Inter-American Development Bank

Inclusive Integration for Global Competitiveness

Strengthening the EU-LAC Partnership

Integration and Regional Programs Department

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Integration and Regional Programs Department

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Contents

Foreword

The Fourth Summit of the Heads of State and Government of the countries of the European Union (EU) and Latin America and the Caribbean (LAC) in Vienna offers a fresh opportunity for the Inter-American Development Bank (IDB) to contribute to the discussion of biregional relations. For the two previous summits in Madrid and Guadalajara, the Bank published comprehensive analyses of economic links between the two regions and the policy instruments devised to consolidate their relationship.

This report adopts a broadly similar approach, but on this occasion we have decided to devote greater attention to particular challenges that confront the EU and LAC, as well as the opportunities that spring from them. Specifically, the report focuses on challenges arising from the emergence of significant new actors on the international trading scene, and on the need to preserve a consensus for deeper integration by reducing asymmetries and promoting social cohesion.

On the occasion of the Madrid Summit in 2002, the IDB and the European Commission signed a Memorandum of Understanding to strengthen their collaboration on development cooperation in LAC. The Memorandum has given rise to a number of joint initiatives between the Bank and the Commission in recent years, and the two institutions have coordinated several activities in the area of regional integration.

The Integration and Regional Programs Department, which is responsible for region-wide and subregional matters of trade and integration, in collaboration with the IDB Office in Europe, has taken great interest in the efforts of LAC and the EU to build a strategic partnership. We hope that this report contributes to the debate on that partnership as the two regions meet again to discuss how to face pressing challenges that are common to both of them.

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Introduction

The Heads of State and Government of the countries of the European Union (EU) and Latin America and the Caribbean (LAC) will convene for their fourth summit in Vienna, Austria, on May 12, 2006. They first met in Rio de Janeiro in June 1999, and again in Madrid (May 2002) and Guadalajara (May 2004), in an effort to develop a "strategic partnership" between the two regions.[1] As part of the preparations for the Vienna Summit, in December 2005 the European Commission (EC) adopted a communication that analyzes the current challenges and makes recommendations for revitalizing biregional relations (European Commission, 2005a). Its proposals include stimulating economic exchanges, promoting social cohesion, and encouraging regional integration.

At the last summit, in Guadalajara, the two regions stipulated that social cohesion and regional integration are a shared priority for both sides. The EU's own experience in promoting social cohesion, as well as in reducing asymmetries among integration partners, could be an element of biregional cooperation in these fields. Regional and subregional integration, in turn, are seen as a means of accelerating economic growth, strengthening the biregional relationship, and enabling both the EU and LAC to address emerging global challenges.

In the period since the Guadalajara Summit there have been advances in biregional economic ties. Trade, especially LAC merchandise exports to the EU, has been expanding at a rapid rate. It is notable that growth has been recorded in exports from all LAC subregions. Despite such increases, however, each region's share of the other's market has been low or falling over the longer term. On the other hand, EU direct investment flows to the region rebounded in 2004 after a three-year period of decline. Flows of official development assistance (ODA) have also been rising in recent years, attaining levels almost equal to the peak in the mid-1990s.

The EU and LAC now face a number of common challenges and opportunities that affect biregional relations. The challenges relate on the one hand to international conditions, and on the other to the two regions' integration processes. Externally, both partners have to tackle the mounting pressure of global competition, particularly the rise of Asia, and should take appropriate steps to improve efficiency and boost competitiveness. In this context a crucial and impending challenge is the conclusion of negotiations on the Doha Development Agenda.

On the internal front, integration processes in both the EU and LAC have to regain momentum. Both regions confront concerns that globalization is creating new asymme-

[1] For an analysis of EU-LAC economic relations at the time of the Guadalajara Summit, see IDB (2004).

tries and leading to widening inequalities, but both have also indicated that they view integration as an important instrument for tackling these challenges. As the EU experience has shown, integration can serve to promote insertion into the global economy—thereby strengthening economic efficiency and competitiveness—and can help address asymmetries and foster social cohesion. In the context of biregional integration, the challenge is to link the economic and social dimensions of the EU-LAC agenda and make them work in tandem to promote an inclusive integration into the global economy.

The following section examines EU-LAC relations in the areas of trade, investment, development assistance, and migration. The third section reviews some of the main policy instruments devised to promote the strategic partnership, especially the association agreements being negotiated or implemented between the EU and various LAC partners. The fourth section explores two of the crucial common challenges facing both regions: the competition stemming from the economic rise of Asia and the need to tackle the asymmetries that integration can spur. Finally, the fifth section considers how biregional cooperation might be strengthened in the face of those challenges.

Recent Developments in EU-LAC Economic Relations

The period of relatively low growth in EU-LAC trade that began in 1999 ended in 2002, and in the following years biregional commerce in both directions increased at rates not seen for more than a decade. In the area of investment, too, the decline in European flows to LAC that became evident in 2001 seemed to be reversed in 2004, when the region's investment inflows from the EU were almost double the level of the previous year. A similar pattern has been apparent in development assistance from Europe to LAC. Flows began a sustained decline after 1996 and reached a low point in 2000, but more recently they have rebounded to almost the same level as their 1990s peak. This section describes these developments in greater detail, but without attempting a comprehensive analysis of the underlying factors.

Trade in Goods

Three key trends are evident in LAC-EU trade relations. First, each region currently represents a somewhat undynamic trade partner for the other, inasmuch as each one's share of the other's market has been stable (but low) or declining for much of the past decade. This contrasts with the increase in trade between both regions and Asia. Second, the level of intra-industry commerce in LAC-EU trade remains modest. LAC sends mostly commodities and agricultural products to Europe and imports manufactured goods from the

EU. This is a distinct picture from LAC's trade with the United States; in particular, U.S.-Mexico and U.S.–Central America trade is increasingly intra-industrial. Third, however, and notwithstanding the decline in market shares, it is notable that EU-LAC trade has experienced a marked increase recently.

LAC's trade with most parts of the world has grown in the past 15 years. The region's global exports grew by an annual average of 10 percent in the period 1990–2004. Most particularly, in the past five years there has been a rise in LAC's trade with East Asia (see IDB, 2006): LAC exports to that region grew by an annual average of 18 percent in 2000–2004.

LAC's sales to the EU have not maintained a similar rate of growth. The EU absorbed a quarter of Latin American exports in 1990 but now takes less than half of that proportion. LAC exports to Europe did outpace growth in the region's total sales in 2000–2004, but the increase over the whole period 1990–2004 was less than half the growth of LAC's exports to the world. And though Europe is still a slightly larger export market for LAC than East Asia, the gap is closing. North America, by far LAC's main export market, has also declined in importance for the region during this decade. The United States and Canada now absorb about half of the region's exports, compared to 60 percent in 2000. LAC's intraregional exports have held steady at about 15 percent of the total in the past five years.

TABLE 1

Latin America: Trade with the World by Region (US$ millions)

	1990		1995		2000		2004	
	Exports							
	Value	% world	Value	% world	Value	% world	Value	% world
World	**116,978**	**100**	**212,993**	**100**	**337,752**	**100**	**440,848**	**100**
Canada	1,634	1	3,266	2	5,330	2	5,812	1
United States	45,823	39	98,002	46	201,228	60	216,997	49
EU-25	29,094	25	35,082	16	38,628	11	54,208	12
East Asia	12,231	10	20,240	10	18,388	5	35,523	8
LAC	16,151	14	41,609	20	53,899	16	68,013	15
	Imports							
World	**89,620**	**100**	**216,926**	**100**	**337,433**	**100**	**397,547**	**100**
Canada	1,708	2	4,608	2	7,281	2	8,191	2
United States	35,975	40	93,411	43	170,119	50	152,236	38
EU-25	18,927	21	40,502	19	47,637	14	55,275	14
East Asia	8,208	9	26,096	12	40,679	12	83,851	21
LAC	14,820	17	39,780	18	53,197	16	70,596	18

Source: Calculations by the Integration and Regional Programs Department, Integration, Trade and Hemispheric Issues Division (INT/ITD), Inter-American Development Bank, on the basis of UN COMTRADE data. See Annex Table A.1.

Note: Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela. EU-LAC trade data can be presented in two distinct ways: on the basis of Latin America as the reporter (as here) or the EU as the reporter. The two data sets may differ.

The composition of LAC exports to the EU has changed little since the early 1990s. Manufactures account for a dominant share of the region's total exports (53 percent of all foreign sales in 2004), but their share of exports to the EU has remained fairly stagnant at less than a third. Most LAC countries export agricultural and food products, metals, minerals, and fuels to Europe: these goods account for about two-thirds of the region's sales to the EU.

Hence the technology content of LAC's exports to Europe is low. In 2004, only 20 percent of the region's sales to the EU consisted of medium- or high-technology manufactures. This is up from 11 percent in 1990, but it trails the corresponding figure of 39 percent in LAC's global exports. The reverse is true in the region's imports from the EU: some 68 percent of them consist of medium- and high-tech manufactures. As a result of this heavy concentration in exports of raw materials and commodities, LAC exports to Europe are vulnerable to fluctuations in international prices and face less-dynamic demand than manufactures.

By contrast, manufactures have grown substantially in LAC exports to North America and now account for nearly three-quarters of the total. Mexico and Central America, which benefit from extensive trade preferences in the United States and Canada, have seen strong growth in sales of manufactures among their total sales in the North American market. Hence there is a significant intra-industry component in U.S.–Mexico and U.S.–Central America trade.

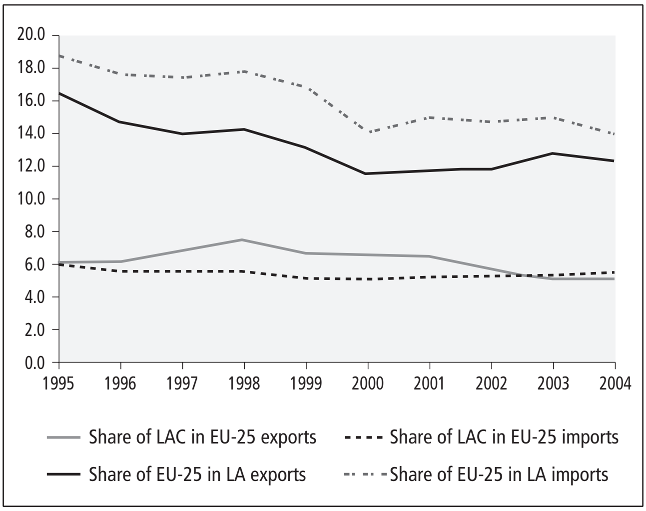
The relative lack of dynamism in LAC exports to the EU is evident in the region's low share of the European market. Imports from LAC constitute just 5 percent of the EU's total extraregional purchases. If intra-EU imports are included, LAC's share of the European market falls to 2 percent, a proportion that has held fairly constant since the start of the last decade.

This relative stagnation is matched by a decline in the U.S. share of EU imports in the period 1990–2004. Again, it is East Asia that has raised its profile in the European market. The share of the EU's imports that originate in Asia rose from 9 percent of the total in 1990 to 13 percent in 2004 (and from a quarter to a third of the EU's total extraregional imports in the same period). Only a few Latin American countries—notably Costa Rica, Ecuador, and those partners with which the EU has concluded free trade agreements (FTAs), Chile and Mexico—saw some growth in their share of the EU market between 1990 and 2004. In this decade the main EU importers from LAC, in order, have been Germany, the United Kingdom, Spain, and France.

Europe's share of LAC imports has also fallen in the past 15 years, from more than a fifth of the total in 1990 to some 14 percent in 2004. In this regard the EU and East Asia have swapped roles in the Latin American market: East Asia's share has risen from less than 10 percent in 1990 to about 20 percent today.

Over the whole period 1990–2004, European sales to Latin America grew faster (7.5 percent) than EU exports to the world (6.3 percent), but this has not been the case in recent years. Between 2000 and 2004, EU exports to the region grew by an annual average of 4.8 percent, less than half the rate of Europe's global exports (Annex Table A.3). Consequently,

Figure 1. EU-LAC Trade: Trends in Market Share, 1995–2004
(percentage of total trade)

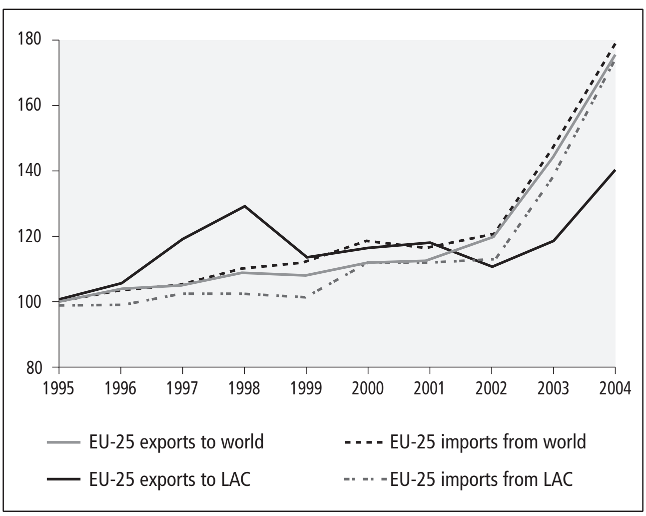


Source: IDB (INT/ITD) calculations based on UN COMTRADE.
Note: Excludes EU intraregional flows.

Latin America's share of total EU exports (including intra-EU exports) was just 1.7 percent in 2004. This was below the share of more than 2 percent in 2000 but was slightly above the 1990 level. In this decade the main EU exporters to LAC have been Germany, Italy, France, and Spain, in that order.

It should be noted, however, that the somewhat discouraging picture that emerges from an analysis of market share masks more promising developments in the area of absolute biregional trade flows during recent years. First, it is striking that there was an appreciable growth in EU-LAC trade in the last three years for which complete figures are available (2002–2004). Figure 2 shows a marked upswing in biregional commerce from 2002 onwards. Most striking is the surge in European imports from LAC, which grew by 21 percent from 2002 to 2003, and then by another 25 percent between 2003 and 2004.

Figure 2. Evolution of EU-LAC Trade, 1995–2004
(index 1995 = 100)



Source: IDB (INT/ITD) calculations based on UN COMTRADE. See also Annex Tables A.2 and A.3.

Second, the upsurge in total LAC sales to Europe holds true for all subregions: for each of them, the growth rate of exports to the European market in 2000–2004 far outstripped the rate in 1995–2000 (Figure 3).

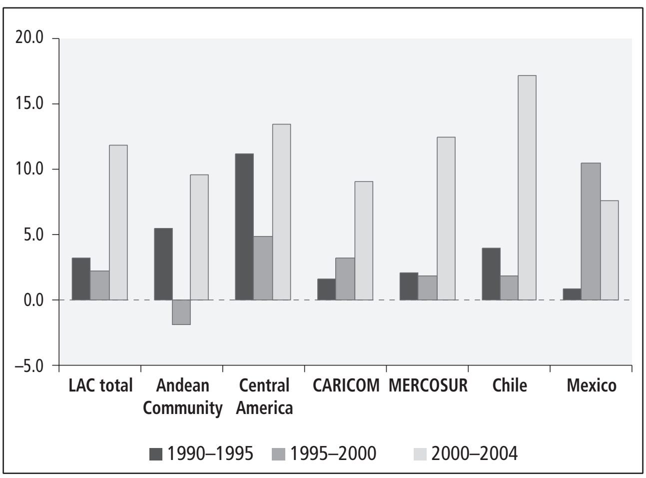
Central America's exports to Europe in 2000–2004 grew by 13 percent, triple the rate in the period 1995–2000. To a large extent this performance stemmed from the strong surge (21 percent) in Costa Rican exports to the EU. Sales from El Salvador, Guatemala, and Nicaragua contracted in the later period.

Caribbean Community (CARICOM) exports to the EU in 2000–2004, which expanded by more than 9 percent, also grew at three times the rate of the 1995–2000 period. Sales of Caribbean manufactures in the European market have risen sharply, by 25 percent since the start of the decade.

Andean Community exports to the EU—which had contracted by almost 2 percent in 1995–2000—grew by nearly 10 percent in 2000–2004. That growth was spurred by the strong performance of exports of manufactures (a 14 percent increase in 2000–2004), and ores and metals (13 percent).

For MERCOSUR, too, growth of just 1.8 percent in its exports to Europe in 1995–2000 was followed by a 12.5 percent increase in 2000–2004. In this case, the rise was consistent across all product categories and was marked by an increase of more than 14 percent in exports of food products to the EU.

