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Economic relations *between Latin America* and the European Union

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Two opposing trends are currently shaping relations between the European Union and Latin America. On the one hand, political signals in both regions are positive and point the way to closer ties in the future; on the other hand, the situation with regard to the Union's trade with Latin America has worsened appreciably, with the region's trade surplus giving way to a deficit for the first time in four decades. This trend may jeopardize the progress made thus far. If we do not act now, trade-related tensions, the reduction of development assistance and the appearance of social or environmental trade-restrictions may cast a shadow over the bilateral situation, causing the two regions to become what we might describe as *distant friends*. If, however, existing political signs that the regions are drawing closer together lead them to take decisions that actually do improve their economic relations, then the two regions may form a mutually beneficial relationship and become *genuine partners*. If this is to happen, the two regions must place a higher priority on one other, agree upon a strategic, long-term agenda and resolve some specific trade problems.

In this article the author examines these issues, presents an analysis of the reversal of the trading position and of the perils of inaction, and offers some thoughts regarding this strategic vision of a new kind of economic relationship between the two regions.

I

Introduction

Relations between the European Union and Latin America have prospered since 1994. The Fourth Institutionalized Ministerial Meeting between the European Union and the Rio Group, held in São Paulo in April 1994, asked that a medium- and long-term strategy for intensifying relations be prepared and agreed to work for a genuine partnership in the areas of economic affairs, trade, industry, science and technology; furthermore, the Heads of State and Government of the European Union attending the meeting of the European Council held at Corfu, Greece, in June 1994 reaffirmed, for the first time in several years, the importance they attribute to relations with Latin America and its regional groupings.

Less than six months later, when the European Council met at Essen, Germany, in December 1994, it confirmed its desire to embark upon a new, broad-based relationship with Latin America and instructed the Commission and the Council to proceed with the prompt initiation of negotiations concerning an inter-regional framework agreement with the MERCOSUR countries and to undertake the conclusion of new agreements with Mexico and Chile with all due speed. These announcements were welcomed by the governments of the countries concerned, and from the first quarter of 1995 on, negotiations regarding the nature and content of these three agreements have been the subject of intense debate in Brussels. The Fifth Institutionalized Ministerial Meeting of the European Union and the Rio Group, held in Paris in March 1995, then reiterated both regions' interest in forming closer relations with the help of new instruments of cooperation.

Bolstered by broadly shared principles and values, such as those of democracy and respect for

human rights, a common historical and cultural heritage and a long tradition of economic exchanges, and based on the progress already made within the framework of their institutionalized political dialogue, governments on both sides of the Atlantic appear to be looking forward with great enthusiasm to a new stage in their relations.

This bright political picture is at odds, however, with the disturbing state of the trade flows between the regions. For several decades, Europe had a substantial trade deficit with Latin America, which provided it with a useful political argument to counter demands that it open up its market more fully to Latin American exports. This state of affairs has changed radically, however, and since 1989 the trend has been towards a serious deterioration in Latin America's trade balance with the European Union. In 1994, the balance of trade between the two regions switched directions for the first time in several decades. Worse yet, the trade matrix, which is sharply skewed towards commodity exports and imports of manufactures on the part of Latin America, strongly indicates that these negative trends will persist in the future. This situation should serve as the practical framework for an analysis of the evolution of the two regions' economic relations.

Trade statistics would not be so significant if it were not for the fact that they serve as indicators of more thorough-going changes in the nature of the two regions' economic relations. It is normal for countries to have surpluses or deficits with other countries or regions within the dynamic realm of international trade. Nevertheless, the strength of the trends seen in recent years gives reason to believe that this new era of trade will have crucial implications for political relations and the economic dialogue between the two regions.

One of these implications is particularly disquieting. The fact that a deficit with Europe has followed upon the heels of Latin America's trade liberalization drive may jeopardize the progress engendered by the friendly relations formed in recent years. The era that now appears to be drawing to a

□ The author wishes to thank Francisco Bataller, Jorio Dauster, Patricio Leiva, Carlos Arturo Marulanda and Claudio Riedel for their suggestions, as well as the editors of this *Review*. It goes without saying, however, that he himself is solely responsible for any errors or omissions which may have crept in, and he also wishes to make it clear that the opinions expressed herein are of a purely personal nature and in no way should be construed as reflecting the views of the Government of Venezuela.

close may be followed by a deterioration in the dialogue between the regions on economic issues, and this could alter the course of future relations. This would be a serious matter, and we therefore need to act now.

The economic situation in both regions during the past few years has been marked by the need to adapt to changing conditions in the world economy. For its part, Latin America is faced with an entirely new set of conditions in the 1990s. Since the end of the 1980s, almost all the countries of the region have opened up and liberalized their economies, and this has paved the way for the restoration of macroeconomic stability in most of them, as well as a gradual reversal of the recession that hit the region in the 1980s. Having surmounted the external debt crisis and the stagnation and inflation that prevailed in the region during the "lost decade" of the 1980s, the Latin America of today—with an average annual growth rate of 4% since 1989—is one of the fastest-growing economic regions in the world. The concepts of a closed economy, State interventionism, direct price controls and the maintenance of dangerous fiscal and monetary imbalances have given way, in most of the countries, to the idea of open and increasingly integrated economies, free trade in goods and services, privatization and improved controls on public finances.

