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## **Opportunities for Latin American development in the European market<sup>1</sup>**

José Manuel García de la Cruz (Universidad Autónoma de Madrid)

David Matesanz Gómez (Universidad de Oviedo)

Ángeles Sánchez Díez (Universidad Autónoma de Madrid)

### Abstract:

In this work we have analyzed the opportunities that the European markets represent for Latin America from a development point of view. The importance of international trade for economic growth is not discussed anymore; the question is related to the product specialization pattern that countries should achieve to obtain welfare gains from their international exchanges. In this fashion, the commercial partners become a central issue for defining the specialization pattern. This work takes this point of view and shows the specialization pattern of Latin American exports to the European Union highlighting their developmental opportunities.

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## 1. Previous ideas

What is the point of studying Latin American exports to the European Union? The answer can be found in examining bilateral trade characteristics, and from the Latin American point of view, in the opportunities that the European market provides in supporting the economic growth strategies of the Latin American economies.

The importance of international trade in strengthening national economic growth is a firmly held notion among economists and the public at large. In fact, the orthodox economic tradition had elaborated several theoretical interpretations to justify the importance of foreign markets in progressing on the domestic front. From the contributions of Adam Smith, with his interpretation of absolute advantage, to the highly sophisticated Heckscher-Ohlin model, mainstream economic theorists have cited economic liberalization as a basic component of any economic growth strategy.

More recently, with the definitive proclamation of economic globalization as the natural state of the competitive economy, the World Trade Organization (WTO) dedicated a chapter in its 1998 Annual Report to explaining the impact of trade on development in a globalized context, with a categorical conclusion: *"Historical experience and an impressive body of accumulated evidence show that open markets within a rule-based system are indispensable to future growth and prosperity"* (WTO, 1998; 59).

Beyond the ideas arising from theoretical arguments and empirical validations, one issue related to the links between trade and domestic growth (or development) must be pointed out. Although theoretical studies of comparative advantage refer to national economies, in reality they're analyzing the behavior of agents, that of firms and corporations. The role assigned to the nation is restricted to a frame of reference in which firms make the most of natural resources or labor, in an attempt to benefit from relative price advantages. Therefore, it comes as no surprise that the logical consequence of theoretical reasoning is that international trade must be ruled by the basic principles of perfect competition theory (Pipitone, 1997). International trade, especially imports, put pressure on companies' costs, forcing them to improve the quality of their products (static effects), as well as to enhance their competitiveness via economies of scale, and ongoing innovation, knowledge acquisition and training (dynamic effects). Ultimately, it is the market and the reactions of the economic agents (the firms) which bring about specialization, leaving nations a passive role in the wake of changes imposed by competition. However, international relations based on the commercial linkages between firms are not an all-or-nothing game for countries according to their degree of competitiveness in the market. An overall negative economic outcome is a real possibility if a country locks itself into a vicious cycle of specialization (Krugman, 1994 and 1997).

It is worth spending some time reflecting upon the WTO's assertion concerning the ruled-based system. In this regard, the WTO is an organization of nations that recognizes that the governments themselves have to define international trade rules in spite of its strong defense of a multilateral free trade system. In other words, it's absolutely clear that liberalization cannot be a unilateral decision, that competition has to be regulated and that trade agents are subject to agreed-upon multilateral rules.

This is not new for orthodox authors like Samuelson (1962) and many others whose contributions seem to be forgotten at times.

Therefore, the importance of recouping the role of national economies as relevant actors in the international trade regime implies a perspective change. It represents the possibility of overcoming a passive view of trade and of highlighting the importance of power in economic relations, a stance which goes hand in glove with the tradition of Latin American Structuralism.

In this sense, the fact that the focus of the European Union Common Trade Policy is to negotiate commercial terms with its counterparts (in this case Latin America), is quite advantageous, as it presents the possibility of negotiations which would otherwise be difficult under a multilateral framework. This allows for an evaluation of the potential opportunities that European markets could offer in terms of enhancing Latin American trade, and thus, underscores the value of analyzing the features of Latin American exports to the European Union.

