EU Trade Relations with Latin America

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Abstract

Still very divided, but taking advantage of the gradual return to democracy, Latin American governments are trying to come together to deal with globalisation. The Southern Common Market (Mercosur) appears to be the most promising of all these sub-regional groupings, as it is banking on a customs union and political cooperation inspired by the European model. The European Union offered its support and an economic and political partnership. George W. Bush has revived the Free Trade Area of the Americas (FTAA), but the US Congress remains divided on the subject, notably because of the breakthrough made by Mexico through NAFTA. Finally, the new round of the World Trade Organization (WTO), launched in Doha, could blur the outcome. In any case, the rivalry between the United States and the European Union will be at the forefront for the next few years.

Latin America and the Caribbean have a total population of about 4801 million people with a GDP of about $1.5 trillion: the European Union (EU), with 15 members, has 380 million inhabitants and a GDP of $7,500 billion. With the planned enlargement to the east, it will reach 480 million inhabitants by 2010. Faced with this increasingly structured and integrated Union - even if the final form remains to be defined - Latin America remains divided and heterogeneous. It has 78 million people living below the poverty line. The borders of its states are a legacy of the colonial past. Wars of independence, coups d'état, dictatorships, then the gradual return to democracy have shaped nationalisms and rivalries. The recent border dispute between Peru and Ecuador is the latest example. Indigenous Indian populations are hardly assimilated and live mostly in poverty. The Iberian languages and the Catholic religion are precious cement for all these peoples.

The economies of these countries have vast natural resources, a formidable reservoir of agricultural production, large pockets of underemployment, but also a competitive industrialisation deficit. Successive governments have realised that they must act together if they want to keep pace with the internationalisation of the global economy. The World Trade Organization (WTO) provides an effective forum for advocating for trade liberalisation and sustainable development. However, they focus primarily on very diversified sub-regional groupings, which may take the form of a customs union in the long term, such as the Southern Common Market (Mercosur), integration into North American Free Trade Agreement (NAFTA) for Mexico and perhaps soon for Chile, free trade zones for the Andean Group countries and the Central American Union or the Caribbean (CARICOM).

The European Union represents for these countries a fascinating experience of regional cooperation, progressive integration and a single currency, accompanied by respect for the national sovereignty, identities, cultures and traditions of its member states. It is therefore not surprising that sub-regional groupings in Latin America are drawing on the European example and are trying to forge strong links with the EU, which offers them a genuine economic, cultural and political partnership and not just a free trade area compatible with WTO rules.

President George Bush Senior launched the idea of a free trade zone from Alaska to Tierra del Fuego. Bill Clinton had taken up the idea after the summit of heads of state in Miami, then he was discouraged by financial crises, political instability in Latin America and attempts at sub-regional groupings. George W. Bush has taken the initiative of this Free Trade Area of the Americas (FTAA) through a series of bilateral agreements between the United States and the Latin American countries. Chile has already accepted the project, this extension of NAFTA integrating Mexico, and Argentina, now bankrupt, was very tempted. Paradoxically, the United States and the EU have embarked on both a new round of multilateral negotiations at the WTO and in seeking partnerships with Latin American countries, individually or in sub-regional groups, the most promising is certainly Mercosur.

With some 100 million inhabitants, Mexico is, after Brazil, the second largest power in Latin America. With $4,500 in GDP per capita and $170 billion in debt, or 35% of GDP - it has gradually become an emerging country whose economy is increasingly tied to the American and Canadian economies under NAFTA, effective since January 1, 1994, with the support of the Clinton Administration.

The distribution of employment between the different sectors is as follows:

- agriculture: 23%, 6% of GDP;

- industry: 23%, 26% of GDP;

- services: 54%, 68% of GDP.

In its desire to accelerate the shift from a centralised, but counterproductive, state-led model of development to an open, foreign-oriented, private business-driven model of economy, the Mexican government has multiplied initiatives: participation in GATT in 1986, co-founding of the European Bank for Reconstruction and Development, joining the Standing Committee on Economic Cooperation for Asia and the Pacific (APEC), signing free trade agreements with Central American countries (Venezuela, Chile, Bolivia, Colombia) and with member countries of the Latin American Integration Association), participation in the Rio Group has established permanent consultation mechanisms between 19 Latin American countries, joining the Organization for Economic Co-operation and Development (OECD) in 1994.