Figure 3. Growth of LAC Exports to the EU by Subregion, 1990–2004
(average growth rate, percent)



Source: IDB (INT/ITD) calculations based on UN COMTRADE.
Note: Calculated on the basis of EU import data. See Annex Tables A.2 and A.3.

Chile's exports to Europe, which rose by less than 2 percent in 1995–2000, surged by more than 17 percent in 2000–2004. The two parties concluded an FTA in 2002. In Chile's case, the growth of exports to Europe was underpinned by a 19 percent increase in sales of each of three categories: manufactures, food products, and ores and metals.

A somewhat contrary case is Mexico, whose FTA with the EU came into effect in 2000. EU exports to Mexico grew by an annual average of 16.3 percent in the years before the FTA entered into force (1995–2000). They continued to rise in the period 2000–2004, although at a somewhat more modest annual average rate of 9.8 percent. The main high-growth products included fuels, ores and metals, and manufactures. EU imports from Mexico grew by an annual average of 7.5 percent following the FTA's entry into force, below the 10.4 percent rate in 1995–2000. The data suggest that the agreement may have helped solidify bilateral commerce, albeit more in services than goods trade. It is likely that the higher growth in the earlier period largely reflects Mexico's recovery in the years following the peso crisis of 1994. Additionally, the potential for sizeable growth since the FTA was concluded has probably been constrained by the marked North American orientation of Mexican trade.

Finally, as a result of the foregoing developments, on the basis of EU trade data, LAC's trade deficit with Europe was transformed into a surplus as of 2002, and one that has widened in the past three years. In 1998, LAC had a deficit of $12.7 billion with the EU. In 2004, it posted a surplus of $12.4 billion (Annex Tables A.2 and A.3).

Trade in Services

Services trade[2] accounts for a growing share of global commerce and is increasingly important to many LAC and EU economies. In 2004, the EU exported $14.7 billion in services to LAC, equivalent to about 21 percent of goods exports. In the same year, the EU imported $13.2 billion in services from LAC, or about 24 percent of goods imports. LAC, however, accounts for less than 2 percent of the EU's services trade. The United Kingdom, Germany, Spain, the Netherlands, Italy, and France are the leading players in European services trade with LAC.

Despite Europe's relatively low share, however, there has been robust growth in services trade across LAC markets. In 1994–2004, the annual average growth in the EU's services exports was 11.4 percent to Mexico and 7.0 percent to South America. Europe's services imports from the region reveal a similar pattern: annual average growth of 14.1 percent from Mexico and 6.3 percent from South America in the decade to 2004. These figures, particularly in the case of South America, parallel the growth of total EU exports and imports of services during the period (annual averages of 7.4 and 7.0 percent, respectively). The data mask trends in smaller but high-growth sectors: computer and information services exports from the EU to South America grew above an annual average of 29 percent between 1994 and 2004, and by 41 percent in the case of Mexico.

Analysis of recent years alone, however, reveals a different picture. Between 2001 and 2004,[3] EU services exports to LAC grew by an annual average of just 1.1 percent, and growth to South America fell to negative levels. Imports also flattened out, growing by only 0.2 percent during the period. These levels lagged behind those in the EU's total services trade, indicating that LAC's share of the European market has fallen. Note, nonetheless,

[2] The main breakdown of services includes three subitems: transportation, travel, and other services. *Transportation* covers services provided by any form of transport that are performed by residents of one economy for those of another. *Travel* consists of goods and services acquired by residents who stay abroad for less than a year. The credit side includes purchases of the same type made by foreign travelers in the national territory. *Other services* comprise those international services transactions not covered under transportation and travel (communication services; construction services; insurance services; financial services; computer and information services; royalties and license fees; other business services; personal, cultural and recreational services; and government services). See Eurostat (2005).

[3] Trends in EU–Central America services trade are harder to capture because of difficulties in separating data on Central America and Caribbean countries, as well as on Caribbean tax havens.

that there are marked intraregional variations. EU services trade with Argentina and Venezuela turned negative in 2001 and 2004, but trade with Mexico, Brazil, and, in particular, Chile has continued to grow.

Half of EU services exports to LAC are categorized as "other services." Of the categories specified in the trade data, the most important in 2004 were transport services and travel services (tourism). Travel services also comprise the EU's main import from LAC, accounting for 41 percent of the total, followed by transport (30 percent).

EU-Mexico trade in services has risen notably, both before and since the FTA between the two went into effect. Mexican exports of communications, construction, insurance, and other services to the EU more than doubled between 1999 and 2001. The same was true of EU exports to Mexico in the areas of construction, insurance, and computer and information services, as well as "other services." Similarly, EU services exports to Chile climbed in 2002–2004, particularly in construction, communications, and business services.

Foreign Direct Investment

Foreign direct investment (FDI)[4] flows to LAC registered an unprecedented increase in the 1990s. European countries accounted for the bulk of this growth and became the leading source of flows to the region by the end of the decade. By 2001, however, investment flows to LAC had entered a period of decline. The fall was a worldwide phenomenon, but FDI to Latin America was particularly hard hit, affected by economic turbulence in the region. FDI inflows from EU countries were also negatively affected. From a record level of €46.2 billion in 2000, flows receded to €5.0 billion in 2003 (Figure 4). In just three years, Latin America's share of total extra-EU FDI fell from 10.6 percent to 3.6 percent.[5]

As the region's economic environment improved in 2004, however, European investment rebounded strongly, more than doubling the level of the previous year. Latin America posted the highest increase in European FDI flows among developing regions, and its share in extra-EU FDI again rose to over 10 percent. Figure 5 shows trends in flows to Latin America by major investors in the last decade.

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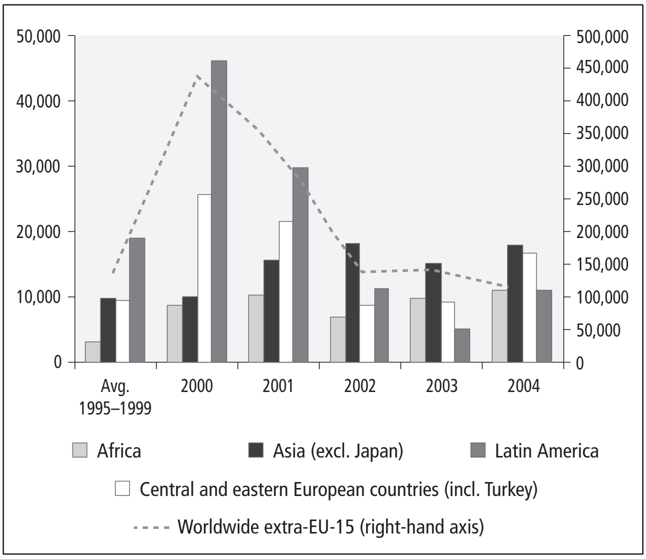
[4] FDI refers to the category of international investment made by an incorporated or unincorporated resident entity in one country with a lasting interest in an enterprise in another country (the resident entity is the direct investor and the enterprise is the direct investment enterprise). A lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and that the investor has a significant degree of influence on its management. According to the International Monetary Fund definition, lasting interest is defined as ownership of 10 percent of the equity of a direct investment enterprise. See IMF (2003).

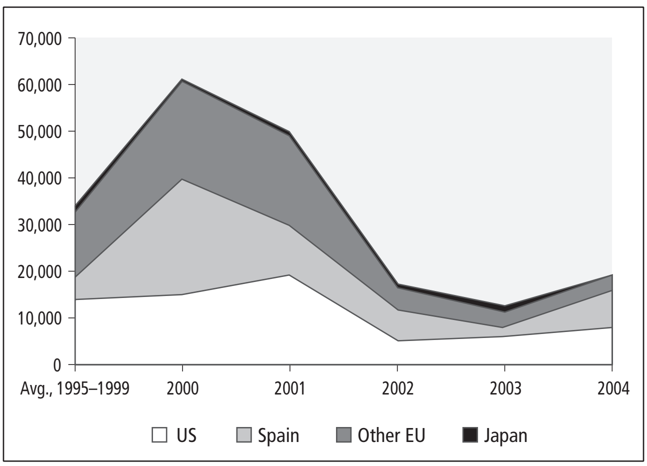
[5] It should be noted that FDI statistics suffer from several limitations. The methods and criteria used to register and monitor FDI operations differ among countries. Furthermore, FDI statistics do not always reflect the final destination or source country. For example, if a foreign investment is channeled through a holding company which itself is a subsidiary of the direct investor, then the total investment may be assigned to the country in which the subsidiary is based.

Figure 4. EU-15 FDI Flows to Developing Regions, 1995–2004
(net outflows, € millions)



Source: Calculations by the IDB Office in Europe (SOE) based on Eurostat.

Figure 5. FDI Flows to Latin America, 1990–2004
(net outflows, € millions)



Source: IDB (SOE) calculations based on data from Eurostat, OECD, and the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Excludes flows to offshore centers.

Among EU member countries, Spain was the foremost European investor in 2004, with €7.9 billion (compared to €1.8 billion in 2003). The United Kingdom was second with €1.2 billion (€2.6 billion in 2003—the highest level of all EU countries in that year), followed by Germany with €526 million (disinvestment of €309 million in 2003). France was the only major European investing country to register a negative flow in 2004, with disinvestments reaching €322 million. In 2003, French disinvestments amounted to almost €1.1 billion (for more details, see Annex Table A.6).

European FDI in Latin America is concentrated in the Southern Cone countries. Of the total stock of €130.1 billion at the end of 2003, Brazil accounted for 37 percent (€48 billion), Argentina for 18 percent (€23 billion), and Chile for 9 percent (€12 billion). Mexico's share was 21 percent (€27 billion; see Annex Table A.6).

This geographical concentration is largely associated with Spanish investments effected through privatizations and acquisitions, mainly in Argentina, Brazil, and Chile. The same can be said of a number of investments by French, Portuguese, and (to some extent) Italian enterprises, although at a lower order of magnitude. Investors from the United Kingdom, the Netherlands, and Germany participated less in privatizations.

Spain is by far the most important EU investor in Latin America, holding an estimated 60 percent of EU stock in the region at the end of 2003. The shares of the other major investors vary from about 10 percent for the United Kingdom (€13.2 billion) to 9 percent for the Netherlands (€11.4 billion), 8 percent for France and Germany (€10.7 and €9.9 billion, respectively) and 4 percent for Italy (€5.7 billion).[6]

As regards sectors, Spanish investments are concentrated in services, mainly in telecommunications, financial services, public utilities, and oil and gas production and distribution; investments in manufacturing activities are of lesser relative importance. French investment is concentrated in the public utilities sector (electricity), telecommunications, and the industrial sector (automobiles). German investments are predominantly in manufacturing—automotive production, machinery, and chemicals. Italian FDI is particularly strong in telecommunications, automobiles, and food processing. British investments are quite diversified, covering general services, manufacturing activities, and the primary sector (natural resources and agriculture).

FDI flows to LAC continued to rise in 2005 (UNCTAD, 2006), the result of several regional and global circumstances. On the domestic front, higher rates of growth and macroeconomic stability in LAC have been the most important factors. At the global level, strong demand—especially for commodities—has spurred more investment in export-oriented activities. With respect to FDI flows by sector, the data suggest that manufacturing is attracting increasing investment to the detriment of service activities.

It should be noted that LAC is no longer only a recipient of FDI. Today, Latin American multinational companies (MNCs) with investments around the world are on the rise, and some are already testing the European market (see ECLAC, 2005). The enlargement of the EU, as well as Europe's simplification and integration of business practices, have helped foster Latin American investment in the region.

Many major Latin American MNCs now have significant overseas activities. Brazil's Banco Itaú, for example, holds assets in Latin America, Europe, the United States, and Japan. In general, the outward-looking strategy of the Brazilian banks can have important ripple effects by widening the range of international investment opportunities for their major clients in overseas markets. There are many other examples. Brazil's mining company Companhia Vale do Rio Doce operates in Norway and France, Mexico's petrochemical producer Grupo Alfa in the Czech Republic, and Argentina's steel firm Tenaris across western Europe.

EU and LAC companies have moved to exploit biregional scale economies. The recent merger between Brazil's AmBev and the Belgian firm Interbrew (which led to the formation of InBev) is one milestone that promises to yield significant cost savings and access to new markets for both players. InBev is now the world's largest beer company. In the Caribbean, the Atlantic LNG consortium—consisting of the UK's British Petroleum (BP) and British Gas, Spain's Repsol YPF, Belgium's Tractebel, and the National Gas Company of Trinidad and Tobago—has become a leading natural gas producer in LAC.

[6] See Eurostat online database at http://epp.eurostat.cec.eu.int.

Official Development Assistance

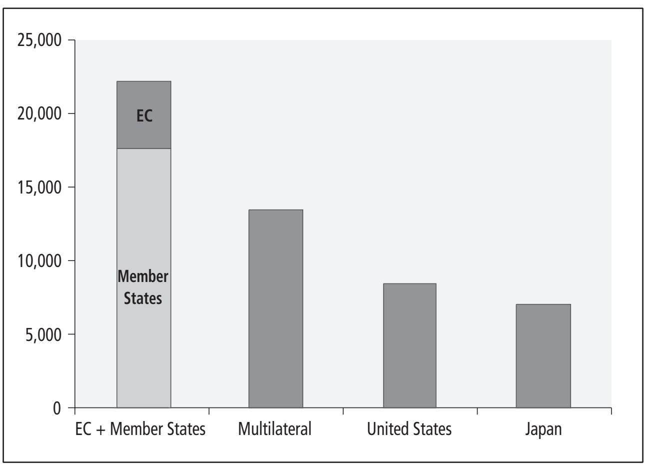
In line with global trends, inflows of ODA[7] into LAC fell consistently year-on-year between 1995 and 2000. In 1995, total net disbursements to the region from all sources totaled $5.7 billion. By 2000, this had fallen to $3.8 billion. Total inflows rebounded in 2001 to $5.2 billion, and by 2004 (the last year for which complete figures are available) the level of ODA to LAC was almost equal to the 1995 peak at $5.6 billion.

EU assistance to LAC has moved broadly in line with world trends, albeit with somewhat wider fluctuations. In the last decade, European ODA for the region peaked at $2.8 billion in 1996, after which it began a sustained decline. Flows reached a nadir of $1.5 billion in 2000 and rebounded thereafter to reach almost the peak level in 2004, when they stood at $2.7 billion.

For more than a decade the EU (member states plus European Commission) has been by far the leading source of ODA for the region (Figure 6). Of the $51 billion in assistance that LAC received from major donors in the decade to 2004, more than $22 billion (43 percent) came from Europe.

The emergence of the European Commission as a significant European donor was one of the salient developments in EU assistance to the region during the 1990s. The Commission has been the main source of LAC's inflows from Europe in three years during the past decade, and the second leading supplier in five others. In 2004 it was the third leading source after Germany and Spain. In line with general EU trends, Commission ODA to the region has fluctuated substantially since the mid-1990s. It peaked at $563 million in 1995, when it accounted for about 22 percent of European outflows. Commission ODA slumped to $295

Figure 6. Net Disbursements of ODA to LAC by Major Donors, 1995–2004
(US$ millions)



Source: IDB (INT/ITD) calculations based on OECD data. See also Annex Table A.7.

[7] The flows reported here are total net official development assistance and official aid flows. ODA is defined as grants or loans that (i) are undertaken by the official sector, (ii) have the promotion of economic development and welfare as the main objective, and (iii) are offered on concessional financial terms—if a loan, it must have a grant element of at least 25 percent. In addition to financial flows, technical cooperation is included in aid. Grants, loans, and credits for military purposes are excluded. See OECD (2001).

million in 2001 (about 16 percent of the European total to LAC) but now stands at $509 million. In the past decade, the greatest shares of Commission ODA for LAC have been devoted to Nicaragua, Haiti, Peru, Jamaica, and Bolivia. The Commission is also an important donor to LAC subregions.

Germany, traditionally among the leading European donors to LAC, was the main source of EU assistance for the region in 2004. German assistance peaked in 1996 at $824 million and then went into a steady decline to a nadir of $307 million in 2001. Flows resurged thereafter, and by 2004 flows of German ODA to the region were almost double the 2001 low point. Nicaragua, Bolivia, Brazil, Peru, and Chile have been the main targets of German disbursements in the past decade.

As with the Commission, Spain's emergence as a significant source of assistance in the 1990s helped partly offset the overall downward trend in much of the decade. Spain was the second leading European source of ODA for LAC in 2004, providing $561 million, or about a fifth of all EU cooperation with the region. For the period 1995–2004, the main beneficiaries of Spanish ODA in LAC were Nicaragua, Honduras, Bolivia, Ecuador, and Peru.

