

The Prospects of Economic Interaction between CEE EU Member States and LAC countries¹

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Relations between Eastern Europe and Latin America have in recent decades been shaped by domestic political difficulties, geopolitical changes and deep economic transformation. From the perspective of economic history, the two regions share important characteristics. Being made up of peripheral country groups of world economy, both regions had faced “peripheral structural crisis”² since the seventies. (Berend 2004) Terms of trade began to deteriorate after the 1973 oil shock, foreign trade deficits had dramatically increased and almost all countries in both regions slid into the debt trap (albeit to varying degrees, especially in CEE). In the wake of the global changes of the late eighties, both regions underwent deep transformation and restructuring. Their development paths and global economic positions were uprooted during this period. Entry into the European Community by ten Central European countries had opened up new regions to the CEE which it had either only few or politically hampered links with. Latin America and the Caribbean have enjoyed a period of rapid growth over the last more than fifteen years, their international economic position changed, a number of countries have been able to ease their dependence on international economic institutions. The region has become one of the fastest emerging parts in global economy today.

The economic crisis in 2008 hit the LAC region much less severely than it hit advanced countries, but as a result of the shifting international economic and political framework and the social and economic implications of global challenges, certain changes regarding domestic and external economic policies had started to unfold in the region. Although some of the CEE economies faced above average output decline in 2009, most of them were soon able to regain their momentum owing

¹ CEE = Central and Eastern Europe; LAC = Latin America and the Caribbean

² Peripheral structural crisis means the preservation of the traditional economic structures and low technology production levels after the introduction of certain reforms from time to time. As a result, innovations remained weak; the financing of technology upgrading continued to be difficult. In principle this means the inability of a region or a country to abandon its non-competitive economic structures and replace it with a more competitive one, which would be desirable to adjust to ever increasing international competition. These experiences had long-lasting consequences in countries at the global peripheries. Using the Schumpeterian analogue, the developments in CEE and Latin America seemed to have been aimed to demolish earlier economic structures without creating something new, competitive structures. Instead of creative destruction, the destruction without creation became an important feature of development in both regions.

to their modernized, competitive economic structures. The region as a whole would be able deliver much better economic performance than the “core” of the European Union – particularly the large and most developed countries therein –, but the development prospects of the countries in the CEE are now mixed. The economic crisis in the USA and Europe brought about a need to diversify trade relations both in the CEE and LAC region and it also questioned some of the earlier assumptions on the sustainable and linear convergence of these peripheral countries.³

This paper is a first draft of a larger project which attempts to systematically analyze the most important economic aspects behind relations between the CEE and the LAC countries from a multidisciplinary perspective. The attempt will explore economic history comparisons, development model concepts, external trade developments, investment relations and the possible future impacts of mega-trade agreements under negotiations from CEE-LAC perspectives. The study is organized as follows: economic historical introduction; framework of trade relations between CEE and LAC; the trade pattern and the future prospects for and drivers of intraregional economic relations after the economic crisis. Additional aspects of the relations between the two regions will be analyzed at a later stage of the research. Suggestions and recommendations for further directions of the research are highly appreciated.

CEE and Latin America – an introduction from an economic history perspective

The CEE and Latin America had shared several similar characteristics well before the systemic crisis of the late eighties, which caused comparable economic imbalances and domestic inequalities to arise in both regions. Although several differences between their domestic economic systems and political structures had always been evident, the analogy of the challenges facing the regions stemmed from their comparable position in the international division of labor and their underdeveloped, uncompetitive economic structures. Similarities between these two geographically vast areas were based on the fact that both had been on the periphery (or semi-periphery)⁴ of global development for several centuries. The most important feature of being based in a peripheral location is the dependence of economic development on external factors – such as the interests of core regions or the availability of a large, protected regional market –, which determine the position of the countries in the international division of labor. A number of center-periphery theories correctly and in detail describe

³ LAC countries in this paper are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru, Panama, Paraguay, Surinam, Trinidad and Tobago, Uruguay and Venezuela. Sometimes the paper makes references to the whole region, but because of data availability (or lack of relevant data) in comparative tables, the information corresponds to this country group. CEE countries in this study refer to: Estonia, Latvia, Lithuania, Poland, Hungary, Czech Republic, Slovenia, Slovakia, Bulgaria, and Romania. The largest country in Eastern Europe – Russia – has been left out from this comparison as it is a completely different case, which requires deep analysis from another perspective. When appropriate, reference will be made to Russia being the largest and non-EU-member country in Eastern Europe.

