unfair competition.

As for external trade, the Inter-American Development Bank (IADB) has estimated that only 2 per cent of Argentinean exports to third markets are likely to be displaced by Chinese competition. Brazil appears to have slightly more cause for concern: over the past decade, the country has lost 4 per cent of its exports to third markets to China (Barral and Perrone 2007).

Another study estimates in more detail Brazilian export losses due to Chinese competition in relevant markets (Pereira and Souza 2008: 44-45). The study compares the overlapping of Brazilian exports and Chinese exports in two periods: 2003-2004 and 2006-2007. It affirms that Brazil lost, in total, USD 2 billion in the Argentinean market, USD 10 billion in US markets and USD 7.8 billion in EU markets. The Chinese "effect" on those losses is estimated to be 51.5 per cent (Argentina), 31.6 per cent (US), and 35.7 per cent (EU), which amounts to roughly USD 7 billion in two years (approximately 2.4 per cent of Brazil's total exports). It is noteworthy that Chinese exports even managed to displace Brazilian products that are given preferential treatment in Argentina, such as motorcycles, organic-inorganic complexes, coloured bulbs, televisions and rubber footwear (Pereira and Souza 2008: 45).

In sum, in the first decade of thetwenty-first century, MERCOSUR's integration into the Chinese economy seems to be reminiscent of a North-South paradigm typical of the nineteenth century: the exchange of raw materials and manufactured products, although not from North to South, geographically speaking. This trend was particularly accentuated in the period 2006-2008, as observed in the empirical analysis. Without entering into a detailed discussion of the long-term effects of a trade strategy based on natural resources, MERCOSUR-China markets reveal opportunities for both sides. At the same time, the overall picture presents tougher challenges to MERCOSUR's members, since imports from China have soared and China is emerging as a potential threat to MERCOSUR's exports around the world.

4. Bilateral Trade between MERCOSUR and the European Union

The EU represents an important trading partner for MERCOSUR, with approximately 26 per cent of the bloc's exports (Aliceweb Mercosur). Nonetheless, from the EU perspective, MERCOSUR remains a relatively minor export destination for goods. In the period 2006-2007, MERCOSUR's imports from the

EU represented approximately 2.7 per cent of total European exports. Individually, the United States (24.5 per cent), Switzerland (7.5 per cent), Russia (7.2 per cent) and China (6.7 per cent) are the main destination of EU exports.

Table 5 EU Exports by Region and Selected Economies, 2006-2007 (USD million)

		2006	%	2007	%
World		1,270	100	1,465	100
North America		373	29.4	395	27.0
	United States	340	26.8	359	24.5
Latin America		76	6.0	95	6.5
	MERCOSUR	30	2.4	39	2.7
CIS		132	10.4	175	12.9
Africa		115	9.1	141	9.6
Middle East		177	13.9	205	14.0
Asia		311	24.5	363	24.8
	China	80	6.3	98	6.7

Notes: We excluded intra-EU 27 and "Other Europe" from the original statistics.
Source: Prepared by the authors based on COMTRADE statistics.

Among individual EU members, Germany (18 per cent), the Netherlands (15.7 per cent) and Italy (13.1 per cent) were the most important destinations for MERCOSUR's exports. Notably, as an EU entry point, the Netherlands (the port of Rotterdam) accounts for an important share of imports on entry (such as iron ore from Brazil). Germany (30 per cent), France (15 per cent) and Italy (15 per cent) are the main exporters to MERCOSUR.

4.1 Export and Import Trends

In the period 1990-1998, MERCOSUR registered a trade deficit with the EU. From 1998 on, this started to go into reverse. In the 2000s, as shown below, a continuous trade surplus in favour of MERCOSUR can be identified. Indeed, the figure indicates a relatively stable development: an average of USD 10.4 billion/year in the period 2003-2008.

Figure 4 Brazil/EU Trade Balance 2002/2008 (US$ millions)

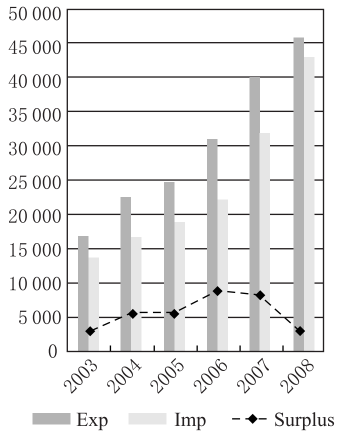


Figure 5 Argentina/EU Trade Balance 2002/2008 (US$ millions)

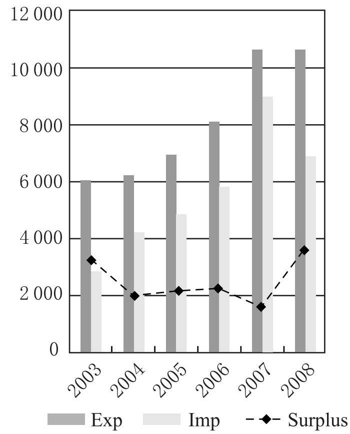
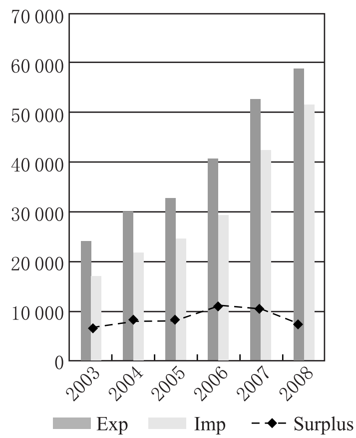


Figure 6 Mercosur/EU Trade Balance 2002/2008 (US$ millions)



Source: Prepared by the authors based on data from Aliceweb and SICOEX.

Despite this fairly stable surplus, in the past five years MERCOSUR exports and imports grew by 144 per cent and 136 per cent, respectively, reaching USD 59 billion and USD 52 billion, respectively. This means an average increase of 20 per cent and 25 per cent, respectively, per year. The year 2008 is an exception, since there was a deviation from this overall trend, mainly due to the world financial crisis and Argentina's figures. While Brazil maintained growth in both exports and imports, Argentina's exports were steady but its imports decreased by around 23 per cent.

Table 6 Exports and Imports, Annual Change (%)

Year	Brazil-EU		Argentina-EU		MERCOSUR-EU	
	Exports	Imports	Exports	Imports	Exports	Imports
2004/2003	33.3	22	3	51	25	27
2005/2004	9.3	14	12	14	9	14
2006/2005	25.4	16	16	21	23	18
2007/2006	29.5	44	31	54	30	44
2008/2007	14.5	35	0	−23	12	22
2007/2003	136.6	132.1	75.0	221.4	117.9	145.8
2008/2003	170.9	212.6	75.1	63.1	144.2	136.4

Source: Prepared by the authors based on data from Aliceweb and SICOEX.

Comparison of the participation of Uruguay and Paraguay in MERCOSUR-EU and MERCOSUR-China trade reveals two important points. First, Uruguay and Paraguay together represent, on average, 3.5 per cent of MERCOSUR's exports (and less than 1 per cent with regard to MERCOSUR-China). A similar degree of participation occurs on the import side, with the two countries accounting for an average of 3.2 per cent of total imports (vs. 11 per cent with regard to MERCOSUR-China). In other words, Uruguay and Paraguay do not depress MERCOSUR's trade balance, but add positively to the verified MERCOSUR surplus in all analysed years.

Table 7 Consolidated Trade with EU, Uruguay/Paraguay, 2002-2008 (USD million)

	Exports	%	Imports	%	Surplus
2003	1,023	4.2	606	3.5	417
2004	1,179	3.9	699	3.2	480
2005	1,087	3.3	763	3.1	325
2006	1,261	3.1	1,235	4.2	26
2007	1,671	3.2	1,259	3.0	412
2008	2,155	3.7	1,432	2.8	723

Source: SICOEX.

4.2 Composition of Trade Exports

With regard to Brazil, in 2008 the EU imported primary products (47 per cent), semi-manufactured (15 per cent) and manufactured products (38 per cent). These numbers are nearly the same as in 2003 (50 per cent, 13 per cent and 36 per cent, respectively). Interestingly, as also observed with regard to Brazilian trade with China, there is little diversification in terms of export composition over two decades (Aliceweb). It should be noted that Brazil is the third largest agricultural exporter in the world, and the EU has been, and remains, the top destination for Brazilian agri-exports (ICONE 2007: 75). At the same time, the EU continues to be a major concern in trade negotiations since Brazil regards European agricultural protectionism as improper.

In comparison to Brazil, the remaining MERCOSUR members have a higher concentration of exports in the agricultural sector. In 2007, agri-related products represented 76 per cent, 72 per cent and 85 per cent of Argentina's, Uruguay's and Paraguay's exports to the EU, respectively (Eurostat). Taken as a bloc, MERCOSUR's exports comprise food products (35 per cent), raw materials (26 per cent) and machinery and transport equipment (25 per cent). As regards EU exports to MERCOSUR, manufactured goods are the main representative items (93 per cent), with machinery and chemicals as the main EU products.

In sum, most of MERCOSUR's exports to the EU are basic products, with a concentration on agri-related items. In the opposite direction, the EU exports mainly machinery, transport equipment and chemicals.

4.3 Critical Analysis

Overall, Brazil is, by far, the major MERCOSUR player in the MERCOSUR-EU trade relationship (around 75 per cent of exports and imports to/from the EU) (Gambini 2008). The MERCOSUR-EU trade balance makes this evident (notice, for instance, the overlapping of the trade surplus curves). It should be noted that the EU is also the biggest foreign investor in Brazil, according to the Brazilian Central Bank.

Another interesting feature of this relationship is that there has been little diversification in the product categories of MERCOSUR's exports. For instance, in the case of Brazil's exports, a comparison of the 1988 and 2008 figures indicates the following composition: basic products (49 per cent/47 per cent), semi-manufactured (14 per cent/15 per cent) and manufactured products (37 per cent/38 per cent) (Aliceweb).

Finally, it should be noted that, in 1995, MERCOSUR and the EU signed the EU-MERCOSUR Interregional Framework Cooperation Agreement. The negotiations were formally launched in June 1999 and tariff and services negotiations started in July 2001. Market offers from both sides, including goods, services, government procurement and investment, were exchanged in September 2004, but were not deemed sufficient for an agreement. Since then, MERCOSUR and the EU have met a number of times at ministerial and senior official levels. Negotiations were formally resumed at the beginning of 2010 and they are ongoing.

5. Conclusion

This chapter develops an empirical analysis of the trade patterns between MERCOSUR-China and MERCOSUR-European Union. With regard to MERCOSUR-China, the data show that bilateral trade has boomed in recent years, tracking China's emergence as a major global player. However, the trade pattern that emerges seems to have consolidated MERCOSUR's role as a supplier of basic products and a recipient of manufactured products from China. Two other dimensions can be observed: on the one hand, the surge in Chinese imports to MERCOSUR (972 per cent in the period 2002-2008) and the consequent challenges to MERCOSUR's local industries; and, on the other hand, the potential of Chinese products to displace MERCOSUR exports to third countries.

MERCOSUR-EU trade reveals a consistent surplus in favour of MERCOSUR in the period 2004-2008 (on average, USD 10 billion). This fairly steady surplus cannot be misinterpreted, since exports and imports between those regions increased, on average, by 20 per cent and 25 per cent, respectively. Moreover, similar to the MERCOSUR-China pattern, MERCOSUR-EU bilateral trade represents a paradigm of the exchange of primary-manufactured products, although not in the same proportion as observed in the first set of data analysed.

Notes

1. In chronological order, USD/EUR: 0.945 (2002); 1.132 (2003); 1.244 (2004); 1.245 (2005); 1.257 (2006); 1.371 (2007); and 1.473 (2008). These figures are available at: http://www.federalreserve.gov.
2. The acronym is a contraction of the Spanish "Mercado Común del Sur". In Portuguese, the bloc is known as "Mercosul".
3. The accession of new members is governed by Decision 28/05 of the Common Market Council (CMC), an organ of MERCOSUR.
4. Also, Brazil and China have initiated talks on a local currency payment system for foreign trade operations. It is worth noting that Brazil and Argentina already have a similar system.

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Chapter 6
Trading with Giants: Is Trade Policy with the EU and China Beneficial to MERCOSUR?

Carlos Carvallo Spalding

1. Introduction

The Southern Common Market (MERCOSUR) was set up in 1991 by the signing of the Asunción Treaty. It is an ambitious regional integration project bringing together Argentina, Brazil, Paraguay and Uruguay with the ultimate objective of establishing a Common Market. Although various bilateral agreements already existed among the member states, at the time there were several economic, political and social incentives that made the agreement desirable.

The MERCOSUR integration process has not been straight forward or simple. In addition to the already complex internal agenda, MERCOSUR, as an open regional process, has maintained a busy negotiation agenda with third countries. Within this framework, MERCOSUR member countries have signed Free Trade Agreements (FTAs) with all South American Spanish-speaking countries and with other countries beyond the region, such as Israel. MERCOSUR has also signed Preferential Trade Agreements (PTAs) with Latin American Integration Association (ALADI) member states, such as Cuba and Mexico[1], and with India and the Southern African Customs Union (SACU).

Notwithstanding this progress with regard to agreements with third countries, and after discontinuing Free Trade Area of the Americas (FTAA) negotiations, the only pending North-South negotiations were those with the EU. These negotiations also had the peculiarity of being a negotiation process for an agreement between two blocs of countries, which introduced new complexities arising from the peculiarities of the production and trade structures of the participating countries and from the characteristics of the respective blocs' socioeconomic development policies. At present, the process has ground to a halt and no agreement had been reached by the date agreed for 2004. However, the learning curve initiated in this way has proved useful.

Within this framework and taking into account the abovementioned negotiation experiences and the emergence of China as a global player, it is important to analyse the prospects of increasing trade with this other "giant" of the world economy. The objective of this chapter is to reflect on the potential opportunities and challenges of strengthened trade relationships between MERCOSUR, the EU and China. For such purposes, in Section 2 of this chapter the main characteristics of MERCOSUR are presented and the most important restrictive factors with regard to reaching agreement with the EU analysed. Furthermore, trading patterns are identified and generally the prospects of increased trade with China are examined. The chapter ends with some general reflections on MERCOSUR's negotiating experiences with the EU, which may prove useful for an eventual strengthening of trade relations with China.

2. MERCOSUR: Main Characteristics

MERCOSUR is an integration process between four South American countries with the objective of establishing a Common Market. The 1991 Treaty of Asunción was the legal constitutive instrument for the creation of MERCOSUR and its main objectives included: the integration of the four member states through free circulation of goods, services and production factors; the establishment of a common external tariff; and the adoption of a common trade policy towards third parties; the coordination of macroeconomic and sectoral policies; and the harmonisation of the countries' legal frameworks in key areas.

MERCOSUR has a population of about 247.4 million, a GDP of USD 1,200 billion and an export volume of approximately USD 190 billion (2006). The size of the territories, their populations and the participation of the four members in the economic and commercial activities of the bloc show large asymmetries. Brazil accounts for 67 per cent of the total production of the bloc and 80 per cent of the inhabitants. Although the four economies in the group have been classified as middle-income per capita, Argentina has a GNI per capita of USD 12,990, Uruguay of USD 11,040, Brazil of USD 9,370 and Paraguay of USD 4,380 (2007 adjusted by PPP).

In 2006, MERCOSUR exported goods worth a total of USD 190 billion, which represents 1.6 per cent of world goods exports. Non-regional markets captured 87 per cent of the bloc's exports (three-quarters by mid-1990s). These markets have increased their participation in recent years since exports to these destinations grew by 10 per cent a year on average, equivalent to 2.5 times quicker than exports to the region. Export markets are concentrated to some extent: 66 per cent of total bloc exports go to the top 10 markets (with the USA, the EU and China on top, accounting for 20.7 per cent, 18.3 per cent and 7.6 per cent, respectively). Import markets of origin are even more concentrated, led by the EU, the USA and China (20.7 per cent, 20.0 per cent and 8.7 per cent, respectively, in current dollars, 2007). Over the past few years the MERCOSUR export structure has seen increased participation from less traditional markets outside the region (perhaps influenced by substantial changes in relative prices). Exports to China and Russia rose to an annual average of 27 per cent between 2002 and 2006, while exports to the USA and EU grew by 9 per cent and 13 per cent, respectively.

Regarding the relative importance of MERCOSUR as an exporter, we can see that it is the tenth ranking EU supplier (2.5 per cent of total EU imports) and among the top 15 US suppliers (2 per cent of total US imports). It has a similar share of Chinese imports (2 per cent). The bloc's export basket is concentrated on the agricultural sector, especially food. Animal and vegetable products and food represented more than one-third of the total amount exported to countries outside the region in 2006. Minerals and fuels represented 16 per cent, common metals (10 per cent), machinery (9 per cent) and vehicles and transport equipment (9 per cent). It is worth mentioning the strong regional position of soya oil (74 per cent of world trade), orange juice (65 per cent), flour and soya pellets (54 per cent), soya grains (44 per cent), bovine frozen meat (43 per cent), ethyl alcohol (37 per cent) and sugar cane (33 per cent), among other things (Garbarino et al. 2008).

Regarding the integration process, in 1995 the construction of the Customs Union started with the signing of the Ouro Preto Protocol and the definition of a Common External Tariff, after a first stage of accelerated tariff cuts among the four member states, during which the Free Trade Area was consolidated. Ouro Preto also laid down the present institutional structure of MERCOSUR.

Working out a Common Trade Policy is not a simple task and the MERCOSUR process could not avoid complexity. Nevertheless, MERCOSUR has made progress in the negotiation process towards eliminating the double collection of the Common External Tariff through the approval of Decision CMC 54/04 and Decision CMC Nº 37/05, and has maintained the definition of Special Common Regimens and a Common Customs Code in the regional negotiation agenda. In addition to customs and commercial issues, MERCOSUR has made progress in other social, political and production areas. For instance, MERCOSUR has constituted a

Parliament, a Social Institute and a Permanent Revision Tribunal.

3. MERCOSUR and the European Union

3.1 Potential Gains and Risks

Although a bilateral approach between the European Union and the Latin American countries started with the San José meetings in 1984, it is in the 1990s that the European Community assumed a more active role in the search for cooperation and association agreements with various Latin American integration processes. This interest coincided with the strengthening integration processes already existing in the region and with the constitution of promising new initiatives, such as MERCOSUR. It also took place within the framework of the so-called "Global European Integration Model" that promoted country relations beyond commercial considerations and in the direction of political dialogue, as well as cooperation.

It is within this framework that the EU and MERCOSUR signed an Interregional Framework Cooperation Agreement in December 1995, in which they expressed their intention to formalise cooperation agreements and to advance in the negotiations in order to establish a trade partnership agreement contemplating reciprocal trade liberalisation in accordance with GATT Article 24. It is also important to note that in 1995 MERCOSUR started its transitional process towards a Customs Union after the Ouro Preto meeting. Although there were expressions of interest on the part of the EU about signing agreements with MERCOSUR immediately after the signing of the Treaty of Asunción 1991, the signing of the Interregional Agreement was made possible by the international legal personality conferred on MERCOSUR by Article 34 of the Protocol of Ouro Perto.

The negotiations between the EU and MERCOSUR started in 1999, coinciding with another historical event in the EU, the establishment of the Monetary Union. These negotiations were complicated by the fact that they involved two Customs Unions, with their own internal conflicts of interest concerning the establishment of a common trade policy, and also because of the North-South aspect. Although the agreement was given considerable emphasis, it was not the first agreement between two Custom Unions: the European Community and the Andean Community had already established an arrangement of similar nature in April 1993.

From an economic point of view, in particular trade opportunities, the agreement was promoted because the two markets are important to one another. The European Union is a market of over 490 million people, the third most populous market in the world after India and China, with a GDP per capita of over USD 22,000 in PPP (EU27). At the same time, it is MERCOSUR's second largest trade partner, after the United States. More than 19 per cent of total world trade (imports and exports) is carried out from and to the EU. Exports to the EU represent more than 18 per cent of MERCOSUR's total exports and almost 21 per cent of its imports. In turn, the EU is one of the most important investors in MERCOSUR (Eurostat 2007). More than 70 per cent of goods exported to the EU are primary goods, mainly agricultural products and energy.

Although MERCOSUR has an attractive consumer market of about 247 million people, it has not yet passed the threshold of 2.5 per cent of total EU exports, which are concentrated on machinery, chemicals and transport equipment, which represent about 70 per cent of total EU imports. However, the EU's interest in MERCOSUR is also geopolitical, besides the fact that it is an important commodity supplier and an EU Foreign Direct Investment (FDI) destination.

From a theoretical perspective, and as it is a North-South agreement between economies with relatively complementary productive structures, it was expected that an EU-MERCOSUR regional liberalisation agreement would cause a realignment of bloc members' production structures, including sectoral contractions and expansions, and that it would promote a more efficient allocation of production factors. This would stimulate regional production and trade specialisation in accordance with the respective comparative advantages. This would improve efficiency as a consequence of economies of scale, besides more dynamic gains.

All things being equal, it was expected that static gains (trade creation) and dynamic gains (efficiency and productivity gains, more economic growth and attraction of investments) would exceed the possible economic costs of the process (trade diversions among them), and that adequate policies could compensate the possible losses of some countries or groups affected by the integration process, with a resulting increase of global wellbeing.

Some empirical findings about the possible impacts of an FTA between MERCOSUR and the EU support this theory. Most impact analyses have been carried out using models of computable general equilibrium (CGE) based on optimisation methods. In general, studies have obtained positive results for both blocs. In the case of MERCOSUR, the SIA-MERCOSUR (2007) research finds that full liberalisation—of both goods and services—between the blocs would have a positive static economic result of 0.5 per cent of GDP for Argentina, 1.5 per cent for Brazil, 2.1 per cent for Uruguay and up to 10 per cent for Paraguay. In this study, gains of a static character came from the expansion of sectors in which MERCOSUR has comparative advantages, in contrast to the EU, as a consequence of the complementarity between the blocs. However, decreases would be observed in textiles, the cellulose industry, the chemical industry, metals, automobiles and machinery in general. The positive effects of efficiency as a consequence of opening up to competition and attraction of investment would generate a global welfare gain for both blocs.

Other studies, such as Diao, Díaz Bonilla and Robinson (2001), Monteagudo and Watanuki (2001), as well as Giordano and Watanuki (2001)—despite using data from prior to the crisis by which some MERCOSUR countries were affected between 1999 and 2001 and not including the EU25—show similar results. The methodology employed also refers to multi-regional and multi-sector general equilibrium models, as constituting the classic structure of a static CGE model.

Although each study introduced different adaptations to the basic model, global results go in the same direction, and show an increase in real GDP of between 0.7 per cent and 7.7 per cent for Argentina and between 1.3 per cent and 4 per cent for Brazil. In turn, exports to the EU would increase, depending on the particular study, by between 4 per cent and 13 per cent for Brazil and Argentina jointly. Specific studies for Paraguay and Uruguay show similar results.

According to the results of simulations, a range of impacts on MERCOSUR sectors may be expected. We would obtain positive results in primary agricultural goods sectors (vegetables and fruits, cereals and sugar, among others) and in the food industry (especially meat and its derivatives, as well as dairy products). Among the main potential negative effects we can expect potential job losses in several areas of manufacturing (for example, automobiles, chemicals, electronic and computer products) and of heavy industry (capital goods), mainly in Brazil and Argentina. In the long term, these effects might be beneficial in terms of jobs and income, as long as the markets operate with a certain flexibility and governments implement policies to support the declining sectors.

The results are consistent with the current North-South trade structure which involves little intra-industrial trade and in which EU export goods are concentrated in technology and skilled labour, and MERCOSUR is competitive in agricultural and primary goods in general.

In any case, the motives for signing the agreement were not confined to market access for the two blocs' strategic products. Other aspects should be highlighted. For example, before signing the Framework Agreement with the European Union, the United States had already proposed an agreement with MERCOSUR alongside the decision to start negotiations for a hemispheric agreement taken at the Miami Summit in 1994. This initiative, the first of its kind involving MERCOSUR in a North-South context, might partly explain a certain "domino effect" (Baldwin 1993). In this sense, the desire to sign trade agreements arises from the internal political balance within each country or trade bloc, where the balance between forces favouring or against the agreement might determine a decision to seek progress in regional liberalisation. Trade agreements signed by third countries may lead to a situation in which the damage perceived by pro-agreement exporters is strong enough to alter the balance of forces, as they perceive a commercial disadvantage in a growing number of markets, without obviating the geopolitical incentives in the development of international policy, especially in large countries. On the MERCOSUR side, the signing of the Framework Agreement between the EU and the Andean Community created a risk of trade deviation with regard to some MERCOSUR goods.

On the other hand, taking into account MERCOSUR's structure and protection levels, the hemispheric free trade agreement generated the risk of trade deviation to goods with regard to which the United States had a regional, although not a global comparative advantage. Thus, an FTA with the EU may, to some extent, promote a positive effect of trade creation and reduce the negative effects of the transference of protection to goods from the North American economies.

Besides these economic arguments, and as Bouzas (2004) mentions, the agreement with the EU meant that the MERCOSUR would have explicit Customs Union recognition as a key player in the international trade system. Secondly, the MERCOSUR countries felt they share more values with the sense of Community with which Europe has promoted its economic and social integration than with a more commercially oriented arrangement, like the one promoted by the North American Free Trade Agreement (NAFTA) and FTAA.

Regardless of the importance of these and other incentives, they showed that important problems and tensions typical of an agreement between two regional blocs existed and that they would have emerged as soon as the negotiations were initiated.

3.2 Sensitive Issues and the Situation of the Potential "Losers"

In order to check the results forecast by neoclassical international trade theory it is necessary alsoto verify the market equilibrium hypotheses. Models based on neoclassical theory assume that markets work efficiently, which means that no information asymmetries exist between economic agents, and that prices and returns from production factors must be flexible enough to adjust supply to demand, while markets of goods, production factors and finance must be "complete" and adjust instantly. However, these conditions are far from observable reality. Market flaws are much more than exceptions to the general rules of economics, and national economic policy decisions, as well as the characteristics of national institutions affect the results of economic decisions in a variety of ways. Within this framework, the results automatically expected from an integration process may not occur. Furthermore, even in putative perfectly competitive markets, the distribution of costs and benefits during an integration process is not homogeneous, either among participating countries or among the various economic players. The possibility of correcting this situation by means of interregional compensation policies collides with the reality of institutional constraints and the legitimate interests of the different pressure groups within the countries concerned. Therefore, conclusions obtained by positive economic analysis conflict with the limitations of political economy.

However, the positive impact predicted by neoclassical models with regard to economic growth and global exports after bilateral liberalisation, do not specifically account for the costs of the adjustments to be made in the labour market and other factors caused by changes in the production structures and generated by the new trade pattern that emerged from liberalisation. These adjustment costs would apply as long as institutional and structural market rigidities exist.

The complexity of these processes and the multiplicity of interests imply a need to interpret difficulties and conflicts in terms of political economy. In this sense, regional integration goes beyond the maximisation of potential gains and amounts to a strategic process in which aspects of political economy concerning adjustment costs and the structural transformation of the economies concerned must be taken into account. Among the tensions likely to arise, we might mention the adjustment of labour markets and political lobbying carried out by sensitive economic sectors, which function as important pressure groups.

Trade between the EU and MERCOSUR shows patterns of classic comparative advantage; it also has a marked degree of complementarity. Analysis of the characteristics of production sectors and trade within the two blocks shows that in some areas there are no global comparative advantages, due to protection within the regional market. That is to say, these are goods or sectors whose trade has deviated from the rest of the world and whose interest groups (countries and sectors) perceive the regional market as particularly important. Such sectors, together with several sectors that substitute imports, have strategic importance in government development policies and are supported by important political and social groups.

Pressure (lobby) groups constituted around these sectors are usually small, but well organised and informed and have the capacity to influence political decisions and shape public opinion, sometimes making a national cause out of their interests. In turn, the rest of the population, basically comprising consumers, is dispersed and lacks self-consciousness as an interest group, although it is of course far more numerous. Therefore, national protection policies generally focus on sectors which have no comparative advantages. This is to some extent the case with Europe's agricultural sectors.

Negotiations between MERCOSUR and the EU formally commenced in 1999, once the Interregional Agreement was ratified, and after 16 negotiating rounds were still experiencing difficulties which have hampered further progress. The agreement can be divided into three "pillars" (Torrent 2005): political dialogue, cooperation and trade. Without entering into details about tariff cut proposals submitted by the EU, these proposals were found difficult to accept by the MERCOSUR countries. This refers, among other things, to the lack of full liberalisation of tariffs for some sensitive agricultural goods, subject to specific tariffs and/or minimum entry prices to the EU market. These goods are of key concern to MERCOSUR, such as cereals, rice, dairy products, bovine meat, poultry, sugar and tobacco. MERCOSUR is a world leader in the production of many of these goods and it has global comparative advantages for most of them (see Table 1).

Table 1 MERCOSUR Products with Relative Comparative Advantages

Harmonised Standard (HS)	Product	World participation 2006	RCAI
12+15+23	Grains, oils and pellets (sunflower and soya)	49.6	31.24
0201+0202	Bovine meat	23.1	14.56
17	Sugar and confectioners' articles	22.7	14.32
09	Coffee, tea, herbs and spices	14.6	9.19
26	Minerals, slags and ashes	12.2	7.69
41	Skins and leathers	10.9	6.84
24	Tobacco and elaborated tobacco	7.9	5.01
10+11	Cereals, flours, etc.	7.3	4.62
44+47+48	Wood, wood paste, paper and cardboard	2.9	1.82

Source: Garbarino et al. 2008: 46.

In this sense, accordingto Quijano (2008: 178), "the four MERCOSUR countries export food to the EU, where in exchange, important global distortions occur as a consequence of European agricultural policies". Therefore, the problem is not only market access, but also subsidies and internal support, which tend to distort world markets, since the EU operates as one big country and MERCOSUR is a price taker.

Table 2 MERCOSUR's Position as an Exporter

	Product	World trade position	Production position
Food	Bovine meat	1st	1st (20% of world stocks)
	Flour and soya pellets	1st (54% of world exports)	1st (51% of world production and 41% of world sown area)
	Soya oil	1st (74% of world exports)	1st (and 1st in soya flour), 34% of world production
	Sugar	33% of world exports	1st coffee and sugar
	Coffee	19% of world exports	
	Orange juice	1st (65% of world exports)	1st
	Sunflower oil	19% of world exports	4th (14% of world production)
Bioenergy	Bioethanol	1st	2nd (42% of world production)

Source: Garbarino et al. 2008: 48.

Although the agricultural issue is a key problem, there may be other difficulties before agreement is reached. These may include:

(1) New countries entering the EU: countries that are mainly agricultural producers and MERCOSUR's competitors for EU financial resources, which have few cultural links with the region.

(2) Issues beyond the scope of tariff cuts showed divergences, such as government purchasing, geographical denomination and intellectual property. Furthermore, the existence of tariff "peaks" and tariff contingents, export subsidies and other measures of sectoral protection made negotiations difficult, mainly because they are not used by MERCOSUR, and so in any offer of tariff relief its markets will remain fully open, establishing a scheme characterised by an "asymmetric lack of protection".

(3) The "single undertaking" negotiation modality: one dissenting issue alone hampers the progress of the whole agreement.

(4) The demise of FTAA, less prospect of progress on a MERCOSUR-US agreement and the failure of the Doha Round, all of which might reduce interest in the EU-MERCOSUR agreement.

(5) According to Cienfuegos (2008), a debate is going on concerning the EU's

Interregional Foreign Policy Doctrine (region-to-region relations) in terms of which the negotiation of agreements with strategic sub-regional blocs (MERCOSUR, CAN, SICA and so on) is given preference. A number of voices are starting to defend the option of bilateral negotiation with selected strategic countries.

(6) Among the EU institutions there are multiple dissenting players. For instance, the European Parliament supported the cessation of negotiations with MERCOSUR, setting it apart from the Doha Round, while the Directorate-General (DG) on Trade defended Doha multilateral negotiations as a priority. DG Agriculture supported the maintenance of the Common Agricultural Policy (CAP) without modifications, while the GD Relex (External Relations) proposed the strengthening of cooperation pillars and political dialogue. There are also important differences between the member states (Cienfuegos 2008).

The four MERCOSUR member states are not homogeneous either, making bloc to bloc negotiations difficult, since legitimate interests do not necessarily coincide. This happens, among other reasons, because in South-South agreements the costs of trade diversion tend to focus on the less developed countries (in relation to the most developed partner), which suffer deindustrialisation as a consequence of opening their markets to manufactured products from more developed commercial partners. Those partners have a relatively higher capital-labour endowment. Less developed countries tend to experience trade diversion towards the imports of its larger partner and become less competitive in these products (Venables 2003, 2005). In this sense, these countries suffer a twofold cost: the loss of their limited manufacturing sectors and trade diversion. In part, this is what Moncarz and Vaillant (2006) show after analysing interregional trade patterns. According to this analysis, incentives to the smaller partners may operate in a North-South agreement, which would help to reduce the trade diversion costs within the bloc, but it would reduce part of the implicit protection for some of the more industrialised regional products which benefit from the protection of the agreement.

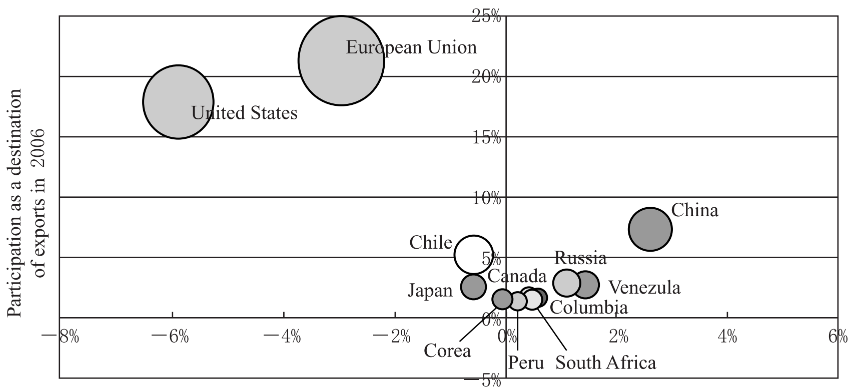
4. The Emergence of China as a Global Player and Its Trade with MERCOSUR

At this point in the twenty-first century, there can be no doubt about the global rise of the Chinese economy, in terms of both production and trade, FDI, innovation and participation in global financial markets.

