converged with the rest of Europe. With respect to GDP growth, Ireland is a 'fully-fledged tiger', outperforming the rest of Europe (and the USA). However, Irish income levels are still substantially below those of the other three economies. Ireland is unique in being the only country in which manufacturing employment has grown, albeit at very low rates. The Netherlands has achieved a remarkable rate of employment growth, higher than in the USA. However, there has been less growth in the working volume and wages almost stagnated over a fifteen-year period. The rising per capita income in the Netherlands is mainly a labour supply effect.

All four are open economies and opted for a policy of budget consolidation, low inflation and a strong currency, i.e. they either directly pegged their nominal exchange rate to the DM and thus surrendered any scope for monetary policy (Austria and the Netherlands) or they joined the European Monetary System (EMS) and thus indirectly depended on the monetary policy of the Bundesbank. Convergence in financial-market indicators of the four economies and the DM is clearly observable, but this requires not only that central banks focus their monetary policy to fix nominal exchange rates, it also requires a consistent mix of policies in order to exert a strong influence on expectations and to avoid speculation against the currency.

However, a common institutional feature of three of the four economies – Austria, Denmark, and the Netherlands – is the corporatist wage bargaining system, which may help in imperfect markets to avoid inflationary struggle about claims to GDP shares. Wage bargaining institutions are therefore an important element in the explanation for the macro-economic success of these economies. In the Netherlands, in addition, the wage bargaining process is embedded in a unique institutional setting which allows consistent (rational) expectations to be formulated in relation to future economic trends. It is the consistent mix of policies rather than the one or the other particular policy measure which appears to form the basis for the employment success. Thus, if this conclusion is correct, it may not be easy to imitate the success of the 'European tigers' because it requires the development of a consistent policy mix rather than just the imitation of the one or the other specific policy.

Peter Nunnenkamp*

EU Widening to the East: Must Latin America Be Concerned?

The pending widening of the European Union to the East has revived concerns in Latin America that its trade and foreign direct investment relations with the EU may suffer as a result. Trade patterns suggest, however, that Latin America's exports to the EU are complementary to the exports of Central and Eastern European countries and the new investment opportunities in Central and Eastern Europe appear to be inducing additional foreign direct investment, rather than causing its diversion.

Shortly after the regime change in Central and Eastern Europe, the European Union (EU) granted far-reaching trade preferences to various transition countries in that region. Eastern neighbours, on which the EU had traditionally imposed particularly harsh trade restrictions, were promoted to the top of the EU's pyramid of trade preferences.[1] At the same time, direct investors from EU countries discovered Central and Eastern Europe as a profitable investment location.[2] Trade and investment relations between current EU members and transition countries in Central and Eastern Europe are likely to receive another push once some transition countries become full EU members.

* Institute of World Economics, Kiel, Germany.

[1] U. Hiemenz et al.: Regional Integration in Europe and its Effects on Developing Countries, Kiel Studies 260, Tübingen 1994.

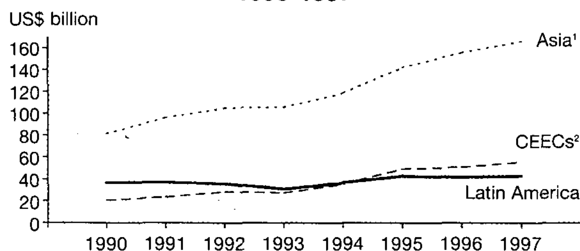
[2] J. P. Agarwal: Impact of 'Europe Agreements' on FDI in Developing Countries, in: International Journal of Social Economics, 1996, Vol. 23, Nos. 10/11, pp. 150-163.

All this has revived concerns that Europe may become more inward-looking. Especially in Latin America, the perception of being discriminated against vis-à-vis domestic EU suppliers and privileged trading partners of the EU is deeply rooted. Concerns are that proceeding regional integration in Europe may divert trade and foreign direct investment (FDI) further away from Latin American countries to Central and Eastern European countries (CEECs).

Such concerns are justified in principle. The notion of trade diversion is firmly established in the theoretical and empirical literature. Accordingly, Latin American exports to the EU might be adversely affected if the privileged CEECs were direct competitors of Latin American countries in EU markets. In contrast to trade diversion, the notion of FDI diversion lacks analytical foundation; while discriminatory practices are obvious as regards EU trade policy, FDI patterns are not shaped in any direct way by discriminatory practices related to FDI. Yet the notion of FDI diversion can be used to indicate a possible redirection of EU FDI flows from traditional recipients such as Latin America to new competitors such as CEECs.

