

The EU and Latin America: Political and Economic Trends in Times of Global Uncertainty

by Mihaela Luchian

ABSTRACT

The conference “Managing Multiple Crises in Times of Global Uncertainty: the EU and Latin America in comparison”, was organized on 16 April 2018. It brought together experts, academics and journalists from both Europe and Latin America to discuss the multifaceted crises that have recently been affecting the countries of the two regions, in order to define a roadmap for closer regional cooperation. Both Latin America and the European Union have been hit hard by the global financial crisis and its social consequences, and both have witnessed the rise of populist forces triggered by social discontent – albeit in various forms and with different agendas. The complex and multidimensional nature of the current global context offers considerable scope for stronger EU–Latin America cooperation and for common political ground.

European Union | Latin America | Economy | Eurozone crisis | Populism | Democracy

keywords

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Introduction

On 16 April, the Istituto Affari Internazionali (IAI) organized the conference “Managing Multiple Crises in Times of Global Uncertainty: the EU and Latin America in comparison” as part of the Jean Monnet Network initiative “Crisis-Equity-Democracy for Europe and Latin America”,¹ which has been developed by the Interdisciplinary Institute for Relations between Europe, Latin America and the Caribbean (IRELAC) in cooperation with the Institute of International Relations of the University of São Paulo (IRI-USP), IAI and other European think tanks and academic institutions. The conference brought together Latin American and European experts, academics and journalists in order to discuss the political and economic crises in countries in the two regions and to map out a strategy for enhanced regional cooperation.

This report summarizes those discussions and the views expressed during the conference. The first panel, “Economic crisis and the quest for prosperity in the EU and Latin America”, was chaired by the journalist Silvia Pavoni (The Banker, Financial Times) and saw the participation of Dimitris Katsikas (Hellenic Foundation for European and Foreign Policy), Maria Antonieta Del Tedesco Lins (IRI-USP), Stephan Schulmeister (Austrian Institute of Economic Research), Franco Passacantando (IAI) and Christian Ghymers (IRELAC). The second panel, on “Political crises, the rise of populism and the challenges to democracy in the EU and Latin America”, was composed by Kai Lehmann (IRI-USP), Bettina Guilherme (Jean Monnet Network), Eleonora Poli (IAI) and Tim Oliver (London School of Economics and European University Institute), and was chaired by Anna Mazzone (Tg2 Rai). The closing remarks were delivered by Nathalie Tocci (Director of IAI) and Antonio de Aguiar Patriota (Ambassador of Brazil to Italy).

¹ For more information see the initiative website: <https://monnet-crisis-network.eu>.

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· Report of the IAI conference “Managing Multiple Crises in Times of Global Uncertainty: the EU and Latin America in comparison”, organized in Rome on 16 April 2018.

Ferdinando Nelli Feroci (President of IAI), in his introductory remarks, recalled the devastating effects of the recent financial crisis in Europe: an unprecedented loss of wealth, drastic reductions in gross domestic product (GDP), increases in poverty and inequalities, and risks for both the stability of governance and the sustainability of the welfare systems in the region. Despite some signs of recovery, the consequences of the crisis persist. In addition, the migration phenomenon is perceived as a new threat to cultures and identities rather than as a contribution to EU economy and society. The growing request for protection coming from European citizens had not been met with an adequate response, and this had led to the success of so-called populist forces in many European countries, which have been able to capitalize on social discontent and mistrust towards the traditional democratic institutions. In Latin America, meanwhile, populism seemed to be a more traditional feature of domestic policy. Since independence, many countries in the region have repeatedly experienced strong leaders, whose success has often depended on a difficult economic situation, poverty and sometimes widespread corruption. Nelli Feroci believed that analysing the similarities and differences between crises in the EU and in Latin America would allow each party to learn from the other's errors – bearing in minds the obvious diversity between the two regions.

1. Economic crisis and the quest for prosperity in the EU and Latin America

While chairing the panel, **Silvia Pavoni** (economics editor of *The Banker*, a monthly publication from the Financial Times) remarked that comparing political and economic trends in the EU and Latin American countries is challenging, since they have different institutional structures.

Dimitris Katsikas (research fellow at the Hellenic Foundation for European and Foreign Policy, ELIAMEP) noted how the situation in Greece constituted one of the most severe crises experienced by an EU member state, in terms of economic and social consequences. The crisis' destructive impact was due to several Greek domestic issues – such as corruption, legal inefficiency and low institutional capacity – but also to the fact that the EU's economic bailout programmes, as a generic tool, had failed to address the specific needs of the country. Such inadequate response was due to a lack of knowledge of the real problems, and to the overwhelming emphasis on fiscal measures and austerity at the expense of other and more important reforms and needs. According to Katsikas, fiscal austerity had, in fact, destroyed the country's consumption capacity, with devastating effects on its entire economy. Moreover, the Greek crisis has been the first such occurrence in the Eurozone and the delay in devising a solution, together with the punitive attitude of the EU "creditors" towards Greece, has contributed to a worsening of the situation. On future perspectives, Katsikas was not very optimistic because of the excessive austerity and lower than projected economic growth – but mostly, because of the resulting political polarization and lack of political willingness to cooperate.

