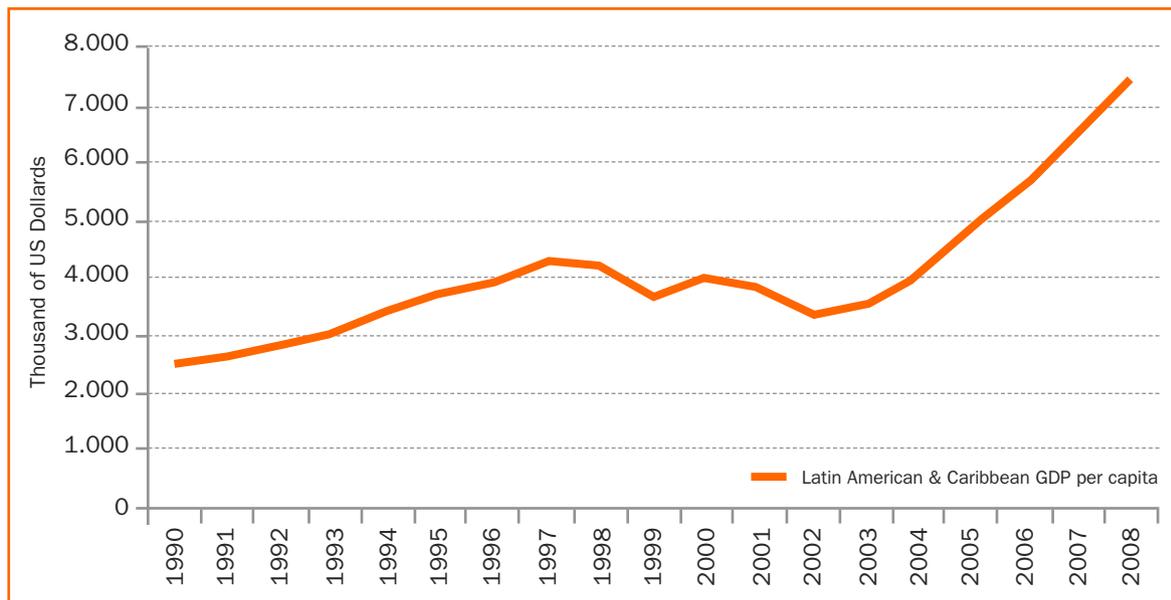


LATIN AMERICA: AN OPPORTUNITY FOR THE UK. A REPORT BASED ON THE SPANISH EXPERIENCE IN THE REGION

Challenges in foreign policy for the Trio Presidency:
The cooperation between the EU and Latin America

FIGURE 1. Latin American & Caribbean GDP per capita



This Special Papers FAES is part of a joint project between the FAES foundation and The Bow Group geared to the analysis of the recent Spanish experience in Latin America. The aim is to help draft a strategic proposal for the United Kingdom to improve its influence in the region.

Latin America is a land of opportunities. Despite its diversity and heterogeneity, it is one of the regions with the greatest political and economic potential in the world. Many of its countries feature abundant natural resources, valuable human capital, increasingly solid institutions and macroeconomic discipline.

The region contains 15% of the world's oil reserves, 25% of the arable land, 30% of all drinking water and significant mineral and farming wealth. The importance of its human capital is not only demonstrated within the region, but also in countries such as Spain, where the full integration of Latin Americans has become an essential element of economic development and wealth creation. Much of the Latin American region has undergone a major democratic consolidation, strengthening its institutions and the Rule of Law. Furthermore, sound economic policies have allowed it to suffer less from the effects of the recent financial crisis.

Nevertheless, the region is also facing major challenges, such as poverty and inequality, the rise of radical populism and the drama of insecurity in its various forms. In any event, the major progress which has taken place over the last twenty years allows us to claim that the future for Latin America looks promising.

