

# Leaving the Backyard: Latin America's European Option

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*»If the EU can construct a true partnership with the Latin American countries, it will establish solid credentials for its role as a global civilian power. This has strategic importance for Latin America, too, for it also seeks a multilateral order built on principles of diplomacy, economic cooperation, and nonintervention.«<sup>1</sup>*

**T**he purpose of this article is to examine the trilateral relationship between Latin America, the European Union (EU), and the United States in light of the US attempt to establish itself unchallenged as the dominant state in the international system. Can the European Union and Latin America establish a strategic partnership as an effective counterweight to the expanding power of the United States? The conventional wisdom is that a strategic partnership between the EU and Latin America is unlikely because the EU is still reluctant to intrude in the United States' traditional sphere of influence and Europe's richest countries will tend to focus on their new partners in Eastern Europe rather than on Latin America.<sup>2</sup> However, after the Iraq war the European Union and Latin America have strong incentives to establish a strategic partnership to balance the tendency toward a US-centered unipolar world. A bi-regional association with the European Union would allow the Latin American states to assert their independence from the »colossus of the North« while gaining access to a key external market. For the EU, it would provide privileged access to Latin American markets, while reinforcing its self-image as a development-oriented, rather than security-fixated »civilian power«.

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1. Christian Freres, »The European Union as a Global »Civilian Power«: Development Cooperation in EU-Latin American Relations«, *Journal of Interamerican Studies and World Affairs* 42 (2) (summer 2000), pp. 78–79.
  2. See, for example, Andres Oppenheimer, »EU's Expansion May Hurt Latin America«, *The Monitor* (McAllen), February 3, 2004.

## Between Neglect and Interventionism: The History of US Policy toward Latin America

US policy toward Latin America has consistently pursued two objectives: (i) to exclude extracontinental rivals or hostile powers from the Western Hemisphere (the Monroe Doctrine) and (ii) to secure and maintain a dominant politico-economic presence in the region. The United States established its supremacy in the Western Hemisphere after the Spanish-American war of 1898 which resulted in Cuba's formal independence (and »de facto« status as a US protectorate) and converted the Caribbean into an »American lake«, effectively excluding European powers.<sup>3</sup>

During the Cold War, US-Latin American relations were characterized by the »hegemonic presumption«: the idea that the United States has a »natural right« to achieve and exercise hegemony in the Americas,<sup>4</sup> and »benign neglect« on the part of the United States which paid attention to the region only in times of crisis or when it perceived its security interests to be threatened, such as during the October 1962 Cuban missile crisis. The rest of the time, the United States ignored the region. After the establishment of Fidel Castro's revolutionary government in Cuba (January 1959) the Kennedy and the Johnson administrations declared that they would not tolerate a »second Cuba« in Latin America. From the late 1960s to the mid-1980s »some Latin American states attempted to break away from the US sphere of influence by cultivating political and economic ties with other developed powers [especially in Western Europe], and even with other developing nations«. <sup>5</sup> This strategy, known as »diversification of dependency«, was not very successful, and in the 1980s the United States took advantage of the Latin American debt crisis to reassert its hegemony in the region. The end of the Cold War in 1989–90 *strengthened* the US position in Latin America, leaving Washington »in

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3. See Lars Schoultz, *Beneath the United States: A History of US Policy toward Latin America* (Cambridge, MA: Harvard University Press, 1998), pp. 125–51.

4. See Abraham Lowenthal, »Ending the Hegemonic Presumption: The United States and Latin America«, *Foreign Affairs* 55 (autumn 1976), pp. 199–213.

5. Heraldo Muñoz, »Good-bye USA?«, in: Joseph S. Tulchin and Ralph H. Espach (eds.), *Latin America in the New International System* (Boulder, CO: Lynne Rienner, 2001), p. 76.

sole possession of the stage«. <sup>6</sup> During the Cold War, the United States could not do whatever it wanted in Latin America because the »rule of worldwide symmetries and action-counteraction was in play«. <sup>7</sup> After the Cold War, without the Soviet counterweight, the United States has a free hand to intervene in Latin America, restrained only by the diplomatic cost it may have to pay in international institutions such as the United Nations.

Robert Pastor has described US policy toward Latin America as a contradictory cycle of neglect (»Washington does not want to dominate«) and interventionism (»but it cannot remain passive either to instability or to radical trends«). <sup>8</sup> According to Pastor, the Latin American countries function »as a kind of whirlpool that periodically draws Washington into its center« until the particular crisis perceived as affecting US »vital« security interests is over and the United States resumes its neglect of the region. <sup>9</sup> In the second edition of his book Pastor argues that, with the end of the Cold War, »a permanent exit from the whirlpool is now possible. An entirely new relationship – a modern and respectful one – is now within reach.« <sup>10</sup> However, the Bush administration's troubled relationship with Latin America since the September 11 terrorist attacks and its policy of letting Argentina fend for itself during its economic collapse in 2001–2002 shows that the description of US policy toward the region as cyclical remains valid, even if the definition of the external threat (communism during the Cold War; terrorism after 9/11) has changed.

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6. Laurence Whitehead, »The European Union and the Americas«, in Victor Bulmer-Thomas and James Dunkerley (eds.), *The United States and Latin America: The New Agenda* (London: Institute of Latin American Studies, 1999), p. 54.

7. Jorge Castaneda, »Latin America and the End of the Cold War«, *World Policy Journal* 7 (3) (summer 1990), p. 474.

8. Robert Pastor, *Whirlpool: US Foreign Policy toward Latin America and the Caribbean* (Princeton, NJ: Princeton University Press, 1992), p. 36.

9. *Ibid.*, p. 18.

10. Robert Pastor, *Exiting the Whirlpool: US Foreign Policy toward Latin America and the Caribbean* (Boulder, CO: Westview Press, 2001), p. ix.