The two decisive stages were, of course, entry into NAFTA in 1994 and, in counterbalance, the signing on 8 December 1997, in Brussels, of a cooperation agreement with the European Union, entered into force on 1 October 2000. This openness to the economies of developed countries and the deregulation that accompanied it did not go smoothly. In 1994, the financial crisis shook the country: devaluation of 15% of the peso, followed by a depreciation of nearly 60% in a few days; a new austerity plan with higher taxes, electricity and gas prices; a severe recession in 1995 with a 6.2% drop in GDP. Mexico owed its salvation only to external intervention: President Clinton mobilized the IMF, the World Bank and the developed countries to provide massive aid of $50 billion, thus succeeding in curbing the financial crisis.

After many uprisings and revolutions, the Institutional Revolutionary Party (PRI) ruled the country alone between 1924 and 2000. That year, on 2 July, Vicente Fox, leader of the National Action Party, was elected president. He faces all kinds of challenges. The population is growing at a rate of 1.6% per year, and unemployment, incalculable in non-urban areas, is very high. 35% of the population is under 15, 46% of Mexicans live below the poverty line and 20% in poverty. As a result, some 300,000 Mexicans attempt each year to cross the border with the United States. The new government will have to improve education (10% of the population is illiterate), lower the level of pollution - unbearable in Mexico City - and fight monopolies, corruption, drugs, fraud and crime.

Its best asset is still NAFTA, the big free trade zone with its two big industrialised neighbours tothe North: the United States and Canada. In total, more than 400 million consumer but the realisation of this area is far from complete, particularly in the field of services and the movement of people. Since 1994, Mexico has benefited greatly from NAFTA: it has become the 13th largest economy in the world, the 8th largest exporter (3% of the world total) and the 4th largest oil producer. The United States now accounts for 83% of Mexican exports and Canada 5.2%. As a result, Europe has largely lost this market, and Spain, for example, absorbs only 1% of Mexican exports. But President Fox wants to go even further: he calls for the free movement of people and services (Mexican trucks still cannot penetrate more than 30 km inside US territory) and the creation of a monetary union. If we can imagine the US dollar as the single currency for the entire North American continent, the reaction of the Central Bank of Canada was quick: it felt that a floating exchange rate system, allowing a more flexible response to external shocks such as the oil crises or the recent crises in Asia, was better for Canada.

Mexico quickly realised that it could be dangerous for its sovereignty to depend too much on the United States. The loss of half of its territory in the mid-nineteenth century (Texas, California, Arizona and New Mexico) probably continues to fuel some aggression against gringos. The offer of wide-ranging cooperation by the European Union since 1991 has been seized. It has not been easy, especially within the EU, to develop the scope of the future agreement. It came into effect on October 1, 2000 and will establish a six-year free trade area for goods and services. Despite the success of NAFTA, Europe has maintained some strong positions: it exports to Mexico in 1999 were worth 10.1 billion euros and imports only 4.4 billion, a positive balance of 5.7%. Under the agreement, the Union will have to fully liberalise imports of industrial products by 2003, and Mexico in 2007. Mexico will also have to provide Europeans with access to government services and purchases equivalent to that accorded to its US and Canadian partners in NAFTA.

During this six-year period (2001-2007), the Union will provide assistance of 56 million euros for cooperation in the institutional areas, development of law of the State, science, technology , education and culture. Common institutions have been created: a Joint Council at ministerial level, a Joint Committee at the administrative level, and various specialised committees. In the framework of the political dialogue, the ministers discussed together the reform of the United Nations, the peacekeeping operations and the situation in Latin America.

Inspired by the European example, four countries created a customs union in 1991: Brazil, Argentina, Uruguay and Paraguay; a giant (GDP of $743 billion), a medium (GDP of $282 billion) and two small (GDP of 8 and 20 billion dollars), with very different levels of development. In total, this area represents a GDP of $1 trillion for a population of 210 million. Mercosur accounts for 76% of South America's GDP, 67% of its industrial output and 62% of its population. Their common market is expected to be completed in 2006, barring any obstacles, such as the current Argentine economic and financial crisis. Mercosur is the third largest trading block in the world after the EU and NAFTA. Europe was naturally interested from the beginning in these emulators of European integration and regional supranationalism.