Bilateral ODA from France to LAC went into a decline in 1995, falling by more than 60 percent from $255 million to $97 million in 2000. At that point France, traditionally a significant source of assistance for the region, was providing just 6.3 percent of LAC's inflows from Europe. French assistance recovered in 2002 and grew beyond its 1995 peak to $263 million in 2004. In the past decade Haiti, Bolivia, Brazil, Chile, and Nicaragua have received the leading shares of French assistance.

Among European donors, the trend in Italy's ODA to the region is particularly striking. In 1998 Italy was LAC's seventh main European donor, accounting for about 5.4 percent of the region's inflows from the EU. Italian aid fell sharply thereafter, to the point that in 1999, 2000, and 2001, net flows were negative (–$20 million in 2001) because repayments on previous concessional loans outweighed the ODA provided.

Overall, in the decade 1995–2004, Germany was Europe's leading source of ODA to LAC, supplying $4.6 billion of the $22 billion provided by the EU's bilateral donors (including the European Commission). Germany was followed by the Commission itself ($4.5 billion) and Spain ($3.6 billion).

International Migration

In the past seven years there has been a rise in migration from LAC to Europe. Like capital flows, LAC-EU migrant flows are part of a global trend. Between 1995 and 2000, LAC had the world's highest net rate of emigration: one person in every 1,000 emigrated annually. Worldwide, more than a tenth of migrants were born in LAC countries. Nearly half of them reside legally in the United States, but European efforts to regularize migrants' status have induced migration from LAC to Europe.

The direction of migration flows largely follows colonial and other historical and cultural ties. Spain has been the main recipient of LAC migrants, followed by Italy and

Portugal. Most Latin American migrants in Spain come from Ecuador, Colombia, Argentina, Peru, and the Dominican Republic. Inflows have increased markedly since 1999: Latin Americans entering Spain rose from less than a quarter of yearly migrant inflows to about half in 2004. Ecuadorians comprise the largest group of migrants in Spain; their number tripled (to 433,110) between 2001 and 2003.[8] Colombia has become the third leading source. Together, Ecuadorians and Colombians account for at least a quarter of Spain's foreign-born population.

Portugal has received migrants mainly from Brazil. With the growth of inbound flows since 1993, Brazilians account for about a sixth of Portugal's foreign labor force and stock of foreign nationals. Italy's LAC migrants come mostly from Argentina, Peru, and Brazil, and their numbers almost tripled between 1995 and 2003 (when they totaled 63,530). In all, there were some 130,000 LAC nationals living in Italy in 2003, or nearly 10 percent of the total foreign population. In the United Kingdom, Caribbean nationals are estimated to number over a quarter of a million; in 2003, Jamaicans accounted for the most prominent contingent of 55,000.

The emigration of high-skilled workers from developing countries has prompted concerns about a "brain drain," since the number of educated migrants is significant. In 2000, about 12 percent of the LAC population with tertiary education emigrated from their countries of origin. Emigration, however, can also bring benefits: a large diaspora of high-skilled emigrants can trigger knowledge transfers and can improve access to information, capital, and contacts for firms in the countries of origin. Moreover, there is evidence that increased emigration rates can boost exports from origin to destination countries.

Such benefits might be particularly important in LAC-EU migrant flows. Latin American migrants in Europe—relative to many other migrant groups, and to LAC migrants in the United States—are relatively well-educated and often come from their countries' middle-income stratum. Nearly a quarter of Latin American migrants in Spain have university degrees, and more than half have completed secondary school (Pellegrino, 2004). The share of university-educated migrants from Colombia in Spain approaches 40 percent of the total (see CECA et al., 2002). In contrast, only about a tenth of Latin American migrants in the United States have university degrees, and only a third have completed high school.

The most salient aspect of the foregoing circumstances is the question of remittances. Latin America is the world's leading recipient of remittances, and such revenue plays a significant role in several LAC economies. At about \$38.5 billion in 2003 and \$45.8 billion in 2004, the scale of remittances to Latin America has risen to parallel the region's inflows of FDI and net ODA. Their importance cannot be overstated: remittances account for more than 10 percent of the GDP of six LAC countries—Ecuador, El Salvador, Haiti,

[8] See the International Labour Migration Database of the International Labour Organization (ILO): http://www.ilo.org/public/english/protection/migrant/ilmdb/index.htm.

Honduras, Jamaica, and Nicaragua. In absolute terms, the largest Latin American recipients of remittances are Mexico ($16 billion in 2004), Brazil ($5.6 billion), and Colombia ($3.9 billion) (MIF-IDB, 2005).[9]

Remittances from Europe have added volume and diversity to capital flows between the EU and LAC. They have grown in recent years to an estimated $4.5 billion in 2005 and now comprise 12 percent of the region's total remittance inflows. Spain is the leading European source of remittances to the region, accounting for about half of the total. The other main European sources are Portugal, Italy, and the United Kingdom.

In sum, European-LAC economic flows in the areas of trade, investment, and development assistance are currently more buoyant than they have been for several years. The EU is LAC's second main extraregional export market, and biregional trade has been growing at high rates since 2003. This recent upswing in trade with Europe—which is common to all LAC subregions, albeit not to each individual country—has reversed the region's trade deficit with the EU.

Taking a longer view, however, the picture is less encouraging in relative terms, since each region's share of the other's market has been low or declining for much of the past decade. Nonetheless, against this mixed background both regions could consolidate the positive developments in their economic relations by expanding market opportunities through existing association agreements and those to be concluded in the future.

The EU, moreover, remains the most important source of FDI flows to LAC. Europe accounted for most of the growth in total flows to the region during the 1990s, and European investment has recovered from a fall at the start of the decade. The 2004 level was double that of 2003, and investment from Europe continued to rise in 2005—a result of high growth and macroeconomic stability in the region, as well as investment in export-related activities induced by strong international demand for commodities.

In the area of ODA, the EU is still by far LAC's main source of inflows. In 2004, EU member states and the European Commission provided no less than 49 percent of the region's assistance. Levels of ODA from Europe have recently rebounded to almost the same level as their peak in the middle of the last decade.

Overall, the current intensity of economic links could be sustained by continued progress on the policy front—especially closer biregional integration through the current and future association accords, as well as further initiatives in the framework of "horizontal" instruments for EU-LAC cooperation. Those instruments are discussed in the next section.

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[9] The Multilateral Investment Fund has produced a companion study to the present report entitled "Remittances as a Development Tool" for the Vienna Summit.

Policy Instruments to Promote EU-LAC Economic Relations

There has been substantial change in EU policy towards LAC since 1995, when a European Commission policy document introduced a new approach that sought to adapt biregional cooperation to the particular circumstances of different countries and subregions (European Commission, 1995). Europe's relations with LAC were to develop towards activities of mutual interest and, in the economic arena, towards freer reciprocal trade. Thereafter, negotiations were launched for FTAs with Mexico, Chile, MERCOSUR, and the CARIFORUM countries. The Commission has indicated that the Vienna Summit could offer an opportunity to consider opening negotiations on association agreements with the countries of Central America and the Andean Community.

Economic Cooperation towards Commercial Reciprocity

The European Community has concluded commercial and cooperation agreements with Latin American countries or subregions since the early 1970s. These "first-generation," non-preferential accords with Argentina, Brazil, Mexico, and Uruguay were of limited scope. The signatories granted each other most-favored-nation (MFN) treatment and agreed to cooperate on agricultural trade issues. The "second-generation" agreements of the early 1980s with Brazil, the Andean Pact, and Central America went further in defining areas of trade and economic cooperation. The 1983 agreement with the Andean Pact, for example, included fields such as closer links between the two regions' industrial, farming, and mining sectors; science and technology; industrial development; and cooperation in agro-industry, fisheries, and infrastructure.

The "third-generation" framework agreements of the early 1990s with Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay, the Andean Community, Central America, and MERCOSUR made provision for wider trade- and investment-related cooperation. In these accords, development assistance was complemented by cooperation in areas deemed to be of "mutual benefit." The agreements covered industrial cooperation, the promotion of investment, fostering business contacts, technology transfer, and cooperation in productive sectors such as agriculture, agro-industry, mining, and services.

In the mid-1990s, new agreements added reciprocal trade liberalization to biregional cooperation: the Inter-regional Framework Cooperation Agreement with MERCOSUR (December 1995), the Framework Cooperation Agreement with Chile (June 1996), and the Economic Partnership, Political Coordination and Cooperation Agreement with Mexico (December 1997). These agreements expanded the areas of "advanced" cooperation (on intellectual property, science and technology, telecommunications, and so on) and emphasized the central role of economic and business cooperation, as well as investment promotion. They rest on three pillars:

- regular and institutionalized political dialogue on matters of mutual interest and permanent consultation in international fora;
- the intensification of cooperation;
- the promotion and diversification of trade and investment flows, including progressive and reciprocal trade liberalization.

The trade pillar was the most significant departure from previous agreements, but it must be stressed that these accords are not simply commercial: they are part of a broad strategy geared to sustainable development, macroeconomic stability, poverty alleviation, and the consolidation of democracy and good governance. Trade liberalization, therefore, is simply part of the stronger biregional relationship sought on several levels (Devlin and Estevadeordal, 2004).

Trade relations with the Caribbean countries have been governed by distinct institutional arrangements. Since 1975 the members of CARICOM have benefited from general and nonreciprocal trade preferences for raw materials, industrial goods, and agricultural products granted to the African, Caribbean, and Pacific (ACP) group of states under successive versions of the Lomé Convention. Exports from the ACP countries have enjoyed the same treatment as intra-EU exports, with the exception of agricultural products covered by the EU's common agricultural policy (CAP). These products, however, enjoyed margins of preference over imports from third countries, as well as duty-free access to the EU market for fixed quantities of key commodities such as bananas, sugar, rum, beef, and veal on the basis of the Convention's commodity protocols. The Lomé preferences ensured that practically all Caribbean exports to the EU entered duty-free.

EU-Mexico

The EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement of December 1997 (the "global agreement") created a ministerial-level Joint Council to supervise its own implementation. Together with the global agreement, an Interim Agreement on Trade and Trade-Related Matters was also signed in 1997. The latter included all the trade-related provisions of the global agreement, and it was important because it allowed trade negotiations to begin before the global accord entered into force. This was possible because the interim agreement centered on goods trade, a common policy that falls under the competence of the European Commission. Hence it did not have to go through the lengthy process of ratification by the parliaments of all EU member states.

Trade talks thus began as soon as the interim agreement was concluded. The negotiations lasted only a year, and thereafter the EU-Mexico FTA was the outcome of decisions taken by the EC-Mexico Joint Council. First, a decision of March 2000 provided for (i) the liberalization of trade in goods, (ii) the opening of the two sides' government procurement markets, (iii) cooperation in the field of competition, (iv) a consultation mechanism on intellectual property matters, and (v) a dispute settlement mechanism. Second, a decision of February 2001 established a free trade area in services, with provision for (i) the liberalization of trade in services, (ii) the liberalization of investment and related payments, (iii) the protection of intellectual property rights, and (iv) dispute settlement.

All trade in industrial goods will be tariff-free by 2007. The EU liberalized 82 percent of industrial products when the agreement entered into force in July 2000 and removed tariffs on the rest by January 2003 (when industrial products were fully liberalized in the North American Free Trade Agreement—NAFTA). Mexico eliminated 47 percent of its tariffs on industrial goods upon the agreement's entry into force and removed tariffs on another 5 percent by 2003. The remaining 48 percent will be liberalized by 2007.

The liberalization of agricultural trade covers 80 percent of EU farm imports from Mexico and 42 percent of Mexico's imports from Europe. Areas liberalized immediately included important European agricultural products such as olive oil, wine, and alcoholic beverages, as well as significant Mexican exports such as avocados, flowers, and orange juice. Tariffs on several sensitive goods will be eliminated gradually over 10 years. Trade in services will also be liberalized progressively in two phases over a maximum of 10 years. The free trade agreement covers all sectors (including key areas such as financial services, telecommunications, and energy), with the exception of air transport, audiovisual services, and maritime cabotage.

The elimination of barriers to investment flows began in 2003. Intellectual property rights will be protected according to the "highest international standards," and the accord instituted a committee on intellectual property matters. As regards rules on competition, the agreement establishes cooperation mechanisms to guarantee compliance with the two parties' legislation. In the area of public procurement, the EU is given NAFTA-equivalent access to the Mexican market, while Mexico secures preferential access similar to that offered by the EU under the Government Procurement Agreement of the World Trade Organization (WTO).

EU-Chile

Negotiations for the EU-Chile association agreement lasted two years, from April 2000 to April 2002. The accord was signed in November 2002 but did not enter into force until March 2005. Nonetheless, much of the trade chapter, the institutional framework, and the trade-related cooperation provisions had been applied provisionally since 2003.

The trade chapter of this agreement is perhaps the most ambitious negotiated by the EU. It goes beyond the two sides' WTO commitments and covers all areas of bilateral trade: a free trade area in goods, services, and government procurement; the liberalization of investment and capital flows; the protection of intellectual property rights; cooperation in the field of competition; and dispute settlement. The agreement's built-in agenda is designed to ensure that the trade provisions evolve: several sections provide for future review for the purpose of deepening the preferences granted. The accord establishes a free trade area in goods through progressive and reciprocal liberalization over 10 years, by which time some 97 percent of bilateral commerce will be free.

In the area of industrial products the EU eliminated tariffs on virtually all imports from Chile (99.8 percent) when the agreement came into force and removed the rest in January 2006. Chile eliminated tariffs on about 92 percent of its imports from Europe when the agreement came into effect. Tariffs on another 4.5 percent will be removed by January 2008 and the remainder by January 2010.

As to agricultural products, the two sides will remove tariffs on their imports from each other in stages, beginning with the agreement's entry into force and ending in January 2012. Since some products will benefit from other forms of preferential treatment (tariff quotas for products such as meat, cheese, certain fruits, and sugar confectionary), agricultural products excluded from any form of liberalization represent less than 1 percent of total EU imports from Chile.

The agreement establishes a free trade area in services in line with Article V of the General Agreement on Trade in Services (GATS). The two sides substantially eliminate discriminatory measures and expand the coverage of sectors relative to their GATS obligations. The coverage of financial services is significant: according to the European Commission, it represents the highest degree of liberalization ever achieved in a bilateral trade agreement, in terms both of market access commitments and of the framework of rules to be applied by the signatories.

EU-MERCOSUR

Negotiations for an EU-MERCOSUR association agreement were launched at the Rio Summit in June 1999 and cover the full range of trade-related areas: trade in goods and services; sanitary and phytosanitary measures; the liberalization of capital movements; opening up government procurement markets for goods, services, and public works; competition policies; intellectual property rights; and dispute settlement.

The negotiations have been more protracted than those that led to the EU-Mexico and EU-Chile agreements. The first negotiating sessions were mainly devoted to non-trade matters and discussion of the structure, methodology, and scope of the negotiations, as well as to establishing a work program. Talks on tariff reduction and services were launched during the fifth round in July 2001, when the European side presented MERCOSUR with the EU's initial tariff offer and negotiating texts for goods, services, and government procurement. MERCOSUR presented its tariff offer in the sixth round in October 2001, as well as negotiating texts on services and government procurement.

By mid-November 2003 the two sides were able to agree on a work program for what was expected to be the final phase of the process in 2004. This envisaged a ministerial meeting during the Guadalajara Summit, a final negotiating round in July 2004, and a concluding ministerial meeting in October 2004 to complete the process. By the time of the twelfth round in March 2004, much of the political and cooperation chapters had been negotiated. Progress was also made on the trade chapter: the sections on technical barriers, competition, and customs were finalized.

New offers were tabled by both sides at a meeting in April 2004, allowing further progress to be made on trade. Discussion of farm subsidies was precluded, but European negotiators proposed a two-step approach. In a first stage, MERCOSUR would be granted more generous import tariff rate quotas (TRQs) for major agricultural products such as beef, dairy goods, sugar, and instant coffee. In the second stage, the remaining TRQs would be allocated during the Doha Round. MERCOSUR, for its part, offered the EU preferential access to investment and services sectors, especially telecoms and banking. MERCOSUR also undertook to hasten the elimination of tariffs on other European goods.

By the time of the thirteenth round in May 2004 there was agreement on the whole text of the cooperation chapter. Cooperation is to cover a wide range, including standards, services, investment, energy, transport, science and technology, customs, competition, agriculture, and fisheries. In the trade chapter, meanwhile, the EU continued to press for greater liberalization of trade in services from MERCOSUR and wider opening of government procurement. For its part, MERCOSUR continued to push for lower barriers to agricultural products such as meat and sugar.

