SWP Comment
NO. 1 JANUARY 2023

From Common Values to Complementary Interests

For a new conception of Germany's and the EU's relations with Latin America and the Caribbean

Günther Maihold, Tania Muscio Blanco, and Claudia Zilla

The Covid-19 pandemic and Russia's war of aggression against Ukraine have posed major challenges – in different ways – to Latin American and Caribbean (LAC) countries as well as to the European Union (EU). At the same time, these international crises have revealed how little resilience there is in the narratives that are supposed to inform normative relations between the two regions: shared values, strategic partnership, and dialogue at eye level. In fact, this rhetoric is based on wishful thinking and does less and less justice to the reality of mutual relations. Common ground is crumbling, and there is a lack of projects that give meaning and purpose to cooperation. Such projects would have a chance of success especially if divergent views were addressed and mutual expectations were openly negotiated. Instead of building on commonalities, future-oriented cooperation should rely more on complementarities – within the framework of varying formats.

Especially in the last decade, relations between the EU and the countries of Latin America and the Caribbean have lost intensity and relevance. Mutual expectations have been repeatedly thwarted, not least because of divergent positions on geopolitical issues. It is true that the LAC region is extremely heterogeneous, and its states maintain relations of varying degrees with Germany and the EU in many policy areas. But they have recently had similar experiences with the EU in the context of the Covid-19 pandemic and the Ukraine war, which drives a regionally shared image of Europe.

From the perspective of many LAC countries, the pandemic served as a focal point for European-Latin American relations. The EU and Germany's vaccination policy revealed the fragility of the rhetoric that the EU was striving for a "relationship of equals" with the region, and that it regarded its countries as "natural partners" whose values they shared and with whom multilateralism is to be strengthened. Rather, many LAC countries saw an expression of Europe's egoism that was far removed from its usual declarations of solidarity.

On a global scale, the LAC region is the most affected by the pandemic. With only

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

8 per cent of the world's population, it accounts for about 12.5 per cent of all Covid-19 infections and about 26 per cent of deaths (as of 11 Dec. 2022). Lacking its own production of Covid-19 vaccines in the early stages of the pandemic, the region — which traditionally has had a high level of vaccination and is a major "testing ground" for the pharmaceutical industry — had to rely on vaccine imports. Low-cost vaccines from Russia and China could be imported and administered by many LAC countries particularly quickly and on a large scale.

European governments — including Germany — strongly criticised Moscow's and Beijing's "vaccine diplomacy" towards the Global South. At the same time, they imposed restrictive regulations to ensure that European vaccines remained in the EU and were the only ones recognised for entry into the Union, alongside those produced in the United Kingdom and the United States. Germany and the EU donated funds and some vaccines to the United Nations (UN) COVAX mechanism, but it remained relegated to a modest aid programme, as it suffered from underfunding and a weak negotiating position with vaccine manufacturers. In cases where LAC countries purchased vaccines from COVAX, delivery was delayed considerably.

Appeals from the region for the EU to follow the World Health Organization in recognising vaccines — and thus allow people with the "wrong" vaccinations to enter the country — were ignored. The EU and Germany, in particular, vehemently rejected initiatives from the Global South to treat vaccines as global public goods and to relax corresponding patent rights for a limited period.

During the pandemic, LAC countries looked in vain for the solidarity and multilateral cooperation factor in Europe's interactions with the region. Rather, in a situation of great need, the region experienced the asymmetry of power in their mutual relations. From this perspective, the pandemic revealed the contradictions and inconsistencies dominating the LAC policy of the EU and German, making it appear less reliable and credible. Trust between the region and Europe is steadily declining, with their respective positions drifting ever further apart.

This process is also being driven by a discrepancy in the perception and interpretation of global issues. Although there are a lack of platforms and instruments for dealing with the differences, expectations, and frustrations in mutual relations, bi-regional tensions are particularly apparent when it comes to geopolitical issues. On the other hand, new concepts and instruments in the fields of environmental governance, raw materials, and development finance could be important sources of momentum to promote complementary cooperation.

