ECLAC
Economic Commission for Latin America and the Caribbean

RECENT CHANGES IN THE EUROPEAN UNION AND THEIR POTENTIAL EFFECTS ON LATIN AMERICA */

*/ This document was prepared by the International Trade Unit of the International Trade, Development Financing and Transport Division. It has not been subjected to editorial revision.

95-3-243
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I. INTRODUCTION

The world trading system is undergoing a period of dynamism, dramatic changes and uncertainty for all actors involved. New regional groupings have been forming while older blocs have undertaken major transformations. The Single European Market (SEM) was implemented January 1993, the North American Free Trade Agreement (NAFTA) was ratified November 1993 and in Latin America various bilateral and regional agreements have been created or have been reformed.

The conclusion of the Uruguay Round in April 1994, welcomed by many, signifies important changes in global trade liberalization and regulations beginning January 1995. The scenario under which the world divides itself into three distinct and possibly hostile factions centered on the Americas, Europe and East Asia has undoubtedly become less plausible with the completion of the Uruguay Round.

Instead, topics that are now at centre stage and are attracting policy discussion are the concept of "open regionalism" (regionalism that encourages greater intra-regional but also extra-regional liberalization), strengthening of the multilateral system, and coexistence between multilateralism and regionalism.

Regionalism has acquired great dynamism in recent years, and everything seems to indicate that this process will continue. The main reason is the view that restricting efforts at economic integration to a limited number of countries may make it feasible to go further than the multilateral framework permits. This is the spirit of deep integration as illustrated by the European experience.

The oldest example of regionalism is the European Union (EU). Many changes have and will be taking place in the Union. Under the SEM, barriers to trade of goods, services and people were to be abolished in 1993. During the subsequent five years, the Community was also to have embraced further steps towards integration on political, social and security issues. As discussed below, not all these measures took place as scheduled, most notably the free movement of people across national borders and public procurement.

The next five years have a number of initiatives planned. The Union will undertake a third enlargement, reform the Maastricht treaty, prepare for European Monetary Union, and redefine relations with its Eastern neighbours and Maghreb countries. At the same time it will be taking major decisions on internal issues such as the Common Agricultural Policy (CAP), industrial policy and the future financial system.

With all these transformations still to come, it appears that the EU is in the middle of a process that will continue throughout the decade and that will need to be consolidated. All these transformations will undoubtedly be reflected in future relations between Europe and Latin America. The completion of the Uruguay Round will also change the Union's trade policy with third countries and have an impact on trade patterns between the two groups.
The primary question to explore is what changes, if any, can be seen after the implementation of the single market in the EU’s trade policy and what can be expected in future. Is the Union heading towards a European version of "open regionalism"? In what way will institutional reforms within the Union affect trade patterns with third countries and Latin America in particular? What opportunities and difficulties will arise from all these changes?

To address these issues, this document will first examine the overall economic performance of the EU, the impact of the signing of the Maastricht Treaty and the preparation for a European Monetary Union. The second part will analyze all the changes that have or have not been implemented resulting from the SEM with a view towards determining any changes in trade patterns with Latin America; the third part will follow closely other changes in the Union affecting its external trade policy and its consequences for Latin America. In a concluding section, it will evaluate all these results and provide policy recommendations for the region.
II. OVERVIEW OF THE EUROPEAN ECONOMIES

A. ECONOMIC PERFORMANCE

The EU or European Community is the oldest, most comprehensive and successful regional integration scheme in the world trading system. The single market programme, the latest major innovation in the EU, was drafted in 1985 and implemented in 1993. Its main objective was to make Europe more competitive with the rest of the world. Structural changes are underway to carry out this objective but the transition process is beset with many internal difficulties.

In 1988, the Cecchini report to the European Commission predicted that the single market in its first five years would lower Europe’s prices by 6 percent, create 2 million new jobs, produce a one time increase in economic growth of 5% and put Europe in an upward trajectory of economic growth. At that time it was never expected that, by end 1993, Europe had suffered its worst recession since the 1930’s.

The period 1984-1991 was characterized by a sustained push for European integration and accompanying strong economic growth. Momentum from the single market project during this period contributed to a surge of growth while business started to think European. Thereafter, the economy lost steam due to economic policy tightening especially through monetary policy. Monetary tightening was undertaken following the appearance of serious macroeconomic imbalances, some of which were due to the recession in the United States and the other industrial countries in 1991.

By the second half of 1992, Europe’s recession was characterized by rising unemployment, continued tight economic policies, and exchange rate instability, creating a revival of Euro-skepticism within the EU.

Unemployment has been an area of major concern in the Union, especially long-term unemployment. In 1993, more than 40% of the 17 million unemployed have been out of work for at least a year; a third beyond two years.1/ According to OECD estimates, in 1992, 50% of Spanish’s unemployed were long term, in Ireland 60%; in Belgium 59%; in Italy 58% in Greece 49%; in Holland 44% and in France 35%.2/ In 1994, unemployment improved slightly but hardly fast enough to inspire popular confidence. In Spain, the unemployment rate in September 1994 stood at 24%; France and Italy’s at 12%; Belgium at 14%; and Britain at 9%. In Germany, whose economy is bouncing back, unemployment stood at 9%; distributed 8% in


2/ Long term unemployment was present even when Europe’s economies were expanding in the late 1980s. When some kinds of jobs disappear, they are not replaced by new ones. This implies that when the economy contracts, jobs are lost but when it expands, jobs are not generated. Structural adjustments are under way to change policies away from rigid work rules, and high social costs.
the West and almost 15% in the East. Following three years of decline with unemployment reaching 11% in 1994, employment is forecast to grow 3/4% in 1995 and 1% in 1996.

B. REQUIREMENTS FOR CONVERGENCE

The Maastricht Treaty, a component of the EU signed in 1992 is a result of negotiations on Economic, Monetary and Political Union. The core of the Treaty centers on the deepening of the existing Union with concrete rules towards European Monetary Union convergence. It also includes common external and security policy and cooperation in judiciary statutes. (Common external trade policy was not changed resulting from the Treaty).

The Treaty stipulates a criteria for convergence among member countries, whereby at least seven countries need to comply with five macroeconomic conditions in order to proceed towards the third phase of the European Monetary Union on January 1997. The Treaty requires that exchange rate fluctuations among member countries not exceed + - 2.25% except for the Spanish peseta and the Portuguese escudo which are allowed to fluctuate + - 6%; the average annual inflation rate not exceed 1.5%; the public deficit not exceed 3% of GDP; and public debt not exceed 60% of GDP and long-term interest rates not exceed by two percentage points that of the three member countries with the lowest inflation.4/

Table 1
MAASTRICHT CONVERGENCE CRITERIA (Percentage)

<table>
<thead>
<tr>
<th>Exchange rate fluctuation</th>
<th>Inflation rate</th>
<th>Long-term interest rate</th>
<th>Public deficit/GDP</th>
<th>Public debt/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ -2.25/6</td>
<td>1.5</td>
<td>- = 2 points above average interest rate of three member countries with lowest inflation.</td>
<td>3</td>
<td>60</td>
</tr>
</tbody>
</table>


Following the signing of the Maastricht agreement, turmoil in foreign exchange markets all but destroyed the credibility of the Treaty. The main cause of the crisis was that the high German interest rates necessitated by German unification were also forcing higher interest rates in member countries. This intensified the on-going recession, depressing growth just when member governments were aiming to bring public finances into line with Maastricht’s convergence rule in time for monetary union.

3/ The Economist, October 29, 1994, Economic Indicators, p.130.

The crisis resulted in the forced withdrawal of the Italian lira and of sterling from the Exchange Rate Mechanism (ERM). Thereafter, the lira was devalued by 7% September 1992. The Spanish peseta was devalued three times between September 1992 and May 1993, within the system. The Portuguese escudo was devalued by 6% in 1992 and by 6.5% in 1993 and the Irish pound by 10% January 1994 while the French franc came under heavy pressure.5/ The European Monetary System (EMS) just managed to survive.

After a year of successive devaluations and instability, at the beginning of August 1993 a decision was taken by the authorities to widen the ERM bands to $+\pm$ 15% for all participating currencies without changing the central rates. This had the effect of reintroducing an effective two-way risk into the system. This decision was interpreted as a major setback towards European Monetary Union. However, a year after the crisis, most of the currencies are now back inside or close to their previous fluctuation range of $+\pm2.25%/6\%$ divergence limit against the D-mark, complying with the Maastricht convergence criteria.6/

This experience could indicate that the EU was ineffective in using other economic and fiscal tools to control these variations. The EU has left it to financial markets to force a solution through a major realignment in exchange rates in the market place. Presently, the EU is facing another round of instability resulting from the Deutschemark’s renewed rise. The strength of the German currency resulted in the peseta being devalued by 7% on March 1995 and Portugal’s escudo by 3.5%. This new strain within the ERM has again raised doubts over EU member countries being able to comply with the requirements under the Maastricht Treaty on 1997 or even at the later date of 1999.

Apart from its role in the monetary crisis in 1993, the recession caused a new deterioration in the average budgetary position of member countries, although there are marked differences between them. The highest levels recorded in 1993 were for Greece, 15.5% of GDP, Italy 9.4% of GDP, and Belgium, Spain, Portugal and the United Kingdom exceeding 7% of GDP.7/ These figures are far short of the 3% of GDP objective in the Maastricht Treaty. The figures for 1994, show an improvement in the budget deficit and is forecast that by 1996, the EU average will approximate to 4% of GDP.

In contrast to the above, the recession helped improve inflation rates of member countries. The EU’s average for 1993 was 3.9%, a decline from 4.6% in 1992 and from 5.4% in 1991. In 1994 inflation was the lowest in seven years, reaching an EU average of 3%, coming closer to

5/ El Pais, 15 August, 1994, "Calma después de las tormentas".

6/ Reuters, 1 August, 1994, "Planes de Integración Monetaria Frente a duras pruebas en UE".

the requirements of the Maastricht Treaty of 1.5%. France had the lowest inflation rate of all with 1.6% followed by the United Kingdom with 2.5% and Germany with 2.8% 8/

Contrary to earlier expectations, in 1994 the economies of the member countries grew on average 2.5%, and are expected to grow another 3.0% in 1995 and slightly above 3.0% in 1996, compared to -0.4% in 1993.2/ This recovery was driven by strong exports and a recovery in domestic investment and consumption. The German economy, the strongest of the Union, upgraded their estimates for 1994 from 1.3% to 2.5% in 1994 and is expected to grow to 3% in 1995 and 3.4% in 1996. France’s national statistical office has also doubled its GDP growth forecast for 1994 to 2.2% and is expected to grow to 3.2% in 1995 and 3.2% in 1996. The United Kingdom is forecast to grow by 3.8% for 1994 to 2.7% in 1995 and 2.8% in 1996. Improvement in the economic performance of the European economies will augment the speed of the implementation of the SEM.

Although member countries are now heading towards meeting the convergence criteria, politically, it is not clear when governments would like to press ahead with the Maastricht Treaty. Buoyed by the single market programme, the European Commission was able to win support for Monetary Union and the Maastricht Treaty. However, when popular support for the Treaty started going wrong, governments took it as an indication of having pushed the public too fast. They now want to keep further control at the national level and proceed more cautiously. In sum, there is a continuing conviction of the need to press ahead with the Union including the Maastricht plan but just how to get there and the right time to get there is another matter.

C. INSTITUTIONAL CHANGES

The EU since its formation has built on the treaty of Rome. Through compromises and enough ambiguity all members were able to keep the construction work going while having divergent ideas. The next five years have a number of initiatives planned on political, social and security issues. Under the weight of new additions and new demands, it is not quite clear whether the EU originally designed for a six member group will be able to carry on in the same manner. It appears that as the Union expands it will be harder to do everything together.

For instance, Britain and Germany want an open external policy with third countries while France wants to impose protectionist safeguards against foreigners with lower wages. Britain and Germany favour future members in the Union while the Greeks, Spanish and Portuguese call for continued economic aid, and worry that the demands of possible future members might reduce it.

8/ Eurostat figures. Also see Reuters, "Inflation in the EU for July dropped to its lowest levels at 3% in the past seven years", August 23, 1994.