With the political and cooperation chapters almost concluded, further progress on the trade chapter allowed both parties to envisage completing the negotiations by October 2004. In that month, however, a trade negotiators' meeting at ministerial level decided that the offers on the table were insufficiently ambitious, and the negotiations entered something of an impasse until a new ministerial meeting in September 2005. At an EU-MERCOSUR Coordinators' meeting in November 2005, the two sides agreed that it was difficult to advance because of uncertainties in the Doha Round and deferred the discussions.

Trade Negotiations with the Andean Community and Central America

The EU concluded framework cooperation agreements with the subregions of Central America and the Andean Community in 1993; the accords entered into force in 1998 (for the Andean Community) and 1999 (for Central America). They sought to diversify trade and investment links but made no provision for preferential market access. Rather, the Andean and Central American countries were granted special concessions under the EU's Generalized System of Preferences (GSP). In December 2001, the EU Council of Ministers agreed to renew the GSP (including the special preferences for the Central American and Andean countries) through December 2004. Thereafter the scheme was expanded (as the "GSP+") and extended to 2008.

Since the Rio Summit in 1999, the Andean and Central American governments have sought to promote the negotiation of association agreements between the EU and the two subregions that are comparable to the accords with Mexico and Chile and the planned agreement with MERCOSUR. Advocates of association agreements have maintained that the GSP does not offer long-term security to investors and exporters because it consists of temporary and unilateral concessions that can be revoked.

At the Madrid Summit in 2002 a decision was taken to negotiate new agreements on political dialogue and cooperation between the EU and the two subregions. The talks were concluded after two rounds in October 2003, and both accords were signed the following December. The Commission views these agreements as ambitious: they strengthen political dialogue and broaden the scope of European cooperation activities. Cooperation now covers new issues such as migration, conflict prevention, good governance, and counterterrorism.

These accords are seen as an intermediate step towards association and free trade, but the Commission has indicated that certain conditions should first be met. Prominent among those conditions are deeper integration in both subregions and the completion of the Doha Round. Deeper integration, in particular, means a fully functioning institutional framework, the existence of a customs union, and a reduction in the barriers to intraregional trade. At the Guadalajara Summit it was decided to launch joint assessments of the two subregional integration processes in order to determine whether conditions are right for the start of negotiations on association agreements. The Vienna Summit is expected to take stock of the results of those assessments.

EU-CARIFORUM

An EU-ACP Partnership Agreement of June 2000 (the Cotonou Agreement) sought to integrate the three basic elements of European policy towards the ACP states: the political dimension, development assistance, and trade and economic cooperation. The aim was to create a more favorable context for sustainable development and poverty reduction in the ACP countries and to counteract their social, economic, and technological marginalization. The agreement is valid for 20 years and is open to revision every 5 years. Its chief innovation is that it seeks to replace the Lomé Convention's preferential trade mechanisms with reciprocal free trade between the EU and most ACP countries after a 20-year transition period.

To that end, the Cotonou Agreement made provision for the conclusion of WTO-compatible trading arrangements through subregion-specific Economic Partnership Agreements (EPAs). Negotiations for the EU-Caribbean EPA were launched in April 2004 in Jamaica, and the agreement is expected to be concluded by December 2007. The talks are in four phases: (i) April to September 2004, to reach a basic understanding on the two sides' main concerns; (ii) September 2004 to September 2005, to agree on the priorities for supporting integration and the targets to be met by the time implementation begins in January 2008; (iii) September 2005 to December 2006, to advance the technical negotiations with a view to completing a draft EPA by the end of this year; and (iv) January to December 2007, when the meetings will consolidate the results of the negotiations thus far and the talks will be completed.

The negotiations cover tariffs and non-tariff barriers, customs and trade facilitation issues, sanitary and phytosanitary measures, technical barriers to trade, services and investment regimes, intellectual property, competition policy, and government procurement. The Caribbean countries' current preferential access to the European market will be retained up to 2008, when the EPA is expected to be concluded.

Biregional Private Sector Networks

The EU and LAC have devised various initiatives to strengthen contacts between their business communities. The Al-Invest Program, launched in 1993, is the largest European Commission scheme to foster cooperation between European and Latin American small and medium-sized enterprises (SMEs). The program has supported thousands of SMEs and business organizations in all economic sectors by facilitating biregional trade and investment. To consolidate this success, Al-Invest III was launched in 2004 for a four-year period with a European Commission grant of €42 million.[10]

A number of other biregional fora are organized by Eurochambers (the Association of European Chambers of Commerce and Industry), which represents 44 national associations of chambers of commerce with a total of 18 million member firms. Eurochambers has partnerships with the Ibero-American Association of Chambers of Commerce (AICO), the Latin American Industrial Association (AILA), and the Caribbean Association of Industry and Commerce (CAIC) for matters related to trade and business opportunities.

Another channel for connecting EU investors to LAC markets is Latibex, the international market for Latin American securities. The market, regulated by the Spanish securities market law, enables European investors to buy and sell shares and securities in leading Latin American companies through a single market—with a single operating system for trading and settlement and a single currency, the euro. Latibex also gives Latin American companies access to the European capital market. Some 32 companies are now issuers at Latibex, a third of the number of Latin American companies quoted on the New York Stock Exchange.

Other important initiatives in this field include the MERCOSUR-EU Business Forum (MEBF), which seeks to foster trade and business relations between the EU and the MERCOSUR countries. The MEBF serves as a venue for leading European and MERCO-

[10] In February 2006, the Inter-American Investment Corporation (IIC), part of the IDB Group, signed a memorandum of understanding with the Al-Invest III consortium. The memorandum provides a general framework that will facilitate cooperation between Al-Invest III and the IIC.

SUR companies, as well as the main business associations, to develop joint trade policy recommendations.

Trade-Related Technical and Financial Cooperation

Trade-related technical and financial cooperation is increasingly important in EU-LAC cooperation relations, since trade liberalization alone is seldom enough to generate gains from trade in developing countries. Also needed are complementary policies, such as institutional reforms and improved physical infrastructure, that enable governments to implement trade agreements and help firms take advantage of new export opportunities. The capacity of some LAC countries to derive maximum benefit from trade agreements is hampered by incomplete implementation of the accords, as well as supply-side constraints and weak infrastructure.

EU P*rograms*

The EU is the world's largest provider of trade-related assistance. The funding managed by the European Commission for trade-related projects (trade policy and trade development, not infrastructure) has increased over the past decade from €640 million in 1996–2000 to €3.3 billion (an annual average of €800 million per year) in 2001–2004. In the July 2005 G-8 Summit in Gleneagles, the EU pledged to increase current and planned EC funding to €1 billion per year for the period 2007–2013 so as to support developing countries' trading capacity. This is in addition to the EU member states' commitments of €250 million a year on average.[11]

Such figures reflect the EU's heightened attention to trade-related assistance and capacity building in the context of the Doha Development Agenda. According to the Commission's 2002 Communication on Trade and Development, the EU strategy in this area centers on assistance for WTO accession and multilateral negotiations, support for the implementation of WTO agreements, and assistance for the policy reforms and investments needed to improve economic efficiency and foster integration in the world economy (European Commission, 2002).

The EU's trade-related assistance has focused mainly on the southern Mediterranean and the ACP group. Latin America received €239 million or 7 percent of the total in 2001–2004. In Mexico and Chile, the assistance has been geared to the implementation of their FTAs with the EU, as well as to promoting their competitiveness and export capacity. Assistance to Central America, the Andean countries, and MERCOSUR has sought to support regional integration. Caribbean countries receive trade-related assistance as part of

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[11] See http://europa.eu.int/comm/trade/issues/global/development/trta/index_en.htm. According to the EU, the annual levels fluctuate, as the priorities for the type of aid provided each year are set in agreement with development partners, countries, regions, and institutions.

the ACP group: the EU has pledged €57 million for the Caribbean region in 2003–2007 to support economic integration and trade, especially to improve the business environment and strengthen trade-negotiating capacity (European Commission, 2005b).

Inter-American Development Bank Programs

Given the scale of the challenges facing LAC countries in their efforts to negotiate trade agreements, implement them, and then manage the transition to free trade, the Inter-American Development Bank (IDB) has devised several mechanisms to support its borrowing member countries in these areas. Many of the IDB's initiatives in this regard have been executed directly by the Bank's Integration and Regional Programs Department or with its technical support through other IDB departments.

In 2001 the Bank established a new, fast-approval Trade Sector Facility to support countries in capacity building for trade negotiations and the administration of agreements. The Facility, comprising loans of up to $5 million, can be used to finance a wide range of activities that modernize capacity in these two areas of trade-related assistance. Fast-track approval of loans has been particularly helpful in allowing countries to respond rapidly to emerging negotiating challenges. To date, 10 of the Bank's member countries have accessed the Facility. Among other things, these loans have offered training for negotiators, provided data and technical support, modernized the internal organization of trade-related institutions, improved linkages with civil society, and financed activities geared to promoting trade and investment.

As LAC countries' trade negotiations advanced, it became apparent that the next major challenge would be the transition to free trade. In 2003, therefore, the Bank approved a Lending Program for Trade, Integration and Competitiveness to assist countries in the transition. The program, coupled with the availability of loans geared toward improving competitiveness, provides support for all the critical issues in the transition, including labor market adjustment, worker retraining, rural agriculture, SMEs, tax reform, customs modernization, and investment in infrastructure.

The Multilateral Investment Fund (MIF)[12] has also been supporting trade, both regionally and for individual countries. The MIF's Trade and Investment Cluster facilitates trade by helping governments and organizations to streamline or eliminate obstacles to trade and investment. This is done by improving customs and immigration procedures, harmonizing technical standards and related training, improving investment climates, and strengthening the private sector's capacity to forge linkages with government trade policy. In the Trade and Investment Cluster, 18 regional and/or national projects in execution

[12] The MIF, a mechanism of the Inter-American Development Bank Group, has a mandate to support innovative private sector development in LAC. Using grant and investment mechanisms, the MIF undertakes small, targeted development projects in partnership with business groups, nongovernmental organizations, and public sector entities to upgrade the skills standards of the workforce, broaden the economic participation of smaller enterprises, and strengthen the business environment.

are supporting SMEs in areas such as market access, trade negotiations, and technical standards.

The Bank's Regional Technical Cooperation (RTC) program has been used to support LAC subregions as they face the challenges of trade and integration. The program includes activities that consolidate the regional market for trade and investment, strengthen regional institutions, and help countries prepare for extraregional agreements (especially North-South accords). RTC is also supporting regional infrastructure development by providing logistical and technical assistance for the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Puebla-Panama Plan (PPP).

Increasingly, bilateral donors have channeled grant resources through the Bank to assist LAC countries in their efforts to adjust successfully to a changing trade and integration environment. The IDB-Canada Trade Fund focuses on strengthening recipient countries' capacity to negotiate and implement trade agreements and to adjust to the process of hemispheric trade opening. Eleven projects are now in execution. The Trade and Poverty Trust Fund (T&P TF) is a multidonor instrument established with an initial contribution from the Department for International Development (DFID) of the United Kingdom. It seeks to bolster the IDB's capacity to assess the impact of trade and integration on poverty reduction and to support the adoption of pro-poor trade-related strategies in the countries of the region.

In 2002 the Bank created the Special Initiative for Trade and Integration to allow the IDB to respond quickly to growing demands for assistance in trade and integration negotiations and in preparing policy responses to the new initiatives. The program includes the provision of tools for negotiators and trade policymakers, public outreach on trade and integration, conferences on crucial trade and integration issues, and policy research by experts in the field.

In the context of the Bank's Regional Policy Dialogue, LAC Vice-Ministers of Trade have met five times at IDB headquarters to discuss an agenda prepared by them with technical support from the Bank. Those meetings have spurred an exchange of ideas on trade negotiations and adjustment and have given rise to an array of common initiatives endorsed at ministerial level. Subregion-specific meetings have also been held as part of the Dialogue.

The Bank's Integration and Regional Programs Department has also engaged in research, outreach, and training activities in collaboration with its Institute for the Integration of Latin America and the Caribbean (INTAL). INTAL provides training courses for LAC negotiators, most of them in collaboration with the WTO. Through the institute, the Bank also coordinates the Red INTAL de Investigación en Integración (REDINT), a policy research network of Latin American and Caribbean research centers; the Euro-Latin Study Network on Trade and Integration (ELSNIT), in collaboration with the IDB's Office in Europe; and the Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBA), in collaboration with the IDB's Office in Japan and the Asian Development Bank Institute.

In sum, an extensive institutional architecture is in place to underpin EU-LAC economic relations at the region-wide level. The EU also maintains specific dialogues with its subregional LAC partners and with the individual countries with which it has concluded association agreements. The economic aspects of the accords with Mexico and Chile are comprehensive, covering liberalization in goods and services and making provision for the elimination of investment barriers, opening up government procurement markets, cooperation in the field of competition, consultation on intellectual property matters, and dispute settlement.

The ongoing negotiations between the EU and MERCOSUR, and between the EU and CARIFORUM, also embrace a wide range of biregional economic links. With Central America and the Andean Community, the EU has been conducting joint appraisals of the status of the two subregions' integration processes. The European Commission has indicated its desire to use the Vienna Summit as an opportunity to consider those assessments and to examine whether conditions are now right for the start of negotiations on association accords. For the Andean and Central American countries it is important that association negotiations begin, so that they are on the same footing as the EU's other partners in LAC and elsewhere.

The current and future association agreements are complemented by several instruments that support biregional private sector networks and by extensive cooperation in the field of trade-related assistance. In the latter area the EU is the leading source of assistance worldwide. For its part, the IDB has developed a comprehensive array of flexible mechanisms to support LAC countries as they negotiate trade agreements, implement them, and embark on the transition to free trade. The mechanisms devised by the Bank and the European Commission are often complementary and can provide a basis for future endeavors to support LAC countries' efforts to meet pressing challenges. The following section discusses some of those challenges.

The EU-LAC Partnership: Common Challenges and Opportunities

The network of institutional linkages outlined in the previous section provides a sound basis for the strategic partnership that the EU and LAC are seeking to build. That partnership seems ever more necessary as a means whereby both regions can respond to international and internal challenges. Indeed, how biregional relations develop will depend on several external forces that are beyond the sole control of either region, such as the state of the world economy, the rise of new actors on the global economic stage, the behavior of exchange rates, energy prices, international security conditions, and the outcome of the Doha Round.

Externally, the EU-LAC relationship is faced with the intensifying pressures of global competition. The partnership is being consolidated amid an intricate network of FTAs across the world, which may proliferate further in the future. The two regions are insiders to many agreements, but increasingly they are outsiders to others, a circumstance that erodes their competitive advantages in international commerce. At the same time, EU-LAC relations face the demands arising from efforts to devise a global trade agenda. Biregional links also face the economic rise of Asia, which poses a competitiveness challenge to bilateral trade flows, to the potential for bilateral intra-industry trade, and to the creation of bilateral production networks.

There are reasons to consider the joint management of such challenges. Both regions have an important stake in the success of multilateral negotiations. Breakthroughs in talks on market access in goods and services, as well as on multilateral trade rules, would provide substantial benefits to each of them and to biregional trade flows.

Internally, too, both regions' integration processes are being tested. In the EU, for instance, the ratification of the European Constitution was put into abeyance last year after voters in France and the Netherlands rejected it. In LAC, progress on some subregional initiatives has been affected by the difficulties of deepening integration, including the forging of common positions in external negotiations. To some extent these developments reflect concerns in both regions about globalization and deeper integration. In many countries those processes are seen as creating new asymmetries and inequalities.

EU-LAC relations thus face multiple challenges. This section centers on two of them in interrelated areas on the external and internal fronts: dealing with the greater competition spurred by the rise of Asia in the world economy, and deepening integration while addressing asymmetries and thereby fostering social cohesion. Linking these two issues, the section also considers how regional integration and the strengthening of the biregional partnership could be used simultaneously to promote economic efficiency with greater equity.

Facing the Competitiveness Challenge: The Rise of Asia

LAC and the EU face a shift in the global economic balance as Asian economies emerge onto the world stage. That development is clear in the swing toward Asia in European and LAC trade flows. On the one hand, Asia's rise has spurred a surge in demand for commodities from South America and offers new opportunities for LAC and European traders and investors. On the other hand, Asian countries compete directly with LAC and the EU in global markets. They are also alternative targets for FDI from Japan and the United States. As locations for outsourced manufacturing and services, moreover, the Asian economies have significant implications for European and LAC production and industries. Their rise also has repercussions for EU-LAC economic relations, since they compete with European products in LAC markets and with LAC products in Europe.

