The European Union and Latin America in the Interregnum: Limits and Challenges of a Needed Partnership

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Abstract: The purpose of this paper is to analyse the interregional relations of the European Union with Latin America and the Caribbean and the need for a renewed relationship. This relationship must face what Antonio Gramsci called "morbid symptoms", that is, as expressions of a stage of organic crisis and interregnum in the international political economy. It is argued that this relationship and its renewed rationality must respond to an agenda of common societal challenges that must have a normative dimension. Specifically, it must respond to the diversification of external relations to ensure greater strategic autonomy on both sides, and to a development agenda driven by a triple socio-economic, digital, and green transition that contributes to the renewal of the social contract in both regions. This paper also examines the opportunities and risks presented by the EU-Mercosur agreement for this objective, and the difficulties and risks posed by its eventual signature and ratification. Finally, we present some reflections on the future of the political dialogue between the two regions, highlighting the framework of challenges and opportunities that this represents.

Keywords: Latin America, political dialogue, interregionalism, Mercosur, European Union

An International Scenario of Polycrisis and Interregnum

Since 2015 until July 2018 the European Union (EU) and Latin America and the Caribbean have not held leaders' summits. Their development cooperation languished, without a recognisable strategy. The main trade agreement still pending between the EU and Mercosur - despite the existence of an "agreement in principle" since 2019

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- has not progressed in the face of the reappearance of conflicting demands of the parties. At any other time, the lack of dialogue and cooperation between the EU and the Community of Latin American and Caribbean States (CELAC, by its Spanish acronym) would have had important costs, but in this period, they are even greater. The international system is going through a period of systemic crisis, which is putting its material foundations, institutions, and norms, both constitutive and regulatory, under stress. This crisis calls into question the social and economic structures both in the EU and Latin America and the Caribbean. It also calls for a redefinition of the patterns and strategies of international insertion, of the foreign and development policies of all actors, and of their international partnerships and linkages.

The term polycrisis has been used to describe this scenario. It refers to a reality of simultaneous crises, which feedback negatively on each other, and which would require a global and all-encompassing response. However, because of the crisis itself, it is not possible at this stage (Morin and Kern, 1999, 74; Tooze, 2022). Although it is a suggestive term, its analytical usefulness is limited because it does not refer to a causal analysis that problematises the structural factors underpinning these simultaneous crises. It also eludes the issue of power. At least since the financial crisis of 2008, the international system in which the EU and Latin America are inserted is going through a crisis of globalisation. Here, globalisation is understood as the hegemonic structure that has shaped the international order in recent decades. The crisis would be a true "organic crisis", in the Gramscian sense of the term, in which the hegemonic order previously in force becomes dysfunctional and is increasingly contested. This would give rise to a long stage of "interregnum" - another metaphor used by Gramsci - in which "the old is dying and the new cannot be born". In the interregnum appear "morbid" political phenomena that were difficult to imagine before, such as the emergence of new forms of authoritarianism, and their high-risk geopolitical bets that make the international system more insecure and unstable (Sanahuja, 2017; Babic, 2020; Sanahuja, 2022).

Why is it relevant to characterise this scenario? Because it involves societal challenges of historic magnitude. Both regions, with varying degrees of intensity, are outlining and testing the policies with which they will have to face the interregnum (Pezzini, 2022). It demands a transformative, just, and sustainable remaking of economic and social structures through the renewal of the social contract. The latter is also a necessary condition for sustaining and revitalising democracy, making it able to answer in just and inclusive ways to unmet social expectations and demands.

Towards a Renewed Bi-regional Relationship

Relations between the EU and Latin America and the Caribbean today are characterised by a double paradox. On the one hand, they have a large acquis of political dialogue, cooperation and economic ties, but since 2015 these relations have stagnated. On the other hand - the second paradox - when both regions face interregnum, i.e. an international system in which crises are accumulating, when both regions need changes in development strategies and foreign policy, their relations should be flourishing, but instead they are stagnating.