2/ See European Economy, European Commission, Economic Trends, December, 1994, p. 3-5.
On the issue of enlargement, by 1 January 1995, the people of Austria, Finland and Sweden will join the Union. (Norway voted no in December’s referendum.) The next prospects for enlargement will be with Eastern Europe. The inter-governmental conference due in 1996 is supposed to reform the Union’s institutions so that they can cope with the East Europeans’ accession. There will also be a revision of the Maastricht Treaty. Member countries, notably France and Germany, see the need for significant reform in all of the Union’s main institutions. Germany in particular would like to grant more control to the European Parliament while limiting the authority of the Council of Ministers, where the governments of the member states are represented. Britain would prefer a wider and looser Community.

There is also a desire among member countries to keep foreign policy and internal security for themselves. Germany wants foreign policy to be more at the Community level, while France and Britain prefer to keep things at the national level. The Gulf war and the Bosnian wars have brought out divergent views of what the European national interest is.

All differentiations of interests and perceptions mentioned above have led to the idea of a multi-speed Europe or variable geometry within the Union itself.10/ This proposal was made by German and French officials. They believe that a single speed programme would slow progress to that of the slowest members of the Union and thus severely hamper future monetary and political union. By having several speeds, the Union can reconcile potential conflicts between efforts to widen the EU and to deepen it.

Specifically, it was suggested that there be a Union of five of the original founding members (France, Germany, Belgium, Luxembourg and the Netherlands), leaving Britain, Italy and Spain outside the "inner core". The "inner core" group would be expected to coordinate very closely not only on monetary policy, but on fiscal, budgetary, economic and social policy. The other group of countries would coordinate their policies in different ways. For instance, some will opt for monetary union, others for common foreign and security policy and others for a common social policy. The debate whether to opt for a two tier system or not still continues at the present time. There is a lot of opposition from the "second tier" group countries as they fear it would leave them behind the integration process.

More likely, with the accession of the three EFTA countries, this issue will be put aside until the accession of the Eastern European countries. At this time, a multi-speed Europe may be unavoidable as more countries with different levels of development join the Union. Meanwhile, changes towards a deepening and widening of the Union and the implementation of the single market go on taking precedence over anything else.

III. IMPLEMENTATION OF THE SINGLE MARKET AND ITS EFFECT ON LATIN AMERICA

The last two years witnessed many changes in the EU’s internal policy. Some were attributed to the implementation of the SEM, others to political and structural changes within the EU. The SEM has improved market access in the EU for domestic and foreign suppliers resulting from the removal of border controls. Third countries can now trade with the Community as a whole, under common procedures for access and EC-wide standards, instead of fragmented markets with different rules and regulations.

The impact of the single market on the EU’s trade and investment policy with Latin America cannot be seen in isolation. It needs to be analyzed in a broader context taking into account other changes that are happening in the EU as well. The results of the Uruguay Round, the special relations which the EU have with the Lomé countries and now have with the Maghreb and Eastern European countries in the short to medium run, will play a more determining role in the EU’s relations with Latin America than the SEM itself. Latin America will also play an important role. The capacity to adapt rapidly to changes, taking advantage of opportunities as well as exercising economic muscle by negotiating as a regional bloc, will also determine the future shape of trade and investment patterns between the two groups. This section will analyze changes in the EU resulting from the SEM and its effect on Latin America followed by changes in the EU’s external policy in the following section.

A. LEGISLATION AND TECHNICAL CHANGES

The single market programme itself accelerated rapidly throughout the phasing-in period beginning in 1991. Presently, one can take a car load of goods for personal use across the Union’s borders without paying duty, trucks can cross borders without customs checks, banks with a license in one country can operate anywhere in the EU, and capital can move freely from one country to another.

To date, all of the measures contained in the White Book for the creation of the internal market of June 15, 1985 destined to eliminate internal barriers have been presented by the Commission, and in 95% of the cases, they have already been adopted by the Council of Ministers. However, the single market is far from implemented.

Although the legislative process at the Community level has been practically concluded, a large number of the SEM’s measures need to be incorporated into Member States’ national legislation for it to truly come into effect. By mid-1994, of the 230 measures that needed to be put into national legislation in order to implement the SEM, only 119 of them have been adopted by all twelve member states. The rest have been adopted by some countries but not by others.
Although the Commission exerts constant pressure on Member States to incorporate Community measures into their legislation, the delays do not seem to be affecting the functioning of the market and thus have not generated major pressure for change.11/

Table 2
STATE OF IMPLEMENTATION OF THE SEM AS OF APRIL 1994

<table>
<thead>
<tr>
<th></th>
<th>Measures adopted</th>
<th>Measures not adopted</th>
<th>Derogations</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>189</td>
<td>35</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Britain</td>
<td>201</td>
<td>23</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Denmark</td>
<td>212</td>
<td>11</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>185</td>
<td>39</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Greece</td>
<td>179</td>
<td>44</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Spain</td>
<td>197</td>
<td>28</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>195</td>
<td>30</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Holland</td>
<td>194</td>
<td>30</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Ireland</td>
<td>183</td>
<td>41</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>197</td>
<td>29</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>193</td>
<td>29</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Portugal</td>
<td>203</td>
<td>23</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>


In addition to the 230 measures other areas are still pending changes and others were excluded altogether as summarized below:

1. Telecommunications and energy were left out because they were considered too sensitive.

2. Passport checks remained despite the 1992 deadline. (Britain is determined to keep them). Immigration and security issues have not been settled among member states.

3. Decisions on intellectual property protection have not as yet been settled.

4. The value added system that allows customs-free transport for goods is only temporary.

5. The car market is up for review in 1996.

6. Foreign banks will not gain direct access to stock exchanges in Spain, Portugal and Greece until 1999.

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7. Technical harmonization is in place but the detailed industrial standards necessary to make them work are not.

8. State aid continues, especially in the Italian and Spanish steel industries.

9. Public procurement is ruled by national bias. Invitation of bids are required to be submitted in the national language thereby keeping other member countries’ share down to 5%.

There are also difficulties in controlling Community norms at the national level. For instance, in the implementation of the SEM there has been widespread fraud in the use of handouts to farmers under the CAP. This is done through the manipulation of EU rules on export subsidies and agriculture levies imposed on countries selling their produce from outside its borders. These practices are costing the EU taxpayer some 7-10% of the total 1993 European budget of $79.3 billion.12/ To better carry out the SEM, the European Council approved in December 1993 a "Strategic Programme", with a view towards improving the management and efficiency of the SEM.13/ Its principal objectives are to ensure that confidence and faith in the internal market are maintained and that member states comply with Community legislation.

For the first time, the Strategic Programme addressed the EU’s external trade policy after the implementation of the SEM. It emphasized the link between the SEM’s external impact and the results of multilateral trade negotiations. According to this programme, Europe’s interests lie in encouraging convergence of the SEM’s norms in non-EU countries. On December 15, 1993, the European Council also approved new mechanisms to improve the application of the EU’s trade protection instruments i.e. anti-dumping and safeguarding measures. New stricter time limits have been established for investigations of dumping and are expected to increase in response to potential threats of unfair competition practices from outside the EU. An increase in import surveillance and stricter rules of origin were also proposed. The extent of the protection measures could affect Latin American products and their sales to the European market and should be followed closely by Latin American countries.

The Commission will also study the economic impact of the single market on the EU from 1994-1996, a period when Community legislation is expected to be more widespread. At this time a clearer picture will emerge on the SEM’s impact within the EU and the rest of the world.

**B. DIVERSION-CREATION EFFECTS FROM THE SEM**

Changes resulting from the SEM are expected to bring with it both positive and negative results. Although the results may differ, the broad conclusion is that taking into account trade diversion effects and the positive impact of higher incomes in the EU on imports, third countries are likely to benefit, albeit moderately, because of the liberalization measures of the GATT, the

12/ The Economist, July 30, 1994 "Incredible edibles" p.28.

harmonization and liberalization of the SEM and lower subsidy levels. This benefit will be more
notable in the manufactured goods sector than agriculture which is subjected to the CAP.14/ Exporters will also benefit from reduced transaction costs related to paperwork, national
restrictions and border controls. However, the effect of large-scale integration is likely to differ
according to sectors, and to different countries and groupings. It is important to differentiate
between manufacturing vs. commodity economies, a country’s dependence on foreign capital, and
trade in goods and services. Most analyses have concluded that for developing countries, at the
aggregate level, most of them will be neutral to mildly beneficial.15/ Ultimately, dynamic
effects in the medium to longer-term will determine full opportunities and challenges resulting
from the SEM. Developing countries are likely to benefit more from spillover effects generated
by dynamic effects in the medium-term than as a direct result of the SEM.

Trade creation and diversion effects resulting from the EU on third countries have been
subjected to a large number of studies covering different periods from the establishment of the
EU to the beginning of the 1990s. The impact of the SEM on non member countries is partly
determined by the price and income elasticities within the EU and the supply response of member
and non-member countries. Exports lost as EU prices fall with increasing competitiveness will
determine changes in the level of intra-EU trade and exports gained as EU incomes rise with
growth will determine changes in the level of extra-EU trade. Other determining factors will be
influenced by whether the EU tightens local content requirements, or raises other trade barriers
for non-EU producers. In this respect, there has been a tendency towards tightening local
contents requirements and increasing import surveillance to non member countries.

Few empirical analysis of the effects on the SEM on trade are available. Many of the
calculations are approximate because of the recent date since the implementation of the SEM.
Trade creation-diversion, terms of trade and the impact of imperfect competition and investment
diversion are essentially empirical. Nevertheless, in trying to determine the direction of the
effects of the SEM, a study was done by Sapir (1992) at the sectoral level, covering nine member
states (Belgium, Denmark, France, Germany, Italy, Ireland, Luxembourg, Netherlands and the
United Kingdom) for the period 1980-91, concludes that in the manufactured goods sectors, trade
creation exceeded trade diversion by a wide margin while in the agricultural sector, trade
diversion dominated as a result of the CAP. The calculations are based on: domestic production,
intra-EU imports, and extra-EU imports. In this study, the share of domestic supplies of all
processed goods decreased since 1980, the shares of intra-and extra-EU manufactured goods
increased while the share of extra-EU imports in agricultural goods decreased since 1985.16/


15/ The World Bank Research Observer, January 1994, "The Impact of EC-92 on Trade in Developing Countries"
and "Is European Integration Bad News for Developing Countries: A comment on Hughes Hallett", p.152. Also see UNCTAD

16/ See International Monetary Fund, International Trade Policies, Background Papers, Volume II, p.196, November,
1994.
### Table 3
SOURCES OF APPARENT CONSUMPTION EU-9 a/
(Percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>ALL PROCESSED GOODS</th>
<th>FOOD, DRINK AND TOBACCO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic production</td>
<td>Intra-EU</td>
</tr>
<tr>
<td>1980</td>
<td>66.7</td>
<td>19.1</td>
</tr>
<tr>
<td>1981</td>
<td>65.3</td>
<td>19.6</td>
</tr>
<tr>
<td>1982</td>
<td>64.3</td>
<td>20.5</td>
</tr>
<tr>
<td>1983</td>
<td>63.8</td>
<td>20.7</td>
</tr>
<tr>
<td>1984</td>
<td>61.6</td>
<td>21.5</td>
</tr>
<tr>
<td>1985</td>
<td>60.6</td>
<td>22.6</td>
</tr>
<tr>
<td>1986</td>
<td>61.2</td>
<td>22.6</td>
</tr>
<tr>
<td>1987</td>
<td>60.5</td>
<td>23.2</td>
</tr>
<tr>
<td>1988</td>
<td>58.8</td>
<td>23.5</td>
</tr>
<tr>
<td>1989</td>
<td>57.1</td>
<td>24.6</td>
</tr>
<tr>
<td>1990</td>
<td>57.4</td>
<td>24.5</td>
</tr>
<tr>
<td>1991</td>
<td>56.1</td>
<td>25.0</td>
</tr>
</tbody>
</table>


a/ Excludes Greece, Portugal and Spain.