Latin America's newly-mounted effort to make a place for itself in the economic globalization process and to establish a growth path based on the opening and liberalization of its economies has not been easy. As demonstrated by the cases of Mexico in early 1995 or Venezuela in 1992, reforms have been accompanied by new macroeconomic disequilibria or, in some countries, by social and political discontent owing to the difficulties inherent in the liberalization model or to political opposition to the new paradigms of economic liberalization.

Europe, for its part, also finds itself face to face with a new situation in the 1990s. The consolidation of the Single European Market has not generated as much growth as expected, but the process of building an integrated economic community has continued to

move forward despite the political difficulties involved. The European Union is aware that the maintenance of its strategic importance *vis-à-vis* the United States and Japan hinges upon its economic and political integration. For the 1990s Europe has also, however, set itself the challenge of regaining its global economic competitiveness while at the same time upholding its long-standing achievements in the areas of the protection of labour and social security. The situation is complicated by the difficulties involved in the return to capitalism and democracy in the countries of Central and Eastern Europe, as well as in their incorporation into the institutional framework of the European Union.

In the midst of all these changes, a genuine rapprochement between Latin America and the European Union has yet to occur. Thus far, the amply justified political cordiality marking the dialogue between these two regions has lacked the underpinning that would be afforded by an element of vision and depth in their relations. A routine, unimaginative relationship between the two regions that fails to adapt to the sweeping changes taking place in them and in their economic dealings could well be damaged by potential trade disputes, the discontinuation of the cooperation traditionally provided by Europe, and the emergence of protectionist tendencies on both sides of the Atlantic.

If a change in attitude does not occur now, the advances made to date may be placed in jeopardy and it may prove impossible to take advantage of the immense potential for improving economic interchanges of benefit to both regions; the two regions may then become what we might call *distant friends*. If, on the other hand, the existing political signs that the regions are drawing closer together lead them to take decisions that actually do improve their economic relations, then the two regions may form a highly beneficial relationship and become *genuine partners*. This article examines these issues, presents an analysis of the reversal of the trading positions and of the perils of inaction, and offers some thoughts regarding the strategic aspects of a new type of economic relationship between the two regions.

II

Reversing the imbalance: a new era in trade

Accustomed as they are to Europe's long-standing trade deficit with Latin America, the experts have yet to appreciate the importance of the swift, thoroughgoing changes that have taken place in economic relations between the two regions in recent years.

The figures are enlightening. Between 1990 and 1993:

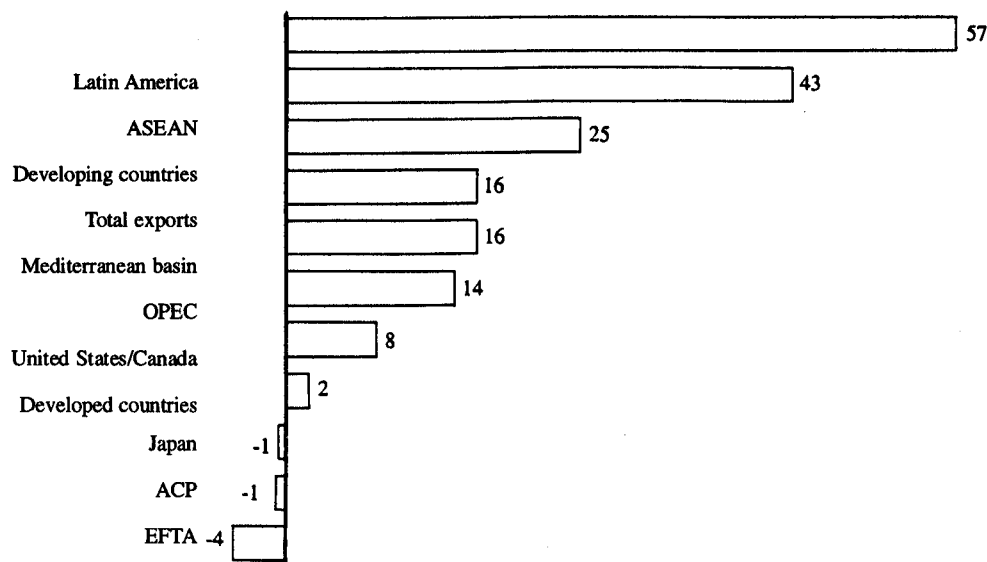
- The European Union's exports to Latin America climbed from 15 billion ECUs to 23.6 billion ECUs.¹
- At the same time, the European Union's imports from Latin America fell by 13%, from 25.3 billion ECUs to 21.9 billion ECUs.
- As a result, the European Union's long-standing deficit with Latin America rapidly disappeared, with the trade balance changing over from a deficit of 10.3 billion ECUs (with an all-time high of 15.3 billion ECUs in 1985) to a surplus of 1.6 billion ECUs.
- European exports of manufactures and other products incorporating a high level of value

added tend to be the fastest-growing items, whereas Latin America's exports are concentrated in depressed sectors, products that are protected in Europe and raw materials that bring low prices on the market.

With Europe mired in a recession, Latin America became the fastest-growing market in the world for the European Union's exports. Between 1990 and 1993, these exports jumped by 57%, whereas the Union's exports to the countries of ASEAN (Association of South-East Asian Nations) rose by 43% and its exports to all developing countries as a group were up by 25%. These figures provide a stark contrast to the increase of just 2% in European exports to developed countries, the relatively unpromising trend in its exports to the United States and Canada (which rose by only 8%), the 1% decrease in exports to Japan, and the 4% decline in its exports to the countries of the European Free Trade Association (EFTA) (see figure 1).

