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EU – Latin America/ Caribbean Trade: A Partnership for the Future

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Ladies and Gentlemen,

The relationship between the European Union and the Latin American and Caribbean region is crucial.

We do share history, values and languages and these do provide a firm basis for our cooperation. But it is also important for very pragmatic economic reasons. With a GDP of five and a half trillion dollars and a population of 575 million consumers the region's current importance should not be underestimated. But it is also one of the key emerging markets of today's world offering huge potential benefits for European companies in the coming years.

These are times that call both for optimism and concern about the future of Latin America and the Caribbean as well as for their relationship with the European Union.

The choices we make today on both sides will set the course for future decades and we need to make sure that we start out on the right track.

Allow me to assess where we find ourselves and then argue the case for what I believe we need to do together, which is recommit to policies of productivity, growth and economic integration within our own regions and in our relationship with each other.

Some of the most important recent insights into the way economies work today comes from research into the extent and depth of global value chains.

Value chains have become an essential feature of our economic reality. Today's products and services are not produced in a single location or even by a single company.

Rather they are the end result of a highly coordinated series of steps carried out in many countries around the world by many people with many different skills. In fact, there are very few products today where it is still possible for us to build a consumer good without cooperating across borders in this way.

What this means is that for all economies - including Europe and the Latin American and Caribbean region - prosperity will partly depend on the degree of economic integration that a country can achieve. Over time, the objective for economies is to become cost-efficient in those parts of the value chain that add the most value, as those are where the high salaries and profits are to be found.

Latin America and the Caribbean have seen some notable successes in this area. We only need to look at Brazil's passenger jet industry or Costa Rica's microchip exporters to see that.

But it remains the case that much of the economic growth that has happened since the 1990s in the region is linked to the success of commodity exports, whether they be food, metals or fuel. Diversification to higher steps in the value chain is vital if development is to continue.

The current global economic situation is making this difficult.

First, the very success of those commodity exports may be getting in the way of new products and services. We see historically high prices for primary goods as demand increases from emerging countries across the globe. But these high prices can fuel internal inflation which increases costs for companies exporting goods with greater added value. These companies will therefore have a harder time to compete on

global markets. This can be compounded by the fact that high commodity prices may encourage overvalued currencies, as illustrated by the appreciation of the Brazilian currency by 29% in real terms since the beginning of 2007.

On top of this, the global economic crisis is hitting the region in a variety of ways.

On one level, the collapse of demand in Europe and the United States in 2008 and 2009 had a direct impact on exports. For the Caribbean for instance, traditional big earners were hit hard – tourism, sugar and banana exports, and remittances. Mexico, very exposed to the United States, was also severely impacted. However, to a large degree these direct impacts have now been addressed. Almost all the economies in the region have now returned to positive growth and two thirds of them grew at rates above 3% last year.

Nonetheless, there is now a secondary impact of the crisis due to efforts in the developed world to stimulate growth through monetary policy. The resulting differences in interest rates are creating incentives for investment flows into the region which could be destabilising. This is on top of the fact that they contribute to the currency appreciation that makes manufacturing and services exports less competitive.

The third element of today's economy that is posing challenges for the region is of course, the rise of China. That country's dramatic increase in export markets is affecting Latin American manufactured goods exporters. In this region, like in other parts of the world, China has been both a boon and a challenge.

We can see this concretely in the evolution of trade between Brazil and China. In 2000 less than 50% of Brazil's exports to China were primary products. By 2010 that figure had risen to almost 80%. Certainly this benefited the Brazilian economy but did not contribute to the important goal of moving up the value chain.

So what is to be done about this situation? How can the countries of Latin America and the Caribbean move up the value chain in the face of a difficult global environment?

As all good doctors know, the first step is to do no harm.

And the greatest harm that any government in the region could do would be to abandon open markets and the rule of law.

Because, we know now that if any of us wish to insert our economies into global value chains then it is vital that we stay open – both to imports and exports. Today global trade is valued at almost half of total global output. Of that figure, fully one third of trade happens between firms.

If Latin America and the Caribbean or, indeed, Europe want to continue their development, they must take account of this reality: Companies producing goods and services are not solo athletes – they are relay runners. If they want to cross the finish line they need to receive the baton from their team members and then pass it on once their part of the job is done.

We are therefore very concerned in Europe when we see moves away from open markets through protectionist policies in some countries in your region.

Indeed, there has been for many years a debate across the region between those who understand that open markets and competitive economies are the route to prosperity and those who believe that it is possible to grow behind protective walls.

This debate is heating up again. Just in the last week Argentina decided to nationalise the oil company YPF, by expropriating only the Spanish majority shareholder REPSOL but not the Argentinean shareholders.