This attention is certainly not entirely disinterested, since the Union is Mercosur's main trading partner (36% of its exports and 32% of its imports), ahead of the United States (27% of its imports) and Japan (7%). An interregional cooperation agreement was signed at the end of 1995, but it will take four years of long negotiations - largely internal on both sides - to officially launch on 28 June 1999, in Rio de Janeiro, the real negotiation for free trade agreement between two customs unions: the ultimate goal was set to 2005, before or simultaneously with the completion of the FTAA The US Administration is working hard to achieve the FTAA during President Bush's tenure. To avoid the domination of the big northern neighbour, Mercosur member countries want to deepen their customs union and political cooperation and find a counterweight to the United States by joining forces with the Union.

However, the two customs unions are very dissimilar: 380 million inhabitants in the Union and a GDP of 8000 billion euros, against 210 million inhabitants for Mercosur and a GDP of 1000 billion euros . And yet, Brazil's GDP is almost equivalent to that of China and twice that of India. But the difference in development is even more apparent with GDP per capita: 5,000 euros for Mercosur, against 20,000 for the Union. The Mercosur institutions are an embryo of a supranational system: a Council of Ministers, a Committee of Ambassadors, a Trade Commission, Technical Committees, a rotation of the Presidency every six months, a joint secretariat, an Economic and Social Committee, and finally a joint mini-parliament composed of 16 members from each of the four national parliaments: this is a bit like the European institutions, but without experience, the *acquis communitaire* and, above all, majority voting, even qualified: as any Mercosur decision is taken by intergovernmental consensus.

Mercosur's common external tariff will not be finalised until 2006. The industrial tariffs are 29.4% on average in Brazil and 30.6% in Argentina, and the agricultural tariffs are respectively 35.3% and 32.8%. %. For the Union, they are 4.1% in industry and 19.5% in agriculture. In addition, non-tariff barriers are much higher in Mercosur. Argentina, Uruguay and Brazil want agricultural concessions from Europe in exchange for opening industrially. The negotiation between the two 'unions' is therefore asymmetrical in its commercial stakes and arduous in its development.

The agricultural question is crucial for Europe, which must at the same time face enlargement to the east towards countries with a high agricultural potential (Poland, Hungary, etc.), under pressure from major agricultural producers and exporters (the United States and the Cairns Group), the new round of negotiations at the WTO (commitments made at the end of the Uruguay Round and in Doha), the reform of the Common Agricultural Policy (less guaranteed producer prices and more subsidies for disadvantaged farmers) and, lastly, the development of Community budgets after 2006 (an exercise that could not be more difficult if we want to safeguard the principle of solidarity between rich regions and poor regions after the entry of new Member States 4 to 5 times poorer than the current average of the Fifteen).

The stakes of this inter-regional negotiation are absolutely clear and important for industry - the major European groups have already established subsidiaries in Brazil or Argentina - and for services, in particular transport, banking, insurance, telecommunications and energy. To be successful, the negotiators involved will have to make trade-offs in agriculture, which is essential for Mercosur and for the WTO (Article XXIV of the GATT). The agreement should include, in essence, all trade between the parties. The key to success will lie in the well-understood interest of agri-food trade, with Europeans increasingly specialising in the production and export of quality food products with high added value.

In addition, European agribusiness firms are investing in Mercosur to export to third markets in Latin America and North America, especially if the FTAA is to open these markets in the near future. A possible negotiating tactic could be that of progress in stages, in order to keep pace with possible developments in the WTO, and especially with those in the FTAA. Indeed, we must rely on the activism of the Bush Administration not to be overtaken by Europeans in countries that the United States has always considered as their reserved stronghold. Mercosur's ambition has no geographic boundaries, as they also aim for free trade agreements with South Africa and the countries of the European Free Trade Association (EFTA).

In some areas, the negotiations between the EU and Mercosur are fairly advanced: texts are already circulating between the two delegations, notably on the future common institutions (Association Council, Parliamentary Association Committee, relations with society civil society) and the different types of cooperation envisaged (statistics, agriculture, customs, competition, but also the fight against drugs and organised crime). However, with rotating presidencies every six months, negotiation is not easy; only the European Commission can be the permanent interlocutor likely to present the necessary compromises. On Mercosur's side, the weak link is now Argentina.

