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MEDZIREGIONÁLNE OBCHODNÉ VZŤAHY MEDZI EURÓPSKOU ÚNIOU – LATINSKOU AMERIKOU – KARIBIKOM A ICH ŠTRUKTÚRA

INTERREGIONAL TRADE RELATIONS BETWEEN THE EUROPEAN UNION – LATIN AMERICA – THE CARIBBEAN AND THEIR STRUCTURE

Peter Jančovič¹

Medziregionalizmus sa stal dôležitým nástrojom zahraničnej politiky EÚ na nadviazanie a upevnenie vonkajších vzťahov s Latinskou Amerikou a Karibikom. Cieľom tohto článku je preskúmať vývoj obchodných vzťahov EÚ s Latinskou Amerikou a Karibikom pred a po vstupe medziregionálnych obchodných dohôd do platnosti. Zameriavame sa na analýzu zmien komparatívnych výhod v medziregionálnom obchode uplatňujúc Lafayov index medzinárodnej špecializácie. Dospeli sme k záveru, že v medziregionálnych obchodných vzťahoch existuje niekoľko asymetrií. Subregionálne zoskupenia alebo štáty Latinskej Ameriky a Karibiku naďalej vykazujú silnú komparatívnu nevýhodu vo vývoze priemyselných výrobkov do EÚ a zároveň tradične vysokú komparatívnu výhodu vo vývoze primárnych komodít. Na základe vypočítaných hodnôt Lafayovho indexu konštatujeme, že medziregionálne obchodné dohody v dostatočnej miere neprispeli k diverzifikácii vývozu krajín Latinskej Ameriky a Karibiku, a to smerom k výrobkom s vyššou pridanou hodnotou.²

Kľúčové slová: Európska únia, Latinská Amerika a Karibik, medziregionálny obchod, Lafayov index

Inter-regionalism has become an important EU foreign policy tool for establishing and consolidating its external relations with Latin America and the Caribbean. The aim of this paper is to examine the development of EU's trade relations with Latin America and the Caribbean before and after the

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entry into application of interregional trade agreements. We focus on the changes in comparative advantage of interregional trade, employing the Lafay index of international specialization. We conclude that there exist several asymmetries in EU-Latin America and the Caribbean trade relations. Latin American and Caribbean subregional groupings or countries continue to have a strong comparative disadvantage in export of manufactured goods, whereas they have a positive comparative advantage in export of primary commodities. To sum up, the values of Lafay index indicate that interregional trade agreements have not contributed much to export diversification of LAC countries towards products with a higher added value.

Key words: European Union, Latin America and the Caribbean, interregional trade, Lafay index

JEL: F10, F15

1 INTRODUCTION

The European Union (EU) maintains external relations with Latin American and Caribbean countries at bilateral, as well as interregional level. The concept of inter-regionalism plays an important role in terms of the European Union's foreign policy towards Latin American and Caribbean (LAC) region. It is important to note that there is no unified definition of this phenomenon. Söderbaum (2012) defines inter-regionalism as the interaction between the two specified regions. However, according to Hänggi (2000), inter-regionalism does not only refer to region-to-region relations, but it consists of three different forms of interregional arrangements. First, relations between two regional groupings that are sometimes referred to as a pure inter-regionalism, such as the EU-Mercosur, EU-Central America and CARIFORUM-EU relations. Second, trans-regionalism which refers to a group of countries from two or more regions in which states act as the individuals, such as the EU-Latin America and the Caribbean relations before the establishment of the Community of Latin American and Caribbean States (CELAC). Third, hybrid inter-regionalism, also known as quasi-interregional relations, which arises from the interaction between regional groupings and single countries, like for instance relations between the EU and Chile, Mexico and Cuba. According to Ayuso et al. (2018), inter-regionalism has prevailed in bi-regional relations since the first EU-LAC Summit of 1999 in Rio de Janeiro. Inter-regionalism, therefore, has become an important EU foreign policy tool for establishing and consolidating its relations with Latin America and the Caribbean.

The European Union's external relations with Latin American and Caribbean countries have intensified since the 1990s for several reasons. In general terms, interregional relations were encouraged by the implementation of neoliberal policies and democratic consolidation in many Latin American countries, the creation of Mercosur as the region's largest trading bloc, the emergence of 'open regionalism' in Latin America, and the accession of Spain and Portugal to the European Communities in 1986 (Jančovič 2020). This has resulted in the establishment of a strategic partnership between the EU and Latin America and the Caribbean at the first bi-

regional Summit held in Rio de Janeiro in 1999. Currently, the EU-CELAC strategic partnership comprises 60 sovereign states, excluding the United Kingdom, with over one billion people and almost one quarter of world GDP (World Bank 2021). The European Union's external relations with Latin American and Caribbean countries are determined by many factors such as economic, political and geostrategic interests in LAC region, normative and ideological motives, historical, colonial and cultural ties between the two regions, as well as environmental and sustainable development challenges.

Latin American and Caribbean countries, taken together, have remained the EU's fifth largest trading partner and represent a developing region with which the EU maintains close economic relations and political dialogue (European Parliament 2019). From a LAC perspective, the EU ranks among the three largest trading partners of Latin America and the Caribbean. However, the EU has experienced the decline in market share in Latin American and Caribbean trade due to the increasing economic presence of Asian countries, notably China, in LAC region during the last two decades. The aim of this paper is to examine the development of extra-EU trade relations with Latin America and the Caribbean before and after the entry into application of interregional trade agreements, focusing on the changes in comparative advantage of interregional trade flows. To analyse the developments in comparative advantages of interregional trade flows, we employ the Lafay index.