Geopolitics: The imperative of the "*Zeitenwende*"

In the aftermath of these divergences during the Covid-19 pandemic, the region is now confronted with German and European expectations that, in light of Russia's war against Ukraine, it should support the narrative of the *Zeitenwende* (turning point) and the policies derived from it. LAC governments are expected to support the counter-strategy of strength — which relies on isolation, sanctions, and rearmament — chosen by the EU and the North Atlantic Treaty Organization. Once again, multilateralism is being invoked in order to win Latin American votes for the European position at the UN. The vocabulary of cooperation is now being employed to promote "raw material partnerships", which are intended to compensate for the supply shortfalls of Russia and Belarus, as well as potentially of other energy suppliers.

From the perspective of the LAC countries, this only conveys the European view and declares a war that is limited to the European continent to be a turning point in international politics. The nuclear-free and low-armament region has much to lose in a world where defence spending is rising and weapons, not least nuclear ones, are becoming increasingly important. As part of a periphery that ranks low in the international security hierarchy, many LAC countries maintain a protective and inclusive multilateralism. In their view, the UN system reflects existing power asymmetries but is nonetheless able to mitigate and buffer the dominance of strong states. In the multilateral framework, most LAC states have traditionally advocated for condemning sanctions and averting the exclusion of members from UN institutions. Exclusion is seen as a strategy of the powerful that could be turned against their own countries in the future.

For the region, the constraints of the *Zeitenwende* add to the pressure already generated by the great power conflict between the United States and China. For many LAC countries, the expansion of their (primarily economic) relations with countries such as China, Russia, and Iran meant an opportunity for foreign policy and foreign economic diversification beyond their traditional partners: the United States and the EU. On the one hand, the LAC states' striving for autonomy implies that they are eluding a predetermined bloc formation. Concepts such as "relational autonomy" and "active non-alignment" express their ambition to preserve their own independence. On the other hand, efforts to diversify foreign relations — especially among South American countries — have led to strong ties with China on trade, infrastructure, and technology. This has gone hand in hand with an initially profitable reprimarisation, that is, increasing the share of raw materials in their export portfolios. They do not want to jeopardise this.

The great power conflict, the election of Joe Biden as US president, and the war in Ukraine have also promoted rapprochement between the EU and Washington. From a Latin American perspective, this means that Europe is losing its appeal as a "third option" alongside the United States and China. In a multipolar world, the EU would like to be viewed as an "alternative" and a significant player with its own distinct profile.

In this context, the Association Agreement between the Southern Common Market (Mercosur) and the EU is gaining relevance. In its pursuit of deepened economic relations and a venue for political dialogue, the EU is strongly committed to concluding as well as modernising free trade and association agreements with LAC countries in various formats. Yet, given the exaggerated expectations, existing tensions, and unaddressed discrepancies between and within the regions, today such agreements are proving to be inappropriate, overrated, and/or unfeasible.

New concepts for sustainable resource usage

The ratification process for the EU-Mercosur Association Agreement is a prime example of this. Here, among other issues, questions about the protection of the Amazon rainorest are straining bi-regional relations. In addition to the agricultural protectionist interests of some EU states, the desire to put an end to the extensive deforestation of the Amazon is the main reason for the reservations about ratifying the agreement. The policies of the prior president of Brazil, Jair Bolsonaro, have massively undermined the Amazon's role in mitigating climate change. Bolsonaro had "freed up" the rainforest for logging and mineral exploitation after taking office in 2019. Admittedly, his elected successor, Luiz Inácio Lula da Silva, has announced that he would work towards protecting the rainforest. For example, the Amazon Fund, to which Norway and Germany contribute, is to be reactivated. Nevertheless, even with Lula, internationalisation initiatives that restrict Brazil's sovereignty will not succeed. Moreover, under his government, the rainforest is likely to continue to be utilised to promote national development and ensure economic growth.

In the case of the Amazon rainforest, concepts and mechanisms of international cooperation are needed that go beyond previous approaches in two respects: partner structure and thematic focus. First, a partner pool should indeed include Brazil but should also involve other important stakeholders should not only have Brazil as a partner. Sixty per cent of the rainforest is located in Brazilian territory, while the remaining 40 per cent is distributed among Peru, Bolivia, Colombia, Venezuela, Ecuador, Guyana, French Guiana, and Suriname. There are also a number of regional organisations, such as the Organización del Tratado de Cooperación Amazónica (OCTA), with which increased cooperation is recommended. Second, environmental protection in countries with high poverty rates should go beyond a purely conservationist objective in favour of an approach that takes into account the development needs of these countries. Projects should be developed that enable concepts for the sustainable use of natural resources to be implemented jointly with the societies of the relevant LAC countries.