Nevertheless, it is rather unlikely that Latin America is affected by significant trade and FDI diversion. This proposition will be substantiated in the following, first by analysing recent trade patterns, and second by discussing the issue of competition for FDI from the EU. The evaluation takes into account that recent trends may change once some CEECs become full EU members. The conclusion is that economic relations between Latin America and the EU depend primarily on the supply conditions prevailing in Latin America, rather than the widening of integration in Europe.

Figure 1
EU Imports from Selected Country Groups, 1990-1997



[1] Middle East and Japan not included.
[2] Sum of Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovak Republic.

Source: IMF: Direction of Trade Statistics Yearbook, various issues.

Latin America's Poor Performance

Latin America's exports to the EU have remained at the same level throughout the 1990s (cf. Figure 1). In current US$ terms, exports in 1997 were just 17 per cent higher than exports in 1990. This compares with a remarkable growth of EU imports from CEECs of 170 per cent in the same period. The latter development has certainly been supported by the shift from discriminatory to preferential EU treatment of the exports of CEECs. Moreover, it seems likely that the trend of relatively strong growth of EU imports from CEECs will continue, considering that some of these countries are scheduled to join the EU.

Yet it is open to question whether booming EU imports from CEECs were (and will be) at the expense of other trading partners in general, and Latin America in particular:

☐ First of all, the simulation of 'normal' trade patterns[3] suggests that the economic transformation of CEECs would have resulted in steeply rising exports to the EU even if preferential market access had not been granted.[4] In other words, the increase in EU imports from CEECs reflects trade creation, rather than preference-induced trade diversion.

☐ Second, the successful penetration of EU markets by Asian suppliers is inconsistent with the view that Latin America's poor performance in EU markets is due to trade preferences for CEECs. If discriminatory trade policies by the EU had been a major factor, Asian suppliers should have been the first to suffer from trade diversion. The EU applied discriminatory trade measures in particular against industrialising economies in Asia. Nonetheless, EU imports from developing Asia doubled in 1990-1997 (cf. Figure 1).

☐ Third, Table 1 reveals that Latin America lost market shares in EU markets well before trade diversion resulting from preferential treatment of CEECs could have played a role. As a matter of fact, the loss in market shares was much more pronounced in the 1980s, when exports of CEECs were treated most restrictively by the EU. Latin America fell behind other EU trading partners, irrespective of whether these trading partners had privileged access to EU markets (CEECs in the 1990s) or were subject to particularly discriminatory treatment (CEECs in the 1980s; Asian countries). It seems that the blame for

[3] This is done by using gravity models, which consider economic size and distance to be major determinants of the direction of trade.

[4] D. Piazolo: Trade Integration between Eastern and Western Europe: Policies Follow the Market, in: Journal of Economic Integration, 1997, Vol. 12, No. 3, pp. 259-297.

Latin America's poor performance in EU markets has to be put primarily on domestic supply constraints

Supply constraints in Latin America appear to have hindered manufactured exports to the EU in particular. For the bulk of manufactures, access to EU markets is not restricted for Latin American suppliers, i.e. preference margins favouring CEECs play a marginal role in manufacturing. Nevertheless, the commodity structure of EU imports from Latin America differs significantly from the commodity structure of EU imports from CEECs (cf. Table 2). Agricultural goods and primary commodities dominated Latin America's exports to the EU, whereas manufactured goods accounted for 75 per cent of exports from CEECs to the EU.

This difference points to rather small trade overlaps between Latin American and CEEC suppliers in EU markets.[5] Jessen provides further evidence to this effect; she presents detailed calculations of trade overlap indices[6] and concludes, 'There is in fact not much overlap between the two regions' export structures in the EU market. ... Latin American countries do not face strong competition from CEECs for the majority of their current exports to the EU'. Based on 1995 data, the index values are 0.43 and 0.21, depending on whether calculations are performed at the 2-digit or 6-digit level of SITC product categories.[7]

Not surprisingly, the degree of similarity with CEEC exports to the EU differs among Latin American countries. When calculated at the 2-digit SITC level, the index ranges from 0.05 in the cases of Costa Rica and Nicaragua to 0.39 and 0.49 in the cases of Brazil and Mexico. This may be taken as an indication that Brazil and Mexico, whose exports to the EU contain a relatively large share of manufactured products, face a relatively high risk of trade diversion.