In its more than 50 years of history, bi-regional relations have reaped important achievements against human rights violations during dictatorial periods, in support for democratic transitions and, in Central America, for the peace processes. At the end of the Cold War, this agenda was extended to the promotion of trade and investment, with a network of Association Agreements that now covers many countries in the region. In those years, the bi-regional relationship served to expand the EU and Latin American respective margins of autonomy in the face of bipolarity. They highlighted the importance of regionalism and regional integration, contributed to multilateralism, and aligned development cooperation around democracy, peace, and the fight against inequality (Domínguez, 2015). In turn, the Association Agreements promoted by the EU responded to a strategy of diversification of relations and protection of trade and investment flows in the face of the Free Trade Area of the Americas project and, later, the "competitive bilateralism" (Quiliconi, 2013), which the United States promoted by signing trade agreements with some countries or specific groups. This rationale also applies today in the face of the economic and technological strategy that China is now deploying in the region. Another important legacy of these relations refers to the inter-regionalism between the EU and LAC. Beyond "hard" foreign policy interests or balance-of-power calculations, it also expresses a normative vision that defines regional groups as stakeholders of global governance, from ideational affinities and shared values.

Given this *acquis*, the fact that the bi-regional political dialogue between the EU and the Community of Latin American and Caribbean States (CELAC) has been interrupted since 2015 is an anomalous and worrying fact. It is related to Latin America's political fractures, and to the lack of European attention. Inter-regionalism requires a minimum of cohesion and agency in each of the regional groups involved. These minimums have not been achieved in Latin America due to the ideological fractures between the so-called "Bolivarian bloc" and the liberal-conservative and right-wing governments, and the latter's opposition to CELAC or the Union of South American States (UNASUR by its Spanish Acronym) (Sanahuja, 2022). The Covid-19 pandemic showed the depth of the crisis of regional organisations in LAC, and the withdrawal or absence of Mexico or Brazil, traditional regional leaders. This reduced the region's capacity to act and respond to crises such as the pandemic or the invasion of Ukraine. These events have exposed the vulnerability of both regions to health crises and the irruption of geopolitics in supply chains, which are now subject to security logic and the risk of weaponisation. On a global scale, development strategies have favoured security and resilience at the expense of efficiency. In the EU, initiatives such as NextGenerationEU or REPowerEU combine social, production, sustainability and security goals. Latin America, in the aftermath of the pandemic, also faces disruptions of supply chains and high inflation with reduced fiscal space and increased indebtedness. Moreover, it is a region of "angry societies", with high levels of discontent and dissatisfaction with the functioning of democracy and public policies.

All these elements challenge the rationality and objectives of the relationship between the EU and Latin America and the Caribbean. In view of this, reflection and dialogue are imperative to jointly define a renewed argumentation or narrative. To this end, three key ideas are proposed: first, relations must jointly expand the autonomy of both regions in a world of growing geopolitical rivalry, but still in need of governance, rules, and certainty. On this issue, the EU discusses strategic autonomy and Latin America weighs up the search for regional autonomy, different definitions of neutrality and "active non-alignment" (Bywaters *et al.*, 2021). Both regions have converging agendas around an idea of autonomy that does not imply a defensive retreat, but rather the construction of partnerships between reliable partners. They are aimed to widen their margins of maneuver and at the same time strengthen global governance. Secondly, this partnership should help strengthen democracy and open societies at a time, in both regions, of great distrust among citizens and the rise of illiberal, authoritarian, and extreme right-wing forces. It encompasses issues such as electoral processes, political freedoms, and the rule of law. However, it also entails tackling the reasons for disaffection, such as unfulfilled expectations of progress. States that do not guarantee minimum security for people, and societies are segmented by inequality. For this reason, to speak of democracy implies speaking of development and the renewal of the social contract. Thus, thirdly, the bi-regional relationship should define new strategies for trade, investments, and cooperation to relaunch development after the pandemic, with a "triple transition" in the digital, green and, critically, in the social realm (Sanahuja, 2023).

According to Latinobarómetro, the EU continues to be seen by Latin American societies as the most favorable partners in social and environmental matters, and in terms of human rights or gender equality (Domínguez, 2023). This is despite the EU policies about vaccine delivery, dominated by hoarding and reluctance to support the World Trade Organisation (WTO) rules for the temporary and extraordinary lifting of patent protection in the event of health emergencies. The EU allowed the export of vaccines in the critical phase of the pandemic, unlike others. It was the world's largest exporter and second largest donor of vaccines, and the first via COVAX, although it was other countries that came first to supply vaccines for the start of immunisation campaigns (Borrell, 2022).