With 36.5 million inhabitants and a per capita GDP of $7,600, it has been in recession for three years. Unemployment is 20% of the active population, the public debt is $142 billion, and the contraction of the economy could rise to 12% in 2002. Nevertheless, the government clung to unit parity with the dollar that had some success under Carlos Menem. To survive, the De La Rua government borrowed on the market at three months at a rate of 15%, while the rate was about 5% in the United States. The new Duhalde government has abandoned the dollar parity and is in default. In 2000, however, Argentina obtained an international support plan of $40 billion. To borrow again $10 billion, it will have to accept the conditions of the IMF, including, in particular, a strengthened fiscal austerity and a reduction of the public expenditure of the provinces, with the reduction of the wages of the civil servants and the suppression of the twenty or so 'fake currencies' that circulate there.

But popular discontent is growing, the unemployed are taking to the streets, and political disarray is growing. As a result, Argentina is also in no hurry to advance negotiations with the Union and continues to turn its hopes towards the United States, the only ones able to bail out its currency and prevent economic disaster. Argentina would therefore be ready to accept the FTAA later, while hoping to stay in Mercosur. But President Bush does not seem to want to help a distant and mismanaged country.

The 14.9 million Chileans have a per capita GDP of $4,700, a figure very close to that of the Mercosur average ($5,000). And the country has recorded economic growth of 4 to 5% per year over the past ten years. However, the deceleration of the US economy and the crisis in Argentina have affected Chilean prices and production. Unemployment has risen to more than 8%, inflation remains under control at 3.5% and the Central Bank has lowered its central rate to 3.75% following successive rate cuts in the United States. For a Latin American country, fiscal discipline remains a model of its kind, with a budget surplus of 1%. Perhaps this fiscal austerity partly explains the high rate of unemployment in a healthy and growing economy.

After many trials, Chilean democracy is getting stronger. President Lagos has extended and consolidated freedoms (abolition of the death penalty), reform of the health system and judicial reform. Supporting indigenous peoples and SMEs, he encouraged the penetration of information technology and capital market reform to attract ever more foreign investment, and launched a $3.5 billion major works programme (roads, metro, airports and ports). Debt reaches $37 billion, or about 50% of GDP, which is quite reasonable since it is 85% private debt and 80% long-term debt. The Union is now Chile's main trading partner, absorbing more than 26% of exports and accounting for 18% of the country's total imports; these flows leave Chile a surplus of $2 billion a year in its trade balance with Europe. This small country finally has monetary reserves of more than 14 billion dollars.

This promising economic environment allows Chile to multiply bilateral agreements of all-out liberalisation by applying for Mercosur membership, while negotiating with the United States under the FTAA and attempting to strengthen its cooperation agreement with the European Union. The objective is to establish a WTO-compatible free trade area alongside the agreement with Mercosur. Needless to say, the Chileans stand firmly within the WTO in the camp of active multilateralists, while at the same time advancing on the path of regional integration (Mercosur, FTAA) and bilateralism (with Europe) .

The integration of the entire southern cone, Mercosur and Chile, is of utmost interest to Europe, which aims to foster the development of an integrated regional unit, which serves as a counterweight to the US Alaska to Tierra del Fuego free trade zone.

The countries - Bolivia, Colombia, Peru, and Venezuela - formed in the 1970s the first regional grouping in Latin America. The most original idea was to select in advance the different sectors of industrial activity that each member country would develop and to open the borders to the industrial products thus produced. The reaction of the European Economic Community has been to provide technical, financial and commercial assistance (through the establishment of the Generalised System of Preferences) to this first sub-regional group, trying to pool the limited resources of these four less developed countries. The original initiative has, unfortunately, been a meagre success. Bolivia, with a GDP of US $1,000 per capita, has remained the poorest country in Latin America, while Venezuela, rich in oil, has become an influential member of OPEC and accounts for over 90% exports of petroleum products.

The first regional cooperation agreement between Europe and the Andean Group was signed in 1983, it expanded the field of cooperation between the two regional entities. It was followed by a regional framework agreement in 1993, which entered into force only in 1998, following the Madrid European Council of 1995. This agreement created common institutions: a Joint Committee which meets every two years and two subcommittees meeting annually, the first on trade and industry, the second on science and technology.