However, a simple correlation exercise reveals that the export performance of 17 Latin American countries in EU markets is largely independent of the country-specific degree of similarity with CEEC exports to the EU. Export performance is measured by the ratio of EU imports from each of the 17 Latin American countries in 1997 and 1990. The correlation of this variable with the similarity index should be

Table 1
Share of Selected Country Groups in Total EU Imports, 1980-1997
(in per cent)

	1980[a]	1990	1997
Latin America	3.4	2.4	2.2
Asia[1]	3.3	5.3	8.5
Central and Eastern Europe[2]	1.5	1.3	2.8

[a] Refers to imports EU12.
[1] Middle East and Japan not included.
[2] Sum of Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovak Republic.

Source: IMF: Direction of Trade Statistics Yearbook, various issues.

Table 2
Commodity Structure of EU Imports from Latin America and CEECs, 1996
(in per cent)

	Latin America	CEECs[1]
Food, beverages and tobacco[2]	42.4	5.5
Crude materials, fuel and metals[3]	33.7	19.4
Manufactured goods[4]	21.1	74.9
Other[5]	2.8	0.2
Memo item: total (US$ billion)	42.3	60.5

[1] Sum of Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.
[2] SITC categories 0 and 1.
[3] SITC categories 2-4 plus 67 and 68.
[4] SITC categories 5-8 minus 67 and 68.
[5] SITC category 9.

Source: OECD: Foreign Trade by Commodities, Paris 1999.

[5] Trade overlap (or similarity) indices are often used as proxies of substitution elasticities between imports from different sources. (Cf. R. J. Langhammer: Latin America's Competitive Position vis-à-vis Central and Eastern Europe. Comment on András Inotai, in: B. Fischer et al. (eds.): Latin America's Competitive Position in the Enlarged European Market, Baden-Baden 1994, pp. 285-294.); IRELA (Institute for European-Latin American Relations): Closer European Union Links with Eastern Europe: Implications for Latin America, Madrid 1997. Trade diversion from discriminated to privileged trading partners is considered to be more likely if trade overlaps are strong, i.e., if the export structures of both partners are similar.

[6] The index presented by Jessen is defined as:

$$I = \sum_{I=1}^{n} Min(w_I^{LA}, w_I^{C})$$

where: I = product categories 1.....n;

w_{LA} = share of different product categories in total Latin American exports to the EU;

w^{C} = share of different product categories in total exports of CEECs to the EU.

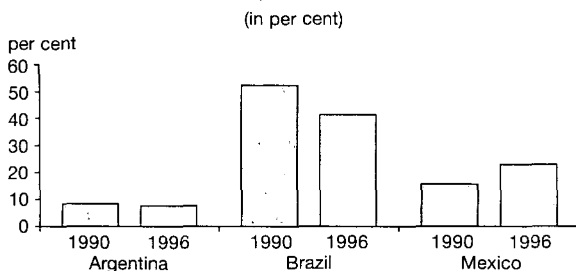
The index would take the value of 1, if the export structures of Latin America and CEECs were identical; the index tends towards zero, if product categories that figure prominently in Latin America's exports to the EU are of marginal importance in CEEC exports to the EU, and vice versa; cf. A. Jessen: Notes on the Possible Implications of EU Enlargement for Trade Flows between Europe and Latin America, presented at the Conference 'Integration Processes in Central Europe and Latin America and Prospects for Inter-Regional Links' of the Inter-American Development Bank, Budapest 1999 (preliminary draft).

[7] I appreciate Anneke Jessen's cooperation in providing me with her preliminary results. Calculations are subject to revision; final results will be published in a forthcoming study by Inter-American Development Bank.

negative if a relatively strong trade overlap had resulted in particularly poor export performance. The correlation coefficients are –0.27 and –0.20, depending on whether the similarity index is calculated at the 2-digit or 6-digit SITC level; both coefficients are statistically insignificant.