## US-Latin American Convergence: A Free Trade Area of the Americas in 2005?

During the Cold War the Latin American countries were extremely suspicious of free trade, feeling that »free competition between large, technologically advanced companies from industrialized countries and young, weak industries in Latin America would simply permit the former to devour the latter«. <sup>11</sup> In that sense, the First Summit of the Americas in Miami in 1994 and the Free Trade Area of the Americas (FTAA) negotiations are a significant turning point in the history of US-Latin American relations: an emerging consensus between Washington and Latin America »on what constitutes an agenda of shared [economic] interests and on how to address it«. <sup>12</sup> This agenda became attractive for the Latin American countries for a number of reasons. First, the United States was promising to leave behind the era of benign neglect and to take Latin America seriously. Second, a confident USA, focusing on globalization and economic issues rather than on the old Cold War security agenda, was preferable »to living with a paranoid and defensive hegemon«. <sup>13</sup> Third, after the »lost decade« of the 1980s the Latin American countries were forced by the United States and the International Monetary Fund (IMF) to accept neo-liberal economic adjustment policies that were presented as the only game in town. Despite its relative decline as a global economic power, in the 1980s the United States successfully promoted the »free market« doctrine in the Western Hemisphere. Fourth, the Latin American countries were afraid of being relegated to the margins of world financial and trade flows, while the US government and US private investors diverted private credit lines and investment flows to the new capitalist economies of Eastern Europe and the former Soviet Union.

The regionalist turn of US foreign economic policy in the 1990s was a response to the possible emergence of protective trading blocs in Europe and East Asia and the uncertainties created by the delayed Uruguay Round of global trade negotiations. At the Miami summit in 1994, the

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11. John Odell, »Growing Trade and Growing Conflict between Latin America and the United States«, in Kenneth Middlebrook and Carlos Rico (eds.), *The United States and Latin America in the 1980s: Contending Perspectives on a Decade of Crisis* (Pittsburgh: University of Pittsburgh Press, 1986), p. 261.

12. Munoz, »Good-bye USA?«, p. 75.

13. Whitehead, »The European Union and the Americas«, p. 54.

heads of state of the 34 democratic countries of the Western Hemisphere committed themselves to pursuing negotiations to create a Free Trade Area of the Americas by 2005. Formal talks were launched at the Second Summit of the Americas in Santiago, Chile (April 1998). At the Third Summit of the Americas, held in Quebec City in April 2001, the heads of state of the 34 participating countries reaffirmed their commitment to the FTAA.

There are three major impediments to successful completion of the FTAA in 2005. First, the FTAA needs to accommodate the demands and aspirations of 34 countries which differ enormously in terms of size and economic development. »The US economy, for example, is 10 times larger than that of Brazil, the second biggest economy in the hemisphere, and almost 100 times larger than the *combined* total of all of the countries of Central America and the Caribbean.«<sup>14</sup> In the absence of compensatory mechanisms, the strict application of an FTAA based on neo-liberal principles would severely damage the smaller economies of the Western Hemisphere, especially those of Central America and the Caribbean.<sup>15</sup>

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Even if the United States and Brazil can settle their differences, the FTAA will still have to solve its democratic deficit. Otherwise, an FTAA lacking legitimacy among the peoples of the Western Hemisphere will be perceived as a brainchild of big business and an instrument of US domination.

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The second obstacle to successful conclusion of the FTAA is the lack of domestic support for such an agreement in most participating countries. With the exception of some business organizations connected to the circuits of international capital, non-governmental organizations (NGOs) have not been given a hearing in the nine FTAA negotiating groups and public opposition to the FTAA has been ignored. Even if the United States and Brazil can settle their differences, the FTAA will still have to solve its democratic deficit. Otherwise, an FTAA lacking legitimacy among the peo-

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14. Jeffrey Schott, *Prospects for Free Trade in the Americas* (Washington, DC: Institute of International Economics, 2001), p. 2.

15. For example, the Bahamas, Dominica, and St Vincent rely on import duties for more than 40 percent of their current tax revenues.

ples of the Western Hemisphere will be perceived as a brainchild of big business and an instrument of US domination.

A third problem is that Mercosur (Mercado Común del Sur, Southern Common Market) and NAFTA (North American Free Trade Agreement) each represent quite different models of regional integration. It may be very difficult to make them compatible in a single FTAA unless Mercosur makes significant concessions on the »deep integration« agenda proposed by the United States. Yet an FTAA would be meaningless without Brazil and Argentina, which comprise 36 percent of the economy of Latin America and the Caribbean.

For Latin America, the FTAA brings the promise of unfettered access to the attractive US market and the prospect of drawing increasing investment from US corporations. However, Latin American tariff barriers are on average four times higher than US tariff barriers to Latin American products. An FTAA will give the United States much greater preferential market access to Latin America than the other way round. For Latin America, especially for the Mercosur countries, an FTAA makes sense only if the United States agrees to eliminate its non-tariff barriers, such as agricultural subsidies. However, in May 2002 the US Congress passed a new farm bill that will provide US farmers with \$15–20 billion per year in subsidies. Moreover, the United States is not ready to renounce the imposition of anti-dumping duties, which have hit Brazil particularly hard. Drastically reducing agricultural subsidies and anti-dumping duties is politically very difficult for the Bush administration, especially during President Bush's re-election campaign in 2004.

Mercosur has strong incentives to keep all its options open regarding external trade negotiations. The grouping has closer trade relations with the European Union than with the United States.<sup>16</sup> Yet Brazil has strong incentives to complete the FTAA in order to break down US trade barriers to Brazilian exports of manufactures (footwear, textiles, and clothing) and to eliminate the discrimination faced by Brazilian exporters in the US market due to NAFTA. US negotiators are under enormous domestic pressure not to make concessions in these areas. Unfortunately, »the sectors

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16. »Approximately 27 percent of Mercosur's trade is with the EU, compared with 17 percent with the United States. Similarly, Mercosur is the recipient of approximately 70 percent of the European Union's investments in Latin America.« Armando Di Filippo, »Mercosur: Evaluation and Perspectives«, *Capitulos del SELA*, at [www.lanic.utexas.edu/project/sela/eng\\_capitulos/rcapin493.htm](http://www.lanic.utexas.edu/project/sela/eng_capitulos/rcapin493.htm).

where Brazil is most competitive are the ones that are most protected in the United States«. <sup>17</sup> The Brazilian strategy has been to slow down the FTAA negotiations as much as possible, to gain time to be able to compete with US companies. On the one hand, Brazil would dramatically increase its exports of footwear to the United States if the FTAA eliminated the 10.2 percent tariff on US imports of Brazilian shoes. On the other hand, some Brazilian industries (such as financial services, electronics, and capital goods) would not survive if the FTAA came into existence. All these difficulties make the »European connection« attractive for Brazil and Mercosur, considering that they could significantly increase their exports to the European Union if there was an EU-Mercosur trade pact (EU imports from Mercosur have grown much less rapidly than EU exports to Mercosur). An EU-Mercosur free trade agreement prior to the conclusion of the FTAA negotiations could mark the FTAA's »death knell«. However, the negotiations between the two customs unions have gone slowly, due to the resistance of the EU to making concessions on agricultural subsidies.