Trade relations between the two groups are growing slowly (by 25% between 1990 and 1999). They account for 16.7% of total Andean exports and consist mainly of basic or low-level products. 75% of these products enter the Union free of customs duties, in particular under the Generalised System of Preferences (GSP), open to all developing countries, with a special regime for the poorest of them, including Bolivia). European exports to the Andean Group represent only 0.8% of total Union exports and 85% of manufactured goods. In 1999, trade between the two groups reached 12 billion euros. Remember that the GSP will probably be improved by the EU from 2002, certainly for the benefit of the poorest countries on the planet.

A political dialogue on the drug issue led both parties in March 2000 to sign agreements on precursor chemicals imported from Europe by the Andean countries for the production of drugs. A first seminar on the harmonisation of Andean legislation in the fight against drugs was held in Lisbon in October 2000. The Union also intervened as pacifier during the border war between Peru and Ecuador: to support the peace agreement between the belligerents, it decided in 2000 to build a road across the border of the two countries. Europe is studying two new regional initiatives: the first on the prevention of natural disasters and the second on air safety.

To top it off, the EU and Andean Group Ministers, meeting in Vilamoura on 24 February 2000, asked the European Commission and the General Secretariat of the Group to jointly prepare a state of play of their relations and to make proposals to develop trade relations between the two regions, in parallel with the progress made in the political dialogue. But it seems likely that the Union will favour links with Mercosur and Chile, merely continuing to grant 'generalised tariff preferences' to the Andean Group countries for another 5 to 10 years. The situation of civil war in Colombia, the political disorders in Peru and now in Venezuela do not encourage the creation of interregional institutional links.

Relations between Europe and the Central American countries have developed during the Esquipulas peace process, with the support of the Contodara Group, to put an end to civil wars that tore apart El Salvador and Nicaragua. The Ministers of both groups met in San José, Costa Rica, in 1984, to concretise the EEC's support for a negotiated solution to Central American conflicts. Humanitarian aid has been provided by Europeans to the populations affected by these wars. This political dialogue has been so successful that it has become biennial at the ministerial level, with a meeting at the ministerial troika level of the EU in the intervening years. At the San José XII Ministerial Conference in Florence in May 1996, two priority areas were set for European cooperation in Central America: the consolidation of the rule of law in the region, and the modernisation of public administrations to enable these countries to continue their regional integration. These priorities were embodied in a framework cooperation agreement between the two regional groups, which came into force on 1 March 1999, with the main objectives of democratisation and economic integration.

The region was devastated by Hurricane Mitch: at least 10,000 dead or missing, and immense material damage estimated at 4.8 billion euros. Faced with this disaster, international aid was mobilised. The Union intervened with emergency aid worth €300 million through the European Commission Humanitarian Aid Office (ECHO) and European NGOs. Then, a regional programme for reconstruction in Central America has been launched with the objective of helping the four most countries affected: Honduras, Nicaragua, El Salvador and Guatemala. Aid will be concentrated on key sectors: rehabilitation of water supply and sewerage, improvement of sanitary capacities (supply of equipment and vaccines, fight against epidemics), reconstruction of houses and schools, training of teachers and health personnel. The next San José Conferences will regularly review the progress of this programme and the Framework Cooperation Agreement. The Union, faithful to its action in favour of sub-regional organisations, has clearly indicated that it supports the process of Central American integration as well as the progressive - but slow - evolution of the countries of the Isthmus towards a true union.

As early as 1973, the Caribbean States established between them a Community, CARICOM, with the objectives of promoting their geographical integration, coordinating their views on external relations and developing common service such as inter-island navigation, health, education and women's issues. It should be noted that these many economies, islands and with little diversity, are particularly vulnerable individually. The Caribbean therefore felt very early a vital need to create between them a sort of common market in the image of Europe.

GDP per capita may seem quite high, $4,500, but that is mainly due to tourism receipts. The disparity between the Caribbean is very high if we consider the GDP per capita of the poorest of them (private tourism), Haiti, or 250 dollars.