The remainder of this paper is organized as follows. Section 2 presents an overview of the agreements governing trade relations between the European Union and Latin American and Caribbean countries at bilateral or interregional level. In Section 3, we present methodology and the data. Section 4 deals with the evolution of interregional trade flows between the EU and LAC subregional groupings or individual countries before and after the entry into application of interregional trade agreements. Subsequently, Section 5 analyses the commodity structure of interregional trade flows over the last two decades using the Lafay index. Section 6 concludes the present paper with the main findings.

2 AGREEMENTS GOVERNING TRADE RELATIONS BETWEEN THE EU AND LATIN AMERICA AND THE CARIBBEAN

In general terms, there exist three main types of European Union trade agreements concluded with third countries or other regional groupings. First, customs union agreements which eliminate customs duties in bilateral trade and establish a joint customs tariff for foreign importers. Second, association agreements, stabilization agreements, (deep and comprehensive) free trade agreements and economic partnership agreements that aim at removing or reducing customs tariffs in mutual trade. Third, partnership and cooperation agreements that provide a general framework for bilateral economic relations, whereas customs tariffs remain as they are (European

Commission 2021a). An overview of the agreements governing trade relations between the EU and Latin American and Caribbean countries at bilateral or interregional level can be found in Table 1.

Table 1: Overview of EU-Latin America and the Caribbean trade agreements

<i>Agreement</i>	<i>Non-EU member countries</i>	<i>Entry into force</i>
CARIFORUM-EU Economic Partnership Agreement (EPA)	Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago	Provisionally applied since 2008 (except Haiti)
EU-Central America Association Agreement (with a strong trade component)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama	Provisionally applied since 2013
EU-Colombia, Peru and Ecuador Trade Agreement	Colombia, Peru, Ecuador	Provisionally applied since 2013 (Ecuador since 2017)
EU-Mercosur Association Agreement	Argentina, Brazil, Paraguay, Uruguay	Not yet
EU-Chile Association Agreement	Chile	2003 (in modernization process since 2017)
EU-Mexico Global Agreement	Mexico	2000 (in modernization process since 2016)

Source: European Commission, 2021a.

Commercial relations between the European Union, on the one hand, and Latin American and Caribbean countries or regional groupings, on the other, are governed by different regimes and types of trade agreements. Despite the fact that Latin America and the Caribbean belong to developing regions, there are only two LAC countries with non-reciprocal unilateral preferential access to the EU market under the Generalised Scheme of Preferences (GSP). Bolivia, as a lower-middle income country that has implemented 27 international conventions, benefits from the GSP+ special arrangement for sustainable development and good governance (European Commission 2021b). On the basis of strict criteria, the GSP+ scheme grants full removal of tariffs on over 66% of tariff lines covering a wide range of products (European Commission 2019a). Other lower-middle income countries in LAC region,

such as El Salvador, Honduras and Nicaragua, are not granted the benefits of the GSP as they are part of another arrangement providing them with preferential access to the EU market (see Table 1). In 2019, Paraguay was removed as a beneficiary country of the GSP+ scheme since the World Bank classified Paraguay as an upper-middle income country. Haiti, classified as a least-developed country, benefits from the 'Everything But Arms' (EBA) initiative that grants underdeveloped countries full duty- and quota-free access for all their exports to the EU except arms and ammunition (European Commission 2021b).

The Caribbean enjoyed preferential access to the European Union from the early years of the European integration. Caribbean states became a part of the African, Caribbean and Pacific (ACP) group of countries with which the EU concluded partnership agreements over the years since the first Lomé Convention in 1975 (European Commission 2021c). Therefore, the economic relations between the EU and the Caribbean were governed by the Lomé Convention in the twentieth century. Subsequently, the Lomé Convention was replaced by the Cotonou Agreement in 2000, which governs the current EU-ACP relations. In 2008, however, the comprehensive CARIFORUM-EU Economic Partnership Agreement (EPA) between the EU and fourteen Caribbean states (except Haiti) entered into provisional application (Table 1). The EPA introduces the principle of reciprocity in the EU-Caribbean interregional commercial relations by moving away from the EU's non-reciprocal trade preferences (Schmieg 2015). Thus, the CARIFORUM-EU EPA creates a more equal partnership, while taking into consideration different levels of development among trading partners. This may be supported by an asymmetric process of trade liberalization, since the EU grants duty- and quota-free access for all CARIFORUM exports from the first day of provisional application of the EPA, and CARIFORUM countries will gradually remove their import tariffs on 87% of EU exports by 2033, except for sensitive products (European Commission 2020). Therefore, the EPA is asymmetric in favour of Caribbean states. The EPA also covers trade in services and other trade-related matters, such as competition policy, transparency in public procurement or support for export diversification of Caribbean states.

Table 1 reports that current external economic relations between the EU and six Central American countries are governed by the EU-Central America Association Agreement. The trade pillar of the Association Agreement has been provisionally applied since 2013 (Table 1). The trade part of the Association Agreement thus replaces the unilateral preferential access of Central American countries to the EU market granted under the GSP schemes. There are some elements of differential treatment in the EU-Central America agreement, which arise from different levels of economic development and structural asymmetries between the regions and countries (EUR-Lex 2021a). Upon the entry into force of this agreement, the EU removed almost all of its import duties on industrial products and fisheries, while Central

America agreed to eliminate the tariffs on those products by 2025. Additionally, the EU removed tariffs for 73% of its agricultural tariff lines and Central America removed tariffs for 67% of its tariff lines related to agricultural products (European Commission 2021d). In general terms, the trade pillar of the Association Agreement aims at promoting international trade between the EU and Central America, supporting diversification of Central America's export and strengthening the process of regional economic integration in Central American subregion.