A separate study by Kay (1991) points out that removing internal barriers, harmonizing standards and mutual recognition actually make mergers and acquisitions more attractive and are bound to have anti-competitive consequences. In this case market fragmentation will continue within the EU and thus the gains in income from higher growth in the EU, lower prices from economies of scale and increases in competitiveness may well turn out to be much smaller. Empirical evidence supports that in preparation to the SEM, mergers and acquisition increased. For instance, this has happened in air transport, banking, electronics and food production. Another study by Hamilton (1991) supports this view. He also argues that the income effect in the EU will have little impact on many developing countries exporters because voluntary export restraints are defined in terms of volumes and not price and unless voluntary restraints are repealed, which until now it has not happened, the effects of the SEM on developing countries could be small. 17/

Yet another point of view from a more recent study by Hallett (1993), concludes that the expected changes in trade flows arising from changes in nominal prices and aggregate income, changes in market structure, removal of internal barriers and a predicted 5% increase in EC output may be "important to European policymakers, but they are rather remote from the developing countries" perspective.18/ This is because the EU tends to import goods which are


relatively insensitive to changes in income especially agriculture goods. Low shares and low import elasticities in the EU and relative higher elasticities in developing countries imports would indicate that the relation to changes in income in the EU is likely to be less than half a point in income growth for every additional point of EU growth, and substantially below for the poorest developing countries. It argues that the areas of concern regarding the SEM are more likely to come from diversion of investment from third countries towards the EU and from protectionist practices towards the outside world.19/  

C. DYNAMIC EFFECTS OF THE SEM

The SEM was implemented from the concern about the relative weaknesses in the most dynamic sectors of the economy as compared to the United States and Japan. Analysts broadly agree that the SEM will bring benefits to EU countries, they agree less about the size of the benefits and how they will be distributed within the EU.

Direct benefits derived from dynamic effects include expected economies of scale in production and investment, a boost to internal and foreign investments, a reorganization of production within the EU, a spur to technological development and expansion towards a larger market basis. Over the medium and longer term, these effects are expected to contribute to the growth effect of economic integration. Economies of scale will result in stiffer competition for all firms alike and lower prices. Although this may involve in displacement of weaker firms, the competition effect will translate into cost savings, increases in productivity and production levels. In the longer term, this expansion in production will produce spillover effects on third countries as it will induce changes in comparative advantage within country groupings. This could translate into new export opportunities for Latin America in resource-based industries where competition from internal producers will tend to diminish as EU producers concentrate on the production of more sophisticated goods.

Spillover effects affecting foreign direct investment in Latin America will depend on whether the net effects on trade are positive or not. Because developing countries are usually suppliers of inputs rather than of competing products, it would follow that any gains in the EU could spill over onto them. In this case, foreign direct investment detracted from other regions could intensify their industrial and investment cooperation with developing countries and facilitate relocation of labour-intensive and maquila-type industries. Certain steps have already been taken in this direction by the EU with Central European countries and in the form of joint ventures with Latin America. Europe is interested in profitable investment opportunities. Latin America could make this compatible with the possibility of strengthening its own capacity to project itself towards the European market.

At the micro level, the SEM affects industries in different ways. European firms more focused within Europe are likely to be more prone to lobby Brussels for protection from outside

competition. For example, the European automobile firms with the least degree of extra-EU exports are the most threatened and the most protectionist. Except for Mercedes-Benz, they appear to be concentrating on a Europe-first strategy. Fiat in particular relies heavily on its protected position as the dominant producer in Italy. It holds about 14% of the European market.\textsuperscript{20/}

In contrast, industries like the pharmaceutical and consumer goods industries are more outward looking. This tendency can be illustrated in that the non-EC proportion of sales have fallen for many of the weaker industries during the 1980s and into the 1990s.\textsuperscript{21/} They also have had difficulties adjusting to new global competition. Conversely, the stronger industries have a higher proportion of non-EC sales and adjusted to regional and global competition well before 1992.

The EU’s external policy have been difficult to implement because of the conflicting points of view which emerge from the inward-looking and more protectionist and the outward looking industries, complicating the lobby position for member countries in Brussels. The British have emphasized the need to attract value-adding investments in these industries while the French and Italians have emphasized the continuing importance of national ownership. The final outcome will depend on the leading firms in each industry to influence the evolution of EU and national policies. Historically, actions taken in Brussels have been those of compromise rather than opting for confrontation.

In this regard, Latin American countries need to look at firm-specific capabilities as well as at industries when trying to expand their markets in the EU and when undertaking joint ventures. Deals with weak and inflexible firms are likely to not be as successful. This is because when threatened by global competition, weaker firms divert resources towards Europe, leaving third countries aside. Conversely, the stronger and more self-confident firms are likely to follow adaptive policies stimulating cooperation within and outside the EU.

D. TRADE AND INVESTMENT BETWEEN LATIN AMERICA AND THE EU

Prior to the implementation of the SEM, intra-EU trade has progressively increased representing 62% of the Member States total external trade in 1992, seven points higher than in 1980 at 55%. Growth has been even more spectacular in Greece, Spain and Portugal whose combined participation in intra-Community trade jumped between 10 and 20 percentage points between 1985-1990. In 1993, EU’s total trade contracted due to the recession it was going through,

\textsuperscript{20/} See Development and International Cooperation, December, 1993, “Offensive and Defensive Responses by European Multinationals to a World of Trade Blocks”, p.137.

\textsuperscript{21/} For a detailed analysis see, Development and International Cooperation, December 1993, "Offensive and Defensive Responses by European Multinationals to a World of Trade Blocks", p.114.
including intra-EU trade representing 56%. In-tandem to these events, there have been important changes in trade and investment patterns between Latin America and the EU as described below.

**Table 4**

SHARE OF INTRA-EXPORTS AS PERCENTAGE OF EU’s TOTAL TRADE, 1980-1993
(Percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Intra-trade</td>
<td>55.7</td>
<td>56.7</td>
<td>58.5</td>
<td>59.5</td>
<td>59.7</td>
<td>60.6</td>
<td>61.8</td>
<td>61.7</td>
<td>55.9</td>
</tr>
</tbody>
</table>


a/ 1993 figures need to be interpreted with caution. Following the SEM a new system of collecting data has been established and is still in the process of changes and improvements.

First, extra-EU imports originating from Latin America steadily declined since 1988 from 6% to 4.4% by 1993 while extra-EU exports to Latin America have grown since 1990 from 3.7% to 5.0% by 1993. That year, the EU actually registered a trade surplus with Latin America amounting to $2,000 millions; a surplus not registered before. The degree of openness in Latin America coupled with increases in economic growth has opened export opportunities for the EU and the EU has taken advantage of them. In the same manner, Latin America should also find ways to maximize the impact of renewed growth in the EU by increasing its export share.

**Table 5**

TRADE BETWEEN THE EU AND LATIN AMERICA 1988-1993
(Values in billions of US$ and percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>EU IMPORTS</th>
<th>EU EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Annual growth rate</td>
</tr>
<tr>
<td>------</td>
<td>------</td>
<td>-------------------</td>
</tr>
<tr>
<td>1988</td>
<td>27,694</td>
<td>22.1</td>
</tr>
<tr>
<td>1989</td>
<td>29,179</td>
<td>5.4</td>
</tr>
<tr>
<td>1990</td>
<td>32,699</td>
<td>12.1</td>
</tr>
<tr>
<td>1991</td>
<td>32,496</td>
<td>-0.6</td>
</tr>
<tr>
<td>1992</td>
<td>32,205</td>
<td>-0.9</td>
</tr>
<tr>
<td>1993</td>
<td>25,500</td>
<td>-20.8</td>
</tr>
</tbody>
</table>

*Source: EUROSTAT figures.*
Second, although there has been a decline in Latin America’s import share with the EU, and which should be taken into account, the EU still is an important market for Latin America. At present, after the United States, it is the second largest trading and investment partner. In 1993, 43% of the region’s exports were directed to the United States and 17% to the EU. However, if we take out Mexico from the rest of Latin America, the EU acquires far greater importance, with 27% of the region’s exports directed to the United States and 22% to the EU. The special ties that Mexico has with the United States is unique in the region misrepresenting the overall picture of Latin American trade patterns with its major trading partners. Already in 1993, Mexico’s exports to the United States registered a 95% increase from 1992’s figures. Even in 1992, before Mexico reported exports from the maquila industry as Mexican exports, their exports to the United States far exceeded other countries in the region. While the majority of countries in Latin America export on average 21% to the EU, Mexico exports only 6% as illustrated in Table 8. One can expect that as the NAFTA progresses further, this pattern will be further intensified. Brazil, which could be considered the opposite case, in that its main trading partner is with the EU, still has a more diversified market as illustrated below.

Table 6
LATIN AMERICAN EXPORTS BY REGION, 1993
(Million of US dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>EU</th>
<th>USA</th>
<th>Japan</th>
<th>Others</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>3,274</td>
<td>1,180</td>
<td>450</td>
<td>8,118</td>
<td>13,022</td>
</tr>
<tr>
<td>Bolivia</td>
<td>271</td>
<td>213</td>
<td>2</td>
<td>318</td>
<td>804</td>
</tr>
<tr>
<td>Brazil</td>
<td>10,093</td>
<td>8,026</td>
<td>2,313</td>
<td>18,391</td>
<td>38,783</td>
</tr>
<tr>
<td>Chile</td>
<td>2,445</td>
<td>1,656</td>
<td>1,501</td>
<td>3,950</td>
<td>9,552</td>
</tr>
<tr>
<td>Colombia</td>
<td>1,660</td>
<td>3,016</td>
<td>237</td>
<td>2,540</td>
<td>7,453</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>532</td>
<td>1,520</td>
<td>18</td>
<td>631</td>
<td>2,701</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>152</td>
<td>346</td>
<td>15</td>
<td>142</td>
<td>655</td>
</tr>
<tr>
<td>Ecuador</td>
<td>565</td>
<td>1,421</td>
<td>95</td>
<td>1,427</td>
<td>3,508</td>
</tr>
<tr>
<td>El Salvador</td>
<td>114</td>
<td>615</td>
<td>9</td>
<td>187</td>
<td>925</td>
</tr>
<tr>
<td>Guatemala</td>
<td>150</td>
<td>396</td>
<td>34</td>
<td>766</td>
<td>1,346</td>
</tr>
<tr>
<td>Honduras</td>
<td>229</td>
<td>895</td>
<td>69</td>
<td>151</td>
<td>1,344</td>
</tr>
<tr>
<td>Mexico</td>
<td>2,720</td>
<td>37,041a</td>
<td>980</td>
<td>6,491</td>
<td>47,232</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>65</td>
<td>124</td>
<td>2</td>
<td>101</td>
<td>292</td>
</tr>
<tr>
<td>Panama</td>
<td>143</td>
<td>189</td>
<td>—</td>
<td>176</td>
<td>508</td>
</tr>
<tr>
<td>Paraguay</td>
<td>236</td>
<td>50</td>
<td>31</td>
<td>338</td>
<td>655</td>
</tr>
<tr>
<td>Peru</td>
<td>1,008</td>
<td>734</td>
<td>352</td>
<td>1,370</td>
<td>3,464</td>
</tr>
<tr>
<td>Uruguay</td>
<td>335</td>
<td>150</td>
<td>14</td>
<td>1,141</td>
<td>1,640</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1,336</td>
<td>7,916</td>
<td>329</td>
<td>7,345</td>
<td>16,926</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25,228</td>
<td>65,448</td>
<td>6,451</td>
<td>53,583</td>
<td>150,810</td>
</tr>
</tbody>
</table>


a/ Mexico’s exports to the United States registered a 98.5% increase from 1992’s figures of 18,657.
Table 7
LATIN AMERICAN EXPORTS BY REGION, 1993
(Percentage)

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>USA</th>
<th>Japan</th>
<th>Others</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>With Mexico</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>16.8</td>
<td>43.4</td>
<td>4.3</td>
<td>35.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Without Mexico</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>22.0</td>
<td>27.4</td>
<td>5.3</td>
<td>45.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Derived from Table 6.