⁴ Semi-periphery refers to a situation in which a country in a specific historical context is able to act towards other regions as a center while remaining on the periphery of other regionally close core countries.

the most important characteristics of such an economic-geographical position and the difficulties the concerned countries would face if they wished to break away from the vicious cycle of underdevelopment. (Wallerstein 1974)

The CEE and the LAC countries had experienced a very deep economic and political crisis and transformation since the beginning of the 1970s when significant changes were taking place across the global economic environment.⁵ Both regions underwent strikingly similar economic processes independent of ideological, economic or/and political settings evident at the time in these countries. (Berend 2004) The crisis in the regions can be best interpreted as a problem relating to insufficient efforts and the inability to adjust to the rapidly changing international economic environment unfolding during these decades. In Latin America economic growth slowed significantly and trade deficit became unsustainable. The increasing deficit led to spiraling indebtedness – a phenomenon that was observed in most part of the CEE too. Indebtedness, however, was only a temporary solution to the problems and became a long-term trap and had eventually led to an economic disaster as Brazil, Mexico, and Argentina accumulated billions of US dollars in debt, while in Poland, Hungary, Romania or Bulgaria the debt service consumed the lion's share of their export income. This triggered a series of region-wide crises, first in Latin America and later in the CEE region. The similarities between the Latin American economic performance and the East European one clearly demonstrate the region-specific and therefore the very peripheral character of the problems associated with global restructuring and the lack of flexibility in adapting thereto.

The debt crisis in Latin America resulted in a serious setback in economic development, which was interpreted as the failure of the previously pursued economic development strategy. In the CEE the problems associated with the lack of technological development and scarce financial resources had caused economies to stagnate. The failure of the state-led industrialization model⁶ had in general caused economic strategies to change. The economic adaptation needs in the LAC during the nineties required similar structural and regulatory adjustments that were already in place in the CEE.

After the collapse of the communist systems in CEE, the interest shown by Latin America towards the region was quite strong, and similarly CEE showed intense interest in LAC given the previously mentioned parallel economic development path in earlier years and the application of the same transformational model in both regions. The comparable transformation needs and reform efforts

⁵ This change was related to the oil crisis and the collapse of the Bretton Woods system. The oil crisis inhibited the competitiveness of production and eliminated even the smallest of prospects for technological development. The problems with the Bretton Woods system led to increased volatility of the exchange rate systems exposing them to international economic changes. This had triggered several waves of exchange rate crisis in the LAC region in the eighties and the nineties. The increasing external pressure in the same period prompted a spiraling indebtedness in some of the CEE countries and crowded out investment in technology intensive production.

⁶ This model is often called "import-substitution industrialization" which, however, only captures one aspect of the model in place in Latin America from the 1950s to the 1970s, and it is not necessarily the most important one. CEE applied a somewhat similar development strategy, in which the state played the key role in economic and social development. The failure of both models was linked to the inherent problems of state intervention and external economic pressures.

across several sectors made it possible to contrast strategies, methods and instruments applied in these years. Analyses of methods and priorities of privatization and pension reforms along with comparative research on political and economic problems in these two large regions of the world were popular and high in number in those years. (Górski 1994) A number of interesting and thought provoking books and studies were published comparing the transition in Latin America and the CEE and several large scale international conferences were held on the subject of the problems and challenges of complex and deep transformation, indebtedness and development strategies. But later owing to growing domestic economic and political problems and the increasingly intra-regional economic and political approaches and priorities, the initially intense interests were replaced by less frequent and sporadic interaction.⁷

The early years of transition from the end of the eighties were characterized by high hopes of quick and successful development. The opportunity for democratic transformation and catching-up was opened wide for these countries. The international community, including the EU and the United States, showed interest in global transformation for a number of reasons. From a geopolitical perspective, the transformation was pivotal, as it underlined and reinforced the end of the Cold War; the bipolar global system was first replaced by a unipolar superpower system, which later gave way to a multipolar or a renewed bipolar system. The new economic and political pattern that started to develop in both regions was based on the liberal market economy model with the objective of opening up markets and integrating them into world economy.

After the eighties the countries in CEE lost the protective shield of the safe and uncompetitive COMECON (Council for Mutual Economic Assistance) market and were forced to enter the world market and to compete with advanced industrialized countries, which had already adjusted to the new technological regime. Furthermore, they had to compete not only in the world market, but also on their own, opened domestic market. As a consequence, the peripheral structural crisis, prolonged since 1973, not only continued, but also deepened in the 1990s given that the most important bottleneck in the way of rapid restructuring, i.e. the lack of capital, could not be overcome overnight. A similar development path was followed in the majority of countries in the LAC region too: the unsuccessful adjustment of former decades coupled with global economic liberalization and the difficulties related to debt crisis had forced several countries in Latin America to modify their domestic and international economic development strategies and approaches.