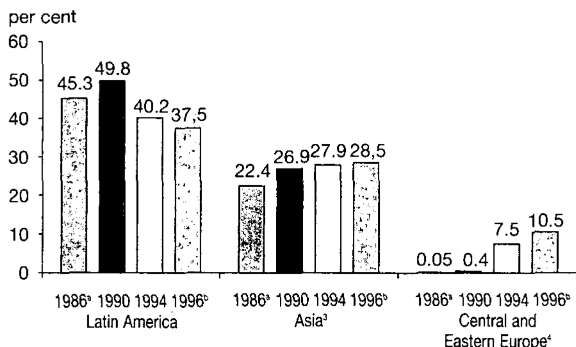
This result is consistent with the view that the export performance of Latin American countries in EU markets depends more on supply conditions in Latin America than on trade overlaps with CEEC exports. The same conclusion can be drawn from shifts in the shares of the three major Latin American suppliers, i.e. Argentina, Brazil and Mexico, in total manufactured exports of Latin America to the EU (cf. Figure 2).[8] Mexico, which was the first reformer among the three largest Latin American countries, succeeded in increasing its share, although the trade overlap with CEEC exports was strongest for Mexico. By contrast, Brazil's contribution to Latin America's manufactured exports declined considerably. It is unlikely to be pure coincidence that Brazil was a latecomer in economic reform even by Latin American standards. Domestic policy conditions play an important role with respect to FDI as well, to which we turn next.

Figure 2
Share of Three Major Exporters in Total Manufacturing Exports of Latin America to the EU, 1990 and 1996
(in per cent)



Source: OECD: Foreign Trade by Commodities, Paris 1999.

Figure 3
European Union[1]: Regional Distribution of FDI Stocks in Non-OECD Countries[2] 1986-1996
(per cent of total stocks in all non-OECD countries)



[1] France, Germany, the Netherlands and the United Kingdom.
[2] Including Czech Republic, Hungary, Korea, Mexico and Poland.
[3] Excluding Near and Middle East.
[4] Czech Republic, Hungary, Poland and non-OECD European countries.
[a] 1985 for France and the United Kingdom.
[b] 1997 for the Netherlands.

Source: OECD: International Direct Investment Statistics Yearbook, various issues.

Latin America's Attractiveness to EU FDI

As mentioned above, the notion of FDI diversion, in contrast to trade diversion, lacks analytical foundation. This term is used here as a catchword relating to the possible effects of fiercer competition for FDI, in our case emerging from CEECs, on traditional recipients of EU FDI in Latin America. The point made in the following is that regional integration in Europe, and EU enlargement towards the East in particular, has not impaired in the past – and need not impair in the future – Latin America's prospects of attracting FDI from the EU. This proposition is substantiated (i) by inspecting recent FDI patterns, and (ii) by discussing the motivations of EU investors.

Latin America has traditionally been the dominant host region of FDI from the EU in the non-OECD area. Almost half of the FDI stocks of the four major EU investor countries (France, Germany, the Netherlands and the United Kingdom) in all non-OECD countries were located in Latin America in 1985 and 1990 (cf. Figure 3). About 60 per cent of FDI flows from six EU countries[9] to the non-OECD area were channelled to Latin America in 1985-1987.[10]

Figure 3 shows that Latin America has lost attractiveness for FDI since 1990, if the share in EU FDI stocks held in the non-OECD area is taken as a yardstick. At the same time, EU FDI stocks in CEECs soared. However, these opposing trends can hardly be taken as an indication of FDI diversion. In the case of FDI diversion, all other non-OECD hosts should have suffered from the improved attractiveness of CEECs. The rising share of Asia in EU FDI stocks runs counter to this idea.

[8] Taken together, these three countries accounted for about 75 per cent of Latin America's manufactured exports to the EU in the 1990s; OECD: Foreign Trade by Commodities, Paris 1999.

[9] Flow data are also available for Denmark and Spain. OECD data for the remaining EU countries are either incomplete, inconsistent or completely lacking; cf. OECD: International Direct Investment Statistics Yearbook, Paris, various issues.

[10] Ibid.

Turning to FDI outflows from six major EU investor countries, we observe booming EU FDI in Latin America in recent years, precisely when CEECs received substantial FDI from the EU. Comparing average flows in 1995-1996[11] with average flows in 1990-1991, EU FDI flows into Latin America increased by a factor of 3.2. The corresponding increase amounted to a factor of 4.3 in Asia and 10.5 in Central and Eastern Europe (cf. Figure 4). The larger increase for the latter two regions points to additional FDI in host countries that were previously neglected by EU investors (Asia),[12] or that were closed to FDI until the demise of socialism (CEECs). In other words, we are observing FDI creation, rather than FDI diversion.