According to **Maria Antonieta Del Tedesco Lins** (associate professor at the Institute of International Relations of the University of São Paulo, IRI-USP), although it is difficult to compare the crises in Latin America and the EU, some points can be noted: the uneven economic and social effects of the crises and the role of policy-making. EU governments have restricted room for manoeuvre due to the EU treaties they signed, while in Latin America governments' action is constrained by domestic political priorities. She pointed out that Latin American countries have repeatedly experienced some form of political, economic or international crisis, which have had deep consequences for their populations. For this reason, countries such as Brazil and Argentina experienced high economic growth before the crisis in 2008, but their subsequent paths were disrupted by domestic instability.



From left to right: Christian Ghymers, Maria Antonieta Del Tedesco Lins, Franco Passacantando, Silvia Pavoni, Stephan Schulmeister, Dimitris Katsikas

Stephan Schulmeister (independent economic researcher, Austrian Institute of Economic Research, WIFO) provided a long-term vision of the crisis in Europe and the region's economic decline over the last 20 years. In order to understand the evolution of the current economic system, two types of capitalism should be distinguished: real capitalism and financial capitalism. In the first case, striving for profit is focused on real-economy activities, which necessarily implies a strict regulation of financial markets. In the second case, the drive for profit shifts from real to financial investments. The 1970s witnessed the transition from real to financial capitalism, as well as a change in the level of interest rates, which have become higher than the rate of economic growth. This systemic change caused unemployment and chronic national debt. The most important cause of the recent crisis is the underlying theory of the new system, the neoliberalism, and the trend to restrict the room of manoeuvre of politics and liberalize the financial markets.

According to **Franco Passacantando** (scientific advisor at IAI), Europe can learn a great deal from Latin American states. A particularly useful example is Argentina, since in Europe there are two recurrent debates: whether a country could leave the euro and whether a country with a high debt should restructure or cancel that debt. Argentina abandoned in 2002 a decade-long policy of linking its peso to the American dollar at a value of one to one, with the consequence of massive devaluation and large default on debt. However, from 2003, Argentina GDP grew at rates of around 8 per cent and unemployment considerably declined. The Argentinian case is often used by European so-called populists as an example to follow, together with the idea of a parallel currency. Argentina had, in fact, experienced "quasi-money" in 2001, and studies have shown that this parallel currency was perceived as a sign of weakness and instability. Most importantly, it gave the signal that the country was

ready to leave the currency regime. Moreover, when Argentina defaulted on its public debt, it was less than half that of current Italian debt and mainly held by foreign investors, so the burden of restructuring fell mainly on the international community. Currently, 60 per cent of Italian debt is held by country's residents, and 42–43 per cent of it is held by households, directly or through funds and insurance companies, so a debt cut would affect the wealth of Italian families and produce a new bank crisis. But, above all, the infrastructure of inter-bank payments is a centralized common system at the European level, and it does not accept non-euro currencies. In order to leave the euro system, Italy would have to create a new payment system for interbank transactions and temporarily seal the country off from international markets.



From left to right: Christian Ghymers, Maria Antonietta Del Tedesco Lins, Franco Passacantando, Silvia Pavoni

According to **Christian Ghymers** (President of the Interdisciplinary Institute for Relations between Europe, Latin America and the Caribbean, IRELAC), a crisis, in macroeconomic terms, has to do with damaging imbalances in the current economies. To be fully overcome, the 2008 crisis requires a structural approach because it is the manifestation of unresolved issues. All economic crises are manifestations of a disequilibrium between income and expenditure, between demand and supply. Solutions should take the route of an increase in total factor productivity and a reduction of income inequality. The macroeconomic determinants of total factor productivity, both in the EU and in the Community of Latin American and Caribbean States (CELAC), are pertinent to property rights and the rule of law, but also gender equality, social cohesion and social distribution. Some of the main causes of Latin America's poor productivity performance are to be found in existing trade barriers and the high cost of goods transport. The EU faces similar problems with its service market, which is not a single market. Ghymers also stated that the causes of the current crisis had been visible more than a decade ago, when the project of the European single currency was first discussed.

2. Political crises, the rise of populism and the challenges to democracy in the EU and Latin America

Anna Mazzone (journalist at Tg2 Rai) noted that in Latin America the line between democracy and populism is very thin – and that sometimes regular, democratic elections generate authoritarian regimes.

Kai Lehmann (professor at the Institute of International Relations of the University of São Paulo, IRI-USP) claimed that populism in Latin America was a recurrent phenomenon rather than a recent one. It has as socio-cultural root the belief in “strongmen”, and the deep-rooted idea in Latin American society that they deal with the “here and now”. This has produced populism and populist politicians. However, the aftermath of the economic crisis has seen the opposing efforts of those who attempted to use the crisis itself to promote reforms and those who tried to defend the status quo. Populism in general has some characterizing features: leaders representing the “rule” and “will” of the people, the repudiation of perceived political correctness and the promotion of a perpetual sense of crisis. Particular characteristics of populism in Latin America, though, included the deployment of armed forces to deal with social violence and the use of non-populist, neoliberal measures – which had, for example, brought good results in Brazil and Guatemala. The fight against corruption was also frequently used as a populist device in Latin America, with several “anti-corruption” measures aimed merely at appeasing the local population. In conclusion, populism has often been a tactic to maintain the status quo and prevent changes.