This is exactly the kind of measure that needs to be avoided. Foreign direct investment is a direct line into global value chains. But companies only make the serious, long-term and expensive decisions to invest in a country when they are sure that their investment is secure.

By taking this action, Argentina has sent shock waves through the international business community. The consequences for its own economic development will be felt for a long time to come.

But this is not only about Argentina. Europe also has a stake in this matter as it is one of our own companies that is under attack.

As a result I have made very clear to my counterpart in Argentina just how seriously we are taking this matter in the European Union. I can assure you that we will do everything in our power to support the Spanish government as it seeks full compensation for the company concerned.

But unfortunately, this is not the only example of protectionism that we have seen in recent times across the region. Whether it be other expropriations, restrictive import licensing or policies to force a higher local content of goods, these measures will not help the countries that put them in place.

They hamstring international supply chains, nurture a rent-seeking, uncompetitive private sector and deter foreign investment.

But, as in the REPSOL case, protectionist measures also damage trading partners. And that is why we look very closely at every new trade restrictive measure taken to see how they can be addressed. We have a comprehensive trade enforcement strategy that employs all tools, from diplomacy to dispute settlement proceedings at the WTO, to promote market openness around the world. We will not hesitate to use them.

But better than simply avoiding mistakes is to have a positive strategy for achieving competitiveness and economic integration - and so for moving up the value chain.

In both our regions that involves a range of policies.

We need to ensure financial and fiscal stability. In Europe we have made real progress toward putting the Eurozone's house in order. We are not out of the woods yet but we are moving in the right direction. In Latin America and the Caribbean a close eye will need to be kept on capital movements to make sure that large inflows of hot capital do not lead to a too high exchange rate or strong volatility.

We also need to make sure we offer the most flexible and innovative business environments that we can. That means investing in education and infrastructure and addressing regulatory burdens. That way our regions will be better able to carry out the complex tasks that add the most value in a production chain - like design, engineering or marketing.

Coming now to trade policy, we have two tasks before us.

First we must move forward with our respective projects for regional integration, with "internal" trade, so to say.

In Europe, we already know that the Single Market is a cornerstone of our prosperity. The Single Market has been a tremendous engine of efficiency and consumer choice.

But we are not resting on our laurels. We are working on completing the internal market in key areas like the digital economy, services and intellectual property rights.

Latin America and the Caribbean have the opportunity to gain similar advantages by delivering much deeper economic opening.

Second, we need to continue our work towards transatlantic economic integration.

From the Latin American and the Caribbean perspectives, Europe offers a valuable alternative to other economic partners active in the region, be they the United States or China.

Like all trade and investment relationships across the world ours took something of a battering between 2008 and 2009. Trade in goods fell by almost a quarter. Trade in services by over 10%. But the recovery has been just as dramatic. Our goods trade hit 212 billion euros last year, 15% up on the 2008 figure. Services trade still has a little way to go but is catching up fast.

If this is how strong our relationship is now, imagine what we can achieve when we have a comprehensive set of free trade agreements between our regions.

We have already made enormous strides.

At the beginning of this century we put in place the association agreements with Chile and Mexico.

In 2008, the Caribbean countries signed an Economic Partnership Agreement, or EPA, with the EU and we are already seeing tangible results. Recent examples abound of European and Caribbean companies either expanding in the region, or starting from scratch – from UK film studio company Pinewood in the Dominican Republic, to Jamaican-based mobile operator Digicell in several other Caribbean countries.

We are now about to take the next step forward, by signing and ratifying agreements with the six Central American countries and with Columbia and Peru. We expect savings to European exporters of some 330 million euro in tariffs and billions of euros of GDP expansion on the Latin American side – between half a percent and 3% in total. On top of this, we have taken care to include very robust provisions on human rights and sustainable development.

Our next task, and it is a challenging one, is to bring our negotiations with Mercosur to a successful conclusion. Given the size of the countries and economies involved, this deal has perhaps the greatest potential to change lives on the Latin American continent. We have made real progress since the re-launch in 2010 but it has been a difficult one to finalise. What is needed now is a re-commitment by all sides.

And may I say that we remain open to negotiations with countries like Ecuador and Bolivia as long as they recognise the benefits that can be had from genuine economic integration.

Ladies and Gentlemen,

I believe that there is a tremendous mutual interest in deepening cooperation between the European Union and the Latin American and Caribbean region particularly ahead of the Summit between our regions that will be held in 2013 in Santiago de Chile.

Given the challenging times that we live in, we all need to seize the benefits where we can find them. Let me remind you that opening up to trade remains a way to stimulate an economy that does not cost any money.

I hope we will be able to make progress together.

Thank you very much for your attention.