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Guest Editorial

Europe and Latin America: The Challenge of a Strategic Partnership

LUIS XAVIER GRISANTI
Ambassador of Venezuela to the European Union

I. Introduction

Since the end of the 1980's, Latin America has exhibited three new realities never before present simultaneously and with such dynamism: democracy, market-oriented reforms, and regional integration. The EU began to 'rediscover' the region and a 'new institutional architecture' is being built aimed at supporting democracy, liberalizing bi-regional economic exchanges, and fostering development cooperation.

Nevertheless, trade flows show certain trends inconsistent with the stated objectives defined in diverse public documents and statements. This paper analyses these trends during the 1990's as emerging Latin America seeks to consolidate the initial gains of the reform process in the face of global economic turmoil as triggered by the Asian economic crisis in 1997. It concludes with some suggestions as to how to strengthen economic ties at regional, sub-regional, and bilateral levels.

II. Democracy, Open Markets, and Integration in Latin America

Enough has been said and written about the strengths and weaknesses of import substitution policies in Latin America since the 1940's. The debt crisis of the 1980's brought about a thorough re-evaluation of the development strategy adopted by the region until then. The 'Washington Consensus' emerged as the new paradigm for development growth.[1] Protectionism, closed markets, and state-led development were replaced by trade liberalization, open markets,

[1] S. Edwards, *Crisis and Reform in Latin America From Despair to Hope* (World Bank, Oxford University Press, Oxford, 1995).

and state reform and privatization. As we embark on a new millennium, the new paradigm is at least being revised to incorporate initially lacking concerns such as structural competitiveness,[2] social equity, wealth redistribution, and institution-building,[3] namely the so-called ‘second generation reforms’.[4]

It is beyond the scope of this paper to analyse the technical issues raised by the empirical application of the new paradigm. We will rather take a political economy approach. Beginning in the late 1980’s, three converging self-feeding, and simultaneous processes of political and economic transformation began to take shape with unprecedented dynamism in Latin America;

– democracy and democratic institution-building;
– the transition from import substitution industrialization to market-oriented development reforms, and
– regional and sub-regional integration.

Emerging liberal democracies spread throughout the region as a result of civil societies’ struggle for human rights and the rule of law.[5] As the Cold War drew to an end, Latin America, and specially Central America, ceased being used as the battlefield for East–West hegemonic confrontation. For the purpose of this article, we will only underscore that mostly in the last two decades 19 of the 20 republics of Latin America[6] have instituted free elections and are presently guaranteeing basic freedoms to their citizens. New forms of political cooperation emerged such as the Group of Rio, and economic reform and regional integration were facilitated in a fashion never experienced before.

No other emerging region in the world can exhibit such progress in democratization, market-based reforms, and integration as Latin America in the 1990’s. Moreover, such progress deserves further praise and decisive support from the international community, specially from the three highly industrialized mega-economic blocks led by the USA, the EU, and Japan.

The market-oriented reform process brought about rational macroeconomic

[2] Naciones Unidas, Comisión Económica para la América Latina y el Caribe (CEPAL), Panorama de la Inserción Internacional de América Latina y el Caribe 1998, Santiago de Chile, 1999. Also CEPAL, Cincuenta Aftos, Reflexiones sobre América Latina y el Caribe, Revista de la CEPAL, número extraordinario, Santiago de Chile, 1998.

[3] CEPAL, in collaboration with the United Nations Children Fund (UNICEF), Panorama Social de América Latina, Santiago de Chile, 1999.

[4] S. J. Burki and S. Edwards, *Dismantling the Populist State, the Unfinished Revolution in Latin America and the Caribbean* (The World Bank, Washington, DC, 1996).

[5] J. Dominguez, ‘Latin America’s Crisis of Representation’ (January–February 1997) *Foreign Affairs* (Council on Foreign Relations, New York), pp. 100–113.

[6] Latin America refers to the republics of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

management, the lifting of wage, price, interest, and foreign exchange controls, the introduction of fiscal reforms such as value-added taxation, more independent central banks, the sharp reduction or elimination of tariffs and non-tariff barriers, open foreign direct investment (FDI) regimes, closer cooperation with multilateral financial institutions, the re-scheduling of foreign debts, privatization of state-owned companies, and deregulation, liberalization, and new regulatory frameworks for industries and public services such as energy (electricity, oil, gas and coal), telecommunications, transportation, water supply, as well as financial services.

There is no doubt that the impact of these 'first generation reforms' on overall economic performance was generally positive. The average rate of annual growth of the real gross domestic product (GDP) of 19 republics of Latin America was 3.2 per cent between 1991 and 1999,[7] reaching 5.5 per cent in 1997, but falling to 2.3 per cent in 1998, in the aftermath of the Asian and Russian crises.[8] The average inflation rate (consumer prices) dropped from 882 per cent in 1993 to 9.6 per cent in 1999, after reaching 206 per cent annually throughout the 1980s. The GDP per capita, which dropped 1 per cent annually between 1981 and 1990, rose 1.4 per cent per year during the 1991–1999 period. The consolidated public service deficit of the region averaged 1.6 per cent of GDP during the same period, while the current account deficit averaged 2.7 per cent of GDP.

