Chapter Four

EU-LAC Trade Relations in a Post-Liberal Era

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This chapter explores the current situation, opportunities and challenges of trade between the European Union (EU) and Latin America and the Caribbean (LAC), at a time when the erosion of the liberal consensus about the benefits of free trade sweeps the globe. The recent wave of protectionism and nationalism that has taken over United States (US) trade policy constitutes a powerful incentive for Europe and some LAC countries to coalesce around the defence of rules-based trade. However, political polarization and economic instability on both sides of the Atlantic mean that the establishment of new agreements is far from straightforward.

The next section explores the current context of EU trade policy. It argues that the rise of populist governments and political polarisation in some member states does not seem to have affected thus far the liberal frame within which the EU conducts its trade policy, yet recently, the process of negotiation and ratification has become trickier. On the side of LAC, explored in the third section, two contextual trends are identified: first, their vulnerability to the change in US trade policy and the ebbing of the so called 'pink wave', which revived a more liberal approach to trade, but which remains fragile and is not generalized across the region.

The fourth section provides an overview of EU-LAC trade in the past decade, noting their asymmetries and concentration in a few markets, as well as the effect of the end of the commodities boom and the importance of European investment for LAC today. The fifth section explores the current state of regionalism and explains that polarisation among the governments of LAC has undermined their capacity to act as a group or even sub-groups. The FTAs that the EU has sought to establish with LAC regional groups (MERCOSUL and the Andean Community) have not come to fruition. Instead, trade negotiations have been easier with those individual countries, like Mexico and Chile, Colombia and Peru, which have displayed a more durable commitment to openness, and EU attention has moved to the Pacific Alliance, a new outward looking group recently set up.

The final section is devoted to current trade negotiations between the EU and LAC. The 'Trump effect' was visible in the speeding up of the negotiations between the EU and Mexico and with Chile to modernize their existing Association Agreements during 2017-2018. The reactivation of long dormant negotiations with MERCOSUL in 2017 can also be attributed to that effect, as well as the more liberal outlook of the governments of Brazil and Argentina. Yet, their conclusion cannot be taken for granted.

The current context of EU trade policy

Being the oldest and most integrated policy of the EU, trade policy constitutes a key element of the EU's role in the international arena. Given the size of its market, export capacity, the relatively high level of income of its consumers, and also, its influence in setting up rules at the multilateral level and in bilateral negotiations, the EU has been described as "powerful *in* trade [and] *through* trade".[1] In relation with LAC, trade policy has played a central role of the EU strategy towards that part of the world since the 1990s, with which it has sought to establish Free Trade Agreements (FTAs) with individual countries and regional groupings. So far it has created such frameworks with Mexico, Chile, Central America, Colombia, Peru and Ecuador.

EU trade policy has been relatively insulated from the vagaries of national politics in the member states, because, since the Treaty of Rome, the decision to create a customs union led to a high degree of delegation of competences to supranational institutions, with the Commission as single negotiator with outside partners, while the Council decides on its negotiating mandate by qualified majority voting.[2] The Treaty of Lisbon (2009) included new trade issues under EU competence, such as investment, environmental protection, government procurement and intellectual property. It is probably due to this institutional setting that the EU has kept the liberal frame of mind in its approach to trade negotiations, despite the Great Depression,[3] and the increased challenges to the liberal credo that have arisen in a number of member states. Thus, the EU has recently concluded FTA negotiations with Vietnam (2015), Canada (known as CETA –Comprehensive Economic and Trade Agreement- 2016), Japan (2017), and Singapore

1. Sophie Meunier and Kalypso Nicolaïdis, 2006, 'The European Union as a conflicted trade power', *Journal of European Public Policy*, vol. 13, n. 6, pp. 907.
2. Alasdair R Young and John Peterson, 2014, *Global parochial Europe: 21st century trade politics*, Oxford, Oxford University Press, p. 11.
3. Yelter Bollen, Ferdi De Ville and Jan Orbie, 2016, 'EU trade policy: persistent liberalisation, contentious protectionism', *Journal of European Integration*, vol. 38, n. 3, pp. 279-294.

(2018). Currently, the EU has nine FTA negotiations opened: with Malaysia, Thailand, Indonesia, Philippines, Myanmar (members of ASEAN –Association of South East Asian Nations) and India; in Latin America, the modernization of its agreements with Mexico and Chile, while the talks with MERCOSUL, which have been stagnating for more than 20 years, have been re-launched.[4] EU trade policy is characterised as 'liberal' since it broadly projects a preference for removing barriers to trade through a rules based system. Still, it has to be recognized that the EU also displays a 'mercantilist' approach that seeks to protect its sensitive sectors.[5]

Over the last years, however, EU Trade policy has become less insulated and is not exempt from rising tensions. Since the entry into force of the Treaty of Lisbon, the European Parliament (EP) plays a more important role, as it is necessary to keep it informed of on-going trade negotiations, a move that has given societal views increased relevance, beyond the traditional influence of interest groups. Some scholars have pointed out that although the Treaty of Lisbon does not grant the EP a role in drafting the negotiating mandate, it adopts a resolution before the start of negotiations that sets the terms of its eventual approval of a particular FTA.[6] Moreover, recent developments have highlighted the difficulties of pursuing the liberalization of trade in the context of increased contestation coming from societal groups and member states. A prime example of this was the suspension of negotiations for the Transatlantic Trade and Investment Partnership (TTIP) with the US in 2016 by Germany and France, whose governments saw strong societal opposition to the agreement, which was perceived to grant too much power to multinational companies in the dispute resolution mechanism proposed, as well as affecting sensitive sectors, from cultural products to agricultural standards. Another instance was the process of ratifying the CETA, which, in 2016, stumbled upon the regional parliament of a sub-national government: Wallonia in Belgium. After a brief re-negotiation with Canada, the agreement entered provisionally into force in September 2017, but will do so fully until all EU member states have ratified it.

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4. European Commission, 2018, *Overview of FTA and other trade negotiations* (updated May2018). Available at: http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf (consulted 20/06/2018).
5. Aukje Van Loon, 2018, 'The political economy of EU trade policy: what do we (not) know?', *Z Politikwiss*, n.28. 28, p. 103.
6. Laura Richardson, 2012, *The Post-Lisbon role of the European Parliament in the EU's common commercial policy: Implications for bilateral trade negotiations*, College of Europe: EU Diplomacy Papers, n. 5, p. 9.