Implications of the Rise of Asia for LAC and the EU

The rise of Asia in the global economy presents both opportunities and challenges for LAC (Devlin, Estevadeordal, and Rodríguez-Clare, 2006). Thus far the opportunities have been most tangible for South American commodity producers, whose exports to Asia have benefited from the region's booming demand for raw materials. The Brazilian case is illustrative. In the early 1990s, China was not among Brazil's major trade partners. By 2003, however, China had become the third main destination for Brazilian exports after the United States and Argentina, absorbing nearly 7 percent of the total. The value of Brazil's exports to China has grown by a remarkable 900 percent since 1999. They are concentrated in iron ore, soybeans, and their subproducts—categories that accounted for nearly 60 percent of all Brazilian exports to China in 2005. Brazil has risen rapidly to figure among the leading three suppliers of the Chinese market for soybeans and iron ore. Argentina has done so in soybeans and soybean oil, and Chile in copper.

Nonetheless, there are also challenges. Many LAC economies compete with Asian countries in world markets for several product categories and sectors, such as textiles and apparel, footwear, certain electrical and electronics products, vehicles, coal, and natural rubber. Most particularly, Mexico, Central America, and the Dominican Republic have been subject to competitive pressure from Asian countries. This is a real challenge, because those countries specialize in the labor-intensive parts of the production chain, in which China and other Asian economies have a significant edge.

LAC countries face the Asian challenge in their home markets, but the competition mostly affects their prospects in developed-country markets. Latin America and Asia each accounted for about 10 percent of the U.S. industrial import market in 1972. By 2001, however, Asia's share had risen to 25 percent, while Latin America's had increased by only half as much. And China's share increased from almost 0 percent in 1972 to 9 percent in 2001, driven by large gains in a wide range of manufactured goods.

The impact is most striking in the case of Mexico. To take one example, in 2001 China's export basket in the U.S. market was more similar to Mexico's than to that of any other non-Asian developing country. China's export similarity with Brazil and Costa Rica has also risen in the past two decades, albeit to a lesser extent. The average for LAC as a whole is relatively pronounced and has grown in the past decade. The relatively wide overlap in exports of textile manufactures has expanded following the expiry of the Multifiber Agreement last year.

It would be simplistic, however, to view China as a vast market for some LAC countries and a fierce competitor for others. For a number of countries, most notably Brazil and Mexico, China is both a growing export market and a direct competitor. Mexico does face stiff competition from China, but there is also intra-industry trade between Mexico and the Asian economies. With respect to Brazil, China has been a rapidly growing market for Brazilian commodities exports, but it also competes with some Brazilian intermediate products, such as auto parts and chemicals. Chinese sales of apparel, footwear, toys, electronics, and machinery have penetrated the Brazilian market rapidly in recent years.

Additionally, growing dependence on the Chinese market poses some risks for LAC's commodity exporters because such dependence increases vulnerabilities, raising the possibility of Dutch disease and at least a short-term reversal of current levels of export revenue if Chinese demand declines. Such a development not only would erode the returns on exports to China, but would probably lower the global price of those commodities. This export pattern is also vulnerable to Chinese trade policy measures. Market access in soybeans and soybean oil, for example, has been hampered by various non-tariff measures in China, such as regulatory, technical, and administrative barriers.

As to Europe, future upgrades to Asian economies' export structures are also likely to exert competitive pressure on the exports and domestic markets of European economies in such sectors as specialized capital and consumer products. In China specifically, MNCs, which now account for about half of Chinese exports, are incorporating the country into fragmented intrafirm production systems that span East Asia and produce high-technology exports.

As the bulk of Asia's exports become concentrated in more technologically sophisticated sectors, they will probably overlap increasingly with European industries in international markets—much as they do with industries in which Brazil and Mexico, for example, are significant suppliers, such as machinery, auto parts, and electrical equipment. In short, Asian countries' capacity to capture a greater share of product categories in both more- and less-sophisticated manufactures in international markets will affect Europe as well as LAC.

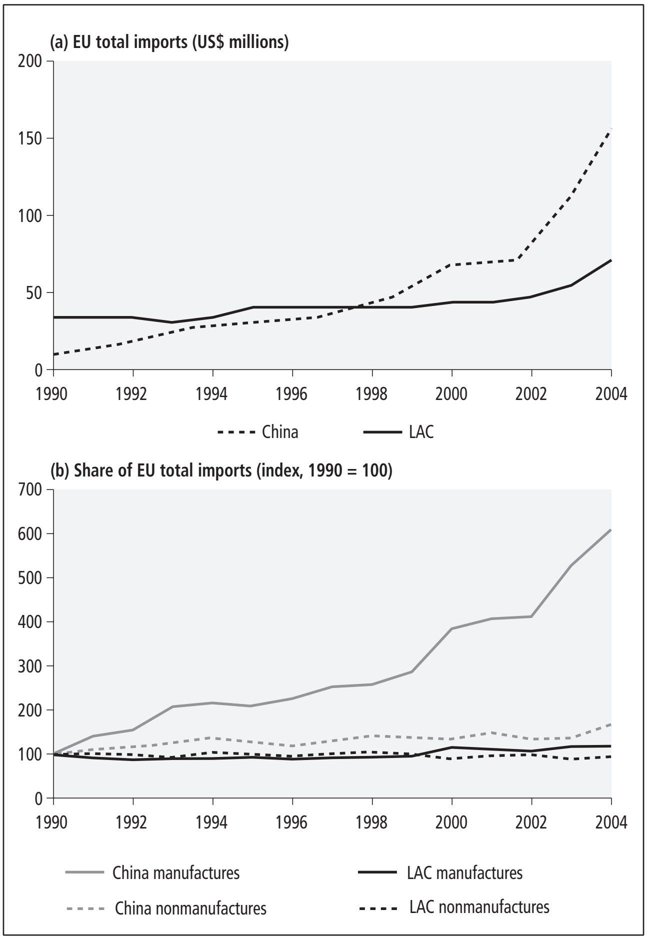
Implications for EU-LAC Economic Relations

The challenges posed by Asia to both LAC and Europe have repercussions for EU-LAC relations. In several product categories, many LAC exports to Europe compete directly with those from Asia. As an example, Figure 7 compares the penetration of the EU market by China and LAC. It is striking that the EU's total imports from China surpassed those from LAC in 1998, and by 2004 they stood at double the level from LAC (panel (a)). China's impressive performance in this regard stems from the country's capture of growing shares of the EU's import market for manufactures, an area in which it has a comparative advantage. LAC, by contrast, has retained only a stagnant share of the EU import market for nonmanufactures, especially agriculture, in which it has a comparative advantage (panel (b)). As to European penetration of LAC markets, it is likely that that Asia's growing export sophistication will affect Europe's exports to LAC and the prospect of developing biregional intra-industry trade.

In the area of investment, European companies have significant incentives to favor Asia as a target for FDI, including a vast and growing domestic market (which induces market-seeking FDI) and a large pool of efficient labor (which attracts export-oriented, efficiency-seeking FDI). The outsourcing of production and services to locations with low labor costs also poses a challenge to EU-LAC relations, particularly in light of the highly competitive wages in Asia.

Nonetheless, European firms still have strong incentives to invest in Mexico and Central America rather than in Asia because of those countries' proximity and preferential access to the U.S. market. Current trilateral trade trends, moreover, could offer some opportunities to both Europe and LAC. For instance, European mobile-handset producers based in Brazil greatly increased their imports of Chinese components in 2005, thereby helping to make Brazil a major exporter of mobile phones. Increasingly, companies in other sectors are placing parts of their production in Chinese territories in order to exploit China's low-cost production base and thus serve their clients more competitively. The result of such patterns could be growing intra-industry trade between Europe, LAC, and Asia.

Figure 7. China and LAC Participation in the EU Market, 1990–2004



Source: IDB (INT/ITD) calculations based on UN COMTRADE.

Dealing with Global Competition: Responses from LAC and the EU

LAC and the EU have adopted various measures to adapt to the Asian challenge. These have ranged from defensive measures to institutionalized mechanisms that seek to engage Asia and exploit the new opportunities that the Asian countries present to Europe and LAC.

Some efforts have been made in Europe and the Americas to stem the tide of Chinese apparel imports through contingent protection and other measures. China's market penetration in both regions, however, is unlikely to be curbed significantly by such trade policy instruments, since imports from China are relatively diversified. In Brazil, for example, and unlike the high concentration of Brazilian exports in the Chinese market, no single Chinese product accounts for more than 5 percent of the total value of China's sales. Additionally, such measures have little effect on reducing Chinese competition in international markets.

Both LAC and the EU have also pursued more institutionalized means of dealing with Asia. These have included sectoral efforts to identify new market niches and national policies to foster export capacity. The two regions, moreover, have sought to manage the rise of China through closer and more rules-based engagement with the country. The EU has a long-standing dialogue with China. Its current policy is based on the European Commission's policy paper "A Maturing Partnership: Shared Interests and Challenges in EU-China Relations," which was endorsed by the European Council in October 2003 (European Commission, 2003).

The approach involves a dialogue on a number of political, economic, and social issues in bilateral relations. In the area of trade, it highlights cooperation on the Doha Development Agenda and the monitoring of and support for China's compliance with its WTO commitments—which could be crucial for making bilateral economic relations more predictable and transparent. The cooperation is underpinned by sectoral dialogues and agreements in a variety of trade-related areas.

Several LAC countries have also sought to engage China through diplomacy and trade missions. The landmark FTA concluded between Chile and China in 2005 could become a reference for building other institutionalized channels of LAC-China trade and investment relations. Additionally, LAC and China have collaborated in pursuing common multilateral interests. Several LAC countries have worked with China in the Group of Twenty, which has forcefully advocated the liberalization of agricultural trade in the Doha Round.

Toward Common Responses: Biregional Integration to Foster Competitiveness

The measures adopted by the EU and LAC to adjust to Asia's rise and take advantage of it could be usefully complemented by a number of biregional policy instruments and private sector initiatives.

Europe and LAC, for example, could hasten the creation of biregional industrial networks through trade-related and integration agreements. Such accords could help diversify LAC and EU trade and, in particular, could create new opportunities for biregional production networks and heighten EU-LAC intra-industry trade. An advantage to pursuing such goals through FTAs is that the agreements embrace free trade in goods and services, investment, and an effort to reach world-class standards—factors that are crucial to companies seeking to sell in host markets and to mount efficient export platforms for overseas markets.

Additionally, European and LAC companies could establish joint ventures to take greater advantage of Asian demand for commodities, through investments in value-added activities and infrastructure that would help foster the volume, diversity, and cost-effectiveness of LAC sales to Asia. Finally, the two regions could pool efforts to face competition from Asia in third markets, such as the United States. One approach in this regard would consist of biregional investment in niche markets to exploit LAC's geographic proximity to North America, such as in just-in-time production of apparel and electronic goods.

Hence the economic rise of Asia, one of the crucial external challenges facing the EU and LAC, could be addressed in part through biregional cooperation in the framework of the strategic partnership that the two sides are seeking to build. By providing incentives to growth and a more efficient insertion in the international economy, such cooperation could also prove vital in enabling LAC and Europe to tackle a key internal challenge—how to deal with the asymmetries that can be attendant on integration.

Facing the Cohesion Challenge: Dealing with Asymmetries

Economic and social exclusion constrains any region's prospects of achieving sustainable growth. LAC has made some significant progress towards attaining the Millennium Development Goals, but poverty still affects more than a third of the region's population. Latin America's inequality indicators, moreover, are acknowledged to be among the highest in the world. The inequalities evident throughout the region hamper a fair distribution of the net gains that can be reaped from regional integration and from greater insertion into the global economy.

The modest level of economic and social cohesion stems from two interrelated circumstances. On the one hand there are inequalities among individuals in the region, who have dissimilar access to income, to social services such as health and education, and to productive factors such as land, credit, and technology. On the other hand there is a geographical dimension to inequality. Countries differ in size, factor endowments, the flexibility of their goods and factors markets, their quality of governance, and, in general, their level of economic development. These conditions affect their capacity to exploit the advantages of economic integration. Within countries, moreover, different regions develop at different rates, and exposure to globalization might spur wider regional disparities.

Additionally, a lack of economic and social cohesion can be a cumulative and self-generating process. Both individual and regional inequalities reinforce the exclusion of certain groups that already suffer discrimination on the basis of gender, age, ethnicity, social status, physical ability, or some other characteristic.

It is against this background that LAC has embarked on closer regional integration in recent decades, in parallel to the unfolding process of globalization (IDB, 2002). In this new context, the unleashing of market forces has come to be regarded as an important element of economic growth, equity, and poverty reduction, and regional integration is seen as having a pivotal role in those processes. Many small and relatively poor countries have seen integration initiatives as a means of addressing the problem of "smallness." They hope to harness economic integration in order to enlarge domestic markets and become suitable locations for industry and FDI, thereby expanding economic opportunities with a view to promoting income convergence and reducing poverty.

After two decades of these initiatives, however, the question arises as to whether economic integration has met expectations. Most particularly, there is mounting concern about how the gains derived from integration have been distributed among member countries and regions, and whether integration has led to convergence among unequal partners or has magnified the initial asymmetries.

Such considerations prompt a crucial question: what policies should be pursued to ensure that integration reduces regional and individual inequalities and fosters sustained growth and poverty reduction? European and LAC countries attach similar strategic importance to regional integration, and thus it is legitimate to consider whether the European experience in dealing with asymmetries and convergence is relevant for LAC. In the context of a strategic biregional alliance—in which both partners have chosen social cohesion and regional integration as priority themes for cooperation—it is also important to evaluate how EU-LAC integration initiatives could mitigate the current disparities among and within countries.

Structural Asymmetries in Europe and the Western Hemisphere

To assess the scale of the asymmetries faced by regional integration schemes in LAC and the EU, it is useful to refer to some basic indicators of size, per capita income, and social welfare for a sample of countries in both regions. For LAC, the United States and Canada are taken as the benchmark for upward convergence.

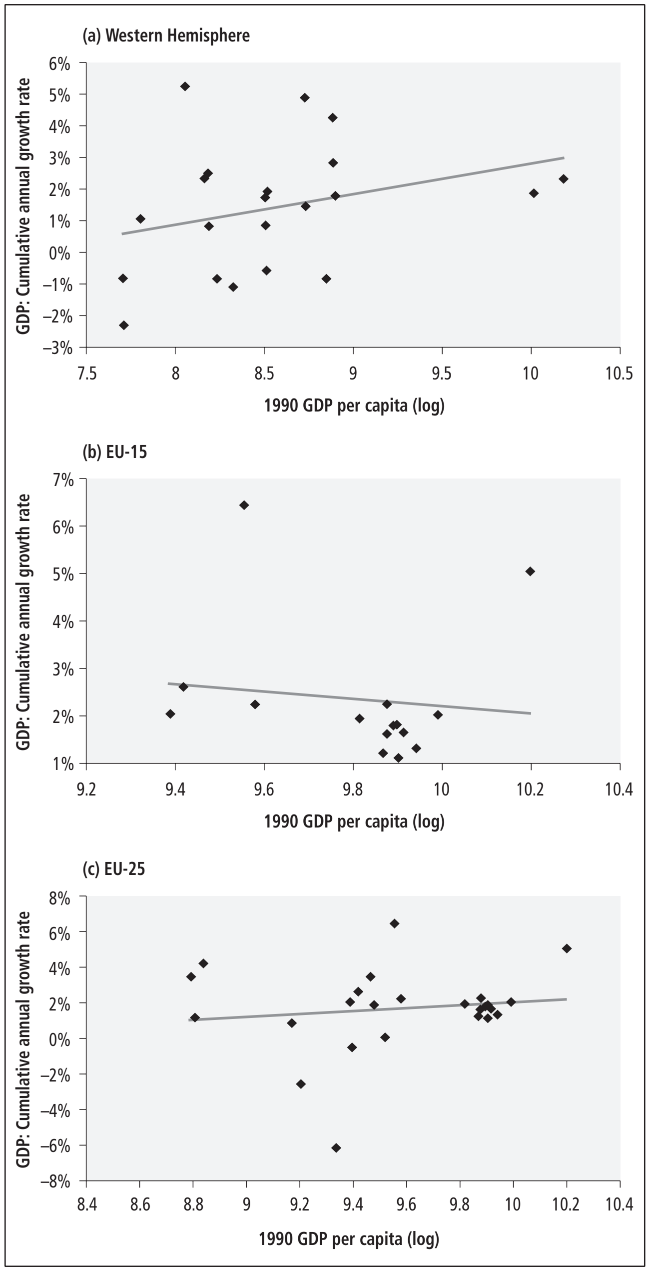
The Western Hemisphere is marked by an acute disparity in per capita income levels among countries, especially when the United States ($35,000) and Canada ($28,000) are included in the sample. In 2000, Argentina ($11,700) was the Latin American country closest to these levels, with about a third of U.S. per capita income. Argentina was followed by Chile ($10,400), Uruguay ($10,200), and Mexico ($9,700). At the other extreme are countries such as Honduras and Nicaragua, whose levels of per capita income are, respectively, 10 percent and 5 percent that of the United States. If economic size is considered (total GDP or population) the disparities between North America and the rest of the region are even wider.