MERCOSUR is increasingly being affected by China's increasing economic influence. While in 1990 MERCOSUR exported to China about 1.5 per cent of its total exports, by 2007 the Chinese market captured around 11.2 per cent of total exports. Likewise, MERCOSUR imports from China rose from 0.8 per cent in 1990 to 15 per cent in 2007. However, the effect of China being the second largest world economy in terms of foreign trade volume goes beyond these figures, because its growing importance in third markets has generated effects on global aggregated demand which has changed export prices and affected terms of trade relationships in Latin America.

From the perspective of dynamic analysis, the Chinese market is still smaller than the EU market as a destination for MERCOSUR exports, but in the past few years the balance has begun to change in the direction of China, which has become the most rapidly growing market for MERCOSUR exports.

Figure 1 Development of MERCOSUR Export Destinations



Source: Garbarino et al. 2008: 45.

For the purpose of ordering the analysis and focusing on trade links, we can try to understand the importance of trade with China in three different dimensions: (1) China's increasing demand for MERCOSUR exports; (2) China's increasing exports to MERCOSUR countries; (3) China's displacement of MERCOSUR exports to third markets.

While the increase in Chinese demand presents an opportunity for growth to certain MERCOSUR sectors, on the other hand, imports from China, although they benefit consumers and some production sectors, also represent a threat to local companies. Likewise, the emergence of China as a global player in international markets tends to affect MERCOSUR export patterns. This simple and preliminary outlook is sufficient to make it clear that the strengthening of current trends would generate a scenario of losers and winners, which calls for a more detailed impact assessment.

Based on a World Bank study by Lederman et al. (2007b: Chapter 12), we can identify a number of impacts on production sectors and production factors, as well as at the sub-regional level. The World Bank study tries to assess the extent to which China's and India's growth are affecting the trade specialisation patterns of Latin America and the Caribbean, based on a Revealed Comparative Advantage (RCA) index (Vollrath 1991). The authors examine sub-regions and distinguish the Southern Cone (SC), which includes Brazil, Argentina, Uruguay and Chile. Although this does not refer specifically to MERCOSUR as such, the aggregation is useful to help infer the bloc's broader tendencies.

First, the results of this study show that China's and the Southern Cone's trade specialisation patterns between 1990 and 2004 evolved in opposite directions, which would indicate some progress towards a greater export complementarity instead of more competition in the same products. In this sense, the World Bank's study shows that, in 1990, China and the Southern Cone had relative comparative advantage in nine and eight sectors, respectively, grouped at three digits from the International Standard Industrial Classification (ISIC), and were matched in four sectors: logging, fishing, crude petroleum and food manufacturing. After a 15-year term, during which the specialisation patterns changed and progressively showed a clear negative correlation, we can see that, while the changes were relatively small in the Southern Cone, China changed significantly, losing relative comparative advantage in primary sector commodities (agriculture, fishing, logging and mining) and gaining it in manufacturing.

Seeking the factors that produced these results, the authors analysed production sectors and reached some interesting conclusions. While the Southern Cone specialised in natural resource exports, China specialised mainly in manufacturing. A group of sectors emerges in which the Southern Cone did not improve its positioning in international markets, while China was losing relative comparative advantage in particular areas. This would indicate that the Southern Cone lost out in respect of the opportunities presented in this new scenario. For other sectors, the relative comparative advantage correlation would be positive (room for competition) or neutral (does not show a definite tendency).

Table 3 Changes in Southern Cone Specialisation Patterns

SC RCAI Increases	
China RCAI stable over time	China RCAI decreases over time
none	220 Crude Petroleum & Gas 311 Food Manufacturing 1 313 Beverage Industries 385 Professional and scientific

Positive trend or absence of a trend	
121 Forestry	353 Petroleum refineries
122 Logging	354 Miscell. petroleum pr
130 Fishing	355 Rubber products
210 Coal Mining	356 Plastic products
323 Leather and products	362 Glass and products
324 Footwear	369 Non-metallic mineral ps
331 Wood and products	372 Non-ferrous basic ind.
341 Paper and products	383 Electrical machinery
351 Industrial chemicals	384 Transport equipment
352 Other chemical prod.	390 Other industries

China RCAI Increases	
SC RCAI stable over time	SC RCAI decreases over time
332 Furniture and fixtures	312 Food Manufacturing 2
342 Printing and products	314 Tobacco
361 Pottery, china & earthenware	321 Textiles
381 Fabricated metal products	322 Wearing Apparel
382 Machinery except electric	371 Iron and steel basic
China RCAI decreases over time	
SC RCAI stable over time	
111 Agriculture & livestock	
113 Hunting & trapping	
230 Metalore mining	
290 Other Mining	

Source: Based on Lederman et al. 2007b: chapter 12, table 2.

Analysing the development of the relative comparative advantage index by means of econometric regression, the study concludes that bilateral trade between China and the region has not been significant enough to explain the change in specialisation patterns (possibly because this bilateral trade has not yet reached a significant volume, compared to total trade). In addition, in this econometric regression there were some signs of impact on regional production factors.

The most conclusive aspect in this respect is that labour (the only statistically significant variable)—in particular, less skilled labour—has been most negatively affected by the changes in trade patterns. This result turns out to be intuitively reasonable, since among the most "displaced" sectors is labour-intensive manufacturing (for example, textiles and clothing), which utilises considerable unskilled labour.

Some descriptions of trade in these sectors show strong growth in Chinese exports to MERCOSUR in textiles, clothing and footwear, which reinforced the results mentioned above. In the footwear sector, in 1999, imports to the region accounted for 93 per cent of total Chinese imports, while in 2006 they represented only 71 per cent. In the clothing sector, in 1999, imports to the region exceeded Chinese imports by 1.8 times, while in 2006 they barely totalled 72.7 per cent of Chinese imports. The most dramatic case, however, is textiles, since imports to the region exceeded the imports of Chinese fabrics by 8.5 times in 1999, but in 2006 they were down to only 94 per cent of them. The trend is clear (SAT-SM 2008).

On the other hand, according to UNCTAD (2005), in terms of demand composition, China's growth—with the resulting increase in per capita income and strong migration to the cities—has provoked a change in food preferences, causing a further rise in demand for livestock products, oil crops, vegetable oils, fruit and vegetables, as well as a rise in the use of energy, products in which Latin America is highly competitive.

5. Concluding Remarks

In light of the general considerations about trade relations between MERCOSUR and the EU presented above, which emphasised negotiations on an FTA and the characteristics of trade patterns between MERCOSUR and China, it is possible to draw a number of conclusions.

As long as the specialisation of Chinese exports advances towards more comparative advantages in sectors with more value added (a high degree of transformation) and leaves more room for sectors more intensive in natural resources, the EU, due to its development strategy (little related to its resources), has been inclined to protect this sector of its economy. In Europe, there are noticeable differences between the production patterns of its member states, and thus to one part of its agricultural production (concentrated in certain countries) the intra-regional market is very important. On the other hand, the CAP and its basis continue to be important to EU socioeconomic policy and to its "collective consciousness". This element is not present with regard to China, where, on the contrary, the need to ensure certain minimum levels of food provision, raw materials and energy may generate trade opportunities and chances for the creation of production chains between the MERCOSUR countries and China.

In this respect, a wide variety of challenges and opportunities would arise from any trade relationship, since the group of losers and winners is different, and therefore, potential negotiating agendas would correspond to different objectives and restrictions. MERCOSUR's negotiations with the EU have the additional difficulty of trying to reconcile the interests of multiple partners with different levels of socio-economic and technological development. In this sense, the MERCOSUR-EU negotiation experience is not a direct reference for a possible negotiation process between MERCOSUR and China.

Despite this, and beyond the differences in the trade relationship patterns between MERCOSUR and China and the EU and the paralysing of EU-MERCOSUR negotiations, there is much to be learnt from this negotiation experience. One factor was that it was a negotiation process with an economy many times larger than that of MERCOSUR in size and in exports. It was also a process in which the partners are geographically distant and very different culturally speaking, and in which a significant part of the reasons for negotiating this type of trade agreement is to avoid trade diversions of the kind which might occur if the partner signed trade preference agreements with third countries.

Moreover, and beyond the definition of MERCOSUR's external agenda, trade statistics show that EU policies and the emergence of China in the global market are already changing MERCOSUR patterns of trade specialisation and production.

What does the deepening of trade relations with China mean for MERCOSUR? The Chinese economy's exponential growth during the past 15 years and the still relatively very high growth in 2009-2010 in the context of recession in the developed countries has maintained a high level of demand for raw materials, and partly revalued the MERCOSUR export profile. It has also strengthened MERCOSUR's position for other trade negotiation processes, including further processes with the EU.

Similarly, China's significant growth has led to changing trade patterns towards the creation of comparative advantages for manufactured goods, which has fostered greater complementarity with the MERCOSUR countries. A strengthening of trade with China may increase gains for MERCOSUR sectors which have traditionally had comparative advantages with regard to China. Likewise, a stronger relationship with the Chinese market may enable MERCOSUR to take advantage of opportunities in certain sectors that China is gradually abandoning as it enters more advanced stages of production, at least during the period in which China's accelerated development generates gradually higher labour costs.

This scheme would bring to the region a tendency towards greater specialisation in goods for sectors strongly committed to the use of natural resources, such as raw materials, food and fuels. But is this the pattern that MERCOSUR desires? As the data show, the strong RCA sectors of the Southern Cone are low intensive in terms of labour, and the more threatened sectors are those requiring more unskilled labour, such as sectors in which China is still a world leader and which are relatively job sensitive in the region, such as textiles and clothing, automobiles and spare parts. Therefore, in a passive scenario, there would be negative pressure on the labour market and negative impacts on poverty indices. Likewise, the fact that trade specialisation is basically located in the food sector makes this sector tradable and exposes it to international price volatility. As long as international prices increase there will be a negative impact on the cost of the basic consumption basket and this would negatively affect the most unprotected social groups.

What should be done? Just as in less than two decades China stopped being an economy based on a relative abundance of labour and low real wages (and therefore a high real exchange rate), similarly MERCOSUR should pursue medium- to long-term policies to enhance the global competitiveness of sectors with higher value added, though without abandoning its international insertion based on the relative abundance of natural resources. These strategies would have positive effects on the labour market, social indicators, the balance of payments (given the international price volatility of commodities) and the environment.

China's experience provides some interesting references: productivity gains are not generated by closing an economy, but by gradually and orderly exposing the trade sector to competition. But the productive sectors must be prepared for this challenge. Improving production factors, designing adequate education policies, and developing innovation and FDI attraction policies are only a few of the more relevant factors. An economy's competitiveness is also improved by public-private, public-public and private-private cooperation (clusters and productive value chains, for instance, are an efficient tool for improving competitiveness, together with the conditions for local development). Such policies may involve a national but also a regional dimension, and therefore the articulation of production networks among public institutions seems relevant for the members of MERCOSUR.

Finally, there is much room for China and MERCOSUR to cooperate and share experiences. Therefore, cooperation is another strategy likely to produce significant results in the medium term.

Notes

1. With the exception of Uruguay which has signed an FTA with Mexico.

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Chapter 7
Opportunities and Challenges Facing China and MERCOSUR in the Context of the Financial Crisis

Lu Guozheng

1. Overview of Economic Relations between China and MERCOSUR

1.1 Bilateral Trade Relations

Trade relations between the People's Republic of China and member countries of the South American Common Market (MERCOSUR) date back to the 1950s. In the early 1960s, when China was experiencing great difficulties, grain merchants in Argentina defied the economic embargo imposed by Western countries on China to conduct considerable grain transactions with China, showing courage which has since become a familiar tale in the Sino-Latin American trade community.

For historical reasons, such as a lack of formal diplomatic relations, the isolation of China's economy, and the sufferings of the Great Leap Forward and the Cultural Revolution before the adoption of a more open policy, trade between China and South American countries remained at a low level for a long time. As late as the early 1990s, trade between China and MERCOSUR stood at a mere USD 800 million (1991). Despite the acceleration in growth, it was still less than USD 5 billion in 2000. In the last decade of the twentieth century, average annual trade between the two parties was a mere USD 2.7 billion. In the first two years of the twenty-first century, Latin America suffered from the US economic recession, which kept the growth rate of bilateral trade between China and MERCOSUR on a par with the previous decade. It is only in the past six years that trade between China and MERCOSUR has grown substantially. [1]

Between 2003 and 2008, trade between China and MERCOSUR grew rapidly. In 2003, bilateral trade exceeded USD 10 billion for the first time.

After that, it grew at an annual 49.7 per cent to reach USD 65 billion in 2008, 7.9 per cent higher than the average trade growth between China and Latin America. During this period, China's exports to MERCOSUR grew from less than USD 3 billion to approximately USD 25.6 billion, at an annual growth rate of 48 per cent, 7.6 per cent higher than China's average annual exports to Latin America. China's imports from MERCOSUR also shot up, from less than USD 9 billion to over USD 39 billion, at an annual growth rate of 47.2 per cent, 2.5 per cent higher than China's average annual imports from Latin America.

Table 1 Trade between China and MERCOSUR 2003-2008 (USD 100 million)

	2003	2004	2005	2006	2007	2008
Exports from China	28.46	49.71	66.88	101.14	160.2	255.59
Imports into China	86.62	121.07	140.21	169.44	250.3	397.54
Total trade volume	115.08	170.78	207.09	270.58	410.5	653.13

Source: General Administration of Customs of PR China 2009.

According to the General Administration of Customs of the People's Republic of China, since the beginning of the new century, China's exports to MERCOSUR have accounted for an average of 32 per cent of its total exports to Latin America, and China's imports from MERCOSUR have accounted for an average of 58 per cent of its imports from Latin America. Therefore, MERCOSUR constitutes a major source of imports for China.

China's largest trade partners in MERCOSUR are the two largest member countries: Brazil and Argentina. In 2008, China's exports to Brazil and Argentina accounted for 73 per cent and 20 per cent of total exports to MERCOSUR, respectively, or a total of 93 per cent. China's imports from Brazil and Argentina accounted for 75 per cent and 23 per cent of total imports from MERCOSUR, respectively, or a total of 98 per cent.

Trade between China and the two smallest member countries of MERCUSOR is low, however. In 2008, China's exports to Uruguay and Paraguay stood at USD 1.012 billion and USD 759 million, respectively, or 4 per cent and 3 per cent of China's total exports to MERCOSUR. In the same year, China's imports from Uruguay and Paraguay were USD 624 million and USD 25 million, respectively, or 1.6 per cent and 0.1 per cent of China's total imports from MERCOSUR.

China's main exports to MERCOSUR are electromechanical products, chemical products, base metals and manufactured goods. The main imports into China are minerals, forestry products and animal husbandry products. According its official statistics, Brazil mainly exports to China minerals and plant products, and imports from China mainly electromechanical products, chemical products, base metals and manufactured goods. China is maintaining its leadership in the export of labour-intensive products. Its textile products and raw materials, furniture and toys, light industry products such as shoes, boots and umbrellas rank, respectively, fourth, ninth and tenth in Brazil's Harmonised System (HS) category of imports from China, accounting for 36.6 per cent, 45.2 per cent and 70.5 per cent, respectively.

According to official Argentine statistics, Argentina exports to China mainly plant products, especially oil seeds, plant and animal grease, minerals and leather products. Argentina imports from China mainly electromechanical products, chemical products, transportation equipment, textile products and raw materials.

Since the beginning of the twenty-first century, the share of Sino-Latin American trade in China's foreign trade has risen significantly, from about 3 per cent to 6 per cent. Latin America has become one of China's most important trading partners. Mutual complementarity, mutual benefits and reciprocity characterise the partnership. MERCOSUR has contributed greatly to the rapid growth in Sino-American trade. Brazil is China's largest trading partner in Latin America, and in April 2009 China became Brazil's largest trading partner for the first time. Argentina is China's fourth largest trading partner in Latin America. China is Argentina's largest trading partner, second largest export market and third largest source of imports.

1.2 Substantial Progress in Economic and Technological Cooperation with China: The Cases of Brazil, Argentina and Uruguay

Sino-Brazilian Cooperation

China is the most populous developing country in the world, while Brazil is the most populous developing country in the Western hemisphere. Both economies are growing rapidly. Owing to the late establishment of diplomatic relations and a policy on both sides of treating developed countries as their diplomatic priority, investment and economic cooperation between the two countries started rather late. However, in the past five years, the number of economic cooperation projects between the two countries has been increasing, as has the size of investments.

China started economic cooperation with Brazil in 1984, first in the form of project contracts and export of labour services. Successfully completed projects include aerial surveys for Brazil's territorial management and port dredging. By October 2008, China had signed USD 3.3 billion worth of labour services and design consultancy contracts, with USD 2.09 billion already realised.

According to Chinese Ministry of Commerce data, by the end of September 2008, China's non-financial-sector direct investments in Brazil amounted to USD 210 million, mainly in the areas of mining, timber processing, motorcycle manufacturing and house appliance assembly. By October 2008, 447 Brazilian-invested foreign enterprises had been set up in China, with a total investment of USD 270 million, mainly in the areas of regional aircraft manufacturing, compressor manufacturing, coal, real estate, car parts manufacturing, hydropower, textiles and garments (Chinese Ministry of Commerce 2010).

Large companies on both sides are showing an interest in forming alliances. Bao Steel in Shanghai formed a joint venture with Brazil's Companhia Vale do Rio Doce (CVRD), the world's largest iron ore producer and exporter, to operate mines and steel mills in Brazil. Chinalco signed a framework agreement with CVRD to build an alumina plant in Brazil with an annual capacity of 1.8 million tonnes. Sinopec signed a framework agreement with Brazil's Petrobras to explore and exploit oil and natural gas in Brazil or a third country. The regional aircraft production line in Harbin, a joint venture between Empresa Brasileira de Aeronáutica (EMBRAER) and China Aviation Industry Corporation II (AVIC II), was put into operation in 2003. Large national or private banks from Brazil have also set up representative offices in China to provide financial services to companies in both countries.

The Sino-Brazilian Earth Resources Satellite Project has been going smoothly since its commencement in 1988. By the end of 2007, the collaboration between two countries had resulted in research and development (R&D), as well as the launching of three earth resources satellites, the data gathered by which are provided free to other developing countries. Two more satellites are to be launched before 2013. In January 2009, the Federal University of Rio de Janeiro set up the Brazil-China Centre of Innovative Technology Research together with Tsinghua University to conduct research on global climate change and energy security. China also is playing an increasingly important role in Brazil's infrastructure and deep-sea oil exploration.

During the visit by Brazilian President Lula de Silva to China in May 2009, the two countries agreed to further diversify their bilateral trade structure and to increase bilateral trade volumes. In the context of the current global financial crisis, they also agreed to deepen cooperation in customs, animal and plant inspection and quarantine, to remove obstacles in the abovementioned areas and to facilitate and secure bilateral trade. Both sides are committed to launching initiatives to encourage and support mutual investment in such areas as infrastructure, energy, minerals, agriculture and industry, especially in high-tech and bio-fuels. The fruitful economic cooperation between China and Brazil has become a role model for South-South cooperation.

Sino-Argentine Cooperation

Similar progress has been made in economic cooperation between China and another major MERCOSUR country, Argentina. When Chinese President Hu Jintao visited Argentina in November 2004, the two countries reached a consensus on the establishment and development of a strategic partnership. The Argentine government recognised China's market economy status. The two sides signed the Framework Agreement between China and Argentina on Cooperation in the Peaceful Utilisation of Space Technology, a Memorandum of Understanding (MOU) on the Implementation Plan of Chinese Tourist Groups to Argentina, an MOU on Cooperation in the Railway Project and an MOU on the Enhancement of Exchange and Cooperation in the Field of Education.

When it comes to thecommercialisation of satellite imagery, Argentina can provide a wealth of satellite images for the use of agriculture, forestry, banks and insurance companies, municipal planning, oil and gas, as well as mine exploration. The Federal Society for Applied Research (Investigaciones Aplicadas Sociedad del Estado, INVAP), a well-established company in this area, is looking forward to cooperating with China.

Owing to the lack of investment after the privatisation of energy companies in Argentina, needs for oil and gas storage, warehousing and transportation can hardly be met. In order to tackle the problem from the ground up, the Argentine government developed a new energy strategy and implemented a series of measures, including the establishment of a government-led energy joint venture, Energía Argentina Sociedad Anónima (Enarsa). This company believes that Chinese oil companies have sufficient capital and technology to participate in oil and gas exploration and exploitation in Argentina. It hopes to cooperate with its Chinese counterparts.

In July 2008, Chery Socma S. A., a joint venture formed by partners from China, Argentina and Uruguay, announced that the entry into the Argentine market of the Chery Tiggos assembled in Uruguay had met with considerable success. By cooperating actively with local companies, Chery is growing together with its foreign partners, to the benefit of both parties.

The cases presented here show clearly the dynamic of bilateral economic cooperation. According to the Chinese Ministry of Commerce, by June 2008, China's accumulated non-financial-sector investment in Argentina amounted to USD 172 million. Chinese investment in Argentina focuses on manufacturing, navigation, resource exploitation, imports and exports. Chinese companies started to undertake projects in 1985. By October 2008, Chinese companies had landed project and labour services contracts in Argentina worth USD 530 million and achieved a turnover of USD 594 million. By October 2008, there were 386 Argentine-invested companies in China, with a total contracted investment of USD 481 million and a total realised investment of USD 158 million (Chinese Ministry of Commerce 2010).

Sino-Uruguayan Cooperation

Economic cooperation between China and Uruguay has been wide-ranging. There has been friendly cooperation between China and Uruguay in agriculture, including small-scale cooperation in rice growing and viniculture, and in pick-up truck assembly.

In 2004, Huawei of China signed a letter of intent on cooperation with Uruguay's state-owned telecommunications company Administración Nacional de Telecomunicaciones (ANTEL) to build an experimental 3G mobile communication network (Wideband Code Division Multiple Access, WCDMA) in Uruguay. In July 2005, the network was officially put into operation. It supports such value-adding mobile phone services as video conferencing, web TV and Internet access, covering most of Uruguay's capital, Montevideo. It is the first 3G mobile phone network in Latin America.

In 2007, Chery Socma S. A, set up a plant in Uruguay to produce motor vehicles. It is the first overseas joint venture for Chery, and its largest investment. In May 2008, the commissioning of the production line was complete, and the first batch of Chery Tiggos rolled off the line. Cars made by this plant are sold mainly in Argentina and Uruguay.

In January 2008, Uruguay's Ministry of Internal Affairs signed a public security project contract with Zhong Xing Telecommunication Equipment Company Limited (ZTE) of China. This contract covers nine systems, including emergency response, data transfer and Voice over Internet Protocol (VoIP) video monitoring. Once the project is completed, the infrastructure of the Ministry of Internal Affairs will be greatly enhanced, making integrated command and rapid response possible, providing effective technical back-up for emergencies. ZTE is responsible for equipment supply, installation, training and after-sales service.

The Chinese government also helps Uruguay to train managers and technology experts. In the past 20 years, Uruguay has sent a substantial number of officials and technological professionals to tailor-made training courses in China.

On the Uruguayan side, in 2006, Frigorifico Canelones, the largest meat refrigeration company in Uruguay, obtained approval to set up China's first wholly foreign-owned meat importing business. This new company sold 25 tonnes of meat in a single month in Shanghai. Its major clients are top hotels and restaurants. Uruguayan businesses have also set up wholly owned companies or joint ventures in Beijing, Tianjin and Liaoning.

2. A New Stage of Development: Challenges Facing Sino-MERCOSUR Trade

The financial crisis triggered by the sub-prime crisis in September 2008 has had an enormous negative impact on the global economy. China, an active participant in economic globalisation, has not been spared. Between November 2008 and June 2009, China's foreign trade went down for eight consecutive months, which was unprecedented in its 60 year history. Sino-Latin American trade, which had been growing rapidly until December 2008, also fell drastically during the first four months of 2009. Moreover, the fall was much greater than average in China's foreign trade during the same period.

In the first four months of 2009, trade between China and the two major MERCOSUR countries, Brazil and Argentina, also went down. Like trade between China and most other countries or regions in the world, as a result of the financial crisis trade between China and MERCOSUR ended six years of high growth. A new stage of growth has begun, however.

China exports mainly manufactured goods, while importing primary products. Although this is determined by the economic structure of both sides, as well as supply and demand, there is more potential to be tapped in bilateral trade.

China has a trade deficit with MERCOSUR. In the first eight years of the twenty-first century, its export/import ratio averaged 0.54, or approximately 1 : 2.

Table 2 Sino-MERCOSUR Trade Balance, 2003-2008 (USD 100 million)

Year	2003	2004	2005	2006	2007	2008
Imports/Exports	−58.16	−71.36	−73.33	−68.3	−90.1	−141.95
Exports/Imports	0.68	0.48	0.33	0.43	0.50	0.60

Source: General Administration of Customs of PR China 2009.

China has had a trade deficit with Brazil for a long time. In the past nine years, the deficit has increased from USD 397 million (2000) to USD 11 billion (2008). The ratio between China's exports to Brazil and its imports from Brazil peaked at 0.76 (2000) and bottomed out at a mere 0.37 (2003).

Table 3 Trade between China and Brazil (USD 100 million)

Year	Exports	Imports	Exports-Imports	Exports-Imports
2000	12.24	16.21	−3.97	0.76
2001	13.51	23.47	−9.96	0.58
2002	14.66	30.03	−15.37	0.49
2003	21.45	58.44	−36.99	0.37
2004	36.75	86.84	−50.09	0.42
2005	48.28	99.89	−51.61	0.48
2006	73.8	129.2	−55.40	0.57
2007	113.72	183.33	−69.61	0.62
2008	187.5	297.5	−110.00	0.63

Source: General Administration of Customs of PR China 2009.

In the past nine years, the trade deficit between China and Argentina has risen from USD 120 million (2000) to USD 4.32 billion (2008). The ratio between China's exports and imports from Argentina peaked at 0.87 (2000) and bottomed out at a mere 0.15 (2002), before rising strongly again (Table 4).

Table 4 Trade between China and Argentina (USD 100 million)

Year	Exports	Imports	Exports-Imports	Exports-Imports
2000	8.10	9.30	−1.20	0.87
2001	5.74	12.81	−7.07	0.45
2002	1.80	12.40	−10.60	0.15
2003	4.47	27.29	−22.82	0.16
2004	8.52	32.55	−24.03	0.26
2005	13.25	37.99	−24.74	0.35
2006	20.04	37.00	−16.96	0.54
2007	35.67	63.35	−27.68	0.56
2008	50.40	93.60	−43.20	0.54

Source: General Administration of Customs of PR China 2009.

During the years in which Sino-MERCOSUR trade was growing rapidly, the prices of primary products in the international market rose considerably. In particular, crude oil prices rose dramatically from the first half of 2008, peaking at USD 150 per barrel. The price of grain and metals rose several times in the same period. Meanwhile, the prices of manufactured goods experienced a general downturn. Freight rates shot up as oil prices rose. The impact of such price differentials has been deeply felt by Chinese companies who specialise in the production of labour-intensive goods with a low technology content.

The rapid growth of Sino-MERCOSUR trade resulted in a great deal of friction. According to the WTO, in the first 14 years after its establishment (1995-2008), Argentina and Brazil instituted, respectively, 61 and 37 anti-dumping investigations against Chinese products, accounting for 9 per cent and 5.5 per cent of such investigations by WTO members. During the same period, Argentina and Brazil imposed, respectively, 40 and 21 anti-dumping measures on Chinese products, accounting for 8.4 per cent and 4.4 per cent of such measures by WTO members (WTO 2008).

Generally speaking, those WTO members that institute anti-dumping investigations or impose anti-dumping measures have relatively large trade deficits. However, Brazil and Argentina have huge surpluses in their trade with China. Although both countries have recognised China's market economy status, they have not reduced anti-dumping investigations or measures against China. Instead, they have added anti-subsidy and safeguard measures to the package. Since the outbreak of the financial crisis, there has been a surge in these activities, including both short-term and long-term measures. Therefore, trade protectionism remains fairly strong in MERCOSUR.

There has been an imbalance in the growth of Sino-MERCOSUR investment. China's investment in MERCOSUR is relatively small, and Chinese companies do not think that the investment environment in South America is ideal. Although South American countries claim they encourage foreign direct investment, the entry barriers are very high. Low efficiency, poor infrastructure, strong trade unions and huge cultural differences make it even tougher for Chinese companies to invest in South America. On the other hand, Chinese companies still have some way to go in developing their capabilities for "going international". They must further improve human resources, capital and management expertise.

3. Potential Developments in the Wake of the Financial Crisis

Although the financial crisis was generally unexpected, retrospectively its occurrence is perfectly logical. It is no coincidence that Sino-MERCOSUR trade fell drastically from January 2009. The high growth period in Sino-MERCOSUR trade has given place to a new phase. The financial crisis poses both severe challenges and rare opportunities for the further development of Sino-MERCOSUR trade. On balance, there are more favourable than unfavourable conditions.

3.1 Favourable Conditions

Together, China and MERCOSUR constitute a huge market covering a wide area, and with rich resources and a huge population. Bilateral economic and trade cooperation benefit from solid foundations: China has formal diplomatic relations with three out of the four MERCOSUR countries: Brazil, Argentina and Uruguay. There are healthy political, economic and cultural relations, and no fundamental conflicts of interest. Although there are no formal diplomatic relations between China and Paraguay, trade has already started. There is every prospect that China and MERCOSUR will develop their economic and trade relations. It is in the interest of the people on both sides, as well as from the point of view of cooperation between developing countries.

China has signed, with Brazil, Argentina and Uruguay, the inter-governmental trade agreement, and agreements on economic and technical cooperation and on ocean-going shipping, as well as on encouraging and protecting mutual investments. In addition, China has signed MOUs with the three countries on fishery cooperation, tourism cooperation and loan agreements, as well as on energy cooperation.

China has also established an intergovernmental committee on economy and trade with Brazil, Argentina and Uruguay to coordinate the development of bilateral economic and trade relations. At the same time, China's National Development and Reform Commission, Ministry of Commerce, Ministry of Agriculture, Ministry of Health, Ministry of Transportation, Ministry of the Information Industry, General Administration of Quality Supervision, Inspection and Quarantine, National Tourism Administration, Council for the Promotion of International Trade, the Bank of China and the Export-Import Bank of China have established cooperation with their counterparts in the three countries.

In recent years, South American countries such as Brazil and Argentina have attached growing importance to Asian markets such as China and India. Their enthusiasm for expanding economic and trade relations with China is unprecedented. Their trade relations with East Asian countries have been intensified.

The outbreak of the financial crisis heralds a major change in economic globalisation following over 20 years' rapid growth. At the same time, it exposes some underlying problems in the economic development of developing countries, including China and MERCOSUR members. From this perspective, the financial crisis may be good news for China and MERCOSUR, since it provides the latter with a strategic opportunity to change their growth mode and make their economic relations more sustainable.

3.2 Suggestions for the Near Future

An open, equitable and multilateral trade mechanism is conducive to the healthy growth of the world economy. China and MERCOSUR should maintain a steadfast commitment to the multilateral trade mechanism, support the Doha Round talks, resist trade protectionism and promote the early resumption of the Doha Round talks and a comprehensive, well-balanced outcome.

Free trade zones represent an important supplement to the multilateral trade mechanism. The successful conclusion of free trade agreements between China and Latin American countries provides both favourable conditions and valuable lessons for China and MERCOSUR and should encourage them to start similar negotiations in the near to medium term. We suggest that such negotiations start as early as possible, so that cross-continent free trade zones can be established.

Confronted by the financial crisis, China and Latin American countries should give priority to strengthening financial cooperation, so as to mitigate the negative impact of the financial crisis on bilateral trade. The liquidity squeeze caused by the rampaging global financial crisis has already created great difficulties for the export-oriented trade systems in Asia and Latin America. Exports have fallen dramatically. Exchange rates fluctuate against the US dollar and risk is growing in international trade. Many initiatives could be launched, including negotiations on currency swap agreements.

Currency swaps are a kind of foreign-exchange agreement between two countries to avoid exchange rate risks. After a certain period of time and a certain quantity of exchanges have occurred, the central banks of the two countries settle up. By means of such mechanisms, trading or exporting businesses in the two countries can receive payments in their domestic currency, thereby benefiting by both avoiding exchange rate risks and reductions in currency conversion charges. Parties in a currency swap usually agree on a quota. Once the swap has been launched, the two countries can provide short-term liquidity support for each other by exchanging local currencies, thereby facilitating financing between local commercial banks and their foreign counterparts, promoting bilateral trade.

Shortly after the outbreak of the financial crisis, Brazil and Argentina activated a local currency settlement system in their bilateral trade in October 2008. They also plan to extend the system—which aims at eliminating the US dollar as vehicle currency—to the rest of MERCOSUR, thereby offsetting import limits imposed by a number of countries that lack US dollar reserves.

Starting in December 2008, China signed currency swap agreements with the monetary authorities in South Korea, Malaysia, Indonesia and Belarus, the China mainland also signed currency swap agreement with HongKong. On 29 March 2009, China signed a RMB 70 billion (USD 10.25 billion) framework currency swap agreement with Argentina, the first of its kind—and also the largest financial deal—between China and a Latin American country. By the end of March 2009, currency swap agreements between China and other countries or regions amounted to RMB 650 billion, about 5 per cent of China's foreign reserves (Xinhuanet 2009).

At present, US dollars are commonly used in international trade. Countries not only settle their trade in US dollars, but also keep US dollars as foreign reserves. The subprime crisis dealt a blow to the economy of countries with large US dollar foreign reserves. In order to ensure further growth of Sino-Latin American economic and trade relations, China and its major Latin American partner countries should strengthen effective cooperation in the financial sector, including the negotiation and signing of currency swap agreements.

During the new stage of growth, China and MERCOSUR should try their best to tap into the potential of service trade as well as trade in goods. Service trade between China and MERCOSUR is new but exciting. For example, large companies from China and Brazil have joined hands in metallurgy, mining, energy, aviation, aerospace and finance, achieving satisfactory results which indicate the huge potential of cooperation between the two sides in high technology and service trade.

Having relatively developed economies, Brazil and Argentina enjoy distinct advantages in automobiles, metallurgy, minerals, nuclear power, medicine, finance, insurance, tourism, education and investment. They are well placed to intensify cooperation with Chinese companies in these areas.