Net FDI flows to Latin America have grown continuously from USD 11 billion in 1991 to USD 86 billion in 1999 (including the Caribbean). Privatization proceeds have also risen consistently from USD 5.8 billion in 1990 to USD 42.5 billion in 1998. The value of merchandise exports has increased from USD 123 billion in 1990 to USD 272 billion in 1998. Merchandise imports have risen more rapidly, from USD 97 million in 1990 to USD 302 billion in 1998. It is fair to say, however, that structural indicators of economic performance are lagging. Average gross national savings as a percentage of GDP has hovered around 18.2 per cent over the decade to 1999. Average gross fixed capital formation has shown a slight increase from 18.2 per cent in 1990

[7] United Nations Economic Commission of Latin America (CEPAL), 'Economic Survey of Latin America and the Caribbean 1997–1998', 30 April 1999. In this paper Latin America refers to the Republics of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

[8] United Nations Economic Commission for Latin America (ECLAC), 'The International Financial Crisis: an ECLAC Perspective' (Santiago de Chile, statement issued on 15 September 1998). Also in (CEPAL, in English ECLAC), 'Economic Survey of Latin America and the Caribbean 1997–1999', 30 April 1999. Also in ECLAC, 'Balance Preliminar de las Economias de América Latina y el Caribe 1998' (Santiago de Chile, December 1998).

to 21.5 per cent in 1998, whereas the urban unemployment rate has gone up from 6.2 per cent in 1990 to 8.7 per cent in 1999.[9]

Regional and sub-regional integration has also spread at unprecedented speed. The Treaty of Asunción of 1992 gave birth to the Mercado Común del Sur or Mercosur (Argentina, Brazil, Paraguay, and Uruguay). The Andean Pact became the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) after the Trujillo Protocol of 1996. The Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) is in the process of reinvigorating its institutional framework. Colombia, Mexico, and Venezuela, known as the Group of Three, signed a free trade agreement in 1994. Chile has signed free trade agreements with the later three countries, and has also become an associate member of Mercosur. The Andean Community and Mercosur completed a framework agreement in 1998 which calls for the establishment of a South American-wide free trade zone.

Although the process of economic integration in Latin America has just started and still lacks the depth and extent of the European model, the establishment of free trade zones and customs unions has boosted intra-regional trade and investment. From 1990–1998. The percentage participation of intra-regional exports relative to total Latin American exports has gone from 13.4 per cent to 18.7 per cent. Intra-Andean Community and intra-Mercosur exports in particular have risen from 14.2 per cent to 24 per cent, and from 17.1 per cent to 25 per cent of their respective total exports during the same period.[10]

III. EU Foreign Policy Orientations Towards Latin America

As a result of the political and economic transformations carried out by Latin America in the 1990's, the EU has defined general policy guidelines aimed at building 'a strategic partnership' with the region.[11] EU support for the reform process in the region is based on three principles:

– the strengthening of the rule of law and the irreversibility of the democratic process at the institutional level;

[9] CEPAL, 'Estudio Económico de América Latina y el Caribe 1998–1999' (SÌintesis, Santiago de Chile, 1999).

[10] The value of total Andean Community and Mercosur exports has increased from USD 33.7 billion to USD 50.7 billion and from USD 46.6 billion to USD 83.4 billion, respectively, between 1990 and 1997; Institute for European–Latin American Relations (IRELA), XIV European-Latin American Interparliamentary Conference, Base Document (Brussels, 15–18 March 1999, Madrid, 1999), Table 13, p. 89.

[11] Comisión Europea, 'La Unión Europea y América Latina: Actualdad y Perspectivas del Fortalecimiento de la Asociación, 1996–2000' (Brussels 1995). Also in Commisssion européenne, Nouveau Partenariat UE/Amérique latine pour le Xxle Sièlce (Bruxelles, le 9 mars 1999).

– the fight against 'poverty, inequality, and social exclusion'; and
– the consolidation of economic reforms and the accomplishment of international competitiveness.[12]

Latin America has traditionally benefited from the Generalized System of Preferences (GSP) implemented by the EU to favour developing countries' exports. From 1985–1995, the percentage ratio of EU imports coming from Latin America actually benefiting from GSP and total imports has increased from 13.7 per cent to 26.3 per cent.[13] Since 1991, the EU has also granted special GSP treatment to Andean Community member countries in recognition of the principle of shared responsibility in the fight against illicit drug production and consumption, and related crimes. The same special regime has also been granted to Central American countries.[14]

In the 1990's. the EU has signed 'third generation' economic cooperation agreements with the Central American countries (1992) and the Andean Community member states (1993). In 1995, 1996 and 1997, respectively, the EU signed a new generation of agreements with Mercosur, Chile, and Mexico. These new agreements have incorporated strengthened clauses on political dialogue and development cooperation, and have also established the framework for the future liberalization of economic exchanges.