Trade relations between the EU and the three countries of the Andean Community (CAN) are based on a multi-party trade agreement, which has been provisionally applied since 2013 in terms of Colombia and Peru, and since 2017 in terms of Ecuador (Table 1). As mentioned above, Bolivia is a beneficiary of the GSP+ scheme, and therefore it cannot benefit from another preferential trade agreement. The European Union eliminates tariffs on almost all imports coming from Colombia, Peru and Ecuador, except for certain vegetables and fruits. There also exist tariff rate quotas that limit the amount of some sensitive products with tariff-free imports to the EU, such as sugar, rum, bananas, bovine animals and others. On the other hand, the three Andean countries remove import tariffs gradually over a period of up to 17 years, recognizing the asymmetry in the levels of development among trading partners (European Commission 2021d). After a transitional period, all EU industrial and fishery products, as well as most of its agricultural products, will be exported duty free to Colombia, Peru and Ecuador, but under certain conditions and with some exceptions.

The EU has concluded bilateral trade agreements with Chile and Mexico. The EU-Chile Association Agreement includes a comprehensive free trade agreement, which entered into force in 2003 (Table 1). However, the EU and Chile agreed to modernize, broaden and deepen the trade part of the Association Agreement in 2013 and the negotiations were launched in 2017. The modernization of the trade pillar aims at adjusting the agreement to the new reality of economic relations between the EU and Chile, as well as to global economic developments over the last two decades (European Commission 2019c). The agreement's modernization concerns further liberalization of trade in goods and services, removal of non-tariff barriers, updating the rules of origin and other trade-related matters. Bilateral economic relations between the European Union and Mexico are currently governed by the trade pillar of the EU-Mexico Global Agreement that entered into force in 2000 (Table 1). It has resulted in a partial liberalization of trade in goods and services, as many customs duties have remained in trade between the EU and Mexico. Given the new realities of global trade, geopolitics, trade and investment policy developments in the EU and Mexico, the parties launched formal negotiations on the Global Agreement's modernization in 2016 (European Parliament 2021). An agreement in principle on the trade part of a modernized agreement was reached in 2018 and complemented in 2020.

The European Union's interregional approach to external relations with Mercosur was preceded by bilateral framework cooperation agreements concluded with the individual Mercosur founding countries in the first half of the 1990s. Current trade relations between the EU and Mercosur are governed by the Interregional Framework Cooperation Agreement (IFCA) that was signed under the Spanish presidency of the EU in 1995 and entered into force in 1999 (European Commission 2021a). The IFCA and bilateral framework agreements for cooperation concern, amongst others, trade-related and economic matters, whereas the trade relations are presently based on the principles of the multilateral trading system without a preferential trade agreement. The IFCA's main objective is to strengthen existing relations between the EU and Mercosur and to lay the foundations for an interregional association between these two regional entities (EUR-Lex 2021b). In 2000, the EU and Mercosur launched negotiations on a free trade agreement (FTA) as part of a wider bi-regional Association Agreement, which also includes a political dialogue pillar and a cooperation pillar. Over the next two decades, the interregional negotiations were temporarily suspended and resumed several times for a number of economic as well as political reasons. A political agreement on the trade pillar of the wider bi-regional Association Agreement was reached in June 2019. The FTA is currently in a difficult process of ratification that is accompanied by several obstacles, such as environmental concerns and different agricultural interests. If ratified, the FTA would eliminate customs duties on 91% of EU goods exports to Mercosur and the trade agreement would remove import duties on 92% of goods exported from Mercosur to the EU (European Commission 2019b).

Therefore, after the ratification and entry into force of the EU-Mercosur Association Agreement, the European Union would strengthen its geopolitical position and promote its geo-economic interests in Latin America and the Caribbean, as Mercosur constitutes the largest and highly protected market in LAC region. In addition, the EU would have the trade agreements with almost all Latin American and Caribbean countries except Bolivia, Cuba, Haiti (has not ratified nor is it provisionally applying the CARIFORUM-EU EPA) and Venezuela. It seems that the trade agreements, in particular those based on the interregional approach, belong to the most important tools of EU foreign policy in terms of developing its external economic relations with Latin American and Caribbean countries.

3 METHODOLOGY

Very little research has been conducted on interregional trade relations between the EU and Latin America and the Caribbean and their commodity structure. The commodity structure of a country's foreign trade may be described from various perspectives. According to ECLAC study (2012), the commodity structure of Latin American and Caribbean exports to the EU had not diversified much over the 2000-

2009 period. The study used the Herfindahl-Hirschman index (HHI) that measures the level of diversification or concentration of goods exported from one country to another. A higher HHI indicates a lower degree of export diversification or, in other words, a more concentrated export basket of a particular country. The results show that the largest exporters, Brazil and Mexico, had relatively diversified commodity structure of exports to the EU in 2009, while countries such as Panama, Venezuela, Honduras and Caribbean states had highly concentrated export baskets (ECLAC 2012). From a comparative perspective, Estevadeordal (2020) argues that Latin American and Caribbean exports to the EU are less concentrated than exports to China, since mining and agricultural products account for 28% of LAC exports to the EU as compared to 64% for China.

The extent to which a region is specialized in producing and exporting certain goods is strongly influenced by its industrial characteristics and location economies (Cordes et al. 2015). Regional specialization patterns are determined by many economic, political, institutional, cultural and other factors, which are sometimes harder to measure or even detect. In general terms, a country (or region) strives to specialize in the production and export of those products for which it has a comparative advantage (Ignjatijević et al. 2013). On the one hand, Latin American and Caribbean countries specialize in production and export of commodities or medium-low- and low-technology-intensive goods and many of LAC countries have highly concentrated export baskets. On the other hand, the EU exports to Latin America and the Caribbean manufactured goods or high-technology-intensive goods. The asymmetries in the commodity structure of interregional trade flows may result in some difficulties, such as the deterioration in South America's trade balance with the EU after the sharp decline in commodity prices following 2012 (ECLAC 2018). García-Herrero and Chiacchio (2017) argue that fully reaping all benefits from stronger economic ties between the EU and Latin America and the Caribbean depends in particular on diversification of Latin American exports to the EU.