The distribution of EU FDI within Latin America reveals that it was mainly Brazil that suffered a seriously impaired attractiveness in the early 1990s (cf. Table 3). Brazil's share recovered precisely when it joined its neighbours in implementing economic policy reforms related to macroeconomic stabilisation and structural adjustment. A more detailed analysis supports the view that FDI developments in Latin America are closely related to the economic policies pursued by the respective governments.[13]

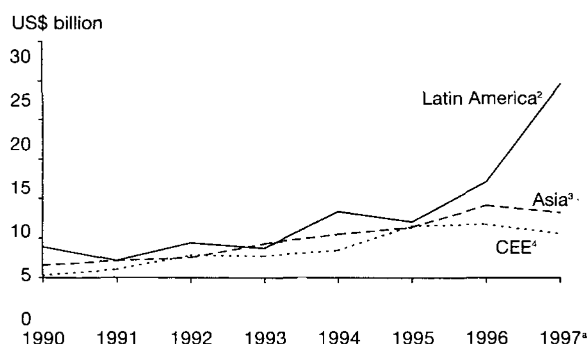
Summarising FDI patterns, it appears highly unlikely that institutionalised ties between the EU and CEECs, and pending EU enlargement to the east, have resulted in FDI diversion to the detriment of Latin America. EU FDI has been far from being a zero-sum game. Various Latin American economies restored their attractiveness to EU FDI exactly when CEECs emerged as new competitors for FDI (and when EU investors corrected for their earlier neglect of Asian host countries).

Yet, Latin America is facing some risk as concerns its future chances of attracting EU FDI. Considering investor motivation and different types of FDI, EU FDI in Latin America has traditionally been characterised by two phenomena:

- The manufacturing sector of Latin American host countries has been the principal target of EU FDI.[14] Only recently, privatisation programmes implemented by various Latin American governments have fuelled a significant increase in FDI in the services sector (mainly by Spanish and French companies).[15]
- EU investors, 'particularly from Germany, France and Spain, have a marked orientation towards the provision of local markets'.[16]

What do these phenomena imply as concerns the question of FDI diversion? According to conventional wisdom, FDI diversion is hardly a relevant issue with

Figure 4
European Union[1]: FDI Flows to Selected Regions, 1990-1997



[1] Denmark, France, Germany, the Netherlands, Spain and the United Kingdom.
[2] Including offshore financial centres.
[3] Excluding Japan as well as Near and Middle East.
[4] Czech Republic, Hungary, Poland and non-OECD European countries.
[a] Estimate for the Netherlands and the United Kindom, based on these countries' share in FDI flows of all six EU countries in 1994-96.

Source: OECD: Internal Direct Investment Statistics Yearbook, various issues.

Table 3
Share of Four Recipient Countries in European Union FDI Flows to Latin America,[1] 1980-1996
(annual averages in percent)

	1980-84	1985-89	1990-94	1995-96
Argentina	16.7	14.4	19.7	19.5
Brazil	50.3	51.5	30.5	39.1
Chile	5.8	9.2	8.4	6.4
Mexico	12.1	8.9	14.9	12.3
Others	15.1	16.4	26.5	22.7

[1] Excluding FDI flows to offshore financial centres.

Source: IDB and IRELA: Foreign Direct Investment in Latin America in the 1990s, Madrid 1996, table 23; IDB and IREALA: Foreign Direct Investment in Latin America: Perspectives of the Major Investors, Madrid 1998, table 13.

[11] 1997 estimates are still unreliable.

[12] For details, see European Commission and UNCTAD: Investing in Asia's Dynamism. European Union Direct Investment in Asia, Luxembourg 1996.

[13] P. Nunnenkamp: Foreign Direct Investment in Latin America in the Era of Globalized Production, in: Transnational Corporations, 1997, Vol. 6, No. 1, pp. 51-81; P. Nunnenkamp: Lateinamerika nach der „verlorenen Dekade": Eine Zwischenbilanz der Reformen, Kiel Discussion Papers 324, Institute of World Economics, Kiel 1998.

[14] IDB and IRELA (Inter-American Development Bank and Institute for European-Latin American Relations): Foreign Direct Investment in Latin America in the 1990s, Madrid 1996.

[15] IDB and IRELA: Foreign Direct Investment in Latin America: Perspectives of the Major Investors, Madrid 1998.

[16] UNCTAD: World Investment Report: Trends and Determinants, New York 1998, p. 261.

regard to local-market seeking FDI.[17] This still applies to FDI in non-tradeable services. Hence, EU FDI in the services sector of Latin American economies is unlikely to be affected by EU enlargement to the east. In manufacturing, too, EU investors will not give up important Latin American markets simply because of new market opportunities arising in CEECs.