Table 8
TRADE FLOWS BETWEEN LATIN AMERICA AND THE EUROPEAN UNION, 1993
(Millions of US dollars and percentage)

<table>
<thead>
<tr>
<th>Country</th>
<th>EU</th>
<th>World</th>
<th>%</th>
<th>EU</th>
<th>World</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>3,274</td>
<td>13,022</td>
<td>25.1</td>
<td>4,466</td>
<td>18,437</td>
<td>24.2</td>
</tr>
<tr>
<td>Bolivia</td>
<td>271</td>
<td>804</td>
<td>33.7</td>
<td>200</td>
<td>1,205</td>
<td>16.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>10,053</td>
<td>38,783</td>
<td>25.9</td>
<td>5,818</td>
<td>25,678</td>
<td>27.7</td>
</tr>
<tr>
<td>Chile</td>
<td>2,445</td>
<td>9,552</td>
<td>25.6</td>
<td>2,089</td>
<td>10,977</td>
<td>19.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>1,660</td>
<td>7,453</td>
<td>22.3</td>
<td>1,675</td>
<td>9,774</td>
<td>17.1</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>532</td>
<td>2,701</td>
<td>19.7</td>
<td>408</td>
<td>2,758</td>
<td>14.8</td>
</tr>
<tr>
<td>Ecuador</td>
<td>565</td>
<td>3,508</td>
<td>16.1</td>
<td>626</td>
<td>3,354</td>
<td>18.7</td>
</tr>
<tr>
<td>Guatemala</td>
<td>150</td>
<td>1,346</td>
<td>11.1</td>
<td>281</td>
<td>2,645</td>
<td>10.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>2,720</td>
<td>47,232</td>
<td>5.8</td>
<td>7,605</td>
<td>61,010</td>
<td>12.5</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>65</td>
<td>292</td>
<td>22.3</td>
<td>70</td>
<td>822</td>
<td>8.9</td>
</tr>
<tr>
<td>Paraguay</td>
<td>236</td>
<td>655</td>
<td>36.0</td>
<td>196</td>
<td>1,665</td>
<td>11.8</td>
</tr>
<tr>
<td>Peru</td>
<td>1,008</td>
<td>3,464</td>
<td>29.1</td>
<td>574</td>
<td>4,231</td>
<td>13.6</td>
</tr>
<tr>
<td>Uruguay</td>
<td>335</td>
<td>1,640</td>
<td>20.4</td>
<td>409</td>
<td>2,323</td>
<td>17.6</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>152</td>
<td>655</td>
<td>23.2</td>
<td>441</td>
<td>2,681</td>
<td>16.5</td>
</tr>
<tr>
<td>El Salvador</td>
<td>114</td>
<td>925</td>
<td>12.3</td>
<td>308</td>
<td>2,227</td>
<td>13.8</td>
</tr>
<tr>
<td>Honduras</td>
<td>229</td>
<td>1,344</td>
<td>17.0</td>
<td>185</td>
<td>1,764</td>
<td>10.5</td>
</tr>
<tr>
<td>Panama</td>
<td>143</td>
<td>508</td>
<td>28.1</td>
<td>197</td>
<td>3,105</td>
<td>6.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1,136</td>
<td>7,916</td>
<td>16.9</td>
<td>2,396</td>
<td>11,402</td>
<td>21.0</td>
</tr>
</tbody>
</table>


Third, according to the European Commission, the EU is now MERCOSUR’s main trading partner, accounting for 26% of all trade flows between 1985-1992. It also states that EU companies are the primary investors in the MERCOSUR market. In 1990, 48% of direct
investment in MERCOSUR was made by EU companies. North American investment was in second place with 42% and Japan with 11%.22/ In recognition of the growing importance of the region, the EU has enthusiastically supported integration schemes, the strengthening of the Andean Pact and regional initiatives in Central America and the MERCOSUR project since its inception. A proposal was made by the European Development Commission to create a free trade area with MERCOSUR members, Argentina, Brazil, Paraguay and Uruguay by the year 2001. This proposal was received as very important because it calls not only for improved cooperation but also for the creation of a free trade zone. The strategy being one of "trade rather than aid".

Fourth, the increasing interest in the emerging economies of Latin America is relatively new. This has been the result of the democratization of the countries of the region, coupled with a better investment climate and political stability in most countries. The potential profitability of foreign investment in the region can be seen by the rise of EU foreign investment. According to the European Commission's own estimates, 40% of all EU investment in developing countries in recent years has gone to Latin America. In 1992, 46% of the foreign direct investment stock came from the United States, 26% came from the EU and 6% from Japan.23/ However, recent developments in Mexico could produce a slowdown in investment flows. Development cooperation also increased substantially in recent years. The amount of aid that Latin America received in four years was greater than what it received in thirteen years; 1,150 million ECU's between 1976-1988 compared to 1,160 million ECU's during 1989-1992.24/

The consolidation of the internal market will stimulate economic development in the EU once macroeconomic conditions improve; which are now beginning to do so. Consequently, Latin America should now prepare itself to take advantage of new opportunities by improving their competitiveness with the EU on those products where the Union is already importing from the region and in those products where their appearance to be potential for new markets. Latin America has continued to lose market share in extra-EU imports which implies the need to pursue better marketing and export promotion mechanisms to offset this effect.

Fifth, as illustrated in Table 9 below, between 1985 and 1990 there have been important changes in the product mix exported to the EU. Noteworthy are changes in the level of diversification away from agriculture products and towards manufactured goods. In 1990, of total products exported to the EU, 40% consisted of agricultural products, two points less than in 1985 while manufactures increased to 25% in 1990 from 14% in 1985. Fishery is a small but expanding sector, making up 4% of total imports, double the amount of 1985; minerals make up 17%, an increase from 13% in 1985; while oil and its derivatives make up 10%, a sharp decline from 1985 of 27%.

22/ See South-North Development Monitor, 21 October, 1994 "EU extending policies towards South", p.4.

23/ IRELA, Foreign Direct Investment in Developing Countries: The Case of Latin America, p. 266.

24/ IRELA, Foreign Direct Investment in Developing Countries: The Case of Latin America, p. 222.
Table 9
EU IMPORTS ORIGINATING FROM LATIN AMERICA IN 1985 AND 1990:
BY PRODUCTS

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total imports from Latin America %</td>
<td>Total imports from L.A. as % of extra-EU</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>42.32</td>
<td>21.84</td>
</tr>
<tr>
<td>Fishery</td>
<td>1.94</td>
<td>13.90</td>
</tr>
<tr>
<td>Minerals and metals</td>
<td>12.70</td>
<td>12.70</td>
</tr>
<tr>
<td>Oils and derivatives</td>
<td>27.49</td>
<td>7.19</td>
</tr>
<tr>
<td>Manufactures</td>
<td>14.17</td>
<td>2.26</td>
</tr>
<tr>
<td>Other products</td>
<td>1.38</td>
<td>1.46</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.00</td>
<td>7.05</td>
</tr>
</tbody>
</table>

Of which increasing:

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oilseeds</td>
<td>14.66</td>
<td>38.47</td>
</tr>
<tr>
<td>Meat</td>
<td>2.37</td>
<td>20.70</td>
</tr>
<tr>
<td>Fruits &amp; vegetables</td>
<td>1.56</td>
<td>6.88</td>
</tr>
<tr>
<td>Fish and shellfish</td>
<td>0.92</td>
<td>9.53</td>
</tr>
<tr>
<td>Cut flowers</td>
<td>0.18</td>
<td>20.04</td>
</tr>
<tr>
<td>Coal</td>
<td>0.12</td>
<td>0.62</td>
</tr>
<tr>
<td>Steel and iron</td>
<td>1.42</td>
<td>4.28</td>
</tr>
<tr>
<td>Shoes</td>
<td>0.32</td>
<td>3.69</td>
</tr>
<tr>
<td>Plastics</td>
<td>0.38</td>
<td>1.34</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>0.71</td>
<td>2.59</td>
</tr>
</tbody>
</table>

Of which decreasing:

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bananas</td>
<td>2.32</td>
<td>60.20</td>
</tr>
<tr>
<td>Cereals</td>
<td>1.28</td>
<td>13.64</td>
</tr>
<tr>
<td>Cacao</td>
<td>0.95</td>
<td>10.95</td>
</tr>
<tr>
<td>Coffee</td>
<td>12.03</td>
<td>58.93</td>
</tr>
<tr>
<td>Crude oil</td>
<td>22.64</td>
<td>8.99</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>4.31</td>
<td>5.05</td>
</tr>
</tbody>
</table>


EU imports from developing countries as a whole grew relatively faster than those of other major industrialized countries. However, intra-import substitution continued to advance significantly for food and food products which indicates the continued effects of the CAP policy and from a broader agricultural base due to the accession of the Iberian countries. Among these products are meat and dairy products, cereals, sugar, vegetables, prepared fish, processed coffee, cocoa, tea and spices, hides and skins, wood, various textile fibres, crude fertilizers and minerals and metals.25/

In contrast, extra-EU imports of manufactures increased faster than total EU imports. Increases in extra-EU imports are likely to continue because of higher income elasticities for manufactured goods. Latin American manufactured exports as classified under SITC sections 5-8 originate mostly from Argentina, Brazil and Mexico, and between 1980 and 1990 have been growing at an average annual rate of 10%. Although imports of manufactures have been increasing in the EU, it has been the Asian countries which have gained substantial market share. If Latin America is to increase their participation in manufactures or not lag further behind, it will need to increase their competitiveness in quality, capacity, production costs, and delivery of exports vis-a-vis the Asian countries.

Lastly, some Latin American products are likely to benefit from increases in economic growth in the EU while others will experience negative to neutral effects. In trying to determine future trends of Latin American exports to the EU, a study was carried out by IRELA in 1993. The analysis centers on traditional products from Latin America exported to the EU as well as competing products with other non-member countries and within the EU.26/ All sectorial estimates were then measured against various rates of economic growth in the EU, between 4.5% and 7%, as estimated in the Cecchini report. When possible, import demand elasticities on these products were also utilized.

The results indicate that in agriculture, as long as the CAP exists, positive income effects in the Union will tend to benefit primarily EU producers. Notwithstanding, as indicated in Table 10, there are market niches in which Latin American producers could benefit from. This is especially the case in high quality and processed meats where a low but increasing gains in market share has been taking place opening up new opportunities especially for Brazil and Argentina.

Another small but expanding sector with strong potential for expansion is the fishery sector. Fish exports mainly from Argentina, Chile, Ecuador and Peru have doubled their volume of exports despite preferential access for Africa, Caribbean and Pacific (ACP) countries. This is especially the case for frozen fish and shellfish. Demand for fish products has been progressively increasing and is likely to increase faster from income effects in the EU providing an additional boost to domestic consumption for fish products.

This is also the case in fruits, especially tropical products like pineapple, mango and papaya. Exports doubled during the 1980’s and are forecast to continue to grow from increases in import demand related to the SEM and from increases in demand from Eastern Europe. Increases in fruit consumption will benefit Latin American exports. However, preferential access in favour of ACP and Mediterranean countries are likely to dampen some of this effects.

Cut flowers and plants are also a small but growing market. They make up an important export component of countries like Brazil, Colombia, Costa Rica, Guatemala and Honduras.

Despite intra-EU competition and preferential access from Israel and Kenya, Latin American producers are highly competitive and have managed to expand their exports to the EU. Increases in growth in the Union will increase demand for these goods further benefitting Latin American producers.

Traditional products like coffee, occupy 60% of total extra-EU imports, especially green coffee. This is despite preferences granted to ACP countries. However, taking into account a low import elasticity of demand for coffee, increases in growth will not produce major increases in consumption. Added to this, high duties imposed on Latin American exports of processed coffee discourage diversification into this area, unlike the case for the ACP countries. Nevertheless, there is a growing preference among EU consumers for high quality coffee originating from Colombia and Brazil and this preference is expected to continue to grow from positive real income effects in the EU.

Bananas, originating from Brazil, Colombia, Costa Rica, Guatemala and Honduras also had a strong performance despite special protection offered to the ACP countries and producing member countries. Bananas doubled their exports to the EU in the last five years and now make up over 50% of total EU imports. Latin America had an even larger share in 1985 accounting for 60% of total extra-EU imports. The difference could be attributed to the accession of Greece and Spain who are themselves producer countries. Although the market for Latin American bananas is good much will depend on the direction EU’s trade policy will take.

Oilseeds, are an important component of Latin American exports to the EU, representing 13% of Latin American total exports. Although EU producers have substantially increased their levels of production it has not been sufficient to satisfy internal demand. This creates opportunities for Latin American exporters especially for Argentina and Brazil, who supply 47% of extra-EU imports. In the production of oilseeds, Latin America is highly competitive and would stand to gain from liberalization measures in the Uruguay Round and from CAP reforms although less from the SEM itself.