The aim of this paper is to examine the development of extra-EU trade relations with Latin America and the Caribbean before and after the entry into application of interregional trade agreements, focusing on the changes in comparative advantage of interregional trade flows. We analyse comparative advantages using the index of international specialization which was proposed by Lafay (1992). In comparison to some other measures of trade specialization, such as the original Revealed Comparative Advantage index (RCA) introduced by Balassa, the Lafay index (LFI) takes into consideration both exports as well as imports, and thus allows to control for intra-industry trade processes (Zaghini 2003). The Lafay index is defined as follows:

$$LFI_j^i = 100 \left(\frac{x_j^i - m_j^i}{x_j^i + m_j^i} - \frac{\sum_{j=1}^N (x_j^i - m_j^i)}{\sum_{j=1}^N (x_j^i + m_j^i)} \right) \frac{x_j^i + m_j^i}{\sum_{j=1}^N (x_j^i + m_j^i)} \quad (1)$$

where x_j^i and m_j^i represent export and import of a product group j of a country or group of countries i to and from the world or specific region, respectively, and N stands for the number of items. A positive value of the LFI indicates the existence of comparative advantage in a product group or specific sector, whereas a negative value of the LFI indicates the presence of comparative disadvantage of given product or sector. This implies that a higher index value suggests a higher level of trade specialization and comparative advantage (Zaghini 2003).

To analyse the commodity structure of external trade between the EU and Latin America and the Caribbean, we use the Standard International Trade Classification (SITC), Revision 4, at the one-digit level. The main categories of SITC are:

- Food, drinks, tobacco and live animals – Sections 0 and 1,
- Raw materials – Sections 2 and 4,
- Energy products – Section 3,
- Chemical products – Section 5,
- Machinery and transport equipment – Section 7,
- Other manufactured goods – Sections 6 and 8 (Eurostat 2021a).

In general terms, Sections 0, 1, 2, 3, and 4 are made up of commodities (primary products) and Sections 5, 6, 7 and 8 consist of manufactured goods or, in other words, industrial products with a higher added value. Data used in this paper comes from Eurostat database.

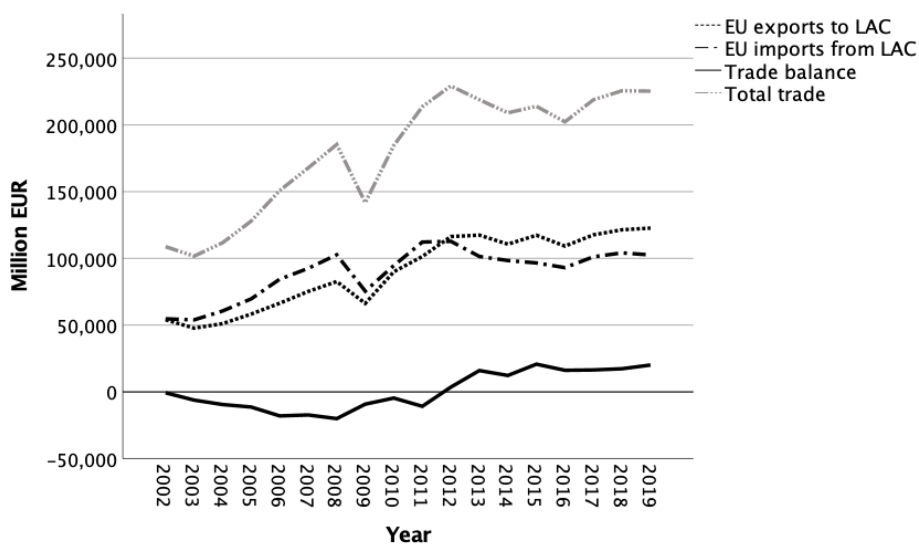
4 EVOLUTION OF EU-LATIN AMERICA AND THE CARIBBEAN INTERREGIONAL TRADE FLOWS

Latin American and Caribbean region may be divided into four subregional groupings with which the EU maintains interregional trade relations, such as Mercosur, the Andean Community, Central American states and CARIFORUM, and two individual countries with EU's bilateral approach to external economic relations – Mexico and Chile.

Collectively, total trade in goods between the EU and Latin America and the Caribbean almost doubled in the 2000s, except for the 2009 global financial and economic crisis (Figure 1). Closer examination reveals that the EU had a trade deficit with Latin American and Caribbean region between 2002 and 2011. Figure 1 also reports that EU imports from Latin America and the Caribbean grew faster than EU

exports to that region until 2008. However, EU-Latin America and Caribbean total trade in goods decreased between 2012 and 2016 (Figure 1). A significant drop in the volume of LAC exports to the EU between 2012 and 2016 was mainly due to the low prices of commodities, which constitute the principal components of Latin American and Caribbean exports to Europe (ECLAC 2018). Since 2016, interregional trade flows have slightly increased, especially in terms of EU exports to LAC countries as EU imports from Latin America and the Caribbean have remained rather stagnant. Figure 1 reports that the EU has a positive trade balance with LAC region from 2012 onwards. Therefore, 2012 seems to be a turning point in EU-LAC interregional trade relationship as total trade between these two regions has decreased, interregional trade flows have slowed down substantially, and the EU's trade balance with Latin American and Caribbean region has turned positive. There are, however, several external factors influencing the volume of interregional trade such as the price volatility of primary products, trade tensions and changes in international demand.

Figure 1: Trade flows between the EU and Latin America and the Caribbean from 2002 to 2019 (million EUR)



Source: author's own on the basis of data from Eurostat 2021b.