Understanding the composition of exports is a key factor in determining the possibilities for change in exports' income elasticity and ultimately, in defining a national economic growth policy able to overcome current account deficits in the balance of payments (Thirlwall, 2000). In the end, this is a central issue in resolving the long term deterioration of the terms of trade and the limits of export-based economic growth (Prebisch, 1950). This is presently a hot button issue, as the defense of unrestricted market liberalization is being pushed yet again following the recovery of the international prices of raw materials. However, this renewed emphasis on liberalization ignores the experiences of the Washington Consensus, as well as the causes and consequences of the "lost decade". It is usually forgotten that, unless the conditions of international markets are at the present time more favorable, there exists a big difference between the elimination of restrictions to export expansion and the implementation of public policies which promote exports as a basis for future progress (Fishlow, 1998). Assuming that competition of imports in the domestic market can, without a doubt, contribute to improvements in the allocation of productive factors and the efficient use of national resources, this competitive pressure does not guarantee the increase of export capacity, nor ensure national economic growth.

Therefore, the answer to the initial question is clear enough: understanding how Latin American exports to Europe are contributing - or not- to the strategy of consolidating economic growth as implemented by Latin American economies in recent years.

For this purpose, this chapter analyzes the present situation of Latin American trade with Europe taking into account their quantitative dimension, the specialization and competitiveness of Latin American exports to the European Union, and their complexity and diversity within the period 1997-2007. The analysis focuses on Latin America as a whole, as well as various national economies and regional trade blocs, including the South American Common Market (MERCOSUR), the Central American Common Market (CACM), the Andean Community (AC), Chile and Mexico.

The rest of the chapter is organized as follows: the next section presents the importance of Latin America in international trade, while the third section analyzes the

diversification of Latin American exports as an indicator of export capacities developed by the region, as well as options for its future dynamism in world markets. The fourth and fifth sections then analyze the specialization and competitiveness of Latin American exports to Europe<sup>2</sup>, summed up by several concluding remarks and policy recommendations.

## **2. Latin American foreign trade within global commerce**

Between 1950 and 2008, the value of world merchandise exports increased more than 250 times, while the volume of exports proliferated 32 times over reaching a value, in nominal terms of almost \$16.000 billion in 2008. At the same time, real economic output has “only” been multiplied by about 8.5 (WTO, 2010.) These figures clearly mark the great importance and dynamism of international trade in the world economy.

In 2008, Latin America trade flows represented less than 4% of the world market, while Europe continued to be the most important region in the world, where 2/5 of international trade took place (when intra-European trade is taken into account). In recent decades both regions have observed a diminishing in their world market share in favour of Asia, in particular, with respect to China<sup>3</sup>. Nevertheless, Latin American exports grew at 9.5% annually in nominal currency during 1997-2007, reaching almost \$700 billion in 2007.

Thus, Latin American market share is but a small fraction of overall international trade, which, having observed a slight but persistent drop in recent decades in terms of world market share, has seen some recovery in the last few years. Within Latin America, MERCOSUR and Mexico represent the most important exporters and importers in the region in absolute terms, while the MCCA region and Chile are the smallest ones in quantitative terms. By contrast, Europe is a major player in the international trade arena even if their dynamism over the last few decades has been slower than other regions in the world, as has been the case with Latin America.

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<sup>2</sup> Latin American exports to Europe include the following countries (constituting Western Europe): Austria, Belgium, Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom, Iceland, Norway and Switzerland. Throughout the chapter we use the terms European Union, Europe and Western Europe interchangeably in referring to this group of countries.

<sup>3</sup> Asia increased its share of world market exports to 29% in 2008, compared with its 20% market share in 1985 (Chinese exports represented 9% of the world market in 2008; 2% in 1985) In comparison, Latin American exports represented 5.5% of the world market, while in 2008 only 3.7% were Latin American exports. Europe lost 3% of their world market share in this same period. Finally, we believe that Latin American exports have been recovering dynamism in recent years since reaching their low point in world market share in 2003, representing only 2.9% of the world export market.