The United Nations Framework Convention on Climate Change and its Kyoto Protocol demand that countries adhere to the principle of common but differentiated responsibilities, actively implement the Bali Roadmap talks and adopt effective measures to mitigate climate change that are in line with their particular circumstances. Forest protection is an important part of the cooperation against climate change. In 2007, China proposed the Asia-Pacific

Network for Sustainable Forest Management and Rehabilitation initiative, in which both China and MERCOSUR can play important roles.

Since it is often beyond the capabilities of one country to cope with a catastrophic natural disaster, support from the international community is needed. In 2008, China put forward the "Basic Principle for Dealing with Disasters and Cooperation within the APEC" with a view to strengthening exchange and cooperation in this area in the Asia Pacific region. China and MERCOSUR could consider some long-term cooperation projects in post-disaster construction.

Food and energy security is vital not only to the economy and life, but also global development and security. As major food producers and consumers, China and MERCOSUR should take active measures to ensure world food and energy security. Both sides should attach great importance to food production, increase investment, rely on science and technology, increase food supply, improve the food trade environment, establish a fair and equitable trade system for farm produce, strengthen macro-control, curb over-speculation in the market and stabilise food prices. Both sides should strengthen mutually beneficial cooperation in energy development, as well as policy coordination, diversify energy supply, set up an advanced system for the development and dissemination of energy technology and advocate greater use of clean energy and renewable energy.

4. Conclusion

Before the financial crisis, economic and trade relations between China and MERCOSUR had taken advantage of economic globalisation and grown rapidly, which laid a solid foundation for the further development of strategic complementarities between the two sides. The financial crisis has had a very negative impact on the world economy, including China and MERCOSUR. It is not yet behind us. However, thanks to the relatively solid economic foundations in China and MERCOSUR, as well as the measures taken immediately to address the crisis, China and MERCOSUR are still confident of further developing their economic and trade relations, which will make a constructive contribution to world economic recovery. China and MERCOSUR should seize the opportunities presented by the financial crisis, strengthen and deepen bilateral cooperation and further contribute to the recovery and stable growth of the world economy.

Notes

1. Unless otherwise specified, the trade data referred to in this chapter were collected and analysed by the author based on the annual statistical yearbook of the General Administration of Customs of PR China.

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Chapter 8
Current and Future Cooperation under the EU-MERCOSUR Agreement※

Karl Buck

1. Relations between the EU and MERCOSUR

The Southern Common Market (MERCOSUR) was established in 1991 by the Treaty of Asunción. The Ouro Preto Protocol of 1994 set out its institutional structure in more detail. It is composed of Brazil, Argentina, Uruguay and Paraguay. Without much visible impact, Bolivia and Chile joined MERCOSUR in 1996 as associate members, followed by Peru in 2003 and Venezuela, Ecuador and Colombia in 2004. Venezuela is now in the process of becoming a full member. Biregional relations between the European Union (EU) and MERCOSUR are based on the 1995 inter-regional Framework Cooperation Agreement, which provides the basis for political dialogue and cooperation between the two regions. In recent years, relations have been dominated by the difficult process of negotiations on an Association Agreement, which were launched in 2000 but have not been concluded. Following the suspension of trade negotiations in 2004[1] at the request of MERCOSUR, which wanted first to see the outcome of the multilateral Doha round, relations have undergone a substantial slow-down.

Some have spoken of "never-starting" rather than "never-ending" negotiations. Frustrations on both sides with regard to insufficient or even reduced negotiation offers have led to friction. It does not matter whose perception is more correct, reality is what each side perceives as such. However, since the end of 2007, new impetus was injected

※ This chapter takes up parts of short speaking points initially made by my colleague Beatriz Martins, then in charge of MERCOSUR at the Directorate-General for the External Relations (DG RELEX) of the European Commission. However, responsibility for the text is entirely mine and, as usual, the views expressed in this chapter are those of the author and should in no way be considered as expressing the official position of the Council of the European Union or any of its officials.

into the relationship, with a series of high-level visits and meetings at working level. At the EU-MERCOSUR summit in Lima in May 2008, the parties confirmed "the importance of reaching an ambitious and balanced Association Agreement and their commitment to carry negotiations through to a successful conclusion", adding "as conditions permit". Similar announcements were made before and after. The EU has been frustrated that after such high-level commitments, no progress was visible when negotiators met again. It remains to be seen whether the new commitments made at the IV EU-MERCOSUR Summit on 17 May 2010 in Madrid will finally lead to new advances (EU Council doc. 9870/10).

The task of the present chapter is not to deal with the thorny issue of overall trade negotiations aimed at biregional free trade. However, some aspects of the trade issue must be outlined to better understand the possible evolution of biregional cooperation. MERCOSUR ranks only eighth among EU trading partners, with just 2.7 per cent of total EU trade, whereas the EU accounts for 27 per cent of MERCOSUR's exports and 20 per cent of its imports.[2] Even Brazil is only the EU's eleventh largest market. Aggregate EU investment, however, exceeds EU stocks in China, India or even Japan. EU investment stands out in non-primary sectors and is therefore contributing more to local added value and jobs. Sixty per cent of FDI is related to services. As a major source of trade-related assistance, the EU reinforces the competitiveness of its competitors (EU Council doc. 8695/09). The negotiation problems indicate a North-South cleavage. The EU wants a comprehensive agreement with results exceeding those to be reached on the multilateral level—a "Doha-plus". Otherwise, additional and parallel negotiations on a sub-Doha, biregional level would not make much sense. Leading Commission figures asked publicly in 2007 whether an EU offer as large as the one made at the multilateral level could really be expected in this biregional context. Services represent 70 per cent of GDP and jobs in the EU, which thus has an understandable interest in free trade in this area. In MERCOSUR, they represent less than 20 per cent. It was calculated that a Free Trade Agreement (FTA) would add EUR 5-7 billion to services; the cost of a failure to reach agreement is over EUR 5 billion, and nearly EUR 4 billion in goods.

In negotiations with the EU, MERCOSUR focuses on agricultural products, and related subsidies. Understandably, there are clear reasons—not always economic ones—why agriculture plays such a decisive role. But it is worth stressing that the EU is MERCOSUR's primary market for agricultural exports. There is a wise saying in business that you do not insult your best client. In the

Doha talks, the EU offered to cut its farm tariffs by more than half, reduce domestic farm subsidies by 70 per cent and eliminate export subsidies by 2013, if others offered something similar. It should also be kept in mind that:

(1) a change in exchange rates and global dynamics can have a bigger influence than changes in tariffs and tariff quotas;

(2) many weaker developing countries have come to see the Brazilian request in the Doha round of total liberalisation of agricultural trade as a threat to their own, less competitive production;

(3) meanwhile with rising global demand for agricultural products, the real issue will be whether all producers together can deliver enough, not how and how much each of them subsidises its exports. Thus, agriculture should henceforth be less of a stumbling block.

2. The Current State of MERCOSUR

As the fourth largest economic group in the world, MERCOSUR is the most potent area in Latin America. However, its integration process has advanced at a snail's pace. As stated in the European Commission's Regional Strategy Paper (2007-13: 4),

> MERCOSUR has suffered from a lack of political involvement and changing political priorities, resulting in disparate projects ... The list of incremental steps is impressive. However, the economic integration process is still far from complete and trade disputes are endemic ... Many unilateral trade measures have been adopted by individual members with little prior consultation of the other members, leading to a perceived sense of disillusion within the bloc, despite the affinity among the moderate left-wing parties in power in three of the four MERCOSUR states. (European Commission's Regional Strategy Paper: 7)

Some, albeit limited, progress has been made in setting up institutions, such as the MERCOSUR Parliament, the Technical Secretariat and the MERCOSUR Coreper. Key decisions on a MERCOSUR customs union continue to be delayed. New internal trade barriers have been introduced against other MERCOSUR members. MERCOSUR is not functioning as a fully free trade area, as internal barriers are still widespread. Only as recently as 2010 were MERCOSUR members able to agree on the abolition of the double tariffs on imports from third countries which are then re-exported inside the bloc. This was disappointing, also for progress in biregional negotiations. Thus internal criticism of MERCOSUR has increased further, so that some claim that MERCOSUR has failed:

(1) For Paraguay's President Fernando Lugo, "MERCOSUR comes of age

but has not yet grown up" (Brazil and Southern Cone report Jan. 15, 2009).

(2) Brazil seems weary of and has outgrown the organisation; the private sector urges the authorities to choose a deal with the EU over continuing in MERCOSUR (Brazil and Southern Cone report, Jan. 15, 2009).

(3) Smaller members Uruguay and Paraguay continually complain that their interests are not taken into account.

(4) Tensions within MERCOSUR at the EU-RIO Group ministerial meeting in May 2009 in Prague were such that MERCOSUR could not agree on the presence of the MERCOSUR "presidency" at a press conference.

(5) There is a lack of a strong endogenous base for integration, including a production pattern fitting more the interests of the rich, less broad internal demand. Intraregional trade has not grown as expected. According to figures from Eurostat and the UN Economic Commission for Latin America and the Caribbean (CEPAL), the intraregional share in overall exports of goods amounted in 2007 to just 13 per cent in MERCOSUR, compared to EU figures of around 67 per cent. China has a larger share in Brazil's market than Argentina (8. 6 per cent vs. 10. 5 per cent), while Mexico invested some USD 3 billion in Brazil between 2003 and 2007, Chile invested USD 869 million, and Colombia invested USD 400 million; Argentina's FDI there was a mere USD 388 million (MERCOSURabc Mar. 26, 2009).

(6) MERCOSUR was perceived as having difficulties in providing an efficient framework to prevent or settle internal disputes. Felix Peña said: "We need to build a MERCOSUR of partners, not of hostages."

(7) MERCOSUR has so far been unable to establish a common stance in the Doha Development Agenda (DDA) negotiations. The MERCOSUR-Europe Business Forum (MEBF) has repeatedly expressed frustration, regretting that "the costs of internal coordination of MERCOSUR's negotiating positions grew significantly", and denounced "MERCOSUR's internal dynamics as more an obstacle than an incentive for negotiations" (El Pais Dec. 25, 2009). They saw MERCOSUR as just a platform for foreign policy posturing, and claimed it is easier to export to the EU—recently accused of being a "fortress"—than within MERCOSUR.

3. European Integration

European integration is neither a universal "model" nor perfect. Nevertheless, it shows a number of things that are essential for progress, but meanwhile also that a lack of political will and seriousness can undo it. It was built on a strong, sustained political commitment, the construction of a judicial system and some supranational institutions, as well as common policies and joint actions. Member states usually comply with it. Jean Monnet said that to generate new ideas you need persons, but to sustain them you need institutions. The EU system has been sufficiently flexible to adapt its advancement to special circumstances. It has meanwhile experienced a considerable variety of "differentiated integration", corresponding to a growing variety of basic experiences, political cultures and long-term objectives, from enlarging the European Economic Community (EEC) of six members to the EU of 27 members of today.

MERCOSUR shares some of the typical characteristics—one might also say weaknesses—of other Latin America and Caribbean (LAC) schemes of regional or subregional integration (RI):

(1) a plethora of concepts more rapidly replaced by new ones than implemented;
(2) a lack of definition and vision, with improvisation as the result;
(3) an excessive dominance of extraregional trade and slow improvement of intraregional trade, as well as inequitable distribution of benefits;
(4) the absence of a real common trade policy;
(5) limited coordination of macroeconomic policies;
(6) weak national and, even more so, regional institutions and insufficient funds for both; and
(7) a growing belief in some countries that regional integration is part of the problem, but not of the solution (Caetano 2009; Rueda-Junquera 2009; Sukup 2001).[3]

Some talk of LAC as a "burial ground for zombie integration schemes". In Latin America, with its traditional strong emphasis on national "sovereignty", it takes time to understand that the real problem is not the loss of sovereignty, but the loss of influence—to see regional integration as a remedy and not a cause of decreasing national influence. To accept that in a modern society and global world, acting sovereignly also means being able and willing to decide on the most efficient level at which tasks should be performed, which sometimes will be the regional one.

As a consequence, the intergovernmental concept concentrates decisions too much on summits and is hostage to unanimity, a fault that has also plagued the EU at times. Peña, although a "professional optimist", sees a risk of a deterioration of MERCOSUR's credibility because of the precarious state of its procedures. Moreover, from 1991 until 2007, only 47 per cent of common MERCOSUR norms were transposed to national legal frameworks. Some national courts still have difficulty regarding and accepting MERCOSUR political or legal decisions as guiding or binding. Until recently, such decisions were not even regularly published. The situation provoked serious questions concerning who pays for damages due to non-implementation of the judgments of the MERCOSUR Tribunal Permanente de Revision. A new Justice Tribunal was agreed politically, but to function it would need changes in some national constitutions.

But some lessons have been learned. MERCOSUR has seen the weakness of its ad hoc systems for trade dispute settlement, but the new Trade Policy Review Mechanism (TPRM), created in 2004, has yet to prove its efficiency. Again, inflexible positions on alleged risks to national sovereignty block progress. In addition, the EU idea of compensation and solidarity funds has made some ground in Latin America—for example, the Structural Convergence Fund MERCOSUR (FOCEM)—but it still has insufficient resources (USD 100 million).

4. Current EU-MERCOSUR Cooperation

Cooperation with MERCOSUR using funds from the budget of the European Community (managed by the Commission) started in 1991, notably in support of its newly established structures. The 2002-2006 Regional Strategy Paper (RSP) provided, in addition to bilateral Country Strategy Papers and funding, EUR 48 million to support implementation of the MERCOSUR internal market, institutionalisation and civil society. The EU contributed, certainly also in its own interest, with technical assistance on the setting of regional standards and procedures. For the period 2007-13, within the overall "regional indicative programme" for the MERCOSUR area (EUR 556 million = 21 per cent of the global allocations for Latin America), EUR 50 million are earmarked to finance MERCOSUR integration projects in three priority areas:

(1) strengthening institutions (10 per cent),

(2) supporting integration and preparing for the implementation of an Association Agreement (70 per cent) and

(3) fostering the participation of civil society in the integration process, including disseminating information and increasing its visibility (20 per cent). This makes the EU by far the largest provider of financial assistance for the integration of MERCOSUR (European Commission 2007).

Politically, the EU cooperation programme was designed on the assumption that MERCOSUR would continue to strengthen its institutions and deepen its integration at a sustained pace. However, the programme is experiencing difficulties with regard to political, technical and administrative implementation. There is no MERCOSUR institution which could be the partner or beneficiary of the Programme. Each project is managed as an ad hoc arrangement with a national agency, which then acts as the coordinator within MERCOSUR. This process is complicated and difficult. Recently, EU support to FOCEM and the MERCOSUR tribunal had to be decommitted due to MERCOSUR's withdrawal from certain projects.

The idea of authentic integration secretariats with independent civil servants has not taken hold. A secretariat with just a handful of higher officials, 30 staff altogether and a budget of only USD 1 million, as in MERCOSUR, is simply not capable of promoting integration. At best, it can provide technical assistance for intergovernmental procedures. EU cooperation with MERCOSUR institutions and players, as well as standard setting is welcome. The EU has a role as tentative "external federator". Since the early 1990s, the EU has been a long-term and important source for the staff training of all Latin American integration schemes, including MERCOSUR's pro tempore presidencies, its embryonic Parliament and the joint parliamentary committee, as well as the Permanent Review Tribunal. The EU has helped to modernise customs procedures, statistics and sanitary and phytosanitary standards, among other things. This is somewhat astonishing in relation to countries, mostly in the middle income category, which are so proud of their "sovereignty". The outcome of the 2010 mid-term review process remains to be seen.

5. EU-MERCOSUR—Which Way Ahead?

Asked whether they give MERCOSUR and biregional negotiations much chance, some answer with the Bavarian saying: "I'd swear, but I'd never bet on it!" The EU is unlikely to share the desperation of the Paraguayan Foreign Minister that the group is in a "terminal state" (O Estado de São Paolo, 24. 7. 2009). Nevertheless, a number of questions were asked. For example, whether agreements should be pursued even if they had been designed under different circumstances? Also, should the EU opt for something which opens up relations more or settle for something more specific, but more modest? What if negotiations do not resume? The EU clearly favours regional integration and thus biregional negotiations, and will certainly not wish to be seen as the party responsible for scuttling integration schemes by singling out individual countries. But the EU cannot impose its favoured approach and therefore is no longer fundamentalist on the issue. This was illustrated when the EU overcame Bolivia's obstruction of Andean negotiations with the EU. Furthermore, the EU proceeded with those who wished to continue, but left the door open for others to join later. In this way, the EU respects the sovereign will of both the willing and the reluctant.

A number of suggestions made in this context seem to be rather premature, such as the fusion of MERCOSUR and the Andean Community or rapid negotiations on an overall EU-Latin America Association Agreement, including free trade. Political, economic, procedural and ideological divergences within Latin America and its regions or between the EU and Latin America promise no success. Nevertheless, there is some potential in EU-MERCOSUR relations and cooperation. Also, a clear turnaround is discernible in official EU documents (COM 2009), MERCOSUR's positions and academic research in the direction of Realpolitik, with suggestions on where progress might be made.

The current global crisis makes the case for interregional and intra-regional cooperation even stronger. This is the message of a study by the Latin American Trade Network (Heidrich 2007), which recommends a new start in Latin America on the basis of intensified cooperation in infrastructure and productive integration, or at least interconnectivity. Along the same lines, and always keen to seek a way out, Peña (2009b) developed three scenarios. First, integrational inertia due to insufficient innovation; second, a "foundational syndrome" which throws most options overboard; and a third option which capitalises on accumulated experience and results. Ideas discussed by the EU and implemented to a certain degree in the course of its own development, such as "géographie variable", a multi-speed Europe and so on, have recently been taken up in official MERCOSUR circles both for EU-MERCOSUR negotiations and for development within MERCOSUR.

In academic circles, Peña, del Arenal and Flores suggest a similar change of emphasis and pragmatic advance in regional and EU-MERCOSUR relations. On the biregional level, the 1995 EU-MERCOSUR agreement and its evolution clause could be used, and the parties concerned might look into partial, temporary progress in economic relations to (re-)build confidence (del Arenal 2009).

5.1 Political Dialogue

The negotiator of the 1995 agreement, Uruguayan diplomat Guillermo Valles, recalled at a conference in Paris that the initial logic in EU-MERCOSUR relations was a better balance in global affairs and rebalancing the EU presence in Latin America, with an emphasis on dealing with issues at a multilateral level, within a multipolar global system. There was a geopolitical dimension that should not be forgotten. This also fits in with the views of other analysts: MERCOSUR can become a political scheme rather than just a regional economic integration area. MERCOSUR has shown its value in securing stability in the region, as in the case of Paraguay. It can thus be an important base for farther-reaching concepts, such as the Union of South American Nations (UNASUR) which, despite ideological clashes, did prevent a hemispheric crisis from breaking out or becoming violent. The region of Latin America and the Caribbean can build on the reinforced multilevel process of political concertation, such as the "new" RIO Group, meanwhile covering all Latin America and a growing number of Caribbean countries, or UNASUR. Such processes have been extended beyond the political area into security and health care. This creates psychological, social and diplomatic grounds for more and regular coordination.

So far, political dialogue with MERCOSUR—as with other integration schemes—has been useful, but by no means as much as it might have been: in a biregional context, issues concerning single member countries cannot be discussed; but this is true for both sides (Buck 2009a). To circumvent this, such dialogue must not be limited to the level of ministers or high officials. The growing contacts between parliamentarians on both sides, or civil societies and their organisations, such as the European Economic and Social Committee and the Committee of the Regions or meetings between local administrations of the kind which took place in 2007 in Paris, are encouraging initiatives. It is also striking that all of the six political foundations in Germany have taken up the issues of security in Latin America and the Caribbean. Some, such as the Konrad-Adenauer-Stiftung or the Friedrich-Ebert-Stiftung, already have longstanding experience through biregional seminars, which bring together researchers, politicians, security experts and actors.

So far, the issue seems to have been off the political agenda, but situations like those in Mexico and Haiti or the fight against drugs have led to concrete cooperation, experience and exchange of best practices.

5.2 Other Issues of a "Post-liberal Agenda" (Sanahuja 2008)

The issues which would benefit from more bi-regional cooperation include energy, infrastructure, migration, environment, health care, and social and regional asymmetries. In recent years, at EU-LAC, biregional or bilateral levels (cf. the strategic partnerships with Brazil and Mexico and their joint action plans, or the EU-Chile Association for Development and Innovation), numerous *sectoral* dialogues have been created and shown their value, leading to better understanding, technical assistance and even to initiatives at the multilateral level (Buck 2008). At their ministerial meeting in Prague in 2009, the EU Troika and MERCOSUR agreed on such concrete initiatives and workshops in order to take the discussions forward (EU Council 2009).

Opponents of free trade areas (FTAs) underlined the risk to the weaker party in asymmetrical relations. Against that, one might reply that, when talking with Latin America and the Caribbean, the EU knows as a consequence of its own beginnings and later enlargements what "asymmetry" means, and it probably knows better than any other organisation how to deal with it. Living standards at the level of the regions in the EU differ by a ratio of 1 to 30. EU solidarity funds cushion some of the unwanted effects of economic integration. The EU-LAC Summit 2008 in Lima established a special programme, EUrosociAL, with initial funding of EUR 30 million.

Adequate and functioning physical *infrastructure* is the key to development; it reduces, among other things, the cost of transactions and of the transport of goods and workers. There was always insufficient Latin American investment in this field, in contrast to the situation in Asia. Traditionally, Latin American transport infrastructure was designed for extraregional trade, basically with Europe, but meanwhile has been extended to encompass resources needed by China. Studies show that transport costs, together with the bureaucratic burden, are far higher than the customs duties applied in each case studied. The Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) should notably improve the productivity and competitiveness of the South American countries in the areas of energy, transport and telecommunications. But so far it has given priority to road projects, which account for 74 per cent of planned investments up until 2010. But roads are not the best way either of moving low-value non-perishable goods or of protecting the environment. To date, IIRSA has done little by way of implementation; of the 348 potential projects which have been identified, 31 have been selected so far, but less than 10 per cent of the slated investment has been made. Part of the problem is Latin America's traditional low savings rate and tax revenues, which puts it at a long-term disadvantage in relation to East Asia. Projects also suffer from rapidly changing political relations or, as in the case of energy (for example, "gasoducto del sur"), from new discoveries which make such projects less vital nationally.

International experts and organisations have strongly urged Latin American authorities to remedy the situation. As in the history of the EU, interconnectivity is a good motive but not a sufficient condition for integration. The energy sector could be a strong pull factor, kickstarting integration based on "functional" logic, as the European Community for Coal and Steel did for the EU (Heidrich 2007). But so far, "in South America, energy is an interconnection issue which does not foster integration" (Honty 2006).

5.3 Trade

Bilateral agreements between Latin American countries and non-Latin American partners are growing, rising from 20 in 1990 to 86 in 2000, and 159 in

2007. In 2005, trade covered by preferential agreements reached 63 per cent—12 per cent intraregional and 51 per cent extraregional—which was expected to rise to 72 per cent in 2007. Traditional integration schemes seem to have lost relevance for the international agendas of their members.

In light of problems with the pronounced political, economic and social heterogeneity of Latin American countries—and thus with the acceptance and negotiation of full-blown Association Agreements with an FTA—it was recommended to seek formulas which make a regional-based strategy compatible with bilateral approaches. Proceeding in a differentiated manner, with tailored gradual calendars and scope according to the various capacities of those involved is one way forward, as suggested by representatives of the private sector in Brazil to the EU-MERCOSUR meeting on 12 November 2009. In order to make progress, Argentina seemed to suggest abandoning the usual negotiating approach of "nothing is agreed until everything is agreed" to close chapters on which provisional agreement has already been reached, as well as to address trade and other open issues with possible adaptation clauses (for example, to smooth things over in difficult situations with regard to competition). It remains to be seen whether such an unusual approach will work.

In its recent communication on "Latin America and the EU—An Association of Global Partners", the European Commission takes a similar line. In addition, it suggests a particular Mechanism for Investment in Latin America (MIAL)—like the European Neighbourhood Mechanism, with starting funds from the EU budget. It should privilege cooperation in interconnectivity, infrastructure, social fields and the environment, as well as fostering small and medium-sized enterprises. This is in line with the overarching topic for the 6th EU-LAC Summit in May 2010 in Spain.

Apart from this new approach to EU-MERCOSUR relations, negotiations and cooperation, no real chance for trilateral cooperation by either partner outside their regions is apparent. This is, if at all, possible only in bilateral relations, such EU-Brazil, or with Mexico or Chile. In the concrete action plans agreed with them, trilateral cooperation is mentioned. Indeed, Brazil and the EU recently convened to study joint cooperation in developing bio-electricity and bio-fuel in Mozambique (see also EU-Council 2008).

6. Conclusion

Integration schemes such as the Andean Community of Nations (CAN) or MERCOSUR still seem inadequate for reaching such objectives as the establishment of common markets and beyond, and progress in integration, of the kind represented by the EU, seem neither intended nor expected. The EU has lost influence as a soft, norm-setting power due to the arrival of strong players who seem not to have any interest in spreading globally accepted norms. I argue in my second paper in this book that these players may see the advantages of spreading such norms later in the process of their own development.

For the moment, integration agreements may serve in Latin America less as aims in themselves than as platforms for common efforts, confidence-building and better positioning in global markets. Time is not necessarily on LAC's side. The major risk is not that economic, social and other policies may fail, but that they may not provide results quickly enough. Biregional relations can be useful in this connection, but they can only complement national and regional efforts.

Notes

1. As a matter of fact, MERCOSUR took up earlier hesitations by the European Commission Directorate General Trade about a risk of blockage when such trade negotiations were held simultaneously at two levels, multilateral and bioregional—since what is offered at one level is lost as a negotiating chip at the other.
2. It should be mentioned that figures vary according to sources and time, especially with regard to China.
3. See the articles by F. Peña listed in the Bibliography and for updated information consult his website, www. felixpena. com. arg. An excellent historical analysis is given by Sanahuja (2008).

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Part Ⅲ
Energy Security and Climate Change

Chapter 9
China's Approach to Energy and Climate Change

Yu Hongyuan

1. Introduction

Climate change has emerged as one of the top security challenges of the early twenty-first century. UN Secretary-General Ban Ki-Moon recently stated that "climate change is altering the geopolitical landscape", as manifested by increased competition over Arctic resources, increased intra-state and interstate migration and rising sea levels (Federal News Service 2009). Promoted by the bull market in energy prices and the ascent to a new level of the climate change issue a few years ago, a new effort to develop new energy sources and renewable energy has been evident around the world. Clearly, climate change and energy security issues have caught people's attention. The relationship between energy security and climate change has changed beyond recognition, and it poses a great challenge to both practitioners and academics. Moreover, climate change and energy security issues have moved from the margin to the centre of security policies, particularly since the end of the Cold War. On the one hand, climate change and energy security have been recognised as an important source of threats to human survival over the past few decades. Human dependence on a modern energy supply for a sustainable future in modern societies is vastly greater than it was in an agrarian society. On the other hand, it is now universally acknowledged that international cooperation or collective action are not enough to resolve the crisis caused by climate change and energy security. International collective action on climate change and energy security is a social and political challenge, as well as an economic one. It involves various sectors of the national social economy and so has an important bearing on the political legitimacy and stability of all nations. The need for access to energy and other natural resources has increased and more states are in greater competition for them than ever before.

As the scarcity of traditional energy and climate change emerged as serious problems, economic growth patterns in various countries gradually evolved in a direction that suited new energy sources. The EU and the United States, as global superpowers, aspire to corner future energy markets through negotiations on reducing carbon emissions, coupled with a desire to dominate the drive toward clean energy and energy efficiency and innovation by building a climate change regime. However, many developing countries, including China, which are still at the industrialisation stage, are still pursuing the Western countries' economic model—which is growth-oriented, unsustainable and resource-constrained—dating from the late eighteenth century. China has an urgent need to promote development while joining in the global struggle against global warming and contributing to global energy security. Since the 1990s, China has paid increasing attention to environmental protection and the growing hazards posed by climate change. In fact, in its 2008 white paper on climate change, the Chinese government acknowledged that "China is one of the countries most susceptible to the adverse effects of climate change, mainly in the fields of agriculture, livestock breeding, forestry, natural ecosystems, water resources and coastal zones" (BBC Monitoring Asia Pacific-Political 2008). As one of the world's leading economic powers, China is central to regional and global efforts to fight global warming and climate change. Any successful international effort to mitigate threats to human and national security posed by climate change must inevitably include China (Harris 2004; Elliott 2002). China's population has now reached 1. 3 billion, and its economy is one of the world's largest and fastest growing. Consequently, China is experiencing widespread and often acute environmental challenges with severe local, national and regional consequences (Smil 1993; Japan Environmental Council 2000; World Bank 1997). It has produced vast amounts of greenhouse gases, especially carbon dioxide from the burning of fossil fuels (coal, oil and natural gas). Due to its high economic development and low energy efficiency, China in the early 1990s became the second largest national source of greenhouse gases and it will become the largest source by 2020 (UNFCCC 2003; China's Office of National Coordination Committee for Climate Change 2003). Concerning China's high carbon energy mix, it is now the principal emitter of greenhouse gases and should bear global responsibility for addressing the problem of climate change and energy security. China's practice with regard to climate change and energy must safeguard and coordinate balanced development between energy consumption, the earth's climate and economic growth.

With these considerations in mind, this chapter will first examine some of the implications and consequences of climate change and energy security; second, it will describe China's energy mix and emissions structure; and finally it will discuss China's energy and climate change practices. In the conclusion, comparisons will be drawn to the Latin American region.

2. The Logic and Implications of Climate Change and Energy Security

The contemporary world is based on oil, and global energy security is crucial to economic growth and people's livelihoods in all countries. Energy is also fundamental to the prosperity and security of nations. The advent of globalisation, the growing gap between rich and poor and the need to fight global warming are all intertwined with energy concerns. There is a pressing need for strategic thinking about the international energy system. Supply and demand on the international energy markets are unbalanced. Areas rich in oil resources are still at the centre of geopolitical, political and military conflicts. Energy exporting nations use energy weapons to pursue their political and economic goals. Major energy suppliers—from Russia through Iran to Venezuela—have been increasingly able and willing to use their energy resources to pursue their strategic and political objectives (Foreign Relations Council 2006). It is also important to take a long-term perspective, deepen energy cooperation, increase energy efficiency and facilitate the development and use of new energy resources.

Evidently, there is a correlation between energy competition driven by climate change and the international political and economic environment, know-how, capacities and possession of resources. The interaction of these factors constitutes a complete energy chain. The energy chain comprises the institutions and activities related to the search for, development and utilisation of energy resources. The discovery of new energy sources, revolutionary changes in the energy chain and the corresponding changes in political economy and innovation systems have combined to lay the groundwork for a more effective use of energy, which is fundamental to the rise of major powers.

Energy is fundamental to the prosperity and security of nations. The next-generation energy will determine not only the future of the international economic system, but also power shifts. Competition in the energy chain will determine the result of the power struggle based on innovation and influence the evolution of power internationally. New energy sources are not only an important constituent of the next-generation energy system, but also will change future international power configurations. The requisite condition of significant structural change in the international system is an energy revolution based on the emergence of next-generation energy-led countries (Yergin 2006; Kennedy 1968). Technological innovation is of key importance in the energy power structure. Modelski's long-cycle theory, Kondratiev's long-wave theory and Schumpeter's economic-cycle theory have all confirmed the historical contribution of technological revolutions and institutional innovation to the rise and fall of great powers (Modelski 1987; Kindleberger 1973). They all emphasise the effect of "great technological breakthroughs" on the world economic cycle, indicating that the cycle owes its rise to technological breakthroughs, which mainly happened with regard to energy, such as electricity, the steam engine and the internal-combustion engine. Michael E. Porter, in his book *The Competitive Advantage of Nations*, explained why nations should make an innovation-based model of comparative advantages a priority in developing their competitive advantage (Porter 1990).

As the debate on collective action against climate change has heated up, Western countries have monopolised the future energy system based on new and alternative energy. Peter Evans once pointed out that every major power that came to dominate the international system had some know-how advantages (Evans 1985). For now, it seems that a low-carbon economy and clean energy will ultimately determine the future of energy power transitions. Jonathan and other scholars recognise that the EU's environmental policy, geared toward boosting the bloc's competitiveness and promoting climate negotiations, could also boost its creativity and competitive advantage (Golub 1998). In 2007, the *Stern Review Report on the Economics of Climate Change and the Low Carbon Economy Report* by the Royal Institute of International Affairs both confirmed that the EU promotes climate negotiations not just because it is a forerunner in the low-carbon economy, but also because it wants to achieve dominance in global governance and lay the foundations for the future economy. Senior US politicians Paula Dobriansky, Richard Lee Armitage and Joseph Nye once proposed that US involvement in climate negotiations should enhance the nation's "smart power" and the competitiveness of its industry (Foreign Relations Council 2006).

Western countries always use the rapidly growing carbon emissions in emerging economies as a major explanation of global warming. National competitive advantages are associated with carbon emissions reductions. For those who advocate climate diplomacy, environmental capacity is an important part of a state's comprehensive national power. James N. Rosenau uses the concept of a "balance of payments" instead of a "balance of power" in global environmental governance, and argues that developing countries should share the costs and responsibilities of global environmental protection (Rosenau and Czempiel 1992: 12-14). Historically, the emergence of great powers has been accompanied by the rise of a new generation of energy. Since the establishment of the modern international system, the energy chain has undergone two major changes. The first change was the first industrial revolution of the 1860s ushered in by the United Kingdom and marked by a transition from "the fuel-wood or bio-fuel times" to the "coal era". The second change was the second industrial revolution of the 1920s started by the United States and marked by a transition from the "coal era" to the "oil age". Today, a third revolution is taking place based on clean and low-carbon energy. Under the long-cycle theory, possession and use of new energy is closely related to national technological and institutional advances. Countries with a dominant position in new energy are likely to have an institutional and technical advantage stemming from their possession and use of new energy. They have to break through the constraints imposed by previous economic and political structures and ideology, which will lead to major changes in the global industrial chain, allocation of resources and national competitiveness. Therefore, we have every reason to believe that those new energy powerhouses will ultimately change the global arrangement of power through international competition in the future. As history shows, every significant structural change in the international system has been due to a revolution in the energy chain. The country or non-state entity that seized a new energy chain or a part of it attempted to challenge the international status quo.