In contrast to the above, other products of importance to Latin America are expected to experience neutral to negative effects. Cacao originating mainly from Brazil and Ecuador have a small and decreasing market share in the EU. Only 5% account for extra-EU imports in sharp contrast with United States imports from Latin America accounting for 50%. Increases in import demand resulting from the SEM and increases in demand from Eastern Europe, are likely to be supplied by the ACP countries, because African cacao is preferred over Latin American, and because they enjoy special preferences both in bulk and in processed cacao.
<table>
<thead>
<tr>
<th>Product</th>
<th>Present trends</th>
<th>SEM effect on Latin America</th>
<th>Other effects</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Coffee</td>
<td>-Ground coffee: increasing import share. -Processed coffee: poor due to high tariffs and preference for ACP countries.</td>
<td>-Income effect (+) (for high quality coffee only). -Inelastic demand (-)</td>
<td>-Tariff reduction from UR (+) Demand increase in E. Europe (+)</td>
<td>Positive, but with low prices.</td>
</tr>
<tr>
<td>-Bananas</td>
<td>Increasing competitiveness despite preferences for ACP countries and member producing countries.</td>
<td>-Income effect (+) -Elastic demand (+)</td>
<td>-Changes in tariff harmonization could be positive if EU's common external tariff is lower or the same than before (+)</td>
<td>Positive, however contingent on future EU's trade policy.</td>
</tr>
<tr>
<td>Other tropical products</td>
<td>Low, but increasing market share, competitive despite preference to ACP countries.</td>
<td>-Income effect (+) -Trade diversion in wood products in favour of EU producers (-) -For fruits, ACP and Mediterranean countries may supply increases in demand (-) -Flowers, elastic demand (+)</td>
<td>-For wood and flowers increasing competition from E. Europe (-) -For flowers, fruits tariff reduction from UR (+) -For tropical products increase in demand from E. Europe (+)</td>
<td>Positive, especially for flowers.</td>
</tr>
<tr>
<td>-Wood</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Cut flowers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Fruits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Meat</td>
<td>Low, but increasing market share. Competing product with the EU under CAF protection.</td>
<td>-Income effect (+) -Trade diversion; EU supply additional demand (-)</td>
<td>-Lower EU subsidies (+) -CAP liberalization (+) -Increase in demand from E. Europe (+)</td>
<td>Positive, but for high quality meat and processed meat.</td>
</tr>
<tr>
<td>-Fish</td>
<td>Low, but increasing market share. Growing demand especially for processed and high quality produce.</td>
<td>-Income effect (+) -Changes in health regulations (-) -Changes in diet (+)</td>
<td>-Increase in demand from E. Europe (+) -Restrictions on EU suppliers (+)</td>
<td>Very positive, especially for quality fish and shellfish.</td>
</tr>
<tr>
<td>-Metals and non processed minerals</td>
<td>Important for Latin America.</td>
<td>-Demand effect (+) -Elimination of subsidies (+) -Decline as intermediate input (-)</td>
<td>-Possible export decline from E. Europe in the short term (+) -Competition from E. Europe in long term (-) -Investment diversion (+)</td>
<td>Slightly positive, not positive for processed goods.</td>
</tr>
<tr>
<td>Most manufactured goods</td>
<td>Decline in market share, growing importance for Latin America.</td>
<td>-Demand effects (+) -Trade diversion: increasing competition from EU producers (-) -Stricter norms in the EU (-) -More transparency (+)</td>
<td>-Tariff reductions resulting from UR (+) -More competition from third countries (-) -Elimination of MFA (+) -Increases in E. Europe demand for textiles (+) -Competition from E. Europe for clothing (-) -Liberalization for E. Europe and Mediterranean countries in manufactures (-)</td>
<td>Moderately positive, can improve.</td>
</tr>
</tbody>
</table>

Source: IRELA. The SEM and its impact on Latin America, p.34 and 35, Madrid 1993 and changes from the author.

Notes: (+)= positive. (-)= negative. UR = Uruguay Round.
Tobacco, is of particular importance to Brazil, second supplier to the EU after the United States, representing 29% of extra-EU imports. Increases in growth will not affect demand since EU consumers have been reducing their intake of tobacco and cigarettes. Nevertheless, 59% of domestic demand is supplied by EU producers which implies that CAP reforms, in the form of lower subsidies plus harmonization from the SEM, will undoubtedly benefit Latin American producers.

When analyzing minerals and metals, it is necessary to differentiate between raw materials and refined and semi manufactured goods. Latin America is an important supplier of minerals and metals i.e. steel, copper, tin and zinc supplied by Brazil, Chile, Mexico and Peru. It also exports large quantities of aluminum, lead and coal the latter supplied by Colombia. As intermediate inputs, growth effects from SEM will increase demand for these goods. However, for processed and semi-manufactured products any increases in demand will be supplied by EU producers which in this area are more competitive and have preference over other countries. Added to the above, the amount of natural metals as intermediate inputs in the production of goods has been declining. This is coupled with an increasing preference for "on sight" production centres, further reducing possibilities for processing outside the EU.

In fuels and fuel products, the EU has become more efficient in its consumption lowering its demand for crude at the same time that it is moving towards alternative sources of energy and less dependance on oil. It is also developing a European energy policy whereby its principal suppliers would originate from the North Sea, Eastern Europe and Russia. The EU also has agreements with the Middle East countries as alternative suppliers. Venezuela and Mexico, the suppliers of significance in the region, not surprisingly are directing their exports towards the United States and less towards the EU.

E. NEW FORMS OF ECONOMIC COOPERATION

As a way of reinforcing the interest and participation of European industry in the more advanced economies of the region, the EU has established a series of new instruments of cooperation for the promotion of technical cooperation, training and joint ventures.

These type of instruments are a new form of economic cooperation between the EU and Latin America. They respond to the idea of "mutual benefit" in contrast to the traditional development projects of the past. Its ultimate goals is to help modernize and strengthen the structure of production and distribution, improve technological and managerial skills increasing productivity levels and generating a better climate for economic activity. While there has been a relative decline in food and financial aid from the EU, this has been replaced by increases in economic cooperation in the area of education and training, support for business and industrial development in the private sector, particularly for the small and medium-sized industries. 27/

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27/ Irela, Foreign Direct Investment in Developing Countries: the Case of Latin America, p.222.
The share devoted to "economic cooperation" rose from 5% in the period 1976-88 to 28% in 1992.

Specifically, the European Community Investment Partners (ECIP) programme was established in 1988 for a three year experimental period and extended for another three year trial period 1992-1995 with a view towards connecting entrepreneurs from the EU, Asia, Latin America and the Mediterranean countries. The programme supports feasibility studies, the financing of capital activities and human resource development and identify partners or projects for joint ventures. This programme is designed to work as a quasi-private financial instrument. Projects are chosen on the basis of their economic merit and profitability.

The ECIP has acted as a bridge between operators requesting financial support and the European Commission's services as a form of sponsor. In Latin America between 1988 and end 1992, 154 projects have been approved. About one third of all projects and monies to date have gone to Latin America, Mexico being the highest beneficiary, followed by Brazil.

BC-NET is another instrument used to facilitate contact among European firms with the EU but it now extends to some of the more advanced Latin American economies. It consists of a computerized data bank containing information on firms interested in possible partnerships in technical assistance, training, and joint ventures.

COOPECO is another network of contact points in a way more personalized than the above. It finances industrial meetings, and fairs. Its goal is to improve the economic image in Europe of Latin American operators, and provide information on possible European investment in the region.

AL-INVEST a scheme recently implemented, is an attempt to create an infrastructure of small offices or Business Cooperation centres throughout Latin America, with the aim to advise local operators about partnership opportunities in Europe. Its purpose is to facilitate joint ventures and encourage European financial investment and technology transfers to the region. Half of this programme is financed by the EU and half by Latin America.

Lastly, the European Investment Bank (EIB) loans destined for Asia and Latin America. Through this bank, loans are being granted in particular for energy, environment, transportation, tourism and water projects. Projects with a sub-regional and regional scope will be given preference as a way of encouraging regional integration.

F. CHANGES IN TRADE POLICY RESULTING FROM THE SEM

Specific changes that have already taken place in trade policy affecting Latin America range from a) import tariffs and tariff classification into Community norms; b) the abolition of national quantitative restrictions into Community restrictions; c) export subsidies, d) technical and health specifications and e) Generalized System of Preferences (GSP). Each one will be discussed below.
1. **Changes in import tariffs from the harmonization process**

In general, changes in tariffs from the harmonization process have not been significant following the SEM. Tariffs are on average low, 7.3% in general, and 6.4% for industrial products. However, in some cases the harmonization process has resulted in higher tariffs as is the case of automobiles, canned fish and bananas.

In July 1993, a new regulatory regime entered into force in the banana sector, in order to homogenize the six different systems for banana imports used before the SEM. This new regime allows tax-free access to the ACP countries but an annual quota of 2 million tons to all imports from other countries with a duty of 100 ECUs per ton increasing to 850 ECUs per ton for imports exceeding the quota.28/

These changes imply a reduction of Latin America’s share of bananas compared to before the implementation of the SEM. The new system of quotas for countries who are non-members of the Lomé Convention goes against the commitment assumed within the framework of the Uruguay Round to gradually eliminate all the non-tariff and grey area restrictions. As a result, a GATT panel ruled against the EU’s Single Market banana regime but the adoption of that ruling has been blocked by the EU and the ACP countries. These developments have created an ongoing controversy between the EU and Latin American export banana countries.

In the meantime, bananas are still subjected to a system of quotas and tariffs which range from 20-70% affecting Latin American exporters. The United States now became a significant player in the dispute as it affects United States multinational banana companies located in Central America. As mentioned earlier, although the SEM promises new opportunities for Latin American banana exporters the potential for market expansion will depend on the EU’s trade policy.

Tariff escalation in sectors such as fisheries, tobacco, leather, rubber, textiles, metals and electronics have continued in the same manner. While there is a tariff of 11.1% for fresh fish, it increases to 20.1% for processed fish; 13% for non-manufactured tobacco, compared to tariffs of over 66% for manufactured products; 1.2% for non-wrought metals such as copper, nickel, lead compared to 6.2% for non-ferrous metals products.29/ This phasing-in of tariffs makes it harder for Latin American countries to diversify their exports towards goods with a higher value added.

Tariff classification at times can change Latin American products accessibility to the EU. Several products are currently facing difficulties. For instance, sodium nitrate, potassium nitrate and orimulsion are products which have been reclassified to the disadvantage of Latin American

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28/ SELA, June, 1994, "Barriers to trade applied by industrialized countries to Latin American exports", p.45.

exporters. The first chemical is classified as a soluble inorganic product and not as a fertilizer. In the case of potassium nitrate, its classification prevents its inclusion in the GSP, while orimulsion was classified as a mineral oil, when it is considered a natural bitumen.30/ The result is that, these products are either excluded from preferential access or carry a higher tariff.

All the main agricultural products of the temperate zone are virtually protected by the system of variable duties on imports, within the framework of the CAP. National taxes on certain tropical products of particular interest to Latin America such as coffee, tea and cocoa were not covered by the harmonization process resulting from the SEM. Five member States maintain taxes on coffee with an ad valorem incidence of over 100%.31/

2. **Changes in quantitative restrictions**

Despite the rollback of many of the national non-tariff measures, several national restrictions on imports still remain. They are concentrated in fruits and vegetables, including tomatoes, grapes, melons, apricots, pineapples, and bananas as well as electricity-consuming products such as TV tubes, radio and TV receivers of Japanese and Asian origin. The issue of national quotas is not yet finally settled. It appears that they may be replaced by a safeguard clause enabling the Commission to take import-restrictive measures.

On February 1993, the importation of apples was subjected to import surveillance and in April 1994, the EU introduced the so-called "red zone" tariff surcharge for apples. This surcharge is applied when a reference price is fixed on a given item falls below the stipulated value. In the case of the Chilean fruit the reference price is fixed which means that if the price falls below said value, a tariff surcharge is automatically applied. This measure has adversely affected the entry of Chilean apples.

3. **Changes in export subsidies**

In the past two years there have been improvements in the area of export subsidies. However, more than half of the 1993 budget for domestic production subsidies was still allocated to agriculture. These subsidies eliminate competition from imports of third countries and encourage protectionism. The sugar industry is a notable case in this respect.