A) The relationship between Spain and Latin America

- **Importance of policies implemented in Spain.** In the 1990s, Spain acquired a visible and thriving presence in the region as a result of the liberalisation

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of national economy and the privatisation, modernisation and internationalisation of companies such as Argentaria, Telefónica, Repsol, Tabacalera, Endesa and Iberia. During the latter half of the decade, Spain enjoyed a strong domestic market which was open to competition. The success of its economic and fiscal policies and the creation of employment, along with the positive results of companies in the domestic market, developed a positive climate which encouraged searching for new markets and expanding into Latin America. The consolidation of the Spanish influence in the region was also supported by a consistent external policy focused on the defence of national interests.

However, with José Luis Rodríguez Zapatero leading the government since 2005, the deterioration of the domestic economy and complacency in the face of radical populism has led to a decline of Spanish influence. This has been detrimental to the interests of many companies, as the expropriations and threats suffered in countries such as Venezuela and Bolivia show.

Currently, Spanish FDI (Foreign Direct Investment) in Latin America accounts for 9% of the total amount received by the region, and according to different authorities, more than 40% of the total profit reported in 2009 by companies on the IBEX 35 came from investments in Latin America.

- **Importance of policies implemented in Latin America.** The level of economic development and growth of Latin American countries is directly related to their level of democratic stability, legal certainty and the Rule of Law. Despite hav-

“The region, together with Asia and other emerging economies, is leading the global recovery, driven by those countries that are cutting public spending and applying structural reforms”

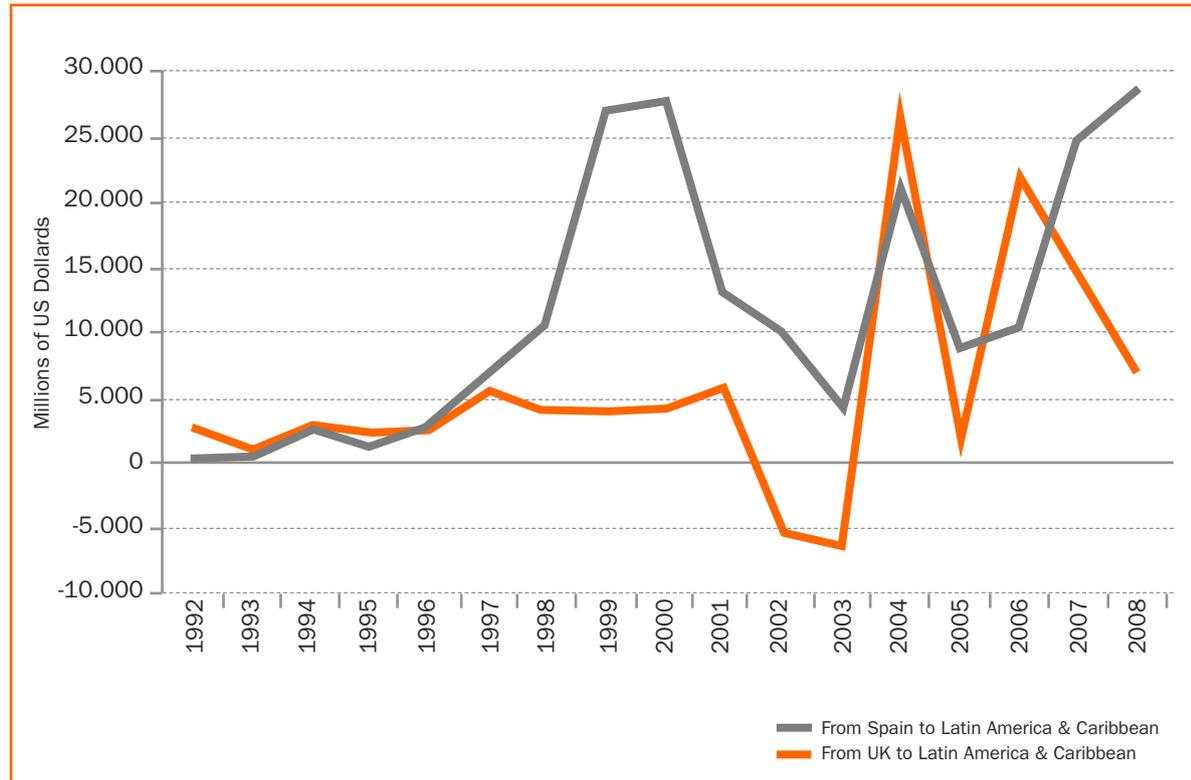
ing great potential, in those countries where populism exists, deficient policies have been implemented which have discouraged foreign direct investment and increased the inequality gap. Conversely, countries which are growing the most, such as Chile, Brazil, Peru and Colombia, are committed to the consolidation of democracy, the strengthening of the Rule of Law, macroeconomic stability, liberalisation and the opening of markets, legal certainty, transparency and institutional modernisation. The successful implementation of these policies can be seen in both the Spanish and Latin American GDPs as a consequence of the financial results of the Spanish companies operating there.