The implications of global governance for climate change and energy are twofold. First, developed countries continue to dominate international climate change negotiations. The fight against global warming can be described in terms of common goods. Even though there are many internal contradictions among rich countries, they share a common interest in trying to maintain and even widen the development gap and in staving off the rise of emerging powers. As a result, wealthy countries maintain their leading position in the post-Kyoto climate regime building process. Developed countries initially communicated with and consulted major greenhouse gas emitters in a bid to establish a rational and efficient post-Kyoto system that would safeguard and coordinate balanced development between energy consumption, the Earth's climate and economic growth. At the same time, developed countries tried to persuade developing countries to accept soft and hard environmental constraints. Second, due to the early-development advantage of developed countries and the late-development advantage of developing countries, any major energy innovation would bring about a new industrial revolution and the reallocation of global industry.

Developed countries have even launched a climate or carbon tax to set limits on the economic growth of the developing world, particularly China. Developing countries are gradually assuming the obligations of stabilising greenhouse gases. But because they lack new energy sources and advanced technology, developing countries only become emerging markets for Western multinational companies, while developed countries are making full use of climate change opportunities to strengthen their technical and competitive edge. As a result, they continue to dominate the international system. Obviously, the situation is the same for the environmental trade regime, which would let developing countries bear the programmed baseline costs, while developed countries bear incremental costs. Developed countries are doing that to increase the environmental constraints on developing countries and eventually restrict the development of developing countries in terms of binding rules.

3. China's Energy Structure and Emissions Status

The Intergovernmental Panel on Climate Change (IPCC)'s Fourth Assessment Report estimates that carbon dioxide emissions from energy use could rise by between 45 per cent and 110 per cent between 2000 and 2030. The report indicates that two-thirds to three-quarters of the increased emissions would come from developing countries. The report also makes it clear that the greater the efforts to reduce global greenhouse gas emissions, the less severe would be the impact of climate change.

As one of the world's leading developing countries China is central to regional and global efforts to fight global warming and climate change. Any successful international effort to mitigate threats to human and national security posed by climate change must inevitably include China. China's role in climate change derives from its energy-intensive economic structure. China's transition from a light manufacturing economy to one featuring more energy-intensive industries, including iron, steel, cement, chemicals and aluminium, is a major factor behind this trend. China accounts for about 35 per cent of world steel production and about 50 per cent of the world's production of cement (Federal News Service 2008). These industries and associated activities are "laying a foundation for what we might call a consumption-led Chinese energy challenge down the road" (Federal News Service 2008). Chinese consumers' increasing tendency to purchase automobiles and air conditioners, among other products, is establishing the basis for China's future energy challenge (Federal News Service 2008). It already produces vast amounts of greenhouse gases, especially carbon dioxide from the burning of fossil fuels.

China is a major energy producer. Since the 1990s, China has always met over 90 per cent of its overall energy needs on its own. China will adhere to the policy of meeting its energy needs mainly through domestic supply, and priority will be given to raising energy efficiency. China's short-term goal is to meet the target of a 20 per cent reduction in energy consumption per unit of GDP by 2020. However, China's current per capita consumption of energy is very low. It is only 66 per cent of the world average, 13.4 per cent of that of the United States, 26.7 per cent of that of Japan and 28.1 per cent of that of Britain. China's per capita oil imports are only a quarter of the world average and one-twentieth of those of both the US and Japan. It has been only 14 years since China became a net oil importer in 1993, and only four years since China finally became a country importing over 100 million tonnes of oil per year. However, China's oil imports have surged since 2003 when it replaced Japan as the second largest consumer of petroleum products in the world. The International Energy Agency (IEA) predicts that by 2030 imports will account for 85 per cent of China's total oil consumption (China's crude oil imports increased by 14.5 per cent in 2006 alone). Thus, energy shortage is a possible bottleneck in economic development and in the long term, if this is not resolved, China's economic future will be very unstable.

In 2008, China overtook the United States to become the largest emitter of carbon dioxide in the world. By 2020 China's average per capita energy consumption is expected to match the current global average, meaning that China alone will account for almost one-third of the world's total greenhouse gas emissions between 1990 and 2020 (Paul and Yu 2005). Thus, China clearly matters when it comes to climate change. Without substantial efforts on the part of China to limit future carbon emissions, any measures undertaken by other countries to address the climate change question will be negated—hence, the importance of China's approach to climate change and its role in international negotiations.

Based on current projections, therefore, fossil fuels are expected to remain a key part of China's energy mix, with oil playing an increasingly prominent role. Globally, oil demand is expected to grow by 1.3 per cent a year, from 83.7 million barrels per day in 2005 to 98.5 million barrels per day in 2015, and 116.3 million barrels per day in 2030. Roughly 42 per cent of this increased demand will come from India and China, while "China accounts for the biggest increase in oil demand in absolute terms of any country or region" (International Energy Agency 2007: 79).

In the future, the expansion of China's transportation sector is expected to sharply increase the country's demand for oil. By the year 2030, automobile ownership is predicted to increase to 400 million from only 27 million in 2004.

Consequently, oil consumption in China is expected to rise from the current 7.58 million barrels of oil per day to 10-12 million barrels per day by 2015, the majority of which is expected to be imported. Currently, China imports 53 per cent of the oil that is consumed. Similar to oil, the demand for coal is also projected to rise from 4,154 million tonnes of coal equivalent (Mtce) in 2005 to 7 173 Mtce in 2030, with demand from China and India accounting for three-quarters of the projected increase up to 2030. Coal is the basis of China's power generation infrastructure; 80 per cent of electricity generated in China can be linked to coal, which is also tied to approximately 80 per cent of all of China's CO_2 emissions. Most experts believe that for the foreseeable future—at least 30 years—this fundamental reliance on coal will remain, if not increase dramatically (Office of the Secretary of Defense 2008: 10). By 2030, coal will constitute 63 per cent of China's energy demand mix (International Energy Agency 2007). The dominant role of coal in China's energy mix complicates Beijing's ability to achieve certain abatement objectives. As the Chinese government articulated in its 2008 white paper: "China's coal-dominated energy mix cannot be substantially changed in the near future, thus making the control of greenhouse gas emissions rather difficult" (BBC Monitoring Asia Pacific-Political 2008).

4. China's Approach to Climate Change and Energy

China is the newest player in world energy markets. Major Chinese oil companies started international operations in the 1990s and have made impressive progress. Peaceful energy development and international energy cooperation are the international dimensions of China's energy policy. China's energy intensity—defined as the ratio of energy consumption to a measure of the demand for services—is only one-fifth of that of the European Union. But Beijing is seeking a model that will allow it to resolve the conflicts between energy consumption and environmental degradation.

4.1 Internal Capacity Building to Meet the Climate Change and Energy Challenge

China is developing diverse energy resources and putting in place a system that supplies stable, economical and clean energy. China is working hard to develop a recycling economy so that it will garner the highest possible economic and social benefits with the lowest possible energy consumption. China has laid out many tasks, policies and measures for developing a resource-conserving society and a recycling economy, for example the Conservation Law (1997) and the Renewable Energy Law (2005).

China has persisted in relying on its domestic resources and constantly increasing the supply of domestic energy. China is not only a major energy consuming country, but also a major energy producer. Since the 1990s, China has obtained above 90 per cent of its energy from domestic sources (the figure for 2005 is 93 per cent). The potential of its domestic energy supply is still great. From 1980 to 2001, with average GDP growth rates of about 10 per cent, China had about a 5 per cent growth rate in energy consumption. China's economy has managed to thrive despite the limitations with regard to energy supply. China has consistently pursued the goal of relying on its domestic resources and constantly increasing the domestic supply of energy. China's 11th Five-Year Programme (2005-2010) for National Economic and Social Development announced the "doubling of the 2000 per capita gross domestic product (GDP) in 2010 and reducing energy consumption per unit of GDP by some 20 per cent". Chinese Premier Wen Jiabao called for energy savings of 50 million tonnes of coal equivalent in the power industry and 20 million tonnes of coal equivalent in 1 000 major state-owned industries. "The Chinese government, while committed to economic development, is trying in a responsible way to change the economic growth pattern by adjusting the economic structure and energy mix." (Industry Updates 2007) Under these new circumstances, the Chinese government is shifting from the previous development principle of "fast and healthy growth" to "healthy and fast growth" (Industry Updates 2007).

Furthermore, China issued its National Action Plan on Climate Change in June 2007, and the Chinese government has selected the following goals to be achieved by 2010: reducing energy consumption by 20 per cent; increasing the share of renewable energy (including large-scale hydropower) to 10 per cent of its primary energy mix; increasing coal-bed methane production to 10bn cubic metres a year; and promoting nuclear power (Xinhua News Agency 2007).

4.2 Win-win Cooperation for Energy Security

As a rising power pursuing a peaceful development path, China's energy strategy is characterised by mutual benefits and a policy of building a harmonious world. China has taken an active part in energy cooperation with other countries on the basis of mutual interest to ensure the stability of regional and global energy markets. President Hu Jintao has declared that "[the] core of China's energy strategy is to give high priority to conservation, rely mainly on domestic supply, develop diverse energy resources, protect the environment, step up international cooperation [based on] mutual benefit and ensure the stable supply of economical and clean energies" (Hu 2006). He has also developed a new energy security concept that calls for mutually beneficial cooperation, diversified forms of development and common energy security through coordination.

In order to encourage the world's key energy consuming countries to strengthen mutual cooperation, China hosted a major energy conference with the participation of top oil consumers (the US, Japan, South Korea and India) in December 2006. China and OPEC have been engaged since 2005 in an energy dialogue aimed at ensuring a steady energy supply. China's diplomacy tools for energy security include dialogue and cooperation, and the goal is to maintain the stability and security of international energy supplies. In particular, China wishes to engage and cooperate with key players in world energy politics, which includes OPEC and non-OPEC energy production countries, as well as the G8, the G20 and the major oil consuming countries. At present, China's main sources of oil imports are the Middle East and Africa, where a number of countries are unstable. Moreover, the transportation of oil takes place largely on the open sea, and also through the Straits of Malacca, where China faces the danger of pirates and terrorist attacks. Therefore, in order to guarantee the security of energy supplies, China must diversify its energy import sources and seek to import oil from Russia, Central Asia and Southeast Asia, among others.

There are three kinds of overseas areas in which China is engaged with regard to energy. The first comprises market-seeking countries which want to retain control of oil resources and use sovereign wealth funds to exchange their crude oil resources for market influence (Russia and Saudi Arabia). Saudi Arabia accounts for about 17 per cent of China's imported oil. In 2006, the two states signed a pact on energy cooperation that calls for increased cooperation and joint investment in oil, natural gas and mineral deposits. Saudi Arabia's Aramco Overseas Co. has provided USD 750 million of the total USD 3 billion in investment to construct a petrochemical complex in Fujian province in south-eastern China that will process 8 million tonnes of Saudi crude oil per year. In October 2005, CNPC completed a USD 4. 18 billion takeover of PetroKazakhstan, Inc.

The second category consists of countries in poor regions that need unconditional foreign aid and investment (Angola, Nigeria and other African countries). China and Nigeria signed deals that gave China four oil exploration licenses in Nigeria in return for a commitment to invest USD 4 billion in Nigerian infrastructure. China and Kenya also signed an agreement for licenses allowing China's National Offshore Oil Corporation (CNOOC) to explore for oil off the coast of Kenya.

The third category is those countries in which the US and other Western governments forbid their companies to invest (Iran, Sudan, Myanmar). Chinese oil companies have signed long-term contracts valued at USD 200 billion with Iran, making China Iran's biggest oil and gas customer. In July 2007, CNOOC obtained permission to search for oil in parts of Somalia. China has invested heavily in Sudan, establishing oil exploration rights in 1995, and now over half of Sudan's oil exports go to China, accounting for 5 per cent of China's total oil imports.

Oil resource-intense areas still tend to be affected by geopolitical, political and military conflicts. The instability in Iraq, the Iran nuclear crisis, terrorist threats and attacks, the humanitarian crisis and fragile democratic transitions in sub-Saharan Africa and strikes in Nigeria and Brazil all pose major challenges to China's national oil companies.

4.3 Equitable Development by virtue of "Common But Different Responsibilities"

China and other developing countries' adherence to this standard reflects, as many politicians and legal analysts have noted, a basic structural shortcoming within the Kyoto Protocol regime to the extent that developing countries are, in essence, exempted from universal abatement obligations. This is particularly problematic because, as one legal analyst has noted: "Developing countries will be responsible for half the world's emissions by 2020 or earlier" (Gerber 2008: 333). Nevertheless, Chinese leaders often respond that each person in the US now emits more than five tonnes of carbon per year, while in China the figure is only one tonne per year. Since the start of the Industrial Revolution—that is, over the past two centuries—the US and Europe have accounted for more than 50 per cent of total, accumulated global emissions, while China has accounted for less than 8 per cent. The 50 least developed countries have together contributed less than 0.5 per cent of global cumulative emissions over 200 years (M2 Presswire 2007).

For China, the largest developing country, global warming issues are intimately linked to efforts to modernise the economy and the energy strategy needed to bring about such modernisation. Furthermore, the global dilemma with regard to energy and the environment should be solved through international coordination, cooperation and mutual assistance in clean energy development. Developing countries are deeply dissatisfied with developed countries in this respect because the latter refuse to pay the necessary regard to the constraints imposed by developing countries' lack of development. Wealthy countries, for instance, place a low priority on technology transfers, and insist on imposing a high price on the intellectual property rights pertaining to these technologies. Through Clean Development Mechanisms (CDMs), the industrialised countries could also meet part of their obligations for reducing emissions under the Kyoto Protocol by receiving credits for investing in projects that reduce carbon emissions in developing countries. However, developed countries could also adopt a more ambitious programme of transferring advanced clean energy technologies to the developing world. China has joined with other developing countries to demand that developed countries provide non-commercial technology assistance to developing countries to help them cope with climate change and cultivate low-carbon emission economies.

By shifting the focus of climate talks to adaptation, and away from mitigation, both the rich and poor countries could avoid doing what they have dreaded the most: demanding that countries with entrenched economic interests reduce their greenhouse gas emissions. China has resisted proposals to impose a global carbon tax (a proposal supported by the EU) as a mitigation measure from which revenue could be used to finance technological transfers. A higher trade dependence would result in a sharing of the burden associated with China's energy-intensive industries and resulting carbon emissions. In 2005, China's GDP was RMB 18,670 billion, and its exports of goods and services totalled around RMB 6,858 billion. In 2006, China's GDP was RMB 21,438 billion and its exports of goods and services RMB 8,396 billion (Economist Intelligence Unit 2007). China is against the global carbon tax proposed by the EU because it believes it would hinder its economic development.

4.4 China's Shift to a Low-carbon Economy

The global low-carbon future and the emergence of low-carbon technology will enhance the energy industry worldwide, as well as the strategic position of the equipment manufacturing industry. China is facing both unprecedented competitive pressure and opportunities for development. In the process, China has strengthened its laws, regulations, policies, systems and management mechanisms to actively address climate change, and also to create a strong institutional, policy and market environment for the low-carbon development of enterprises. With regard to its industrial infrastructure and capacities, China has carried out industrial upgrades, eliminated outdated production capacity and focused on energy efficiency and positive investments in green energy. More importantly, a range of tools have been used to help establish market mechanisms and industrial systems, such as encouraging technical innovation, promoting legislation, changing consumption patterns and establishing a carbon market. At the same time, China has also appropriately adjusted its trade policy, imposed restrictions on the export of high energy consumption products and expanded the import of manufactured goods.

Technology is the most important long-term strategy for dealing with climate change. In this regard, Chinese science and technology have provided some useful tools for addressing climate change. China is vigorously developing energy-saving and energy efficient technologies, renewable energy and new energy technologies, and "clean coal". Other technologies China is exploring and utilising include advanced nuclear energy, carbon capture and storage, bio-sequestration and carbon sequestration. The development of energy technologies will help to reduce the nearly one trillion US dollar cost of each. China has also emphasised raising public awareness of the low-carbon issue. Experience has shown that effective social participation is the basis for a transition to a low-carbon economy.

5. Conclusion

There are similarities between Sino-Latin American relations and Sino-EU relations in economic terms, although the EU has greater influence and the relatively poor economic performance of Latin America hitherto is largely due to competition from the EU rather than from China. Despite bearing relatively little responsibility for the current impact of climate change, like China, Latin American countries have determined that it is in their own interest to be part of the solution. Mexico has developed an economy-wide plan to halve its projected emissions by 2050 via a cap-and-trade programme. Brazil is committed to reducing annual deforestation by 70 per cent by 2018: deforestation is the largest source of emissions in Brazil, and when it is included, Brazil is one of the world's top emitters. This target is therefore a significant step towards meeting global emissions trajectories that go furthest towards reducing climate change. EU-Latin American relations are more institutionalised than Sino-Latin American relations. The main difficulty characterising EU-Latin American relations at present is the EU's prioritisation of Eastern Europe and Asia-Pacific countries. China is heavily involved in Southern markets, but needs to move forward. Although Latin America is not a major import market for Chinese energy, it will have a significant role to play in the diversification of China's energy imports. Chinese investments in the energy sector will also help to alleviate the shortage of financial resources in the region, and Latin American energy cooperation would be mutually beneficial. Latin American countries have the wherewithal in terms of energy, resources and biological diversity to make the region independent in its external interactions, as well as to overcome its current vulnerability and low energy efficiency. Cooperation between China, Latin America and the EU has great potential, both on a tripartite basis and multilaterally, including the reform of multilateral mechanisms, new energy cooperation and so on.

More importantly, China's response to energy and climate change has a number of social, political and economic implications. First, it is clear that China has proactively addressed the challenge in multiple ways, including in policy, legal and technical terms. A number of wealthy countries, including the United States, have been unable to implement adequate measures to facilitate greenhouse gas emissions reduction. They have sought only to adopt incremental measures domestically while avoiding international obligations. Notwithstanding this state of affairs, China has decided to move forward. China has used its dual status as a developing country (with rights to and need for development) and its growing role as a major contributor to global environmental problems (such as greenhouse gas emissions) to acquire substantial influence in international environmental negotiations. As President Hu Jintao declared at the 2009 UN Climate Summit, China will decrease carbon dioxide emissions by a significant quantity by 2020 in comparison to 2005 levels, for example, by increasing the share of non-fossil fuels in primary energy consumption to around 15 per cent by 2020 (Fu Jing 2009). To be sure, China is well positioned to leapfrog onto a clean energy development path. In the longer term, however, China would show true leadership on climate change in the developing world by adopting a concerted transition to an economy that produces fewer carbon emissions. Such a choice would be greatly facilitated (and expedited) with financial and technical aid from developed countries. Nevertheless, even in the absence of such aid, it is clear that the Chinese government should integrate climate change into its development policy.

Against the background of environmental crisis and the political dilemmas concerning climate change, which are being discussed and negotiated all over the world, the Copenhagen Accord was signed in 2009 and will serve as a basis for China, Latin America and the EU for the foreseeable future. These countries should work together to address the deadlock in Copenhagen and reach consensus on a low-carbon economy and the post-2012 climate change regime. This will require coordination to ensure balanced development, preserving the environment while maintaining economic growth.

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Chapter 10
Oil Cooperation between China and Latin America

Sun Hongbo

1. Introduction

In recent years, energy cooperation between China and Latin America has become a hotly debated topic in research on Sino-Latin American relations. With China's entry into Latin America, there are concerns about whether it will challenge the existing energy order in the Western hemisphere. The dominant thinking on this issue can be classified in terms of three groups. The first, which is based on the logic of a zero-sum game, argues that China will threaten US energy security geopolitically: the more oil China imports from Latin America, the less oil the US will get. The second group of scholars describes China as a new colonialist hungering for oil and other strategic natural resources. Finally, some scholars hold that China's participation in Latin America is limited, while a number of countries with abundant energy resources regard China's entry as a positive development which will enable them to diversify their external energy cooperation.

Most of the existing literature does not analyse this issue either objectively or comprehensively in accordance with the facts, remaining satisfied with politicised explanations of China's involvement in the Western hemisphere. Some scholars have adopted a realist analytical framework, taking only US oil interests into consideration. In fact, China can play a constructive role in Latin America for both sides with a view to achieving sustainable development in the energy sector. In order to better understand this, we shall try to answer the following questions. First, how should China's role and strategy in Latin American energy markets be described? Second, what potential do the two sides have to draw on to deepen their cooperation? Third, what challenges will they have to face?

2. China's Energy Cooperation Strategy towards Latin America

In the past decade, China's oil imports have experienced strong growth. In 1993, China became a net oil importing country. As a result of its rapid economic development, China became the second largest oil consumer and importer in 2004, behind the US. Between 2002 and 2007, China's oil imports rose to 183.51 million tonnes from 77.74 million tonnes (CNPC 2008). According to a Chinese National Petroleum Corporation (CNPC) report in 2008, China's external oil dependence rose rapidly, from 31.2 per cent to 49.6 per cent, during the same period. Up to 2030, China's oil needs will be considerable, because its economy is likely to maintain strong growth, with an upgrading of its consumption structure and rapid industrialisation and urbanisation. In order to safeguard its oil supply, China has implemented an import diversification strategy. At present, the Middle East, Africa and former Soviet Union states are China's main oil suppliers (BP 2008). Undoubtedly, however, it is risky for China to concentrate its oil imports in these regions.

Latin America is playing an increasingly important role in China's efforts to diversify its oil imports. In 1993, CNPC won an oil exploration tender in Peru, making Latin America the first region in which China has participated in international energy cooperation.

During the period 1993 to 2007, China and Latin America implemented over 20 cooperation programmes in the energy field, covering oil exploration, development, refineries, technical services and pipeline construction. These programs are located mainly in Peru, Ecuador, Venezuela and Colombia. In other words, the Andean countries are China's principal cooperation partners.

Although China has signed various oil accords with governments in Latin America, its crude oil imports from Latin America account for only about 7 per cent of China's total imports. Therefore, Latin America is not yet regarded as a major supplier. However, it can be seen as an alternative region enabling China to safeguard its oil supply. According to Chinese Customs Statistics, Angola, Saudi Arabia and Iran were the top three oil exporters to China, supplying 87.58 million tonnes of crude oil in 2008.

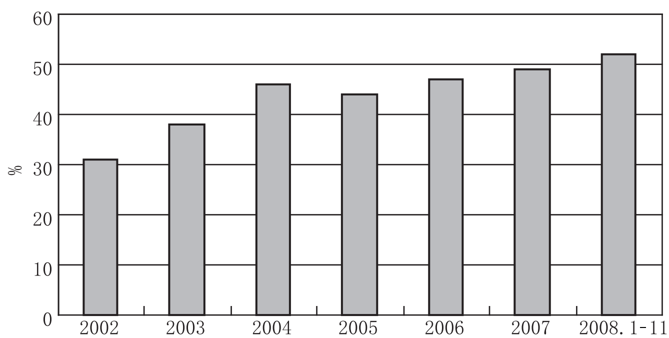
For the foreseeable future, Latin America will be an alternative strategic choice for China with regard to diversification of its oil imports, enabling it to reduce its excessive dependence on the Middle East and Africa. To summarise China's energy strategy, its oil cooperation efforts towards Latin America should be targeted on three objectives, including market entry, investment protection and oil imports.

Table 1 Chinese-Latin American Energy Cooperation Programmes between 1993 and 2007

	Exploration blocks	Production equity	Service contract	In total
Peru	3	3		6
Venezuela	2	2	5	9
Ecuador	1	6	3	10
Colombia	N/A	1	1	2
Brazil	N/A	N/A	2	2
Mexico	N/A	N/A	1	1

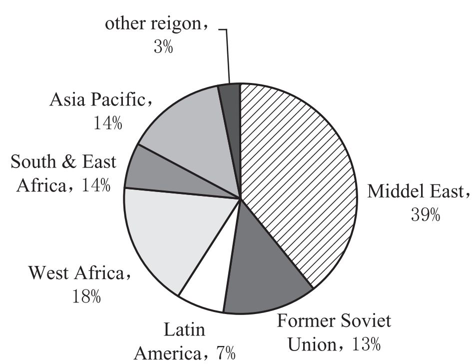
Source: Author's calculations, according to information on the websites of CNPC, SINOPEC and the Ministry of Commerce of P. R. China.

Figure 1 China's External Oil Dependence, 2002-2008



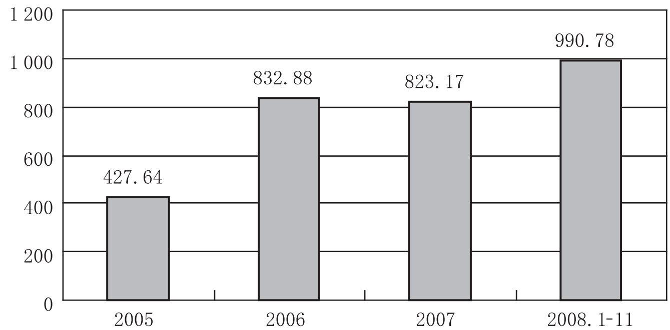
Source: CNPC Annual Report: 2008 World Oil and Gas Industry.

Figure 2 China's Oil Imports by Country of Origin, 2007



Source: BP 2008.

Figure 3 China's Oil Imports from Latin America (Ten Thousand Tons)



Source: CNPC 2008.

3. Potential Cooperation Benefits

Given China's high energy demand and its large accumulation of foreign currency reserves, some governments in Latin America have made great efforts to attract Chinese investment in the oil sector. Particularly under the impact of the financial crisis in this region, they are in urgent need of foreign capital, so there are new cooperation opportunities for China and Latin America in the oil industry.

On the one hand, with China's robust economic growth, its oil demand in the medium to long term will continue at a high level. According to the International Energy Agency (IEA 2007), China will need to import up to 80 per cent of its crude oil and 50 per cent of its natural gas by 2030. At the same time, China's abundant foreign currency reserves have boosted the investment capabilities of its national oil companies (NOCs).

On the other hand, keeping the oil industry open is still the mainstream policy in Latin America. Although left-wing governments strengthened their control of oil resources and sectoral regulations in the period 2005-2007, they did not really intend to drive out foreign oil companies, but rather to increase the government's share in rising oil prices. The most important thing for China is that left-wing leaders are politically inclined to promote oil cooperation with China because they consider oil to be a diplomatic tool. Based on the favourable changes in the situation mentioned above, the potential for oil cooperation between China and Latin America can be depicted as follows.

First, Latin America is a strategic alternative source enabling China to diversify its oil imports. In recent years, Brazil and Venezuela have discovered large new oil fields. According to BP World Energy Statistics 2008, proved oil reserves in Venezuela and Brazil amounted to 87 billion barrels and 12. 6 billion barrels, respectively, accounting for 7 per cent and 2 per cent of global proved reserves. In May 2008, the Minister for Energy and Petroleum and President of Petroleos de Venezuela, Rafael Ramirez, announced that his country's oil reserves were now 130 billion barrels. In November 2007 and April 2008, Brazil discovered two major oil fields containing over 30 billion barrels, based on National Petroleum Agency estimates. Therefore, Brazil, Venezuela and other countries can be considered potential partners for China.

Second, Chinese oil companies can take advantage of opportunities to build oil industry-related regional infrastructure. In recent years, insufficient investments and slow modernisation of equipment and technology have led to the decline of proven reserves, production and refinery capacity in Mexico, Ecuador and Peru. For example, only in Brazil and Colombia did oil production increase—marginally—in 2007, while Mexico, Venezuela and Ecuador experienced production falls of 5. 5 per cent, 7. 2 per cent and 4. 5 per cent, respectively, compared to 2006. In particular, Latin American economic growth has slowed down, suffering the adverse effects of the international financial crisis since 2008. These countries therefore hope to attract foreign investment. As economies recover in the long term, there is no doubt that Latin America must urgently strengthen oil and gas exploration, development and infrastructure.

At the same time, in response to the global financial crisis, some countries hope to be able to increase their oil exports at a reasonable price by increasing oil production, because their fiscal revenues depend strongly on oil and gas exports. For instance, in order to achieve sustainable development, Brazil implemented an Acceleration Programme for National Growth, an economic plan involving 183 energy programmes in 2007, emphasising oil and gas exploration, as well as development. For the foreseeable future, Latin America will continue to absorb foreign direct investment, improving oil and gas exploration, production and refining capacities. From China's perspective, there are many cooperation opportunities in these fields.

Moreover, Mexico, Brazil and Colombia have developed economic stimulus plans to promote recovery, including infrastructure programmes in oil and gas. At the end of 2008, the Calderón government proposed a USD 50 billion investment scheme, including energy reform (Villarreal 2010). In January 2009, Colombia also launched an economic stimulus package worth USD 24. 5 billion, expecting higher private and foreign capital participation in the energy sector. Meanwhile, Brazil also expanded its Growth Acceleration Programme (Programa de Aceleração do Crescimento, PAC) for the improvement of energy infrastructure.

Finally, keeping the oil sector open is still a mainstream policy in Latin America. This policy orientation should not only eliminate Chinese oil companies' concerns about policy uncertainty, but also provide a favourable investment environment for Chinese capital. During the period 2005-2007, Venezuela, Ecuador and Bolivia adjusted their oil and gas policies, increasing their state-owned oil companies' shares in joint ventures. In fact, these three countries confined themselves to reasonable measures to strengthen control over national oil resources. However, in some parts of the media and academia these policy changes have been misinterpreted, sounding the alarm that left-wing governments have taken radical action to nationalise oil and gas. If analysed properly, these policies make it clear that these governments have not renounced their open policy in the energy sector.

As far as Brazil, Mexico, Colombia and Peru are concerned, they have maintained a stable energy cooperation policy. At the end of the 1990s, Brazil, Mexico and Colombia started to open up their energy sectors but to a very limited extent, so that it was difficult for private or foreign oil companies to enter their oil industries. During the period 1997-2007, however, Brazil organised more than eight international oil field tenders. Only after 2004 did foreign oil companies have an opportunity to enter Brazil. With improvements in its security situation, Colombia has gradually become an important foreign direct investment destination. For example, the Colombian state-owned company signed 15 oil cooperation contracts with other countries between 2006 and 2008. Although Mexico began to allow private capital to participate in the downstream sector in 1995, it was only in 2003 that Mexican Petroleum (Petróleos Mexicanos, PEMEX), the Mexican national oil company, organised the first international tender.

Due to the impact of the financial crisis, some countries dependent on oil exports have suffered greatly from low oil prices. These countries could readjust their energy cooperation policies by opening up their oil sectors further. For example, Venezuela, because of the sharp decline in oil prices, has been in a tight fiscal position since the end of 2008. In Mexico, the Congress passed an energy reform package proposed by President Calderón in October 2008, which was strongly opposed by opposition parties. The reform package will give more rights to PEMEX to cooperate with foreign companies and will open up the oil sector further, attracting more private and foreign capital and advanced technology. In December 2008, PEMEX launched a public tender concerning exploration programmes, the largest international tender in its history. After

Brazil discovered two large offshore oil fields, the Lula administration actively negotiated with China to strengthen exploration cooperation. In February 2009, China and Brazil signed a Memorandum of Understanding (MOU) involving USD 10 billion in loans for oil imports.

4. Challenges for Further Cooperation

Based on the analysis presented above, oil cooperation between China and Latin America has a bright future. However, there are a few potential barriers or challenges that should not be neglected and which might lead to friction in cooperation between the two sides. For example, oil shipments and refining are headaches for Chinese oil companies. Crude oil from Latin America is heavy and sour, requiring a different kind of refining technology and equipment to process. The following factors should also be taken into consideration with a view to deepening cooperation between the two regions.

First, political uncertainties cannot be overlooked. In the short and medium term, military conflict is unlikely in Latin America. However, some unstable political factors should be noted which might impact on China's oil investments in the Andean region. In March 2009, the Colombian army crossed the Ecuador border in pursuit of the Revolutionary Armed Forces of Colombia, leading to a diplomatic crisis between Ecuador, Colombia, Venezuela and Nicaragua. In short, political stability should be examined carefully when assessing Chinese investment security.

Second, policy uncertainty still exists. Since the 1990s, energy policies in Latin America have experienced two periods of readjustment. In the first period, during the middle and end of the 1990s, most Latin American countries started to privatise and open up their energy sectors. The second period of policy adjustment happened between 2001 and 2007, strengthening government control over energy resources. Policy adjustments can be divided into two groups of countries. The first group includes Venezuela, Bolivia and Ecuador, which adopted radical policies, increasing their share of the profits from rapidly rising oil prices or raising their national oil companies' shares in joint ventures. The other group includes Mexico, Brazil, Peru and Colombia. These four countries implemented a policy of limited openness but also one of considerable consistency. Since July 2008, international oil prices have fluctuated strongly. There is no doubt that major Latin American oil producing countries may change their policies again to attract foreign capital. However, uncertainties concerning policy changes in Latin America remain, representing a risk factor with regard to future oil cooperation.

Third, it is hard to control social risks. Social risks here refer to events of the kind that can interrupt normal oil production and are out of companies' control. In recent years, China's oil operations in Latin America have sometimes been disturbed by native activist groups seeking higher welfare benefits. In July 2007, China's oil programmes in the Ecuadorian part of the Amazon basin were partly destroyed by native people, leading to serious economic losses. Other foreign oil companies have had similar experiences. Furthermore, terrorist attacks still sometimes take place in this region.

Fourth, environmental requirements have risen considerably. Between 1990 and 2005, 20 per cent of the forestry in Ecuador was destroyed by oil exploration and production (OPEC 2007: 48). In order to improve environmental protection, some governments require that foreign companies agree to strict environmental protection clauses when they negotiate oil contracts. Environmental protection is sometimes also forced by local protests in the affected regions. For example, Peruvian natives armed with bows, arrows and rifles blocked oil production at Argentine crude producer Pluspetrol which was forced to shut down its 50,000 barrels-per-day oil operation in Peru's northern jungle. The company finally promised to work with the government and local communities to clean up rivers and develop projects such as fish farms. In Sino-Latin American oil cooperation programmes, both sides attach great importance to environmental protection. Therefore, for Chinese oil companies, it is evident that more capital is needed to meet environmental protection requirements.