Asymmetry is not only a concern in North-South integration, since South-South agreements face the same challenge. In MERCOSUR, for example, there is a more than twofold gap in per capita income between Argentina and Uruguay, on the one hand, and Paraguay on the other. As regards absolute size, Brazil's GDP is three times that of Argentina, and Argentina's is more than 10 times that of Uruguay and Paraguay.

Corresponding indicators for the EU-15 and the 10 countries that acceded to the Union in 2004 reveal that asymmetries are less significant in Europe. Discounting Luxembourg, which is an exceptional case, Ireland is the EU country with the highest per capita income ($27,200). It is interesting to note, moreover, that Ireland was a relatively poor country until recently. The poorest in the EU are Latvia and Lithuania, whose per capita income levels are, respectively, 43 and 48 percent of the EU average. Per capita income in the EU-15 countries is 2.3 times higher on average than that in the new member states. Differences in economic size among EU economies are smaller than in the Western Hemisphere. The region's largest economy (in terms of both population and GDP) is Germany, which is more than 60 times bigger than some of its eastern European neighbors.

The foregoing examples refer to structural asymmetries in recent years, but those asymmetries might have been even greater in the past. Hypothetically, therefore, and coinciding with the trend towards closer integration, there might have been a convergence of per capita income levels. A diagram plotting the correlations between growth and income for the period 1990–2000, however, reveals no evidence of convergence in the Western Hemisphere (Figure 8). If anything it suggests income divergence, since the countries that have grown most are those that initially were relatively rich.

Figure 8. Income Convergence in the Western Hemisphere and Europe, 1990–2000
(real GDP per capita, constant 1996 US$)



Source: IDB (INT/ITD) calculations based on data from Penn World Tables.
Note: Real GDP per capita is adjusted for purchasing-power parity (PPP).

In the 15-member EU, by contrast, there is a clear pattern of convergence: those countries that were initially the poorest (Greece, Ireland, Portugal, and Spain) grew faster than the richest economies. The forces of convergence do not seem to have been at work during the period in which the new member states were preparing to accede to the Union, though it can be expected that they will gradually converge with the older members following their accession.

These simple indicators show that the structural asymmetries that LAC countries confront in the context of regional integration are much greater than those faced by the EU. They also reveal that the EU integration process seems to have spurred convergence, but that this has not yet been the case in the Western Hemisphere. Finally, asymmetries between the EU-15 countries and the new members are less significant than those in the Americas.

Dealing with Asymmetries: Integration as a Tool to Further Economic and Social Cohesion

A growing body of literature on economic geography indicates that trade liberalization and regional integration have a marked effect on income convergence and spatial development. Hence a strong case can be made for public policy in this area (Baldwin et al., 2003). If markets are left to operate entirely unfettered, the result can be polarized and asymmetrical development. In LAC such an outcome is illustrated by individual countries in which the boom triggered by export plants in some areas contrasts with stagnation in others. Similarly, within subregions, the perception that the gains arising from trade integration are unevenly distributed has prompted a debate on how to address the attendant asymmetries. Regional integration, however, can also offer opportunities to adopt productive development policies that foster competitiveness in an increasingly globalized economy (Giordano, Lanzafame, and Meyer-Stamer, 2005).

The question of how to deal with asymmetries and disparities in LAC's regional integration agreements is emerging as a priority, but it is not a new issue. Tackling these matters was a prominent feature of the old regionalism in the 1960s, but the instruments adopted were intrinsically contradictory and of limited impact. The new agreements of the 1990s, by contrast, were more effective in promoting regional integration, but they neglected the asymmetry issue (Devlin and Giordano, 2004).

Today, there is a growing consensus that regional integration can provide a platform for devising national policies that seek to maximize the participation of a range of actors in the global economy. The elements of that strategy include expanded market access, clear and predictable trade rules, strong collective regional institutions, special and differentiated treatment for smaller economies, and well-funded financial programs to ease the transition to free trade—including funds to support structural convergence (Giordano, Mesquita, and Quevedo, 2004).

European responses. In Europe, it is increasingly challenging for the EU to maintain its track record in promoting cohesion, especially in light of the accession of 10 new countries in 2004, a development that widened asymmetries among the member states. The matter is particularly important because the EU's cohesion policy is one of the three pillars of the

European integration project, together with the single market and monetary union. Even in the EU-15 alone, the income of a substantial proportion of citizens is still less than 60 percent of the national median, and there are persistent inequalities in the regional distribution of employment.

Since the 1970s, EU regional policy has sought to promote economic and social cohesion among regions by means of ambitious policies financed through the Structural Funds and later the Cohesion Funds. In response to persistent inequality, however, the EU's Heads of State and Government devised a global strategy to tackle social exclusion and poverty at the European Council meeting in Lisbon in March 2000. The Lisbon Council launched what is termed the "open method of coordination," to be based on common objectives and national action plans, and called for a Commission initiative to encourage cooperation between member states in this field.

In 2004 the Commission's Third Report on Economic and Social Cohesion made proposals on the reform of the cohesion policy after 2007. With a view to achieving sustained growth and convergence, the main strategic objectives are to (i) favor the competitiveness and convergence of the most disadvantaged regions, (ii) favor regional competitiveness and employment, and (iii) promote cross-border cooperation among regions. The new cohesion policy accounts for a conspicuous 34 percent of the Community budget, or €336 billion for the period 2007–2013. Structural Fund resources for the priority regions are to be allocated mainly to projects in the areas of infrastructure (41 percent), productive environment (34 percent), and human resources (23 percent). Nonetheless, the Community cohesion budget accounts for just 0.43 percent of the Union's GDP, while national budgets account on average for 47 percent. Hence the new strategy stresses the need for collective policies in coordination with complementary national policies (European Commission, 2004).

Aware of the sensitivity of the asymmetries issue in national adjustment to trade opening, the Commission has proposed the establishment of a fund to help workers in those regions and sectors adversely affected by major changes in world trade. The proposal is for a European Globalization Adjustment Fund (EGF) with up to €500 million for retraining, job search assistance, and the promotion of entrepreneurship (European Commission, 2006).

R*eactions in* LAC. In contrast to the European experience, and despite a long-standing concern for the distributional effects of trade integration, LAC has less of a tradition of regional collective policies to tackle asymmetries. A consensus is nonetheless emerging that regional integration agreements serve as an anchor for such initiatives. One salient case is the recent creation of the MERCOSUR Structural Convergence Fund (FOCEM), which seeks to promote "social cohesion, in particular of smaller economies and less developed regions, in order to support the institutional structure and strengthening of the regional integration process" (Consejo del Mercado Común del Mercosur, 2005).

FOCEM is conceived as a progressive and redistributive mechanism. It is envisaged that FOCEM will be endowed initially with $100 million, which may be supplemented in the future with contributions from MERCOSUR member states or resources from third countries or international organizations. The contributions of the individual countries are aligned with their historical share of regional GDP: Brazil, 70 percent; Argentina, 27 percent; Uruguay, 2 percent; and Paraguay, 1 percent. Expenditure will be allocated as follows: Paraguay, 48 percent; Uruguay, 32 percent; Argentina, 10 percent; and Brazil, 10 percent. The fund's resources will be devoted to projects in the areas of structural convergence, competitiveness, and social cohesion.

The countries of the Caribbean also plan to establish a fund, in this case designed to help countries adjust to deeper integration. In November 2004 the Heads of Government of the CARICOM countries resolved to establish the Regional Development Fund (RDF) to help disadvantaged countries, regions, and sectors cope with adjustment to the Caribbean Single Market and Economy (CSME). The subregion's Ministers of Finance and Planning have agreed that in addition to member states' contributions, the regional private sector, international financial institutions, and foreign governments will be approached for contributions. In February 2006 the development fund moved closer to being realized when the Heads of Government agreed to aim for capitalization of $250 million. They also decided that—building on the initial pledges of $17 million already made by the governments of Barbados, Jamaica, and Trinidad and Tobago—all member states should make contributions such that the fund totals at least $120 million.

Bringing Together Global Competitiveness and Social Cohesion

In sum, the strategic alliance between the EU and LAC is an asset that enables them jointly to face the challenges and exploit the opportunities arising from major changes in the world economy. Indeed, a strategic biregional partnership may provide incentives to deepen integration in LAC and thereby boost economic efficiency. The latter is crucial to promoting competitiveness and redressing asymmetries, with a view to promoting social cohesion. Competitiveness and solidarity, in fact, are central goals of the kind of integration that both regions share. Reconciling those two objectives, and making them work together, will be crucial to the success of a strategy that seeks sustainable and equitable development.

Both regions are global traders with an interest in a healthy, rules-based international trading system. Hence they are strongly committed to the successful conclusion of negotiations for the Doha Development Agenda. Nonetheless, they must also prepare for a post-negotiations scenario in which preferential agreements may proliferate. Association agreements are assets in this regard. They contribute to a multipolar order and can strengthen multilateralism. Used properly, they could help deepen regional integration to the extent that they involve binding biregional commitments and that there are appropriate instruments to implement them.

In dynamic world trade conditions marked by the emergence of major new actors such as China and in which others such as India are on the horizon, it is important to move quickly and ensure a strategic positioning in the most dynamic segments of global value chains. Regional integration, coupled with a biregional partnership in a buoyant multilateral trading system, can boost efficiency and competitiveness. Association agreements that have trade as a central component, and that feature a strong link between trade and cooperation, may be functional in this respect.

Biregional integration may also be instrumental in fostering equity and social cohesion. To this end it is important to produce welfare gains through trade and to devise mechanisms that ensure that such gains are fairly distributed among people and within subnational regions. Europe has lengthy experience in this field, and LAC countries might usefully take advantage of it through biregional cooperation—as have other countries with which the EU has negotiated strategic partnerships, such as those in the Mediterranean basin and eastern Europe. Nonetheless, in view of structural, financial, and institutional constraints that are particular to LAC, the mechanisms that the region adopts should be home-grown.

Finally, it is hard to overstate the importance of domestic policies that complement regional and biregional mechanisms. Regional collective policies can be important in ensuring consistency among national efforts, in dealing with cross-border issues, and in addressing coordination problems. Sound and effective policies at the national level, however, are the most important ingredients of any strategy that seeks to achieve efficiency for the purposes of global economic competitiveness and equity. It is the attainment of those conditions that promotes social cohesion within and among countries.

Forging a Strategic Partnership: Opportunities in the Face of Common Challenges

The Vienna Summit, like its predecessors in Rio, Madrid, and Guadalajara, is a potent expression of the growing interest between the EU and LAC that has been evident during the past two decades. Since the 1990s, the two regions have established a dense network of mechanisms for dialogue and cooperation on a broad array of issues. Importantly, they have molded a form of North-South integration in which such cooperation is an integral complement to trade liberalization. This three-pillar institutional framework—involving political dialogue, cooperation, and trade—has been complemented by the provision of substantial European assistance.

It is significant that EU assistance has revealed a marked preference for supporting integration, which is a strategic objective in LAC. Indeed, the political, economic, and intellectual quest for integration in Europe and LAC is a factor that distinguishes them from other regions. As the final declarations of the previous summits stress, integration is an endeavor in which the two regions share much common ground.

Solid Foundations for the Partnership

The impulse toward integration is itself symptomatic of a set of shared values. The values have included a preference for multilateral action on the international scene and for the promotion of integration among countries. The previous summits have enumerated others, and have highlighted the role of regional and biregional integration in fostering growth, trade, democratic stability, economic progress, and social cohesion.

The summits are the culmination of an approach that embodies these values. Held as they are at the level of Heads of State and Government, they have forcefully exemplified the political will to strengthen the strategic partnership that both sides are striving to build. The summits, moreover, underline the significance of regionalism, and of a particular form of North-South integration, in international affairs.

The EU and LAC are the world's two leading regions in terms of integration. They are aware, as recent events on both sides of the Atlantic have demonstrated, that integration processes are not always linear—they can be protracted, complicated, and difficult. After the insistent momentum towards integration that characterized the 1990s, in both regions today there are indications that the impetus has waned somewhat, that citizens perceive diminishing returns from the process, and that globalization has raised concerns about whether integration can help countries adapt to a changing global environment.

Despite such developments, both the EU and LAC have chosen to base their relations to a large extent on a dialogue between integration groups. That approach not only gives biregional links a distinct nature, but also enhances cooperation within each region. A recent upturn in absolute economic flows, moreover, has served to energize the partnership further.

In short, many of the necessary elements are in place to ensure that the two regions forge a successful strategic partnership. Success will hinge in part on efforts to ensure that those elements are combined in such a way as to deliver results that keep the parties engaged in the face of emerging challenges. For LAC, the delivery of real results will be most crucial in the area of trade.

Common Challenges against the Backdrop of Globalization

The challenges are several, and neither region can avoid addressing them: securing a rules-based multilateral trading system, competing with emerging commercial powerhouses, and reducing asymmetries in order to foster equity and social cohesion. In these endeavors, Europe and LAC could usefully take steps to realize the full potential of biregional association agreements, and to ensure that appropriate domestic policies are in place to complement regional collective efforts.

Both regions are global traders with a keen interest in a healthy multilateral commercial regime. Both are committed to a successful conclusion of negotiations in the Doha Round. Moreover, both must prepare for a post-negotiations scenario in which preferential agreements may proliferate further. In dynamic world trade conditions marked by the emergence of major new actors such as China and India, it is crucial that countries and regions move quickly to secure their strategic positioning in the most dynamic segments of global value chains. Deeper integration can help in this regard.

Such integration, however, poses challenges of its own. Preserving a consensus for deeper integration entails attenuating the existing asymmetries and fostering social cohesion. For that to happen, trade has to generate tangible welfare gains, and mechanisms have to be designed to ensure that the gains are distributed fairly among individuals, as well as among and within countries.

In these areas, comprehensive association agreements that have trade as a central component—and that feature a strong link between trade and cooperation—can be valuable instruments. They can help to promote competitiveness and cohesion by strengthening regional integration. This latter point is vital: it is important to resolve the question of whether stronger integration in LAC should be viewed as a precondition, or rather an outcome, of association accords. In both cases, European support can help make intra-subregional cooperation in LAC comply more fully with the standards of deeper integration.

Biregional Cooperation for Global Competitiveness and Social Cohesion

The EU and LAC will be better placed to deal with globalization if stronger integration in each region allows them to boost efficiency in such a way that they can face world-class competition. And if the higher returns from integration are equitably distributed, they will help diminish asymmetries and nurture cohesion. In that context, and in light of the goals to which the EU and LAC have committed themselves in previous summits, a number of considerations merit special attention.

First, a strong multilateral trading system is necessary for the two regions' international projection. Their support for a successful conclusion to the Doha Round is important in preserving the principles of multilateralism as the first-best solution for global trade liberalization. A successful conclusion, moreover, will reaffirm the value and credibility of a rules-based system, thereby allowing issues such as subsidies to be addressed. It will also offer a framework for biregional integration that is consistent with—and nourishes—multilateral integration.

Second, biregional integration is an important complement to multilateralism, but efforts are needed to put trade at its center. The erosion of market share that each region has experienced in the other's market will best be reversed through concerted efforts to consolidate the recent improvement in the growth rates of commerce. Higher levels of trade, in conjunction with closer integration, can make the two regions—and particularly LAC—more prominent global players. The shared goals in this area might be served by concluding negotiations for an EU-MERCOSUR association agreement, and by launching discussions for EU–Andean Community and EU–Central America accords. In that regard a persistent area of contention in biregional integration is the question of agriculture. LAC countries' main concerns in this respect have been directed at the effects of the EU's common agricultural policy on their exports. The CAP, however, is one of the cornerstones of European integration, and its reform involves issues that transcend purely commercial matters.