The share of Latin America and the Caribbean in extra-EU trade has changed marginally over the last two decades, varying between 5.5% and 6.6% of total extra-EU trade (Eurostat 2021b). From 2002 to 2012, the share of LAC in extra-EU trade had an increasing trend, except for the 2009 global financial crisis. Since 2012, however, Latin American and Caribbean market share in extra-EU trade has slightly decreased from 6.58% in 2012 to 5.50% in 2019 (Eurostat 2021b). On the other hand,

the share of the European Union in total Latin American and Caribbean trade ranges from 11.3% to 14.2% over the last two decades (UNCTAD 2021). Whereas in 2008 the EU accounted for 14.16% of LAC trade, this share has decreased to 11.32% in 2019 (UNCTAD 2021). This is especially due to the increasing market share of emerging markets, mainly China, in LAC trade, and geopolitical and trade policy changes (European Parliament 2019). Since the early 2010s, both the EU and Latin America and the Caribbean have seen the gradual decline in their mutual share of total trade, despite the entry into provisional application of the CARIFORUM-EU EPA in 2008, the EU-Central America Association Agreement and the EU-Colombia and Peru Trade Agreement in 2013.

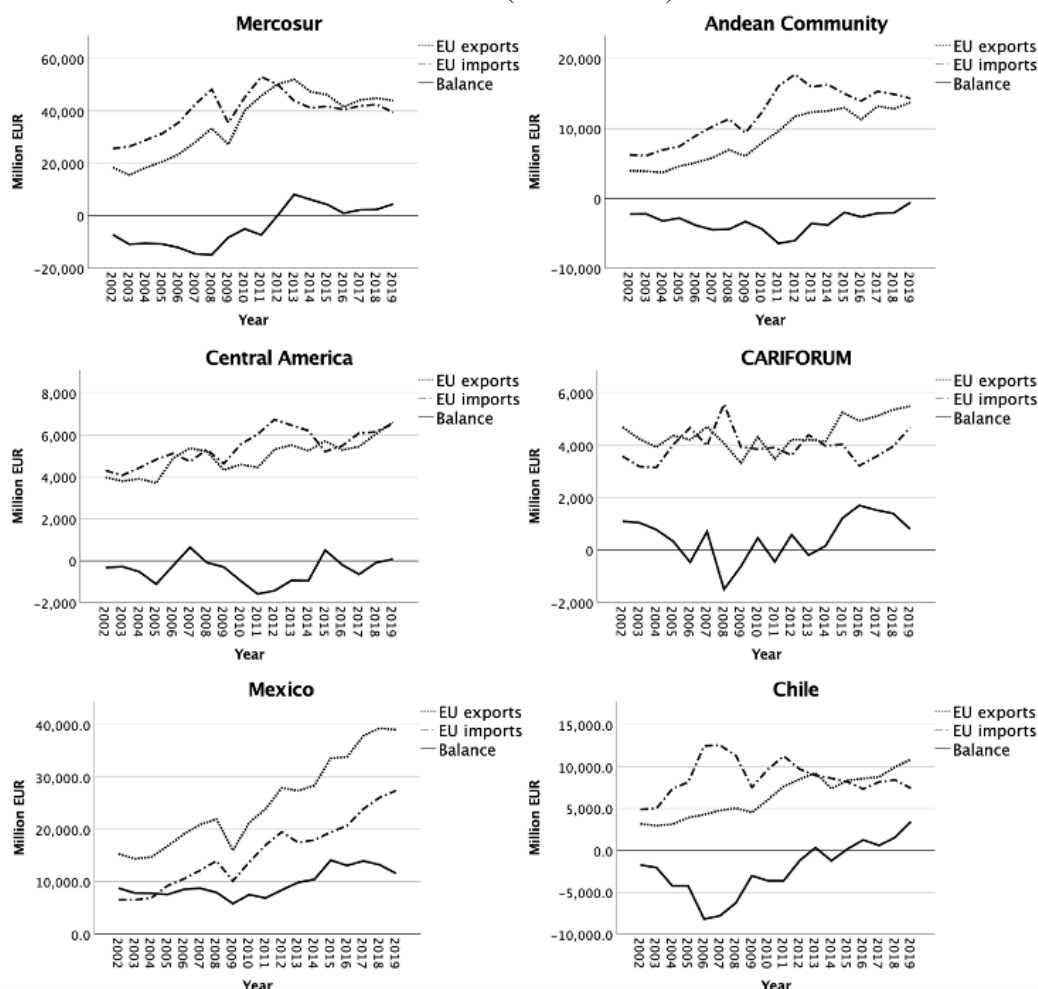
The European Union's trade relations are especially significant with the largest Latin American economies such as Mercosur, particularly Brazil, and Mexico. The Mercosur countries and Mexico accounted for 66.6% of total LAC trade with the European Union in 2019 (Eurostat 2021b). Figure 2 reports that trade flows between the EU and Mexico have the fastest growing dynamism in terms of the EU's foreign trade with LAC region between 2002 and 2019. The main explanation consists in the commodity structure of the EU-Mexico trade and Mexico's economic integration with more advanced North American countries. Roughly half of the EU exports to as well as imports from Mexico is made up of machinery and transport equipment (Figures 3 and 4). Mexico imports from the EU a broad range of intermediate goods, which are subsequently used to produce final manufactured goods intended for re-export to other markets, especially to the United States (ECLAC 2018). Krakowski (2008) asserts that the position of Mexico in EU-Latin America interregional trade relations is special as Mexico serves as a platform for re-exporting to the United States for many European companies. This is especially true for the automotive industry. Mexico is the Latin American country with the highest and long-term trade deficit to the EU (Figure 2).

Despite the absence of a preferential trade arrangement, Mercosur represents the largest Latin American trading partner of the EU. In 2019, Mercosur accounted for 36% of EU total exports to LAC region and 39% of EU total imports from that region (Eurostat 2021b). However, trade flows between these two regional entities do not show an increasing tendency. Interregional trade between the EU and Mercosur have been rather stagnant since 2014. Therefore, the entry into application of the trade part of the EU-Mercosur Association Agreement may bring a new impetus for interregional trade flows. The EU's trade balance with Mercosur has turned positive since 2012.