In 2018, the conclusion of negotiations with Singapore also saw rising contestation of the new provisions on investment contained in the Lisbon Treaty. The case made it to the European Court of Justice, which was asked its opinion on the division of competences between the EU and the member states. In its ruling, the Court favoured the centralization in the hands of the Commission, by stating that only the provisions relating to non-direct foreign investment and the regime governing dispute settlement between investors and states were of "shared competence". In a reaction to this, in May 2018, the Council adopted a 'New approach on negotiating and concluding EU agreements', which expressed its demand to become involved 'throughout all the stages of the negotiating process, and the importance of working to reach consensual decisions, to the greatest extent possible, in order to ensure that all member states' interests and concerns are adequately respected in trade agreements'. Additionally, the Council stressed the importance of 'keeping all interested stakeholders, including national parliaments and civil society informed'.[7] Thus, it is clear that concerns over the legitimacy of EU trade policy, which had hitherto lagged behind the push for greater efficiency and effectiveness,[8] have now come to the fore and are likely to complicate negotiations in the future.

Such tensions are the result of an expanded trade agenda that goes well beyond the reduction of tariffs and is more intrusive with national regulations, as well as the gradual breakdown of the liberal consensus that had pervaded in the EU since the mid-1980s. It is well known that nationalism and euro-scepticism are on the rise,[9] from the *Brexit* vote in Britain in 2016 to the ascent of governments in Central Europe that claim to subscribe to 'illiberal democracy'. The alarmingly high share of the vote obtained by so called 'populist', anti-EU, anti-immigrant parties in France, the Netherlands and Germany in 2017, and their victory in Italy in March 2018, to mention a few, represent real challenges to the very survival of the EU itself, let alone its trade policy.

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7. Council of the European Union, 2018, 'New Approach on negotiating and concluding EU trade agreements adopted by Council', *EU Press Release*, 22/5/2018.
8. Alasdair R. Young, 2017, 'European trade policy in interesting times, *Journal of European Integration*, vol. 39, n. 7, p. 912.
9. A majority of Europeans have a positive image of the EU (40%), above those who have a neutral image of the EU (37%), and those who have a negative image of the EU (21%). Although the image of the EU has improved since 2013 (30%), it has not recovered from its peak before the Great Depression: 52% in 2007. European Commission, 2018, *Eurobarometer 89: Public opinion in the European Union*, Spring 2018, Q9A, p. 15.

Perhaps the most important developments impinging on EU trade policy come today from the international arena. The arrival of Donald Trump to the presidency of the US is undermining the very foundations of the transatlantic community of values upon which the postwar order had been built. Despite the internal difficulties described above, EU member states have found themselves united by the decisions emanating from Washington, from the abandonment of the Paris Treaty on Climate Change to the denouncement of the nuclear agreement with Iran. With regard to trade, President Trump has been adopting a series of nationalist and protectionist measures, allegedly aimed at reducing the US trade deficits with its main partners and repatriating jobs. He first pulled out of the Trans-Pacific Partnership (TPP), then forced a surreal negotiation of the North America Free Trade Area (NAFTA) on Canada and Mexico, and has now announced the unilateral imposition of steep tariffs to steel and aluminium on Canada, Mexico and the EU and, a week later, on China, triggering a mirror response that threatens to escalate into a full-blown trade war. This new trade policy on behalf of the US has pushed the EU to seek new allies and to reinforce its ties with existing ones in the defence of open markets and the rules-based trade system on which its economy and place in the world depends so much. As European Council President Donald Tusk, stated at the end of January 2017, 'we should use the change in the trade strategy of the US to the EU's advantage by intensifying our talks with interested partners'.[10] What role is there for LAC in this context?

The changing context in Latin America

The international context in which the region is inserted is changing rapidly. Just as the EU, LAC is shaken by the shift in the US administration's approach to trade. Mexico has been in first line of fire, and is currently immersed in a tricky re-negotiation of the NAFTA, as well as facing the imposition of tariffs on steel and aluminium, to which it has already responded with retaliatory measures.[11] This attitude has cast uncertainty among other

10. 'United we stand, divided we fall', *Letter by President Donald Tusk to the 27 EU heads of state or government on the future of the EU before the Malta summit*, 31 January 2017. Available at: http:// www.consilium.europa.eu/en/press/press-releases/2017/01/31-tusk-letter-future-europe/ (consulted 20/06/2018).
11. Secretaría de Economía (Mexico), 2018, 'México impondrá medidas equivalentes a diversos productos ante las medidas proteccionistas de EE.UU. en acero y alumnio', *Comunicado de Prensa* 044/18, 31 May 2018. Available at: https://www.gob.mx/se/prensa/mexico-impondra-medidas-equivalentes-a-diversos-productos-ante-las-medidas-proteccionistas-de-ee-uu-en-acero-y-aluminio (consulted 20/06/2018).

countries of the region, which are waiting to see whether the USA will respect their FTAs (Central America (Dominican Republic-Central America Free Trade Agreement -DR-CAFTA), Colombia, Peru and Chile). However, the small size of their economies and the fact that they do not contribute significantly to the US's trade deficit seems to have shielded them so far.[12]

Another recent trend that is rapidly changing in Latin America's international economic landscape is China's rise as a key partner for many in the region: it accounted for 13% of the region's total trade (8.8% of exports, 17.8% of imports) in 2015.[13] China has now displaced the EU as second economic partner (12% of total trade), after the US, on which LAC still relies heavily (37%). For Venezuela, Brazil, Argentina and Chile, China is now the first buyer of exports. This varies considerably from one partner to the other (see Figure 1). China also allocates loans and other funds through the Asian Development Bank and China's Eximbank.[14]

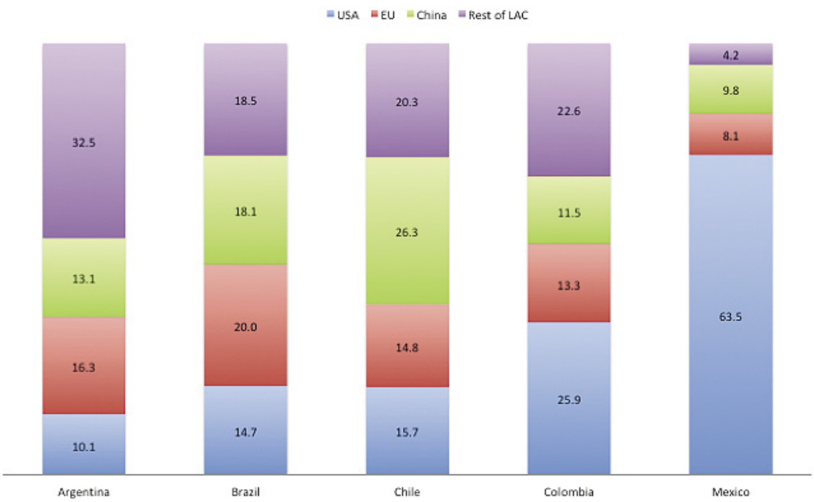
Another feature of the region is that, despite economic liberalisation since the 1980s, LAC is still not fully integrated to the world economy: its external sector accounts for 20% of GDP, according to the World Bank. It is not very integrated regionally either: only 18% of trade takes place within the region (Figure 1). There is still great reliance on a few powerful external partners: the US, China, and the EU. In this context, the EU is has become, perhaps even more than ever, a necessary partner for most countries of the region, not just for economic reasons, but also as political counterweight to the US.