Third, for LAC, the association agreements also transcend the purely commercial realm. Trade is important for the region but not as an end in itself. Its significance is that it is a source of welfare. If it is complemented by cooperation, it will better serve the purposes of development. Thus it would be beneficial to strengthen the interaction among the pillars of the association agreements. Indeed, the value of establishing a firm link between trade, cooperation, and development (similar to that which lies at the heart of EU-LAC association accords) has been acknowledged at the multilateral level—most recently during the Hong Kong ministerial conference of the WTO in December 2005 with the launching of the Aid-for-Trade initiative.

Fourth, more trade and integration will help heighten the two regions' competitiveness at the global level and thereby provide a vibrant environment for their private sectors. In this respect, the areas of mutual interest between the EU and LAC extend beyond trade to cover issues such as cooperation on science and technology, investment promotion, or private sector development. It is after all businesses, not governments, that trade and invest. Such endeavors are therefore essential for the success of a strategic partnership.

Fifth, at the regional level, more trade and integration can be conducive to social cohesion. Notwithstanding recent evidence of difficulties in this respect, some elements of Europe's cohesion policy could serve as a reference for similar processes in LAC. From the outset, one of the goals of European integration has been to promote convergence among and within the EU's member states. LAC countries might usefully take advantage of Europe's long experience in this field through biregional cooperation, whereby the EU could help the region to find its own solutions to the problem of asymmetries.

Sixth, as integration deepens and trade liberalization progresses, greater effort is required to secure public involvement in those processes. On the one hand, effective policymaking in trade and integration areas requires recommendations from the private sector on the best course to pursue. On the other, sustaining the processes demands outreach to civil society organizations and the general public, so that citizens are informed of the strategies adopted and feel involved in the decisions made. Lack of attention to these issues can spur perceptions that integration and trade initiatives are remote from ordinary people, divorced from the interests of business, and disengaged from social concerns. Such perceptions further nourish apprehensions about asymmetry and cohesion.

Finally, it is worth considering how best to exploit the catalytic role of international organizations that are active in the field of integration, and to foster synergies between their activities. Institutions such as the IDB have a comparative advantage in supporting initiatives that seek to meet the goals of the EU-LAC partnership in the areas of trade, integration, and social cohesion. In the spirit of the Paris Declaration, moreover, their activities might have greater impact if they are part of a concerted approach.

Statistical Annex

TABLE A.1

Latin America Trade Profile (US$ thousands)

	1990		1995		2000		2004		Average annual growth	
Counterpart	**Value**	**% of world**	**Value**	**% of world**	**Value**	**% of world**	**Value**	**% of world**	**2000–2004**	**1990–2004**
Exports to the world by region										
World	**116,978,246**	**100.00**	**212,993,130**	**100.00**	**337,752,386**	**100.00**	**440,848,360**	**100.00**	**6.9**	**9.9**
Latin America and the Caribbean	16,151,323	13.81	41,609,750	19.54	53,899,830	15.96	68,013,374	15.43	6.0	10.8
Canada	1,634,438	1.40	3,266,243	1.53	5,330,845	1.58	5,812,925	1.32	2.2	9.5
United States	45,823,946	39.17	98,002,912	46.01	201,228,570	59.58	216,997,952	49.22	1.9	11.7
European Union 25	29,094,559	24.87	35,082,199	16.47	38,628,457	11.44	54,208,852	12.30	8.8	4.5
East Asia	12,231,145	10.46	20,240,976	9.50	18,388,264	5.44	35,523,605	8.06	17.9	7.9
Africa	1,689,511	1.44	2,794,474	1.31	2,791,747	0.83	6,849,285	1.55	25.2	10.5
Rest of world	10,353,324	8.85	11,996,575	5.63	17,484,672	5.18	53,442,367	12.12	32.2	12.4
Memorandum items:										
France	2,630,206	2.25	3,025,311	1.42	3,847,140	1.14	4,749,609	1.08	5.4	4.3
Germany	6,102,726	5.22	6,508,923	3.06	6,645,928	1.97	9,008,178	2.04	7.9	2.8
Italy	3,561,466	3.04	4,292,262	2.02	4,855,330	1.44	6,748,149	1.53	8.6	4.7
Imports from the world by region										
World	**89,620,302**	**100.00**	**216,926,045**	**100.00**	**337,433,050**	**100.00**	**397,547,950**	**100.00**	**4.2**	**11.2**
Latin America and the Caribbean	14,820,218	16.54	39,780,438	18.34	53,197,770	15.77	70,596,887	17.76	7.3	11.8
Canada	1,708,835	1.91	4,608,145	2.12	7,281,337	2.16	8,191,314	2.06	3.0	11.8
United States	35,975,740	40.14	93,411,803	43.06	170,119,093	50.42	152,236,303	38.29	–2.7	10.9
European Union 25	18,927,578	21.12	40,502,871	18.67	47,637,774	14.12	55,275,907	13.90	3.8	8.0
East Asia	8,208,852	9.16	26,096,525	12.03	40,679,601	12.06	83,851,506	21.09	19.8	18.1
Africa	1,460,793	1.63	2,371,044	1.09	4,954,467	1.47	8,374,086	2.11	14.0	13.3
Rest of world	8,518,286	9.50	10,155,220	4.68	13,563,008	4.02	19,021,946	4.78	8.8	5.9
Memorandum items:										
France	2,435,313	2.72	4,886,218	2.25	6,091,002	1.81	6,878,785	1.73	3.1	7.7
Germany	6,528,650	7.28	12,509,934	5.77	14,058,308	4.17	16,243,421	4.09	3.7	6.7
Italy	2,392,445	2.67	7,094,973	3.27	6,950,033	2.06	7,286,772	1.83	1.2	8.3

Source: IDB (INT/ITD) calculations based on UN COMTRADE data.

Note: 1990 data include East Germany. For data consistency across time series, Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela. The EU is defined as the 25 member states. Honduras data are not available for 2004. East Asia includes ASEAN countries plus Japan, Republic of Korea, China, Hong Kong SAR, Macao SAR, and Taiwan, Province of China.

TABLE A.2

EU-25 Trade Profile: Imports from LAC by Source (US$ thousands)

	1990		1995		2000		2004		Average annual growth	
Counterpart	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**2000–2004**	**1990–2004**
World	*1,591,165,021*	*100.00*	*2,018,362,288*	*100.00*	*2,378,993,143*	*100.00*	*3,582,530,555*	*100.00*	*10.8*	*6.0*
LAC	*35,891,428*	*2.26*	*42,084,537*	*2.09*	*46,909,216*	*1.97*	*73,259,672*	*2.04*	*11.8*	*5.2*
Andean Community	**5,983,546**	**0.38**	**7,822,219**	**0.39**	**7,111,019**	**0.30**	**10,247,967**	**0.29**	**9.6**	**3.9**
Bolivia	154,777	0.01	216,004	0.01	120,138	0.01	146,825	0.00	5.1	–0.4
Colombia	1,971,980	0.12	3,046,283	0.15	2,354,828	0.10	3,711,521	0.10	12.0	4.6
Ecuador	464,494	0.03	1,260,829	0.06	1,027,038	0.04	1,729,681	0.05	13.9	9.8
Peru	1,167,606	0.07	1,448,265	0.07	1,205,833	0.05	2,122,382	0.06	15.2	4.4
Venezuela	2,224,690	0.14	1,850,839	0.09	2,403,181	0.10	2,537,558	0.07	1.4	0.9
CACM	**1,466,031**	**0.09**	**2,495,555**	**0.12**	**3,161,290**	**0.13**	**5,227,054**	**0.15**	**13.4**	**9.5**
Costa Rica	672,346	0.04	1,050,049	0.05	1,955,006	0.08	4,187,597	0.12	21.0	14.0
El Salvador	159,417	0.01	377,209	0.02	227,107	0.01	173,616	0.00	–6.5	0.6
Guatemala	211,228	0.01	488,408	0.02	436,745	0.02	320,471	0.01	–7.4	3.0
Honduras	299,440	0.02	426,441	0.02	391,410	0.02	428,648	0.01	2.3	2.6
Nicaragua	123,599	0.01	153,448	0.01	151,021	0.01	116,721	0.00	–6.2	–0.4
CARICOM	**1,716,940**	**0.11**	**1,854,884**	**0.09**	**2,171,583**	**0.09**	**3,075,737**	**0.09**	**9.1**	**4.3**
Antigua and Barbuda	14,006	0.00	11,780	0.00	79,341	0.00	175,156	0.00	21.9	19.8
Bahamas	321,360	0.02	268,805	0.01	414,601	0.02	800,066	0.02	17.9	6.7
Barbados	47,467	0.00	45,915	0.00	52,533	0.00	65,175	0.00	5.5	2.3
Belize	43,011	0.00	113,128	0.01	128,039	0.01	98,200	0.00	–6.4	6.1
Dominica	46,256	0.00	32,068	0.00	38,585	0.00	30,825	0.00	–5.5	–2.9
Grenada	14,215	0.00	9,347	0.00	14,783	0.00	12,016	0.00	–5.0	–1.2

(continued)

TABLE A.2 *(continued)*

EU-25 Trade Profile: Imports from LAC by Source (US$ thousands)

	1990		1995		2000		2004		Average annual growth	
Counterpart	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**2000–2004**	**1990–2004**
Guyana	140,141	0.01	196,217	0.01	189,160	0.01	232,705	0.01	5.3	3.7
Haiti	43,865	0.00	42,516	0.00	19,957	0.00	17,690	0.00	–3.0	–6.3
Jamaica	392,140	0.02	481,425	0.02	480,644	0.02	603,486	0.02	5.9	3.1
Montserrat	2,942	0.00	9,880	0.00	654	0.00	3,199	0.00	48.7	0.6
St. Kitts and Nevis	8,175	0.00	14,037	0.00	33,411	0.00	14,787	0.00	–18.4	4.3
St. Lucia	110,696	0.01	77,222	0.00	51,069	0.00	39,738	0.00	–6.1	–7.1
Saint Vincent and Grenadines	79,688	0.01	53,845	0.00	63,356	0.00	226,064	0.01	37.4	7.7
Suriname	238,529	0.01	189,586	0.01	151,560	0.01	213,617	0.01	9.0	–0.8
Trinidad and Tobago	214,449	0.01	309,112	0.02	453,889	0.02	543,013	0.02	4.6	6.9
MERCOSUR	**18,480,483**	**1.16**	**20,551,126**	**1.02**	**22,452,030**	**0.94**	**35,900,645**	**1.00**	**12.5**	**4.9**
Argentina	4,624,203	0.29	5,140,275	0.25	5,083,934	0.21	7,838,596	0.22	11.4	3.8
Brazil	12,741,438	0.80	14,672,687	0.73	16,794,989	0.71	26,852,044	0.75	12.4	5.5
Paraguay	564,208	0.04	235,201	0.01	162,022	0.01	397,244	0.01	25.1	–2.5
Uruguay	550,634	0.03	502,963	0.02	411,085	0.02	812,761	0.02	18.6	2.8
Other LAC	**8,244,428**	**0.52**	**9,360,753**	**0.46**	**12,013,294**	**0.50**	**18,808,269**	**0.52**	**11.9**	**6.1**
Chile	3,443,493	0.22	4,178,213	0.21	4,577,376	0.19	8,621,218	0.24	17.1	6.8
Dominican Republic	189,272	0.01	342,115	0.02	367,371	0.02	575,637	0.02	11.9	8.3
Mexico	3,869,782	0.24	4,044,663	0.20	6,627,415	0.28	8,856,065	0.25	7.5	6.1
Panama	741,881	0.05	795,763	0.04	441,132	0.02	755,350	0.02	14.4	0.1

Source: IDB (INT/ITD) calculations based on UN COMTRADE data.

Note: Data for some Eastern European countries are not available prior to 1995.

TABLE A.3

EU-25 Trade Profile: Exports to LAC by Destination (US$ thousands)

	1990		1995		2000		2004		Average annual growth	
Counterpart	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**2000–2004**	**1990–2004**
World	*1,536,561,159*	*100.00*	*2,092,967,406*	*100.00*	*2,318,524,285*	*100.00*	*3,600,447,213*	*100.00*	*11.6*	*6.3*
LAC	*22,098,661*	*1.44*	*43,338,434*	*2.07*	*50,437,848*	*2.18*	*60,832,257*	*1.69*	*4.8*	*7.5*
Andean Community	**4,251,595**	**0.28**	**7,151,033**	**0.34**	**6,265,135**	**0.27**	**7,284,324**	**0.20**	**3.8**	**3.9**
Bolivia	119,900	0.01	248,232	0.01	172,363	0.01	165,417	0.00	–1.0	2.3
Colombia	1,128,588	0.07	2,397,598	0.11	1,718,542	0.07	2,346,604	0.07	8.1	5.4
Ecuador	416,401	0.03	817,728	0.04	462,037	0.02	882,698	0.02	17.6	5.5
Peru	483,370	0.03	1,272,531	0.06	928,714	0.04	1,121,298	0.03	4.8	6.2
Venezuela	2,103,336	0.14	2,414,944	0.12	2,983,479	0.13	2,768,307	0.08	–1.9	2.0
CACM	**874,563**	**0.06**	**1,464,705**	**0.07**	**1,964,496**	**0.08**	**2,698,570**	**0.07**	**8.3**	**8.4**
Costa Rica	232,439	0.02	462,650	0.02	606,150	0.03	925,343	0.03	11.2	10.4
El Salvador	147,108	0.01	277,600	0.01	629,141	0.03	506,055	0.01	–5.3	9.2
Guatemala	239,004	0.02	392,167	0.02	444,105	0.02	664,401	0.02	10.6	7.6
Honduras	127,163	0.01	228,313	0.01	179,731	0.01	475,167	0.01	27.5	9.9
Nicaragua	128,849	0.01	103,975	0.00	105,369	0.00	127,604	0.00	4.9	–0.1
CARICOM	**1,507,218**	**0.10**	**2,136,590**	**0.10**	**2,789,385**	**0.12**	**3,753,927**	**0.10**	**7.7**	**6.7**
Antigua and Barbuda	58,151	0.00	107,312	0.01	528,940	0.02	154,904	0.00	–26.4	7.2
Bahamas	424,750	0.03	621,691	0.03	887,602	0.04	785,277	0.02	–3.0	4.5
Barbados	116,647	0.01	105,801	0.01	150,487	0.01	171,600	0.00	3.3	2.8
Belize	41,880	0.00	42,968	0.00	42,568	0.00	49,275	0.00	3.7	1.2
Dominica	30,305	0.00	40,420	0.00	27,480	0.00	51,255	0.00	16.9	3.8
Grenada	20,003	0.00	18,160	0.00	27,520	0.00	30,225	0.00	2.4	3.0

(continued)

TABLE A.3 *(continued)*

EU-25 Trade Profile: Exports to LAC by Destination (US$ thousands)

	1990		1995		2000		2004		Average annual growth	
Counterpart	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**Value**	**% world**	**2000–2004**	**1990–2004**
Guyana	58,618	0.00	91,496	0.00	66,669	0.00	69,770	0.00	1.1	1.3
Haiti	80,962	0.01	117,885	0.01	97,113	0.00	88,777	0.00	–2.2	0.7
Jamaica	230,630	0.02	279,506	0.01	309,146	0.01	294,477	0.01	–1.2	1.8
Montserrat	46,076	0.00	21,586	0.00	4,126	0.00	7,425	0.00	15.8	–12.2
St. Kitts and Nevis	17,070	0.00	19,359	0.00	22,264	0.00	34,223	0.00	11.3	5.1
St. Lucia	46,345	0.00	125,711	0.01	51,283	0.00	74,851	0.00	9.9	3.5
Saint Vincent and Grenadines	38,222	0.00	101,365	0.00	85,816	0.00	183,477	0.01	20.9	11.9
Suriname	118,335	0.01	114,549	0.01	110,994	0.00	206,098	0.01	16.7	4.0
Trinidad and Tobago	179,224	0.01	328,781	0.02	377,377	0.02	1,552,293	0.04	42.4	16.7
MERCOSUR	**7,431,118**	**0.48**	**22,053,791**	**1.05**	**21,284,362**	**0.92**	**22,289,857**	**0.62**	**1.2**	**8.2**
Argentina	1,683,594	0.11	5,997,721	0.29	5,587,060	0.24	4,377,184	0.12	–5.9	7.1
Brazil	5,200,795	0.34	14,826,426	0.71	14,643,090	0.63	17,210,459	0.48	4.1	8.9
Paraguay	229,385	0.01	371,877	0.02	256,358	0.01	191,809	0.01	–7.0	–1.3
Uruguay	317,344	0.02	857,768	0.04	797,855	0.03	510,405	0.01	–10.6	3.5
Other LAC	**8,034,167**	**0.52**	**10,532,314**	**0.50**	**18,134,471**	**0.78**	**24,805,579**	**0.69**	**8.1**	**8.4**
Chile	1,710,093	0.11	3,135,488	0.15	3,162,036	0.14	3,818,647	0.11	4.8	5.9
Dominican Republic	285,808	0.02	445,700	0.02	1,073,682	0.05	855,366	0.02	–5.5	8.1
Mexico	5,299,706	0.34	5,793,987	0.28	12,392,776	0.53	18,032,809	0.50	9.8	9.1
Panama	738,560	0.05	1,157,139	0.06	1,505,976	0.06	2,098,757	0.06	8.7	7.7

Source: IDB (INT/ITD) calculations based on UN COMTRADE data.