Controversial issues, such as anti-dumping duties and agricultural subsidies, may be settled, if at all, only in the global round of trade negotiations. The EU needs Latin American support to balance the United States in the Doha Round, even though Mercosur and the United States have a common interest in downsizing or eliminating the European Union's Common Agricultural Policy (CAP). In exchange for some concessions on agriculture in the bi-regional talks, the European Union may side with Mercosur on the issues that matter for Latin America in the Doha Round: US agricultural subsidies, but also the incidence of US anti-dumping actions against Latin American exports, other US non-tariff barriers that prevent Latin American products from entering the US market, and a formal commitment on the part of the United States not to impose retaliatory tariffs under »Super 301«. None of these issues was settled at the 5th World Trade Organization (WTO) Ministerial Conference which took place in Cancun, Mexico, September 10–14, 2003.

Two months after the Cancun debacle, at the eighth FTAA ministerial meeting in Miami, 34 trade representatives failed to agree on a common agenda for the final round of FTAA talks, partly because the United States and Brazil were unable to close the gap between their negotiating posi-

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17. Marcos Jank, professor of economics at the University of Sao Paulo, quoted in Edmund Andrews, »As US Seeks a Trade Accord, Brazilians Recall Discord«, *New York Times* (30 October 2002), p. A3.

tions. The compromise solution was an agreement to negotiate a »multi-speed« FTAA with room for bilateral and plurilateral agreements between member states, abandoning the ambitious project of achieving a wide-ranging FTAA by January 2005. The United States adamantly refused to negotiate on the touchy issues of US agricultural subsidies and anti-dumping duties in the FTAA, claiming they must be negotiated in the (stalled) Doha Round of global trade talks. On the other hand, Brazil refused to include »deep integration« issues, such as rules on foreign investment and trade in services, in an FTAA treaty.

Despite domestic opposition to the FTAA on the part of the American trade unions (AFL-CIO) and some domestic industries, the Bush administration still has good reason to accommodate Brazil, »the only reason US multinationals wanted the FTAA in the first place«. <sup>18</sup> On the other hand, the Mercosur partners still have defensive reasons for accepting a compromise solution during the final stage of the FTAA talks to avoid exclusion from a continent-wide web of free trade areas with the United States at the center. The EU may be Mercosur's leading trading partner, but about half of Mercosur trade is with partners in the Western Hemisphere. The US response to Brazil's »tough« negotiating position has been to revive the »hub-and-spokes« model for NAFTA extension, starting negotiations for bilateral free trade agreements with individual countries, to put pressure on Mercosur to make concessions. <sup>19</sup>

This strategy may backfire if the new administrations in Buenos Aires and Brasilia manage to revive Mercosur, turning the bloc into a full-fledged common market by 2006, and the FTAA negotiations collapse or drag on beyond the 2005 deadline. In this scenario, Brazil and Argentina would prefer to strengthen Mercosur while signing free trade agreements with the European Union and other trading blocs rather than joining a NAFTA-style FTAA.

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18. William Greider and Kenneth Rapoza, »Lula Raises the Stakes«, *The Nation* 277 (18) (December 1, 2003), p. 12, quoting »one well-placed Washington trade lawyer«.

19. On June 6, 2003 the United States signed a Free Trade Agreement with Chile; the negotiations for the U.S.-Central America Free Trade Agreement (CAFTA) were concluded in December 2003. The United States is also negotiating FTAs with Colombia, Bolivia, Ecuador, Panama, and the Dominican Republic.



## **Can Europe be a Counterweight to US Hegemony in Latin America?**

After September 11, 2001, US unilateralist tendencies, as shown in the diplomatic process leading to the Iraq war in 2003, have forced both the European Union and some Latin American countries – such as Argentina, Brazil, and Venezuela – to reconsider the centrality of the United States in their foreign policy priorities, increasing the diplomatic space for a bi-regional association between the European Union and Mercosur.

Can the European Union and Latin America become strategic partners, despite the US tendency to exercise hegemony in its traditional sphere of influence? To answer this question, one must look at the history of European-Latin American relations.

Latin America shares with Europe the main elements of Western culture. However, during the Cold War the member states of the European Community (EC) did not give high priority to Latin America in their foreign policies. Western Europe was a firm ally of the United States in the NATO alliance against communism and did not attempt to extend its strategic reach to Latin America, acknowledging US military and economic influence in the region.

In the late 1950s the Western European countries, recovered from the war, reestablished some trade links with Latin America. However, EC foreign economic aid was mainly directed to the former French, Belgian, and British colonies in Africa, the Caribbean, and the Pacific. Exports from those former colonies were granted preferential treatment through the Lomé conventions, placing exports from the rest of Latin America at a competitive disadvantage.

Latin America's »European connection« began in the 1960s when the Latin American middle powers (Brazil, Mexico, Argentina, Venezuela) began to develop more assertive, independent foreign policies. The US-sponsored »Alliance for Progress« practically ended in the late 1960s and the European Community surpassed the United States as a donor of official development assistance (ODA) to Latin America. However, Cold War realities put significant constraints on the ability of the European Community to »return« fully to the Western Hemisphere. Security issues dominated Latin American relations with Northern countries.

Economic links between Europe and Latin America remained relatively stagnant between the period before the Second World War through the 1970s, and were even less important in the 1980s. By 1995, Europe

bought 23 percent of Latin America's exports and provided about the same percentage of its imports,<sup>20</sup> but Latin America accounted for less than 2 percent of Europe's exports and only 2 percent of its imports. Western European economic interest in Latin America was concentrated in the Southern Cone, especially Germany's investment and trade links with Brazil and Argentina.

The turning point in European-Latin American relations was the Central American crisis in the mid-1980s, when the EC played an active role, together with the Rio Group, in the resolution of the civil wars in the region. The »San Jose Process« actively involved the EC in a mediating role in Central America. Without endangering its alliance with the United States, the EC established a diplomatic presence in a region from which it had been noticeably absent.

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In the post-September 11 world, Latin America and the European Union share a common interest in promoting a multilateral order based on international organizations and international law.