A broadly accepted set of criteria for a reform program, known as the Washington Consensus of 1989, was put forward by the International Monetary Fund, World Bank, and the American administration as a blueprint for the regions' economic transformation process. Its core elements included the macro-economic stabilization of countries with high inflation and indebtedness, and the

⁷ We saw renewed mutual interest mostly in recent years in the wake of the economic crisis when a series of business meetings were held in Europe, some of them in CEE. The strengthening EU-LAC relations may now be indicative of mutually advantageous future prospects.

establishment of new institutions and the passage of legislation required for market economy; price and trade liberalization, and the radical privatization of an economy almost completely owned and operated by the state.⁸ The concept was based on the explicit assumption that the elimination of distortions in these economies by the use of a laissez-faire free market system would automatically solve all the major economic and even social problems of the countries undergoing transformation. This was the key to the door of prosperity and catching up with the West. The programs were introduced all across Eastern Europe and Latin America with various degrees of intensity and variable sequencing. Although relatively strong in the pre-transformation years, the economic relations between the two regions had marginalized in the nineties since both regions oriented their international economic strategies towards other priority regions parallel with their domestic economic reforms. In addition, increasing competition between the two regions was feared to be developing.

The need for diversification of international economic relations became important for both regions after 2008. (Éltető 2014) This need coupled with the evolving new international economic environment may open up new prospects for an economic exchange between LAC and CEE despite the significant geographical distance. Without nurturing unsubstantiated expectations and optimism, we may expect that the future of economic relations between the two regions will be promising especially in comparison to the nineties when relations were severely weakened. Against this backdrop analyzing the trends of trade relations between the two regions and the future prospects is a challenging task.

Trade between CEE and LAC – the framework

Although the total volume of exports and imports has multiplied during the past decade between LAC and CEE countries, it is still marginal when compared to the regions' global trade flows. There has been a continuous upward trend in mutual trade but its total value in 2014 was still only a little over fifteen billion USD. Not surprisingly, the share of different countries in this trade within each region is extremely uneven given the very different size and economic potential of the countries. In the LAC region, the GDP of Brazil is alone makes up more than 35% of the total, which is otherwise comparable to the GDP of the UK and Italy, but Mexico is also among the fifteen biggest countries of the world. The CEE countries are generally very small with the only exception being Poland, which is the sixth largest economy in terms of total GDP in the European Union.

⁸ The original idea of the Washington Consensus was based on the poor Latin American economies, not East Central Europe. John Williamson, "What Should the World Bank Think about the Washington Consensus?" *The World Bank Research Observer*, vol. 15, no. 2 (August 2000), pp.251-264. In fact the application of this later gave way to accusations that the whole transformation had been based on ideologies and principles that were not in the interest of the Central European countries, but only of the West as was supported by renowned western, mostly American advisors.

The large geographical distance between the regions has always made interregional trade considerably difficult. But despite the natural barrier to economic relations, before World War II the trading activity between the two regions was relatively vibrant. Some of the big countries from Latin America (Argentina, Brazil and Mexico) became targets of export from some of the CEE countries. In particular Czechoslovakia, Hungary and Poland were able to establish closer trade links in manufacturing products. After World War II, the 50s and 60s saw a second wave of intensified trade relations between the two regions. During that time socialist countries of the Soviet Bloc aimed at establishing closer relations with every country outside the advanced “West”. But the 80s brought about the collapse of trade explained partly by the waves of financial crisis in the LAC region and the economic backsliding and increasing macroeconomic imbalances in the Eastern Bloc. The export of the CEE countries before the nineties was almost exclusively based on the activity of state owned companies and trade was facilitated by a network of CEE diplomatic missions all across the Latin American continent.

The reasons behind the the marginalization of trade and economic relations in the nineties were partly related to the structural adjustment policies introduced in most of the LAC countries, which resulted in the falling imports. It was the significance of geographically distant countries that declined the most. On the other hand the economic collapse of the CEE coupled with the aspiration of becoming EU members had shaped and determined trade reorientation in the region to such an extent that there was simply no room left for building stronger economic relations with the LAC. The LAC had ceased to be a potentially significant trading partner for the CEE region.

Although the comparison of economic transformation of these regions used to be a popular research topic for some time, the economic and political priorities of the CEE were concentrated exclusively on integration into the transatlantic security and economic organizations. From this perspective the transformation of priorities in the LAC countries showed a somewhat similar pattern. The liberalization of domestic economies was coupled with an external opening – although to a different extent – and this had led to a wave of Latin American regional integrational efforts. (EU-LAC FOUNDATION 2012) Economic opening in several countries prompted the participation in regional economic integrations (Preferential Trade Agreements – PTAs) both in the LAC and the CEE. Prior to and even after the accession of the CEE countries to the EU for a few years there was a high risk that agricultural products from the LAC and the CEE countries would end up competing in the “old” EU member states’ markets. The impacts of this anticipated competition, however, were insignificant.⁹

⁹ It must also be added that one of the most important elements in international economic relations, namely capital flow remained extremely low, and its level was largely controlled by large multinational firms present in both regions. This phenomenon is explained by the increasing importance of Global Value Chains analyzed more intensively in recent decade. (See inter alia: IMF 2013)