FIGURE 1

European Union: Growth of exports to various regions, 1990-1993
(Percentages)



Source: Statistical Office of the European Union (EUROSTAT).

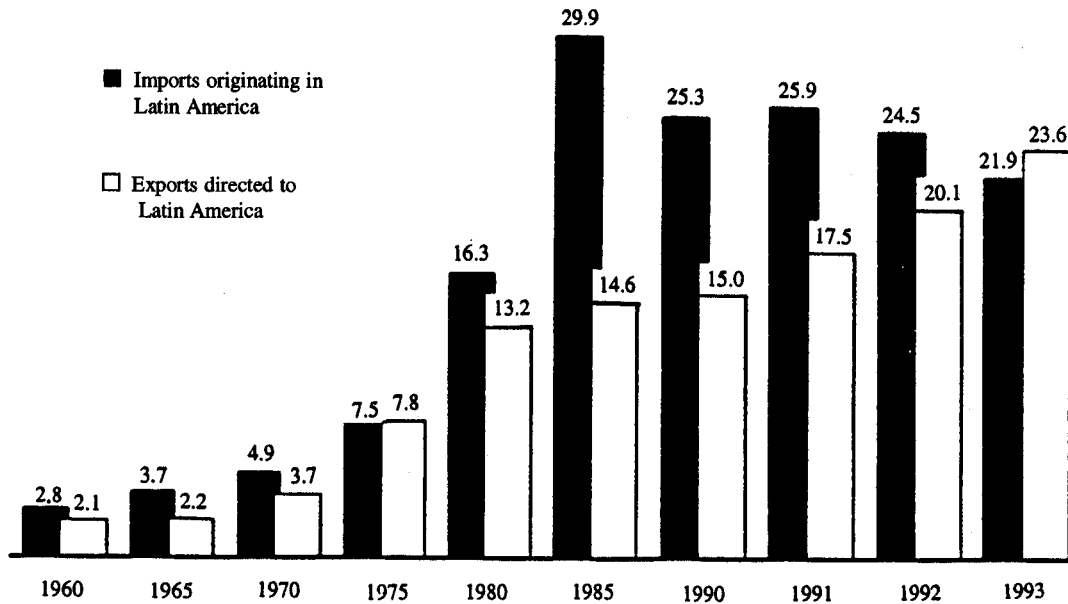
¹ All the trade figures cited here come from the Statistical Office of the European Union (EUROSTAT).

This is all part of an established trend, rather than the result of a special, temporary situation. In the past decade, European exports to Latin America doubled, from 12 billion ECUs in 1983 to over 23.6 billion in 1993 (see figure 2).

Meanwhile, Latin America's exports to Europe fell from a high of almost 30 billion ECUs in 1985 to 21.9 billion in 1993, thus wiping out Europe's deficit with Latin America and setting up a trend that gained further momentum during the last three years of the period (see figure 3).

FIGURE 2

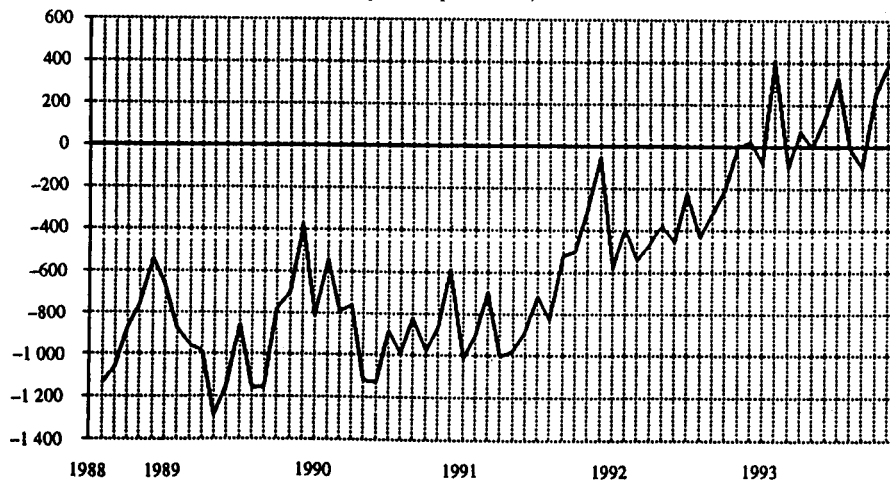
European Union: Trade with Latin America, 1960-1993
(Billions of ECUs)



Source: Statistical Office of the European Union (EUROSTAT).

FIGURE 3

Monthly trends in the European Union's trade balance with Latin America, 1989-1993
(Millions of ECUs per month)



Source: Statistical Office of the European Union (EUROSTAT).

The impact of the evaporation of the European Union's deficit with Latin America on the latter's balance of payments has been mitigated, of course, by the increase in capital flows to the region. Since 1990, net capital flows to Latin America have amounted to US\$44 billion per year (ECLAC, 1994). Thanks to their policy of opening up their economies to international capital and promoting the privatization process, the Latin American countries doubled their share of total foreign direct investment in developing regions from 6% in 1986-1990 to 13% in 1992.

The trends in the product mix of trade flows between the two regions show just how solid the overall downturn in Latin America's trade balance is. The bulk of the growth in European exports has been in products containing a large amount of value added, such as transport equipment and manufactures (see figure 4). Part of the increase in exports of manufactures is accounted for by the sale of equipment and machinery associated with industrial investments which will lay the foundations for future increases in Latin American exports. Nevertheless, even European exports of final consumer goods, such as food and textiles, have risen steeply.