In terms of growth, Latin America has abruptly been coming down from the commodities boom of the early 2000s. According to the World Bank, GDP contacted by 1% in 2016 and was expected to grow 1.8% in 2017. Brazil has been facing the worst recession in its history with negative growth two years in a row (2015-6), and a forecast just above 0% for 2017. Mexico, the economy that is most integrated to international markets, has not been growing fast enough for the last two decades and its currency has experienced strong volatility since Trump's campaign started picking

12. Office of the United States Trade Representative, 2018, *Trade Policy Agenda and 2017 Annual Report of the President of the United States on the Trade Agreements Program*, pp. 7, 12, 3.
13. Data retreived from http://trademap.org (consulted 20/06/2018).
14. 'China cierra el grifo del crédito a Venezuela', *El País*, 2/06/2018, available at: https://elpais.com/internacional/2018/05/02/actualidad/1525228067_970906.html (consulted 20/06/2018).

Alfonso Serrano, 'China fills Trump's empty seat at Latin America Summit', *The New Yorker*, 13/14/2018.

Figure 1. Main Trade Partners of Selected LAC Countries, 2016



Source: Trademap.org

up in November 2016, due to its extreme dependence on the US market. Venezuela, on the other hand, is in complete disarray; since 2014 it has not even published data.

In the political arena, the so called 'Washington consensus' which in the 1990s coalesced LAC countries around liberal values, including a commitment to free trade, has been breaking apart since the middle of the 2000s with the onset of the Bolivarian revolution in Venezuela, and the arrival of other left wing governments in, Argentina, Brazil, Bolivia Ecuador, and Uruguay, which were not so interested in FTA negotiations. Consequently, the two South-American regional integration projects with which the EU had embarked on FTA negotiations, the Andean Community and MERCOSUL, stopped being viable partners in that endeavour (see section 3 below). Currently, the ebbing of "pink wave" after government changes in Brazil and Argentina brought back an interest in retaking the free trade agenda, so EU-MERCOSUL negotiations were accelerated between 2017 and 2018. Yet their domestic positions remain fragile.

Indeed, quite a few Latin American countries are facing social and political difficulties over the institutional consolidation of their democratic regimes. Several presidents have been removed in controversial and polarizing circumstances: Manuel Zelaya in Honduras (2009), Fernando Lugo in

Paraguay (2012) Dilma Roussef in Brazil (2016), Pedro Pablo Kucziynski in Peru (2018); a post-electoral conflict in Ecuador, a re-election dispute in Paraguay (2017) and riots followed by repression in Nicaragua (2018). Almost everywhere, democratic governance is also threatened by violence, organized crime and corruption scandals, especially in Mexico, Central America, the Caribbean, Brazil and Venezuela, with high rates of impunity and the consequent de-legitimisation of state authorities. The year 2018 has seen Argentina embark on talks with the International Monetary Fund (IMF) to tackle its economic situation, while several complex elections are due in Mexico and Brazil, which might complicate trade talks with the EU. This convulsed political panorama is quite distant from that of the 1990's when the EU launched its foreign policy strategy towards LAC anchored on trade policy. The following section provides an overview of current trade between the EU and LAC, to assess the challenges and opportunities it faces.

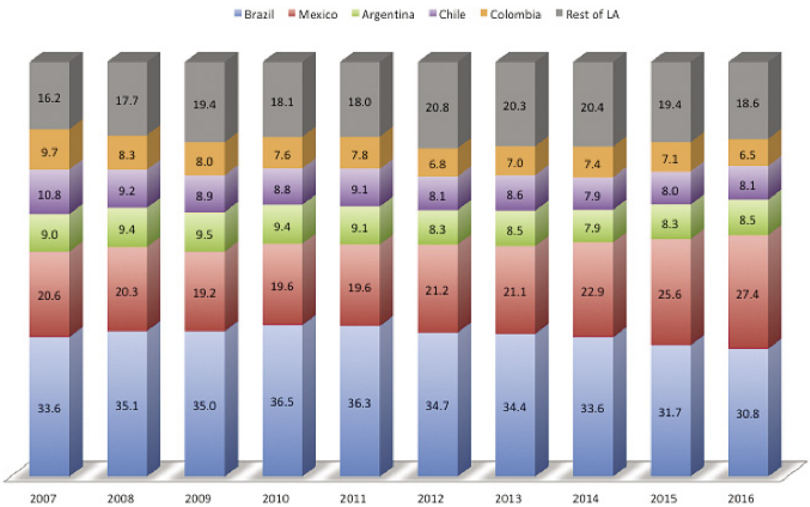
EU-LAC trade relations today: an overview

EU-LAC trade relations are highly asymmetrical, in a North/South fashion. In general, the EU imports raw materials and commodities from LAC, while it exports capital goods, intermediate products and finished goods of high value added.[15] The exceptions are Mexico, which exports mainly manufactures, and partially Brazil, which has an important industrial base, but more geared towards the internal market, shielded by a more protectionist trade policy. The relationship is also asymmetrical in terms of the significance of to each other: according to Trademap.org, while in 2016 the EU represented 12 percent of LAC's total external trade,[16] and features a second or third place as main trade partner of most countries, for the EU, LAC only represented 6.1 percent of exports and 5.3 percent of imports,[17] and is a very minor partner, way behind other players, notably from Asia.

EU trade with LAC is highly concentrated in five states: Brazil and Mexico, the two largest markets, followed by Argentina, Chile and Colombia (see Figure 2), which together account for more than 80 percent of total EU-LAC trade. According to data retrieved from *Eurostat*, in 2016,

15. For an indepth study of LAC trade in the current international context, see Luz María de la Mora Sánchez, *Hacia dónde se dirige el régimen de comercio internacional y sus implicaciones para América Latina*, Mexico, CEPAL, 2018.
16. Data retrieved from: Trademap.org
17. Data retrieved from: Eurostat.eu (consulted 20/06/2018).