After the first decade of transformation, the CEE countries continued and even intensified their integrational efforts with the EU with strong focus on neighboring countries.¹⁰ The share of the European Union in the total exports of several CEE countries reached more than 80% - a previously unprecedented figure in intra-EU trade. On the other hand, in the LAC region the economic models pursued by the individual countries had become much more diversified (in the nineties they had more harmonized strategies mostly because of the structural adjustment programs they were forced to choose.) Some of them continued to focus on open international economic relations, while other countries started to change their policies (or preserved earlier patterns more than other countries in the region) and applied much more inward-looking, protectionist approaches. Just to mention a few examples: Chile and Mexico opted for an open economic model based on extensive trade liberalization efforts. Some other countries, mostly in the Central American region also followed this pathway, which is basically a strategy aiming to strengthen economic relations with the “core” country in the Western Hemisphere, the US. Probably the strategy pursued by this country group resembles the one most that was followed by the CEE countries prior to accession to their “core” region, the European Union.

The other group of countries in the region opted for a somewhat different strategy – albeit on a very different level. This country group mostly includes the MERCOUR states, which also experienced rapid economic growth before the crisis of 2008 due to the favorable terms of trade changes and improving domestic economic conditions. Being important exporters of natural resources and agricultural products, they were able to deliver good economic indicators, which also translated into better living standards. Independent of the model the countries had opted to follow, the favorable international environment supported by factors such as low international interest and inflation rates, rapid growth of foreign and domestic demand, economic growth accelerated substantially at the end of the nineties.¹¹

Favorable GDP growth figures that were sustained for several years after the first shocks of economic transformation and the new economic strategies had transformed these regions. The importance of the LAC countries in global economic and power relations has increased significantly largely owing to the dynamic development rates of big countries in the region. Brazil has become one of the BRIC countries and its rapid economic development coupled with the objective of poverty reduction led to increasing domestic demand and improving living standards. At the same time,

¹⁰ It is worth mentioning that the current EU member states from the CEE region applied very similar transformational and international economic integrational strategies although the sequencing of the reforms was considerably different. While the Baltic States, Poland and Hungary were considered rapid transformers, the changes were either more cautious in Slovenia and in the Czech Republic, the transition was burdened by severe domestic political problems and challenges in Romania, Slovakia or Bulgaria.

¹¹ The divide mostly corresponds with the different geographical division of this region between Pacific and Atlantic coast countries. One group pursued a much more outward looking strategy with significant trade opening efforts reflected in the participation in large number of PTAs, while the other group of countries continued to apply a more inward-looking economic strategy and were reluctant to participate in regional trade liberalization efforts. (EU-LAC Foundation 2014: 48)

several CEE countries became members of the European Union. This had been their primary objective since the beginning of systemic transformation.¹² By becoming part of a large important political and economic entity, the fashion in which to pursue their international economic policies had changed considerably. Their trade policies became integrated into the EU framework which opened new perspectives for them in trade with countries they had previously not had preferential agreements.

The rapid growth rates in the LAC and CEE countries, which exceeded those of the advanced countries prior to the economic crisis, were indicative of a rapid convergence path and the intensification of “decoupling”, i.e. the growth rates of emerging countries are supposed to be increasingly independent of the growth trends in developed world.¹³ Today, however, decoupling no longer seems achievable, at least not to the extent it was thought to be before the crisis of 2008. The slowing growth rates of emerging markets shortly after the collapse of growth in the developed countries and the new trends in global economy (reshoring, better economic performance of the United States, etc.) suggest that there are limits to the convergence and the growth model applied earlier. As a result of experiences with the economic, political and economic reforms and the implications of the economic crisis, economic strategies may again change in both regions and deviate greatly from the pre-crisis approaches.

In recent years the development path of the EU has been seriously hit and future economic development has become cumbersome. International and domestic economic development, the current state of international political relations, and the uncertain development of the European Union have created an environment in which previous relations and decisions can be questioned, previously developed relations may be changed, strategic directions may be modified without clear identification of future objectives.¹⁴ As a result, several CEE member states started to look for possibilities to diversify their development paths and their international economic relations. The crisis created an environment previously unknown in many of the EU countries. And amidst the challenge of this almost unprecedented problem and the unexpected processes that took place within the EU, the room for maneuver for individual countries seems to have increased the range of available policy choices. Such a trend and development is quite obvious in a number of EU member Eastern European countries

¹² The first wave of enlargement took place in 2004 and included the three Baltic States, the Czech Republic, Hungary, Poland, Slovakia and Slovenia, and in the second wave of accession in 2007 Romania and Bulgaria joined the EU. Croatia is the most recent member of the EU. During the accession process because of the conditionality of membership, the CEE countries were willing to transform their economic and political structures rapidly and in a similar fashion. After accession however, economic and political strategies started to change and diversify.