In sharp contrast, Latin American exports to Europe have slackened in all product categories. Traditional exports (e.g., food, energy and raw materials), which make up three-quarters of the total, were down by 11% over the last three-year period. These products have either been subject to price reductions (as in the cases of coffee and petroleum) or have trouble gaining access to the European market, as will be discussed later on. The most disturbing aspect of this situation, however, is the decline in the region's exports of manufactures (27% between 1991 and 1993), since this is a reflection of the structural constraints which hinder Latin American producers from gaining entry into the European market for products incorporating a high level of value added.

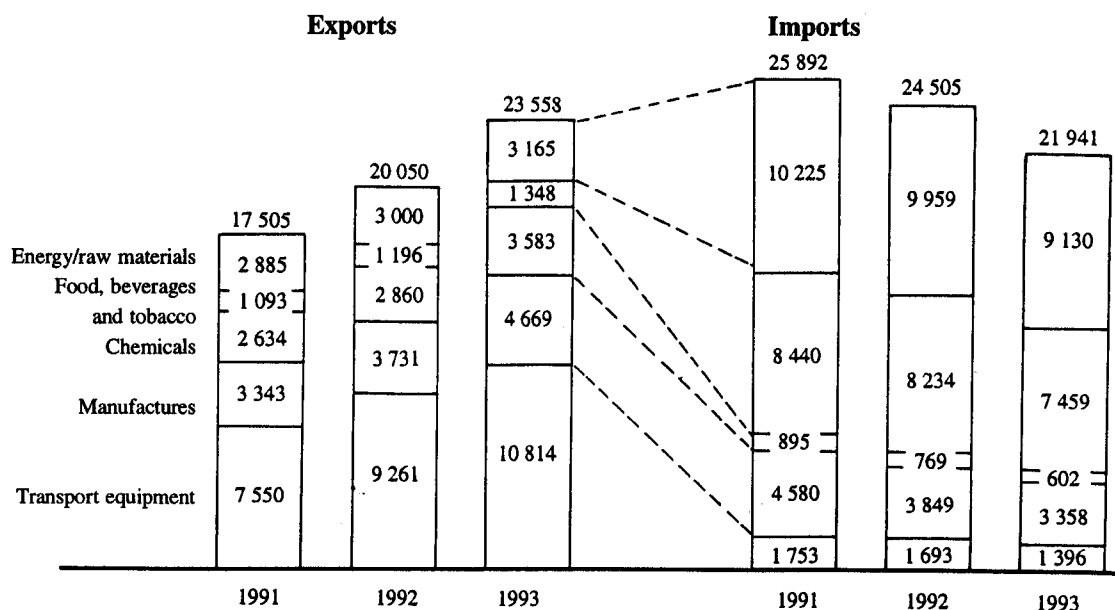
The disappearance of Latin America's trade surplus is the result of a radical change in the trade matrix of the majority of Latin American countries, including the largest among them (see figures 5 and 6).

Thus, between 1985 and 1993:

- Brazil's exports dropped by 20% while its imports doubled, and its trade surplus consequently shrank from 7 648 million ECUs to just 2 891 million.

FIGURE 4

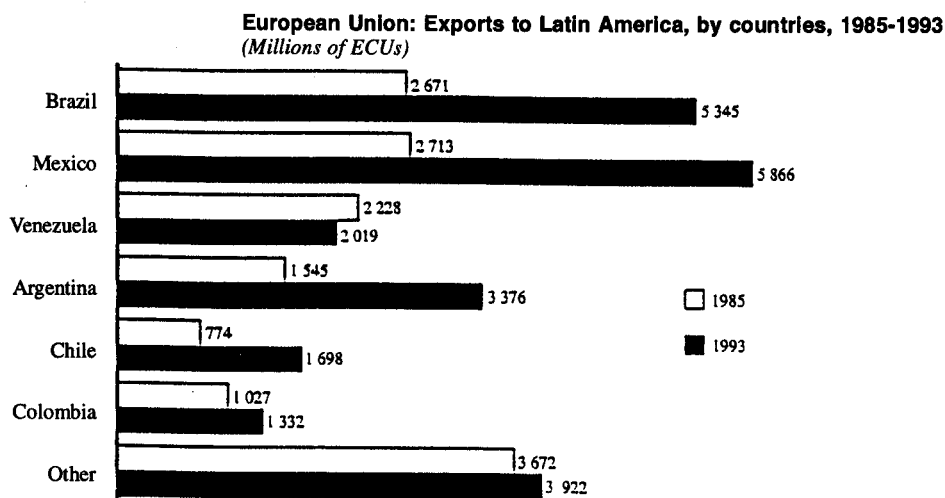
European Union: Trade with Latin America, by products, 1991-1993
(Millions of ECUs)



Source: Statistical Office of the European Union (EUROSTAT).