Figure 2. EU Total Trade with LAC Main Partners, 2007–2016 (%)

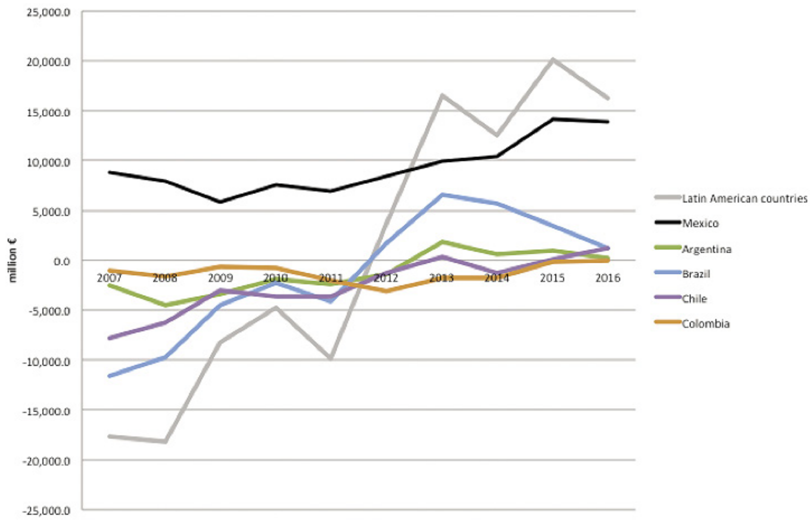


Source: Eurostat.eu

Brazil alone accounted for 30.8 percent of the value of EU total trade with the region, although its share has been declining, from the 33.6 percent it represented in 2007. This is probably due to the deep recession that hit the country from 2014 onwards which contracted demand for EU imports, and to the fall of commodity prices since 2011, which are the main component of Brazilian exports to the EU. The latter factor is also behind the fall in the share of the value of total trade by other main partners: Argentina, from 9 percent in 2007 to 8.5 percent in 2016, Chile, from 10.8 percent to 8.1 percent and Colombia, from 9.7 percent to 6.5 percent respectively. Actually, the trade deficit that the EU ran with these countries (and with the region as a whole) turned into a surplus in 2012 (see Figure 3).

The exception to this trend is Mexico, the second most important trade partner of the EU in the region: its share of total EU-LAC trade has grown by nearly 7 percent over the last decade (Figure 2). The reason behind this is probably twofold. On the one hand, Mexico is the only country in LAC whose exports are not dominated by commodities, but by manufactures, especially in the automobile sector, closely intertwined with those of Canada and the United States through NAFTA. On the other hand, Mexico's imports from the EU have grown fast in the last five years, as it has required

Figure 3. EU Trade Balance with Main LAC Partners, 2017–2016



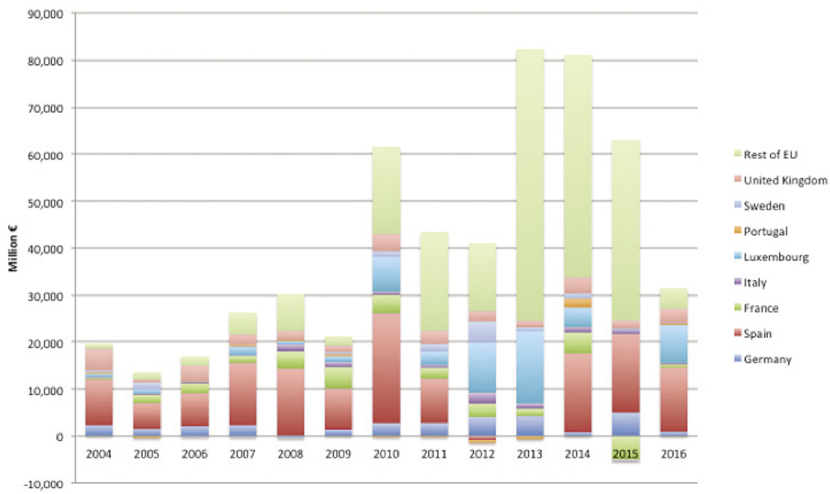
Source: Eurostat.eu

an increasing amount of intermediate and capital products for its export industry, heavily concentrated in the US, with which it runs a large surplus that has now become an issue the Trump administration wants to correct.

Beyond merchandise trade, it is worth noting that investment from Europe is as important as trade –if not more- for LAC economies, abundant in labour and natural resources, but not capital. Moreover, foreign direct investment has become an area of EU competence since the treaty of Lisbon, and a key element of the so called 'new trade agenda', which has moved from lowering barriers to trade to regulatory convergence, equal treatment for foreign companies in government procurement, and resolution disputes mechanisms for investor-state cases. These are key issues in the current trade talks the EU is engaged in with partners in Latin America, as discussed in section 5.

Figure 4 shows that, according to *Eurostat* data, EU investment has generally followed and upward trend since 2004, with Spain as the main individual investor, except for the years 2012-2013. Luxembourg is another important player, because due to its tax system, many European companies have their headquarters established there. It is interesting to note

Figure 4. European Direct Investment Flows to LAC, 2004–2016



Source: Eurostat.eu

that investment from non-traditional partners ('rest of the EU' in Figure 4) has grown considerably, especially from the Netherlands, which has been investing heavily in Brazil and Mexico since 2013. On the receiving side, Brazil, Chile, Mexico and Peru stand out –apart from the Caribbean tax heavens of Bermuda, Barbados and the Caiman Islands.

An important feature of EU policy towards LAC since the 1990s has been its interest in fostering regional integration in the area, an objective it *pursued through trade policy*, by opening FTA negotiations with MERCOSUL (1995), the Andean Community (1996) and Central America (opened in 2002, concluded in 2014).[18] The plan to prioritize the negotiation of interregional FTAs has only worked partially, because after 20 years of pursuing this strategy, only the agreement with Central America has been concluded, while bilateralism seems to have worked better for deal-

18. With the Caribbean, the EU has a different relationship, based on the Cotonou agreement with the ACP Group, the small former colonies of European member states in Asia, the Caribbean and the Pacific. It has recently established a set of individual Economic Partnership Agreements (EPAs, 2008) with the members of the CARIFORUM that take into account the enormous asymmetries between the two sides.

ing with an increasingly diverse region.[19] The EU has FTAs with Mexico, Chile, Colombia, Peru and Ecuador, while regional integration agreements in LAC have been in flux, as discussed in the following section.

Regional integration in Latin America: a fluid panorama

Created in 1991, with the Treaty of Asuncion, MERCOSUL seemed to be very similar to the EU in that it involved the reconciliation of old foes and the establishment of a common market, including a customs union. The nature of MERCOSUL seemed to change after economic crises hit Argentina and Brazil in the early 2000s, and the common institutions were unable to maintain convergence as national responses started to drift. Later in the decade, the economic integration and liberalization agenda gave way to other concerns of a more political nature, as left-wing governments became less keen on free trade, and more interested in social affairs, energy and infrastructure. This fluidity in MERCOSUL's agenda was further compounded by Venezuela's application for membership in 2006 and accession in 2012, as well as the creation of UNASUR, which included the same issue areas that had recently been added to MERCOSUL. As a result of this shift, and other international factors, FTA negotiations between the EU and MERCOSUL, which had started in 2001, stalled by 2004 (see section 5). In the meantime, the EU established a Strategic Partnership with Brazil, which included discussion of some trade issues, in what seemed a consideration to pursue a bilateral path.[20]

The effects of Venezuela's Bolivarian revolution in the region were more disruptive to the Andean Community, which President Chavez left abruptly in 2006, followed by Bolivia, which has not completed its retreat, but remains a distant partner to the three remaining (Colombia and Peru, but less to Ecuador). This left the EU and its FTA negotiation in a dilemma, which it solved after a few years with a hybrid formula: it embarked on FTA negotiations with Colombia of a Multiparty Agreement in 2009 (concluded in 2013), which was followed by Peru (2013) and Ecuador (2014).