The sugar industry has enjoyed substantial subsidy supports converting the EU into the world's leading sugar exporter, even though production costs are extremely high compared to more efficient producers like Cuba, Brazil and the Dominican Republic.

Most of the oil-seed industry also exists exclusively from financial assistance. Subsidies to this industry affects exports from Brazil and Argentina.

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30/ SELA, June, 1994 "Barriers to trade applied by industrialized countries to Latin American exports", p.45.

31/ SELA, June, 1994, "Barriers to trade applied by industrialized countries to Latin American exports", p.40.
Financial assistance for agriculture comes mainly from the EU budget. However, subsidies to industries such as transport, mining and shipbuilding are made exclusively or predominantly by member states. On average, 13% of state assistance at the national level is allocated to agriculture, 40% to manufacturing, 29% to transport and 18% to mining. Countries differ widely in their levels of financial assistance. The level of assistance in Italy is more than double that in Germany, and three times more than in the UK. The same is true in Research and Development. Belgium and Germany have the highest rate of R&D while Spain, Italy, France, Portugal and Greece have the lowest.

Important sectors of the steel, iron and coal industry continue to be subsidised. In the steel industry, Community policy falls under the jurisdiction of the European Coal and Steel Community. In 25 February 1993, specific measures were taken towards the restructuring of the steel industry. In order to make the industry more competitive a programme was undertaken to close inefficient firms by the end 1994 or 1995, and reduce support mechanisms.

4. Changes in Technical and Health Regulations

Following the implementation of the SEM, new technical and health regulations have been introduced within the EU and to third countries. Many changes have directly affected Latin American exports. Beginning 1993, new requirements for quality inspection regarding fresh agricultural produce began to take effect. These requirements are directed at fruits and vegetables, i.e. apricots, apples, pears, kiwis, peaches, nectarines, plums, strawberries, grapes and asparagus, all of which are export products in its majority from Chile and Argentina to the EU.32/

In implementing these measures, each member country is assigned a government authority or inspection site centre. Inspection can also be undertaken in the export country, as long as the inspection site is approved by the Community. A site centre’s approval lasts for a period of three years and can be revoked at any time if there is any indication of not holding to rigorous inspection controls. Argentina and Chile have indicated their desire to have their own inspection site. Each inspection includes packaging regulations indicating the type of product, country of origin and category of quality. European countries have become increasingly concerned with the effects that disposable packaging may have on the environment, leading to the implementation of a series of packaging schemes, some voluntary and others obligatory.

Furthermore, since June 1993, no product can enter the Community without its proper sanitary certificate. National legislation within the Community differs with respect to the maximum limits of insecticides tolerated in fruits and vegetables. To find out the requirements local authorities need to be consulted for each country.

The fundamental difficulty faced by developing countries like Latin America in meeting the requirements of these new laws relate to technological differences, lack of technical economic know how, and in some countries the absence of their own national rules and standards to protect local environment and health.

The latest measures taken in the area of trade policy cover what are called "cheap" exports. These are exports originating from countries whose competitiveness depends on low wages and as such are construed as "unfair" competition. This is the concept behind what is referred to as "social dumping." Another form of what is considered unfair competition is the concept of "environmental dumping" which refers to significantly lower environmental standards in developing countries than those established in the EU. The risks involved for Latin America if this perception becomes widespread are substantial. In this regard, Latin America should ensure that the new World Trade Organization enforce multilateral rules rather than managed trade. Already at the Marrakesh meetings of the Uruguay Round, these issue were raised by France and the United States, creating a response from Latin America and other developing countries that these were trade barriers in disguise.

5. Changes in the Generalized System of Preferences

Until the present time, the main components of the GSP scheme have remained intact, except for those undertaken with individual groups under special agreements.33/

In 1990, the Commission brought to the attention of member states the deficiencies of the GSP scheme and proposed to improve it in the following areas: a) to broaden the range of products it covers; b) to simplify the system to avoid quantitative limits; c) to increase its stability through a lengthening of the application periods; d) to establish more favourable provisions for the least developed countries; and e) to establish greater flexibility in the rules of origin permitting subregional accumulation.

These suggestions would undoubtedly improve the position of Latin American exports into the Community. In particular, the allowance of subregional accumulation would stimulate Latin American integration. Compared to other developing regions including the ASEAN, Latin America is not allowed subregional accumulation. Furthermore, a lengthening of the application period would encourage long-term investment. The proposal was postponed by the European Council for a later date, in part, waiting for the results of the Uruguay Round.

The European Commission has now approved, in October 1994, the gradual reform of the GSP during a three year period beginning 1995, and it is now pending approval in the European Council. Part of the reforms will take into account the level of development of each individual country and of specialization in specific products. The system foresees all industrial products but

not agricultural products to be exempt from duties with certain quantitative restrictions applied to "sensitive" products.

The objective of this measure is to boost manufactured exports from developing countries as opposed to raw materials and agricultural products. It also proposed, beginning 1997, to exclude individual countries considered not to need GSP: those with per capita income above $6,000. Other reforms for the nineties within the GSP and the future of other aspects of the EUs trade policy for the rest of Latin America still have to be defined.

The EU granted, within the GSP, special treatment to four Andean countries (Bolivia, Colombia, Ecuador and Peru) as a help in their fight against drugs. This agreement took place in January 1991 for a period of four years. All these countries' textile and industrial products as well as agricultural exports including coffee, flowers and cocoa, but excluding bananas, can enter the SEM without paying duties or being subject to quotas. In 1993, the same preferences were extended to Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). These agreements are expected to be renewed in the 1995 reforms.34/

These preferences are turning out to be useful in penetrating the European market when they are adequately complemented by an effective export promotion policy. Among the Andean countries, Colombia has taken more advantage of the special treatment than the other Andean countries.35/ Among the Central American countries, Costa Rica and to a lesser extent Guatemala have taken the most advantage. Meanwhile, only 50% of the scheme's potential is exploited by the other countries with the exception of coffee.

In sum, the SEM concerns issues that go beyond border problems. Continuing state intervention on such matters as pricing, state and Community subsidies, the interpretation of the "local content" and antidumping rules as well as the new concept of social and environmental dumping are all areas which Latin America needs to follow closely as the SEM progresses further. Although in some areas there are difficulties for Latin American products, in other areas there are new opportunities and challenges. Given the changes taking place in the EU, Latin America needs to find ways to create new trading opportunities, through better trade information and trade efficiency. They should concentrate their efforts in those products where they are competitive and where new markets in the EU are being created while moving away from those products which offer less possibilities. Lastly, they need to take full advantage of whatever concessions or preferences are granted to them.


IV. EUROPEAN EXTERNAL POLICY AND LATIN AMERICA'S COMPETITIVE POSITION

Four recent developments of major importance to Latin America have been taking place within the Union's external policy: a) the implementation of the Uruguay Round accord to liberalize trade; b) the European agreements with the Eastern European countries; c) the new Euro-Maghreb Agreements which will include an "optimization" of access conditions for Maghreb agricultural products; and d) the third European enlargement of the EFTA countries. These developments will produce both positive and negative results. Some of these changes will be felt in the short-term while others will not be felt until the medium-term or long-term. In some ways, these transformations may have a bigger impact on Latin American trade and investment opportunities with the Union than the Single Market itself.

A. THE EU AND THE URUGUAY ROUND LIBERALIZATION MEASURES

The conclusion of the Uruguay Round signed by 125 countries is the largest package of liberalization measures in the history of multilateral trade negotiations. These measures consist of reductions in tariffs and and non-tariffs; the inclusion of agriculture, services and intellectual property in the GATT, the dismantling of the Multi-Fibre Arrangement (MFA); and the creation of the World Trade Organization (WTO). The agreement of the Final Act held in Marrakesh April 1994 came into effect on January 1995 and is in the process of being ratified by each country member of GATT.

Inevitably, these changes will have a major impact on the EU's external trade policy with Latin America and the rest of the world. The EU has expressed its views that the results of the Round will favour Latin America while Latin America has voiced its doubts about the balanced nature of the results of the Round. Whatever else, the agreement of the Uruguay Round is far preferable for the improvement of the world trading system and economic efficiency to the alternative of a failed Uruguay Round and continued growth of protectionism.

As a whole, the EU is expected to increase its real income by 80 billion dollars by the year 2002 and Latin America by 8 billion, according to a joint study carried out by the OECD and the World Bank.36/

In the area of agriculture, the Uruguay Round agreement kept intact most of the provisions of the accord on agricultural reform reached between the United States and EU negotiators at Blair House in November 1992. In fact, the Blair House accord paved the way towards the conclusion of the Uruguay Round agreement.

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36/ SELA, "The European Union and Latin America: Towards a Redefinition of Biregional Relations", June, 1994, p. 27.
Previously the EU underwent an important series of reforms under the Mac Sharry CAP reforms of May 1992. Substantial reductions were initiated in producer prices for cereals and beef, and the use of compensatory payments conditional on producers reducing inputs such as area sown and livestock numbers. The European Council also decided to reinforce these measures to protect the environment and improve the link between agricultural activities and preservation of the environment.

One of the most important results achieved from the Round is in having succeeded in getting agriculture, and clothing and textiles into the GATT’s mainstream. This event is of importance to Latin America. The following points summarize the key agreements in these two areas. It will continue by describing the changes made by the EU and contrast them with previous reforms already in place under the CAP mechanism and the MFA.

1. Agriculture and fishery will be incorporated into the GATT rules. Non-tariff barriers will be converted into their tariff equivalent, and cut by an average of 36% and with each tariff item by at least 15%. For developing countries cuts were set at 24%. Tropical products, essential to most Latin American and Caribbean countries, will also have average tariff reductions of 40%. These changes will take place during a period of six years for industrialized countries and over 10 years for developing countries.

2. Export subsidies in agriculture will be cut by 36% from $21.3bn to $13.7 bn by the end of the transition period. At the same time, the quantities that can be legally subsidized will be reduced by 21% over a period of six years. Furthermore, an agreement was struck towards reducing government subsidies to domestic producers by 20%. The EU agreed to reduce its Aggregate Measure of Support from ECU 73 billion to ECU 61 billion.

These reductions will have a large impact on most heavily subsidized products such as wheat, beef, coarse grains, and dairy products. These changes will create new market opportunities of particular value to Latin American countries exporting temperate food products where protection in the EU has been greatest. Brazil, Uruguay and Argentina in particular would stand to benefit. On the loosers’ side, food importer countries in Latin America like the Dominican Republic, El Salvador, Peru and Venezuela could also see prices rise as a result of reductions in export subsidies.

3. Textiles and clothing will be under GATT rules and its members committed to eliminate by 2006 the MFA. Member countries are required to phase out their existing restrictions during a specified 10-year period. Afterwards, the same rules will apply to trade in textiles and clothing as to trade in other goods.

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As part of the integration of products into the GATT (or out of the MFA), countries have to subject at least 16% of their textiles and clothing imports to GATT disciplines in the next three years. This is part of the first of four phases in the dismantling of the 20 year old MFA. The second phase will consist of a further 17%, a third phase another 18%, and the last phase 49% at the end of the 10 year period.39/

Table 11
REDUCTIONS IN MFN a/ TARIFFS BY THE EU RESULTING FROM THE URUGUAY ROUND
(1988 base year)

<table>
<thead>
<tr>
<th>Major Product Groups</th>
<th>Pre UR %</th>
<th>Post UR %</th>
<th>Reduction %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural products (non tropical)</td>
<td>21.9</td>
<td>14.9</td>
<td>32.2</td>
</tr>
<tr>
<td>Tropical agricultural products</td>
<td>17.8</td>
<td>10.5</td>
<td>41.0</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>11.3</td>
<td>9.4</td>
<td>17.4</td>
</tr>
<tr>
<td>Leather and footwear</td>
<td>8.6</td>
<td>7.3</td>
<td>14.9</td>
</tr>
<tr>
<td>All products (exc. fuels)</td>
<td>7.5</td>
<td>4.6</td>
<td>38.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sectorial</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>104.5</td>
<td>66.6</td>
<td>36.2</td>
</tr>
<tr>
<td>Meat and meat products</td>
<td>75.2</td>
<td>47.7</td>
<td>36.5</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>2.3</td>
<td>1.8</td>
<td>23.0</td>
</tr>
<tr>
<td>Dairy products</td>
<td>67.2</td>
<td>43.2</td>
<td>35.8</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>14.8</td>
<td>11.1</td>
<td>25.1</td>
</tr>
<tr>
<td>Flowers and plants</td>
<td>6.9</td>
<td>2.7</td>
<td>61.6</td>
</tr>
</tbody>
</table>


a/ Most favoured nation clause. Weighted tariff averages.