Fifth, the role of the US cannot be neglected. The US exerts a dominant influence in the Western hemisphere both economically and geopolitically, and Latin America depends heavily on the US energy market in terms of oil exports. According to BP World Energy Statistics 2008, the US imported 204 million tonnes in 2007, accounting for 74.43 per cent of Latin American crude oil exports. With the rapid development of Sino-Latin American oil cooperation, US scholars argue that China's penetration of Latin America could pose a threat to US energy security. Such views are based on a zero-sum logic: in other words, the more oil China imports from Latin America, the less oil will be available to the US.

In addition it must be taken into consideration that European and US oil companies dominate the Latin American oil market. Only in recent years have Russia, India and Iran entered the Latin American oil sector. China is only one strategic partner enabling Latin American countries to diversify their cooperation. China will face fierce competition in the Latin American oil market.

5. Conclusion

To date, Latin America has not been a major oil supplier for China. However, Latin America could be a strategic alternative enabling China to diversify its oil supply in the long term. In fact, China's entry into Latin America can partly be explained by national oil companies' own business development strategies in the age of globalisation. Major Latin American oil producing countries may adjust their policies to attract foreign investment because of the financial crisis and slow rise in international oil prices. Mexico, Brazil, Colombia and other Latin American countries want to increase their investments in exploration, production, refining and transportation, which provides China with new opportunities to expand cooperation. However, political uncertainty and social risks cannot be overlooked. Other issues, such as environmental protection and labour rights, will require additional investment. Increasingly intense competition is also an unavoidable reality. In the face of such challenges, China's oil companies must continue to deepen cooperation with state-owned oil enterprises in the host countries, explore new cooperation models, increase local employment and contribute more to local communities.

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Chapter 11
The Relationship between Climate Change Policies and Energy Security—Europe and Beyond

Arno Behrens

1. Introduction

Climate change and energy security are central to energy policies in Europe and abroad. Roughly 60 per cent of global greenhouse gas emissions come from the use of fossil fuels. In the EU, energy-related emissions account for about 80 per cent of all greenhouse gas emissions. Climate change policies based on ambitious emissions reduction targets will require profound changes in global energy systems. Climate change is thus playing an ever increasing role in energy policymaking and the value of considering interactions between global warming and energy security is increasingly being recognised. European and international policymakers are now under mounting pressure to address this challenge and to build up cost-effective policies that will reduce greenhouse gas emissions, while ensuring adequate, reliable and affordable energy supplies.

In terms of climate change, the EU is committed to limiting global warming to 2 ℃ above pre-industrial levels. This will require cuts in global emissions of at least 50 per cent by 2050 relative to 1990 levels, and reductions for industrialised countries in the magnitude of 80-95 per cent by the same year. The EU and other industrialised countries will need to take the lead due to their historic responsibility of having emitted most of the current greenhouse gas (GHG) emissions stock in the atmosphere that is responsible for climate change. While the EU has started to address the climate change challenge with its energy and climate change package, adopted in late 2008, which aims to unilaterally decrease GHG emissions to 20 per cent below 1990 levels by 2020, it will require a global alliance to avoid dangerous climate change. Keeping in mind that the EU was responsible for only around 11 per cent of global GHG emissions in 2004 and given that this share continues to decrease, the EU's ability to have a direct effect on global GHG emissions is limited. This is well illustrated by the fact that EU cumulative CO_2 savings between 2008 and 2020 (with a 20 per cent CO_2 emissions reduction target) would represent only 40 per cent of China's annual CO_2 emissions in 2020. But even if all of the Organisation for Economic Cooperation and Development (OECD) countries were to reduce their GHG emissions to zero by 2030 (which is highly unrealistic), non-OECD countries alone would exceed global emissions levels in line with the 2 ℃ threshold (IEA 2009). Effective international climate change cooperation thus needs the involvement of developing countries, and especially of fast growing emerging economies.

In addition, decarbonisation of global energy systems needs to be achieved without compromising the security of energy supplies. In the European context, the supply of electricity, heat and mobility is considered secure if it happens on an adequate, reliable and affordable basis. In addition, environmental concerns may be taken into account when evaluating the security of European energy supplies. However, there are different points of view about how adequacy, reliability and affordability of energy supplies can be achieved. Those stressing the economic perspective focus on market rules and their ability to equate supply and demand, rendering the concept of energy security meaningless. In line with this view, neither the world nor the EU are currently facing severe energy security challenges to be dealt with within a reinforced international framework, by heavy government intervention or even by military means. A contrary view is held by foreign policy analysts who are convinced that the increasing nationalisation of energy resources and the politicisation of energy management by resource-rich countries have made energy security a matter of national security. According to them, the market alone is not able to deal with the mounting and multifaceted challenges that energy-consuming countries must face in a globalised world. Energy security therefore requires international cooperation, government intervention and military control. Neither of these two interpretations can be dismissed nor do they capture the whole picture of security of supply. In fact, the economic and the so-called political interpretation are two sides of the same coin: they complement each other and both are necessary to explain the challenges, as well as the solutions to the security of energy supply in Europe.

It is widely assumed that climate change policy in the context of ambitious greenhouse gas reduction targets can be beneficial to security of supply. However, there is a general misconception that energy security risks are largely related to import dependence. While it is true that the EU is faced with increasing import dependency, which might reach 70 per cent in 2030, there are many other supply risks that need to be taken into account when designing future energy systems. Not all of these risks are external. In fact, most of the recent supply disruption in Europe had domestic causes connected to strikes, weather-related systems failures, lack of capital investment or generally the poor condition of the energy system. It is thus important to assess low-carbon energy sources in light of the complexity of supply risks.

2. Renewable Energy Sources

In 2005, renewables accounted for 8.5 per cent of final energy consumption in the EU (European Commission 2008). With the agreement on 17 December 2008 on the EU energy and climate package, the new Renewables Directive was sealed, which sets the framework for increasing the overall share of renewables in EU energy consumption to 20 per cent by 2020. The EU adopted this binding renewables target in the conviction that renewable energies reduce air pollution and greenhouse gas emissions and that they "promise strategic improvements in the security of supply, reduce the long-term price volatility to which the EU is subjected as a price-taker for fossil fuels and could offer an enhanced competitive edge for the EU energy technology industry" (European Commission 2007). Furthermore, renewable energy sources "facilitate improvement in the economic and social prospects of rural and isolated regions in industrialised countries and help meet basic energy needs in developing countries" (European Commission 2007).

Renewables can also play a pivotal role in securing energy, protecting the environment (both in terms of reducing GHG emissions and air pollution) and stabilising economies in developing countries. Developing countries not only have large potential for expanding the use of renewables, but in 2006 they already had a share of 43 per cent of global renewable electricity capacity (REN21 2008), mainly in the form of biomass and small hydropower. China, for example, has the world's largest installed capacity, totalling around 52 GW, accounting for 25 per cent of global capacity. This is almost twice the size of capacities in Germany or the USA. Similarly, China was leading in new capacity investments in 2006, second only to Germany.

Substituting renewables for conventional fossil energy sources can contribute significantly to domestic GHG emissions reductions in electricity production, heating and cooling, as well as in the transport sector. Solar photovoltaic, hydroelectric, biomass and wind have no direct emissions and their indirect life-cycle emissions are only a fraction of total emissions of coal and gas. Together with other renewables, such as geothermal and tidal power, there is a broad portfolio of renewables that can be used to achieve GHG reduction targets with a diversified fuel mix. In the case of the EU, most of these resources are domestically available (biomass and concentrating solar power can be an exception). A switch to renewables thus generally reduces import dependency. However, whether this is a security of supply benefit depends on whether import dependence is regarded as a risk to adequate, reliable and affordable electricity. Global oil and coal markets are relatively open and well functioning, and prices—as well as their volatility—are much more of a security of supply concern than import dependency per se. In terms of gas, however, prices are largely regulated or linked to oil prices, and are thus much less able to balance supply and demand. In addition, the EU is regionally linked to only a few suppliers via fixed infrastructure, which makes physical unavailability of gas more of a concern. If renewables can increase their share at the expense of gas imports, it could thus be argued that there are some security of supply gains. However, in terms of GHG emissions reductions, an increase of renewables substituting for electricity production from coal would be preferable. Due to the intermittence of many renewable energy technologies (see below), they are not well suited to serve peak demand, but instead likely to displace typical base load generation plants. The IEA (2007) thus assumes that "coal, gas and—in the case of a renewable energy policy, nuclear—are displaced proportionally to their role in the fuel mix".

More important in terms of energy security is the risk of intermittence from an increasing share of renewables in the energy mix. Intermittence in the case of renewables refers to undesired or uncontrolled variability of output (Sinden 2005). At the same time, renewables are characterised by reduced dispatchability or manoeuvrability, which refers to their ability to increase or decrease output quickly on demand (Kuntz and Dawe 2005). Not all renewables are equally "unreliable": Large hydro, bioenergy and geothermal resources and concentrating solar power (CSP) "offer comparable levels of firm capacities to conventional fossil fuel based plants" (IEA 2007). Biomass, on the one hand, can be stored and used when required and thus provides a more or less constant electricity supply. Solar photovoltaic applications, wind, small hydro power plants and future wave energy resources, on the other hand, are more intermittent and variable in supplying electricity (IEA 2007). In current EU electricity systems, intermittency is not generally a problem because the penetration of intermittent renewables is still low (although with strong variations among member states). However, the electricity grid will eventually need to adapt to higher shares of intermittent electricity, although there is no consensus on how much intermittent electricity can be sustained by the grid. Maximum penetration of intermittent renewable energy technology will probably be determined by economic efficiency and cost considerations rather than by technical feasibility.

There are several options with regard to dealing with intermittence in electricity systems, which include investment in more reliable infrastructure and better grid interconnection, and balancing a mix of renewable energy technologies with different natural cycles. In general, it can be argued that renewables with higher short-term variability are more risky for supply security, unless combined with renewables with different natural cycles or appropriate backup capacity. The need for back-up capacity for intermittent renewables can be reduced if they are used in combination with a mix of other renewable energy technologies that are less intermittent. For example, wind power can be complemented by large hydro installations, or possibly even with hydrogen powered plants. However, large-scale integration of renewables into the electricity grid will also require investment in back-up capacities and electricity storage to compensate the remaining uncertainties of the grid.

Similarly, appropriate demand-side management strategies will help to regulate demand, for example, by setting price incentives and increasing price transparency to reduce the use of electricity during peak hours.

In an effort to overcome some of the risks associated with renewable energy sources and to improve international cooperation to facilitate the transition towards the widespread use of renewables in the world, the International Renewable Energy Agency (IRENA) was established on 26 January 2009. While it is too early to assess the effectiveness of the organisation, it seems that it could potentially make a substantial contribution to decarbonise the global energy sector by improving the knowledge base, providing policy advice, promoting technology transfer and stimulating research. In contrast to the IEA, IRENA Signatory States include both industrialised and developing economies from Africa, Asia, Europe and Latin America. However, the two largest global greenhouse gas emitters—China and the USA—have not (yet) joined IRENA. To have a truly global reach, the Agency will need these and other countries to participate (for example, Australia, Brazil, Mexico, Russia, South Africa and the United Kingdom, as well as some of the main oil producing countries). Only with broad membership will IRENA be able to pursue a global strategy, providing a focal point for all global renewable energy issues. On the other hand, some industrialised countries may benefit from increased global efforts with regard to renewables, hoping to "reap commercial gains from their technological leadership in areas such as advanced wind turbine design and manufacturing" (Sioshansi 2009). But some emerging economies—and especially China—will be able to benefit from an expanding global renewables sector as well, being producers of clean energy technologies themselves. China, for example, is the world's largest producer of photovoltaic cells (of which 98 per cent are for export) and Brazil is the world's second largest producer of ethanol and the world's largest exporter. It is thus a misconception to consider clean technology transfer merely as a "North-South" trade relationship. With production of low-carbon technologies maturing in emerging economies, there will increasingly be trade flows into industrialised countries, assuming that market forces are allowed to function freely.

Finally, broadening the mandate of IRENA should be considered to extend it into a global platform for all low-carbon technologies (except nuclear, which has its own agency in the form of the IAEA). If IRENA focussed also on energy efficiency and on other clean energy types (for example, clean coal) it might make a better contribution to decarbonising global energy systems.

3. Natural Gas

Natural gas may be an important intermediate solution to climate change as it produces less CO_2 per unit of energy than coal or oil. It may thus be advisable to temporarily increase the share of natural gas—as a substitute for coal or oil—until renewable technologies are market-ready on a large scale, although this would be at the cost of increasing import dependence further. At the same time, efforts to increase security of energy supply may lead to measures substituting gas with coal or oil, thus increasing greenhouse gas emissions, at least in the short term. This has been the case in national responses to the Russia-Ukraine transit dispute und related decreases in Russian gas deliveries in January 2009.

With a share of almost 25 per cent of gross inland energy consumption, natural gas is the second most important energy carrier in the EU. At the same time, about 60 per cent of the gas consumed in the EU needs to be imported from abroad and the European Commission estimates that this share will increase to over 80 per cent by 2030. European gas imports are highly concentrated, with almost 90 per cent originating in only three countries (European Commission 2008), where the gas market is tightly controlled by governments. In this respect, fears of "gas cartels" or of energy being used as a political or economic weapon do not seem completely unfounded (for example, in the context of recurring Russia-Ukraine gas disputes which repeatedly affect several EU member states' gas supply). Similarly, there is a risk of a lack of investment in exploration, production and transportation, despite reserves being abundantly available in areas surrounding Europe (for example, Mueller 2007).

Current energy scenarios show that a reduction of dependency on gas through an increase in domestic production or through energy savings is not credible. The situation is different with regard to the diversification of exporting countries. Europe's position in the world market could be more favourable depending on whether African and Middle Eastern exports grow substantially, backed by significant volumes of Liquefied Natural Gas (LNG). The development of LNG spot markets is expected to ease some concerns about security of supply, especially in terms of pipeline diplomacy, due to its advantages of flexibility and diversification. Currently, about 10 per cent of Europe's gas imports are in the form of LNG. This share could roughly double by 2020. However, some drawbacks remain. Beside the fact that LNG technology is sensitive to physical threats, exporters have not kept up with increasing facilities in importing countries, leading to some regasification terminals standing idle. In addition, the EU is expected to face fierce competition from other importing countries, such as the US (Larsson 2007).

Another critical factor is transport capacity towards Europe, as it seems very likely that projected infrastructure will not be able to meet expected demand. This implies the need to gain access to gas reserves, to open up producing areas to international investment and to devote attention to the stability of "transit countries". Several infrastructure projects are currently being planned in the EU, two of which will increase the dependence on Russian gas imports (albeit reducing the transit risk) and one of which will diversify imports towards the Caspian region and the Middle East (that is, the Nabucco pipeline project). It should be noted that current gas infrastructure projects (both pipelines and LNG) will determine future greenhouse gas emissions because they lock Europe into a carbon intensive energy pattern which is not in line with the targeted greenhouse gas emissions to avoid dangerous climate change. With a life-time of 20-50 years (and beyond) newly built gas pipelines will increase Europe's dependence on gas further, rendering carbon neutral energy systems by 2050 less likely.

In addition, the future carbon price will have an impact on the future of the gas markets. Most gas companies have adjusted their gas market growth expectations downwards after the first carbon market experience, due to the competition of gas with coal and nuclear for power generation. However, if natural gas is unable to take a larger share in power generation, it will not be able to live up to its expectations to be a "bridge" to a low-carbon economy and may even become a sunset industry.

4. Coal and the Role of Carbon Capture and Storage (CCS)

On the global scale, coal is currently the fastest growing fossil energy carrier and continues to be the second most important fossil fuel, slowly closing the gap with oil. In the reference scenario of its World Energy Outlook, the IEA (2008) predicts a 61 per cent increase in global consumption of coal between 2006 and 2030. Over the next 10 years, China alone will install more power-generation capacity based on coal than Europe's entire current stock.

In the EU, however, primary coal demand has decreased considerably since the 1980s, largely due to the switch from coal- to gas-fired power production in Western Europe and economic transition in the East. This trend is expected to continue, with demand decreasing by almost 20 per cent between 2006 and 2030. Similarly, the volume of coal produced domestically within the EU27 will continue to decrease. As a result, the EU will become more dependent on imports despite owning considerable domestic reserves (3. 5 per cent of global reserves). Domestic coal production is forecast to fall to 48 per cent of consumption by 2030, down from 59 per cent in 2006.

Coal imports are far more regionally diversified than natural gas imports, for example, and most exporting countries qualify as stable democracies, which largely respect the same market and political rules as the EU. In addition, the coal market is a truly global, open and well-functioning one, not dominated by a single supplier, such as OPEC. At the same time, there are still considerable global proven coal reserves, which—at the current global rate of production—may be sufficient for another 133 years (BP 2008). Finally, coal is relatively safe to transport and store. It can be transported quickly by ship and rail, without the need for expensive long-run infrastructure and related transport and transit security issues. All these factors contribute to the assessment that European import dependency does not pose an elevated risk to its uninterrupted supply of coal in the long-run (although there are some risks in the short-run stemming from weather and other unforeseeable factors in producer countries, as well as increasing demand in some emerging economies).

Given that import dependence is not a major long-term security issue in the case of coal, there are other risks that need to be dealt with. On the global scale, the greatest environmental threat in the long term is climate change. The use of coal in electricity production causes far more greenhouse gas emissions than the use of any other energy carrier. To put this into perspective, at 28 per cent, coal is the second largest source of electricity generation in the EU27, just behind nuclear (30 per cent). In some countries, this share is considerably higher, such as in Poland (91 per cent), Estonia (91 per cent), the Czech Republic (59 per cent) and Greece (59 per cent) (European Commission 2008). In view of Europe's ambitious energy and climate change targets, clean coal technologies must be developed quickly, otherwise coal cannot continue to play a major role in Europe's energy mix. The same applies to China, which derives around 70 per cent of its energy mix from coal.

As indicated in the introduction, industrialised countries are expected to cut greenhouse gas emissions by 80-95 per cent in order to allow global emissions to drop to 50 per cent of 1990 levels by 2050. The current energy mix of EU27 is largely characterised by carbon intensive fossil fuels which made up 79 per cent of Gross Inland Consumption in 2005 (European Commission 2008). Given the carbon intensity of the European energy mix and the possibility of a "renaissance" of coal on security of supply grounds, Europe can only achieve such ambitious greenhouse gas reduction targets if it develops carbon capture and storage (CCS) focused on coal-fired power production, but also on emissions from other fossil based forms of power production and emissions from industry. Under current technological conditions, CCS processes can capture around 85 per cent of the CO_2 emitted at source. However, these processes reduce the thermal efficiency of plants by 8-12 per cent (IEA 2008) and thus increase the need for coal inputs.

The success of the CCS technology will largely depend on the success of the demonstration phase, public acceptance, the speed of adopting EU legislation and the provision of a secure legal framework, as well as on the success of the EU-ETS and the price of CO_2. To improve liability and reduce the costs of CCS technologies, it is important in the short to medium term to develop appropriate demonstration projects, in which currently used CCS technologies are adapted for use in large-scale power plants and improved through research and development. The EU decided in December 2008 to raise funding for these commercial demonstration projects by setting aside 300 million carbon allowances in the EU Emissions Trading Scheme (ETS) starting in 2013, equivalent to about EUR 9 billion at a price of EUR 30 per tonne of CO_2. The EU will also need to accelerate domestic research and will need to increase involvement in international research cooperation, for example with China. After all, CCS is not just an opportunity for the EU to continue benefiting from the advantages of coal but also for cleaning China's power sector and related technology export opportunities.

5. Nuclear Energy

Nuclear energy is currently the largest single source of low-carbon electricity in the EU. In 2007, it accounted for 14 per cent of the EU total energy supply and provided 31 per cent of the electricity generated. Overall, there are 145 nuclear power plants in operation across 15 EU member states (most of which were built between the 1970s and 1980s)(European Nuclear Society 2009), with another four nuclear power plants currently under construction. EU member states continue to be divided about nuclear energy. Even though some member states recently came forward with plans for new plants, it would be an exaggeration to speak of a 'nuclear renaissance'. Even if all currently planned nuclear power plants were built in Europe, they would hardly be able to replace the ageing nuclear infrastructure, let alone add to existing capacity, should Germany phase out its 17 nuclear power plants currently in operation.

Those in favour argue that nuclear energy could contribute to increase Europe's security of energy supply and contribute significantly to reaching the EU's climate objectives. First, this support comes from the increasing competitiveness of electricity generation from nuclear. This is due to declining fuel (including enrichment), operating and maintenance costs, while the plant concerned has been paid for (World Nuclear Association 2008). However, it should be noted that large capital costs for construction of new plants remain problematic, especially with capital in short supply due to the current financial crisis. In addition, declining oil prices have made many nuclear projects less competitive (at least in the short term). Second, the indigenous nature of nuclear power production reassures member states against risks related to import dependency. It is not surprising that central and eastern European countries—with the highest dependency on Russian gas imports—are most supportive of nuclear power. While almost 100 per cent of EU uranium requirements are imported from abroad, its availability in reliable countries such as Canada and Australia—accounting for 45 per cent of EU uranium requirements—usually does not raise import dependency concerns. The third reason for nuclear support is related to the fact that, together with renewable energy sources, nuclear energy is one of the least carbon intensive sources of energy. This argument is often used by proponents of nuclear energy in relation to achieving climate change objectives at current levels of energy consumption.

Despite the recent declarations of intent by many European countries to undertake new nuclear projects, some scepticism exists on a real boost to nuclear power generation in Europe. Without massive investments to replace ageing facilities and to build new plants, Europe's nuclear generating capacity is in fact expected to shrink rather than to grow. Accordingly, the IEA forecasts that electricity generation from nuclear will decrease from 31 per cent to 21 per cent by 2020 (IEA 2008). The main reasons for the possible stagnation and decline of nuclear power generation are costs such as start-up costs, decommissioning and waste management. Moreover, safety (the lack of a common approach to European safety standards), public opinion and perception, waste and proliferation (MIT 2003) are also important reasons. In addition, the nuclear power sector suffers from an ageing workforce and a general shortage of qualified labour, as well as from a shortage of key components of the supply chain.

6. Energy Efficiency

Energy efficiency has become a cornerstone of the European Commission's energy policy. The EU has set itself a non-binding target of saving 20 per cent of energy consumption by 2020 through energy efficiency, which may save up to EUR 100 billion and an estimated 800 million tonnes of CO_2 per year (European Commission 2008). According to the Commission Action Plan on Energy Efficiency (European Commission 2006), the largest cost-effective savings potentials are in the household and tertiary sectors, at 27 per cent and 30 per cent, respectively. For manufacturing industry, the overall potential is estimated to be around 25 per cent, while for transport the figure is 26 per cent.

On a global scale, improving energy efficiency will also allow developing countries to reduce the growth of energy demand and greenhouse gas emissions, as well as to save costs of energy production. A recent study by McKinsey (2009) showed that some 65 per cent of global positive-return energy efficiency opportunities are in developing countries. China has the largest potential (22 per cent of global opportunities), followed by the Middle East (10 per cent), Eastern Europe (10 per cent), Latin America (8 per cent) and India (7 per cent). The world's poorest countries in Southeast Asia and Africa are less attractive from an energy efficiency perspective, offering only 5 per cent and 4 per cent of global opportunities, respectively.

Energy efficiency achieved by reducing demand increases the flexibility of the whole energy chain and thereby provides an additional margin for security. Put another way, if the flexibility needed to cope with supply failure is a proportion of overall energy demand, then the cost of providing a constant level of security of supply decreases if the overall energy demand is reduced (Egenhofer and Legge 2001).

However, there are some doubts about the correlation between increasing energy efficiency and reducing import dependency, at least in Europe. The IEA (2008) reports that Europe's energy efficiency has consistently improved over time: from 1,200 Million Tonnes of Oil Equivalent (Mtoe) of Negajoules (that is, avoided energy consumption through energy savings) in 1970, to 2,000 Mtoe in 1990 and 2,800 Mtoe in 2005. However, this improvement has not translated into a parallel downward trend for Europe's total primary energy imports: Europe's import dependence grew from 42 per cent in 1990 to 52 per cent in 2005 (IEA 2008). Accordingly, even assuming the full application of the existing EU directives on energy efficiency, import dependency is projected to increase from 47.2 per cent in 2000 to 65.5 per cent in 2030. With energy demand decreasing faster than EU domestic energy production, import dependence in 2010 and 2020 will be slightly lower than in 2000. In the long term (that is, until 2030), the reduction in demand for electricity produced from nuclear and indigenous solid fuels will lead to lower exploitation of European energy sources, which more than counterbalances the decline in primary energy consumption. As a result, import dependence in the "energy efficiency case" in 2030 may be slightly higher than in the baseline (European Commission 2006).

The absence of a strong correlation between energy efficiency, on the one hand, energy imports and security of supply, on the other, has several—complementary—explanations. The progressive exhaustion of Europe's indigenous resources—especially oil and gas—is one. Second, there is the so-called "rebound effect". Improvements in energy efficiency make energy services (for example, heat or mobility) cheaper, thus encouraging their further use. This can result in an overall increase in energy consumption, despite the initial demand reduction. The rebound effect is very difficult to measure and it can have different impacts in different sectors but, generally speaking, its impact has so far been underestimated. In industrialised countries, for any increase in energy efficiency there is a rebound effect of at least 10 per cent (up to over 50 per cent). This means that the actual reduction in energy consumption is equal to only a certain percentage of the expected energy saving (UK Energy Research Centre 2007).

Energy efficiency measures are one of the key areas for improved international cooperation. The strong projected growth of energy demand in developing and transition countries is expected to level off any possible energy efficiency improvement in the EU, both from the security of supply and the CO_2 emissions perspectives (Egenhofer and Legge 2001). While Europe's primary energy demand is expected to increase by 4.5 per cent between 2006 and 2030, the biggest emerging consumer country in the world, namely China, will register a growth of more than 100 per cent (IEA 2008). This means that if the EU was able to save 20 per cent of energy consumption, China alone would make up for more than Europe's improvements. In other words, Europe's efforts to reduce greenhouse gases will be neutralised by China. This point is reinforced when taking into account the projected demand growth of other emerging economies—such as India—and transition economies. Energy efficiency or conservation measures in emerging economies or transition countries would be far more beneficial both for global energy security and GHG reduction measures. For this reason, the EU propagates pro-active cooperation with key third countries. Its aim would be to develop a multilateral partnership for energy efficiency involving, at first, member countries of the OECD with a possible future enlargement to other partners. The agreement could include various issue-areas of cooperation, such as regulatory cooperation, information exchange on energy saving strategies, methods of measurement and research cooperation on energy efficiency technologies.

7. Adaptation: the Case of Electricity

The electricity sector plays a central role in the European Union's efforts to achieve greenhouse gas (GHG) reductions of at least 20 per cent by 2020 compared to 1990 levels. While the electricity sector is currently responsible for about one-third of Europe's total energy-related GHG emissions, there is considerable potential for reducing emissions. Mitigation strategies will need to focus not only on more efficient electricity use, but also on improved conversion rates and new technologies, such as renewables and carbon capture and storage (CCS).

Apart from the mitigation of climate change, the sector will also have to adapt to climate change to provide secure and uninterrupted service (for a more detailed analysis of adaptation in the European electricity sector, see Eskeland et al. 2008). Global warming will have a significant impact on the ability to generate electricity and to deliver it without interruption. Southern countries will most likely be faced with less demand for heating but substantially increased demand for air conditioning. They may also experience losses in hydropower and problems with cooling of thermal power plants. Northern countries will equally experience less demand for heating and may gain potential for electricity production from hydropower. At the same time, they may have to adapt to more storms and heavy precipitation. In both regions, electricity supply disruptions due to storms, floods and heat waves may increase the need for more decentralised electricity generation in order to avoid negative impacts on electricity users.

8. Conclusion

This chapter has shown that climate change policy in the context of ambitious greenhouse gas reduction targets may be beneficial to security of supply. Renewable energy sources, energy efficiency, clean coal, nuclear energy and, generally, a new innovation drive are examples of mutually beneficial areas. However, many security of supply benefits are not always straightforward. Renewables are often intermittent, thus causing additional—albeit different—security of supply problems. Energy efficiency reduces import dependence only in the short and medium term. And even this is not automatically positive, given that import dependence is not problematic per se in the current EU energy system. Nuclear energy has its own security risks and clean coal is not yet available, with carbon capture and storage technologies yet to be demonstrated on a large commercial scale.

While it can generally be argued that climate change-related policies are—at least to some extent—beneficial to security of energy supply, the opposite does not always hold true. Especially gas pipeline politics and related infrastructure projects will predefine energy supplies in 20-50 years to come due to the long lifetime of pipelines and/or LNG installations, if properly maintained. In other words, unless equipped with CCS technologies, gas supply diversification efforts may lock energy consuming countries into an energy pattern that is not in line with greenhouse gas emissions requirements to avoid dangerous climate change. However, when linked to the substitution of coal, gas could be an intermediate step towards reducing emissions. Other examples of technologies that increase security of supply at the cost of climate change are tar sands, oil shales, coal or coal-to-liquids. These technologies should be avoided in the future.

International cooperation will be crucial in achieving a clean and secure global energy system. Some emerging economies are not only major greenhouse gas emitters but also producers of clean energy technologies. IRENA is a step in the right direction, but it needs to involve all major global energy users and producers to be effective. Similarly, it may be useful to extend its mandate to other clean energy technologies, including energy efficiency.

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Chapter 12
Energy Security and Climate Change in Relations between the EU, China and Latin America: Major Challenges and Areas for International Cooperation

María Cristina Silva Parejas

1. Introduction

From a strategic and geopolitical perspective, energy is an important bargaining chip in international relations. Furthermore, global warming is one of the main worries for the future of the planet; it has been directly linked to the lifestyles of people living in the industrialised countries and the kinds of energy they consume. Nowadays, climate change is not a matter only for discussion among environmentalists or other experts, as in the past, but increasingly a significant political issue, related to human survival.

With regard to environmental and energy issues, Latin America and the Caribbean (LAC) countries have broken the trends of shortage and dependency that traditionally characterised their relations with the developed world. Thus, LAC countries have a special role to play and much to say in external dialogues regarding these two subjects.

This chapter will first give some general background about environmental and energy resources in LAC, providing some clues for a better understanding of the regional situation, followed by a closer look at intra-regional LAC dialogues and cooperation, as well as with the EU and China. Finally, the interests of LAC within the framework of global multilateralism and the latest responses of global regulatory mechanisms are examined.

2. LAC Situation with regard to Energy Security and Climate Change

In the field of energy security, LAC shares a set of common goals and challenges, such as seeking to diversify the energy grid, incorporating renewable energies as a key element in national independence and adopting sustainable energy strategies. All these things would give the region a stronger position to compete in world markets.

The LAC region has enormous potential in terms of environmental and energy resources. It is one of the richest biological zones on the planet, hosting 40 per cent of the world's animal and plant species (CEPAL 2010: 120), fresh water resources, enormous fertile lands and fossil fuel reserves.

With regard to renewable energies, LAC is participating in the search for geothermal, water, solar and wind power, among other things. It has large expanses of soils lying fallow and low productivity per hectare, increasing development of monocultures for biomass (sugar cane, soy, palm tree) and incipient development of second generation biofuels (not ready for commercialisation for a decade or so).

2.1 Renewable versus Non-renewable Energy

In the irreversible process of building up a global biofuels market, LAC countries are participating in various ways, although Brazil is the principal actor in this sector. However, biofuels are not seen as the solution to energy needs in LAC. They are not promoted by the same kind of enthusiastic propaganda as in the European Union, being considered a complementary energy supply, together with other alternatives, such as biogas, solar, wind, hydroelectric and geothermal power, and even—despite the controversy—nuclear power. Furthermore, biofuels production is the subject of heated debate, as it is a proven threat to food security and can lead to hunger in vulnerable populations.

In terms of non-renewable energy, some Latin American economies are based on gas and oil production, especially Venezuela and Bolivia. Nevertheless, it is estimated that in 2010 oil production will reach its peak and then start to decline (Sohr 2009: 22-23). Venezuela's reserves exceed those of Saudi Arabia, however, and it has the largest natural gas deposits in South America. Oil production is already declining in most producer countries in LAC, due to inefficiency and a lack of external investment—foreign direct investment fell by 41 per cent in Bolivia in 2007 and by 34 per cent in Ecuador (WWC/FLACSO 2008: 2-3). This shows that political and social stability is a condition that most of LAC countries still cannot guarantee.

Despite the internal and external problems, this deficit could be overcome by means of the unmeasured capacity of light oil fields located offshore, mainly off Brazil (Carioca and Tupi reserves). Latin America still has a lot of surface oil to exploit, and although this has been depleted, it could even shift to the next stage of "type 2 petroleum", which will require larger investments in order to become operational in the near future. Clearly, the "oil issue" is not over and done with in LAC.

Besides, nuclear energy is being promoted—even within the framework of the Organization of American States (OAS)—as a valid supply option in LAC, given that the region will need to satisfy increasing energy demand, likely to grow by 75 per cent by 2030, according to the Inter-American Development Bank (IADB) (Cruz 2008: 20). This is a controversial issue as, in terms of the greenhouse gas emissions (GGE) responsible for global warming, nuclear power is cheaper than fossil fuel options and less polluting.

2.2 Latin American Strengths

In energy terms, Latin America is the only occidental region capable of being self-supplying. In this sense, it can be seen as the only "sovereign region", as it does not depend on external supplies.

As already mentioned, it has large-scale resources in terms of fossil fuels, but also renewables. In agriculture, it has great potential for increasing its culture and productivity per hectare. Furthermore, its biomass energy potential up to 2050 could represent between 17 and 26 per cent of global energy, larger than any other region in the world (CEPAL 2007: 12). Suitable land availability is one of the main strengths of Latin American countries, complemented by water resources and stable, warm temperatures, concentrated in wet tropical zones, essential for higher yields in some key products used for biofuels production, such as sugar cane and palm trees.

2.3 Latin American Weaknesses

But the great benefit of having enormous natural resources is, at the same time, Latin America's Achilles' heel, as it is extremely vulnerable to ecosystem transformations resulting from global warming. In fact, Latin America is one of the most vulnerable regions, and is already suffering from desertification, droughts, floods, thaws, a lowering of fresh water availability and expansion of tropical diseases, among other things. This is made worse by the fact that LAC economies are mostly dependant on raw materials and natural resources for exports and consumption.