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19. I have developed these ideas further in Lorena Ruano, 'Dealing with Diversity: The EU and Latin America today', *Chaillot Paper* n. 145, Paris, European Union Institute for Security Studies, April 2018.
20. Aukje van Loon, 2009, 'Diverging EU Trade Strategies in Latin America: External Challenges and Internal Debates', *Paper prepared for the 5th ECPR General Conference*, Potsdam, Germany, p. 20, footnote 33.

Figure 5. Regional Integration Schemes in LAC

The more liberal oriented governments of Colombia, Chile, Mexico and Peru launched the Pacific Alliance in 2011, a project born to construct a new form of regional integration and a common approach to their insertion in the world economy at large. Their method of integration is different from previous LAC schemes in that it tries to 'build from below', through small but practical steps, rather than building common institutions: the four countries have worked on the removal of as many technical trade barriers as possible among the members, the facilitation of mobility of businessmen, students, scientists (removing visa requirements), and simplifying procedures as well as to attract investment. It has caught great international attention, featuring 49 observers (the EU and most of its member states among them), of which Costa Rica and Panama have become candidates to join.

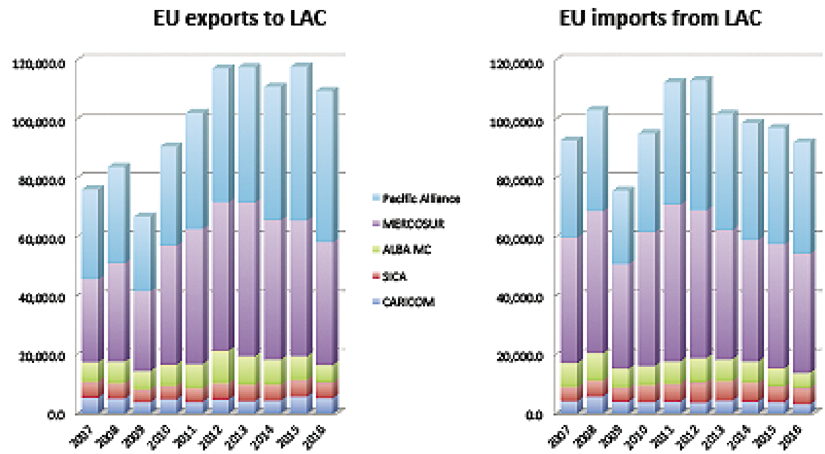
The four countries have FTAs with the US and the EU, both of which constitute powerful signals of commitment to pursue an export led growth development strategy and open markets. In March 2018, Chile, Mexico and Peru signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which replaced the TTP after President Trump decided to pull out in January 2017, and the remaining members decided to pursue its negotiation under the leadership of Japan, in a gesture that signalled their continued commitment to trade liberalisation, and now, diversification away from the US. The Pacific Alliance is currently negotiating with Canada, Australia, New Zealand and Singapore to make them Associate Members.[21] It has also attracted the attention of MERCOSUL: in April 2017 at a gathering in Buenos Aires, ministers from both groups announced the intention to move towards the convergence of both groups.

The Pacific Alliance's relevance for the economies of its members remains marginal, especially for Mexico, the largest partner: its trade with the three other members combined amounts only to 1.2 percent of its total trade. For Chile, who trades most within the block, the other three partners represent 12 percent of its total trade.[22] Thus for the moment, its importance, is more political and symbolic, as a statement from its member states about their commitment to rules-based free trade, and their willingness to continue with their insertion into the international economy. For that reason, this is now the most interesting regional scheme with which to work for the EU, especially because it has the institutional infrastructure in place through FTAs with each member state.

Moreover, Figure 6 and Table 1 show that trade with the countries of the Pacific Alliance and Central America has been more dynamic than with the other regional integration schemes in LAC. The share of EU imports from Central America relative to imports from all of LAC has grown (from 5.2 percent in 2007 to 6 percent in 2016), as well as those from the Pacific Alliance (from 35.7 percent in 2007 to 45.1 percent), while those from MERCOSUL, the ALBA countries have declined.[23] In terms of EU exports to LAC, the Pacific Alliance's share has grown from 40.1 percent in 2007 to 47 percent, while that of MERCOSUL has grown marginally (from 37.1 percent to 37.9 percent) and the share of exports to other regional groupings has declined. Trade seems to become increasingly concentrated in the economies of the Pacific Alliance at the expense of other players in LAC.

21. 'Pacific Alliance, Associate Members Enter Fourth Negotiating Round, Look To Clinch Deal by July', Bridges, Vol. 22, n. 17, 17 May 2018. Available at: https://www.ictsd.org/bridges-news/bridges/news/pacific-alliance-associate-members-enter-fourth-negotiating-round-look-to (consulted 20/06/2018).
22. Data retrieved from Trademap.org.
23. Since Venezuela is not fully integrated to MERCOSUL and was suspended in 2017, it is grouped with the ALBA countries, a bloc that it has led since the mid-2000s.

Figure 6. EU Trade with LAC Regional Integration Groups, 2007–2016 (million €)



Source: Eurostat.eu

Table 1. Percentage of EU trade with regional integration groups relative to EU-LAC total, 2007-2016

EU imports from LAC

Partner/Time	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Caricom	4.5	5.6	5.3	4.1	3.6	3.3	4.3	4.1	4.1	3.4
Sica	5.2	5.3	6.3	6.1	5.4	6.2	6.6	6.4	5.5	6.0
Alba Mc	8.7	8.9	8.5	6.9	6.6	7.2	7.2	7.3	6.2	5.4
Mercosul	46.0	46.9	47.0	47.8	47.3	44.3	43.2	41.8	43.4	44.1
Pacific Alliance	35.7	33.3	32.9	35.1	37.0	39.0	38.7	40.3	40.7	41.1
EU Exports To LAC										
Caricom	7.1	6.0	5.7	5.3	3.9	4.1	3.6	4.0	4.8	4.8
Sica	7.2	6.3	6.6	5.1	4.4	4.7	4.8	4.9	4.9	4.9
Alba Mc	8.6	8.6	9.0	7.9	8.1	9.4	8.1	7.6	6.7	5.4
Mercosul	37.1	40.0	40.8	44.5	45.0	43.0	44.3	42.7	39.2	37.9
Pacific Alliance	40.1	39.1	37.9	37.1	38.6	38.8	39.1	40.9	44.3	47.0

Source: Own calculations with Eurostat data

Current EU trade negotiations with Latin America

At the moment of writing, the EU has three trade negotiations opened with Latin America: the modernization of the EU-Mexico Global Agreement, the negotiation of the Interregional Association Agreement with MERCOSUL (IAA), and the modernization of the Association Agreement with Chile. This section addresses them in turn.