We can identify several key competitive advantages to companies willing to invest in Latin America: the growth of consumption, the increase in per capita earnings, the decrease in political risk and the increasing stability of public spending. Conversely, the qualifications of the workforce and competitiveness continue to be the least valued features according to businessmen.

B) Latin America in the global context

Whilst the region reaches the bicentenary of its independence, it still faces economic and political challenges. And yet it consists of countries which are brimming with self-confidence. Brazil has become a global player and a regional driving force. Peru was the country with the second-highest growth rate in the world in 2009, after China. Colombia finds itself on the verge of major economic growth after the triumph of its policies of democratic security, and Chile is close to becoming a fully developed country. Although confidence in Mexico

FIGURE 2. Foreign Direct Investment



Source: OECD Database

has been dented by the threat represented by drug trafficking, organised crime and corruption, Mexican authorities are confronting them with all available resources.

- **Decade of high economic growth:** Up until 2008 the price of commodities and the volume of exports underwent a major increase following high world-wide demand, as a result of an unprecedented expansive economic cycle.

Latin American exports have been supported by the signing of Free Trade Agreements with different countries in the world, reducing the impact of the last economic and financial crisis in the region and allowing the opening of new markets to the benefit of all countries involved. For example, the FTA signed by Chile and China in 2005, which involves a tariff rebate on 92% of Chilean exports and on 50% of Chinese exports, has led to Chile addressing 36% of its exports to the Asian region. In turn, in only 5 years China has almost doubled its exports to Chile.

- **The impact of the international financial crisis and the economic outlook:** The recovery of economies after the crisis is taking place faster than expected. Recent macroeconomic figures are generating a certain sense of optimism that Latin America's time has come. The region, together with Asia and other emerging economies, is actually leading the global recovery, driven by those countries that are cutting public spending and applying structural reforms.

By late 2008, Latin America managed to achieve 85% of the target of halving its level of extreme poverty, and three countries – Brazil, Chile and Peru – managed to achieve their full targets. The case of Brazil is particularly significant since in the last 15 years it has managed to reduce absolute poverty by 33% (Brazilian Institute of Geography and Statistics), as well as creating 15 million jobs in less than a decade (Ministry of Employment of Brazil). If it continues along this path, Latin America could halve its level of extreme poverty by 2015.

In 2008, the average per capita GDP of the region reached US\$7 450, compared with US\$2 950 in Eastern Asia and the Pacific. While this GDP growth is significant, it hides the significance of the level of income, a key element for the growth of a large Latin American middle class and the increase of domestic demand in the countries of the region. Indeed, the population of

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Latin America can already be regarded as “the world’s middle class”, which may serve to attract multinational companies to the services sector. Other coadjuvant factors which have helped achieving an improved social structure and the reduction of extreme poverty were the average growth of 4.9% between 2003 and 2008 and the remittances sent by emigrants from developed countries.

Latin America has been able to position itself as a privileged location during the financial crisis, having been less adversely affected than those countries which were carrying financial imbalances and lax monetary policies. In the last ten years, apart from a few exceptions such as Venezuela (inflation at 30%) and Argentina, Latin American countries have reduced their public debt and have kept inflation rates at relatively low levels.

Brazil, Chile, Colombia and Peru have also posted sustained growth levels. The industrial output of Brazil increased 11.1% in June 2010 and its year-on-year GDP grew 9% in the first quarter of 2010. Chile, Colombia and Mexico have achieved year-on-year GDP growths exceeding 4% over the same period.

