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"Latin America and Europe: Hopes and Challenges for a Common Future"

Maradiaga Series

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Introduction

I want to thank Oxford University and the coordinators of the Maradiaga Series for allowing me the opportunity to come to this wonderful place and talk about Latin America and Europe. Thank you, Diego, for reaching out to us.

Latin America and Europe have had an intense interaction for centuries but I believe their relationship has evolved in the last couple of decades. It has become significantly more horizontal and dynamic. This is partly because Latin America is today very different from what it was twenty or thirty years ago.

Latin America is different

Despite its mistakes and shortcomings, Latin America has done many things right in recent times. Most governments in the region have exercised macroeconomic responsibility. They have embraced democracy and consolidated the Rule of Law. They have prioritized social progress and made considerable gains in human development. They have been successful in addressing long-standing challenges, such as social exclusion and income inequality. Most noticeably, they have managed to sustain peace and respect one another, even in light of ideological differences.

As I explained earlier at the Latin American Centre, the period between the years 2000 and 2012 was a time of sound economic performance in Latin America. With few exceptions, countries managed to grow at a steady pace, sustaining annual growth rates of around 3.3%. Per capita GDP in Latin America quadrupled between 1990 and 2012. Several Latin American countries now feature among the largest 30 economies in the world, including Brazil, Mexico, Argentina and Colombia. Furthermore, Latin America proved to be quite resilient to the global financial crisis of 2008/2009, in stark contrast with its previous track-record when dealing with external shocks.

This galvanized real and meaningful changes in the region's social structure. 60 million people climbed out of poverty. For the first time in history, more people belong to the middle class than live below the poverty line. At the same time, income inequality decreased at an annual average rate of about 1%. In fact, Latin America is the only region in the world that managed to reduce both poverty and income inequality since the turn of the century. Most countries also registered gains in other social indicators. 12 Latin American countries are now considered “high human development” countries; two are considered “very high” (Argentina and Chile).

Some say that this was due to favorable external conditions, especially high commodity prices. Yet evidence shows that, though a positive global context certainly helped, these social gains were also the product of deliberate public policies. Governments –from both the left and right– invested in their people, not just through cash transfers but also through spending in public health and education. In fact, social spending in the region grew from 15% to 20% of GDP, while at the same time becoming more progressive and broader in scope.

It is estimated that, on average, economic growth explains 3/4 of the reduction in poverty in Latin America; the other 1/4 is explained by redistribution –although in many countries the ratio is inverted and most of the change is explained by redistribution.

Furthermore, we know that social policies also have effects on economic performance. A healthier, more educated labor force entering the market, securing better jobs, earning higher wages and performing more value-added activities, no doubt bolstered economic growth.

Because of all these changes – economic, social, political – Latin America has come to expect a more horizontal, more symmetric relationship with its friends and partners across the world, where all parties cooperate and all parties have something to give and something to learn from one another. This is something we, at the Ibero-American Secretariat, witness every day: Ibero-America has become a model of South-South cooperation. All 22 Member states in the organization are recipients of cooperation from the other Members.

The world is different

These trends need to be understood within a larger framework of shifting power in the world, from the North to the South, from the West to the East, and from the Atlantic to the Pacific.

According to UNDP projections, by 2020 the combined economic output of Brazil, China and India will surpass the aggregate production of Canada, France, Germany, Italy, the United Kingdom and the United States. The spectacular economic expansion of China and India alone has affected a larger share of the population than the Industrial Revolution.

Between 1990 and 2010, the South's share of the global middle class population expanded from 26% to 58%. By 2030, more than 80% of the world's middle class will reside in the South and will account for 70% of total consumption expenditure.

Developing countries' participation in global trade of goods increased from 33% to 45% between 1980 and 2010. South-South trade tripled in the same period.

The rise of the South has challenged the global order that emerged from the II World War, from Bretton Woods and Dumbarton Oaks. Global governance must adapt to reflect these changes and address new transnational challenges (such as climate change, terrorism, organized crime, migration, pandemics, and so on), on top of our pending agenda in areas such as poverty eradication, the fight against income and gender inequality, and the quest for peace and justice.

At the same time, and although emerging economies now find themselves among the largest in the world, we know that they must take on a double agenda: they must meet the responsibilities that come with the condition of being a major global player, and at the same time address the basic needs of their populations and their own development challenges.

We would all like to see more progress in the global agenda, in trade and in development. Yet these multilateral negotiations have stalled and we have seen instead a high degree of fragmentation, with countries negotiating at the bilateral, regional and interregional level.

It is within this context that the relationship between Europe and Latin America needs to be understood.

Europe and Latin America

As I said before, Europe's ties with Latin America have intensified in recent years. EU trade with the region doubled in the last decade, while the EU holds preferential trade agreements with 26 of the 33 countries of the Community of Latin American and Caribbean States (CELAC)[1]. The EU is also currently negotiating a trade deal with Mercosur, the group of Southern countries comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela.

[1] Konrad Adenauer Stiftung (2015). EU-Latin America Relations: Charting a course for the future. http://www.friendsofeurope.org/media/uploads/2015/06/FoE-REPORT-LATINAMERICA-2015-WEB.pdf

The EU is the main development partner of Latin America and the Caribbean, its second largest trade partner and its first investor[2]. About 10.3% of EU FDI stocks abroad are currently in Latin America, representing 35% of CELAC's FDI stock.