EU-Mexico

The intention to 'modernise' the EU-Mexico Global Agreement, in force since 2000, was first announced at the EU-CELAC (*Comunidad de Estados Latinoamericanos y Caribeños*) summit in Santiago in 2013, shortly after Mexico passed a set of reforms on the telecoms and energy sectors that Europeans had been awaiting. The 'update' is intended to adapt the existing 15 year-old agreement to the changes that had occurred in Mexico, the EU and the world economy in general, especially, to include the elements of the so called 'new trade agenda', present in the TPP, TTIP and CETA which were being negotiated at the time, and which went beyond the reduction of tariffs, already low after the Uruguay Round of GATT and the FTA between the EU and Mexico included in the Global Agreement. In particular, it was important to address non-tariff-barriers (NTBs), such as regulatory issues, and to facilitate investment.[24]

The negotiations took a while to start in earnest, as the EU gave priority to the negotiation it was carrying out with Canada (CETA) and the USA (TTIP). Moreover, although the Joint Statement of the VII EU-Mexico Summit reaffirmed the willingness to launch negotiations in 2015,[25] the internal EU process of defining a negotiating mandate, delayed the start of real talks until June 2016. And it was until 2017, with the arrival of Donald Trump to the US Presidency, that both parts found it urgent to accelerate negotiations.

In early 2017, Mexico launched a diversification strategy, with the EU as a priority, while it also aimed to improve the access of its exports to Latin America by strengthening the bonds with the Pacific Alliance and widen-

24. European Commission, *Commission Staff Working Document. Impact Assessment accompanying the document Recommendation fo a Council Decision authorising the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy to open negotiations and to negotiate with Mexico a modernised Global Agreement*, SWD(2015) 289 final, Brussels, 16.12.2015.
25. *VII EU-Mexico-Summit Joint Statement*, Brussels, 12 June 2015, paragraph 3.

ing the economic complementation agreements with Brazil (ACE 53) and Argentina (ACE 6) in the framework of ALADI (*Asociación Latinoamericana de Integración*). in March 2017, when the USA withdrew from TPP, Mexico continued working with the 10 remaining members of the group to conclude a new agreement, the CPTPP, and in June of that year, the Pacific Alliance started negotiating an FTA with Australia, Canada, New Zealand and Singapore. On the side of the EU, Trade Commissioner Cecilia Malmström visited Mexico in January 2017 to announce the acceleration of the negotiations, followed by the visit by German Chancellor Angela Merkel in June, who criticised walls and defended free trade, sending out powerful signals of their intention to defend a rules-based approach to trade with Mexico as an ally. Thus, it was clear that the main factor pushing for the acceleration of negotiations was the changing international context, notably, the Trump factor.

On 21 April 2018, after nine rounds of intense trade negotiations, Mexico and the EU announced they had concluded the bulk of the new framework and reached an Agreement in Principle[26] on how to finalise the technical issues remaining. An important number of new areas have been added to the old FTA, such as updating the framework for financial services, intellectual property, digital trade, telecoms, energy, maritime transport, public procurement (including the sub-federal level), the mutual recognition of certain qualifications for professional services, and accumulated rules of origin for common partners. Simpler customs procedures will further benefit the EU's industry in sectors like pharmaceuticals, machinery and transport equipment. In the agricultural sector, the objective has been to liberalize 85% of what still remained protected, including the recognition by Mexico of 350 EU geographical indications, and the amplification of quotas for beef and milk products. The process for phytosanitary inspections was also simplified in order to speed up the time of approval from 4-5 years to 1 year. Few products compete directly in this sector between the two sides; the issue was more about how much Mexico would allow EU products to compete with those coming from the US.[27] Other important chapters that have been included in the new trade agreement relate to trade and sustainable development, gender, climate change, competition and cor-

26. 'New EU-Mexico Agreement: The Agreement in Principle', Brussels, 23 April 2018. Available at: http://trade.ec.europa.eu/doclib/docs/2018/april/tradoc_156791.pdf (consulted 20/06/2018).
27. Briefing by staff from the EU Delegation in Mexico at the *Formación de actualización sobre Unión Europea y temas estratégicos para la relación México-UE*, Mexico, ITAM, 30 May 2018.

ruption, reflecting the objectives as set out in the EU's new trade policy vision launched in 2015.[28]

Perhaps the most important innovation is the section on investment, which falls under EU competence since the Lisbon Treaty, and is actually more important for Mexico than trade in goods and services, as 27 percent of direct foreign investment came from the EU in 2017, while only 8 percent of its trade takes place with the EU.[29] Thus, the new agreement for the promotion and protection of investments will replace the 17 bilateral agreements Mexico has with some EU member states. Crucially, the 'modernised Global Agreement' establishes an investor-state dispute resolution mechanism similar to the one set up in CETA (as well as in the FTAs the EU recently concluded with Vietnam and Japan), which replaces *ad hoc* panels by a new Investor Court System, which is permanent, includes the right to appeal, and makes all decisions and documents public. Both parts also agreed to promote the establishment of this system at the multilateral level. Although Mexico was reluctant at the beginning to accept this new system, its acceptance by Canada in CETA and the pressure of the re-negotiation of NAFTA made it change its mind.[30]

The political statements of both parts that accompanied the announcement of the Agreement in Principle confirmed that they interpret the deal as a response to the disruptiveness of US trade policy, at an especially tricky moment in the renegotiation of NAFTA.[31] From the point of view of the EU, Commission President, Jean Claude Juncker stated that 'With this agreement, Mexico joins Canada, Japan and Singapore in the growing list of partners willing to work with the EU in defending open, fair and rules-based trade'.[32] Mexico's government stressed that 'Mexico and the European Union send a strong message to the world about the importance of maintaining open markets, [and] working together through the multilateral channels…'.[33]