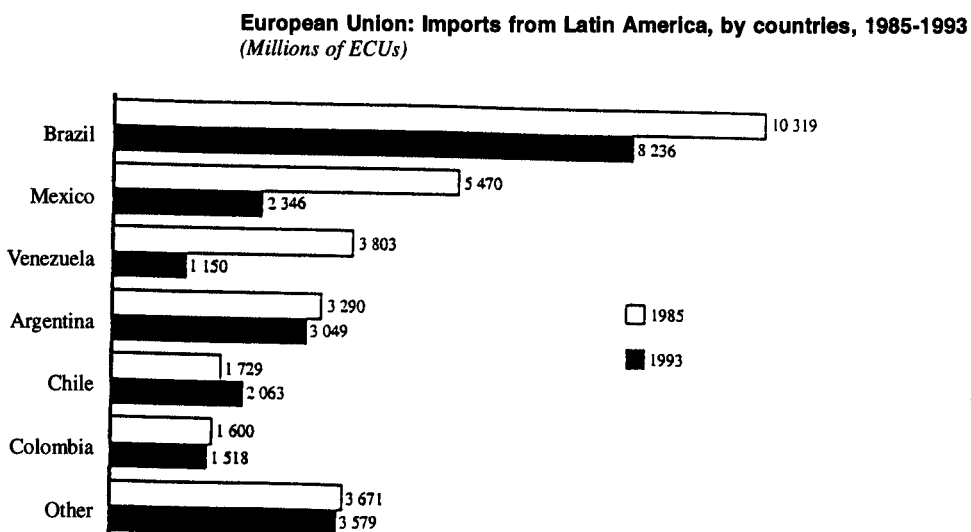
- Mexico's exports fell by nearly 60% and its imports jumped by 116%, so that its trade surplus of 2 757 million ECUs gave way to a deficit of 3 520 million.
- Venezuela was one of the few countries whose imports from the European Union decreased (by nearly 10%), but at the same time its exports to the Union slipped to just 30% of their 1985 level. Thus, its surplus of 1.6 billion ECUs was replaced by a deficit of 870 million ECUs.
- Argentina raised its imports by 120% and cut its exports by 7%, as a result of which its trade surplus of 1.8 billion ECUs turned into a deficit of 330 million.
- Chile was one of the few countries whose exports increased, but only by 19%, whereas its imports climbed by 120%.
- Colombia's exports were down by 5% and its imports were up by 30%.
- The rest of the Latin American countries' exports held steady but their imports expanded by 7%.

FIGURE 5



Source: Statistical Office of the European Union (EUROSTAT).

FIGURE 6



Source: Statistical Office of the European Union (EUROSTAT).

III

Just another part of the “rest of the world”?

Judging from recent trends, it seems clear that European entrepreneurs and merchants have displayed a greater capability than their governments have to seize the opportunities offered by Latin America following its recent economic overhaul. Despite the fact that Europe's private sector has exhibited renewed enthusiasm and Latin America has become one of the fastest-growing destinations for European exports and investment, for years European political institutions have assigned a lower priority to this region: far lower than that given to other regions which have received much better treatment by the Community in terms of its policies on trade, cooperation and investment. For example, countries aspiring to membership in the Union, as well as many countries in Central and Eastern Europe, the Mediterranean, Africa and Asia, have developed preferential economic relations with the European Union and enjoy the benefits of cooperation, free-trade or association agreements that give them greater access to the European market (IRELA, 1993).

In contrast, the Generalized System of Preferences (GSP) and recent “third-generation” agreements have thus far been the only vehicles for economic cooperation with Latin America, together, more recently, with regional programmes for cooperation in the field of education (ALFA) and for the promotion of

business and investments (AL-INVEST). In addition to these helpful, but limited, instruments, there are the special trade preferences granted to Central American and Andean countries as a reward for their efforts to combat the illegal drug trade.

The European Union's priorities in terms of its economic relations are very clear, and are reflected in the existing agreements and the negotiations now under way on trade, investment and cooperation (see table 1). Among the countries grouped under the heading of the “rest of the world”, South Africa, the ASEAN countries and China have been high on the European Union's list of priorities. Latin America, however, has patiently waiting for some definite sign that it is to be afforded a higher profile within the European Union. In this respect, the offers to negotiate cooperation agreements which were extended to the MERCOSUR countries, Mexico and Chile in late 1994 may prove to be an important and concrete opportunity for strengthening relations between the European Union and Latin America in the future.

Against this backdrop, the move to form closer ties between Latin America and the United States, as exemplified primarily by the signing of the North American Free Trade Agreement (NAFTA) and the Summit of the Americas in Miami, is viewed with skepticism in Europe. In the eyes of many Euro-

TABLE 1

European Union: Revealed economic preferences

Type of agreement	Instrument
1. Expansion	• Extension to Austria, Finland, Sweden
2. European economic sphere	• Extension of internal market to 18 countries
3. Central and Eastern Europe	• Offer of membership, and free trade agreements with Poland, Romania, the Ukraine and others
4. Mediterranean and North Africa	• Broad unilateral trade preferences; free trade agreements with Morocco, Tunisia and Israel
5. Least developed countries of Africa, the Caribbean and the Pacific	• Unilateral free trade and economic aid
6. Rest of developing world (including Latin America)	• Generalized System of Preferences; special preferences for Andean and Central American countries

peans, these renewed contacts are nothing more than the consolidation of North America's influence over the South. In Latin America, a number of countries hope to form part of a free trade zone stretching "from Alaska to Tierra del Fuego" that would offer them untrammelled access to the world's largest market in exchange for trade concessions which, for the most part, they have already granted unilaterally as part of their economic liberalization programmes.

Export promotion has been a mainstay of United States policy regarding Latin America. This concept of an economically-focused foreign policy, which is clearly oriented towards boosting the growth of the domestic economy by increasing exports, differs from the policy stance of the European Union, which has thus far not delineated its objectives *vis-à-vis* the region so clearly and must contend with what are

often conflicting objectives (free trade versus protectionism, closer political ties versus Eurocentrism). Thus, the results of the Summit of the Americas hosted by President Clinton, which included an agreement to create a free trade area in the Americas by the year 2005, once again puts to the test the European Union's ability to offer an ambitious vision of its own regarding its relations with Latin America.