Relations between the European Union and the Caribbean are essentially based on the Lomé Convention. Fifteen independent countries have signed Lomé IV since 1989: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint - Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago. Cuba, the last Marxist dictatorship in the region, has chosen to be an observer. To replace the Lomé IV Convention, the ACP countries and therefore the Caribbean have negotiated with the Union a new cooperation agreement and partnership with more compatible rules the WTO, which was concluded in February 2000 and signed on 23 June 2000. Under this agreement, the Caribbean enjoys wide trade preferences, particularly for sugar, bananas, rice and rum as the EU constitutes their main export market. In 1997, Europeans imported $3.1 billion from the Caribbean and exported $3.8 billion to the Caribbean. European economic interests are concentrated in certain sectors: tourism, services and exports of processed industrial and agricultural products.

The Caribbean States participate in the political dialogue with Europe in the common institutions with the ACP: the Council of Ministers and the Joint Parliamentary Assembly. But there is also political dialogue at the regional level, in a specific cooperation body, the CARIFORUM. Interdepartmental meetings are held every year. Cooperation covers democratisation processes, respect for human rights, the fight against organised crime and illicit drug trafficking, good governance and conflict prevention.

There is no doubt that these special relations with Europe offer the Caribbean States a source of diversification of their commercial, economic, financial and political relations, and thus an effective counterweight to North American hegemony. The Union is also, with the Inter-American Development Bank, the largest donor to the Caribbean States. During the first twenty years of cooperation, between 1976 and 1995, financial and technical cooperation reached nearly 1.8 billion euros. For the period of the 8th European Development Fund (EDF), assistance programmes have reached nearly 800 million euros. Haiti, Suriname, Jamaica and the Dominican Republic were the main beneficiaries. Finally, the Netherlands and the United Kingdom maintain constitutional links with islands that enjoy the status of Overseas Countries and Territories (OCTs): Anguilla, the Virgin Islands, the Cayman Islands, Montserrat, the Turks Islands and Caicos, the Netherlands Antilles and Aruba. France extends into the region through its three overseas departments (DOM): Guadeloupe, Martinique and Guyana. OCTs and DOMs enjoy special status within the framework of the European Union.

True regional economic integration and a specific partnership agreement involving the establishment of a free trade area with the Union are on the agenda of CARIFORUM annual meetings with the European Commission. Real negotiations to achieve this could start in 2003.

The European Union has developed decentralised regional programmes to carry out specific actions, outside of government relations, with certain categories of well-defined operators. The search for direct contact with these entities is not unique to Latin America; the same types of actions are also carried out in the framework of the Euro-Mediterranean Partnership of the Barcelona Process.

AL-Invest brings together SMEs from Europe and Latin America to strengthen their trade and possibly enter into joint ventures. ALFA is intended to finance inter-university exchanges of students, professors and researchers. ARB-AL aims to establish direct links between European and Latin American cities and regions on the basis of joint projects in urban planning, the environment, technical services, social policies and the fight against drugs. ALURE facilitates and encourages the best use of energy by bringing together the different operators involved. ALIS, the latest, is expected to come into force in 2002 to promote the use of new information technologies. It should allow exchanges to improve communication infrastructures, training in the fields of tele-education, health and urban transport, and the creation of interconnections between researchers and teachers.

In 1986, the Governments of South America and Mexico established an informal political dialogue with each other: the Rio Group. As early as 1987, the Foreign Ministers of the European Community met annually with their colleagues from this group, usually on the sidelines of the UN General Assembly in New York. This annual dialogue was institutionalised at the Rome Declaration on 20 December 1990, recognising that the Rio Group represents the largest forum for dialogue in Latin America. Each of the ministerial meetings has adopted a bi-regional cooperation theme each year. On 28 and 29 June 1999 the first summit of Heads of State and Government of the Union, Latin American and Caribbean countries was held in Rio de Janeiro. This first summit was organised around three axes:

- the political dialogue on the reinforcement of the democracy, the reform of the United Nations, the fight against drugs and against poverty (Latin America is always the first world producer of cocaine, heroin and marijuana);

- economic and trade issues, faced with the challenge of globalisation;

- cultural issues and civil society.