### 3. Diversity and complexity in Latin American exports.

Traditional studies on structural change highlight the fact that changes in the composition of economic systems promote overall growth, giving way to productivity within individual industries (Salter, 1960). The main reason is due to the fact that the scope for productivity advance differs markedly across industries, mainly due to different rates of technological progress. In recent decades, emphasis has been placed on the idea that an important part of productivity growth can be found within individual industries (Fagerberg and Verspagen, 2002), confirming the importance of the structural change process but also pointing to the micro-transformations within specific industries.

These changes within and among industries are linked to transitions in the composition and volume of exports of a country. In fact, it is expected that the development process based on increases in a country's overall productivity generates a more complex and diversified variety of exports. This complexity and diversity seem to be not only a consequence of previous economic development but also a determinant of its future capabilities and potential for continued economic development (Saviotti and Frenken, 2008) Therefore, the degree of complexity and diversity of a country's exports not only reflect the capacity to produce a range of products but also reflect the type of products that the country will be able to develop in the future based on current existing capabilities at the national or regional level (Hidalgo and Hausmann, 2009)

In this fashion, the complexity and diversity of the type of products exported by a country mirrors its future capacity to improve its international trade performance abroad. Moreover, the information provided shows the degree of specialization of a country: if diversity is low, the country is very specialized in a few trade products. To the contrary, if diversity is high the international trade pattern of a country is less specialized and more complex.

Following Saviotti and Frenken (2008), we have used an entropy measure applied to the distribution of sectoral exports of a country (or group of countries). The Shannon (1948) entropy,  $H$ , is computed by:

$$H = - \sum_{i=1}^{N_{\text{intervals}}} p_i \log_2 p_i$$

Where  $p_i$  stands for the share of sector  $i$  in total exports and  $N$  intervals represents the number of the sectors. Broadly speaking, entropy measures the extent to which the distribution of export value is concentrated within a few sectors; thus, it can be regarded as a measure of disparity and complexity of the sectoral distribution from the uniform one. A three digit CUCI sectoral disaggregation has been used,

yielding 240 sectors<sup>4</sup>. If entropy is low, the export distribution is concentrated in a few sectors.

Table 1. Latin American export variety in Europe, Asia and the World (entropy index). 1997 and 2007

	<i>Total exports</i>		<i>Exports to Europe</i>		<i>Exports to Asia</i>	
	<b>1997</b>	<b>2007</b>	<b>1997</b>	<b>2007</b>	<b>1997</b>	<b>2007</b>
<b>Latin America</b>	<b>4,54</b>	<b>4,30</b>	<b>4,03</b>	<b>4,03</b>	<b>3,84</b>	<b>3,36</b>
MERCOSUR	4,48	4,31	3,73	3,88	3,50	3,04
CACM	3,56	3,62	1,82	2,11	2,82	1,14
CAN	3,33	2,90	3,21	3,06	2,96	2,21
Chile	3,20	2,50	2,50	1,99	1,87	1,61
Mexico	4,12	3,89	4,01	3,31	3,69	3,69

Source: Own calculations based on Economic Commission for Latin America and the Caribbean (ECLAC), Competitive Analysis of Nations (CAN) software

Table 1 shows the entropy index applied to Latin American exports as a whole and to selected regions and countries between 1997 and 2007. The complexity and diversity of exports to the world, to Europe and to Asia have been calculated in order to make regional comparisons. The results from the entropy index yields several interesting results. Firstly, export diversity in Latin America has tended to diminish, signalling an increase in the specialization of the product trade pattern in the region from 1997 to 2007. Secondly, with respect to regional destinations, Latin American exports to Europe are more diversified than those to Asia, but it is globally (this includes exports to Europe and Asia) where Latin American exports demonstrate higher diversity and complexity. Finally, it can be observed how diversity arising from exports in bigger countries is higher than in smaller ones. For instance, is clear that MERCOSUR and Mexico show higher export diversity than other regions, independent of their destination area.

These results suggest that Latin American exports to Europe, compared with those to Asia, have inherently higher capacities and therefore, can more easily foster future exports and domestic production.