In Europe, the steps being taken to create closer ties among the countries of the Western Hemisphere are viewed with either apprehension or skepticism. European politicians and entrepreneurs fear that the conclusion of economic agreements in the Americas could lead to the formation of a closed trade bloc and thus limit business opportunities for Europeans –just as others once (mistakenly) thought would happen to them when the Single European Market was created.

IV

The status quo: a sure-fire recipe for confrontation

Merely preserving the status quo will generate increasing risks. In the amicable environment created by a return to normal political relations, routine dealings mask the advent of potential economic confrontations between the two regions and militate against the formulation of new options for the establishment of closer ties. Therefore, what is lacking the most in European-Latin American relations as they now stand is an integrative, ambitious long-term agenda, along with practical measures for fulfilling it. Without a strategic vision of this nature to guide the process of forming more intensive, more comprehensive relations, the most probable future course of events may be dominated by short-term problems and bureaucratic red tape. If this happens, the problems will overshadow the solutions. Thus, maintaining the status quo should not be regarded as a sign that relations have reached a stage of maturity, but rather as a potential hazard.

Escalating trade disputes, the unavoidable reduction of European cooperation for development, and the appearance of special kinds of social or environmental restrictions on trade may further distance the two regions from one another as, slowly but surely,

their relations deteriorate even though the situation remains one of "business as usual". All this may come to pass despite the fact that they clearly share many interests and principles. Rather than simply constituting a missed opportunity, an attempt to maintain the status quo may seriously jeopardize the progress made to date in improving the two regions' relations.

1. Trade: problems awaiting a solution

Despite the successful conclusion of the Uruguay Round of GATT, some of the pending issues on the two regions' trade agenda may prove to be sources of future tensions. The appearance of a surplus in the European Union's trade balance with Latin America for the first time in more than three decades will create a less than favourable climate for a qualitative improvement in their trade dialogue. If this surplus swells as a result of the solid position of European exports and the persistent stagnation of Latin America's, trade negotiations will become even more difficult. The belief will gain ground in Latin America that European exporters (along with their North

American and Asian counterparts) have been the main beneficiaries of economic liberalization while Latin American exporters are confronted with increasing difficulties in their attempts to gain access to the European market on a competitive basis.

The European Union's revision of the GSP has entailed the incorporation of stricter "graduation" criteria which have an appreciable effect on the larger and more prosperous Latin American countries. The trade preferences enjoyed by Brazil, Argentina, Mexico and Chile have all been substantially reduced as a consequence of the graduation of their most competitive sectors. What Brussels regards as simply a necessary rationalization of the system of trade preferences for developing countries may be seen by economic agents in Latin America as an attack on some countries' established rights. Furthermore, given the tariff reductions provided for in the Uruguay Round, the revision of the GSP will in any event bring about an effective reduction in the tariff differentials enjoyed by Latin America.

The debate about the GSP therefore represents a missed opportunity to improve the economic dialogue between the two regions. During the closing months of 1994, the larger countries of Latin America were torn between their profound dissatisfaction with the new GSP, which has a direct and immediate effect on their exports, and their positive expectations regarding the conclusion of *future* trade agreements with the European Union.

Meanwhile, some specific trade issues have taken on a definitely confrontational tenor, as in the case of a number of anti-dumping decisions which affect products of importance to some countries in the region. Examples include Brazilian steel, Argentine grain and Chilean apples, among others. If these problems are not resolved satisfactorily, then tensions between the two regions will persist and, in all likelihood, escalate (Rio Group, 1993, and Izam, 1994, pp. 111-134).

Overall, a number of the economic policy tools being used by the European Union are having a serious impact on Latin American exports. The Rio Group consulted each of its member countries and compiled a list of the specific problems associated with 12 different policy instruments, including explicit or implicit trade protection mechanisms, consumer protection measures and trade diversion mechanisms. Most of these trade problems have not yet been dealt with satisfactorily (see table 2).

2. The imminent reduction of development assistance

The European Union has traditionally been Latin America's largest source of development assistance, providing close to US\$500 million per year. The types of trade problems which Latin America will face in the future cannot, however, be offset by more cooperation for development.

The European Union will inevitably have to reduce the amount that it budgets for such cooperation, and the cuts made in this item are probably going to be particularly large in the case of Latin America. This is because Europe's commitments to the poorer countries of Africa, the Caribbean and the Pacific (ACP) and its newly-made commitments to aid Central and Eastern Europe will demand more funds than the Union has available. Consequently, the reduction in what have become traditional levels of assistance will also draw a reaction from Latin American countries, which may feel they have been pushed to the sidelines. The fact of the matter is that it will be politically more difficult in the future to grant concessional credits, aid and subsidies to a region that is growing at the rate of 5% per year as long as Europe continues to be plagued by fiscal problems and as long as much poorer countries that pose more serious geopolitical risks within the European arena are seeking financial assistance or humanitarian aid as a last resort.

3. The new mythology of protectionism

A number of new, special items on Europe's political agenda will add their weight to the existing array of negative trends in relations between the two regions. One example is the idea of demanding that human rights be respected by exporting countries as a condition for granting them market access or trade preferences. Recently, a report issued by the European Parliament called for the discontinuation of imports of a number of agricultural products from Central America, Colombia and Peru as an *a priori* punishment for alleged human rights violations in those countries, even though no evidence had been brought forward to back up these accusations (Musso, 1993). The curious alliance between politicians demanding improvements in human rights and lobbyists for companies seeking to avoid competition in certain products from developing countries may give rise to unprecedented sorts of problems in the two regions' relations.