Figure 2 reports that Chilean exports to the EU increased significantly in the first years after the trade pillar of the EU-Chile Association Agreement entered into force in 2003. In the same period of time (2003-2006), however, the prices of copper, as Chile's main export commodity, rose rapidly. The volume of Chilean exports to the EU mostly showed the downward trend over the period 2012-2019. On the other hand, EU exports to Chile have steadily increased during the period examined. Since 2015,

the European Union has been running a trade surplus with Chile (Figure 2). Interregional trade flows between the EU and four countries of the Andean Community have not shown a growing dynamism since 2013, particularly in terms of EU imports from the Andean countries (Figure 2). However, the Andean Community is the only LAC subregional grouping that has a long-term trade surplus with the European Union.

Figure 2: Evolution of EU trade in goods with LAC subregional groupings and individual countries between 2002-2019 (million EUR)



Source: author's own on the basis of data from Eurostat 2021b.

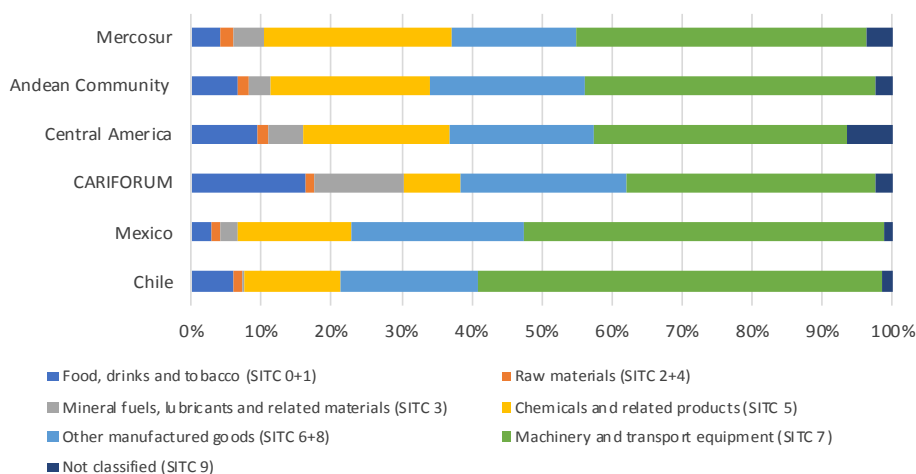
Figure 2 shows that trade flows between the EU and Caribbean countries are subject to many year-to-year fluctuations. The volume of Caribbean exports to the EU has sharply decreased following the 2008 global financial crisis, even though the CARIFORUM-EU EPA entered into provisional application in the same year. Since

2014, CARIFORUM has been running a trade deficit with the EU. This indicates that the main beneficiary of the interregional trade agreement has been the European Union. The overall trade between the EU and Central American states has changed little since the EU-Central America Association Agreement entered into provisional application in 2013. Between 2012 and 2015, EU imports from Central America decreased, whereas EU exports to that region were rather stagnant. Since 2016, interregional trade flows between the EU and Central America have moderately increased. Central American subregion experienced a trade deficit with the EU in 2019.

5 COMMODITY STRUCTURE OF EU-LAC INTERREGIONAL TRADE

The commodity structure of interregional trade between the EU and Latin America and the Caribbean is heterogeneous. Figure 3 reports that the EU exports to Latin America and the Caribbean are dominated by machinery and transport equipment (SITC 7) and other manufactured goods (SITC 6+8). In 2019, machinery and transport equipment accounted on average for 43.86% of EU exports to LAC subregional groupings or individual countries. It was followed by other manufactured goods with an average share of around 21.43%, and chemicals and related products with an average share of around 18.02%. Therefore, the European Union exports to LAC subregional groupings and countries mainly manufactured goods. As shown by Figure 3, the structure of EU exports to Caribbean states seems to be the most diversified, since the share of other categories such as food, drinks and tobacco, and mineral fuels is relatively high.

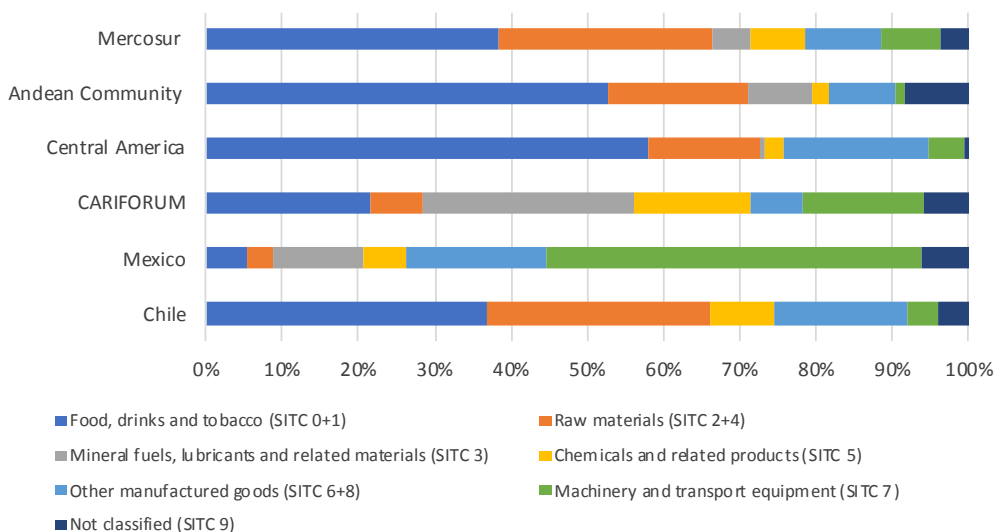
Figure 3: Commodity structure of EU exports to LAC subregional groupings or countries according to SITC in 2019 (percentage of total)



Source: author's own on the basis of data from Eurostat 2021b.