Although these changes point towards a successful liberalization process, by postponing the integration of 49% of each country’s textile imports to the last day of the transition period, protectionist pressures may make use of this time to attempt to achieve a postponement of the final stage. During the transition period new restrictions can be negotiated or imposed under a "transitional safeguard mechanism" whenever importing countries consider that there is a threat to their domestic industry.

Already in preparing to implement this agreement it appears that the European Commission is proposing to carry out this commitment in a way which would leave the range of products covered by MFA quotas virtually unchanged until 1998. The EU is the world’s largest textiles and clothing importer and the approach they decide to take will carry substantial weight in the direction the liberalization process will take.

The Commission plans to do this by subjecting to GATT rules those products which are mostly exempt from MFA quotas. This includes items such as hat, umbrellas, parachutes, but excludes important items such as cotton garments. By doing it this way, according to a third world lobby group study, the EU would be lifting restrictions on only 0.1% of products on which it imposes quotas.

Britain, Germany, the Netherlands and Denmark are pressing for a more liberal route but are opposed by southern European members which have politically powerful textile industry lobbies. EU members also intend through these measures to press developing countries to open their textiles and clothing markets.

At the present time, MFA agreements in the EU are broad in range. The number of categories subjected to quantitative restrictions vary considerably. For instance, large exporter countries can have 40 quantitative restrictions, while smaller suppliers can have 1 or 2. These restrictions can no longer be divided within Member states as before. They have been removed altogether or harmonized into Community-wide restrictions. Instead, safeguard clause mechanisms are introduced in the event that a large influx of imports considered to create internal market disturbances.

In Latin America, countries with bilateral agreements and allocations covered under the MFA agreement include: Argentina, Perú, Brazil, Uruguay (no restrictions), Colombia (exchange of notes) Guatemala (exchange of notes), and Mexico (exchange of notes).

As a whole, the Uruguay Round agreement was a major step towards liberalization in world trade, but these changes will take time to implement. Results will not occur in the short-term. It is important that all countries maintain the political will and commitment to carry out these reforms instead of trying to circumvent them. Although there is still room for improvement in the areas of agriculture, clothing and textiles, the Uruguay Round agreement produced important results. Specifically, it will change in the following ways:

a) it will decrease the probability of future export subsidy wars between the EU and the United States which would affect agricultural exports from third countries; b) it will replace the EU variable import levies by tariffs serving to stabilize international food markets; c) it will raise the average level of food prices in world markets due to the reduction of subsidies and support mechanisms; d) it will reduce the fluctuations in world food prices; e) it will increase the certainty of higher and more stable prices in future thereby encouraging greater investment in the farm sectors; f) it will bring stronger GATT rules on the use of sanitary and phytosanitary provisions as a protectionist device; and g) it will dismantle the restrictive MFA and subject clothing and textiles into the GATT rules and surveillance.

40/ Financial Times, "EU to move slowly over fibres accord", September 17, 1994.
B. EASTERN AND CENTRAL EUROPE - EUROPEAN AGREEMENTS

The Central and Eastern European countries (CEEC) enjoy top priority in the Union’s external policy and are considered of strategic importance to the Union. The "eastern" strategy, followed in particular by Germany, has been to place the building blocks towards bringing six central European states, Bulgaria, Hungary, Poland, Rumania the Czech and the Slovak Republic, into the Union around the end of the century. The Union agreed, according to the declaration in Copenhagen, June 1993, that the CEEC countries who wish to join the Community in future may do so. Hungary and Poland formally applied in April 1994. Plans are also underway to finalize a free trade area with the Russian Federation by 1998, and other possible agreements may be underway with other ex-URSS states as well.41/ 

One of the reasons why these countries have increased in importance with the EU is that politically as these countries’ economic and social problems continue to be unresolved, so does the risk of yet more instability on the Community’s doorstep. Unemployment is a serious problem in Eastern Europe which may produce migratory pressures into Western Europe. For instance, 7.5m people are unemployed, or about 14% of the labour force. Excluding the Czech Republic, over 30% of the unemployed have been out of work for at least a year.42/ 

Community policy in all areas of common interest is the outcome of complex bargaining between member states. In general the Community’s external policy towards Eastern Europe is one of adjustment first, and membership later. Widening of the Union before the deepening of the Union would create further costs and problems to the already stressed European budget, and this has given rising cause of concern to the Southern European member countries. Nevertheless, there is widespread consensus among member states that economic progress in these countries is of utmost importance for Europe in order to maintain prosperity and political stability in the region.

In helping these countries speed their transition process into market economies, the Union proceeded with the signing of the so called "Europe Agreements" in 1992 between the EU and the six CEEC countries. These agreements constitute a very substantial trade liberalization package unprecedented in scale and pace in the EU. With these agreements, Eastern Europe is now at the top of the EU’s pyramid of preferences. Over fifty percent of CEEC’s trade are free of entry into the EU and free of quantitative restrictions. Furthermore, the EU granted these countries trade preferences in key sectors such as agriculture including products covered by the CAP, and has created a free trade zone for their industrial products over the next ten years.


42/ See The Economist, "Out of work in Eastern Europe", July 9, 1994, p.24. The idea behind Eastern Europe’s unemployment was that people should lose their old state-sector jobs and find new ones in the private sector. However, this has not happened.
They also entail liberalization in certain "sensitive" sectors such as the dismantling of quantitative restrictions for textiles, with transition periods that typically run for five years. When these agreements came into effect in 1992, the CEEC’s agricultural exports to the Union represented less than a third of those from Latin America.43/ Nevertheless, this does not mean that their supply response cannot change with time. Already during the first semester of 1992, import growth from Latin America declined by 1% while the CEECs grew by 19% during the same period of time, becoming one of the most dynamic trading partners of the EU.

The CEEC’s are heavily dependent on the EUs market and this dependence is increasing. While in 1989 the EU represented 22% of total CEEC’s manufactured exports, by 1992 this share jumped to 48%.44/ In value terms the EU imported on average 14 billion ECUs during 1990-1992 an increase from 8 billion ECUs during 1987-1988. Manufactures represent 80% of total EU-CEEC trade.

These countries have also been increasing their purchases from the EU. While on average 19% of total CEEC’s imports came from the EU, by 1992 they increased to 44%. In value terms, the CEEC countries imported from the EU on average 15 billion ECU’s during 1990-1992 an increase from 9.6 billion ECUs in 1987-1989. Although these countries are small trade partners accounting for 3.3% of extra-EC imports share in 1992 compared to Latin America’s share of 5.1% in the same year, it is growing.

In recent years, there have also been a substantial growth in cooperation between the two groups for significant amounts of technical and financial assistance. Direct Community investment increased considerably since the beginning of the nineties, especially in Hungary, the former Czechoslovakia and Poland. The amounts directed to these three countries was comparable to Europe’s total direct foreign investment in Brazil, Chile, Colombia and Mexico during the same period.45/ There has been a marked increase in lending activity in 1993 as well. European Investment Bank (EIB) lending increased to these countries from 320,0 million ECU’s in 1992 to 882,0 million ECU’s in 1993. Loans to the non-European Mediterranean countries increased from 320,8 million ECU’s in 1992 to 680,5 million ECU’s in 1993 while EIB lending to Latin America and Asia in 1993 amounted to 99,0 million ECU’s.46/

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44/ European Commission, European Economy, Recent Economic Trends, No.7, July, 1994, p.3.


46/European Commission, European Economy, Recent Economic Trends, October, 1994, p.3.
Direct foreign investment aimed at export sectors in the CEEC's will cause diverting effects to third countries including Latin America. These countries benefit from a skilled and cheap work force, geographical proximity to the EU and greater access to their markets under the European Agreements. Declines in production which followed market reforms have begun to bottom out. All of the above added more significance now that foreign investors anticipate the CEECs incorporation into the EU. Although as of now the CEEC countries continue to have serious internal difficulties, weak infrastructures and a lack of marketing expertise, with time this is also changing.

Over the past five years the private sector has accounted for more than half of all economic activity in nine of the 25 former centrally planned economies, with the exception of the Ukraine. Inflation is down to low double digits in most of Central Europe and the Czech Republic. Unemployment is now starting to ease in some of these countries. It is expected that these economies are now in the early stages of what could be a prolonged rise in production, investment, foreign trade and income. Three of the CEEC countries have an average GDP of $2,300 per capita GDP, similar to some countries in Latin America. Poland have a population size similar to Argentina and Colombia and the Czech Republic and Hungary at 10.5 million are close to the population of Ecuador, Guatemala, and to some extent Chile's.

Trade also increased in the last few years after having contracted following economic reforms. In Poland, trade grew between 1993 and 1994 by 20%. Trade with Latin America is picking up after a sharp slowdown during the years of economic restructuring. Poland in trying to broaden its markets is looking to sign bilateral agreements with countries in the region. A bilateral trade agreement was signed with Chile in 1993. The ex Republic of Czechoslovakia had trade agreements with 18 countries in Latin America and are in the process of being modified. Hungary's trade flows with Latin America are small and have been decreasing following economic reforms. Like Poland, Hungary's main trading partner in the region is Brazil and Argentina occupying 58% and 19% of total trade respectively. Trade between Eastern Europe and Latin America is concentrated in few commodities from Latin America and few raw materials and manufactured goods from Eastern Europe.

Although there will inevitably be diversionary effects in trade and investment, resulting from the Europe Agreements they also offer opportunities for Latin America. One could say that new investment funds and an economic recovery will boost the demand of these countries for imports, thus opening new markets for Latin American exports. This is especially true in tropical fruit, coffee, oil seeds, steel, manganese and copper. Further increases in demand will certainly take place after these countries join the Union.

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47/ To date, the funds devoted to these countries come from different budget lines than those used for Latin America. Reimbursements are made through the Multilateral Programme, Poland, Hungary, Aid for Economic Reconstruction (PHAER).

48/ CEPAL, Análisis de las Relaciones Comerciales entre los países de America Latina y de Europa del Este, 15 February, 1995.
C. EUROPEAN POLICY TOWARDS NORTHERN AFRICA AND THE MIDDLE EAST

The Maghreb countries and other Middle Eastern countries have been growing in importance in the EU’s external policy. At the Lisbon Summit June, 1992, the Council reaffirmed its commitment towards these countries, considering them of "high strategic importance" for the European Union.

Growing instability in the region and migratory pressures which have been increasing since the SEM took effect have prodded the EU in reviewing its external policy with these countries. In this endeavor, significant changes in Global Mediterranean policy have already occurred and more changes are to come. The "Euro-Maghreb" association agreements got underway on February 14, 1994, with Morocco and on March 21, 1994 with Tunisia and Algeria. It consists of the same preferences as those given to Eastern Europe but without their eventual incorporation as Union members.

The main points of importance in these agreements are: a) the gradual establishment over 12 years of a free trade area in the industrial sector; b) the optimization of the scheme of access for agricultural products to the Community market; and c) financial assistance.

Furthermore, the European Development Commission reiterated in October 1994, the necessity for a deeper and broader Southern Mediterranean policy to match its policy towards Central and Eastern Europe. It proposed a new aid pledge for 1995-1999 for the Maghreb (Morocco, Tunisia, Algeria and Libya); the Mashrak (Egypt, Jordan, Syria, Lebanon) and Israel of 6.9$ billion dollars. Eastern Europe receives nearly five times more assistance. This should be in addition to increased soft lending from the European Investment Bank and other financial institutions.49/

The Commission is also proposing to establish a free trade area that would run from "the Arctic to the Mediterranean". At this time, the Commission called on the EU to create a Euro-Mediterranean Economic Area to include Northern Africa and Middle Eastern countries.50/ This free trade area is estimated to take 10-15 years to establish and would become the biggest free trade area in the world. This would mean that these countries would enjoy the same benefits as the EFTA countries, except membership. France’s EU presidency is expected to host a Euro-Med ministerial conference in the first half of 1995, to formally discuss the details of this programme.