From left to right: Kai Lehmann, Bettina Guilherme, Anna Mazzone, Eleonora Poli, Tim Oliver

Bettina Guilherme (co-ordinator of the Jean Monnet Network initiative “Crisis-Equity-Democracy for Europe and Latin America”) talked about the increase in political violence in Brazil, with episodes such as the assassination of the activist Marielle Franco and attacks to the former president Luiz Inácio Lula da Silva. The country’s political Left has accused the Right of orchestrating a golpe, starting with the impeachment of an incumbent president – Lula’s successor Dilma Rousseff. The vice president Michel Temer, who took over from Rousseff, initiated the dismantling of the country’s labour regulations and the cutting of social expenditure. He has also promoted a wave of privatization in the energy sector, and other neoliberal reforms. According to Guilherme, Rousseff’s impeachment was an attempt to halt the Lava Jato investigations on alleged corruption and money laundering in relation with the state-controlled oil company Petrobras (also known as “Operation Car Wash”).

Tim Oliver (associate at LSE IDEAS and Jean Monnet Fellow at the European University Institute, EUI) pointed out that the Brexit campaign in the UK was not only a populist backlash. Despite the use of anti-elite and anti-Brussels rhetoric by the UK Independence Party, the fact is that Britain has never had a really pro-European campaign or a pro-European voice over the last few decades. The Brexit decision of 23 June 2016, therefore, is not only about populism but also about more long-term trends and domestic politics. According to Oliver, the populist

backlash was much more evident in the general election of 8 June 2017, in which the Labour Party defined itself as representing the people against the wealthy elite and made populist promises without entirely clear financial resources to implement them. Despite the Conservative Party's abysmal performance, these elections produced no clear winners or losers. Fears of a post-Brexit "domino effect" did not materialize, however, because the EU successfully managed to compartmentalize the Brexit negotiations, keeping them technical in nature and isolated from national politics. The United Kingdom's departure will have important long-term implications, because if the UK appears subsequently to be "healing" better than the EU, then exit might be considered a solution by other member state should the Union undergoes another crisis.



From left to right: Anna Mazzone; Eleonora Poli, Tim Oliver

Eleonora Poli (researcher at IAI) described populism as a sort of "box" that can be filled with different ideas. Populism can be inclusive or exclusive, and the main difference between its strands in Europe and Latin America is that in the first case it is mostly exclusive as based on national identity. Far more dangerous than populism is the rise of nationalism, which is being witnessed as a result of two trends in the EU: a multifaceted crisis, which has affected member states in different ways and on different levels, and the fight between globalization's "winners" and its "losers". The lack of an adequate political response has led to the fall of left-wing governments and the rise of nationalist parties, which are not necessarily against the idea of EU but in favour of a different Union. Another visible pattern is that in some countries, such as France and Germany, liberal right-wing parties were able to survive the crisis and gain new vitality.

Nathalie Tocci (Director of IAI) urged participants to reflect upon what had not worked in the field of EU–Latin America cooperation. Firstly, threats to global security such as terrorism, the proliferation of weapons of mass destruction and international conflicts could offer scope for cooperation. Secondly, the debate had focused exclusively on the effects of the economic crisis but not on its causes, which remained unresolved. Populism has identifiable trademarks – a certain disregard for institutions, polarization, a contraposition between the people and the elite – but the actual context of populism varies markedly. The most disturbing aspect of populist forces in Europe has been their nationalist agendas, while in Latin America this has not traditionally been the case. Tocci urged a continuation of the dialogue between Europe and Latin America, for example by letting EU–Mercosur negotiations, which was already taking a strong economic form, to focus also on governance issues.

Ambassador **Antonio de Aguiar Patriota** reminded participants that the dialogue between Europe and Latin America is a tangible reality – encompassing EU–CELAC dialogue, the strategic partnership with Brazil, and the EU–Mercosur negotiations on a free-trade agreement. The changing global role of the United States could provide an opportunity for Latin America and Europe to join forces. The ambassador pointed out that Latin American and European countries are democracies and share a more common political view among them than with other global actors, such as China. The multipolarity of the current international system should generate stronger cooperation rather than a “clash of civilizations”. Despite several common positions, EU and Latin America have different agendas in the areas of migration and terrorism.

Concerning populism, Patriota argued it has been a political tactic rather than a school of thought, and that progressive forms of populism also existed. Some kinds of populism would not pose threats to domestic politics and international relations, as long as they aim for sustainable goals. Concerning the Brazilian domestic situation, the ambassador reminded that Brazilian society has great potential and encouraged participants to preserve the hope that its forthcoming elections could change the country’s current situation. Through democracy, the future could be changed.

Updated 12 June 2018

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Istituto Affari Internazionali (IAI)

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