Note: Data for some Eastern European countries are not available prior to 1995.

TABLE A.4

EU-25 Trade Profile: Top 10 LAC Sources of Imports and Top 5 Products Imported from Each (US$ thousands, yearly average, 2000–2004)

Partner rank	Partner name	Product rank	Product description	Value	% of country total
1	Brazil		Total trade	19,758,952	100.0
		1	Oil seeds and oleaginous fruit	2,119,823	10.7
		2	Feeding stuff for animals, not incl. unmil. cereals	2,076,987	10.5
		3	Metalliferous ores and metal scrap	1,910,248	9.7
		4	Vegetables and fruit	1,420,050	7.2
		5	Meat and meat preparations	1,187,199	6.0
2	Mexico		Total trade	7,227,091	100.0
		1	Petroleum, petroleum products and related materials	1,546,495	21.4
		2	Office machines and automatic data processing equip.	855,368	11.8
		3	Road vehicles (incl. air cushion vehicles)	780,732	10.8
		4	Electrical machinery, apparatus and appliances n.e.s.	657,309	9.1
		5	Telecommunications and sound recording apparatus	478,576	6.6
3	Argentina		Total trade	6,339,158	100.0
		1	Feeding stuff for animals, not incl. unmil. cereals	2,122,661	33.5
		2	Vegetables and fruit	681,305	10.7
		3	Fish, crustaceans, molluscs, preparations thereof	582,729	9.2
		4	Meat and meat preparations	400,465	6.3
		5	Oil seeds and oleaginous fruit	332,058	5.2
4	Chile		Total trade	5,442,535	100.0
		1	Non-ferrous metals	2,255,585	41.4
		2	Vegetables and fruit	661,469	12.2
		3	Metalliferous ores and metal scrap	650,330	11.9
		4	Beverages	385,572	7.1
		5	Pulp and waste paper	372,289	6.8
5	Colombia		Total trade	2,722,512	100.0
		1	Coal, coke and briquettes	931,426	34.2
		2	Vegetables and fruit	579,596	21.3
		3	Coffee, tea, cocoa, spices, manufactures thereof	444,261	16.3
		4	Iron and steel	215,100	7.9
		5	Fish, crustaceans, molluscs, preparations thereof	126,894	4.7
6	Costa Rica		Total trade	2,550,429	100.0
		1	Electrical machinery, apparatus and appliances n.e.s.	1,065,103	41.8
		2	Vegetables and fruit	950,438	37.3
		3	Office machines and automatic data processing equip.	211,763	8.3
		4	Crude animal and vegetable materials, n.e.s.	108,947	4.3
		5	Coffee, tea, cocoa, spices, manufactures thereof	91,319	3.6
7	Venezuela		Total trade	2,414,972	100.0
		1	Petroleum, petroleum products and related materials	1,298,104	53.8
		2	Iron and steel	205,826	8.5
		3	Coal, coke and briquettes	152,443	6.3
		4	Metalliferous ores and metal scrap	141,346	5.9
		5	Crude fertilizers and crude materials (excl. coal)	118,867	4.9

(continued)

TABLE A.4 *(continued)*

EU-25 Trade Profile: Top 10 LAC Sources of Imports and Top 5 Products Imported from Each (US$ thousands, yearly average, 2000–2004)

Partner rank	Partner name	Product rank	Product description	Value	% of country total
8	Peru		Total trade	1,497,260	100.0
		1	Non-ferrous metals	341,619	22.8
		2	Metalliferous ores and metal scrap	242,179	16.2
		3	Vegetables and fruit	213,599	14.3
		4	Feeding stuff for animals, not incl. unmil. cereals	201,607	13.5
		5	Coffee, tea, cocoa, spices, manufactures thereof	158,649	10.6
9	Ecuador		Total trade	1,328,299	100.0
		1	Vegetables and fruit	798,600	60.1
		2	Fish, crustaceans, molluscs, preparations thereof	274,676	20.7
		3	Coffee, tea, cocoa, spices, manufactures thereof	82,930	6.2
		4	Crude animal and vegetable materials n.e.s.	80,059	6.0
		5	Misc. edible products and preparations	14,065	1.1
10	Panama		Total trade	633,228	100.0
		1	Vegetables and fruit	344,031	54.3
		2	Other transport equipment	211,982	33.5
		3	Fish, crustaceans, molluscs, preparations thereof	26,901	4.2
		4	Leather, leather manuf. n.e.s. and dressed furskins	9,901	1.6
		5	Miscellaneous manufactured articles n.e.s.	4,145	0.7

Source: IDB (INT/ITD) calculations based on UN COMTRADE data.

TABLE A.5

EU-25 Trade Profile: Top 10 LAC Destinations of Exports and Top 5 Products Exported to Each (US$ thousands, yearly average, 2000–2004)

Partner rank	Partner name	Product rank	Product description	Value	% of country total
1	Brazil		Total trade	15,079,227	100.0
		1	Road vehicles (incl. air cushion vehicles)	1,490,823	9.9
		2	General industrial machinery and equipment, and parts	1,270,797	8.4
		3	Machinery specialized for particular industries	1,238,256	8.2
		4	Electrical machinery, apparatus and appliances n.e.s.	1,086,266	7.2
		5	Other transport equipment	965,548	6.4
2	Mexico		Total trade	14,780,232	100.0
		1	Road vehicles (incl. air cushion vehicles)	2,176,335	14.7
		2	Machinery specialized for particular industries	1,246,324	8.4
		3	General industrial machinery and equipment, and parts	1,169,980	7.9
		4	Electrical machinery, apparatus and appliances n.e.s.	921,654	6.2
		5	Telecommunications and sound recording apparatus	787,308	5.3
3	Argentina		Total trade	3,868,670	100.0
		1	Road vehicles (incl. air cushion vehicles)	531,817	13.7
		2	General industrial machinery and equipment, and parts	307,950	8.0
		3	Medicinal and pharmaceutical products	288,422	7.5
		4	Machinery specialized for particular industries	267,616	6.9
		5	Electrical machinery, apparatus and appliances n.e.s.	240,130	6.2
4	Chile		Total trade	3,290,756	100.0
		1	Other transport equipment	338,741	10.3
		2	General industrial machinery and equipment, and parts	335,386	10.2
		3	Machinery specialized for particular industries	311,604	9.5
		4	Road vehicles (incl. air cushion vehicles)	261,047	7.9
		5	Electrical machinery, apparatus and appliances n.e.s.	181,559	5.5
5	Venezuela		Total trade	2,766,980	100.0
		1	General industrial machinery and equipment, and parts	271,301	9.8
		2	Machinery specialized for particular industries	169,218	6.1
		3	Medicinal and pharmaceutical products	166,693	6.0
		4	Road vehicles (incl. air cushion vehicles)	152,969	5.5
		5	Electrical machinery, apparatus and appliances n.e.s.	152,828	5.5
6	Colombia		Total trade	1,984,011	100.0
		1	Machinery specialized for particular industries	183,578	9.3
		2	Medicinal and pharmaceutical products	165,352	8.3
		3	General industrial machinery and equipment and parts	139,433	7.0
		4	Telecommunications and sound recording apparatus	112,386	5.7
		5	Organic chemicals	104,261	5.3
7	Panama		Total trade	1,592,090	100.0
		1	Other transport equipment	713,859	44.8
		2	Miscellaneous manufactured articles, n.e.s.	136,032	8.5
		3	Medicinal and pharmaceutical products	130,316	8.2
		4	Essential oils and perfume mat.; toilet-cleansing mat.	91,437	5.7
		5	Beverages	57,330	3.6

(continued)

TABLE A.5 *(continued)*

EU-25 Trade Profile: Top 10 LAC Destinations of Exports and Top 5 Products Exported to Each (US$ thousands, yearly average, 2000–2004)

Partner rank	Partner name	Product rank	Product description	Value	% of country total
8	Bahamas		Total trade	976,972	100.0
		1	Other transport equipment	801,405	82.0
		2	Petroleum, petroleum products and related materials	40,124	4.1
		3	Power generating machinery and equipment	13,943	1.4
		4	Essential oils and perfume mat.; toilet-cleansing mat.	10,363	1.1
		5	Miscellaneous manufactured articles n.e.s.	9,881	1.0
9	Peru		Total trade	953,394	100.0
		1	Machinery specialized for particular industries	123,875	13.0
		2	General industrial machinery and equipment, and parts	87,679	9.2
		3	Telecommunications and sound recording apparatus	58,563	6.1
		4	Electrical machinery, apparatus and appliances n.e.s.	56,236	5.9
		5	Paper, paperboard, artic. of paper, paper-pulp/board	46,665	4.9
10	Dominican Republic		Total trade	943,007	100.0
		1	Road vehicles (incl. air cushion vehicles)	95,788	10.2
		2	Dairy products and birds' eggs	68,742	7.3
		3	Power generating machinery and equipment	64,072	6.8
		4	General industrial machinery and equipment, and parts	54,647	5.8
		5	Machinery specialized for particular industries	49,678	5.3

Source: IDB (INT/ITD) calculations based on UN COMTRADE data.

TABLE A.6

EU-15 Foreign Direct Investment in Latin America, 2003–2004 (€ millions)

	Latin America[a]	Mexico	Argentina	Brazil	Chile	Colombia	Venezuela
(a) Net outflows, 2004							
EU-15, of which	11,142	7,877	–1,714	2,570	952	554	562
Germany	526	345	–537	757	–38	–11	29
Spain	7,900	6,181	–1,024	1,162	1,020	266	205
France	–322	–3	–54	209	–167	–1	–301
Italy	184	10	11	144	3	1	0
Netherlands	138	518	–106	–602	–59	na	389
Portugal	212	–2	4	188	na	na	1
U.K.	1,174	152	259	–1	280	383	208
Other[b]	1,330	676	–267	713	–87	–84	31
Memorandum items:							
Switzerland	130	–72	–38	–291	–18	–8	–58
U.S.	7,453	5,971	747	1,449	695	–10	–1,096
(b) Stock, end-year 2003							
EU-15, of which	130,113	27,431	23,193	47,997	12,239	6,503	4,422
Germany	9,881	3,562	804	3,554	430	418	538
France	10,734	1,680	1,695	4,941	513	159	1,142
Italy	5,682	317	1,721	2,826	105	49	186
Netherlands	11,399	3,814	1,081	4,807	646	241	–150
Portugal	2,827	2	42	2,684	na	na	2
U.K.	13,191	1,684	2,125	3,022	2,558	3,468	–237
Other[b]	76,399	16,372	15,725	26,163	7,987	2,168	2,941
Memorandum items:							
Switzerland	10,282	2,462	881	2,476	372	514	545
U.S.	108,302	46,770	8,668	25,131	7,298	2,340	7,220

Source: IDB (SOE) calculations on the basis of Eurostat and Bureau of Economic Analysis, U.S. Department of Commerce.

Note: Data on Spanish assets in Latin America are not separately available for display in panel (b); it can be assumed that they account for a significant part of "Other." na: not available.

[a] Eurostat Balance-of-Payments (BOP) Economic Zone of Latin America includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, and others.

[b] "Other" has been computed as the difference between the estimated European Union aggregate and the sum of the selected declaring countries.

TABLE A.7

Official Development Assistance to LAC, by Donor, 1994–2004 (net disbursements, US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
All donors, total	4,952	5,652	5,473	4,486	4,484	4,737	3,797	5,189	4,589	5,349	5,589
United States	1,043	781	355	541	493	610	599	1,087	1,055	1,603	1,247
Japan	826	1,132	980	703	533	798	783	734	587	453	302
Canada	116	111	110	120	106	116	87	103	113	136	166
Multilateral	997	1,451	1,556	1,276	1,488	1,586	939	1,344	1,085	1,303	1,457
EU total	2,186	2,564	2,794	2,109	2,239	1,900	1,536	2,251	1,883	2,107	2,735
EC	377	563	546	449	536	425	300	500	295	432	509
EU members, total	1,809	2,001	2,248	1,660	1,703	1,475	1,236	1,751	1,588	1,675	2,226
Austria	30	32	29	21	26	27	18	80	15	18	21
Belgium	47	101	98	55	64	51	41	36	52	57	77
Denmark	33	42	66	62	72	68	69	67	83	72	70
Finland	7	12	7	9	9	13	10	11	14	18	21
France	200	255	235	165	156	150	97	99	153	174	263
Germany	431	582	824	445	427	360	310	307	320	430	611
Greece	0	0	0	0	1	0	0	0	0	0	1
Ireland	1	2	3	3	3	5	6	6	9	11	14
Italy	260	73	103	31	120	–1	–14	–20	13	39	68
Luxembourg	8	7	9	10	14	21	17	14	16	22	20
Netherlands	249	340	342	298	295	140	130	254	211	169	254
Portugal	0	1	1	0	1	1	1	2	2	0	1
Spain	353	322	329	210	275	263	231	641	354	436	561
Sweden	98	109	113	91	70	117	134	112	101	111	151
United Kingdom	92	123	88	260	171	260	186	144	247	117	94

Source: OECD Development Assistance Committee Database.

TABLE A.8

Official Development Assistance from the European Commission and EU-15 Member States, by Recipient, 1994–2004 (net disbursements, US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total	2,186	2,564	2,794	2,109	2,239	1,900	1,536	2,251	1,883	2,107	2,735
Antigua and Barbuda	4	1	2	2	3	1	4	3	5	1	1
Argentina	129	94	83	46	32	21	17	123	40	78	71
Bahamas	0	2	–1	2	22	10	0	0	–4	–2	–2
Barbados	3	1	6	6	18	0	2	–2	3	20	28
Belize	21	8	7	6	7	45	9	14	14	7	1
Bolivia	207	330	396	231	287	252	201	355	308	315	369
Brazil	132	129	155	140	133	130	120	183	121	153	154
Chile	138	136	138	81	69	47	42	41	48	63	69
Colombia	84	109	121	118	76	85	66	89	111	105	118
Costa Rica	56	51	49	34	49	34	42	37	27	55	30
Dominica	12	15	36	8	15	2	3	6	11	1	0
Dominican Republic	34	53	47	56	80	125	45	42	99	55	87
Ecuador	115	110	146	101	103	89	65	66	103	94	86
El Salvador	87	99	106	84	89	79	78	127	137	101	98
Grenada	16	6	3	3	3	2	5	1	1	1	4
Guatemala	64	90	108	132	127	129	112	96	114	111	125
Guyana	21	20	26	171	45	25	45	29	20	12	52
Haiti	40	180	111	82	173	64	37	45	47	43	104
Honduras	85	113	64	83	114	178	154	130	120	144	220
Jamaica	56	56	48	74	18	0	39	42	22	4	61
Mexico	222	78	40	44	54	42	2	28	16	5	30
Montserrat	12	9	14	43	66	40	31	33	45	37	45
Nicaragua	287	388	659	170	221	209	196	557	200	444	777
Panama	10	19	19	17	30	28	20	15	13	13	11
Paraguay	14	36	20	40	36	31	16	23	21	26	–5
Peru	173	180	174	198	248	114	96	108	196	144	170
St. Kitts and Nevis	4	1	2	2	2	0	1	4	1	0	0
St. Lucia	17	36	30	18	–1	10	1	14	8	7	–26
St. Vincent and Grenadines	2	41	19	1	18	8	2	4	0	5	5
Suriname	53	70	105	73	49	32	21	19	10	6	18
Trinidad and Tobago	16	20	12	30	12	23	–5	–9	–14	–7	–7
Uruguay	57	52	26	18	18	15	11	8	6	10	17
Venezuela	16	34	24	–5	24	30	57	24	34	57	25

Source: OECD Development Assistance Committee Database.

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