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With the end of the Cold War in 1989–90, the European Union became systematically engaged with Latin America. The purpose of the »new partnership« with Latin America approved by the European Council in October 1994 and embodied in the December 1995 EU-Mercosur framework cooperation agreement is »to pave the way for an Interregional Association in the medium term«. This process culminated in the EU-Mercosur summit in Rio de Janeiro, Brazil, on June 21, 1999, which energized the political dialogue between the two customs unions and launched formal negotiations for a bi-regional free trade agreement. Ac-

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20. In contrast, by 1995 the United States bought 41 percent of Latin America's exports and almost 45 percent of Latin America's imports. See Riordan Roett, »The Trilateral Relationship: Latin America, Europe, and the United States«, in Susan Kaufman Purcell and Francois Simon (eds.), *Europe and Latin America in the World Economy* (Boulder, CO: Lynne Rienner, 1995), p. 186. These figures exaggerate the importance of Latin America as a trading partner of the United States, because most U.S. trade with Latin America is with Mexico. »Since 1990, i.e., several years before NAFTA, the US has sold more to Mexico than to all the rest of South and Central America combined.« Bernard Gordon, *America's Trade Follies: Turning Economic Leadership into Strategic Weakness* (London: Routledge, 2001), p. 77.

According to the Rio Declaration, the purpose of the Summit was »to strengthen the links of political, economic, and cultural understanding between the two regions in order to develop a strategic partnership«. EU-Latin American relations are to some extent defined by EU-Mercosur relations, due to the importance of the Southern Cone for the Western European private sector and the similarities and cultural affinities between Mercosur and the EU.

The conventional wisdom in the literature is that Latin America has historically sought only a complementary, pragmatic relationship with Europe which could serve as a »counterweight«, rather than as an alternative, to the »special relationship« with the United States. »Latin America still views Europe as an option available to increase its bargaining power versus the United States, rather than an alternative to US influence.«<sup>21</sup> However, in the post-September 11 world, Latin America and the European Union share a common interest in the promotion of a multilateral order based on international organizations and international law. This is in sharp contrast with the Bush administration's unilateralism and tendency to resort to force to settle international disputes.

Whether a commonality of values is enough to move EU-Latin American relations from cooperation to alliance is an open question, considering that the Latin American countries still have incentives to maintain a »special relationship« with the United States. Moreover, »it will be increasingly hard for the EU and its member states to say they are seriously working for a bi-regional partnership when they are cutting aid funds for Latin America«.<sup>22</sup> There is the potential for a close economic partnership between the EU and Latin America which in the era of globalization would have important geo-strategic implications.<sup>23</sup> However, the European Union's inability to deliver on the issues that matter for Latin America, such as market access for Latin American agricultural products, may make the US option (the FTAA) more attractive.

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21. Wolf Grabendorff, »The United States and Western Europe: Competition or Cooperation in Latin America?«, in Grabendorff and Roett (eds.), *Latin America, Western Europe, and the US*, p. 263.

22. Freres, »The European Union as a Global »Civilian Power««, p. 79.

23. »Between 1990 and 1995, European exports to Latin America soared by 95 percent, a rate that was much higher than the growth of total EU exports (28 percent)«. Institute for European-Latin American Relations (IRELA), »A Challenge to the Atlantic Triangle? Context and Agenda of an EU-Latin American Summit«, *IRELA Briefing* (May 12, 1997), p. 8.

## The »European approach« versus the »US approach«

In order to become a global civilian power sharing world responsibility with the United States, the EU needs to project the values that form its self-image: »resistance to unilateralism on the international scene, a preference for arbitration and consensus building over punitive action, and the encouragement of integration among countries«. <sup>24</sup> This is very important in the wake of the Iraq war. Frustrated by US unilateralism, the European Union may be willing to make concessions to Mercosur to be able to complete an EU-Mercosur free trade agreement *before* the deadline for closing the FTAA negotiations in 2005. To go beyond the rhetoric of a »strategic partnership« with Latin America the EU needs to show that Europe can really make a difference in the region, offering innovative answers to the problems of poverty and exclusion created by the unfettered implementation of the »Washington Consensus« in the 1990s.

The big difference between the »US approach« and the »European approach« to the region is that the former has an important military component, whereas, despite its shortcomings, the »EU approach« is development-oriented. The importance of the US military presence in Latin America is highlighted by the existence of a »Southern Command« and troop deployments in an advisory and training role in the Andean countries to fight drug trafficking. This presence became more visible after the approval by the US Congress of »Plan Colombia«, in 2000. The United States has never used military force directly to preserve hegemony in South America, although the CIA played a prominent role in the removal from power of the Allende government in Chile (1973). As a consequence of September 11, 2001, the US military presence in the region may become more pronounced, as part of the »war on terror«. The »US approach« also has an economic component which can be summarized in the »trade not aid« formula that inspired President Bush Senior's »Enterprise for the Americas Initiative« (EAI) in 1990. Despite the initial rhetoric surrounding the EAI, it soon became clear that Western Hemisphere economic regionalism would not include large-scale flows of US economic aid to Latin America nor significant debt reduction. In the early 2000s there has been a popular backlash in several Latin American countries (Argentina,

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24. Andrew Crawley, »Toward a Biregional Agenda for the Twenty-First Century«, *Journal of Interamerican Studies and World Affairs* 42 (2) (summer 2000), p. 12.

Peru, Ecuador, Bolivia) against globalization and free trade. Many Latin Americans denounce the »U.S. approach« for having failed to deliver the benefits of market reforms and free trade to the majority of Latin Americans who live in absolute poverty.

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Both the United States and the European Union have a common interest in regional stability and democratic consolidation in Latin America, but for different reasons. The European Union wants to project its values as a »civilian power« and has a non-coercive approach to the region. The United States, despite the revival of the »Western Hemisphere Idea« after the 1994 Miami summit, is not actively interested in the region. After the September 11 terrorist attacks, the United States has become more security-fixated than it was after the Quebec summit, when President Bush proclaimed achieving an FTAA in 2005 as an absolute US priority. Whether the European Union will have the political courage to take advantage of the difference between the »US approach« and the »EU approach« is an open question.