A decisive factor is Brazil's return to CELAC, opening a more promising stage for Latin American regionalism. The economic complementarities between the two regions, which the war in Ukraine has highlighted, also help. Resuming the dialogue and establishing a stronger political link between Latin America and the EU is today an imperative for promoting the strategic autonomy of both regions confronted with the geopolitical risks of the interregnum: they are trapped, on the one hand, by the crisis of globalisation and, on the other, by the competition between the United States and China. Part of this scenario is the increased risk of systemic conflicts, as illustrated by the war in Ukraine or the growing tension around Taiwan. The escalation of tensions, and, more broadly, a new Cold War scenario, is not in the interests of either Latin America or the EU. It entails serious risks for both Europe and Latin America, as their economies are much more exposed than those of these two global powers. It places both regions in a position of strategic subordination, questions their agency by portraying them as subordinate actors, and discourages commitment to regional and multilateral institutions and norms and international cooperation. Moreover, a strongly securitarian narrative of strategic competition relegates issues such as democracy, human rights, gender equality, or sustainable development to a subordinate position. Again, what is needed is a shared open strategic autonomy aimed at the creation of associations of reliable partners in the face of a scenario of uncertainty and greater risk of systemic conflicts. This logic specifically applies to the EU-Mercosur Agreement.

Regarding development, it is also necessary to rethink the role of Association Agreements. They remain relevant in their traditional goals of eliminating barriers to trade and investment. However, they also should be seen as a platform for both sides' dialogue and regulatory convergence in social, digital, and environmental matters, for fostering sustainable and just production and consumption models (Bonilla and Sanahuja, 2023). This can also help to avoid new green protectionism, which will be challenged as an attempt to unilaterally impose European principles and rules on the rest of the world. Finally, these agreements must preserve the policy space needed to foster innovation and to deploy the new green and digital industrial policies that today dominate the economic agenda in both regions, as well as in other external partners, such as the United States and China. This will involve making some provisions of the Association Agreements more flexible or adapting them. There are already signs of this, for example, in the provisions on lithium in the modernisation of the EU-Chile Association Agreement, which are functional to the Chilean policy to promote industrialisation processes based on this mineral (Beattie, 2023).

The Case of the European Union-Mercosur Agreement

After 20 years of negotiations, the agreement between the two regional groups reached its first milestone when an "Agreement in Principle" on trade matters was arranged in June 2019. However, for some time now, the agreement is still awaiting formalised signature and there are growing doubts about its chances of ratification by all parties. Initially, the obstacles to the ratification came from the EU's agricultural and livestock sectors, particularly from countries with a similar production structure to Mercosur countries, such as France, Belgium, the Netherlands, and Austria. In a second moment, this protectionist agenda intersected with environmental claims, particularly audible in the case of France, against the Jair Bolsonaro government's (2019-2022) environmental policies and increased deforestation in Brazil. This issue was also raised in 2020 by the European Parliament, by asking for effective environmental protection measures consistent with the 2015 Paris Agreement as a precondition for its approval (Sanahuja and Rodriguez, 2021, 6). Mercosur countries, particularly Brazil and Uruguay, also advocated a policy of "opening and flexibilisation" of Mercosur, pushing for a reduction -even the abandonment- of the common external tariff, straining the relationship with Argentina and Paraguay.

The return of Luiz Inácio Lula da Silva to the presidency of Brazil in January 2023 has been an important element of change for the bi-regional relationship. Lula has announced "a return of Brazil to the world", coming back to multilateral frameworks, symbolized in his presence as president-elect at the COP27 in Egypt in November 2022. Lula's new foreign policy will also search for international relevance with a position of "non-alignment in the service of peace" between Russia and Ukraine (Le Monde diplomatique, 2023). Brazil's return to CELAC, which had been abandoned by Bolsonaro, makes it possible to generate a new dynamic of Latin American *concertación* and dialogue within the region and with the EU, including the bi-regional Summit convened in July 2023 in Brussels. It also contributes to make possible the signing and ratification of the EU-Mercosur Agreement. However, on May 25, during the celebration of the Brazilian Industry Day at the Federation of Industries of the State of Sao Paulo (FIESP), President Lula affirmed that Brazil will not give in regarding the government procurement clauses of the EU-Mercosur Agreement, a key tool for industrial policy, "because (if it does so) we will kill the possibilities of growth of small and medium-sized companies" (La Nación, 2023). In the same speech, the Brazilian president connected his position to that of France regarding the defence of its agricultural products. In subsequent statements, Lula has questioned new EU rules linked to the European Green Deal, such as the Carbon Border Adjustment Mechanism (CBAM) or the new Regulation against Deforestation, that Brazil see as instances of a new unilateral green protectionism (Bound and Bryan, 2023).