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28. European Commission, *Trade for All - Towards a more responsible trade and investment policy*, Brussels, 2015.
29. Stéphan Sbérro Picard, 2018, 'Europa, un gran aliado estratégico en la diversificación comercial de México', *Comercio Exterior*, vol. 14, April-June, p. 20.
30. Briefing by staff from the EU Delegation in Mexico.
31. Hans Von der Burchard and Christian Oliver, 'Mexico's EU trade deal land a punch on Trump: Accord with Brussels comes as Washington squeezes Latin American country in NAFTA talks', *Politico*, 22 May 2018.
32. 'EU and Mexico reach new trade agreement', *EU Press Release*, 21 April 2018.
33. Secretaría de Relaciones Exteriores (Mexico), 2018, 'Concluyen las negociaciones para un nuevo acuerdo integral México-Unión Europea', Comunicado de prensa conjunto SRE-SE, 21 April, 2018. Author's translation. Avalable at: https://www.gob.mx/sre/

In spite of the spectacular progress and the political will to conclude them, the fact is that the agreement is not finalised yet, and it is not clear that the next Mexican government, emanating from the July 2018 elections will be so keen on FTAs. If concluded, ratification will certainly be trickier than in the past on both sides, with EP elections coming up in 2019.

EU-MERCOSUL

In 1995, the EU and MERCOSUL signed an Interregional Framework for Cooperation Agreement (EMIFCA), which included the aim to launch trade negotiations for an Interregional Association Agreement (IAA) that would also include cooperation and political dialogue pillars. From the EU's point of view, geopolitical considerations were paramount. On the one hand, the US had embarked on the negotiation of a FTAA, which threatened to reduce the EU's share of trade in LAC. On the other hand, the EU was interested in exporting its model of regional integration, and MERCOSUL seemed to be the regional project closest to its experience.[34] In economic terms, access to the large and relatively protected MERCOSUL market was promising for the EU's industrial products (especially in the automotive sector), services, telecoms, and the attractive opportunities for government procurement.

However, the internal negotiations within the EU to reach a mandate were long and tortuous, because MERCOSUL's main priority in exchange to opening its market was the liberalization of EU agriculture, as this is MERCOSUL's most competitive sector, which still faces substantial barriers of entry to the EU. This entailed a major reform of the EU's Common Agricultural Policy (CAP), a matter that has always been difficult and slow, dominated as it is by powerful interest groups, a strong path dependence, and the veto of those EU member states which benefit most from it, such as France, Ireland, Spain and Germany.[35] So it was not until June 2001, in the 5th round of negotiations, that the EU presented its first liberalisation

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prensa/concluyen-las-negociaciones-para-un-nuevo-acuerdo-integral-entre-mexico-y-la-union-europea (consulted 20/06/2018).

34. Van Loon, 2009, p. 19-20.
35. I have analysed how the difficulties of CAP reform have complicated politically important negotiations with third parties in Lorena Ruano, 2005, 'The Consolidation of Democracy vs. the Price of Olive Oil: The Story of Why the CAP Delayed Spain's Entry to the EC', *Journal of European Integration History*, vol. 11, nº 2, pp. 97- 118; Lorena Ruano, 2005 , 'Institutions, Policy Communities and Enlargement: British, Spanish and Central European Accession Negotiations in the Agricultural Sector', in Frank Schimmelfennig and Ulrich Sedelmeier, eds., *The Politics of European Union Enlargement: Theoretical Approaches*, Abingdon and New York, Routledge, pp. 258-276.

offer to MERCOSUL, which excluded tariff cuts of its main exports, and the issue of exports subsidies which it wanted to discuss at the multilateral level in the Doha Round of WTO. At the next round, MERCOSUL responded with an offer that excluded the automobile industry. Ten rounds later, in September 2004, the last EU offer still excluded MERCOSUL's main exports (beef and sugar) from the tariff reduction basket of goods to be liberalized.[36] Negotiations were effectively blocked since then, and although there were EU-MERCOSUL summit meetings on the fringes of EU-LAC summits, and more trade negotiating rounds, only technical matters were advanced.

Besides the deadlock between both parties, which seemed intractable, other geopolitical considerations contributed to the stagnation of negotiations, notably the collapse of the FTAA negotiations in 2004, which reduced the urgency of the EU to reach a deal. Besides, as discussed in section 4, after economic crises hit Argentina and Brazil in 2000-2001, MERCOSUL's nature changed in economic and political terms, making it a less attractive partner for the EU.[37] In fact, the EU seemed to prioritise the bilateral channels with individual member states, notably with the establishment of the Strategic Partnership with Brazil in 2007, which included the discussion of trade related matters. With the other members, the EU also has bilateral cooperation framework agreements that encompass trade.

It was until 2016 that interest in concluding the trade negotiations returned with urgency, due to changes in the domestic and international contexts. At the domestic level, the arrival of centre-right governments in Brazil and Argentina renewed their interest in liberalizing trade, pursuing the economic integration within MERCOSUL, and even seeking a rapprochement with the Pacific Alliance. Their arrival has also created conflict with Venezuela, which was 'suspended' in December 2016 through the application of MERCOSUL's democratic clause. This left Venezuela as an observer to the trade negotiations, thus removing an important obstacle to meaningful talks with the EU, which, at the time of writing, has sanctions in place against that country. Meanwhile, in Europe, CAP reform returned to the agenda due to the future withdrawal of the United Kingdom from the EU, which will leave an important whole in the budget, and the need to reallocate resources to other priorities, as recognised by the new

36. Van Loon, 2009.
37. Mahrukh Doctor, 2007, 'Why Bother With Inter-Regionalism? Negotiations for a European-MERCOSUL Agreement', *Journal of Common Market Studies*, vol. 45, n. 2, pp. 281-2014.

French President, Emmanuel Macron, who advocated a discussion on farm subsidies 'without taboos'.[38] At the international level, both the EU and MERCOSUL saw the revival of negotiations as a response to Trump's protectionist and unilateralist trade policy.[39]

EU-MERCOSUL negotiations gathered pace, with six rounds of negotiations taking place between March 2017 and February 2018. There was significant progress in the 'new trade agenda' items, which were not present in the early 2000s, such as competition, sustainable development, intellectual property, services, investment and public procurement, but the contentious areas remained the same as in 2004: European agriculture (beef and ethanol) and MERCOSUL protectionism in the automobile sector. At the heart of the negotiation is whether the EU is ready to increase the original offer for beef quotas from 70 000 metric tons, while MERCOSUL has expressed it wants more than 200 000 in exchange for dropping its tariffs on cars and machinery exports from the EU. At the last round of negotiations, which concluded in March 2018, the EU signalled it was ready to open up further if MERCOSUL agreed to better access for EU cars and diary, the inclusion of maritime services, a flexibilisation of the rules of origin, and access to public procurement at the sub-federal level, as well as the recognition of several EU geographical denominations.[40]

At the time of writing, the window of opportunity is closing in fast without a firm conclusion to the trade negotiations, while the texts on the political and cooperation sections of the IAA were finalised in June 2018, to be sent to the member states for approval, as announced by Edita Hrdà, Executive Director for the Americas at the European External Action Service.[41] Domestic factors are reducing the room for manoeuvre, with the Brazilian election looming in October, and the Argentinian government busy with an 'adjustment' that has turned out more complex, costly and long than expected, having to call on the IMF for a $50 billion bailout in June 2018.