The composition of Latin American exports to the EU is moderately concentrated. However, there are differences among individual countries as well as subregional groupings. Figure 4 reports that the EU mostly imports from Latin America and the Caribbean food, drinks and tobacco (SITC 0+1) and raw materials (SITC 2+4). In 2019, food, drinks and tobacco accounted on average for 35.42% of EU imports from LAC subregional groupings or individual economies. According to ECLAC (2018), Latin American and Caribbean exports to the EU remain concentrated in few commodities, such as soybeans and soybean cake, bovine meat, copper ore and concentrates, crude petroleum oils, bananas, plantains and coffee. Therefore, primary products continue to dominate in EU imports from LAC region, whereas the EU exports mostly to Latin America and the Caribbean manufactured goods with a higher added value. This implies that the trade exchange between these two regions remains unequal. However, this is not the case for Mexico, since the commodity structure of its exports to the EU is dominated by manufactured goods such as machinery and transport equipment (49.15%) and other manufactured goods (18.41%).

Figure 4: Commodity structure of EU imports from LAC subregional groupings or countries according to SITC in 2019 (percentage of total)



Source: author's own on the basis of data from Eurostat 2021b.

The results of interregional comparative advantages, reported in Table 2, confirm the existence of asymmetry in external trade between Latin American and Caribbean subregional groupings or individual economies and the European Union. A closer analysis of the structure of interregional trade flows between Mercosur and the EU reveals that in the products at lower processing stage, in particular food, drinks

and tobacco (SITC 0+1) and raw materials (SITC 2+4), Mercosur has a strong comparative advantage. On the other hand, the EU has the largest comparative advantage in machinery and transport equipment (SITC 7) in terms of European exports to Mercosur countries. Andean countries also have strong comparative advantages in export of primary products to the EU, especially in the product category food, drinks and tobacco (SITC 0+1). The Andean Community shows a long-term comparative advantage in exports of energy products, but with the downward trend since the end of the commodity price boom. In general terms, the EU has a comparative advantage in all manufactured goods exported to Andean states. The largest positive comparative advantage of export in food, drinks and tobacco (SITC 0+1) within the LAC region is evident in Central America, as the LFI has the value of more than 24 in 2019 (Table 2). Central American countries also have a positive comparative advantage in the export of raw materials to the EU (SITC 2+4). However, Central America has a comparative disadvantage in export of all the other product categories (SITC 3, 5, 6+8 and 7). Central America's comparative disadvantage in other manufactured goods has decreased, but its comparative disadvantage in exports of machinery and vehicles has increased considerably over the last two decades.

In terms of Caribbean countries, relatively moderate positive comparative advantages are achieved in exports of food, drinks and tobacco (SITC 0+1), raw materials (SITC 2+4) and energy products (SITC 3). CARIFORUM is the only LAC regional grouping that shows a positive comparative advantage in exports of chemicals (SITC 5) to the EU. Furthermore, its comparative disadvantage in exports of machinery and transport equipment (SITC 7) and other manufactured goods (SITC 6+8) is lower as compared with other LAC subregions. Mexico has a comparative advantage in exports of all primary goods, but its level of trade specialization in categories such as food, drinks and tobacco (SITC 0+1) and raw materials (SITC 2+4) is relatively low. Mexico shows the highest comparative advantage in exporting energy products (SITC 3) to the EU. Despite the high share of machinery, transport equipment and other manufactured goods in Mexican exports to the European Union, the LFI values suggest that Mexico has a comparative disadvantage in exports of manufactured goods. Chile also has a comparative advantage in food, drinks and tobacco (SITC 0+1), and raw materials (SITC 2+4). Until 2017, Chile had a comparative advantage in exporting other manufactured goods (SITC 6+8) to the EU. On the other hand, the EU has a strong comparative advantage in terms of exports of machinery and transport equipment (SITC 7) to Chile. To sum up, the European Union has, with some exceptions, a comparative advantage in the categories such as chemicals and related products (SITC 5), other manufactured goods (6+8), and machinery and transport equipment (SITC 7). On the contrary, Latin American and Caribbean countries or subregional groupings have a strong comparative disadvantage in exports of

manufactured goods, whereas they have a positive comparative advantage in export of primary commodities (SITC 0+1 and 2+4).

Table 2: Values of the Lafay index of interregional trade between LAC subregional groupings or individual countries and the EU in the period 2002-2019