¹³ The objective of decoupling became an important objective of less developed countries after World War II in order to weaken or completely eliminate the asymmetric dependences on advanced countries. Dependence was considered to be a major barrier in the way of structural modernization and convergence with advanced countries in terms of level of development. This dependence, however, continued to characterize the majority of the countries in the less developed world before the global changes of the nineties took place. Only very rapid growth in the years immediately after the turn of the millennium was able to secure the conditions necessary to ease dependence on the advanced world. Long-term success, however, is still not guaranteed.

¹⁴ Probably this explains the unknown or very vague EU strategies, for example, in Hungary and the Czech Republic.

and there seems to be an economic philosophical dividing line emerging. Although membership in the EU poses an external pressure to which countries have to adjust, the differences between individual country strategies are still clearly visible.¹⁵

Changing trends and strategies can be observed in several countries in the LAC region too. Once fully market oriented countries started to shift towards larger budget spending in order to improve living condition and mitigate the negative social implications of the crisis while inward-looking, protectionist countries started to toy with the idea of introducing measures with the objective of external liberalization. Complete convergence between the models previously applied in the LAC is not to be expected at all, but the changes in the international environment, the need to improve competitiveness while preserving social stability created an environment in which the economic policy responses in the region can be integrated.

Seen as a potential key contributor to changing economic dynamics in the future, the recent development and/or improvement of institutional arrangements may impact on the EU (CEE)-LAC trade as well as on broader economic relations. From among the institutional developments, the establishment of the CELAC is worth mentioning along with the improvements in the MERCOSUR-EU negotiations. (EU-LAC FOUNDATION 2014) It is most certainly true that the economic crisis had contributed to the revival and strengthening of these institutional developments, but it is clear that in the CELAC the earlier conflicts concerning strategic directions of development are still evident. This implies that the expected increase of efficiency as a result of these institutional developments cannot be taken for granted at all.

If economic relations and market accessibility improve however in the framework of EU-LAC relations, it may impact positively on trade flows with the CEE countries too. From the economic development perspectives it is in the interest of the CEE countries to support improving relationship and well functioning institutional arrangements between the EU and the LAC.

An additional factor which may have a beneficial impact on the trade and broader economic relations between the two regions concerns the new mega-deal proposals (the TTIP and the TPP)¹⁶, which constitute a new-generation of negotiations aimed at repositioning economies in a more intensified global competition. Today mega-trade deals seem to be used more extensively to influence

¹⁵ Divergence in economic philosophies must also be identified. Poland, the Czech Republic and Slovakia continue to apply a market oriented model where the state aims to create the conditions for long term economic growth by providing incentives through the provision of a business friendly environment. At the same time, in Hungary, state control is thought to be superior to market solutions in many areas, not an unknown phenomenon in other countries as an after crisis approach. Other countries from the region may also change somehow their economic philosophies facing the long standing economic problems of their most important economic partner the EU.

¹⁶ Mega-regional FTA is used to refer to agreements that involve three or more countries; cover at least 25% of global trade flows; and include regulatory commitments rather than trade liberalization. (Draper, Lacey, Ramkolowan 2014: 8) From another perspective these deals can be classified as deep arrangements which cover several measures beyond tariffs. These agreements also change tariffs but the most important implications relate to nontariff barriers, regulations and standards, or other similar measures. (Lawrence 1996)

future economic, political and interstate power relations on a global scale. The uncertainties regarding the impacts of these agreements are significant and no-one can predict the future with much confidence. It is, however, certainly true that the conclusion of these agreements will impact considerably on the trade prospects either directly or indirectly in both regions independent of participation.¹⁷

The pattern of trade between the CEE and the LAC

The economic and foreign policy interests of the LAC and the CEE countries towards each other have been low key but the potential for stronger relations is evidently visible now in the wake of the economic crisis. It must be stressed that in both regions only few countries play a major role in mutual trade and the majority of the countries nurture less frequent and subdued economic relations. The most active countries in the respect are the two biggest economies in the LAC, Brazil and Mexico, and from the CEE region Poland and – to a lesser extent – Hungary and the Czech Republic.

In the LAC the traditional patterns of trade followed the structure of the economy which was mostly based on the important role of agricultural and mineral products. This pattern started to change in several countries due to the emergence of large regional firms in the manufacturing industry and the development of global value chains which have several dozens of subsidiaries in different countries. (But there is Venezuela, for example, where the concentration on oil-related products has increased further surpassing 95% of total export revenues.) These big firms are able to engage in international trade with distant countries. The increasing role of the corporate networks might be an important driver of future trade flows between these two regions, but their impact is presently relatively insignificant. (IMF 2013)

In the CEE deep structural changes had taken place by the mid-nineties which created a completely new economic environment in which some manufacturing sectors dominated by foreign firm became the driving forces behind export restructuring. When the CEE countries began to establish closer trade relations with the EU from the mid-nineties, increasing competition between the LAC and the CEE countries in the EU market was anticipated. Although agriculture became less and less important as an economic sector in the CEE after the systemic changes, the improved market access of these products with accession to the EU created a better framework for CEE exports over LAC exports of agricultural products to a highly protected EU market. The fears, however, did not prove to be substantiated because of the compatibility of the export structure in agriculture-related