Although the LAC region is energy self-sufficient, about 12 per cent of the population still do not have access to electricity and 33 do not even have access to drinkable water (World Bank 2010: 58). Besides, the region is inefficient in energy consumption—the EU uses only half as much energy for production—and it is unable to set common goals, to agree on long-term policies or to build a coordinated energy market. It makes use of energy resources to promote national interests and pays little attention to environmental degradation. Even more disturbing is the fact that green awareness is very low among citizens of LAC countries.

2.4 Geopolitical Value of Energy

As already mentioned, energy in Latin America is a factor promoting "independence", in the sense that it does not need external resources. At the same time, it is a factor in political restructuring, aligning the different LAC countries according to their energy capabilities. This means that they are divided into "energy producers" and "energy consumers". Countries such as Brazil, Venezuela, Mexico, Bolivia and Ecuador are energy producers, while Chile is a net consumer, and in the middle, there are many countries trying to establish a balance. In addition, a new category of "energy nationalism" has emerged in countries that seek to use their advantage as producers to establish a new regional power balance.

3. Three Important Considerations When Approaching Latin America

3.1 First Consideration: Latin America's Diversity

A good starting point for understanding Latin America is to think of it as a puzzle, composed of different or even opposite zones. Latin America and the Caribbean cannot be thought of as a whole, and extra-regional dialogue must take this into account. In fact, it is a region of sub-regions.

In geographical terms, the LAC region can be described as four sub-regions and two non-integrated countries. From North to South, there is Mexico at the top; then Central America and the Caribbean, which are grouped in the Central American Integration System (SICA) and the Caribbean Community (CARICOM). In South America, there are the Andean (CAN group) and the Atlantic countries (MERCOSUR). These two South American systems have now created a new mechanism, called UNASUR. At the bottom of the map, there is Chile, which is an isolated country.

This sub-regional distribution embodies a wide range of characteristics, as well as different diagnoses and responses to environmental and energy matters. Each sub-region has its own environmental institutions and a variety of sub-regional and national policies, priorities and strategies, showing the varied relevance given to climate change and energy in LAC subsystems (Box 1).

Central American Integration System (SICA)

Main features

It includes seven Central American countries (Guatemala, Belize, El Salvador, Honduras, Nicaragua, Costa Rica and Panama) and one Caribbean country (Dominican Republic) with high oil and gas dependency. Half of these countries are allied to Petrocaribe, a Venezuelan initiative.

Specific regional institutions in SICA

The Central American Commission for Environment and Development (CCAD) was created in 1989. It brings together all the environment ministries and hosts a variety of institutions, including PREVDA (for natural disaster prevention) and PRESANCA (for food security).

Main objectives

The CCAD's mission is to "contribute to sustainable development in the Central American region, strengthening the regime of cooperation and integration for environmental management". This is to be achieved by a 2005-2010 Environmental Plan for the Central American Region, with two main tasks: prevention and control of environmental pollution, and conservation and sustainable use of natural heritage.

Within this framework, in 2007 the CCAD designed a "Sustainable Energy Strategy" up to 2020, aimed at reducing demand for products derived from crude oil, reducing energy dependence, increasing renewable sources, improving efficiency and promoting the judicious use of energy to incorporate new technologies and less polluting energy sources, increase access to energy services among low-income and isolated populations, relieve the effects of energy use and production on the environment and develop energy projects compatible with the environment and human settlement. This strategy is followed up at regional summits on climate change and the environment.

Source: www.sica.int/ccad.

Andean Community (CAN)

Main features

CAN includes four Andean countries (Colombia, Ecuador, Peru and Bolivia), all of them self-sufficient energy exporters (gas, petroleum). A total of 28 per cent of their energy is clean (CEPAL 2005: 5) and, including Venezuela, they account for as much as 25 per cent of global ecological diversity. They are highly vulnerable to climate change, as the global temperature has increased in the Andean region by 70 per cent more than the global average, causing severe damage (for example, during the past 35 years Peruvian glaciers have decreased by 22 per cent, affecting water availability) (SG-CAN 2008: 9, 14, 17).

Specific regional institutions in CAN

Official coordination mechanisms in the Andean Integration System are: Andean Energy Alliance, Andean Environmental Agenda.

Main objectives

In the energy field, CAN is focusing on electricity and gas interconnection, as well as the creation of energy clusters and the development of renewable energies, linked to an integrated social development plan.

In the environmental field, the Andean Agenda (2006-2010) includes four items: climate change, biodiversity, water resource management and prevention of natural disasters. There is also regional coordination of national authorities within the framework of Clean Development Mechanisms for the mitigation of the effects of greenhouse gases.

Source: www. comunidadandina. org.

Southern Common Market (MERCOSUR)

Main features

This includes five countries from the eastern side of South America, including the main oil producer (Venezuela), the main biofuels producer (Brazil) and one of the biggest agriculture producers (Argentina), together with two small, energy dependant countries: Uruguay and Paraguay. This region has wide expanses of arable land and a major underground water reserve (1,190 000 km^2).

Specific regional institutions in MERCOSUR

None.

Main objectives:

There are different national goals. The common objectives are related mainly to the environment, including biodiversity, biosecurity and ecotourism, with specific action against desertification, earth degradation, drought and air quality. In 2007, MERCOSUR countries agreed on a common policy for the promotion of and cooperation in sustainable production and consumption, aiming to generate "initiatives for improving environmental performance and the efficiency of production processes, as well as cooperation in the adoption of sustainable production and consumption practices, in an attempt to increase competitiveness and reduce risks to human health and the environment" (MERCOSUR/CMC 2007: Art. 2°).

Their institutional and policy developments indicate that the three main sub-regions in Latin America have different approaches to energy and environmental issues. Lately, however, there has been some movement in a common direction, as in SICA and MERCOSUR—regarding biofuel production (led mainly by Brazil and Guatemala). The consensus was reached Between CAN and MERCOSUR within the framework of UNASUR at the Margarita Island Summit in 2007, where the 12 South American countries established the basis for a regional energy integration strategy. In May 2008, a South American Energy Council was launched in order to draw up a Regional Energy Treaty for tackling issues related to petroleum, gas, power saving and alternative energy (biofuels, wind, solar and water energy). Two years later, in May 2010, the guidelines for the South American Energy Strategy, as well as an Action Plan and a draft structure of the Energy Treaty, were approved. It is expected, therefore, that by 2011 South America should have developed its first regional Energy Treaty.

In national terms, although the LAC region is a net oil exporter, three countries account for almost 80 per cent of oil production and over 90 per cent of oil reserves (Venezuela, Brazil and Mexico). On the other hand, most of the smaller countries are oil dependant (OLADE 2008: 21-22). Therefore, there is neither homogeneity nor a common discourse about energy in the LAC region. There are various national interests—mainly between oil producing countries and agricultural countries—heterogeneous laws and political visions (Venezuela and Brazil, the two main countries in geopolitical energy terms, are at odds in this respect), as well as politicised and conflictual energy relations between LAC nations.

This diversity can be illustrated by data on the biofuels situation in LAC economies.

Table 1 Small and Medium-Sized LAC Countries in the Fuel Market

Features	Biomass producers and oil exporters	Biomass producers and oil importers	Biomass exporters and oil exporters	Biomass exporters and oil importers
Countries	Mexico Venezuela	Chile Dominican Republic Nicaragua Panama	Argentina Bolivia Colombia Ecuador	Peru Paraguay Uruguay Costa Rica Guatemala Honduras

Source: IADB 2007.

Table 2 National Goals with regard to Biofuels in LAC Countries

Country	Bioethanol	Biodiesel
Argentina	5%—2010	5%—2010
Bolivia	—	2, 5%—2007, 20%—2015
Brazil	22%, 25%—2001	5%—2010, 20%—2020

Country	Bioethanol	Biodiesel
Colombia	10%—2006 (by regions)	5%—2008
Costa Rica	7%, 5%—2010	2%
Ecuador	20%—2020	
Honduras		30%
Mexico	Testing until 2010	
Panama, Nicaragua, El Salvador, Guatemala	15% replacement of fossil fuels	
Paraguay	18%	1%—2007, 3%—2008, 5%—2009
Peru	7%, 8%—2006 (by regions, progressive)	5%—2008 (by regions, progressive)
Dominican Republic	15%—2015	2%—2015
Uruguay	5%—2014	2%—2011, 5%—2012

Source: IICA 2010.

Table 3 Legislation on Biofuels in LAC Countries

Country	Laws establishing ethanol incorporation	Laws establishing ethanol production incentives	Laws and regulations defining ethanol quality
Argentina			
Brazil			
Colombia			
Costa Rica		None	None
Dominican Republic	None	None	None
El Salvador	None		None
Guatemala		None	None
Jamaica	None	None	None
Mexico	None	None	None
Paraguay			None
Peru		None	None

Source: IICA 2007.

3.2 Second Consideration: Latin America Is More than Just Brazil

Besides the diversity between small and medium-sized LAC countries, as well as between the different LAC sub-regions, a distinction must be made between Brazil and the rest of the region.

In most extra-regional dialogues (US, G20, G5 and so on), Brazil is increasingly acting as Latin America's representative. With regard to environmental and energy issues, however, it is important to note Brazil's distinctiveness.

Brazil is promoting biofuels production, in which it is the world leader. After pursuing this policy for 30 years, it is the primary bioethanol exporter in the world market (OLADE 2008: 84). It has the necessary technological capacities, consolidated institutions and government policies, as well as the most extensive territory. However, while Brazil is enhancing its participation in the multilateral system, LAC's presence is still very weak.

3.3 Third Consideration: LAC Is Not One of the Main Culprits with regard to Global Warming

LAC has been strongly affected by global warming—which originated in greenhouse gases—and is paying the price for the energy abuse of the industrialised economies. LAC is responsible for only around 10 per cent of greenhouse gases worldwide (CEPAL 2009: 109). At the same time, it is expected to produce according to clean standards and to have an equal share in the costs of solving the problem. In addition, help from developed countries is focused mainly on the promotion of a carbon market, which would enable the developing countries to buy "the right to pollute".

An important source of greenhouse gases is the deforestation of tropical rainforests, as forests capture carbon in their plants, trees and soils. Tropical forests absorb 18 per cent of CO_2, as a kind of "free gift" from nature. The situation is particularly serious in Latin America, where the rate of deforestation is double the global average: between 1990 and 2005, for example, Central America lost 23.3 per cent of its forests (CEPAL 2009: 47).

From another perspective, global warming is not "fair", as it affects some regions of the planet adversely and favours others. Regarding the distribution of impacts and vulnerabilities, the UN's Intergovernmental Panel on Climate Change (IPCC) clearly stated that "there are sharp differences across regions and those in the weakest economic position are often the most vulnerable to climate change and are frequently the most susceptible to climate-related damages" (UN-IPCC 2007: 65). Thus, those with a warm climate could hardly bear rises of 1 degree, while in the countries of the North, even a three-degree rise could lead to growth in agricultural production and energy savings in the winter. Climate change could cause hunger in the LAC region, as grains are the most susceptible crops (mainly corn, rice and coffee) in this respect. For instance, the IPCC predicts a 70 per cent diminution of these crops in Brazil and Mexico by 2050. The situation could turn out to be even more serious, however, as the costs of water pumping will make the exploitation of water reserves unsustainable by 2030.

4. EU-LAC Relations on Energy and Environmental Issues

The EU and the LAC region are engaged in dialogue on sustainable development. It was one of the topics discussed at the EU-LAC Lima Summit, in May 2008, together with poverty and social cohesion, and also at the Madrid Summit in May 2010 from the perspective of technology and innovation. Three topics are of particular importance with regard to sustainable development: the environment, climate change and energy. This dialogue is intended to produce a global environmental and energy pact.

With regard to environmental and energy issues, relations between Latin America and the European Union are based on the fact that LAC is the supplier and the EU the customer. In energy markets, this relationship endows LAC with enormous advantages: the EU is dependent on external energy and the LAC region is autonomous in that respect; the EU has limited capacities for agricultural biomass development and LAC has enormous capacity for energy production, both renewable and fossil.

In contrast to the LAC region, the EU does have a common energy policy, and a 20/20/20 Plan, aimed at reducing greenhouse gases by 20 per cent by 2020 in comparison to 1990 levels, increasing renewable energy use by 20 per cent and reducing energy consumption by 20 per cent. By 2020, biofuels should represent 10 per cent of total fuel consumption in the EU. To achieve this, a large share of biomass will be imported from the South, especially from Latin America (Fritz 2008: 4).

LAC is the only Western region capable of supplying its own first-generation biofuel needs, while the EU—as well as the United States—will face significant short- and medium-term problems in this respect (CEPAL 2008: 21). In this sense, the EU needs the LAC region to meet its goals.

According to ECLAC, in 2005 the EU was already using 60 per cent of the land dedicated to major crops for biodiesel production, and would have to triple the area to meet the 2020 demand. The EU's non-food crop capacity is about 8.2 million hectares and a similar quantity of land is lying fallow, but for its 2020 targets it will need 23 million hectares, and so must look beyond its borders for new cultivable lands. Within the same time horizon, LAC will need only 9 per cent of its arable land to satisfy its own biofuel needs, leaving great potential for new crops. Thus, it is estimated that demand in LAC will increase, possibly affecting the region's rural environment (CEPAL 2008: 21-22).

As a consequence, the EU strategy for biofuels has laid down three main objectives, two of them aiming to promote biofuel production in developing countries, while at the same time expressing its commitment to sustainable development and competitiveness (EC 2006: 4).

In 2007, with a strategy similar to one previously implemented by the US, the EU forged a strategic alliance with Brazil, including cooperation in renewable energy, especially in biofuels and energy technologies based on low carbon emissions, as well as increased energy efficiency. Brazil is the main regional exporter of energy to the EU, followed by Guatemala and Peru.

It is important to note that, besides this kind of exchange, both regions have different regional objectives. For the EU, the priorities are to ensure its energy supply, to improve energy efficiency and to complete its internal energy market. The LAC region is aiming at climate change mitigation, the preservation of biodiversity and the prevention of natural disasters. These different perspectives should make cooperation between the two regions very fruitful.

5. China-LAC Relations on Energy and Environmental Issues

Even though China and the LAC region are nominally both in the "developing" category, they are clearly not the same. Moreover, China, like the EU, operates in Latin America as a donor, investor and supplier of goods. In this sense, China views its relations with LAC, from a strategic viewpoint, as directed towards building a "comprehensive and cooperative partnership" (Chinese Government 2008), along the same lines as the objectives proposed by the EU and, recently, by the United States. Trade statistics illustrate this very well: in the past decade, commerce between China and the LAC countries has increased tenfold, rising from USD 12.595 billion in 2000 to USD 120.61 billion in 2009 (SELA 2010: 21). Since 2007, China-LAC business summits have taken place on an annual basis, helping to increase trade and investment.

In 2008, the Chinese government issued its first policy paper on Latin America and the Caribbean. In its White Paper on the LAC region, China outlines relations in four areas: (1) politics, (2) economics, (3) culture and social policy and (4) peace, security and legal affairs. China's policy paper on LAC is a 34-point strategy, one of which, in the area of economics, is devoted to "Resource and Energy Cooperation".

The matter is addressed very briefly and generally, stating only that "the Chinese side wishes to expand and deepen mutually beneficial cooperation with Latin American and Caribbean countries in resources and energy within bilateral cooperation frameworks" (Chinese Government 2008).

In the energy sector, China has growing interests in LAC: alliances, loans and investments in minerals, carbon, gas and petroleum, mainly with Brazil and Venezuela. But environmental issues still are not on the bilateral agenda.

China has been confirmed as a world power within the framework of the G20. It now has to decide what kind of power it will be. Undoubtedly, China has a role to play in the LAC region and, at the same time, needs to reinforce its international influence by establishing a positive presence in emerging regions. In this context, it is important to mention China's joining of the Inter-American Development Bank as 48th member, the free trade agreements with Chile, Peru and Costa Rica, a swap agreement with Argentina—permitting commercial exchanges based on the yuan, without using the US dollar—as well as the expansion of investments in mining (copper, aluminium and iron ore) and energy (petroleum and gas) in Latin America.

6. LAC Interests in External Dialogues on Energy and the Environment

Any global or trilateral agreement must take into account the LAC region's heterogeneity, including Brazil's different energy situation compared to the other LAC countries, and LAC's low contribution to global warming, while being the most adversely affected region. As a consequence, whatever the scenario, some basic principles must be established, such as the recognition of asymmetries, the specific needs and demands of individual countries or sub-regions and sustainable development.

6.1 Agreements and Funding

Given the asymmetric trilateral relations, the LAC region should benefit from the status of specially favoured party in international agreements. LAC's commitments must take into account the damage caused by the region and the responsibility of other parties; in other words, commitments based on responsibility or capacities (emissions or GDP), as has been proposed by the European Commission.

At the same time, asymmetries also require higher spending and foreign investments, in order, for example, to develop clean technologies, create infrastructure and support extractive activities that could help the LAC region to be more competitive. Also, research investments must be a priority.

6.2 Focused Cooperation

LAC has the land capacity, but—with the exception of Brazil—it does not yet have the capital and technology, institutional capacities and political and legislative frameworks required to attain sustainable development with regard to energy.

Cooperation must focus on *adaptation and the mitigation of climate change*, helping to prevent its negative consequences, such as loss of biodiversity or deforestation. The maintenance of Central American and Amazon forests is vital for carbon emissions reduction, but the pressure for new arable lands partly due to the increasing demand for biofuel production runs counter to this objective.

A second priority is the search for renewable energies, taking good care to preserve the natural heritage and food security, and taking into consideration national and sub-regional specificities. The EU has been a good example of this kind of cooperation, supporting renewable energy projects—such as the Energy and Environment Partnership with Central America, financed by Finnish and Austrian cooperation. However, *renewable energy must be understood from the perspective of promoting a diversified grid*, not only biofuels, which can be hazardous for LAC development.

Initiatives such as EUrocLima, launched at the 5th EU-LAC summit, Lima 2008 and aimed at stemming climate change, is a starting point for biregional cooperation, but it is still in its initial stages and must be deepened to have a real impact. The Madrid Action Plan adopted at the last EU-LAC summit in May 2010 has taken new steps in this direction.

6.3 A Win-Win Situation

From a commercial point of view, the LAC region can gain a foothold in the market for carbon credits. But a carbon market is not necessarily an effective solution. It relieves other regions of responsibility for greenhouse gases, but LAC exports must be promoted. Some trade barriers must be carefully analysed, as they affect the LAC region's competitiveness in the energy and green markets—mainly agricultural subsidies, but also eco-labelling, fuel taxes and Civil Aviation policy in the EU. In terms of investments, the installation of clean standard industries is desirable, in order to boost good practices in production in LAC countries.

Regarding demand for biofuels, a number of requirements must be taken into consideration, such as the lowering of agricultural subsidies to allow fair competition, the impact of biomass production on food prices and a proper balance in the use of land and water. Defining the energy base with regard to biomass must take into consideration food security in accordance with reaching the Millennium Goals in LAC countries. The perspectives of regional bodies such as the Economic Commission for Latin America and the Caribbean (ECLAC) or the Food and Agriculture Organization (FAO) can help orientate the search for a basic consensus.

The *transference of eco-technologies* is also a requirement for low carbon development. This will allow the LAC region to increase its energy efficiency and, at the same time, open up new markets for clean development products (solar cells, wind turbines and other things) from industrialised countries.

Last but not least, climate change mitigation is not only a matter for governments and regional or multilateral bodies. First of all, societies and individuals must change their behaviour. Enhancing public awareness by means of activities directed towards building a new "green public opinion" is urgently needed. In this area, the EU is a good model, as well as a potential cooperation partner.

7. The EU, China and the LAC Region in Multilateral Bodies

There are more than 15 multilateral environmental agreements dealing with virtually every key issue: wetlands, cultural and natural heritage, endangered species, migratory species, the seas, the ozone layer, hazardous waste, chemicals and pesticides, organic pollutants, biological diversity, desertification and biotechnology. But in the energy sector, there are only a number of bilateral or regional agreements—for instance, the Energy Charter Treaty in the Eurasian region or the Energy Security Treaty within the framework of the Petrocaribe initiative—as it is considered primarily a strategic economic issue, rather an environmental one.

Energy security—understood simply as the need to safeguard energy supplies—cannot be reduced to economic considerations; it is a multidimensional issue. If this vital matter is led by market forces or reduced to energy dialogue between partial stakeholders, global surveillance in this respect will fail. In energy security and climate change mitigation a coordinated multilateral approach is the only way to succeed.

For the LAC region, energy security is not just a matter of stable supply at lower prices. Other components are crucial, such as environmental preservation and social conditions. These dimensions must guide any global agreement.

The main multilateral commitment with regard to climate change is laid down in the Kyoto Protocol, which is currently being updated. The recent Conference of the Parties to the UN Framework Convention on Climate Change (COP-15) in Copenhagen did not reach a global consensus, but there will be another opportunity in Cancún (COP-16) at the end of this year. However, and despite the intentions of the EU and China to implement preventive measures within the framework of "Kyoto plus"—that is, to reduce their emissions far beyond the Kyoto goals—the possibility of implementing an effective global pact seems uncertain. It is expected that, due to the current configuration of the US Congress, the largest polluter country is unlikely to get on board.

To be really efficient in reducing the impact of global warming, all the parties—mainly the EU, China, the US and India—must act in a coordinated way. This also entails that the larger economies should make a greater effort and small economies should be helped to participate in this common pursuit, finding innovative funding mechanisms to support a global green development model.

At the same time, it is desirable to complement and coordinate the Kyoto agreements with other forums, such as the Asia-Pacific Association for Clean Development and Climate, the so-called Carbon Pact, joined by China in 2008, which includes also the US and India. Although there are recognised bodies, such as the Intergovernmental Panel on Climate Change, that can provide real guidance, it is also important to keep in mind that energy security and climate change are not just restricted to specialised forums. There is a great deal that can be done in commercial, military, political and other areas. A clear example is the need for a standardised classification of biofuels within the WTO: currently, biodiesel is considered an industrial input and bioethanol a chemical product, so only bioethanol can be included in agricultural treaties.

Besides, in order to reach agreement on strong multilateral instruments, such as the Kyoto Protocol, previous successful experiences must be examined. The Montreal Protocol—aimed at preserving the ozone layer—is a good example of multilateral coordinated action. This instrument—dating back 20 years and now including 191 nations—is particularly interesting as it encompasses a differentiated approach, giving developing countries longer to achieve targets. It also includes a special fund for helping these countries to meet Protocol objectives. All members are obliged to monitor advances through annual reports. In case of failure, this follow-up system allows for the establishment of special plans to get back on track.

8. Towards New World Regulatory Mechanisms

Caring for the planet requires new and representative multilateral bodies. Despite the essential role of many existing instances, many of them are constructed on the basis of twentieth-century notions or have limited representation, such as the International Energy Agency (IEA), which includes only OECD members, and the World Energy Council, only seven of whose 93 members come from the LAC region.

In this context, the International Renewable Energy Agency (IRENA), founded in January 2009, is a good example of a modern mechanism including both industrialised and developing countries. IRENA's vision is for "a world where modern and effective renewable energy is accessible in all countries and becomes one of the major energy sources". In fact, 148 countries and the EU have signed the statute of the Agency, 17 from the LAC region. However, important countries, such as Brazil and China, have not yet signed the Treaty (www.irena.org).

IRENA will increase the contribution of all forms of renewable energy to environmental and climate protection, economic growth and social cohesion, including poverty alleviation and intergenerational equity. It takes into account domestic priorities and also aims at implementing energy efficiency measures. This is what the LAC region is asking for, as both objectives can help to stem its vulnerability.

Finally, the alleviation of global warming and energy security are a matter of intergenerational justice. Since the days of plentiful and easy energy seem to be over, the international community should find a balanced, mutually respectful and innovative way of securing energy supply and preserving the environment. Thus, a prudent China, EU and LAC strategic partnership for the future should be based upon these principles and priorities, not only to build a better world, but to maintain a world to live in.

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Part IV

Trilateral Relations and Scope for Multilateralism

Chapter 13
A New Look at the Triangulation between the EU, China and Latin America

Jiang Shixue

1. Introduction

According to an EU document, in a world filled with new threats and opportunities, Europe, as an actor on the world stage, needs to consolidate relations with its closest partners around the world, and one of them is Latin America. For Europe, Latin America is a strategic partner, which shares a common history and culture. Few regions in the world offer so many reasons to build a genuine alliance as Europe and Latin America (European Commission 2006).

For China, "Latin American and Caribbean countries are an important part of the developing world and a major force in the international arena. Under new circumstances, the development of relations between China and Latin American and Caribbean countries is replete with new opportunities" (Chinese Government 2008). That explains why China's relations with Latin America have been developing very rapidly over the past few years.

Unlike the United States, which has been uneasy about China's growing presence in the Western Hemisphere in recent years, Europe, particularly Spain, wishes to offer China a helping hand to further develop its relations with Latin America. This chapter reviews the two sets of bilateral relationships: between the EU and Latin America, and between China and Latin America. It also compares the two sets of relationships. Finally, it tries to determine whether and how the EU (and Spain) can help China in this regard.

2. EU-Latin American Relations

The United States established the so-called Monroe Doctrine in 1823, warning other countries, particularly the European powers, to refrain from expanding their influence in the Western Hemisphere. The doctrine asserted that the American continents "are henceforth not to be considered as subject for future colonization by any European power" (Smith 1996: 20). But in fact, the US was not powerful enough in the nineteenth century to enforce the doctrine. For instance, France set up the empire of Maximilian in Mexico from 1864 to 1867. France even intended to name the continent of Latin America "Francoamerica". Great Britain did not take much notice of the doctrine. It continued to provide much of the capital and technology for Latin America in the nineteenth century. British firms built railways and telegraph and telephone systems, invested in mining and established manufacturing plants in some Latin American countries (Hillman 1997: 158).

After the Second World War, Europe was occupied with its own economic reconstruction and integration. Consequently, it failed to attach much importance and urgency to the development of its relations with Latin America.

This benign neglect started to disappear in the 1970s. In February 1975, the European Community (EC) and some African, Caribbean and Pacific (ACP) countries signed the First Lomé Convention, which came into force in April 1976, and was designed to provide a new framework of cooperation between the then European Community (EC) and developing ACP countries, in particular former British, Dutch, Belgian and French colonies. The EC also concluded a few non-preferential, short-term trade agreements with Argentina, Brazil, Mexico and Uruguay (Black 1991: 266).

However, economic ties between Europe and Latin America did not develop smoothly. The Common Agricultural Policy adopted by the EC made it hard for Latin America's agricultural products to enter Europe. This could explain why Argentina turned to the Soviet Union as a major buyer of its wheat. Furthermore, the entry into the EC of Portugal and Spain in 1986 did not realise the hopes Latin America had placed in it.

The Falklands (Malvinas) War between Argentina and Great Britain in 1982 put pressure on relations between Europe and Latin America. The EC stood alongside Great Britain and even imposed economic sanctions on Argentina. Most Latin American countries sympathised with Argentina.

In the 1980s, conflicts in Central America provided Europe and Latin America with a rare opportunity to move closer together. Central America's civil wars were often in the international headlines. Along with the United Nations and the Organization of American States, the EC made a remarkable contribution to the peace process there. For instance, it strongly supported the efforts made by the Contadora countries. In 1984, the San José dialogue between the EC and the Central American countries was launched. Its objective was to seek solutions to the armed conflicts by means of negotiations. In 1985, the EU-Central American Cooperation Agreement was signed.

Entering the 1990s, Latin America started to undergo important political, economic and social reforms and transformations. The region's foreign policy also made progress by pursuing closer relations not only with the US, but also with other regions of the world. The EU acknowledged these policy changes and seized these opportunities to promote its relations with Latin America. Spain participated actively in the region's privatisation campaign.

In 1995, the EU issued a communication entitled "European Union—Latin America: The Present Situation and Prospects for Closer Partnership: 1996-2000", which expressed its interest in strengthening the partnership between the two sides. The document acknowledged the changes that had taken place in both regions and at world level during the past decade and highlighted the shared interest in facing global and regional challenges. It also stressed the need for differentiated approaches to Latin America in accordance with specific national and sub-regional circumstances.

The most notable development in bilateral relations between Europe and Latin America was the first EU-Latin America Summit in Rio de Janeiro, Brazil, in June 1999. The objective of the summit was to foster political, economic and cultural understanding between the two regions in order to develop a strategic partnership. In the political field, it was agreed that efforts would be made to reinforce institutional dialogue between the two regions, preserve democracy, promote and protect human rights and fundamental freedoms and work together to address threats to international peace and security. In the economic field, leaders from both sides of the Atlantic declared that they were determined to strengthen the multilateral trade system and open regionalism and to intensify economic relations between the two regions. Their aims included promoting the liberalisation of trade as a means of increasing prosperity and combating the destabilising effects of volatile financial flows, devoting particular attention, support and incentives to productive investment in smaller economies. In the cultural, educational, scientific, technological, social and human fields, the two sides also expressed an interest in promoting the rehabilitation and preservation of the enormous cultural heritage in both regions, facilitating universal access to education and encouraging cultural diversity (EU-Latin America Summit 1999).

At this summit, it was announced that the EU and Latin America had agreed to establish a strategic partnership. This partnership was to be built on a common cultural inheritance, as well as shared values, and encompassed close cooperation in the fields of politics, economics, culture and science and technology. The biregional partnership has been further developed and refined at the later EU-Latin America summits.

The latest summit, the sixth, took place on 18 May 2010, in Madrid, Spain, with the theme "Towards a new phase of biregional association: innovation and technology for sustainable development and social inclusion". In his opening speech, Spanish Prime Minister Jose Luis Rodriguez Zapatero said that progress in relations between both continents over the past decade have made them "global partners facing global challenges".

On 30 September 2009, the EU issued a press release entitled "EU-Latin America: 10 Years of Strategic Partnership", which offered a satisfactory review of the bilateral relationship. It said, "Over the past decade, relations between the EU and Latin America and the Caribbean have been considerably strengthened with the support and firm commitment particularly of the European Commission." The EU was satisfied to see that, ever since the first Summit in Rio de Janeiro in 1999, the two regions have cooperated on a joint agenda in a number of biregional, bilateral, multilateral and sector-specific forums on issues such as research, science and technology and social cohesion. Over the past ten years, the European Commission has financed more than 450 projects and programmes, amounting to more than EUR 3 billion (EU 2009a).

Apart from political talks, the EU and Latin America have also achieved win-win outcomes on some important economic issues. For instance, ambassadors from the EU and Latin American countries meeting at the World Trade Organization (WTO) in Geneva on 15 December 2009 agreed to end a 15-year dispute over EU banana imports. As part of the deal, the EU will cut its import tariff on bananas from the current rate of EUR 176 per tonne to EUR 114 per tonne in 2017, at the earliest; and make the biggest cut first—the EU will first cut its tariff by EUR 28 per tonne to EUR 148 per tonne, once all parties sign the deal. In return, Latin American countries will not demand further cuts, and drop cases against the EU at the WTO, some of which date back as far as 1993 (EU 2009b).

Commenting on the agreement, European Trade Commissioner Benita Ferrero-Waldner said: "today is a very good day for banana producers worldwide and for consumers, as we finally see the 'longest trade dispute in history' solved. After years of tedious negotiations the deal reached will provide an important push for progress in the Doha Round talks and for multilateral trading systems in general." (EU 2009b)

3. China-Latin American Relations

No matter who first landed in the Americas, proven contacts between China and Latin America can be dated back to the 1570s, when Sino-Latin American trade started to flourish across the Pacific.[1] Via Manila, China exported silk, porcelain and cotton yarn to Mexico and Peru, in exchange for silver coins and other items. In the middle of the nineteenth century, peasants from southern China went to South America and the Caribbean as "contract labourers" working in mines and plantations.

After the People's Republic of China was founded in 1949, a few Latin American countries sought diplomatic relations. Due to US opposition, however, their efforts did not materialise.

The victory of the Cuban Revolution in 1959 attracted immediate moral and political support from China. Cuba was the first Latin American country to recognise the new China. China was therefore ready to support Cuba in return. In September 1960, Chinese Premier Zhou Enlai told Fidel Castro: "if necessary, China will furnish all necessary assistance to the Cuban people in their fight for freedom." (Zhang 1995: 91).

On 15 December 1970, Chile became the first South American country to establish diplomatic ties with China. After US President Nixon made his historic visit to Beijing in 1972, many Latin American countries started to change their attitudes towards China and even expressed their interest in developing relations with it. The 1970s witnessed the establishment of diplomatic relations between China and more than ten Latin American countries.

Under the leadership of Deng Xiaoping, China started to implement reform and open-door policies in 1978. The image of China in Latin America changed very quickly. In the 1980s and 1990s, another ten Latin American countries established diplomatic relations with China. Cooperation and contacts in the economic, political and cultural areas proceeded steadily.

In November 2004, Chinese President Hu Jintao visited Latin America, followed by Vice President Zeng Qinghong in early 2005, only two months later. This kind of frequent visit happened again during 2008 and 2009. President Hu Jintao went to Latin America in November 2008 and Vice President Xi Jinping followed in early 2009. In contemporary international relations, no other country has ever sent top leaders to Latin America with such a high frequency.

Between 2001 and 2008, bilateral trade between China and Latin America increased almost tenfold. In November 2005, China signed a free trade agreement (FTA) with Chile. As a matter of fact, the first country with which

China reached an FTA was Chile. In November 2008, China and Peru concluded their FTA negotiations. In early 2009, China and Costa Rica officially started their first FTA talks.

After 15 years of efforts, China's entrance into the Inter-American Development Bank (IDB) was approved by the other member countries in a voting process which ended on 15 October 2008. In early 2009, China formally joined the IDB, thus becoming the Bank's 48th member nation, contributing USD 350 million to various programmes. China purchased 184 shares, or 0.004 per cent of the IDB's ordinary capital, which became available after the breakup of Yugoslavia.

China and Brazil jointly launched three remote sensing satellites in 1999, 2003 and 2007, respectively. This cooperation has been recognised as an outstanding example of South-South cooperation in the high-tech field. In October 2008, China successfully sent a Venezuelan telecommunication satellite into space. The satellite, produced by China's Aerospace Science and Technology Corporation with a designed longevity of 15 years, is Venezuela's first telecom satellite and is used in broadcasting, tele-education and medical services.