The »great irony« of the new international situation created by the end of the Cold War is that although the United States and Latin American elites »now share common views on a number of key issues [such as promotion of democracy and the fight against corruption and drug trafficking] actual relations have become more distant«,<sup>25</sup> opening up the possibility of a more active role in the region for the European Union. The suspension of US military aid to fourteen Latin American countries and the fact that most countries in the region did not send troops to Iraq confirms a certain »distancing« between the United States and Latin America. The Bush administration's return to benign neglect toward the region after the September 11 terrorist attacks has drawn Europe and Latin America closer. Both regions have strongly rejected US unilateral-

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25. Munoz, »Good-bye USA?«, p. 75.

ism, calling for respect for international law in a number of areas, from nuclear non-proliferation to protection of the environment. Both Latin America and Europe strongly support the Kyoto Treaty on environmental protection, whereas the Bush administration has refused to ratify it. On the other hand, by the turn of the century the »Washington Consensus« (that was behind the FTAA concept) had become discredited in Latin America. As the Clinton administration failed to obtain »fast-track authority« from the US Congress, the Latin American countries, especially Brazil, stepped back somewhat from the FTAA talks and expanded their trade relations in several directions, including Europe. Latin America (especially Mercosur) now has greater bargaining power than when the United States dominated Latin America's external trade flows unchallenged.

### **Trilateral Scenarios after September 11 and the Iraq War**

Several analysts believe that Latin America will not succeed in breaking its dependence on US trade and investment flows by diversifying its external links with extra-hemispheric powers such as the EU, and that the United States will remain the hegemonic power in the region. The reason for this is »asymmetrical significance«. <sup>26</sup> Latin America is less important to the European Union than vice versa. This pessimistic conclusion ignores the changes in the trilateral relationship (US-Latin America-Western Europe) that have occurred since the end of the Cold War and the fierce competition between the United States and the European Union for privileged access to the Southern Cone markets.

In the wake of the terrorist attacks of September 11, 2001, and the Iraq war (March–April 2003) at least three scenarios for the trilateral relationship have emerged.

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26. See, for example, Peter H. Smith, »Strategic Options for Latin America«, in Joseph S. Tulchin and Ralph H. Espach (eds.), *Latin America in the New International System* (Boulder, CO: Lynne Rienner, 2001), pp. 58–62.

## A »New Atlantic Triangle«<sup>27</sup>

The first scenario is a balanced US-EU-Latin America trilateral relationship in which Western Europe and Latin America assume more responsibility for achieving common economic, political, and security goals, and play a larger role than in the past in the overall management of triangular affairs.<sup>28</sup>

This »broadened concept of an Atlantic Community of the West« is based on a »sense of Western consciousness« and the existence of multiple historical, religious, political, economic, military, and cultural ties linking the three points of the triangle.<sup>29</sup> The Atlantic Triangle idea is based on two assumptions: (i) the North Atlantic and Western-hemispheric axes of US strategic interests »are complementary rather than competitive«; (ii) it is in the United States's best interest »to bring Latin America fully within the modern West«.<sup>30</sup>

This scenario is problematic for a number of reasons.

First, the »New Atlantic Triangle« was conceived in 1981, when the three points of the triangle had a common interest in responding to the Soviet threat. This common interest has disappeared.

Second, to establish a truly balanced relationship between the three points of the Atlantic Triangle the United States would have to renounce its hegemonic role in the North Atlantic and Western Hemisphere axes, allowing Western Europe and Latin America to play a larger role in the management of triangular affairs. Moreover, a *stable* New Atlantic Triangle would require »new burden-sharing or power-sharing arrangements«.<sup>31</sup>

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27. See Arthur P. Whitaker, »The Americas in the Atlantic Triangle,« in *Ensayos sobre la Historia del Nuevo Mundo* (Mexico, 1951), pp. 69–96. Reprinted in Lewis Hanke (ed.), *Do the Americas Have a Common History?* (New York: Knopf, 1964), pp. 141–64. This scenario was revisited in 1981–82 at three academic conferences held in Brazil, the United States, and West Germany under the auspices of the Center of Brazilian Studies, Johns Hopkins School of Advanced International Studies. See Wolf Grabendorff and Riordan Roett (eds), *Latin America, Western Europe, and the US: Reevaluating the Atlantic Triangle* (New York: Praeger, 1985).

28. See Wolf Grabendorff, »Reevaluating the Atlantic Triangle: An Overview,« in: Grabendorff and Roett (eds.), *Latin America, Western Europe and the US*, p. xiv.

29. Joseph W. Reidy, »Latin America and the Atlantic Triangle,« *Orbis: A Quarterly Journal of World Affairs* 8 (1) (spring 1964), p. 52.

30. *Ibid.*

31. Grabendorff, »Reevaluating the Atlantic Triangle,« p. xiv.

Third, after the September 11 terrorist attacks, the Bush administration's policy of benign neglect toward Latin America has weakened the US-Latin America axis of the Atlantic Triangle, provoking deep anti-US and anti-FTAA feelings in Latin America.

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Mercantilist competition between the United States and the European Union to conquer Latin American markets makes a New Atlantic Triangle very unlikely in the post-Cold War era.

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Fourth, there are structural constraints on progress along the lines envisaged in the original formulation of the Atlantic Triangle.<sup>32</sup> The EU's regulatory structure (especially the Common Agricultural Policy) and the vagaries of the US economy limit the ability of the two Northern poles of the Atlantic Triangle to make a meaningful contribution to Latin American modernization and equitable economic development. Moreover, the two Northern poles of the Atlantic Triangle never made a serious effort to cooperate in order to speed up Latin America's development. In the 1990s, as »globalization« replaced the ideal of developmentalism, the United States continued working toward securing free access to the Latin American market for *its* investors and companies, first through the Enterprise for the Americas Initiative (EAI) (1990) and then the FTAA process (1994–2003). Application of the neo-liberal model in Latin America in the 1990s (the »Washington Consensus,« tacitly accepted by the European Union) has not delivered the promised insertion of the Southern Cone's »emerging markets« in the global economy. A new generation of Latin American leaders are seeking a »Latin American Consensus« that will no longer follow the dictates of Washington. Argentina's default on its foreign debt (which severely affected several European banks) was a turning point in Latin America's search for an *autonomous* insertion in the global economy.