The search for partners in sourcing raw materials

With the war in Ukraine and European sanctions on Russia, the search for alternative sources of supply of raw materials in Europe has intensified. For Germany, Russia has been particularly important, as it is one of the world's largest exporters of metallic raw materials, including vanadium, palladium, aluminium, nickel, and titanium. Not least, the German steel and automotive industries depend on imports of nickel, aluminium, and titanium from Russia. To date, for example, around 44 per cent of refined nickel and 17 per cent of aluminium have been imported from there. In the case of titanium, which is used to produce green hydrogen, 33 to 41 per cent of German imports come from Russia, depending on the degree of processing.

Important countries in Latin America and the Caribbean have caught Germany's attention as partners, primarily because they offer access to essential raw materials for automotive production and the green energy transition. The list of interests includes iron and steel, aluminium, copper, lead, zinc, and lithium, of which the latter is increasingly important for electric cars. It should be noted that these raw materials originating from the LAC region are often first shipped to China for further processing before they arrive in Germany.

Brazil, which already plays a dominant role as an exporter of iron ore and is now turning towards intensifying the exploitation of nickel, is particularly attractive in terms of substituting raw materials previously supplied by Russia. The construction of the Araguaia nickel mine in the state of Pará, for example, is intended as a first step towards diversifying the country's export structure for mineral raw materials. However, the current export volumes of aluminium and nickel from Brazil as well as from Jamaica and Cuba are not adequate for Germany to replace previous imports from Russia; they merely offer the opportunity to further diversify Germany's import structures.

As for Chile, mining accounted for 44 per cent of total exports to Germany last year, with copper and lithium being the most prominent. There are also similar opportunities to expand the supply of raw materials to Argentina, Peru, and Bolivia.

Hydrogen – an opportunity for renewed exchange

In the area of energy supply, Germany's relations with Latin America are particularly centred around coal, which, due to the current crisis, is imported from Colombia and Brazil. Beyond that, Germany is focussed on green hydrogen and its derivatives, such as methanol and ammonia. So far, hydrogen is not being traded on markets, and the transport infrastructure is poorly developed worldwide. Thus, there has been no power asymmetry so far between producers and users in terms of prices and availability. From a European perspective, a preference for production locations that can deliver at low cost thanks to a pipeline connection, such as in North Africa, is evident. According to model calculations, the annual transport capacity of a ship over distances of up to 5,000 kilometres is less than one-third of the pipeline capacity, which would put Latin American export hubs in a difficult market position.

Notwithstanding this, many LAC countries are hoping for great opportunities in future hydrogen markets. They have favourable conditions to produce energy from renewable sources and want to supply green hydrogen very quickly. At present, however, we should speak of potentials rather than existing supply capabilities, as many countries are still concerned with planning tasks or formulating their strategies and development plans for hydrogen. Paraguay, Uruguay, and Costa Rica, as well as Brazil, Ecuador, and Colombia, rank among the countries worldwide with the highest shares of renewable energy in their production matrix. Possible surpluses could be used to produce hydrogen, for which private investors have also signalled clear interest. There are also options for decarbonising existing hydrogen production in Trinidad and Tobago, Mexico, Brazil, Chile, and Argentina. This could lead to the further use of hydrogen as an energy carrier in the form of methanol or ammoniac.

However, there are two main obstacles. First, to participate in the ramp-up of the hydrogen economy, a country needs a developed infrastructure of ports, transport vessels, internal pipeline systems, and suitable storage facilities. Occasionally, this can be done using existing facilities for the production of grey hydrogen from natural gas, but these would need to be significantly expanded. Second, in the case of LAC countries, it is necessary to equip ships to be suitable for the refrigerated transport of green hydrogen and derivatives over long distances; this will require a large capital investment.