The Summit drafted an action plan and tasked a bi-regional group of senior officials to select, under the Finnish presidency, in November 1999, eleven priorities: they focus on consultation, human rights, the status of women, the environment, drugs, financial aid, SMEs, education, culture, the information society and training. The 9th Ministerial Meeting was held in Vilamoura on 24 February 2000, and the 10th in Santiago, Chile, on 28 March 2001. Ministers said that globalisation widened the gap between industrialised and developing countries. They agreed to halve poverty in Latin America by 2015, confirmed that the 2nd Summit of Heads of State will be held in Madrid on 17 and 18 May 2002, and that Greece will hold the 11th Ministerial Meeting in 2003.

The European Commission will prepare a Communication for Heads of State ahead of the Madrid Summit, based on the progress made under the priorities. It can be expected that it mainly focuses on three of them: the protection of human rights, promotion of the information society and reducing poverty.

With the return of democratic regimes almost everywhere in Latin America, the trend towards sub-regional groupings to face international competition seems irreversible. But the political will of all partners is neither equal nor constant. Some attempts at regrouping take years to produce their first effects: this is the case of the Andean Group. The most promising of these groups is certainly Mercosur, even if the financial crisis in which Argentina sinks will lead to delays. The four Southern Cone countries have developed an ambitious Customs Union project based on the early European model, but driven by close political dialogue. For these reasons, the chances of creating a strong partnership between the two customs unions, Mercosur and the EU, will be the strongest around 2005-2006.

President George W. Bush has clearly understood the danger of this European competition: his Administration is working very effectively towards a rapprochement with these countries. Texts for future agreements in the framework of the FTAA are already in circulation (the same is true for the texts on the future Mercosur-EU partnership). However, he is reluctant to rescue Argentina with the help of the IMF and the World Bank. However, a succession of bilateral agreements between the Latin American countries and the United States would lead to the economic balkanisation of the South of the Americas. The supporters of Mercosur have guessed it and fear their own disintegration. Without rejecting the FTAA altogether - Argentina, with its financial crisis, cannot help but support and strengthen its ties with the United States - Mercosur's political leaders want to push both their own integration (planned for 2006) and the partnership with, which is their main trading partner and private investor. Of the 25 largest foreign companies in Mercosur, 14 are European and 11 are American. This is also the reason for Chile's ambiguous attitude, which strikes both the doors of NAFTA, hoping to reap the same benefits as Mexico, to that of Mercosur, so as not to miss this integration of economies. neighbouring countries to the Union, for broad partnership and for good measure, and to those of APEC, in the distant assumption of a successful rapprochement of economies around the Pacific.

The big unknown lies in the new round of WTO negotiations, launched in Doha in November 2001: will multilateralism override regionalism? It is more likely that the Latin American countries will follow these two parallel paths hoping, even in the event of a successful Doha Round, to obtain additional benefits in bilateral agreements, either with the United States or with Europe, with both. Multinationals and big capital are singularly pushing for these multiple solutions. European investors, scalded by their loss of market share in Mexico after it turned 85% of its trade to the United States, do not want to miss the chance that would open a broad partnership with Mercosur.

2002 could therefore be a pivotal date in South America's foreign and trade relations: the beginning of the new WTO round of negotiations, the acceleration of the US FTAA initiative, and the summit of Europe and Latin America, 17 and 18 May 2002, in Madrid. It is reasonable to expect that our Mercosur and Chile interlocutors will look to the partnership with Europe as a rebalancing force and to avoid dilution in the FTAA. For this reason, the Europeans will try to activate the discussions for the partnership with Mercosur, despite the difficulties in Argentina.

Cuba remains the only country remaining apart from sub-regional groupings. President Bush does not give the impression for the moment of wanting to change the American embargo policy, but Senator Jesse Helms, fiercely hostile to Castro, has lost the chairmanship of the Foreign Affairs Committee in the Senate, and he has announced that he would not stand in the mid-term elections. Europe can take advantage of the situation to improve its relations with Cuban civil society and the nascent private sector, if not with its president.

If both the FTAA (US /Latin America) and the Mercosur-Chile /EU partnership succeed, two sides of the US /Mercosur-Chile /EU triangle would have free trade zones by 2010, while the relationship between the United States and the Union would remain subject to WTO rules. Supporters of the greater Atlantic area of free trade may then argue again to strengthen the relationship of this third side of the square. Europe, which is already very much in demand for enlargement to the East and the Doha Round, will find it difficult to face all these challenges, unless it regains strong economic growth, which is unpredictable today.

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