In fact, EU investment in Latin America is higher than its investment in Russia, China and India combined[3].

Currently, more Europeans migrate to Latin America and the Caribbean than the other way around, after migration from LAC countries to the EU reached historic highs before the economic crisis of 2008/2009[4]. We see a lot of academic mobility happening in both directions, something we are encouraging through the Ibero-American Mobility Alliance.

[2] European Union External Action Service (2015) http://www.eeas.europa.eu/lac/
[3] European Comission, Council of the European Union and European External Action Service (2015) EU-CELAC, facts and figures http://www.consilium.europa.eu/en/meetings/international-summit/2015/06/EU-CELAC-brochure_pdf/
[4] International Organization for Migration (2015) https://www.iom.int/news/more-europeans-migrate-latin-america-caribbean-other-way-around-iom-study

Beyond trade, investment and migration flows, Europe and Latin America share core values, a commitment to multilateralism and cooperation, to sustainable and equitable development, to democracy and human rights.

The EU-CELAC Summits, which started in 1999 and are held every two years, comprise 61 countries and over one billion people (approximately 15.5% of the world population). They represent about one third of the UN Members[5].

Ibero-America

The relationship between Spanish and Portuguese speaking countries on both sides of the Atlantic is very strong, given their shared past, and their linguistic and cultural heritage, all of which is reflected in the existence of the Ibero-American Conference and the Ibero-American General Secretariat (or SEGIB), which I have the honor to lead.

[5] European Council EU-CELAC Summit (2015) http://www.consilium.europa.eu/en/meetings/international-summit/2015/06/10-11/

When the Presidents of the Ibero-American countries first got together in Guadalajara, in 1991, the Ibero-American Summit was the only forum gathering all Latin American Heads of State. Today, there are several other regional and subregional instances with presidential representation, which speaks to the dynamism of Latin American foreign policy as well as to the need to find institutional channels for our increased exchange and interdependence.

The Ibero-American Summit went from being a meeting of Heads of State and Government, in 1991, to becoming the Ibero-American Conference, with the creation of SEGIB in 2005 – responding to a growing body of mandates emerging from the Summits and other meetings and forums. Today we have the Ibero-American Community, as the 22 Member countries intensify their cooperation and their mutual understanding.

<u>The road ahead</u>

There is no question that the relationship between Europe and Latin America is strategic for both regions, but it is also true that it has yet to reach its full potential. This is particularly important as we struggle to find new drivers of growth amidst global economic uncertainty, financial volatility, capital outflows and limited access to international credit.

As you know, Latin America has entered a period of slower economic growth. Regional GDP has decreased from 2.8% in 2013 to 1.2% in 2014 to negative -0.3% in 2015, although this was hugely influenced by negative growth rates in two large economies, Brazil and Venezuela. The rest of the region grew at a modest though relatively acceptable pace. 16 countries grew above 2%; eight countries grew more than 3%, surpassing the world average. Projections for 2016 are similar.

Although low commodity prices and mediocre trade growth undermine Latin America's future economic prospects, it is very unlikely that we will see a general crisis like in the 1980s. Governments now have more tools to make the necessary adjustments and indeed are doing their job. Public debt is way lower than in the past and financial and monetary institutions are acting responsibly. There is no cause for panic. Rather, we expect that

Latin America will find a new equilibrium – somewhere around the 2 or 3% vicinity.

This poses many challenges for governments, which now have less fiscal space to maneuver. They will have to focus their efforts and make it a top priority to preserve social achievements and protect the most vulnerable sectors of society; meet the demands of the new middle classes by improving the quality of public services; and dramatically increase productivity – a productivity revolution, as I said earlier.

They need to invest in research, innovation and digital technologies, transitioning to knowledge-based economies; they need to bridge the skills gap by working closely with academia and the private sector; they need to accelerate their participation in global value chains (GVCs); they need to invest in infrastructure and logistics, facilitate a better climate for investment, reduce the size of the informal sector, and invigorate their institutional capacity and rule of law – a tall order by any account.

I would like to pause briefly on the need to invest in high-quality education because this is an area where Latin America has made significant improvements in the last couple of decades. Enrollment in tertiary education in the region doubled between 2000 and 2010 (yet still well behind OECD averages). This is partly due to the expansion of the middle classes and an unprecedented demand for higher education: two thirds of all university students in Latin America are first generation in their families to attend college. This is a positive development and one that we must strive to deepen and expand, as we also work to ensure that the education these students receive is aligned with the demands of the job market and provides them with the tools they need to remain competitive in a globalized economy.

But rising education standards will not solve the structural problems many Latin American countries face in the new world order, namely, their persistent reliance on commodities exports and their widening productivity gap vis à vis their commercial partners and competitors. Between the year 1960 and the year 2010, ASEAN countries reduced their productivity gap with the U.S. from 51% to 33%. By contrast, Latin America's productivity gap with the U.S. *increased* from 27% to 48% in that same period.

Productivity is the issue. Innovation and education are the answers.

Latin America shares some of these challenges with Europe, especially the need to find sources of growth to meet the expectations of the youth. Both regions could work together to deepen trade and investment, but there is a lot that can be done in cooperation and transfer of knowledge precisely in areas where Europe has a significant lead, like productivity. Chile and Argentina, the two Latin American countries with the highest labor productivity are still a good third below OECD averages.