Chile has become one of the countries with the highest level of economic freedom in the world, as measured by the index prepared every year by The Heritage Foundation and *The Wall Street Journal*. This index measures its merits protecting private property, the fiscal austerity of its public spending and its free market.

“The commitment to democracy in Mexico, Colombia and Chile contrasts the radical populism of Cuba, Venezuela and Bolivia. The possibility of succeeding is directly related to being in one bloc or the other”

The structural reforms undertaken in the 1990s by Chile, Brazil and Mexico have been one of the main elements promoting the change of economic direction in the region. This progress can be seen by the expansion enjoyed by many of the main Latin American multinationals. Companies such as Cemex, Telmex and Embraer have been developing expansion plans for a number of years in the USA and other industrialised nations. As a result, for the first time in history, traditional North-South capital flows have been altered by investments going in the opposite direction.

- **Two opposing political blocs.** As mentioned earlier, Latin America is a diverse region. The commitment to democracy in Mexico, Colombia and Chile contrasts with the radical populism of Cuba, Venezuela and Bolivia. The possibility of succeeding is directly related to being positioned in one bloc or the other.

Socialism of the 21st century is a populist model which uses democratic mechanisms to reach power and, once installed, empties democracy of its contents. This is the model followed by the governments of Venezuela, Bolivia, Ecuador and Nicaragua. This was also attempted by Zelaya in Honduras, but democratic institutions in the country were able to react in time in defence of freedom, providing an example for the rest of the continent.

Lack of legal certainty, institutional weakness and growing political instability mean that foreign businesses avoid these countries. The sudden

and unjustified nationalisation of industries in Venezuela and Bolivia has aggravated the lack of confidence among foreign investors. Between 2005 and 2009 the Venezuelan government decreed a total of 762 expropriations of land and businesses, mostly via illegal seizure, involving actions which are coercive and lacking in any legal basis. To this rampant violation of property rights the assault suffered by the media must be added, infringing their right to freedom of speech. As if this were not enough, during the mandate of Hugo Chávez, Venezuela has become one of the most violent nations in the world, with an outrageously high criminality rate. Since his ascent to power in 1999, there have been more than 100,000 violent deaths in the country.

- **Latin America and the international scenario.** Compared with the second half of the 20th century, the last decade has brought with it the appearance of new global players. Some countries in the region have, in the last few years, forged commercial, diplomatic and political bonds with some of these players, among them autocratic States such as Iran, which constitute a threat to peace and world stability.

A new major player in the region is China. If Latin American exports to China continue growing at the current rate, the Chinese share in the regional market will outpace the European Union by 2015. Taking into account the public ownership of Chinese companies, there is a serious risk that the foreign policies of the Latin American republics end up being subordinated to the interests of the People's Republic of China.

Alongside these concerns, the political, commercial and military ties between the government of Iran and the populist and left-wing regimes in the region are being dangerously strengthened. Indeed, in May 2010, the Brazilian government sponsored a treaty between Iran and Turkey under which the Islamic republic will be able to enrich uranium on Turkish soil. Barely a

month later, Brazil, under the leadership of Lula da Silva, opposed the latest round of sanctions against Iran at the Security Council of the United Nations. Sanctions infringed by the Bolivarian Venezuela, as it continues to export petrol to Iran under the terms of the agreement signed by Chávez and Ahmadineyad in September 2009. This agreement constitutes only one of the many commercial and cooperation agreements signed by these leaders since 2005.

The impact of certain purchases of military equipment is a potential threat to the political stability of Latin America. In particular, Russia has decided to strengthen its relations with certain countries in the region, using agreements on military cooperation and arms purchases such as the one signed with the Government of Venezuela.

- **Latin America needs the support of Spain, the United Kingdom and the rest of the western world when tackling its two main challenges:** the eradication of poverty and the fight against the many faces of organised crime which has taken, such as the drug cartels in Mexico, common criminals in Venezuela, terrorism in Colombia, or the presence of mafias and jihadism near the triple border between Brazil, Paraguay and Argentina.