The region is thus available as a potential partner in the hydrogen economy, but it has certain disadvantages in terms of costs and location compared to competitors that are closer to the European market. Initially, it could be offered to supply blended products of grey and green hydrogen within established supply chains for natural gas (such as from Trinidad and Tobago). However, Latin America will only be able to expand the production of green hydrogen as an export commodity if the individual countries can assume a guaranteed prospect of German and European demand.

The German government has set up a "Hydrogen Task Force" with Chile — as the regional pioneer in hydrogen production — as part of a bilateral energy partnership, thus sending out an initial signal. Although the country already has a port infrastructure, including terminals for liquefied natural gas (LNG), it needs to be significantly expanded. Countries such as Brazil, Colombia, and Panama could act as hydrogen hubs to shorten transport routes and generate additional benefits. Brazil's green hydrogen pilot projects are geared towards export to Europe, as are corresponding efforts in Argentina, as indicated by entry-level private investments. However, attention must be paid to ensure that hydrogen generation from renewable energy does not compete with the local power supply and that a "Just Energy Transition" is possible.

It is becoming increasingly apparent that Germany and Europe cannot just enter into traditional raw materials partnerships in the face of global competition. Rather, cooperation must be placed on a broader footing. This requires technological cooperation, investment opportunities for private capital, and the offer of expanded opportunities for value added in the producer countries or within a regional framework. This calls for efforts to bring together economic, development, and foreign policy activities in such a way that Germany can succeed in achieving a new presence in the region. This requires formulating an offer that clearly stands out from those of other competitors.

Overcoming traditional means of development finance

Many Latin American countries are now classified as middle-income countries (MICs) or have recently been "graduated" from developing country status — in each case with the consequence that official development assistance (ODA) for them is being phased out. Nevertheless, these countries continue to face profound socio-economic problems. Their situations have been further exacerbated by the Covid-19 pandemic, the war in Ukraine, and the associated sanctions regime. Added to this is a steadily rising inflation rate, which is wiping out previous development gains. As public coffers are empty, it is largely impossible to finance compensatory measures.

For their part, donor countries have seen their public budget priorities shift as a result of arms and military policy decisions, limiting the funds available for development cooperation. Nevertheless, a partnership between EU and LAC countries is unthinkable without financial cooperation. New financing instruments beyond the classic ODA criteria are therefore needed. This is especially true with regard to the productive role of graduated states, as they often act as (know-how) multipliers for developing countries, for example in the field of agricultural innovation. In view of high inflation and the war in Ukraine, there must be a transition to alternative sources of financing that take account of the new circumstances, even beyond limited budgetary constraints.

It should be noted that China's importance in development finance is growing. In geostrategic and economic terms, this underscores the need for Germany and Europe to act as reliable cooperation partners and visible donors in this field. Beyond the ODA criteria, innovative instruments that combine private and public funds and can be proactively aligned with the needs of partner countries should be employed. Such tools should be developed both within the EU framework and within German bilateral cooperation.

An interim solution for middle-income countries

Against the backdrop of the EU's declining relevance in Latin America, a compromise must be found in Europe between the desire for a pan-regional perspective and the reality of growing bilateral relations. To this end, German engagement in programming and prioritising financial instruments should focus more on better integrating bilateral and regional cooperation. This would allow for continued cooperation with those countries that are phased out from the financial support of the EU and its member states due to their middle-income status.

The "Neighbourhood, Development and International Cooperation Instrument (NDICI) — Global Europe", which the EU created in 2021, is particularly suitable for implementing this goal. Within its framework, some LAC projects are only in the planning stage. The NDICI combines previously fragmented EU funding programmes such as the European Neighbourhood Instrument and the European Development Fund. With a volume of 79.5 billion euros, the new instrument will enable cooperation with all countries until 2027, regardless of their average incomes. European governments consider this an opportunity for MICs to achieve new forms of financial cooperation to advance international causes such as climate protection and the Sustainable Development Goals.

Based on a "policy first" approach, relevant partnerships include bilateral, cross-country, and regional financial support linked to policy dialogue vis-à-vis the region and the country concerned. Since the NDICI programming and implementation are flexible, cooperation between recipient countries and the EU allows for more innovation. This permits the EU not only to take a role as a development actor, but also to act as a strategic partner for MICs. In the bilateral or bi-regional context, the NDICI can help in pursuing joint initiatives based on policy dialogue and common interests such as inclusive growth.