This proposal has prompted opposing views among member states. Southern EU states who fear from competing imports from these countries, prefer aid to trade concessions while the Northern countries take the opposite view. For this reason, the Commission argues that it is

49/ South-North Development Monitor, 21 October, 1994 "Trade: EU extending policies towards South".

important to proceed quickly before Southern EU countries become anxious over the next enlargement and the planned expansion to the East.

These new developments presents challenges for Latin America. Many of these countries have similar agricultural exports to those of Latin America especially in fruits, vegetables, wines, and olive oil. To this, is coupled the fact that although the effects of the second enlargement of the EC on Latin America by and large have already been absorbed, the transitional period for Spain and Portugal won’t be complete until 1996. Due to a large degree of similarity between the southern countries of the EC and some countries in Latin America, in natural resources, structures of production and exports, the full effects of the second enlargement and of the new development strategy for the Middle East countries are not insignificant.

According to calculations of the Institute for Agricultural Market Research, the self-sufficiency level in the Community will reach 76% in the case of citrus fruits, 90% in rice, 100% in olive oil, 100% in vegetables, 105% in wine and 110% in tomatoes after the completion of the transition period in 1996. For some overproduced items the Union is thus likely to be restricted to third countries. An increase in exports from the Mediterranean countries may restrict them further. Of course, the outcome will also depend on the supply response of these countries. Notwithstanding these events, the erosion of preferences associated with the proliferation of regional blocs or bilateral preferential agreements will be dampened because the successful outcome of the Uruguay round will further erode the value of special and differential treatments.

**D. ACCESSION OF THREE EFTA MEMBERS TO THE UNION**

Preparations for the third EU enlargement took place at the Council of Edinburgh December 1992 to include Austria, Finland, and Sweden as Community members. In 1993, the Commission initiated a round of talks and by 1994 membership agreements were ratified by the European Parliament. Membership was set for January 1995.

With the incorporation of the three EFTA members in 1995, the EU will have fifteen members, increase its population to 370 million and its GDP will increase between 6-8% to 6.086 billions ECU’s. The accession of these three countries will extend the EU borders towards the East reaching Russia and from the Mediterranean to the Baltic Sea.

The requirements for membership implied important changes in these countries’ institutional and economic policies. The number of Commission members will rise from 17 (two each for the big 5 countries, one each for the small ones) to 20 which means that voting criteria will change in the decision making process of the EU. The new members will also be net contributors to the Community budget, but not until the end of the four-year transition period which will be in 1999. Furthermore, they will take over ECs Agricultural Policy, EC’s customs tariffs and other trade policy instruments, and all association and bilateral agreements which the

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EU have with third countries. Their membership not only implies an extension of the SEM to these countries but total acceptance of the Community’s patrimony and the Maastricht Treaty.

In agriculture, the new members’ agricultural prices will adjust to EU price levels (their prices are higher than the EUs). Financial compensation may be provided during a transition period to farmers affected by the price levelling for a specified period of time. The impact of the accession of these three countries for Latin America is not as significant as could be the changes taking place with Eastern and Central Europe and the Maghreb countries. Overall, it appears that Latin America is likely to benefit from this event.

First, imports from Latin America into these countries have historically been low. Since 1991, there has been a downward trend in trade flows in both groups but even more pronounced in the EFTA countries. While Latin America represented 5.5% of the EU’s extra-community imports in 1992, EFTA’s import share from Latin America was 1.3% in the same year. In this case, it would appear that by joining the Union these countries would be importing more from Latin America than before membership. This positive impact will be further enhanced through the adoption of rules inherent in the SEMs, in particular the free movement of merchandise between countries.

Second, integration of their agricultural sector into the CAP will also be beneficial. The EFTA countries are more protectionist in this sector than the EU member states which implies that by adopting EU agricultural policy, Latin America will increase market share in these three countries.

Finally, the likelihood of trade displacement in competing exports is also very low. Most Latin American exports to the EU make up food products and raw materials. In 1992 they accounted for 37% and 18% of total exports to the EU respectively. In the same category group, the three EFTA countries exported 3% and 8% of their total exports to the EU respectively. Nevertheless, it is important to point out that there will be expected increases in categories such as fishing where Chile and Peru would be in competition. They will also be adopting the EU’s common policy of quotas and in the case of bananas it will imply a diversion of trade from Latin American banana producers.

In the area of development assistance there have been rise for concern. These countries are important donors of official development aid to Latin America and have been increasing their levels of ODA from 5.6% in 1980/81 to 10% in 1990/1991. As these countries accede to the EU, they may have to modify their co-operation schemes and redirect their contributions in accordance with the EU’s priorities i.e. Eastern Europe and the Maghreb countries. Notwithstanding this possibility, just as the Southern enlargement has influenced the decision making of the Community, the new members may be able to influence the Union’s decision making to the benefit of Latin America as well.
V. CONCLUSION AND RECOMMENDATIONS

The European Union has gone through major transformations and changes in recent years. In its internal policy it includes the implementation of the single market programme, industrial restructuring, preparations towards a European Monetary Union, the reform of the Maastricht Treaty, and the Common Agricultural Policy.

In the Union's external policy, the countries in Eastern and Central Europe now occupy top priority. Agreements undertaken with these countries constitute substantive trade liberalization and investment schemes unprecedented in scale and pace in the EU. Furthermore, these countries will eventually form part of the European Union. The increased political and social instability in the Middle East, especially in the Maghreb countries, have increased the urgency for the Union to reexamine its external policy towards the Middle East. In reviewing the EU's external policy with these countries, new association agreements consisting of the same trade preferences given to Eastern Europe and increases in aid have gotten underway. The last enlargement of the EU to include Austria, Finland, and Sweden will change these countries' institutional and economic policies as well as in the EU. Their membership implies total acceptance of the Community's patrimony and the Maastricht Treaty. Lastly, the conclusion of the Uruguay Round agreement will undoubtedly shape the political and economic policy of the EU. For the first time, agriculture and textiles will be covered under the WTO rules benefitting Latin American exporters.

For Latin America, external changes taking place in the EU will carry more weight than the SEM itself because: a) although the SEM accelerated rapidly throughout the phasing-in period beginning in 1991 the recession suffered by the European Union following the date of implementation caused unexpected delays; b) a large number of the SEM's measures still have not been incorporated into national legislation, other measures are still pending changes in Brussels; d) there have been difficulties in controlling Community norms at the national level, new measures are being introduced to improve the management and efficiency of the SEM; e) not until 1994 did the EU begin to address the SEM's external impact on third countries and the convergence of the SEM's norms on non-member countries. For these reasons the effects of the single market programme within Europe and the rest of the world will be seen more clearly in the medium-term. With all these transformations still to come the EU is in the middle of a process that will continue throughout the decade.

In sum, all the changes and transformations taking place in the EU will provide challenges and opportunities. The implementation of the SEM will in the medium to longer term produce spill over effects to Latin America opening up new export opportunities. The harmonization of controls, tariffs and technical requirements and transport costs will translate into cost savings to EU members and third countries alike. As Eastern European countries will resume and continue to grow, increases in demand will create new opportunities for Latin American exports. The accession of three EFTA countries into the EU will also provide market opportunities because these countries have followed more protectionist policies in agriculture than the EU's average.
Areas of particular concern are the interpretation of the "local content" rule as well as the new concept of social and environmental dumping. These issues will probably form part of a European-Latin American agenda in the nineties. The EU’s decision making with other regions is primarily based on geopolitical and less on economic interests as has been reflected by the new agreements undertaken with the Middle East and Eastern European countries. These events may have a more direct impact on Latin American trade and investment flows with the EU than the SEM itself because these changes have already taken place. There is also more agreement among member states on the importance of these regions for the political and social stability of Europe.

In recent years, a new relationship has been taking place between Latin America and the EU in the area of trade and investment based on the concept of mutual benefit as opposed to traditional aid as before. New forms of economic cooperation agreements have emerged directed at the newly emerging economies of the region in the form of technical cooperation, training and joint ventures. Despite a decline in Latin America’s import share with the EU, the EU is still an important market for Latin America. If we take out Mexico from the region, the importance of the EU relative to the United States is far greater. Mexico is unique in the region because of its special ties with the United States. This needs to be taken into account when aggregating export and import coefficients between the two regions.

All these developments offer challenges and opportunities for Latin America. In light of all the changes taking place and more to come what can Latin America do to maintain and improve its position with the EU? The following suggests specific actions and recommendations.

As the EU’s economies resume growth, the full implementation of the SEM will begin to take place. As dynamic effects will begin to take hold, it will permit Europe to open more its doors to external competition within an expanding market. Latin America should prepare itself to compete.

2. The degree of openness in Latin America coupled with increases in economic growth has opened export opportunities for the EU in recent years and the EU has taken advantage of them. The EU has been increasing its exports to Latin America surpassing Extra-EU imports from the region. Now that the EU is resuming growth, Latin America should take advantage of this and increase their exports to the EU. Latin America has continued to loose market share with other regions especially with Asia which implies the need to pursue more competitive trading practices. This would include institutional and industrial restructuring, improving their quality of production and just-in time delivery, as well as their technological know how, marketing and export promotion mechanisms.

3. There have been important changes in the product mix exported to the EU in recent years. A move towards manufactured exports away from traditional agricultural products. Extra-EC imports of manufactured goods have been growing faster than agricultural goods following the SEM but mainly from Asia. Future trends would indicate that imports of manufactures will continue to grow as a result of increases in GDP in the EU because of higher income elasticities
for manufactured goods. Latin America should take note of this trend and improve their position vis-a-vis the Asian countries.

4. Although the CAP restricts imports of agricultural goods, there are market niches in which Latin American producers could benefit from. It should be aware of promoting those products with export growth and market potential and move away from those products with less favourable prospects. For instance, fishery, fruits and cut flowers are rapidly expanding markets in the Union and will continue to grow as opposed to fuels and processed minerals.

5. It is broadly agreed that the SEM will bring benefits to EU countries. There is less agreement about the size of the benefits and how they will be distributed within the EU. It should be borne in mind the conflicting points of view within the EU between inward looking and protectionist vs. outward looking and free trading firms and industries when embarking in joint ventures and business deals. When threatened by global competition weaker firms tend to become more protectionist than stronger more self-confident industries and firms.

6. Latin America needs to improve the economic image in Europe of the region. Latin America, through representatives in the EU and in their own countries, should disseminate information on the new instruments of cooperation between the EU and the region and promote investment opportunities. Many of these programmes supports financing of business activities, human resource development and promote joint venture projects.

7. The EU's Maghreb policy, and the Europe Agreements with the Central and Eastern European countries imply significant changes for Latin America. To offset any adverse effects, Latin America could broaden its markets to these countries through better information mechanisms on the demand and production patterns of these countries and by promoting joint ventures in both regions. As these economies grow, especially in the case of Eastern Europe, these countries will boost their demand for imports, opening up new markets and investment opportunities and Latin America could prepare the ground to compete before it takes place.

8. The conclusion of the Uruguay Round established a framework for multilateral trade that should help prevent the creation of closed economic blocks. Because of this agreement, substantial changes will be taking place in the EU's trade policy towards Latin America and the rest of the world especially in agriculture, clothing and textiles. Many of these changes are beneficial for Latin America. However, there are new areas of concern. Issues such as social and environmental dumping are all areas which need to be followed closely as the SEM progresses further.

9. A strong lobby group and team of Latin American negotiators based on consensus building is essential to protect Latin American interests in the World Trade Organization and in the EU itself from any disputes or restrictive practices which may arise in future. For this to be effective, Latin American representatives should negotiate as a block in order to exercise muscle and bargaining power to negotiate directly and on an equal footing with the EU and other countries. On many occasions, Latin America lost leverage or missed opportunities to improve
their position with other regions from lack of unity and agreement among themselves. There should also be a continuous surveillance in the EU's preferential scheme by products and countries in order to maintain or improve the position of Latin American markets with other regions.

10. Adaptive instead of reactive policies will generate more success in coping with adverse effects. Latin America needs to adapt in a speedy and timely manner to new developments in order to offset whatever negative effects may occur and take advantage of new opportunities. This should be done by keeping itself informed of changes in the Union and with the rest of the world as well. Latin America should remember that the future relations between the two regions will depend on both sides.
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