In hemispherical terms, the key to Latin American integration and its anchoring in the western world has been marked by its complex relationship with the United States. The United States has a long tradition defending democracy and freedom. Latin America has felt this influence ever since the emancipation of its fledgling republics, although it is true that during the 20th century there have been some cases of complacency with Latin American dictatorships and corrupt regimes which have impoverished the continent.

Nevertheless, while the influence of the USA in the region is fading as a result of the appearance of other major players on the political and commercial

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scenario, it is also true that the image of the USA among the Latin American population has improved in recent years.

Latin America requires a feasible integration project supported not only by the USA, but also by the entire developed world. This would allow not only the strengthening of ties between Latin American republics but also the incorporation of the continent into the Atlantic bond. Spain, a country with which Latin America has maintained a preferential and fluid relationship, should play a vital role in this process.

The strengthening of the transatlantic bond and its extension to the sub-continent will allow Latin American republics – without prejudice of their bilateral and sub-regional security treaties – to have greater guarantees of success when facing regional security threats which now, more than ever, have a global scope: terrorism, transnational organised crime, drug trafficking, money laundering, arms trafficking, and the connections between all these activities. Institutions such as NATO, which played an important role as defenders of freedom and guarantors of security in the west during the Cold War, could assist Latin America in successfully facing up to these new threats.

C) Strategic importance of Latin America

Judging by the progress undergone by the region in the last twenty years and the success of countries, like Spain, which have decided to commit themselves to the

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region, we can argue that the region will increase its strategic potential in the coming years, particularly as a result of the following reasons:

- **For demographic reasons.** For Europe, and in particular for Spain and the United Kingdom, the human capital of Latin America offers enormous potential. Spain's economic growth as a result, among other reasons, of the contributions made by Latin American immigrants arrived in recent years, is an example of this. The worrying ageing of European society could be alleviated by a young, qualified workforce that has also shown a capacity for rapid integration.
- **For economic reasons.** The appearance of a burgeoning middle class in Latin America offers a great opportunity for multinational companies focused on the provision of services aimed at the bulk of the population. Spain and the United Kingdom would also find themselves in an advantageous position if they became the main defenders of free trade agreements within the EU, eliminating barriers to the entry of Latin American products and services, and the progressive liberalisation of markets such as those of livestock and farming.
- **For its energy resources.** Energy will be one of the main buttresses in the strengthening of the regional economic market. We have already mentioned above the strategic importance for the region and for global economy of exports like oil, gas, lithium, uranium and different minerals. However, while many countries have exported commodities, there is still a lot of work to

do on innovation, the incorporation of new technologies and the contribution of human capital in order to take greater advantage of these resources.

- **For its strategic focus.** Latin America has become a haven for groups involved in drug trafficking, organised crime and terrorism which have wreaked havoc in the European Union, Spain and the United Kingdom, among other places. Some good examples are the cooperation of IRA and ETA with the FARC or the seizure of drugs intended for Europe. The cost of not participating in their eradication is far higher than that of cooperating with Latin American democracies.
- **For cultural reasons.** The integration of Latin American immigration in the United States during the latter half of the 20th century and in Spain in recent years transcends the simple fact of having (or not) a common language. Latin Americans share the values of the western world. Although, occasionally, they have found themselves deprived of these values in their countries of origin, values such as the defence of fundamental rights and freedoms, representative democracy and the aspiration to perfect it, the separation and balance of powers, and the Rule of Law are fully accepted by Latin Americans. Furthermore, Latin Americans have not merely been recipients of the cultural and political heritage of western civilisation, but have contributed to its development and strengthening. The cultural, legal and religious bonds which exist between the countries in the region are the result of 500 years of shared history.
- **For environmental reasons.** The core of the environmental sustainability of development is related to the loss of biodiversity linked with some of the main economic activities in the region. As a result, the Latin American republics have committed themselves to making structural adjustments to the systems of production and consumption in order to be able to move towards a green

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economy. This would enable Latin American countries to reverse the deterioration of ecosystems and the depletion of non-renewable resources. Renewable energy at the moment involves 29% of the total supply of primary energy in Latin America, a high percentage when compared with the OECD average of 5.7%. Brazil is an example because of its clean power grid: 30% of its energy has hydroelectric origins, while 15% comes from biomass.