#### **4. Characteristics of Latin American trade with Western Europe**

The most relevant feature of the commercial relationship between Latin America and Europe is the asymmetry of the quantitative importance of bilateral trade (see table 2). For Europe, Latin America is a minor commercial partner since imports

<sup>4</sup> Here, the uniform distribution would be that in which every export sector value represents exactly 1/240 of the total export value.

and exports to and from Europe represent only around 5-6% of total European commercial trade. To the contrary, these proportions are around 15% for Latin American exports to Europe. Meanwhile, imports from Europe in 2007 represented close to 12.5% of total imported goods in Latin America when just a decade before this percentage was much higher, approximately 17%. This asymmetry implies that Europe is a very important market for Latin American exports while in the other direction the opposite seems to be the case.

We can also observe how European markets for Latin American exports are more important for MERCOSUR and Chile and clearly less relevant in quantitative terms for Mexico. Finally, it is shown that the annual rate of export growth is higher in Chile and Mexico in the decade 1997-2007, while the CACM has the lowest growth during this period.

Table 2. Latin American exports to Europe. Percentages over total exported and annual rate of growth (1), 1997-2007.

	<i>Exports</i>		<i>Imports</i>	
	<i>1997</i>	<i>2007 (1)</i>	<i>1997</i>	<i>2007</i>
Latin America	<b>15,8</b>	<b>16,3 (9,5)</b>	<b>17,1</b>	<b>12,5</b>
MERCOSUR	26,7	25,3 (8,8)	26,5	18,6
CACM	18,5	17,1 (7,0)	9,3	7,3
Andean Community	17,3	15,6 (9,0)	17,9	10,6
Chile	25,0	24,9 (14,2)	n.a	n.a
Mexico	4,2	5,50 (12,7)	n.a	n.a

Source: Own calculations based on Economic Commission for Latin America and the Caribbean (ECLAC), Competitive Analysis of Nations (CAN) software

Regarding the sectoral specialization of the region, it is clear that primary goods and raw materials are at the heart of regional specialization, as they represent more than 40% of total Latin American exports. This kind of sectoral export to Western Europe was nearly 60% of the total in 2007, showing a bilateral trade pattern defined by the comparative advantage between both regions<sup>5</sup>. However, within the decade of analysis it can be observed that Latin America increased their primary good specialization in world trade, particularly that of fuel and raw materials. Meanwhile, in their commerce with Western Europe, an upgrading trade pattern with an increase in manufactures in terms of their proportion in the basket of goods exported to the region can be observed. In this sense, it is possible to talk about a Latin American industrialization in terms of their exports to Europe during 1997-2007, as well as a de-industrialization in their exports to the rest of the world (clearly related to the increase in export value to Asia which is based on raw materials).

<sup>5</sup> Although not reported here, Latin American imports coming from Europe are mostly manufactured goods.

Table 3. Latin American export sectors. Percentage and thousands US dollars. 1997-2007

<i>Standard International Trade Classification (SITC), Revision 2</i>	<i>Latin American exports to the world</i>		<i>Latin American exports to Western Europe</i>	
	<i>1997</i>	<i>2007</i>	<i>1997</i>	<i>2007</i>
0 Food and live animals chiefly for food	17,7	12,2	39,2	26,5
1 Beverages and tobacco	1,5	1,2	3,1	2,0
2 Crude materials, inedible, except fuels	8,2	11,7	18,8	18,0
3 Minerals fuels, lubricants and related materials	13,2	17,1	6,4	10,3
4 Animal and vegetable oils and fats, processed and waxes	1,0	0,9	0,6	1,1
5 Chemicals and related products, n.e.s.	4,9	5,2	4,3	4,2
6 Manufactured goods classified chiefly by material	13,1	13,6	14,3	18,4
7 Machinery and transport equipment	27,2	27,5	9,4	13,9
8 Miscellaneous manufactured articles	10,9	7,6	3,5	3,9
9 Commodities and transactions not classified elsewhere in the sitc	2,2	3,0	0,4	1,6
<b>Total</b>	<b>275.359.293</b>	<b>684.571.249</b>	<b>43.758.569</b>	<b>108.930.483</b>

Source: Own calculations based on Economic Commission for Latin America and the Caribbean (ECLAC), Competitive Analysis of Nations (CAN) software

Of course, there are differences among regional patterns of trade specialization. For instance, in contrast with the Latin American profile, exports of Mexican machinery and transport equipment to Europe represented 40% of total exports in 2007. A similar proportion is observed for the CACM in 2007 when ten years before these kinds of exports were insignificant. Both of these patterns are related to the maquila industry that has taken root in Mexico during the last 15 years and, recently, seems to be moving down to Central America in search of lower labour costs.