TABLE 2

Trade problems between the European Union and Latin America, 1994

Type of instrument	Products (examples)	Comments
1. Import certificates	Apples, garlic, bananas, mutton, shellfish, fish	Do not conform to the GATT licensing agreement; the indicative level of issue of certificates may be regarded as constituting a quota.
2. Import quotas	Hides, bananas, tunny fish, mutton, textiles, copper products, aluminium in rolls	Limit GSP benefits, since they are applied through the assignment of entitlements to importers and are subject to annual adjustments. In some cases the usual tariff is applied to exports in excess of the quota.
3. Reference prices and countervailing duties	Apples, lemons, poultry meat, hake	Create an unfair system, since transactions conducted by a few importers affect all the rest and, even though the objective is simply to equalize the prices of imports and the end result is the prohibition of imports.
4. Antidumping duties	Cotton thread, sisal fibres, acrylic fibres, ferrosilicon	Additional duties are very high (15%-30%) in order to block product access to the Community market; the corresponding investigations use data that are from two to three years old.
5. Unilateral tariff increases	Sisal threads	Are not preceded by consultations, nor compensation, as provided for by article 28 of GATT, and contravene rights set forth in GATT.
6. Tariff classification	Sodium nitrate, potassium nitrate	An inappropriate classification leads to the application of higher tariffs, to the prohibition of imports or to the use of unsuitable trade regimes.
7. Rules of origin	Tunny fish, shark meat	Are extremely strict in the Community GSP and do not promote regional integration.
8. Commercial designation	Scallops	Affects products which are of equal quality but are not recognized as such.
9. Harmonization of technical standards	Chocolates	Affects products to be marketed in the European Union.
10. Public health measures applying to plants and animals	Pork, fish products, fishmeal	Are applied to products which do not pose a health hazard but are prevented from entering the Community market.
11. Environmental measures	Potentially all	Constitute attempts to make trade contingent upon unrealistic environmental objectives.
12. Preferential third-party agreements	All	European association, partnership, and trade and economic cooperation agreements with Eastern European countries adversely affect trade with Latin America.

Source: Rio Group.

Much the same can be said about the indiscriminate use of environmental slogans to block free trade, while on another front, some European politicians claim that it is unacceptable to engage in free trade with any country that does not provide its workers with social security coverage of a type deemed to be "adequate" on the basis of European standards. Seeking to justify protectionism in Europe on the basis of such concepts as "social dumping" is tantamount to attempting to oblige countries with lower labour costs to furnish the same sort of coverage as is provided by countries whose

per capita income levels are 10 or 20 times higher. At the same time, it would also mean in practice that these countries would be forgoing the development opportunities opened up by free trade for both sellers and buyers to create an environment of economic progress with a larger number of well-paid jobs. This new trade mythology creeps into the debate as an argument which is just as attractive to intellectual circles of the European Left as it is to entrepreneurs in industries facing competition from developing countries, including those of Latin America.

In the discussion on these issues, Latin America and Europe have more areas of agreement than of differences. After all, the Latin American countries' laws in the fields of labour, the environment and human rights are much closer to the European models than are those of China or other Eastern countries. Indeed, much of their legislation on these subjects has been patterned after European laws. Nevertheless, for some sectors in Europe this necessary differentiation among Third World countries is less clear, and they attack any isolated incidents of human rights violations or unfair labour practices in Latin America as if such acts were accepted or promoted by the State, as indeed they are in some other regions of the world.

A constructive dialogue between Latin America and Europe concerning these important items on the world agenda is both necessary and possible. European protectionism, as fomented by the political, business and labour sectors that have been most severely affected by the recession and rising unemployment, is increasingly becoming the best excuse available to proponents of protectionism in Latin America, and this could certainly contribute to the deterioration of the region's own economic liberalization processes. What can we say to those who hold that Latin American countries should apply the same protectionist instruments as are used by Europe to shield their production of apples, steel or grain? (Rio Group, 1994) What better argument can there be for a return to protectionism in Latin America than the

peculiar use now being made of such new concepts as "social correctness" or "social dumping", which are steadily gaining in popularity in some European bureaucracies as a tool for protecting their least competitive industries, whose performance is being hurt by exports from countries which have lower unit labour costs? (Steil, 1994, pp. 14-20)

By the same token, protectionist sectors in Europe often use the recession and unemployment as an argument for seeking to implement trade protection measures. So long as the recession in Europe persists, they contend, Latin Americans should accept Europe's closure of some markets, but no mention is made of the possibility that these protectionist measures might remain in place after the recession has ended.

How can we stop Latin America's problems of unemployment, underemployment and inequality from being used as a renewed justification for protectionism, in a stance which mirrors the position adopted by some circles in Europe and viewed with sympathy in Brussels? Trade disputes will inevitably occur if protectionist groups gain ground, and they will create more problems than opportunities for relations between the two regions. Both Europe and Latin America must therefore strive to take advantage of their many substantive areas of agreement on environmental, labour and human rights issues, so that the "green agenda" and the "human rights agenda" may serve as a foundation for closer ties rather than as an excuse for confrontation.

V

A question to ponder: closer relations or "the mixture as before"?