¹⁷ TTIP would impact for example the CEE through two main channels. Products may reach the US market either directly or indirectly, via the network of large transnational firms as intermediary products, to be built into the final product, or as final products, re-exported from other EU member states. Various theories and empirical analyses try to capture the characteristics of the changes in the international division of labor and the spread of GVCs. These also show that the V4 countries are very much integrated into GVCs mostly through the foreign-owned subsidiary network of large foreign firms. The automotive sector is an increasingly important sector for each of the Visegrad countries in terms of their participation in GVCs. (IMF 2013: 1)

sectors of the CEE and the LAC. As regards to the sectors of natural resources, the same considerations apply. The LAC countries have large reserves of several minerals (for example: oil, silver, copper, manganese) while in the CEE region large reserves only exist in Poland (mainly coal). From these perspectives the trade sectors of the two regions are rather complementary, which reduces the possibility of significant conflicts of interest.

Barriers to trade manifests themselves largely in the vastness of the geographical distance stretching between the two regions. An additional problem relates to the fact that traditional maritime trading routes were established between big Western European ports instead of sea ports in CEE countries. The other difficulty that relates to distance is the lack of highly developed infrastructure between the LAC countries, which makes the transportation of products within this vast area difficult. In addition, the numerous administrative, bureaucratic measures in effect between several LAC countries further hinder the development of trade. These infrastructural and administrative barriers limit the potential for increasing trade exchanges between the two regions. Since SMEs – which otherwise play a key role in developing strong trade relations – are generally unable to overcome these problems, it is reasonably expected that parallel with the trade diversification needs of the countries in both regions, the role of large firms will be exceptionally important in achieving higher turnovers in international trade. It must also be added that the future development of trade will most likely depend on the investment policies and strategies of large firms. Since domestic firms in the CEE region are in most cases relatively small in international comparison, an upward trend in bilateral economic relations can only be achieved if big firms see some advantages to create stronger economic and investment ties between their subsidiaries present both in the CEE and the LAC.

The structure of trade between the LAC and the CEE seems to follow the traditional pattern of trade between the EU and the LAC region without any significant difference. It is mostly because by today the economic structure and trade pattern of the CEE and the EU have become very similar. LAC export is mostly characterised by the sale of natural resources, agricultural products and some manufacturing exports with relatively low value added. As it was noted earlier, some countries – particularly Mexico and Brazil – have different trade patterns due to the operation of large firms in some higher value added sectors. At the same time CEE export is more specialised on higher value added manufacturing products.

There is an additional perspective that further improves the potential for more intense economic interaction between the two regions. The majority of the countries in both regions are middle income states, which means that by pursuing appropriate economic policies and utilising the growth momentum associated with growing external and domestic demand, potential growth rates may be relatively high (especially compared to growth rates in more advanced countries). Rapid growth may be translated into growing import demand. The question here concerns the income elasticity of the domestic demand in both regions. Are there products exported to each others' market that can benefit from the increasing income more than the product produced in other countries?

In theory at least, the potential in exploiting the neighboring markets in both the CEE region and the LAC countries might be a good opportunity worthy of exploration. From this perspective the proximity of the US to Mexico and the proximity of the big Russian market to the Central European region is worth taking into account. The possible utilization of these big market potentials, however, requires significant foreign direct investments. At this stage however, CEE investments in the LAC region and LAC investments in the CEE region are negligible. Realistically speaking the soaring of investment volumes in the near future cannot be reasonably be expected. The diversification attempts in both regions have focused on other directions (LAC – China; CEE – Middle East, China). Still this can just be another factor that may contribute to more intensified and much deeper relations between the two regions.

Not only was the 2008 economic crisis a turning point in the economic and political prospect of the European Union, but it also signaled the intensification of global economic restructuring. It is also most certainly true that with the crisis we entered into a new phase of international power relations.¹⁸ One of the implications relates to the divergent economic growth rates between regions. The EU experienced relatively unfavorable development while the LAC region and a number of emerging countries displayed a sort of crisis resistance although it is true that their growth prospect were also impacted along with their development paths. After 2008 trade reorientation among large regions became visible and the LAC became an increasingly important target for FDI from the EU. The growing importance of the LAC as an investment target clearly signaled the diversification attempts at the EU level which, however, were not reflected in mutual trade flows. (EU-LAC FOUNDATION 2014)

The propensity to trade in the LAC and CEE countries has been widely different. Trade between the two regions mostly concentrate on a few countries while some countries simply do not have any trade and investment relations with one and other, which is not surprising when we consider that size of the CEE and some of the LAC countries. It is mostly the larger countries that seek to trade with each other in both regions and two countries in particular, Brazil and Mexico, have succeeded in generating outstanding trade volumes with the CEE region. Mexico and Brazil have multiplied their trade in the last decade and it is remarkable how volumes soared after the economic crisis. In their trade with the CEE, these two countries have run relatively high and widening trade deficits in recent years. Some of the CEE countries, most importantly Poland, Hungary and the Czech Republic have been able to significantly increase their export volumes to these countries too. In addition to this country group, Romania is also an increasingly important export market. From the perspective of the CEE, Mexico and Brazil are undoubtedly outstanding as trade partners.