Another difference is presented by Chilean exports which are based on copper, representing more than 50% of Chilean exports to Europe. The other regions we have analysed present similar sectoral exports structures in their trade patterns with Europe and with the world as a whole<sup>6</sup>.

## 5. Competitiveness of Latin American exports in Europe and the world

The Economic Commission for Latin America and the Caribbean developed a methodology to analyse countries' and regions' competitiveness in terms of world trade (for a more detailed methodology description see Sánchez Díez and Villalobos,

<sup>6</sup> There are, of course, lots of differences in terms of exported products among regions, but from a sectoral point of view the presence of food and live animals and raw materials, including fuel and minerals, are the base of the Latin American regional export basket to Western Europe.



2010; Mulder, 2009; Martínez Piva and Cortés, 2004). The ECLAC competitiveness matrix of a country's exports is measured in two stages. First, world trade is divided into two products whose growth has been higher than the average (dynamic products or sectors) and those whose growth has been lower (retreat sectors). Second, the exports of a given country in the initial year are divided into two groups depending on whether or not the country increased its share of trade of a given product between the starting and final years (increasing or decreasing market share in the region of reference). Taking into account both considerations, we obtain a matrix composed of four kinds of competitiveness positions:

**“rising stars (RS)”**, dynamic products subject to increasing global demand, in which the country's competitiveness has enabled it to increase its market share in the region of reference.

**“lost opportunities (LO)”**, dynamic products in terms of global demand, in which the country's market share is declining

**falling stars (FS)”**, products that are declining on the world market (stagnant demand), but for which the market share of the country in question is increasing.

**“retreat (R)”**, products that are stagnant on the world market and in which the country's market share is declining

RS + LO = dynamic sectors in world demand	FS + RS = Increase in market share in the region of reference
FS + R = stationary sectors in world demand	R + LO = Decrease in market share in the region of reference

From the standpoint of future export expansion, the best option, particularly for larger countries or regions, is to increase its presence in dynamic markets. In this sense, the best competitive situation is that of “rising stars” because these exports represent the competitive sectors of a country which are also increasing in terms of worldwide demand. By contrast, the worst situation is that of “retreat” which corresponds to products that are stagnant on the world market and in which the country's trade share is declining.

We have applied this methodology to Latin American exports to Western Europe and the world as a whole during the decade 1997-2007. The competitive analysis of Trade Can is based on the three digits Standard International Trade Classification (240 sectors). Table 4 shows this competitiveness matrix for Latin America and selected sub-regions in the decade 1997-2007 where percentages come from the last year. In order to compare results we have analyzed both competitiveness matrices, that of Latin American exports to the world and to Western Europe.

First we observe is that 67.7 % of Latin American exports increased in the world market share while only 32.2% diminished in the decade 1997-2007. In the same direction but even more intensely, 88.6% of exported products to Europe expanded their market share. As a result, Latin American exports are recovering dynamism in world trade, with Europe representing a market where this is recovering especially quickly.

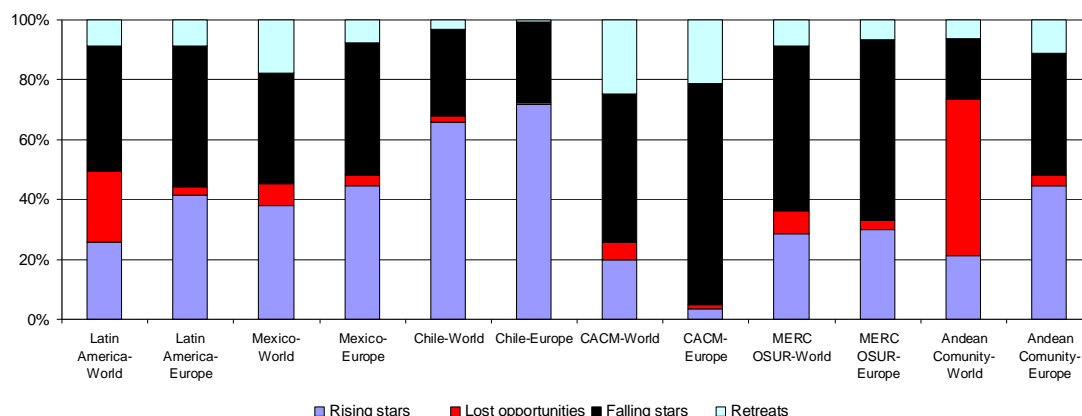
An important question remains: which sectors are responsible for these changes in market share in terms of dynamism in world trade? At this point, figure 1