<i>Subregional grouping/ country</i>	<i>Product category</i>	<i>2002</i>	<i>2005</i>	<i>2008</i>	<i>2011</i>	<i>2014</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Mercosur	<i>SITC 0+1</i>	18.34	16.70	16.49	15.50	18.13	17.07	16.24	17.04
	<i>SITC 2+4</i>	12.25	12.50	14.05	15.33	15.02	13.34	13.51	13.05
	<i>SITC 3</i>	-0.03	0.54	1.17	0.43	-0.09	-0.89	0.02	0.33
	<i>SITC 5</i>	-8.15	-7.87	-6.96	-6.47	-9.20	-9.81	-9.18	-9.76
	<i>SITC 6+8</i>	-0.91	-1.52	-2.93	-4.19	-4.07	-2.97	-3.29	-3.79
	<i>SITC 7</i>	-20.45	-19.21	-20.24	-20.31	-19.65	-17.15	-17.04	-16.81
Andean Community	<i>SITC 0+1</i>	18.94	20.33	17.76	14.43	15.60	20.51	20.84	22.98
	<i>SITC 2+4</i>	3.96	7.12	7.51	8.25	6.56	9.30	9.44	8.44
	<i>SITC 3</i>	6.24	8.14	10.66	14.01	16.77	8.03	6.56	2.72
	<i>SITC 5</i>	-11.05	-8.70	-7.92	-8.24	-8.66	-9.81	-10.74	-10.22
	<i>SITC 6+8</i>	-5.36	-3.98	-5.26	-4.68	-6.79	-6.47	-7.07	-6.87
	<i>SITC 7</i>	-18.33	-21.28	-22.14	-23.26	-23.26	-21.25	-19.47	-20.10
Central America	<i>SITC 0+1</i>	17.64	16.37	20.37	20.15	19.16	26.34	25.17	24.16
	<i>SITC 2+4</i>	2.39	1.73	1.87	1.56	3.10	6.43	5.74	6.59
	<i>SITC 3</i>	-1.49	-1.80	-3.09	-2.77	0.10	-1.29	-1.44	-2.10
	<i>SITC 5</i>	-8.59	-8.30	-6.77	-10.65	-10.42	-11.18	-9.67	-9.16
	<i>SITC 6+8</i>	-8.47	-7.47	-5.12	-7.01	-7.78	-4.22	-2.82	-0.69
	<i>SITC 7</i>	-0.80	0.38	-6.74	-0.43	-3.59	-15.29	-16.53	-18.01
CARIFORUM	<i>SITC 0+1</i>	10.06	6.68	2.74	3.57	4.17	5.34	3.35	2.53
	<i>SITC 2+4</i>	4.61	4.51	4.53	2.75	2.61	2.44	2.90	2.89
	<i>SITC 3</i>	2.36	2.58	16.33	14.65	8.00	2.48	3.50	7.44
	<i>SITC 5</i>	0.07	-1.63	-0.31	0.19	0.60	3.15	6.04	3.55
	<i>SITC 6+8</i>	-4.09	-4.67	-6.21	-7.88	-6.76	-7.43	-8.03	-8.44
	<i>SITC 7</i>	-12.82	-8.09	-17.63	-16.54	-12.82	-11.06	-10.67	-9.71
Mexico	<i>SITC 0+1</i>	1.33	0.93	1.19	1.21	1.15	1.15	1.16	1.08
	<i>SITC 2+4</i>	-0.24	0.83	0.79	1.25	1.58	1.65	1.29	1.16
	<i>SITC 3</i>	9.37	11.20	4.16	4.83	9.40	5.64	6.46	4.58
	<i>SITC 5</i>	-2.89	-4.37	-5.46	-5.28	-5.18	-5.10	-4.76	-5.23
	<i>SITC 6+8</i>	-4.98	-1.64	-2.13	-3.93	-2.57	-2.46	-3.11	-2.94
	<i>SITC 7</i>	-2.91	-6.43	0.53	-0.47	-6.21	-1.84	-1.78	-1.06
Chile	<i>SITC 0+1</i>	11.69	8.78	8.25	8.65	11.55	13.20	13.52	14.87
	<i>SITC 2+4</i>	8.54	11.57	10.07	11.62	14.24	15.25	14.16	13.56
	<i>SITC 3</i>	-0.15	-0.22	-0.26	-3.18	-1.27	-0.46	-0.17	-0.19
	<i>SITC 5</i>	-4.51	-3.08	-4.63	-3.66	-4.84	-3.47	-2.74	-2.53
	<i>SITC 6+8</i>	7.07	8.47	8.92	12.87	4.83	0.46	-1.50	-1.08
	<i>SITC 7</i>	-25.03	-24.48	-22.84	-26.58	-24.56	-24.47	-24.66	-25.85

Source: author's own calculations based on Eurostat data 2021b.

6 CONCLUSION

The agreements concluded between the EU, on the one hand, and Latin American and Caribbean countries or subregional groupings, on the other, are generally comprehensive and involve not only commitment to liberalize trade in goods, but also commitments on trade in services, investment, competition policy, transparency of public procurement, trade and sustainable development and many other issues. There are some elements of asymmetry or differential treatment in EU-LAC trade agreements, such as the asymmetric process of trade liberalization between the EU and Caribbean as well as Central American states, which arises from different levels of development between trading partners. Many agreements also include commitments to promote the process of regional economic integration and support export diversification of Latin American and Caribbean countries. After the ratification and entry into force of the EU-Mercosur Association Agreement, the European Union would have the trade agreements with almost all Latin American and Caribbean countries except Bolivia, Cuba, Haiti (has not ratified nor is it provisionally applying the CARIFORUM-EU EPA) and Venezuela. Therefore, trade agreements, especially those based on interregional approach, have become an important tool of EU foreign policy in terms of developing external economic relations with LAC countries, as well as promoting its geo-economic and geostrategic interests in a given region.

The aim of this paper was to examine the development of extra-EU trade relations with Latin America and the Caribbean before and after the entry into application of interregional trade agreements, focusing on the changes in comparative advantage of interregional trade flows. An analysis of changes in interregional trade flows between the EU and Latin American and Caribbean subregional groupings or individual economies shows that since the trade agreements have entered into (provisional) application, the trade flows between regional entities have not increased, except for Mexico. Regarding the commodity structure of interregional trade, the EU exports to Latin America and the Caribbean are dominated by machinery and transport equipment and other manufactured goods. On the other hand, primary products, with the exception of Mexico, continue to dominate in EU imports from LAC region. The results of the Lafay index of international specialization confirm the existence of asymmetry in external trade between LAC subregional groupings or individual economies and the EU. The European Union has, with small exceptions, a long-term comparative advantage in the categories such as chemicals and related products, other manufactured goods, and machinery and transport equipment. Latin American and Caribbean countries or subregional groupings have a strong comparative disadvantage in exports of manufactured goods, whereas they have traditionally a positive comparative advantage in export of primary commodities. It seems that the application of trade agreements has not affected comparative advantages significantly.

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