Fifth, mercantilist competition between the United States and the European Union to conquer Latin American markets makes a New Atlantic Triangle very unlikely in the post-Cold War era. Rather than sharing the Latin American markets with the European Union, the United States is interested primarily in locking in its »new imperial order« in Latin Amer-

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32. See Reidy, »Latin America and the Atlantic Triangle«, p. 52.



ica through a NAFTA-style Free Trade Area of the Americas.<sup>33</sup> This is the real meaning of former US Trade Representative Charlene Barshefsky's prediction that by 2010 US exports to Latin America will exceed US sales to the European Union and Japan combined. US trade with Latin America is still less than 20 percent of US global trade, most of it with Mexico. However, increasing US exports to Central American, Caribbean, and South American markets is critically important for the United States if the Doha Round of global trade negotiations ends in failure and the world political economy moves away from »multilateralism« toward a system based on competing macro-regions: a US-led trading bloc in the Western Hemisphere; an East-Asian trading bloc led by Japan or China; and an enlarged European Union embracing Eastern Europe and, perhaps, Russia.

A »New Atlantic Triangle« could come into existence if the Doha Round of global trade negotiations comes to a successful conclusion because a resolution of the agricultural subsidies issue would break the stalemate in both the EU-Mercosur and the FTAA market access negotiations. However, global trade talks collapsed at the Cancun Trade Ministerial Conference in September 2003, partly because of the refusal of the rich nations to reduce the \$300 billion in annual subsidies they provide to their farmers. As a result, a new block of developing countries emerged (the G-22) led by Brazil, China, and India, denouncing the EU-US proposal to reduce agricultural subsidies as far too timid. If as many analysts believe the deadline to conclude the Doha round is extended until 2007, momentum will probably shift to interregional and bilateral trade talks, thus weakening a prospective »New Atlantic Triangle«.

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33. »Unlike trade, US FDI in the Mercosur has grown steadily over the past decade. In 1990, US firms held \$17 billion in direct investments in Argentina and Brazil. By 2001, US holdings had grown to \$50.5 billion on a historical cost basis.« Jeffrey Schott, *The United States, Mercosur, and the Free Trade Area of the Americas*, paper prepared for a conference on »New Challenges for Regional Integration«, Buenos Aires, Argentina, October 3, 2002, p. 8. On the »new imperial order« in Latin America, see James Petras and Henry Veltmeyer, *Globalization Unmasked: Imperialism in the 21st Century* (London: Fernwood Publishing/Zed Books, 2001), pp. 78–83.

## A US-EU Condominium to »manage« Latin American Problems

In this scenario, instead of actively working to reduce the asymmetries in economic development between the two Northern poles of the Atlantic Triangle and Latin America, the United States and Western Europe would strengthen a »North-North« axis of economic, political, and military cooperation in order to »manage« Latin American problems, narrowly defined as »security« problems. In the context of the post-September 11 war on terror a possible rationale for a US-European Union condominium would be the existence of a terrorist threat in the lawless »tri-border« region of South America, where Paraguay, Brazil, and Argentina meet. However, there are serious obstacles to this scenario. For one, the European Union would have to abandon its self-proclaimed role as a global civilian power in contraposition to US interventionist tendencies. The EU cannot emphasize the »European difference« if it is perceived as the junior partner of the United States in promoting common Northern interests in Latin America.

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Mercosur's parallel negotiations for a free trade area with the EU and an FTAA with the United States have poised the two Northern poles of the Atlantic Triangle in a competitive struggle to conquer the Southern Cone market.

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Second, the increased projection of European interests onto Latin America has become gradually more antagonistic to US interests in the region. Mercosur's parallel negotiations for a free trade area with the EU and an FTAA with the United States have poised the two Northern poles of the Atlantic Triangle in a competitive struggle to conquer the Southern Cone market. Moreover, the deteriorating political relationship between the United States and the EU does not bode well for a US-EU condominium in Latin America. Such a condominium would be more likely if the two Northern points of the Atlantic Triangle could settle their diplomatic, political, and trade disputes. However, a transatlantic free trade area (TAFTA) is a distant prospect, despite the fact that US-EU trade relations have grown significantly in the last decade.

Third, in the era of globalization security and economic issues cannot be separated. As Brazil adopts an independent foreign policy under Lula, and Mercosur consolidates itself as a customs union, the United States

and the European Union will have to accept the fact that the Latin American countries cannot be easily cajoled – as during the Cold War – to follow orders from Washington (or Brussels). The independent stance of the »Group of Friendly Countries« created by Brazil to deal with the Venezuelan crisis in 2002 (as opposed to the openly anti-Chavez stance of the Bush administration) is the most recent example of this new assertiveness.

A US-EU condominium to »manage« Latin American problems, such as Northern relations with Cuba or the crises in Colombia and Venezuela, could result in a Latin American retrenchment, seeking »South-South« trade and security linkages with other Southern regions, such as South Asia, East Asia, Southeast Asia, South Africa, or the Middle East.

### European Union-Mercosur Strategic Alliance

In this scenario, the successful conclusion of an EU-Mercosur free trade agreement leads to a strategic partnership between the two trading blocs, or between the EU and a South American Free Trade Area (SAFTA).

During the Cold War, a strategic alliance between Europe and Latin America was unthinkable. Western Europe would never endanger its alliance with the United States by challenging US hegemony in the Western Hemisphere. The EC could challenge, to a certain extent, US policy toward Central America, but not to the point of confronting the United States over the Central American conflict, although the EC became the major provider of economic aid to rebuild the ravaged Central American economies after the peace agreements were signed. The Latin American countries, in turn, would view the »European connection« as a way of increasing their bargaining power versus the »colossus of the North«, not as a way of emancipating themselves from US influence. During the Cold War, the European countries tended to view Latin America, »correctly«, as the backyard of its great Atlantic ally.<sup>34</sup>

After the Cold War, renewed regionalism in Latin America was accompanied by a strengthening of the »European connection«, while Latin America and the United States gradually grew apart: Washington was »no longer an obsession or the sole external priority of Latin American

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34. Alberto van Klaveren, »Europe and Latin America in the 1990s«, in Abraham F. Lowenthal and Gregory F. Treverton (eds.), *Latin America in a New World* (Boulder, CO: Westview Press, 1994), p. 85.

governments«.35 This process of relative »distancing« began before George W. Bush became the president of the United States in January 2001, but has been exacerbated by the Bush administration's indifference to Latin America's economic plight and staggering problems of poverty and inequality. On the other hand, Europe is now closely linked with Latin America through a web of bilateral and inter-regional agreements. Their common opposition to the US invasion of Iraq has reinforced the rapprochement between Latin America and the European Union.