In October 2004, a 95-member unit of officers from China's riot police force was sent to Haiti to join the United Nations peacekeeping operation there. This is the first time China has included members of its riot police force in overseas peacekeeping duties. Its task was to support the international peacekeeping presence and local police to enforce laws, deal with mass public security emergencies, serve as guards on important public occasions and organise and train a local riot police. This task was accomplished successfully. In January 2005, the Chinese peacekeepers were awarded a UN peace medal for their outstanding performance in the crisis-torn country.

There are also non-governmental or people-to-people contacts and exchanges between China and Latin America. More than one hundred provinces and cities have been twinned.

In November 2008, China published a policy paper on Latin America, outlining 35 areas of cooperation. It expressed for the first time the Chinese Government's desire to "view its relations with Latin America and the Caribbean in strategic terms". It also reiterated the Chinese Government's commitment to the one-China policy and declares it the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organisations.[2]

4. Comparing the Two Relationships

A comparison of relations between the EU and Latin America and between China and Latin America leads to the following conclusions:

(1) In historical, political and cultural terms, Europe has closer relations and affinities with Latin America than China does.

(2) Europe developed its relations with Latin America much earlier than China did. As a matter of fact, China started to move towards Latin America only a few years ago. The China-Latin America relationship is still in its initial stages, whereas the EU-Latin America relationship is much more mature.

(3) Europe's relations with Latin America are more institutionalised than China's. Apart from the EU-Latin America summit, there is the Ibero-American summit and other dialogue mechanisms. The chances of convening a China-Latin American summit are very slim. Moreover, the EU has published more policy documents on Latin America than China.

(4) China-Latin America relations are overshadowed by the US factor. The US is somewhat concerned by the presence of China in its backyard. US Congressman Dan Burton said: "I believe China's rising economic, political and military influence in the Western Hemisphere poses serious challenges to the United States in the years ahead... I believe we should be cautious and view the rise of Chinese power as something to be counterbalanced or contained, and perhaps go so far as to consider China's actions in Latin America as the movement of a hegemonic power into our Hemisphere." (Burton 2005) Europe-Latin American relations are not a major issue for the US.

(5) Europe's economic ties with Latin America are much closer than China's. In 2008, EU-Latin American trade was worth EUR 189 billion, while Chinese-Latin American trade was worth USD 145 billion, although it has been growing rapidly over the past few years. In 2007, the total stock of EU investment in Latin America stood at EUR 228 billion, while for China it was only USD 25 billion (Chinese Ministry of Commerce 2010).

(6) Europe has established a strategic partnership with Latin America, whereas China has set up such partnerships with only a few Latin American countries: Brazil (1993), Mexico (2003), Argentina (2004) and Peru (2010).

(7) The political dimension of the EU-Latin American relationship differs from that between China and Latin America. It seems that Europe is much more concerned about Latin America's democracy, human rights, rule of law and so on, while China emphasises political consensus on such issues as Third World

unity, a multipolar world order, opposition to hegemonism and power politics and so on.

(8) Due to historical and cultural reasons, mutual understanding between Europe and Latin America is much deeper than that between China and Latin America. China does not know much about Latin America and vice versa.

(9) Both Europe and China see Latin America as an important source of natural resources and a market of 560 million consumers. An important EU document states that "the region has considerable natural resources, especially mining and energy resources, as well as exceptional environmental wealth, notably the Amazonian forest with its huge biological diversity" (European Commission 2002). In its policy paper on Latin America, China also expressed an interest in opening up the region's resources.

(10) Both Europe and China attach importance to the social problems in Latin America. China's policy paper on Latin America declared: "The Chinese Government will strengthen exchanges and cooperation with Latin American and Caribbean countries in reducing poverty and narrowing the gap between the rich and the poor, and will encourage poverty alleviation institutions on both sides to establish broad cooperative relations to share information and conduct joint research" (Chinese Government 2008). For Europe, promoting social cohesion—that is, the fight against poverty, inequality and exclusion—is one of the EU's strategic policy objectives. Moreover, the notion of social cohesion has been accepted by the UN Economic Commission for Latin America and the Caribbean (ECLAC) as a guiding principle for the region's social development strategy (ECLAC 2007).

5. Can the EU/Spain help China to Develop its Relations with Latin America?

The US is worried about the closer relations between China and Latin America. Europe, on the other hand, is not worried at all. Spain even wishes to offer China a helping hand to promote its relations with Latin America.

Triangulation between Spain, Latin America and Asia-Pacific is one of the initiatives of the Spanish government's Asia-Pacific Framework Plan 2000-2002 (Bustelo 2002). In July 2005, visiting Spanish Prime Minister Zapatero said to his Chinese host that Spain would be ready to serve as a "bridge" for China to develop its relations with Latin America. When President Hu Jintao visited Spain in November 2005, China and Spain issued a joint communiqué declaring that both sides had expressed a willingness to cooperate around the globe, particularly in Latin America.

Undoubtedly, Spain is in a good position to play the role of a "bridge" for

China and Latin America. Its advantages include historical connections, language, cultural similarities and a strong economic presence in Latin America.

Before China sent its trade delegation to Europe at the end of February 2009, the Spanish Ambassador to Beijing, Carlos Blasco Villa, told the Chinese newspaper *21st Century Business Herald* that Spain would be happy to see China invest in Latin America. When he was asked whether the interests of China and Spain were beginning to conflict since China's relations with Latin America had started to become closer, Blasco said: "Just the opposite. I think closer relations between China and Latin America would contribute to the cooperation between them and encourage further investment in Latin America." The ambassador also said that "Spain would propose that Latin America not rely on the US so much, nor on the EU". He even offered one example of triangular cooperation: "Huawei and Zhongxin have sold equipment to Spanish companies which use the Chinese products to build telecom towers in Latin America" (Yuan 2009). The question now is whether and how the EU/Spain can help China to develop its relations with Latin America.

To answer this question, we must try to understand what China wants to do in and/or with Latin America. According to China's policy paper on Latin America there are 35 areas of cooperation. In some areas, it is likely that the EU/Spain can help; in others, it is unlikely.

Table 1 Areas of Possible Cooperation between China and Latin America in which the EU/Spain Could Provide Assistance

Areas of cooperation	Possibility	Reason
Exchanges of high-level visits	Low	The arrangement of such high-level visits involves diplomatic secrecy and other issues that need no help from any third party
Exchanges between legislatures	Low	China has no difficulty contacting legislative bodies in Latin America directly
Exchanges between political parties	Low	The Communist Party of China has its own approach to establishing working relations with political parties in foreign countries
Consultation mechanisms	Low	Things would become more complicated if a third party was involved in such bilateral mechanisms

Areas of cooperation	Possibility	Reason
Cooperation in international affairs, such as UN reforms	High	International affairs have become more and more globalised and multilateral dialogues and consultations are needed, particularly when deadlock occurs
Local government exchanges	High	These exchanges mainly include cooperation in economic and other areas, as well as establishing twin provinces or twin cities. The EU/Spain can offer expertise in this regard
Trade	High	The EU/Spain has a well-established marketing network, which is very valuable for Chinese businessmen, who do not know much about the market conditions there
Investment cooperation	High	The Chinese government has designed a "going global" strategy, which encourages direct investments in Latin America and other parts of the world. The EU/Spain can help China by finding investment opportunities or even establishing joint investment funds
Financial cooperation	High	Chinese banks want to open up the market in Latin America and Spanish banks have a strong presence there
Agricultural cooperation, such as technical training	High	The EU/Spain has both sophisticated technology and more experience in this area
Industrial cooperation	High	EU/Spain has both sophisticated technology and more experience in this area

Areas of cooperation	Possibility	Reason
Infrastructure construction	High	China and the EU/Spain can cooperate to invest in Latin America's poor infrastructure
Resources and energy cooperation	Medium	There are many opportunities for cooperation in this area. But both China and the EU/Spain wish to exploit Latin America's resources and energy. Therefore, competition might emerge in some cases
Customs cooperation	Low	It involves national sovereignty and legal matters
Cooperation on quality inspection	Low	It involves policies on non-tariff barriers and sometimes national sovereignty
Tourism cooperation	High	So many Chinese wish to visit Latin America, but the tourist industry in China is less developed than that of the EU/Spain
Debt reduction and cancellation	Low	China as a creditor would make its own decisions on this matter
Economic and technical assistance	High	The EU/Spain has accumulated much experience in this area
Multilateral cooperation in multilateral trade and financial institutions and regimes	High	Global issues are involved in this area, and multilateral coordination and consultation is needed
Chamber of commerce cooperation	High	Cooperation with a third party might facilitate exchanges of market information
Cultural and sports exchanges	High	The EU/Spain is very good at promoting cultural and sports exchanges with Latin America
Cooperation in science, technology and education	High	The EU/Spain has advantages in this area and has accumulated much experience of how to cooperate with Latin American countries

Areas of cooperation	Possibility	Reason
Cooperation in medical and health care	High	Collective action can achieve better results
Consular cooperation and personnel exchanges	Low	It often involves national sovereignty
Media cooperation	Low	China has its own approach to the media
People-to-people exchanges	High	Getting a third party involved can facilitate mutual understanding
Cooperation in environmental protection	High	This issue needs global action
Cooperation in combating climate change	High	This issue involves multilateral negotiations and coordination
Cooperation in human resources and social security	High	The EU/Spain can offer its expertise, experiences and lessons for China and Latin America
Disaster reduction, disaster relief and humanitarian assistance	High	Multilateral action can be helpful towards this end
Cooperation in poverty alleviation	High	Combating poverty also needs multilateral actions
Military exchanges and cooperation	Low	It involves military secrets and national sovereignty
Cooperation in judicial and police affairs	Low	This is a sensitive area
Non-traditional security issues	Low	Some issues require global action, but some involve national sovereignty

In conclusion, the EU/Spain might be able to act as a "bridge" for China to develop its relations with Latin America in some areas, but by no means all. Generally speaking, it is in the economic, cultural and social areas that the EU/Spain can be particularly helpful to China.

6. Concluding Remarks

In a global perspective, the world is moving increasingly in the direction of multilateralism. As a result, China's relations with Latin America are often influenced by trilateral or even multilateral interactions. While Europe tends to have a critical or sometimes even negative view of China's presence in Africa, it wishes to offer a helping hand to strengthen bilateral relations between China and Latin America. This is a very positive and constructive attitude, and the three parties need to work together for better triangulation.

From the Chinese standpoint, whether and how the EU/Spain can help China develop its relations with Latin America depends on the future prospects of China's relations with both Latin America and the EU/Spain. It is certain that, if China's relations with Latin America develop further, the prospects of the EU/Spain playing the role of a "bridge" between China and Latin America will be brighter. Due to historical and cultural factors, Europe has maintained close relations with Latin America. China's relations with Latin America have begun to develop only recently. Europe could serve as a model for China in some respects.

Unlike the United States, which views China's presence in Latin America as a threat to its "backyard", the EU/Spain wishes to play the role of a "bridge" that can help China to develop its relations with Latin America. This benign intention is welcome and constructive. However, given the differences between Latin American relations with China and with Europe, respectively, its role should not be exaggerated. In some areas, a "bridge" would be useful, but in other areas—for example, touching on national sovereignty and other sensitive issues—it is unlikely and may even create "transaction costs".

Notes

1. As early as 1761, the French sinologist De Giognes proposed that the New World was discovered not by Columbus, but by the Chinese. Chinese scholars later found that, as early as in the fifth century, a Chinese monk (or master) named Hui Shen (慧深) arrived in what is called Mexico today, then called Fu-sang (扶桑) in Chinese. British author Gavin Menzies said in his *1421: The Year China Discovered America* (2003) that the ancient Chinese sailor, Zheng He (郑和), "discovered" the Americas 70 years earlier than Columbus.
2. Twenty-three countries, including 12 in Latin America, still maintain "diplomatic relations" with Taiwan.

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Chapter 14
Trilateral Relations between China, the EU and Latin America: Little Experience, But Big Potential*

Karl Buck

1. Introduction

In recent years, our challenges have become global and the destinies of nations have become deeply interconnected. No matter where in the world we live, we are touched by the successes and failures of today's global order. Nevertheless, responses to global problems remain very different, not only as a result of competing interests, but also—and largely—because cultural difference is the lens through which we see these global challenges. Cultural diversity is not necessarily a source of conflict. Crosscultural encounters often bring about creative change. I see more chances for issuebased and flexible coalitions among developing and emerging countries than the somewhat ideological North-South confrontations of the past. Collaboration across borders is growing primarily in the area of business and economic activity. Collaborative networks for innovation, production and distribution are emerging as the single most powerful shaper of the global economy.

Trust is an essential currency of social collaboration. Our success in addressing the global challenges of economic prosperity, political relations and social peace is a function of the degree of trust that nations and cultures are able to sustain internationally. Dialogue can demystify, be it the real impact of bioethanol production in Brazil on the environment or food security or the real impact of the European common agricultural policy on global trade. Dialogue thus builds knowledge of the unfamiliar, and seeks out areas of common ground

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* The views expressed in this article are those of the author and should not in any way be considered to express an official position of the Council of the European Union or any of its officers.

anchored in a vision of a common future grounded in ideals of equality and respect.

We have little experience of triangular cooperation and, at the project level, what we have is not encouraging. However, this is no reason not to consider its potential—quite the contrary. Trilateral cooperation, notably on global issues, is possible when partners have the weight, but also the willingness and the means to act together. Weight need not to be a matter of sheer size; it can also have a moral dimension that wins others over. Trilateral cooperation makes sense when others regard the promotion of issues or values by core actors as persuasive or, usually at project level, when trilateral cooperation makes it possible to reduce political or real costs through the use of the comparative advantages of each actor.

Such cooperation can take place at various levels and with varying scope and intensity: from exchanges of views, dialogue, experience-sharing and best practices to sectoral dialogue, international coordination, joint promotion and, finally, joint efforts on norm-setting or creating a globally representative, active and efficient international institutional architecture with more legitimacy. The venues are UN forums in New York, Geneva and Vienna, but international conferences and missions are also important.

As Henry Kissinger pointed out, the "very unsettled nature of the international system generates a unique opportunity for creative diplomacy. The alternative to a new international order is chaos". China's role is crucial, as are those of other partners on their way to becoming major powers. The past decade has seen a decline in the power of nation states, but without being replaced by sufficiently effective global governance. In some areas, the recognition of "common but differential responsibilities and respective capabilities" is in itself a promising start for constructing common interests among partners with different potentials. There is clear interest in the establishment of multilateral development norms, goals, procedures and policies such as the Millennium Development Goals, the OECD's Development Assistance Committee (DAC) or the Paris Agenda which increases beneficiary countries' "ownership" and the harmonisation of donor policies. Earlier dominance by Western countries in framing these discussions has been eroded and rising new partners are playing an active role in policies, trade, aid and investment. Thus, more funds are now available, as well as greater diversity of aid sources.

2. Trends and Opportunities in South-South Cooperation

China, Latin America and the EU already have some elaborate bilateral and biregional forms of cooperation, and they have proven their interest in shaping the world. Recently, political, economic and financial relations between China and the Latin American Countries (LAC) have been considerably reinforced.

The outreach of all three beyond their immediate neighbourhood and the advances in South-South relations and cooperation, be it economic or political, are promising bases for more trilateral cooperation. Valuable experience can come from outreach programmes of the OECD/DAC, the World Bank and regional development banks, or even from the EU or country initiatives, such as those of the UK and Germany. Dialogue on programme-oriented approaches in the donor community should prepare the terrain for concrete trilateral projects.

According to the United Nations Conference on Trade and Development (UNCTAD 2008, 2009), South-South FDI has reached 12 per cent of global FDI, and the corresponding figure for trade is 20 per cent. As UNCTAD Secretary General Supachai Panitchpakdi pointed out in his speech in early February 2009 to the Expert Meeting on International Cooperation, South-South Cooperation and Regional Integration: "South-South cooperation holds significant potential for increased trade and investment flows, thereby supporting industrialization and strengthening the services sector. In recent years, the renewed interest among developing countries in mutual cooperation has led to an increasing number of bilateral and regional agreements among them in the areas of trade, investments and finance, but also health, education and culture."

This trend has been driven by the strong growth in trade flows between developing countries. Since 1995, South-South trade has grown faster than any other trade flows, averaging 13 per cent per year, compared to the global average growth rate of 9 per cent, and 10 per cent for trade among developed countries. The amount in value terms is equally impressive. For example, South-South merchandise trade in 2007 amounted to USD 2.4 trillion, or 20 per cent of world trade. The 1990s also saw a take-off in FDI flows from transnational cooperation (TNC) in the South, with the share of South-South FDI in total flows growing from 5 per cent in the 1990s to 12 per cent in 2006. But, as the Secretary General also underlined, South-South is not a simple substitute for North-South (UNCTAD 2009).

Since the traditional North-South cooperation is complemented by greater South-South cooperation, this opens space for trilateral cooperation. The trends towards a multipolar world and diversification of relations are two sides of the same coin. "Emerging" donors are by no means new in the aid business: China, the Arab countries and the Eastern bloc have been active over the past 50 years, as have various Latin American (LA) partners, such as Brazil, Mexico, Chile and Venezuela. Their large new cushions of foreign reserves and their expertise help many people.

The end of the bipolar world can, with some exceptions, lead to less ideological and more issue-based interests, which can be more "negotiable" (Phillips 2008; Schmitz and Messner 2008). Trilateral cooperation between Latin America and the EU existed in the 1980s, when Latin American countries invited the European Community to cooperate in ending the civil wars in Central America which were fostered not only by scandalous social injustice but also by the two superpowers, neither of which could withdraw without losing face. Precisely the fact that neither Latin American countries nor the European countries could be seen as a military threat allowed them to reach peace agreements and to rebuild the disrupted societies.

Some remarks on general conditions, methods and procedures for trilateral cooperation on the EU side. As a preliminary observation, it should be mentioned that in the EU, at the technical level, there is an unofficial distinction between trilateral and triangular cooperation. "Trilateral" means joint funding, for example, by the EU and Mexico, of a project in Central America. This happens rarely. "Triangular" means that the EU uses and funds, for example, Chilean water experts or—and why not in the future—Cuban health experts in a project in, for example, Zimbabwe, to take advantage of the particular access, expertise and reduced costs of non-EU experts. This should also help to promote endogenous regional solutions.

3. Fields of Cooperation

3.1 Cooperation on Global Institutional Architecture, Multilateral Norms, Actions, Procedures and Objectives

Rather than a world in which one or two superpowers take unilateral decisions, the EU, China and Latin America prefer, in my view, an "interpolar" system (Grevi 2009) where strong players cooperate and possibly reach decisions with the highest and broadest possible international legitimacy to address global issues and challenges, or to prevent and tackle crises. As globalisation shrinks distances and issues become increasingly interconnected, the comparative advantage of an effective UN system becomes more evident. Interpolarity is likely to be a less conflictual scheme than the bipolar past, not least due to economic interdependence, but it takes political will to support strong, more representative and efficient international institutions, capable of "global governance" (Grevi and de Vasconcelos 2009;

MGI 2008; Phillips 2008). Without reforms, these institutions will not (re-)gain the legitimacy they need to act. They can function efficiently only if there is a minimum of common values and aims.

A look at the international weight and engagement of major partners is encouraging. The EU27 command one-eighth of the votes in the United Nations General Assembly (UNGA), the EU and LAC together one-third. EU member states usually vote unanimously (97 per cent since 1998/99), provide 39 per cent of the UN's regular budget, and the EU plus member states are, together, by far the largest donor of development assistance, with 55 per cent. EU member states are likewise the largest financial contributor to UN peace-keeping, missions with some 40 per cent in 2007. They therefore provide half the budget of UN funds and programmes (Gowan and Brantner 2008).

In my view, there is no doubt that we need comprehensive reform and revitalisation of the UN system and of the international financial architecture. This is necessary to reinforce their democratic nature, transparency, accountability and efficiency, and their representativeness, which must correspond to today's world, not to that of 1945. I also consider veto rights as outdated, and I regret non-constructive behaviour in certain "reformed" institutions. On the other hand, a change in voting rights is no guarantee of greater efficiency, as illustrated by the WTO or the new Council on Human Rights.

China has also taken an active role in dealing with financial crises elsewhere, be it in 1997 or today. Its presence in international organisations or international non-government organisations (INGOs) has increased since 1977 from 21 to 50 international organisations and from 71 to some 1,300 INGOs. Brazil has fostered coalitions for cooperation within Latin America and beyond. The Union of South American Nations (UNASUR-Unión de Naciones Suramericanas), the creation of a South American Defence Council and the India-Brazil-South Africa Dialogue Forum (IBSA), all can have a beneficial impact on regional security. IBSA is certainly a highly asymmetrical and heterogeneous scheme, but offers particular potential as an initiative between regional middle range powers with multiethnic and multicultural societies, and experience of dialogue, bargaining and peaceful conflict resolution. Brazil is reaching out to other lusophone (Portuguese-speaking) countries and the Caribbean with its best practices, for example, with regard to HIV/AIDS. Mexico is not only a leading economy in Latin America and a member of the North American Free Trade Association (NAFTA), but also of the OECD, an observer at the Council of Europe, the largest LAC contributor to the UN budget and partner to some 40 free trade agreements (FTA) around the world. Mexico has taken many initiatives and is the author of important resolutions and conventions, promoted and adopted—

often with EU support—in UN forums. Its cooperation is focused on its neighbourhood, notably Central American development via its Plan Puebla Panama. Various LAC countries have regularly participated in international peace-keeping missions. Chile contributes to the EU crisis management mission in Bosnia and Herzegovina, and offers joint regional actions within the framework of the recent EU-Chile Association for Development and Innovation. With these countries, there is an impressive convergence of positions and visions which should not be overlooked alongside conflictual trade issues. Both Chile and Mexico have some experience with trilateral cooperation with major donors such as Japan, Canada, EU member states, the Inter-American Development Bank (IADB), the Food and Agriculture Organisation (FAO) and the United Nations Development Programme (UNDP). There is also growing coordination between the two rifts of the Pacific, as in the Asian-Pacific Economic Cooperation (APEC) or the Arco Pacifico schemes, which were recently reinforced. Venezuela has obtained considerable regional gratitude as a result of its preferential deliveries of oil, promotion of greater financial independence for LAC countries from international financial institutions and trilateral humanitarian and social missions together with Cuba. We should profit from these numerous experiences on the ground, for example, with regard to poverty reduction and social cohesion, but we could also take up the numerous commitments in our EU-Latin American agreements, which often suggest the possibility of trilateral cooperation.

3.2 Labour and Human Rights

Multilateralism á la carte is only a second-best solution. International norms are, in many cases, preferable to bilateral agreements, since they reflect a broader range of interests. This is not merely a matter of soft power and "bleeding hearts". We are convinced that more economic development and broader product ranges lead to more attention being paid to broadly accepted norms—in our own national or regional interest.

This is why the EU promotes core UN or International Labour Organization (ILO) conventions on human and labour rights and requests their ratification and effective implementation as a basis for its unilateral scheme of generalised preferences for less advanced countries. I see a common interest in working towards conventions on minimum labour and social standards. Not only Portugal and Mexico but also, more recently, China is losing competitiveness and thus jobs to other even more "low cost" countries. This is in the long-term interest of us all: the more regions such as Africa and Latin America become markets for Chinese products, the more China will have an interest in future consumers with the means to purchase.

We all want to sell, so we should cooperate in fostering such social developments. During one of his visits to Europe, Chinese Prime Minister Wen Jiabao recalled Adam Smith's *Theory of Moral Sentiments*, underlining that if the fruits of economic development are not shared by all, that is "morally unsound" and a threat to stability. Hence, China, Latin America and the EU can cooperate in exchanges of experiences on reinforcing social cohesion, and in a larger sense, sustainable development.

Like some other countries, notably in the G77, China has been particularly aware of the issue of sovereignty, strongly defending non-interference and refraining from giving other governments moral sermons. Stressing state sovereignty and non-interference in internal affairs is, in our view, not sufficient, however; the EU strongly promotes the notion that people have the right and governments have the "responsibility to protect" (R2P), adopted at the 2005 UN Summit, to some extent putting people at the same level as states.

People expect to be protected and the immunity of statesmen in the exercise of their functions should not be perverted into impunity in the name of non-interference in case of the heinous crimes for which R2P was conceived. In the Pinochet case, for example, the British High Court stressed this with the simple statement that "it is not among a statesman's functions to torture his citizens". The EU believes in the "narrow but deep" concept of R2P: four crimes and three pillars. The preventive dimension and assistance to states to build their capacity to ensure their own responsibility to protect are crucial. This concept does not encroach on national sovereignty since it is in reality about prevention, not about intervention. R2P would make the UN Security Council's use of Chapter VII more difficult. Thus, the EU considers acceptance of the principle of R2P as a means of enhancing conflict prevention.

Most LAC countries believe in the idea formulated in the European Security Strategy (12 December 2003) that "the best protection for our security is a world of well-governed democratic states". "Spreading good governance, supporting social and political reform, dealing with corruption and abuse of power, establishing the rule of law and protecting human rights are the best means of strengthening the international order." The background for this philosophy is of course the EU's own recent history.

China's redefined view of international relations has reaffirmed some familiar positions, but also expresses a willingness to engage in constructive engagement with regard to global governance in the management of "Weltinnenpolitik" (global domestic policy). With rising strength come rising responsibilities, but the reverse is also true. We all have an interest in participating in UN peace-keeping missions or fighting insecurity—for example, in the seas around the Horn of Africa. It is encouraging that Asian states are now more outspoken in their criticisms of and engagement in such situations as Myanmar. China has come around to the view that all should encourage progress towards democracy, lest it become a danger to security and stability in the region.

With regard to the new Human Rights Council (HRC) or UN anti-corruption conventions, no one should be allowed to make a declamatory and acclamatory mockery of what was meant to be a constructive learning process of best practices. Recent bad experiences point to the HRC as possibly a failing institution. Similar deplorable trends were seen in the Third Committee of the UNGA, and all too obvious attacks on country resolutions. There are other, more encouraging examples, however: the EU welcomed the Association of South-East Asian Nations (ASEAN) for the establishment of the Terms of Reference for the new Intergovernmental Commission on Human Rights (AICHR) on 20 July 2009, which is a good basis from which future partnership could evolve.

Also, the people of the world will not understand if some countries obstruct progress with regard to the UN Convention against corruption. Corruption distorts the criteria by which public policies are chosen, and thereby undermines the efficiency, efficacy and transparency of those policies. Corruption is equally pernicious among individual citizens, weakening the basic trust that is at the core of most conceptions of robust, high-quality democracy. Political corruption matters more in democracies than in other regime types because it erodes two basic pillars of democratic regimes: the equality of citizens and the openness of decision-making. But though corruption exists everywhere, its effects are more dramatic the poorer a country is. We must cooperate on the full implementation of the UN Convention against Transnational Organized Crime and supplementary protocols on the fight against organised crime and the UN Convention against Corruption.

Other areas for cooperation should be mentioned, not as a shopping list but because they have obvious potential for trilateral or multilateral cooperation. Clearly, there has recently been a trend away from multilateral solutions and agreements and the influence of the EU has decreased as a norm-setting power. The general carrot-based approach of the EU as a soft power should also be underlined, with its offers of assistance and respect for the sovereignty of recipient countries through the principle of "ownership" and negotiated funds, programmes and projects.

There is insufficient space here for a discussion of the considerable potential for trilateral cooperation on the basis of the elaborate bilateral, sectoral and policy dialogues existing or being established bilaterally between the EU and China (24 sectoral dialogues so far), or in the strategic partnerships between the EU and Brazil and the EU and Mexico and their joint action plans, as well as the Association for Development and Innovation with Chile, reinforced dialogues with Argentina and Venezuela, and dialogues in which the EU is taking the lead with regard to human rights or non-proliferation of weapons of mass destruction (WMD) together with numerous other countries. Some areas are better dealt with bilaterally, but others—including cohesion policy, issues of mega-city management, urban-rural relations, civil aviation, sanitary and phytosanitary issues, the environment, energy and information technology—clearly have more trilateral or even multilateral potential.

3.3 Cooperation within the WTO and Benefits Beyond It

In a globalised world, there are advantages in norms which are shared as globally as possible, as well as in accepted procedures, beyond bilateral arrangements. We cannot limit ourselves to repeated declarations aimed at saving or revitalising the Doha process, such as "confirming our willingness to reach an ambitious, comprehensive and balanced agreement that fulfils the development objectives of the Round and significantly fosters trade flows in agriculture, industrial goods and services among and between developed and developing countries, as well as promotes effective trade rules". This is not an easy task. It is clear from the Doha process that no one can claim to know automatically what best serves developing countries. In the past, the EU was rightly criticised for its agricultural subsidies—however, this has been dramatically rectified. Brazil, too, became aware that its call for complete liberalisation of agricultural trade was seen as a threat by less efficient agri-producing countries.

China with its (too) strongly export-oriented economy must become interested in—some would say, it is dependent on—behaviour and rules leading to more predictability in relations. Agreed norms and procedures are meant to do just that. This is one reason why the EU, whose open market has been a large contributor to China's export-led growth, was a strong supporter of China's accession to the WTO in late 2001, followed by a broad EU-China strategic partnership in 2004 and in 2007 by negotiations on an appropriate framework agreement.

As former Trade Commissioner Peter Mandelson said, the EU expects tangible results in the form of market access, enforcement of intellectual property rights (IPR), consumer safety and so on. Probably no other country has gained more from globalisation than China. National standards which differ significantly from international ones cause high compliance costs and delays. Easing access to the Chinese market is an objective the EU shares with key developing or emerging countries.

I do not share the worries sometimes expressed about impending catastrophe with regard to clearly shifting centres of gravity in the world economy. I take a more optimistic, cooperative view. Apparently, in Chinese, the sign for "crisis" is also the sign for "opportunity". Economic activities to some extent moving away from Europe and the US and even Latin America should not be seen merely as a one-way process. First, we retain long acquired technological capabilities. Second, such moves can also generate income for European enterprises, directly or through licence fees. Third, general development and know-how generated in Asia and Latin America create considerable demand for certain European industries, such as renewable energy technology, transport and so forth, and provide grounds for research, which can become more cooperative. Also, it is simplistic to see the growing Chinese presence on both EU and Latin American markets as a threat, mainly due to cheap labour. It should be seen as a wake-up call for those who have so far failed to elaborate national and regional development and reform strategies. China has a point in stressing that its low-priced export products can be purchased by the poor in Latin American, but it is also true that to allow the poor to buy anything they need jobs, which can be endangered by such low-price imports. On the other hand, for LAC there are risks of being stuck in the low-value raw material export corner (The Economist 2005: 43; OECD 2006; IABD 2006; Buck 2006; de Freitas Barbosa 2007).[1]

China has confirmed its interest in protecting intellectual property rights (IPR) and in controlling product safety. The irresponsible behaviour of some producers threatens Chinese companies just as much as any others. Under an agreement of 2006, the EU passes on information about dangerous goods to the Chinese authorities. We should welcome the fact that, despite growing problems, cooperation has improved rapidly. Such cooperation could be extended to other partners. It should also be added that, due to its rapid development, China is also becoming the victim of unfair or criminal production elsewhere. In April 2009, for the first time a German court protected a Chinese firm against counterfeiting by a German firm (although it should also be noted that its owner was a Chinese expatriate).

There is clearly a common interest in working out a mutually agreed and balanced approach to the enforcement of intellectual property rights, which can provide the basis for the promotion of innovation and the establishment of an objective dialogue on the common challenges of fighting piracy and counterfeiting. On 30 January 2009, the EU and China signed an action plan on customs cooperation in tackling piracy and counterfeiting, as well as an agreement on drug precursors.

The Chinese agreement to discuss opening service markets, the MERCOSUR-Chile business seminar on the advantages of triangulation in May 2009, the EU-China Biodiversity Programme and similar commitments within the framework of the EU-LAC summit process are promising steps in other areas. Another important aspect is the fact that we all may benefit in the long term from Chinese investment in Afghanistan, Pakistan and Iran, where the building of roads, mines, transport and infrastructure, although certainly done in China's own interest, also contributes to economic development there and to interdependence, both of which are always good bases for more stability.

As already mentioned, multilateralism *à la carte* is only a second-best solution, with the danger of clashing regulatory policies. Take investment: the more China wishes to invest abroad, including to make the best of its huge dollar reserves in turbulent times, the more it is likely to develop an interest in agreeing on international standards, rules or codes of conduct. Adding to a growing international "spaghetti bowl" in this area, China has been a committed signatory of bilateral investment treaties. Since the 1980s, about 120 have been signed, mostly with serious reservations. In this way, of course, there is a risk that developing countries will see their regulatory autonomy further reduced, and some question whether China is acting in accordance with its rhetoric on mutual beneficial South-South cooperation (Berger 2008: 18-22). On the other hand, in this respect, the industrialised countries are not above reproach: EU member states jealously try to defend their individual investment protection agreements against an EU-wide harmonised approach. Furthermore, industrialised countries also keep their economies closed to Chinese or Latin American investment, under the all-too-easy profession of "vital national interests" or even "economic patriotism".

3.4 Education and Innovation

Higher education is both a public responsibility and a public asset. Investment in the economy creates jobs, incomes, progress and added value.

Investment in the higher education of the best brains in our societies and in international scientific and educational exchange also helps to achieve this. But such investment has additional long-term value: it fosters understanding, friendship and solidarity among equals. It makes a critical contribution to genuine and solid partnerships.

International comparative analyses since the 1970s show that one of the major factors explaining why some countries in East and South East Asia, in contrast to the fairly slow progress in Latin America, have been able to leap-frog others in development terms was their massive investment in human capital, combined with focussed industrial policies (Karlsson et al. 1994). China is already one of the major spenders on R&D and has—like Brazil—reached very high levels in terms of contributions to science publications. In China each year there are half a million new postgraduates in science, medicine and engineering; in Latin America, on the other hand, the preferred career is still that of lawyer or notary (Schmitz and Messner 2008: 28). Only Brazil, Chile and Cuba allocate more than 0.5 per cent of GDP to science and technology (European Parliament 2008: 27), compared to the average of 2.4 per cent in the OECD and 2 per cent in the EU and China, which aspires to 2.5 per cent in 2020. Meanwhile, studies show that often such efforts are still accompanied by unequal access to education—a situation familiar in most societies (Grevi 2009: 19). Beijing recently emphasised social investment as essential to China's economic stability and growth, with health and education at the top of the list.