¹⁸ As Pascal Lamy, Director-General of WTO in 2012 put it: “The old theories and hypotheses which governed the way we looked at trade in the twentieth century will require better calibration with the new reality of trade in the twenty-first century.” See: http://www.wto.org/english/news_e/sppl_e/sppl258_e.htm

Other countries from the LAC which have relatively large trade with the CEE countries mostly because of the importance of certain bilateral trade relations include Peru, Uruguay, Chile, Argentina, Colombia, and Venezuela. In their cases, however, significant volatility can be observed both between years and the value of trade with different CEE trading partners. Just to mention some interesting and widely different trends: Argentina imports marginally from the CEE but it has relatively big import volumes from Poland, the Baltic States or Bulgaria. Chile essentially exports only to Bulgaria and Poland without having any sizeable trade with other CEE countries. Columbia imports relatively heavily from Lithuania, Latvia, Hungary, Czech Republic, Romania, and Poland while it has exports almost exclusively to Poland and Slovenia, but its volume is very small. Peru exports practically only to Bulgaria but the imports from the V4 countries has increased significantly in recent years. Uruguay has trade relation with Latvia and Hungary while Venezuela maintains trade relations with Hungary and Romania. The majority of the bilateral flows are under € 100 million, but there are some relations where the actual value of trade is above 200 million euros.

There is an important phenomenon in the CEE-Latin America trade which should be taken into consideration and this is trade through intermediaries. The implication of this form of trade is that official bilateral statistics do not fully reflect the volume of exports and imports between the two regions. Managed by intermediaries in Germany or the Netherlands, the incoming products from the LAC are re-exported to the CEE countries. This type of trading is sometimes much easier for Latin American producers, who do not really know the regional markets, business customs and language. Apart from that, there are also indirect trade tax purpose. For example, a Hungarian importer must deposit the Value Added Tax in advance if they buy fruit directly from the LAC. As a result, bilateral trade flows taken from statistics may seem somehow misleading, but the distortion probably does not imply really significant miscalculation.

This phenomenon can most probably be observed in the opposite direction too. CEE products reach the LAC market either directly or indirectly, via the network of large transnational firms as intermediary products, to be built into the final product, or as final products, re-exported from other EU member states. As a recent IMF study concludes in relation to the emerging German-led global value chain in the V4 countries: “The growth of the supply chain has increased the exposure of Germany and the V4 to final demand outside Europe, to an extent not captured by bilateral trade statistics. Spillovers from aggregate demand and policy actions in the rest of the world are now much larger than before. Conversely, German domestic demand spillovers to the V4 remain relatively small. Much bilateral trade between Germany and the V4 is in intermediate goods: final demand in Germany is not the main determinant of V4 exports to Germany.” (IMF 2013: 2) It also means that the final destination of several intermediary products in the CEE manufacturing export has not been captured by bilateral statistics. The issue of GVCs is increasingly important, although the extent to which it plays a role in CEE LAC trade relations is very difficult to identify.

Conclusions

Economic relations and external trade between the LAC and the CEE have been impeded in the past two decades owing to several factors. One of the most important problems is the lack of knowledge and understanding of each other's region. Companies and individuals know little about other regions and the language barrier also seems to be presenting more of a problem here than in other trade relations. The problem of lack of knowledge deepened from the beginning of the nineties when in both regions profound economic and political transformation was taking place and international economic and political priorities were working in completely different directions.

The geographical distance is a crucial problem despite the significant upgrades to the transatlantic transport networks. Direct transport routes however have not been extensively used because of the strong presence of Western European firms participating in the transatlantic trade intermediation and because the use of Western European sea ports makes transportation to the CEE even more expensive. These infrastructural difficulties can be observed in both directions. Because of the nature of trade and transportation, it is most certainly true, however, that the current level of trade is higher than what statistics lead us to believe.

Trade between the two regions has also been burdened by cumbersome regulations. While the LAC faces difficulties in their export of agricultural products to the EU and the risk of competition from the CEE in this product group may indeed exist, in the other direction the difficulties of exporting certain manufacturing products make CEE exports to the region difficult. Since the CEE is an emerging car producer hub in Europe, the CEE would be interested in improved market access to the LAC especially in this industry.

Trade between the two regions (and the LAC and EU as whole) has been carried out by large firms in accordance with the recent emergence of global production networks. The role of SMEs in this trade relation has been much weaker due to the information flow and geographic problems. In addition, it seems that the role SMEs play in the EU and the LAC economies is very different, which makes the establishment of cooperation between SMEs even more difficult.