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An EU-Mercosur trade pact would challenge US hegemony in the Western Hemisphere, not only because the United States would be excluded from the benefits of such a trade pact, but also because it would be deeply troubled by the increasing bargaining power of its former junior partners.

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Yet there are real obstacles to achieving an EU-Mercosur strategic partnership.

First, Latin America's unresolved debt crisis significantly constrains the ability of heavily indebted countries, such as Argentina or Brazil, to adopt a kind of benign neglect vis-à-vis the United States. Despite the changes brought about by the end of the Cold War, Latin America needs the United States more than it needs them.

Second, EU agricultural subsidies have become a major obstacle to the successful conclusion of an EU-Mercosur free trade agreement before the completion of the FTAA talks in January 2005. All four Mercosur partners have highly competitive agricultural export sectors. Agriculture and fishing account for 52 percent of Mercosur exports to the EU. The Mercosur heads of state have made clear that there will be no Free Trade Agreement (FTA) with the EU without a solution to this problem. Relative-gains considerations have so far prevailed over the potential absolute gains that could be reaped from a bi-regional FTA. Although there has been some progress in the areas of trade in services and investment, significant differences remain regarding key issues in the ongoing market access negotiations between the EU and Mercosur.

Both the European Union and Mercosur have strong incentives to exploit their comparative advantages in each other's markets. The European

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35. See Munoz, »Good-bye USA?«, pp. 75, 89.

Union is Mercosur's largest trading partner and largest source of foreign direct investment (FDI), although US FDI in the Mercosur countries has grown steadily over the past decade.<sup>36</sup> In the early 1990s, Mercosur accounted for about a third of EU sales to Latin America; in 2000 it accounted for half of EU sales to the region, half of imports from the region, and two-thirds of FDI in Latin America.

Both groupings also have *defensive* incentives for striking a free trade deal. If Mercosur joins an FTAA involving the United States without a free trade agreement with the EU, the latter would suffer a reduction in its market share in Mercosur and probably a reduction in the absolute value of its exports to the Southern Cone. Mercosur, on the other hand, fears that the admission of Eastern European countries to the EU could lead to a reduction of Mercosur exports to Western Europe.<sup>37</sup>

The collapse of the FTAA negotiations could slow down the Mercosur-EU talks since a major incentive for the EU to make concessions to Mercosur is to preempt successful conclusion of the FTAA talks in 2005.<sup>38</sup> If it really wants an FTA with Mercosur, the EU will be forced to match the US proposals for market access in the FTAA talks which seek to create incentives for the Latin American countries to join the FTAA without waiting for the (uncertain) conclusion of the Doha Round in order to gain access to the US market.<sup>39</sup> However, the United States has made more attractive offers of market access to the Central American and Caribbean countries than to Mercosur, opening a window of opportunity for the European Union to strike a deal with the Southern Cone countries if the issue of EU agricultural subsidies can be resolved.

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36. Paolo Giordano, *The External Dimension of MERCOSUR: Prospects for North-South Integration with the European Union*, Occasional Paper No. 19, INTAL, Buenos Aires, January 2003, p. 21; Schott, *The United States, Mercosur, and the Free Trade Area of the Americas*, p. 8.

37. See Victor Bulmer-Thomas, »The European Union and Mercosur: Prospects for a Free Trade Agreement«, *Journal of Interamerican Studies and World Affairs* 42 (1) (spring 2000), p. 9.

38. After the compromise for a »flexible« 34-country agreement reached at the Miami Trade Ministerial conference in November 2003, a total collapse of the FTAA negotiations is unlikely. However, the final product will probably be an »FTAA light« or a collection of bilateral and plurilateral agreements that will not threaten EU access to Latin American markets as much as a wide-ranging FTAA.

39. For example, the United States is offering in the FTAA the elimination of the tariffs on textile manufactures and garments no later than 2010 for those countries that would be willing to offer reciprocity.

There is more to the EU-Mercosur relationship than free trade. The Rio Declaration has a list of 55 priorities, from upholding human rights to fighting the drugs trade. Political, security, diplomatic, and development cooperation between the two regional blocs has proven easier than economic cooperation (including free trade) but the latter is the new name of the international game in the era of globalization.

The prospects for a Mercosur-EU strategic partnership ultimately depend on the political will of both sides to iron out their differences in the free trade talks. Protracted negotiations could founder. Brazil has played the »European card« as a bargaining chip to extract concessions from the United States in the FTAA talks, but it has not shown a strong interest in the rapid conclusion of an EU-Mercosur free trade accord, avoiding the considerable negative short-term effects of a deal for domestic interest groups.<sup>40</sup> However, there are limits to Brazil's strategy of playing one external trading partner (the EU) against the other (the United States). Eventually, Brazil and Mercosur will have to choose between the European Union and the United States as their »privileged« extra-regional bloc partner.

A strategic partnership between Mercosur and the EU will also depend on US actions that might draw the EU and Mercosur closer, for example, further unilateral military interventions by the United States and/or a dramatic weakening of the international legal order (for example, several withdrawals from the Non-Proliferation Treaty). In that sense, the EU-Mercosur free trade negotiations tell only part of the story. If the deadline for completion of the FTAA is extended to 2007, modest progress in the EU-Mercosur FTA talks would still make a bi-regional strategic partnership possible as long as the EU radically changes its priorities and places a strategic partnership with Mercosur and Latin America at the top of its agenda, filling the vacuum left by the Bush administration's neglect of Latin America after the September 11 terrorist attacks. To do so, the EU would have to overcome its long-standing fear of intruding in the traditional sphere of influence of its great Atlantic ally.

The stalled Doha talks<sup>41</sup> and the apparent inability of the United States to impose a NAFTA-style FTAA on Latin America create a window of opportunity for establishing a strategic partnership between the European

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40. See Andy Klom, »Mercosur and Brazil: a European Perspective«, *International Affairs* 79 (2) (March 2003), p. 356.

41. See »The Doha Squabble«, *The Economist*, March 29, 2003, pp. 63–64.

Union and Mercosur. On November 12, 2003, the EU-Mercosur trade ministerial meeting agreed on a road map (the »Brussels Program«) for the final phase of free trade negotiations, which paves the way for the conclusion of an EU-Mercosur FTA by October 2004.<sup>42</sup> As the deadline for completing the FTAA approaches, the »auction dynamic« between the EU and the United States for capturing the Mercosur market will become critical. In the end, the Mercosur partners will give priority to whoever makes better market-access offers. In December 2003, EU Trade Commissioner Pascal Lamy embarked on a »marathon« diplomatic effort to strengthen EU ties with Mercosur, visiting all four Southern Cone countries. If the EU makes concessions to Mercosur on agricultural subsidies without waiting for a settlement of this issue in the Doha Round, an EU-Mercosur trade pact would challenge US hegemony in the Western Hemisphere, not only because the United States would be excluded from the benefits of such a trade pact, but also because it would be deeply troubled by the increasing bargaining power of its former junior partners.