Various LAC countries havemade considerable efforts to improve access to education, and promoting education, R&D and exchanges of students and professors are a priority among the commitments made at the EU-LAC summits. As the first EU-LAC summit in 1999 in Rio stressed, "there is no better investment than developing human resources, which is both a commitment to social justice and a requirement for long-term economic growth" (EU Council 1999). The EU and LAC plan to establish a Common Space for higher education by 2015.

In their Joint Action Plan (JAP), Brazil and the EU are committed to the building of a people-centred, non-discriminatory and development-oriented information society, envisaged by the World Summit on the Information Society (WSIS), as well as the establishment of multilateral, transparent and democratic multi-stakeholder mechanisms for the governance of the global internet. All countries recognise the importance of and could benefit from cooperation with regard to information and communication technologies (ICTs), which are essential for fostering innovation, competitiveness and economic growth, creating jobs and increasing the efficiency of the public sector. Moreover, ICTs have a fundamental role in promoting digital inclusion and improving social cohesion, increasing the quality of life and reducing poverty. It is essential for all countries to work in close coordination in all relevant international forums in order to facilitate the full implementation of WSIS outcomes. It would also be worth launching public tenders for the joint selection and funding of R&D projects, as suggested in the EU-Brazil JAP.

Besides purely language-driven cooperation programmes, the EU can develop trilateral future actions within the framework of its well-established and large-scale academic exchange and R&D framework programmes. The "Euraxess" link, meant to provide a networking tool for European researchers living abroad, has recently been extended to China (after USA and Japan) and can help to foster more than bilateral contacts and cooperation.

3.5 Cooperation Based on a Broader Concept of Security

Security clearly concerns more than military and border issues. Like the EU and Latin America, China has adopted an enlarged concept of security, involving threats such as drugs and transnational organised crime, terrorism and pandemics. It should be possible to cooperate on these new threats and challenges, even if it is difficult with regard to classic military issues.

A promising trend in Latin America is its willingness and capacity to address its own security issues, without referring necessarily to the Organization of American States (OAS). This new approach has already shown good results in crisis prevention and management. The recently created South American Defence Council (CDS) is not a classic operational military alliance along the lines of the North American Treaty Organisation (NATO), but rather a "method" of confidence-building, safeguarding peace and asserting the primacy of civilian over military power in the region, as well as reinforcing cooperation on defence policies. The CDS will not have an operational mandate, but may facilitate joint military training and could send combined units to participate in dealing with regional emergencies.

The EU and LAC have in common that nobody can seriously consider them a military threat. Together with China, however, both share a willingness and capacities for peace-keeping, crisis prevention and post-crisis management. It might also be worth mentioning here that the gender perspective is particularly important for success in this area. We can build on experience as in Haiti before the earthquake, and engage the international community in a broader dialogue on improving resources and practices in UN peacebuilding activities. There is no need to stress that fighting terrorism and its funding is a challenge we all share. We all have an interest in more stability and in preventing the emergence of breeding grounds for terrorism, which also affect Chinese interests. Cooperation in terms of international efforts, strategies and recommendations should therefore be stepped up.

Another aspect of security cooperation is disaster prevention and management. The EU has just adopted a strategy for supporting disaster risk reduction in developing countries, which is to be integrated in its development policies and the promotion of dialogue and concrete action with all interested parties. The drama in Haiti offers not only a long-term opportunity, but represents an obligation for international cooperation beyond ideological considerations and national interests. Reference should also be made in this connection to Global Climate Change Action (GCCA) and the Global Environment Facility (GEF). Cooperation in the run up to and in the agreement on the second Global Platform on Disaster Risk Reduction (DRR) in June 2009 was very important.

4. Trilateral Cooperation in Development and Security—Africa

The EU has an interest in engaging and consulting with both China and Latin America, as well as in promoting development in areas to which they have better access or particular experience and advantages: in some African countries, for example. The growing number of high-level visits has underlined this. The traditional donor-recipient, charity-based approach is outdated. In the EU-Brazil JAP, both will join forces to improve progress towards the Millennium Development Goal (MDG) priorities, and have stressed the role of triangular cooperation. Indeed, the EU, as the world's largest grant donor, and our Latin American partners, as increasingly engaged actors, should combine their efforts with China to bring development skills and prosperity to developing countries. This also means that China and major Latin American countries may have to shoulder an increasing aid bill.

According to UN data reported in EU internal documents, China's engagement in Africa is considerable. It is now the continent's third largest trading partner, with (2006 figures) over 800 Chinese companies investing, some 500 joint ventures, 80,000 Chinese workers, the cancellation of debts worth more than 1 billion US dollars owed by 31 African countries, the abolition of tariffs on numerous goods from the least developed countries, 18,000 scholarships for 50 countries and 16,000 medical personnel treating 240 million patients in 47 countries.

Since 1999, China has successively dispatched over 7,000 peacekeepers, comprising military observers, military engineers and civil police to take part in 21 peacekeeping missions across the world, more than the rest of the UN Security Council's permanent five members combined. Currently, China is the thirteenth-largest contributor of peacekeeping troops. Most of the Chinese peacekeepers were deployed on all seven ongoing UN African missions.

China has gained experience as a peacekeeper and a peacekeeping trainer; it is no longer purely a participant, but also an active organiser, like, for example, Brazil in Haiti. Pursuing national interests is absolutely legitimate. In the past, China's engagement was viewed with suspicion in some quarters; some actions were said to undermine efforts to improve democracy, liberty, human rights, social and environmental standards, transparency or accountability and good governance. Unlike the EU's assistance, Chinese aid is tied to Chinese companies and labour—which seems to copy a Western approach rightly criticised some decades ago. EU assistance is thus more open to trilateral action. Commissioner Louis Michel has explicitly welcomed China's support for Africa. Recipient countries—but also Europe—benefit more if an agenda is laid down which underlines complementarity, comparative advantage and synergy, even if approaches may sometimes compete with each other. No one benefits from adverse competition in this respect. Sometimes, international rules and practices in aid management were established without China being invited or participating. Nobody can be asked to comply with rules if they have not been discussed with them. This must be remedied. Thus, dialogue is the first step. But we need to go beyond statements of good intentions. We first need to assess each other's strategies and approaches *sine ira et studio*. Then we must advance, building experience and trust in trilateral relations. Trilateral cooperation in a region must be a cornerstone of strategic partnership in and on global affairs.

A basis has been laid for this in terms of EU-LAC or bilateral strategic partnerships and joint action plans, or in the EU-China dialogue on Africa's peace, stability and sustainable development. We can start by cooperating in areas that are relatively uncontroversial in terms of values and objectives, such as public sector support, infrastructure or health, notably in Africa. We already have some common bases for more, as Chinese and Brazilian representatives are at times involved in the working out of EU projects in West Africa. We also share initiatives on responsible trade, such as the Forest Law and environmental governance, or the Extractive Industries Transparency Initiative. It is regrettable that African countries have so far shown little interest in triangular cooperation. Of course, it is easier for some leaders not to commit to cooperation which might have political and social ramifications which would not suit them.

5. Concluding Technical and Administrative Comments

For triangular cooperation based on concrete projects, we also need political guidance beyond purely commercial interests. China has recently taken such steps among its ministries, but its state-owned enterprises should follow suit. Corporate social responsibility is gaining ground and should be promoted in these times of crisis.

Donor coordination and simplification of procedures is essential to avoid waste and the overload of beneficiaries' administrations. The Paris Declaration of the OECD-DAC, the Accra Agenda and the "European consensus for development" help. National "ownership" must be respected-but also demanded. The goal is to act in concert, creating locally owned solutions for development, on various levels.

In planning and implementing possible triangular cooperation, we must all be aware that our national and regional decision-making systems involve elements of decentralisation, local political autonomy, liberal elements in the business sector—and sometimes problems of overarching control—both in China and the EU. When talking about the EU, we should mention the European Investment Bank (EIB), with its large capacities, but also specific and independent rules.

Triangular cooperation complicates coordination, and may cause higher transaction costs. Here there may be a problem with the overly complex EU internal decision-making and accountability process, created with the best intentions of transparency but often criticised as slow and inflexible. Whereas Venezuela's President Chavez literally can pull a cheque out of his pocket when accompanying President Morales to meet peasants in Bolivia, the European Commission must submit projects of a certain size for approval by member states and sometimes by the European Parliament, negotiate acceptance by the beneficiary country within its own programme, then launch EU-wide tenders, obtain signatures from various Directorate-Generals and levels within COM and other things besides.

The current crisis illustrates the EU's weaknesses. In trilateral cooperation, therefore, it would be wise to take them into account, but also to try to deal with them, including structural problems which do not affect only emerging powers, such as social cohesion, sustainable development, infrastructure, administrative cultures and the environment. Reducing expenditure on such fields in need of reform can be dangerous in the long term. Trilateral cooperation is an opportunity for learning.

Last but certainly not least, we must also promote people-to-people contacts and cultural exchanges to facilitate triangular initiatives. From my experience in EU-LAC relations I must stress how much we both benefit from the interparliamentary meetings and consultations between our civil societies as valuable forums for better understanding, promoting biregional initiatives, with closer contacts with our constituents, and consolidating our democratic bases. As the report of the Secretary General to the UNGA in 2005 underlined: "States ... cannot do the job alone ... We need an active civil society and a dynamic private sector. It is plain that the goals outlined here will not be achieved without their full engagement."

Finally, as Kissinger recommended, "we all must learn to operate with the attainable and be prepared to pursue ends by the accumulation of nuance". Kissinger also stressed that moral and other objectives must be in harmony with our capacities for action. Unrealistic expectations undermine action. In politics it is not enough to be "right"—in any case, it is often highly coloured ideologically. One also needs the capacity to push through what one considers "right" and to seize the moment, not getting bogged down in details.

Notes

1. For more on the Caribbean, see Erikson (2009) and ECLAC (2008).

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Chapter 15
China, the EU and Latin America: Trilateral Relations and Scope for Multilateralism

Marcel Fortuna Biato

1. A Systemic Crisis: The Case for Trilateral Cooperation

The current global crisis has brought home with unprecedented and painful force that there is a potential downside to globalisation. Amid dramatic signs of recession, lost trade and credit squeeze, the international recession has underscored the importance of coordination and dialogue in dealing with a truly systemic phenomenon. The risk of each country going its own way and trying to deal in isolation with economic hardship, blinkered by narrow self-interest, has been clear for all to see as protectionism raises its head. This explains recent moves, unprecedented in their scale, towards international cooperation in matters of finance, currency and trade, as showcased during the G20 Summits in 2009 and 2010.

But the persistence of major stumbling blocks on the road to recovery, stemming from divergent perceptions of the nature and depth of the crisis, points to the need for even greater and more agile collaboration. The summoning by the President of the General Assembly of a UN Conference on the crisis in June 2009 demonstrated a recognition that a more holistic and integrated outlook is required if the multiple and interconnected challenges facing the planet are to be dealt with successfully.

Multilateralism is no doubt a crucial part of the answer, as the world community strives to overcome scepticism about the usefulness of international institutions at all levels. The cumbersome nature of multilateral decision-making reinforces a healthy sense of urgency about addressing global challenges. While no substitute for global institutions, one is left to ponder whether enhancing mechanisms for dialogue and channels of cooperation between far-flung parts of the world is not part of the answer if globalisation is to retain its promise.

It is within this context that proposals for enhanced trilateral relationsare gaining currency. This notion encourages countries and regions to take the lead in working together across a wide range of common interests that generate mutually reinforcing benefits. Ideally, this would be achieved through institutional arrangements that forge links between countries and regions geographically or historically distant.

In the case of Latin America, the European Union and China this is still an ambitious concept in the making. As of now, there are few concrete examples on offer. Outside the traditional transcontinental imperial regimes of the past, this concept has become conceivable only in the context of globalisation as understood from the late twentieth century onwards. It is only the growing interdependence between the most far-flung corners of the world under the aegis of global flows of capital, technology and knowledge that have made this notion truly meaningful and potentially operational. The best path forward would seem to be to work up through pre-existing two-way relationships so as to identify points of symmetry and convergence that would help connect the three poles.

2. Latin America, the Caribbean and the European Union: Colonial Past and Present-day Alliance

In the case of Latin America and Europe, ties are longstanding and date back to European colonisation of the Americas in the early sixteenth century, having survived the strains imposed by the independence struggles of the early nineteenth century. Over recent decades, as Latin American and European integration have advanced on either side of the Atlantic, a series of biregional dialogue and cooperation mechanisms have evolved.

The most significant and far-reaching of these is the Latin America and Caribbean-European Union Heads of State and Government Summit process, or EU-LAC. Set up in 1999, it meets every two years in accordance with a flexible format that accommodates the various political and economic arrangements within Latin America. These include the Southern Common Market (MERCOSUR), the Rio Group,[1] the Andean Community (CAN), the Caribbean Community (CARICOM) and the Central American Integration System (SICA). From a large number of priorities first established in 1999, the latest Summit, in Lima (2008), decided to narrow the focus to two central overarching themes: first, reducing poverty, inequality and exclusion; and second, sustainable development, which encapsulates the environment, climate change and energy. On the whole, the dialogue has sought to emphasise cooperation projects, exchange programmes, capacity building and dialogue on global agenda issues. Spain and Portugal have traditionally taken a lead in most cooperation projects, be it through the Iberian-American summit mechanism or by playing a particularly active role in the EU-LAC dialogue.

The results have, on the whole, been modest, due to the lack of a clear focus and conflicting priorities. On trade, the difficulties involved in concluding an association agreement between the EU and MERCOSUR or the Andean Community reflect protectionist pressures on both sides. Projects in the field of technical and technological cooperation have been fragmented, with understandably little measurable impact in terms of promoting sustainable development in Latin America. This has been underscored dramatically and painfully in the bitter dispute over migration controls involving Latin American nationals living in Europe. Another bone of contention, especially as regards Brazil, is the issue of EU restrictions on biofuel imports. Given the divergent views on these and other major issues, this general lack of coherence and sense of focus was very much in evidence during the Lima Summit. The picture is aggravated by the EU's growing prioritisation of cooperation with Central and Eastern Europe. This has led Spain and Portugal, given their historically closer links to the region, to bankroll the Ibero-American summit process, which tends to concentrate on cultural and technical cooperation. [2] None of this has detracted from increased European direct investment in the region, probably its most consistent and lasting contribution to Latin American development, although ironically this is also increasingly an irritant in the face of rising economic nationalism in some Latin American countries.

3. Latin America, the Caribbean and China: Growing Pains

In the case of Latin America and China, history does not cast so long a shadow. Only recently have ties gained greater weight, as the result of growing economic and commercial links. Trade has in fact jumped quite dramatically with most countries of the region, accompanied by the establishment of diplomatic relations with almost all countries. In contrast to Latin America-EU relations, there is no comparable institutionalised dialogue mechanism between China and Latin America; however, the Macau Forum, for example, brings together China and Portuguese-speaking countries in three continents. Existing mechanisms are largely bilateral and focused on specific links, which are still largely trade- and investment-driven. As with most countries and groupings, the Rio Group has a regular dialogue mechanism with China, which normally meets at the margins of major forums. While it serves as a useful opportunity for general exchanges on political and cooperation issues, it has not provided a meaningful platform for effective partnering. China and Latin America still speak largely through bilateral voices.

4. Trilateral Cooperation: Work in Progress

Understandably, no mature institutional framework for trilateral exchange has yet been established. An additional difficulty has to do with the enormous heterogeneity within Latin America itself, as suggested by the multiplicity of regional forums speaking on behalf of their disparate member countries. Different countries and sub-regions have achieved varying levels of social, economic and technological progress, making it nearly impossible to mould a uniform and coherent set of biregional strategies and policies focusing on common priorities and objectives. Latin America is at a much earlier stage of integration and common policy development than the EU. The region has not achieved a comparable degree of cohesive and structured internal policy coordination that caters to issues of asymmetry and the balanced growth required to forge a truly integrated market and foreign policy. This is clearly visible, for example, in the slow-paced progress of bringing together the various sub-regional integration dynamics mentioned above.

While an institutional framework for trilateral relations still lies in the future, there is already ample room for cooperation on projects that seek to exploit specific complementarities between multiple overseas partners. Brazil has taken a lead here, having acquired extensive experience in a wide range of fields. This has increasingly taken the form of marrying Brazilian technical expertise and technological know-how with developed-country resources with a view to promoting joint cooperation projects in developing countries. While still a relatively novel experiment, successful partnerships have been tested in the fields of tropical agriculture, government modernisation, institution-building in social policy, alternative fuels and disease eradication. The main partners are in Europe and the USA, the beneficiaries normally in Latin America and Africa.

There are as yet no such significant projects involving China, the EU and Latin America. This should not hold them back, given that both the EU and China are known to be keen on developing joint partnerships overseas, especially in Africa, while Brazil already boasts extensive experience in cooperation projects. Latin America should also afford opportunities given Brazil's even more wide-ranging history of providing technical and institutional help to almost all countries in South and Central America and increasingly in the Caribbean as well. The strong presence of European, Brazilian and more and more Chinese enterprises in both Africa and Latin America should help open avenues for joint work. This is encouraged by the fact that European countries as well as China are, or are considering, joining as associate members the major finance-for-development instruments in Latin America, such as the Inter-American Development Bank (IADB), the Central American Bank for Economic Integration and the Andean Development Corporation (Corporación Andina de Fomento, CAF).

There are some obvious opportunities to employ biregional mechanisms as springboards for three-way collaboration. The EU maintains Strategic Partnerships with all BRIC countries. One useful line for joint action would be to identify thematic coincidences cutting across Strategic Partnerships. This is underscored by the fact that the Strategic Partnership Action Plan recognises Brazil's role—presumably the same applies to China—as a global player and sets out proposals for cooperation and consultation on a series of global agendas, including triangular cooperation benefiting developing countries.

A few areas for joint action come to mind immediately. The first area is science and technology, more particularly in aerospace, Brazil enjoys a flourishing partnership with China, which was enhanced during the visit of President Lula da Silva to Beijing in May 2009. It centres on satellite imagery, especially useful for environmental and weather monitoring in Latin America and China. A similar partnership exists with France.

A second area with enormous potential is biofuels. Brazil's 30-year experience in developing clean and competitively priced ethanol and, more recently, biodiesel offers a truly exceptional opportunity for trilateral cooperation in a critical field that should be developed. Both China and the EU are already in active dialogue with Brazil on biofuels. The International Forum on Ethanol, which fosters collaborative work in certification, technological development and developing production, offers a valuable locus for trilateral projects. Brazil's partnership with the US in this field might provide a valuable model. Signed in 2007, this agreement provides for Brazilian expertise in ethanol production to encourage ethanol production in Latin American and African countries in the expectation of receiving favoured access to the US market by being exempted from the 54-cent tariff currently applied to Brazilian ethanol imports.

5. A Latin American Perspective: Integration

Brazilian experience in trilateral cooperation offers pointers but hardly a road map for the construction of trilateral relations with the EU and China. As previously mentioned, wide discrepancies in technical and technological advance within Latin America—as in other developing continents—considerably restricts the scope for wide-ranging, ambitious initiatives of this nature.

This has helped fuel a broadly held perception of Latin America as largely a recipient of foreign aid and a beneficiary of developed country cooperation, with little to offer in its own right. In other words, it is seen as a passive observer of the ongoing restructuring of trade, financial and technological flows that goes by the name of "globalisation". This is something Brazil wishes to see change as it endeavours to use integration as the basis for the region joining more effectively and intelligently in the world economy. It might therefore deal with the questions: What is the relevance of the EU and China for Latin America? Or, in other words, how should Latin America react to the challenges of globalisation and how does Brazil see its role in this?

From a Latin American perspective, the main challenge is to avoid being sucked into what most Latin Americans would call "neo-colonialism" revisited, whereby the region continues to supply raw materials to developed economies in exchange for value-added products and services. Escaping this trap has always been a central plank of Latin American economic thinking. Underlying this perception is a strongly held sense of a long history of expropriation of the region's natural resources at the hands of powerful local elites operating at the behest of foreign interests. It is therefore understandable that public opinion in some of these countries is easily led to interpret in stark terms attempts by foreign enterprises and governments to ensure long-term access to local raw materials. The election in recent years of left-wing governments throughout the region goes some way towards explaining growing economic, especially energy, nationalism. It expresses the underlying aspiration to ensure that the region's riches generate prosperity back home and for all, not just a favoured few.

This sense of not wanting to be someone's "backyard", either economically or strategically, has taken on new meaning and force as the world comes under the full force of the globalisation revolution. It is understood that the new competitive global market is opening up novel opportunities to develop the region's natural endowments and significant consumer markets in a manner which will foster sustainable growth. Brazil has been at the forefront of efforts to develop the integrated regional economy required if Latin American is to overcome the structural limitations that have historically held the region back. This means using the promise of global markets to invest heavily in infrastructural investments in transport, communications and energy that will mould an economic powerhouse able to compete globally.

6. A Global New Deal?

However, the present crisis has also reinforced a sense of the vulnerability of developing countries with regard to globalisation taking place in accordance with economic and financial rules not of their making and frequently weighted against them. This is not to say that globalisation should be reigned in or, much less, reversed. Quite the contrary, most of Latin America opposes trade protectionism as an answer to the downside of globalisation.

The financial collapse has put in stark terms what climate change had already made clear: global governance in its present format is unsustainable. The inability of old coalitions that, traditionally, decided most issues to provide leadership and credible guidance has been highlighted by the frantic search for a replacement for the G8 or even the UN Security Council. But emerging markets—that contributed little to the present crisis or to global warming—have become central to any solution to these questions, given their growing role in the world economy. At the same time, their citizens are the immediate victims of both crises. This explains the growing clamour for a new global compact that redistributes responsibilities more equitably. Underlying these developments is the realisation that the contemporary world is fundamentally unbalanced: on the one hand, rich countries desire to retain what is clearly an unsustainable living standard, while, on the other hand, emerging and developing nations aspire to higher levels of prosperity. This highly complex and sometimes perverse social, technological and economic inter-connectivity—which we loosely call globalisation—has accelerated with the growth of the emerging economies. Given their incorporation under extremely competitive conditions into the global division of labour, these countries are achieving levels of productivity—and therefore of consumption—that are gradually closing the gap with developed regions. The result is growing pressure on the global supply of food, mineral and energy resources, on the one hand, and the migration of jobs, people and investments from North to South, on the other hand. The downside of this phenomenon is splashed over newspaper headlines: food riots, backlashes against foreign workers and bruising competition for access to increasingly scarce resources, temporarily halted due to the present downturn.

Under such challenging circumstances, leaders and entrepreneurs in emerging and developing regions have begun to ask a number of pointed questions:

(1) Will rich countries accept globally sanctioned solutions that involve

altering the global balance of power?

(2) Will they, for example, support supranational supervision of their financial markets and, in the case of the USA, avoid abusing the status of the dollar as an international reserve currency? Only in this way will it be possible to avoid the massive financial imbalances that made for massive speculative bubbles. This would allow, complementarily, the containment of equally monumental growth in exports from developing countries as part of a strategy to amass currency reserves to protect themselves against unpredictable asset and currency fluctuations.

(3) Will developed countries loosen their stranglehold over the Bretton Woods institutions, while at the same time making available to both the IMF and the World Bank the resources necessary to finance the emergency and long-term requirements of poor regions? Only thus will increasingly complex and risky financial products in mature markets be discouraged in favour of fostering investment in high-return developing markets, where growth is most urgently needed.

(4) Will they agree to cover the retooling costs required for emerging countries to change over to low carbon technologies and thus boost their population's prosperity without damaging the global environment? In other words, are industrialised countries—which launched global warming over two centuries ago—ready to pay the greater part of the bill for renovating the world's environment-unfriendly energy grid?

(5) Finally, are they prepared to do away with protectionist policies largely responsible for making agricultural production in many African countries unprofitable? Otherwise, these regions will remain indefinitely subject to the whims of market prices and donor generosity. Will they remove import tariffs on ethanol grown in developing countries and thus allow clean, renewable and cheap energy sources to come on stream with the added bonus of generating employment in poor developing regions?

The answer to these questions will determine the likelihood of us moving away from a production system that is so wasteful and yet condemns millions the world over to subhuman living conditions. A solution must be found, in sum, to the problem of how to distribute more equitably the inevitable costs of reversing economic and environmental degradation that affects everyone.

7. Innovative Coalitions

At a time when a new sharing of responsibilities and obligations is called for, multilateral institutions have never been more necessary. However, they have never been so deficient and so incapable in offering leadership and guidance. We live amidst new and growing threats, such as global warming, international terrorism, intra-state violence and now financial collapse. But old challenges such as disarmament, widespread hunger and poverty remain unanswered. What is worse, many of these problems are mutually reinforcing. Arms trafficking, for example, drains resources from the fight against hunger in poor countries, while at the same time stoking civil wars that aggravate poverty and deforestation.

What modicum of progress has been achieved on many of these issues is often centred in areas in which specific coalitions of like-minded developing countries have been able to work together around sharply honed agendas with clear-cut goals. An "axis of good" is evolving.

The most notable of these is doubtless the G20 at the World Trade Organization (WTO). Representing 22 per cent of world agricultural production, over 70 per cent of farmers and 60 per cent of the planet's population, its arrival on the scene has ensured, at the very least, that no further WTO trade-distorting agreements will be foisted on farmers in Latin America, Africa and Asia.

Piecemeal review of intellectual property protection clauses has also been achieved, under pressure from developing countries, many with nascent drug industries. As a result of a decision by the WTO in 2001 on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) on Public Health, patent rights and the accruing profits of pharmaceuticals no longer automatically trump public welfare policy and general access to cheap generic drugs, as in the case of anti-retrovirals in AIDS treatments. Furthermore, rich countries agreed to help fund generic drugs programmes in poor countries. Here again is a policy to empower developing countries to help themselves.

Nowhere is the need for a review of the ground rules governing international relations more obvious than in development financing. At present, a battle is being waged for the heart and soul of the Bretton Woods institutions, as developing countries demand access to adequate funding for infrastructural investments required for long-term growth and job creation. The end to hereditary claims on the top post at the IMF, which goes to Europeans, and at the World Bank, which goes to Americans, is a first and necessary step in ensuring that emerging economies have a greater say in decision-making and therefore a greater willingness to contribute human and material resources to help make these institutions work effectively.

A shared commitment to open and sound government is behind the India, Brazil and South Africa Dialogue Forum (IBSA). It encourages cooperation on a wide range of trade, security, science and technology issues between countries with leadership credentials in their regions, which happen to be the three largest democracies in the developing world. IBSA has set up a fund within the United Nations Development Programme to identify and finance good practices in education, health and basic sanitation projects in poor countries in each region.

The BRICs—Brazil, Russia, India and China—constitute a further example of major emerging economies working together to encourage review of the building blocks of the international system as we know it. Their joint communiqué leading up to the G20 Summit in London last April was instrumental in moving ahead the debate on a Bretton Woods II.

South American integration provides a regional platform for global negotiations on many of the issues mentioned above. Furthermore, trade, financing and infrastructure initiatives which are under way to overcome regional social and economic disparities, also offer a useful sounding board for innovative proposals on the global stage.

The political groundwork for much of this has been encouraged by the South America-Arab Countries Summit (Brasilia, 2005; Doha, 2009), and the South America-Africa Summit (Abuja, 2006). These are the first large international meetings in recent memory outside the regular schedule of the United Nations aimed at joining large blocks of developing countries. By setting up transatlantic partnerships, spanning major geographical, cultural and political poles, these initiatives have helped to reinforce a sense of common purpose and forged commitment.

Cooperation programmes range from improvements in manioc cultivation in the island nation of São Tomé and Principe to setting up a pharmaceutical plant for Aids drugs in Mozambique. By taking part in development schemes and technical cooperation projects aimed at capacity building, Brazil seeks to contribute to the New Partnership for Africa's Development (NEPAD). "African ownership", as Africans proudly call it, takes the form of specific commitments on questions of administrative transparency and democratic practices, human rights protection and priority investment in education and health. These undertakings and attendant oversight schemes offer an encouraging framework for attracting much-needed international cooperation and long-term foreign investment.

This process of domestic reform is matched at the regional level by the creation of the African Union (AU) which replaced the long-lived Organization of African Unity. The institutional changes involved reflect a new willingness on the part of much of Africa's leadership to act in concert to outlaw military adventurism in the continent. The AU has provided support, directly or via sub-regional security and cooperation arrangements, to peacekeeping and peace-building missions. Brazil has been actively engaged, in particular through the Community of Portuguese Language Countries (CPLP), in the continent's efforts to meet the requirements of post-conflict reconstruction and reconciliation in Angola, Guinea Bissau, São Tomé and Príncipe, and the Democratic Republic of the Congo, where Brazil took part in the 2003 peacekeeping mission coordinated by the European Union.

Brazil's determination to show that security and development must go hand in hand is best displayed in Haiti. The international community faces the challenge of putting in place an ambitious mix of economic, social and security policies to help the country to gradually edge back from endemic instability. Brazil's decision to accept the challenge of leading the military arm of the UN-mandated stabilising mission to Haiti (MINUSTAH) was motivated by a desire to help develop and apply integrated policies to deal with the multi-pronged challenges besetting countries under the threat of becoming failed states. Therefore, Brazil lobbied strongly for economic and social goals to take centre stage in the peace operations in East Timor and Guinea Bissau.

Possibly the most innovative and potentially far-reaching of these coalitions is the International Action Plan against Hunger and Extreme Poverty, launched by Brazil, Chile and France in 2004. A non-sectarian fusion of the Davos and Porto Alegre agendas,[3] it offers a framework for civil society to engage more directly in raising the resources necessary to achieve the Millennium Development Goals. One of its most meaningful outcomes so far has been the setting up of the International Drug Purchase Facility (UNITAID), bringing together donors from all continents to help finance the fight against Aids and "poor people's diseases", such as malaria and tuberculosis.

8. Trilateral Multilateralism: Brazil's Contribution

These initiatives collectively form what one might call a "coalition of the willing" among countries of the Global South acting as catalysts for reform of global governance. Such ad hoc partnerships can serve as necessary building blocks in gradually building consensus among developing countries for change on apparently intractable issues having to do with sustainable growth and poverty eradication. This is not to say that there is no room for cooperation with advanced economies. Quite the contrary, the present global crisis has underscored that long-lasting solutions to the challenge of growing interdependence are possible only within a multilateral framework. But all too often, the constraints of large numbers and overwhelming short-term priorities can derail good faith attempts at reconciling positions. By proposing negotiated change to unsustainable and out-dated models and structures, these coalitions can reach over the North-South divide and help muster the required consensus for achieving multilateral breakthroughs.

Trilateral dialogue and cooperation projects can play a meaningful role in generating practical results, as well as helping to build up good will. On many of the issues mentioned above, which touch on critical challenges facing the international community, there is ample room for joint action, given that both China and the European Union are keen actors in all of these theatres. But an effective trilateral forum requires a measurable degree of political convergence. This exists between Latin America and the EU on cultural and human rights issues, for example, but is limited on trade, as shown by difficulties in negotiating biregional trade agreements. On the other hand, there is significant agreement between Latin America and China on trade and environmental matters, but not necessarily on others.

Rather than aiming for absolutely coincident positions, efforts should go into opening up room for gradual convergence. Some forums, while not strictly trilateral, may help in generating the institutional backdrop for common action and closer ties. This is the case with regard to the Forum for East Asian and Latin American Cooperation (FEALAC). Similarly, the Rio Group boasts an institutionalised dialogue with both China and the EU, providing a useful staging ground for three-way exchanges. Equally, IBSA, bringing together India, Brazil and South Africa, is an example of how to foster trilateral activities, given the sponsorship of poverty alleviation measures in countries in Africa, Latin America and South East Asia.

All offer opportunities for spillover into bilateral agendas, which are especially important for many Latin American countries with limited scope for active initiatives far beyond their immediate neighbourhood.

On the environment, for example, there are obvious opportunities for developing such partnerships. In biofuels, Brazil wishes to see its model of sugarcane-based ethanol used to promote sustainable agriculture in developing countries and to help us move to a global low-carbon economy. Given that China, on the one hand, wishes to reduce its oil dependency, while the European Commission recently set a unilateral goal of reducing greenhouse gas emissions by 20 per cent by 2020, there is ample room for joint work on clean, cheap and sustainable alternative fuels. On the other hand, Brazil's model for deforestation control has been internationally acclaimed, as indicated by Norway's USD 1 billion pledge over a ten-year period to the Amazon Fund, set up by the Brazilian government to provide incentives for sustainable management of tropical forests. Hopefully this could help break the logjam in the Copenhagen Conference, as Brazil shows one way for developing countries to engage constructively in preserving the environment, given the right financial and institutional backing. Brazil's already-mentioned aerospace cooperation on satellite monitoring with both France and China could be a powerful complement to these efforts.

On the Monterrey agenda, it is to be hoped that the joint position adopted by the BRICs on reform of the Bretton Woods institutions will help to overcome European resistance to speedier change. On the other hand, Latin American, EU and Chinese support during the London G20 Summit for more stringent international oversight of financial institutions should equally help bring the USA on board on this contentious issue.

On trade issues, Latin American, Chinese and EU support for the proposal on the table to conclude the Doha Round can be instrumental in bringing round the USA and India, which were directly responsible for the failure to clinch a deal in 2008.

Ultimately, only by finding common ground for mutually sustainable development it will be possible to rebalance global growth in a manner that is truly sustainable, to avoid asset bubbles and to allow all to benefit from the prosperity that globalisation can multiply. As globalisation and interdependence steadily and inexorably advance, the challenge of finding creative and innovative opportunities for dialogue and partnerships that bridge geography, culture and history has become an imperative of the highest order joining Latin America, China and the European Union.

Notes

1. The Rio Group was born in 1986 as a forum for Latin American and Caribbean dialogue on major regional questions affecting regional security and development.
2. The Iberian process could claim until quite recently to be the only Latin American and Caribbean forum in which Cuba had a seat. This changed in December 2008, when Cuba joined the Rio Group.
3. The World Social Forum, known as the Porto Alegre Forum, was set up as a counterpoint to the World Economic Forum, held yearly at Davos. Commonly associated with the anti-globalisation movement, the Porto Alegre Forum brings together NGOs and other civil society actors to discuss issues related to global governance.

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