The present conditions make it necessary to get away from the routine in the dealings between Europe and Latin America and to give their relations a shot in the arm. This means that the two regions must assign a higher priority to one other, agree upon a long-range, strategic vision of their relations, seek to reach pragmatic agreements, and solve a number of specific trade problems.

1. Higher reciprocal priority and shared ambitions

First of all, the two regions need to place the main issues regarding their trade relations –particularly

within the context of the dialogue between the Rio Group and the European Union – at the top of their political agenda. This must be a two-sided effort. For Europe, this means that, as it erects the pillars that will serve as the underpinnings for the European Union, it must give consideration both to the benefits of forming closer ties with Latin America and to the risks involved in preserving the status quo.

For its part, Latin America should place a higher political and economic priority on its relations with Europe and assign them a level of importance com-

parable to that currently attributed to relations with the United States and, potentially, with Asia. The region needs to understand how much it will benefit if it can strike a better balance in future among its relations with the world's major economic powers.

2. A long-term vision of a genuine partnership between the two regions

Second, the two regions need to agree upon a new, strategic agenda for their future economic relations that will focus on the establishment of a genuine economic partnership. In order to marshal the necessary political support, Europe needs to realize that Latin America is a *natural partner* for it and that such a partnership will bring benefits, not just costs.

This new type of economic relationship should be founded upon the solid political ties that now join the two regions and should have characteristics similar to those of Europe's relations with its main developed economic partners: economic interdependence and greater reciprocal access for goods, services, capital and technology; close inter-company and inter-industry links; low transaction costs; a large pool of relevant economic information; and a wide-ranging network of support agencies to promote economic exchanges (Fisher, von Gleich and Grabendorff (eds.), 1994, pp. 383-392).

The preparation of this new agenda should be a joint undertaking. The building of a new bi-regional consensus requires the participation of the appropriate community institutions in both regions. In the case of Latin America, the Rio Group has become its representative and needs to make changes in its structure and organization in order to meet the challenges entailed in the formation of a more intensive and dynamic political relationship with the European Union.

3. Pragmatic agreements

In establishing the framework for this new bi-regional relationship, consideration must be given to the diversity of interests and concerns existing on both sides of the Atlantic. In particular, the momentum generated by the integration processes undertaken at the regional level and among specific countries of Latin America (MERCOSUR, Andean Group, Central America, the Caribbean, Chile and Mexico) should be put to use in building closer relations at "differing speeds and variable geometries",

through pragmatic agreements that take into account the specific political and economic characteristics of the various groupings and the different natures of their relations with Europe.

For example, in view of the importance of its trade relations with Europe, MERCOSUR should give top priority to negotiating a free trade agreement with the European Union; such an agreement could then serve as a basis for the incorporation of other countries later on. In a parallel effort, Mexico and Chile could also proceed to negotiate free trade agreements of the same sort. Given the solid nature of its integration institutions, the Andean Group could concentrate on strengthening institutional and trade agreements in such areas as the protection of investments and transport and in specific sectors, such as fisheries and telecommunications, as well as carrying forward the liberalization of its trade with Europe. Steps taken in these new areas would complement the special trade preferences granted as a form of cooperation in the effort to combat the drug traffic. Other Latin American countries, such as those of Central America, could seek to enhance their ties with the European Union through an increase in the quality and quantity of cooperation for development and a realignment of the San José dialogue. Using regional groups as a foundation for this process would allow the intensification of relations between Latin America and the European Union to proceed at a faster pace than if it were confined to action at the national level or if a single accord had to be framed for all of Latin America.

Along these same lines, it would be helpful for the European Union to define general parameters for the extension to other countries and groups in Latin America of the offer it has made to MERCOSUR to enter into a free trade agreement. Once these parameters are known, the other countries could then lay their own plans for future negotiations with the European Union.

4. Solving specific problems

Finally, in the short run efforts need to be focused on solving a number of important problems that have already been identified, particularly those relating to market access, the Generalized System of Preferences, and trade regulations.

To this end, flexible channels of communication with both the trade and sectoral authorities of the European Union need to be set up. For example, a

direct link should be established between the Rio Group and the divisions of the European Union in charge of agriculture, the internal market, and competition so that specific trade-related issues may be discussed in greater depth. A joint effort should be undertaken at this level to work through an agenda that would include such issues as import certificates, the quota system, voluntary export restraints, reference prices and countervailing duties, the GSP and tariff classifications.

In view of the threat which a weakening of the status quo could pose, relations between Latin America and the European Union need be revitalized. A mutual process of re-discovery is called for, and this will involve forming closer political ties, stepping up reciprocal action to open up the regions' economies, establishing more suitable institutions for promoting exchanges, and redefining cooperation for development.

The regions should therefore work together within the framework of a new relationship that takes into account the need to improve Latin America's economic environment, the benefits of economic lib-

eralization for European exporters and investors, and the dangers associated with an increase in protectionism in Europe.

Thus, European-Latin American relations are now at a crossroads. If the status quo is maintained, economic realities will overtake the two regions and cause their trade relations to become increasingly strained, thereby jeopardizing the progress made in recent years. If efforts to sign new economic agreements with the various countries and groups should fail, increasing difficulties between the two regions are sure to follow. If, on the other hand, the regions jointly define a new strategic vision of their economic relationship, they will then be able to solve many of their existing problems and thus strengthen this link in the chain of trans-Atlantic relations.

The elements that will serve as the foundation for this new vision are fairly evident: a solid political consensus aimed at strengthening and intensifying relations; and an effort to achieve the greatest possible degree of openness to free trade and investment within the context of a genuine bi-regional partnership.

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