## Europe, Latin America, and the World Order in the 21st Century

The fate of European-Latin American relations is synergistically linked to the future of the international system. The distribution of power in world politics will affect EU-Mercosur and EU-Latin American relations, but whether the two regions strengthen their links or follow separate paths will also have an impact on the kind of world order that emerges in the twenty-first century. Scholars disagree in their characterization of that order. For some, the world will be unipolar for an extended period, as the United States consolidates its position of global military power and prevents the emergence of a global rival.<sup>43</sup> Others argue that global politics will inevitably develop into a truly multipolar system in the 21st century.<sup>44</sup> I will separately consider both scenarios and their implications for the

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42. See EU-Mercosur: Trade Ministerial Agrees Road Map for final Phase of Free Trade Negotiations, at [http://europa.eu.int/comm/external\\_relations/mercosur/intro/ip03\\_1544.htm](http://europa.eu.int/comm/external_relations/mercosur/intro/ip03_1544.htm).

43. See William C. Wohlforth, »The Stability of a Unipolar World«, *International Security* 24 (1) (summer 1999), pp. 5–41.

44. See Samuel P. Huntington, »The Lonely Superpower«, *Foreign Affairs* 78 (2) (March/April 1999), p. 37.

prospects of a strategic partnership between the European Union and Latin America.

In a *unipolar* world, Mercosur's alignment with the United States is not a foregone conclusion. After the Iraq war, Mercosur and the European Union have a common interest in building a new multilateralism to balance the United States' unilateralist (even imperialist) tendencies. If the deadlock in the EU-Mercosur negotiations can be overcome, a bi-regional association between the two blocs would have a specific *political* weight, especially in the absence of an FTAA in 2005. A successful EU-Mercosur free trade area would demonstrate that the European Union *can* have a common foreign policy as a *global player*. From this perspective, the EU *needs* an alliance with Mercosur and the rest of Latin America to balance US unilateralism.

In a *multipolar* world, it would make even more sense for Mercosur to pursue extra-hemispheric partnerships. The European Union would be a prime candidate.

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Slowly but surely the South American countries are taking charge of their own future.

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After a successful conclusion of the Doha Round in 2005 or 2007, a new multilateral consensus in the world trade system would diminish the significance of the FTAA for Mercosur and the rest of Latin America. In this scenario, most states will belong to regional blocs which will form interregional associations to be able to compete more effectively in the global marketplace. The strength of an EU-Mercosur strategic partnership would lie in political cooperation based on the two blocs' common values. If multipolarity is accompanied by continuing globalization a Mercosur association with the EU, strengthening Southern Cone links to the euro zone, would lessen Mercosur's vulnerability to external financial crises.

The end of *Pax Americana* would also allow the South American countries to define an independent role in the emerging global economy by establishing a South American Free Trade Area (SAFTA), a real possibility after the first South American summit in Brasilia in September 2000. The South American countries would regain some control over their national economies, placing strict limits on the fundamentalist view of globalization. As they take their destiny into their own hands, a strategic partner-



ship with the European Union would allow them to have a more balanced relationship with the United States, based on mutual respect and US recognition that the Latin American countries can play an autonomous role in world affairs in defense of their own national interests.

On the other hand, there is nothing inevitable about a strategic partnership between the European Union and Latin America. In a decentralized world of many trading blocs the Latin American subregional blocs may not be able to survive as autonomous units and end up annexed to the US economy in a NAFTA-style FTAA, »while the EU might focus on its internal consolidation and latent instability on its external borders«.45

Some analysts believe that »Latin America will not get very far in its attempts to cultivate close and meaningful ties to extra-hemispheric powers«.46 Yet slowly but surely the South American countries are taking charge of their own future. For example, they are actively seeking to improve regional infrastructure (road and rail links, river routes, telecommunications and energy projects) to facilitate the circulation of goods and people across the vast subcontinent. The absence of such networks has been a major obstacle to achieving regional integration hitherto.47 A strengthened Mercosur could strike free trade deals with Japan and China while pursuing »South-South« alliances. In February 2004 Mercosur signed a free trade agreement with India and it has an ambitious agenda of diversifying trade relations with Southern partners and regions, including Mexico, the Southern African Development Community (SADC), and the Association of Southeast Asian Nations (ASEAN). Mexico, Peru, and Chile are members of Asia Pacific Economic Cooperation (APEC) and other regional institutions in the Pacific basin, such as the Pacific Economic Cooperation Council (PECC) or the Pacific Basin Economic Cooperation (PBEC). In a world of intensified multipolarity the »Pacific connection« would be an alternative to the »European connection« with a view to preventing the United States from regaining hegemony in Latin America.

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45. Crawley, »Toward a Biregional Agenda for the Twenty-First Century«, p. 28.

46. Smith, »Strategic Options for Latin America«, p. 62.

47. Mercosur's Initiative for the Integration of Regional Infrastructure in South America (IIRSA) contains proposals and suggestions for the expansion and modernization, over a 10-year period, of several communication networks, »with a view to making the region a more competitive area and developing the South American space«. INTAL, *Mercosur Report* No. 8: 2001–2002 (Buenos Aires: Inter-American Development Bank, 2002), p. 139.

Latin America has traditionally been of secondary concern for the United States and the European Union; the Middle East and Asia have been more important. The difference is that the European Union does not have the arrogant attitude toward the region that dominates US policy toward Latin America and makes it so difficult to establish an even-handed, mature partnership in the Western Hemisphere. On the other hand, the European Union and Latin America have 500 years of common history and cultural and language linkages (Spanish and Portuguese) plus a shared commitment to multilateralism, the United Nations, and respect for international law. Whether the two regions can establish a new type of alliance based on those common values and a number of great »horizontal themes« (from environmental protection and sustainable development to disarmament and arms control) will affect not only the emerging architecture of the international system but also the lives of millions of people in Europe and Latin America.

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