The framework between the EU and the LAC has improved in recent years from an institutional perspective but it has not been yet translated into significantly stronger economic relations. In addition, the clear diversification objectives in terms of international economic relations from both the LAC and the CEE have not led to more intensified trade and investment relations.

There are a number of uncertainties that may impact on the future of trade between the LAC and the CEE. These uncertainties include the future development direction of the EU and its implication of the EU's international ambitions; the efficiency of institutional organizations within the LAC; the development of the global economic environment; and the outcome of the mega-deals under

negotiations (TTIP, TTIP). The question of China may also become an increasingly important issue. This complex set of uncertainties makes the prediction of future developments of economic relations (trade and investments) between the EU and LAC very uncertain.

To conclude, trade and investment relations have been at a very low level between the LAC and the CEE, but the global transformation, the need for diversification, the growing domestic demand in both regions can potentially create a good basis for increased economic exchange. Realistically, we have to be aware of the limitations of deepening mutually beneficial trade and investment relations, but the LAC-CEE economic cooperation may serve as a supplementary channel to the strategic orientations of both regions. From this perspective, the outcome of mega-trade deals may change the picture.

As far as the future direction of research is concerned, the exploration of FDI relations, the potential of tourism and cultural exchange may also be useful and interesting along with the overall prospects of the EU-LAC relationship, which – by definition – would impact on the CEE-LAC perspectives as well. In addition, the institutional and entrepreneurial level of trade and investment promotion may also be interesting points for study in a more detailed manner.

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Firts daft. Your comments and suggestions are welcome.

| CEE import from the LAC countries (EUR millions) | | | | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1999 | 2001 | 2003 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Poland | 523 | 907 | 807 | 749 | 1 081 | 1 121 | 924 | 1 010 | 1 319 | 1 213 | 1 472 |
| Hungary | 413 | 452 | 484 | 262 | 232 | 320 | 224 | 336 | 659 | 792 | 949 |
| Romania | 184 | 353 | 324 | 590 | 610 | 632 | 447 | 459 | 782 | 570 | 572 |
| Slovenia | 69 | 93 | 199 | 4 170 | 313 | 370 | 421 | 424 | 466 | 626 | 433 |
| Czech Republic | 193 | 386 | 468 | 288 | 212 | 278 | 188 | 233 | 286 | 319 | 278 |
| Lithuania | 40 | 51 | 66 | 53 | 75 | 70 | 70 | 99 | 113 | 123 | 203 |
| Bulgaria | 98 | 186 | 260 | 584 | 728 | 707 | 539 | 566 | 226 | 288 | 100 |
| Latvia | 2 | 8 | 11 | 15 | 22 | 29 | 11 | 12 | 23 | 17 | 93 |
| Slovakia | 64 | 93 | 109 | 51 | 50 | 71 | 37 | 73 | 56 | 60 | 58 |
| Estonia | 15 | 17 | 26 | 33 | 26 | 36 | 21 | 32 | 34 | 54 | 36 |
| Total | 1 605 | 2 551 | 2 759 | 2 798 | 3 353 | 3 639 | 2 887 | 3 249 | 3 971 | 4 066 | 4 198 |

| CEE export to the LAC countries (EUR) | | | | | | | | | | | |
|--|------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1999 | 2001 | 2003 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Poland | 274 | 354 | 409 | 387 | 553 | 797 | 353 | 594 | 697 | 839 | 1 056 |
| Czech Republic | 96 | 190 | 161 | 355 | 511 | 558 | 701 | 747 | 823 | 960 | 993 |
| Hungary | 136 | 178 | 140 | 241 | 295 | 365 | 290 | 500 | 551 | 815 | 807 |
| Romania | 59 | 128 | 73 | 177 | 281 | 316 | 221 | 249 | 431 | 545 | 592 |
| Slovakia | 37 | 52 | 32 | 55 | 108 | 177 | 133 | 266 | 197 | 236 | 241 |
| Slovenia | 35 | 53 | 32 | 41 | 54 | 67 | 54 | 76 | 106 | 111 | 120 |
| Estonia | 4 | 14 | 8 | 19 | 32 | 57 | 23 | 92 | 80 | 157 | 117 |
| Lithuania | 21 | 9 | 10 | 16 | 31 | 64 | 43 | 78 | 72 | 99 | 103 |
| Bulgaria | 27 | 38 | 57 | 86 | 101 | 109 | 37 | 68 | 98 | 86 | 75 |
| Latvia | 5 | 15 | 16 | 23 | 25 | 119 | 25 | 18 | 21 | 43 | 30 |
| Total | 699 | 1 037 | 942 | 1 406 | 1 996 | 2 634 | 1 885 | 2 692 | 3 081 | 3 894 | 4 138 |

Source: Own calculation from Eurostat data