Completing this agreement would be very important economic terms, as the EU is the first trade partner of MERCOSUL (21 percent of its total

38. Emmet Livingstone, Maïa de la Baume and David M. Herszenhorn, 'Emmanuel Macron breaks French taboo on farm subsidies', *Politico*, 20 April 2018.
39. De La Mora, 2018, p. 65.
40. Hans von der Burchard and Ryan Heath, 'EU races against the clock to seal beef-for-cars trade deal', *Politico*, 26 January 2018; 'EU-MERCOSUL trade talks close with key gaps remaining', *Reuters*, 9 February, 2018; European Commission, *Report from the XXXIIth round of negotiations of the Trade Part of the Association Agreement between the European Union and MERCOSUL*, Asuncion, 21 February-2 March 2018.
41. https://twitter.com/EditaHrdaEU/status/1005410103347109888 (consulted 20/06/2018).

trade) and main investor.[42] Speaking at the EP, EU chief negotiator Sandra Gallina said that progress had been excellent at the technical level, but that she was now ‘in need of big political help’ to clear the remaining issues, otherwise leaders would have to explain ‘why do don’t want to finish this… geopolitically very important’ agreement.[43]

EU-Chile

EU-Chile trade is governed by an Association Agreement, in place since 2003, the second that the EU established with a LAC country after the one with Mexico (2000). As the latter, it includes a political dialogue and cooperation pillar, although the trade part is more sophisticated than the one with Mexico. In 2015, the EU decided it was necessary to modernise the agreement with Chile (as it had started doing with Mexico) in order to ‘broaden the scope of the Association Agreement and adjust it to the new political and economic global challenges […] and to the level of ambition of recently concluded agreements and negotiations being conducted by the EU and Chile’.[44]

After a year of consultations and impact assessment, the negotiating mandate did not take too long to be approved by the Council, so negotiations started in November 2017. At the time of writing, three rounds have taken place, with good progress in all areas. The new areas to be included in the modernised agreement relate to the new investment protection framework (as with Mexico, Canada Japan and Vietnam), rules of origin, technical barriers to trade, services, intellectual property, geographical indications, public procurement, competition, sustainable development, and gender issues related to trade.[45]

As with Mexico and MERCOSUL, the Trump factor has been at play in accelerating the pace of negotiations. At the opening of negotiations, DG Trade Commissionner Cecilia Malmström hinted in her speah that this agreement is intended to strenghthen the position of both sides against protectionist temptations in world trade, when she stated that it was necessary to ‘address the full range of political and global challenges’, while

42. De La Mora, p. 64-65.
43. Quoted by von der Burchard and Heath, ‘EU races against the clock to seal beef-for-cars trade deal’, 2018.
44. Council of the European Union, *EU-Chile Modernised Association Agreement: Directives for the negotiation of a Modernised Association Agreement with Chile*, Brussels, 22 January 2018, 13553/17 ADD1 DCL1, p. 2.
45. Ibidem; De la Mora, p. 64.

the HRVP, Federica Mogherini said that both partners were 'to continue championing global peace and security, free and open markets, inclusive societies and the promotion of global common goods'.[46]

The new agreement is more important to Chile in economic terms, since the EU accounts for 15% of its foreign trade, it is its second export market after China, and more importantly is the source of nearly half of its FDI.[47] For the EU, the value of the agreement is more symbolic and political, as a sign to the USA that it is coalescing with other members of international society to defend open markets and rules based trade.

Conclusion

This chapter has argued that the current protectionist trend in US trade policy has triggered a reaction on the part of both the EU and some LAC countries (Mexico, Chile and the members of MERCOSUL) to accelerate, relaunch and start trade negotiations as way to coalesce around the defence of rules based free trade and open markets. However important they are in economic, symbolic and geopolitical terms, their successful conclusion is far from straightforward, as they depend on international, regional and domestic factors on both sides.

For the EU, trade is a most powerful instrument in its world standing and vital for its economic prosperity, so it has recently been pursuing an ambitious agenda of trade negotiations, both in contents and in geographical scope. The new agreements are based on the so called "new trade agenda" that includes regulatory convergence, a new court system for investment protection, public procurement, and the linkage of trade with issues like sustainable development, competition, corruption and gender equality; beyond LAC, the EU has also been negotiating agreements with several countries in Asia and Canada. Thus, it seems that the wave of nationalism and populism that is sweeping across its member states has not fully dented on the liberalism that still characterises EU trade policy. However, recent institutional changes, described in the first section, have made this insulation more difficult, as the Council and the Parliament seek to follow negotiations more closely while national ratification processes could become trickier in parliaments where nationalist parties gain ground.

46. 'EU and Chile to start negotiations for a modernised Association Agreement', EU Press Release, Brussels, 13 November 2017.
47. De la Mora, p. 65.

On the LAC side, this is an economically strained region, politically unstable and divided, and with a very fluid panorama in terms of integration schemes, among which the Pacific Alliance has become the most dynamic in its trade with the EU. For those countries which display a more liberal outlook in their economic and trade policies (Mexico, Chile, Colombia, Peru and recently Brazil and Argentina) their to vulnerability commodity prices, US policy swings and the rising role of China, have meant that, in their eternal search for diversification, the EU has gained importance. Therefore, they have displayed an impressive effort to strengthen their economic links with it, among themselves and with other extra-regional partners.

The modernization of the EU-Mexico Global Agreement advanced at full speed during 2017 and the first half of 2018, and is nearly completed, while that country is under enormous pressure from a complex revision of NAFTA. The conclusion of the agreement is now awaiting the electoral process in Mexico and much depends on the economic profile that the new government will display, while the process of signature and ratification could take several years. With MERCOSUL, the re-launch of long-time dormant IAA negotiations in early 2017 gathered pace, but their conclusion stumbled upon the same issue that blocked them 14 years ago: EU beef quotas and MERCOSUL's opening of its market in the automobile sector. The window of opportunity is quickly closing in as the most complex elections in Brazil's recent history loom, while Argentina deals with an IMF bailout. With Chile, fewer problems threaten the modernisation of its Association agreement, whose negotiations have just started. The 'Trump factor' has clearly provided the political will to advance with these three negotiations. Yet domestic variables both in LAC countries and EU member states remain volatile and could become significant obstacles to the consolidation of this new geo-political coalition to defend rules-based trade.

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