The June 2023 tour of the President of the European Commission, Ursula von der Leyen, through some Latin American countries, Brazil, Argentina, Chile, and Mexico, represents a significant event in the recent history of bi-regional relations. After more than a decade, the EU is touring the region presenting the Global Gateway investment programme as a development tool, but also as a counterweight to the increased presence of China and its global "New Silk Road" project.

This tour has reasserted the new strategic rationale of the interregional relationship for the EU: the conclusion of the negotiations of the EU-Chile Framework Agreement, the signing of the EU-Argentina Memorandum of Understanding for a strategic partnership on sustainable value chains of raw materials, EU investment agenda through Global Gateway, the conclusion of the EU-Mexico Modernised Global Agreement before the end of the year, as well as the ratification of the EU-Mercosur Agreement.

A Common Agenda for the Triple Transition

Working together on a "triple transition" means recognising that, in the face of the climate emergency and the social challenges of the digital and green transition, development can no longer be based on old mindsets: the traditional North-South framework still underpinning the OECD DAC rules, or on Eurocentric approaches that continue to view Latin America as an "Eldorado" of raw material and commodities. A common agenda is required, even if there are different starting points, which assumes the central idea of the 2030 Agenda that development is a universal purpose. In the face of these challenges, there are no previous scripts or blueprints such as the old "Washington Consensus". This requires the establishment of a common framework for innovation, policy exchanges and mutual learning, regulatory dialogue and convergence, and new development policies in favour of sustainability. These are times of experimentation and learning, where many of the old certainties are no longer valid. We must bear in mind the departing asymmetries and differentiated capacities and responsibilities of the parties, but in the face of a climate emergency or the reconstruction of the social contract, we are all "developing countries". The EU is doing so, in fact, with the ambitious European Green Deal. This horizontal approach to cooperation is the starting point of the innovative "development in transition" approach proposed by ECLAC and the OECD (2019) to renew the cooperation agenda beyond traditional metrics and relationships.

To promote these transitions, the EU wants to encourage public and private investment in Latin America and the Caribbean. To this end, the new European Fund for Sustainable Development plus (EFSD+) is available for the 2021-2027 budget period. Global Gateway (GG) is based on this facility which aims to use EU cooperation funds to leverage public and private capital for investments in the digital and green fields. GG is aimed both to meet the large investment gaps that hinder Latin America in these areas, as well as to satisfy European business interests and the geopolitical imperative of competing with China in its growing role in development finance. GG is indeed a valuable instrument, but some caution is needed: it responds to a logic of de-risking that may disappoint oversised expectations of mobilisation of private resources (Gabor, 2023); it should not replace or overshadow other programmes of the EU and its Member States' development cooperation, such as technical assistance, education, human rights, gender equality, or support to civil society, and, above all, cooperation aimed at promoting social inclusion. GG is a cooperation instrument, but it does not replace all European cooperation, which has many other dimensions (Koch *et al.*, 2023, Buhigas and Costa, 2023). Similarly, it must be assured that investment projects respond to the demands and development needs of Latin American countries. They must promote wind or photovoltaic solar energy, raw materials supply chains, or green hydrogen, but they must also respond to other needs: technology transfer to develop value chains and reindustrialisation processes and to transform the energy mix in Latin America; or to address the investments needed to cover gaps in digital education or gender issues. These investments, moreover, should be placed in a framework of policy dialogue and national development policies, rather than being induced by the European offer, especially by the needs of raw materials required by the green transition in the EU, avoiding a new extractive cycle.

The finance mobilisation agenda does not end with GG. Innovative financing instruments will be needed, such as the issuance of green bonds, debt relief initiatives, such as debt-for-climate-action swaps, and the mobilisation of Special Drawing Rights (SDRs) not used by rich countries, to nurture a sort of Latin American *NextGeneration* with green and digital investment funds. And, although it has been already underlined, this international effort must be accompanied by hard-needed tax reforms to improve the coverage and progressiveness of national tax systems and mobilise internal resources.

The period between 2022 and 2023 has opened a perhaps unique window of opportunity for these common objectives between the EU and Latin America and the Caribbean. The Spanish presidency of the Council of the EU in the second half of 2023 and the return of CELAC open a promising phase of Latin American regionalism and interregional relations. The recognition of the need to address shared challenges between the two regions, to face together a moment of crisis in globalisation and to overcome the "interregnum" (Pezzini, 2022) also contributes: it can generate new coalitions of progress and more political will.

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