An argument in favour of this approach is that it can facilitate policy cooperation with strategic allies or help finance specific activities for which there are limited resources. Within the thematic and crisis response pillars of the NDICI, individual priorities can be taken into account and coherence of actions can be ensured. However, EU officials have criticised the associated resource allocations as being too small to address the most pressing social problems, such as poverty and inequality. This is because, despite increased per capita income, the LAC states continue to suffer from massive governance deficits, which represent an additional burden in this current time of crisis and further exacerbate social tensions.

If Germany wants to maintain its presence in the heterogeneously operating region, it must now present a transition strategy in the area of financial cooperation for those countries graduating to MIC status. Although such countries gain access to non-concessionary loans, these carry higher interest rates. An attractive alternative is the use of bond-financed funds for various areas of cooperation.

Development sector funds derived from bonds

Funds sourced from bonds can mitigate the loss of loan flows and grants that Latin American countries experience as a result of their graduation. The European Fund for Sustainable Development Plus (EFSD+), which is integrated into the NDICI, points in this direction. It mobilises additional investment for sustainable development from both the public and private sectors. Areas such as climate-friendly infrastructure, renewable energies, and digital transformation are expected to benefit from this. Similarly, KfW Development Bank has been activating private capital for climate-friendly investments in Latin America since November 2021. The new fund, which is financed by green bonds, that is, fixed-interest bonds, has a low investment risk and is therefore attractive to the private sector. It relies on a leveraging effect — every euro from the public sector is expected to attract further funds from the capital market or other development banks. Such funds, which promote private-sector interests and investments in the LAC region, should be expanded for other sectors where there are major financing gaps. In addition to climate, this applies in Germany's bilateral financial cooperation primarily to the sectors of good governance and primary health care (water, sewage), transport and mobility, as well as the digital economy.

Renewed engagement with the region also means thinking about alternative financing in development assistance. Budgetary constraints must not be a reason for neglecting MICs, which already play a strategic role for Germany and the EU. A new approach to the external finance architecture is therefore needed at both the European and national levels. This should be geared to the needs of the recipient countries and their financing gaps.

Furthermore, the format of the intergovernmental climate and development partnerships agreed by the German Federal Ministry for Economic Cooperation and Development (BMZ) to promote the Paris climate goals has not been comprehensively thought through. The same applies to the Amazon Fund, which is currently being revived. Rather, regional initiatives such as the "Pacto de Leticia por la Amazonía" for the joint fight against deforestation and wildfires with seven LAC signatories can be supported in a more targeted and holistic manner under a regional umbrella. However, the goal should not be to merely reactivate old plans, but rather to stimulate new initiatives for multilateral cooperation through a restructuring of development financing that can also withstand possible changes of government.

Foundations for a new start with aged relations

Without a fundamental reorientation, it will not be possible to revitalise German and European relations with Latin America. To this end, it is necessary to overcome old linguistic templates and focus on concrete common interests. LAC countries are called upon to further develop corresponding points of contact for European and German partners. The past months have shown that Europe, in turn, can no longer rely on its historical ties as it has done in the past, and thus expect a quasi-self-evident “goodwill” in the region. Beyond stale symbolic gestures and conjuring up the past, the task now is to approach each other in a forward-looking manner. In doing so, we should not assume common ground where it has disappeared, but rather develop common interests that could serve as viable foundations for joint action. There are already starting points for this; developing these is now the task of German foreign and development policy.

SWP
Stiftung Wissenschaft und
Politik
German Institute for
International and
Security Affairs

Ludwigkirchplatz 3 — 4
10719 Berlin
Telephone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

ISSN (Print) 1861-1761
ISSN (Online) 2747-5107
DOI: 10.18449/2023C01

(English version of
SWP-Aktuell 78/2022)

This Comment was written as part of the project “The Impact of the Ukraine War on Latin America/Caribbean and their Relations with Germany and Europe”. Prof. Dr Günther Maihold is Deputy Director of the SWP. Tania Muscio Blanco is Research Assistant in the aforementioned project. Dr Claudia Zilla is Senior Fellow in the Americas Research Division.