shows how in the decade 1997-2007, approximately half of the products exported from Latin America saw an increase in global demand while the other half were stationary. Meanwhile, the products exported to Europe were more concentrated in stationary sectors globally, as they represented 56% of total exports to Europe. However, it is observed that exported products to Europe are more focused on “rising stars”, meaning that Latin American exports to Europe are increasing precisely in dynamic world demand sectors which have more potential for future exports (“rising stars” in the world are 25% of total exports). One can thus conclude that Europe is significantly contributing to the strengthening of the competitive export sectors in Latin America (we should remember that world includes exports to Europe).

Taking into account export products, dynamic Latin American sectors in Europe are concentrated in raw materials, minerals, food and live animals and, to a lesser extent, some industrial manufactures like ships, boats and medical instruments. “Rising star” exported products basically consist of copper, aluminium, petroleum, iron, ships and medical instruments. “Declining stars” are seeds, fruits, coal and some transportation manufactures. These products represent more than 65% of total exports to Europe.

In figure 1 it is clear that the analysed sub-regions in Latin America present an important heterogeneity in their competitive export sectors and products both in terms of trade to Europe and the world market. One common feature is observed for all sub-regions except for the CACM: the reinforcing competitive position in Europe for Latin American exports largely reflects results obtained in Chile, Mexico and the Andean Community which present a bigger proportion of exports in dynamic world demand and, in particular, “rising star” sectors.

Figure 1. Latin America export competitiveness. World and Europe. Market share, SITC, 3 digits level. Exports percentage in 2007



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Competitive Analysis of Nations (CAN) software

In terms of exported products, some national or regional differences are found in the competitiveness matrix. For instance, Mexico and Chile show the most dynamic

export profile to Europe with almost all exports belonging to the RS and FS categories. Chile demonstrates the highest proportion of rising stars, but they are very concentrated in the copper industry, representing 53% of total Chilean exports. The Mexican export basket shows a similar competitive position in Europe, but its export products are more diversified (including minerals such iron and steel, oil petroleum, medical instruments and telecommunications equipment). The Andean Community presents an upgraded competitive export profile in Europe when compared to their exports to the rest of the world. Export products however are strongly concentrated in minerals and petroleum products, accounting for 40% of total exports to Europe. The CACM has the worst competitive export profile, especially in European exports, since nearly 80% of them are stationary among global demand and therefore, focused on uncompetitive sectors. These export products are principally fruits, live animals and coffee. Finally, MERCOSUR shows a worse competitive export position than Latin America as a whole and other countries and sub-regions where stationary sectors account for 60% of total export to Europe.

Table 4. Competitiveness Ratios. 1997-2007. Latin America and selected Regions

Ratios	Regions	World	Europe
<i>Falling Stars / Retreats (FS/R)</i>	<b>Latin America</b>	<b>4,9</b>	<b>5,4</b>
	MERCOSUR	6,3	9
	CACM	2	3,5
	Andean Community	3,2	3,6
	Chile	9,3	39,9
	Mexico	2,1	5,8
<i>Rising Stars / Lost Opportunities (RS/LO)</i>	<b>Latin America</b>	<b>1,1</b>	<b>15,2</b>
	MERCOSUR	3,8	8,8
	CACM	3,4	3,1
	Andean Community	0,4	13,2
	Chile	31,1	194
	Mexico	5,1	13,1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Competitive Analysis of Nations (CAN) software