Although free trade negotiations with Mexico started at the end of 1998 and, in record time, a final agreement was signed at the Lisbon European Council, summit on March 24, 2000. The European Commission's mandate to initiate negotiations for free trade agreements with Mercosur and Chile was not granted until June of 1999, just prior to the First EU/Latin American and Caribbean Summit of Heads of State and Government held in Rio de Janerio on 28–29 June 1999.[15]

IV. EU–Latin America: Trade and Investment Trends

Notwithstanding the efforts made by the EU to refocus its foreign policy strategy towards Latin America, and the region's own renewed interest in enhancing ties

[12] *Ibid.*, p. 3.

[13] IRELA, n. 10 above, p. 93.

[14] Consejo de la Unión Europea, Reglamento (CE) No. 2820/98, 21 de diciembre de 1998, relativo a la aplicación de un plan plurianual de preferencias arancelarias generalizadas durable el período comprendido entre el 1 de julio de 1999 y el 31 de diciembre del 2001. (Journal Officiel des Commumutes européenes, 1357, 30 décembre 1998, Luxemburgo, 1998).

[15] IRELA, 'Las Relaciones entre Europa y América Latina: Hacia una Agenda Birregional para el Siglo XXI, documento preparado para la Primera Cumbre de Jefes de Estado y de Gobierno Unión Europea/América Latina y el Caribe, a instancias de la Presidencia del Consdejo Europeo' (Rio de Janeiro, 28–29 de junio de 1999, Madrid, 1999).

with Europe, bi-regional trade flows exhibit certain trends definitely inconsistent with the stated goals as contained in all agreements and policy statements:

– Total merchandise trade in Latin America[16] has almost tripled from USD 220.5 billion in 1990 to USD 591 in 1998.[17] However, the percentage ratio of EU trade and total trade in the region has dropped from 22.4 per cent to 16.0 per cent.
– In spite of an increase in bi-regional total trade from USD 56 billion to USD 94.7 billion between those years, the ratio of Latin American exports to the EU and total exports has fallen from 24 per cent in 1990 to 14 per cent in 1998, while the ratio of imports and total imports has decreased from 21 per cent to 18 per cent.
– Latin American exports to the EU have gone up from USD 34.1 billion in 1990 to USD 40 billion in 1997 (+17.3 per cent), whereas the region's imports from the EU have increased by 130 per cent, from USD 21.7 billion to USD 55.0 billion (primarily as a result of the unilateral reduction and elimination of trade barriers in the region).
– After having a trade surplus of USD 12.4 billion in 1990, Latin America showed a bulging trade deficit of USD 15.7 billion *vis-à-vis* the EU in 1998.

These trends do not vary significantly amongst sub-regions of Latin America. Although the percentage ratio between EU exports to Mercosur countries and total exports to the region has gone from one third in 1990 to 50 per cent in 1998, this sub-region also registers the largest trade deficit with the EU. Meanwhile, Mexico and the Andean Community have shown declining ratios in EU exports. In the case of Mexico, only 9 per cent of its imports now originates in the EU, after reaching 17 per cent in 1990.

New and open foreign investment regimes in Latin America have also attracted higher investment flows throughout the decade. FDI from the EU to Latin America boomed, from USD 1.8 billion in 1990 to USD 25 billion in 1998. FDI from the EU has increased its share (34.4 per cent) of the EU–US–Japan total throughout the 1990's, but at USD 77 billion (1990–1997), the USA has almost doubled the flow of FDI to the region relative to the EU (USD 42.7 billion).[18]

[16] Latin America includes Cuba in this section.
[17] Figures in this section come from IRELA's previously cited documents.
[18] IRELA, n. 10 above, p. 96. See also Comisión Europea, Unión Europea, América Latina, Caribe: Progresando juntos (Luxemburgo, junio de 1999).

V. Conclusions: Too Little Too Late?

The EU has lost market share in Latin America's imports in sub-regional markets other than Mercosur. Although Mercosur now comprises 50 per cent of total EU exports to Latin America, it is at least fair to inquire whether other emerging markets in the region have been neglected (the Andean Community, Chile, Mexico, Central America, and the Caribbean) throughout the 1990's. After all, they comprise the other 50 per cent.

Latin American exports to the world other than the EU increased 150 per cent between 1990 and 1998, whereas total sales to the EU went up only 29 per cent. It is also fair to ask whether the very modest performance of Latin American products in EU markets is due to tariff and non-tariff restrictions, or to any other reason.

The mounting trade deficit between Latin America and the EU needs to be tackled more expeditiously by accelerating free trade negotiations across the board. Some positive measures can be taken even before bi-regional free trade agreements are concluded.

The author believes that a region-wide approach encompassing all Latin American nations in a comprehensive negotiation of a free trade zone with the EU would not only avoid privileging certain sub-regions relative to others, but would also benefit European producers by allowing them to sell their goods and services in sub-regions and countries where the EU has its lost market share. On the other hand, a more flexible country-by-country approach to free trade negotiations may also be beneficial to both sides.

In spite of the EU's commendable efforts to build a 'new institutional architecture' for EU–Latin American relations, the new generation of bi-regional agreements appears to be lagging behind the dynamics of both intra-American integration and Latin America's insertion into the global economy.