We have constructed the ratios of Falling stars/Retreat sectors (FS/R) and Rising stars/Lost opportunities (RS/LO) for Latin America and selected countries and sub-regions. The higher these ratios, the stronger the competitive position of a country or region in the area of reference. Moreover, the higher the second ratio, rising stars/lost opportunities, the more the specialization trade pattern has increased, not only in terms of its competitive position in the region of reference, but also in its focus on dynamic sectors with future potential in world trade. Table 4 shows these ratios for Latin American exports to Europe and to the world. When comparing both ratios we find two main features. Firstly, almost all ratios are above one, signalling that Latin America is increasing in terms of both world and European market share in the analyzed decade, although European ratios are clearly higher than global ones. In this

fashion, the Latin American quantitative export position is improving faster in Europe than the world as a whole. Secondly, concentrating on RS/LO ratio, it is observed that it is much higher in Europe than in the world. Since this ratio represents how the performance of countries' export market share is in dynamic sectors, these results suggest that the Europe is a relevant market in order to continue improving the competitiveness of Latin American exports.

## **6. Concluding remarks and Economic Policy implications**

The object of this chapter has been to examine how Latin American sales in the European economies are contributing to, or not, the consolidation of the economic growth path of Latin American economies in recent years. From what we have seen, what can we conclude?

1. Latin American exports to Europe have shown a steady 9.5% annual growth rate from 1997 to 2007, similar to their levels of export growth to the rest of the world. However, Chile and Mexico have shown significantly higher export growth rates to European markets, which can be directly linked to both countries' regional Association Agreements which facilitate their access to European markets.
2. The export growth during the decade of analysis has implied a decrease in Latin American export diversity and complexity. Nevertheless, comparing exports to Europe with those to Asia, we can observe how European exports have shown a higher diversity and complexity profile, and, at the same time, a less severe decline in diversity between 1997 and 2007 when compared with exports to Asian countries. This situation is similar for all analyzed sub-regions.
3. Manufactures exported to Europe demonstrate more dynamism than total exports even though the sectoral specialization of Latin American exports to Europe are more intensively concentrated in primary sectors. Moreover, sales in Europe have, generally speaking, been more successful at obtaining increased market share in most sectors, regions and countries.
4. On the other hand, although improvements in the exports of dynamic sectors has been greater globally than in Europe for nearly all Latin American regions (except Chile and Mexico), we can see that the ratio between rising stars and lost opportunities of Latin American exports is significantly higher in European markets than in the rest of the world. Only the CACM shows a worse competitive performance in Europe than in the world. Furthermore, the Falling Stars / Retreats ratio is higher in European markets than in the world as a whole.
5. These two competitiveness indicators of Latin American export sectors signal an important matter: the greatest gains in European market share are concentrated in dynamic sectors of the world economy. This should imply greater future potential for Latin American export expansion. In other words, European markets seem to be more attractive compared with the rest of the world as a whole, in implementing a Latin American trade strategy.

Therefore, as a general conclusion it can be said that Latin American economies should pay special attention to their sales\* (suena major decir exports o trade) in Europe due to: a) The positive contribution to export income and, especially, b) their effects on national production diversification given the more demanding nature of purchases in European markets. As we have shown, Latin American exports to Europe have demonstrated an upgrade in performance from primary sector exports to more diversified, complex and more valued added products.

This export performance in European markets coincides with the importance of increasing quantity, diversity and complexity of Latin American exports as a key element for economic growth and development in a medium and long term strategy as demonstrated by ECLAC (2008) and Mulder (2009), among others. As a result, the Latin American export pattern to Europe provides an important opportunity to foster national strategies of productive development and future economic growth. In this fashion, the highest export capabilities of Latin America are linked to European markets which would affect development capabilities and future options in international markets (as suggest Savioti and Frenkel, 2008, Hidalgo and Hausman, 2009 among others).

Finally, we should remark that the dynamism and competitiveness achieved by Chilean and Mexican exports show that preferential international agreements that encourage market access (Europe in this case) represent a key instrument for Latin American exports. It can be expected therefore that the same could happen for Peru and Colombia and possibly, for the Cariforum economies which have already signed a regional agreement within the European Union policy for African, Caribbean and Pacific countries (ACP). The same could apply to Central America, as a bilateral agreement was signed in May 2010 during the Madrid summit.

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