However, EU FDI in the two regions can safely be assumed to be complementary only to the extent that manufacturing FDI remains oriented towards host country markets. Purely local-market oriented FDI in manufacturing appears to be on the decline under the present conditions of global sourcing and marketing.[18] This involves a major challenge for Latin America, where the previous motivation of using FDI as a means of jumping over protectionist fences has become less important in the aftermath of import liberalisation.[19]

The low share of manufactured goods in Latin American exports to the EU supports the view that EU FDI in manufacturing has traditionally been local-market oriented in this region. The legacy of import substitution strategies may still put Latin America at a competitive disadvantage in attracting efficiency-seeking, i.e. world-market oriented, FDI in manufacturing. The international competitiveness of manufacturing industries in which FDI figured prominently in the past is open to question. Calculations based on 1994 trade data resulted in a negative revealed comparative advantage in the chemicals, machinery and transport equipment industries of Latin American countries.[20]

It is in the area of efficiency-seeking FDI in manufacturing that the largest potential for FDI diversion exists. Latin American economies must be prepared for fiercer international competition for this type of FDI, emerging not only but also from CEECs. In addition to geographical proximity and pending EU membership, CEECs may have better prospects of attracting efficiency-seeking FDI from EU investors, as the recently established FDI stock in CEECs is probably more in line with the host countries' comparative advantage than the formerly established FDI stock in Latin America.

Various Latin American countries have already taken important steps towards improved attractiveness to efficiency-seeking FDI in the context of stabilisation and structural adjustment programmes, including deregulation and privatisation. In order to further reduce the risk of FDI diversion, human capital formation and the development of business-related services should figure high on the policy agenda in Latin America. This is because local skills and services are important complementary factors of production, on which foreign investors increasingly rely under the conditions of globalised sourcing and marketing. Hence, the chances of attracting efficiency-seeking FDI will depend critically on whether Latin America succeeds in overcoming persisting bottlenecks with regard to human capital and business-related services.

Economic Relations with an Enlarged EU

Recent trade and FDI patterns suggest that EU widening to the East will have limited effects on Latin America. Surprisingly small trade overlaps reveal that

[17] The same is true for FDI in mining and quarrying, although this type of FDI is predominantly export oriented. J. P. Agarwal, op. cit.

[18] UNCTAD: World Investment Report: Investment, Trade and International Poilicy Arrangements, New York 1996, p. 97.

[19] P. Nunnenkamp: Foreign Direct Investment..., op. cit.

[20] IDB and IRELA: Foreign Direct Investment in Latin America: Perspectives ..., op. cit.

Ulrich Wehner

Der Mercosur

Rechtsfragen und Funktionsfähigkeit eines neuartigen Integrationsprojektes und die Erfolgsaussichten der interregionalen Kooperation mit der Europäischen Union

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Latin America and CEECs have targeted different markets for their exports to the EU. Trade diversion resulting from EU widening is likely to remain modest:

☐ Trade overlaps between Latin America and CEECs joining the EU may become even smaller in the future, to the extent that CEECs succeed in making better use of their relatively favourable endowment of human capital and skilled labour. The comparative advantage of CEECs will then shift towards more skill-intensive lines of production.

☐ The potential of trade diversion will further decrease with proceeding multilateral trade liberalisation. Full implementation of the Uruguay Round agreements will reduce preference margins for CEECs, notably in 'sensitive' areas such as textiles and clothing.

☐ EU membership of CEECs may have relatively pronounced effects on trade in agricultural products. Yet Latin America is unlikely to suffer from trade diversion in agriculture. Trade overlaps with CEECs are smaller in the food sector than they are in the manufacturing sector, as tropical products constitute a substantial part of Latin America's agricultural exports.[21] Moreover, the full EU membership of CEECs necessitates a reform of the EU's Common Agricultural Policy. The pressure on the EU to liberalise its agricultural markets will mount in the next WTO round. As a result, Latin America will gain better access to EU markets, as well as to third markets into which the EU has traditionally dumped subsidised exports of agricultural products.

☐ It cannot be ruled out that an enlarged EU will slow down the process of external trade liberalisation for some time. This may happen during the period of structural adjustment in CEECs after joining the EU. These countries will face additional import pressure from both current EU members and non-EU countries. New EU members will have to remove remaining import barriers against current EU members (free trade area requirement). At the same time, new EU members will have to reduce their relatively high protection against non-EU members to the relatively low level of protection of the current EU (customs union requirement). As a result, new EU members among CEECs may be more reluctant in future trade negotiations to liberalise trade with non-EU members beyond the current EU level of protection, and may influence EU trade policy accordingly.

☐ Even if an enlarged EU were to delay further external trade liberalisation, EU widening to the east would create new opportunities for trade. Suppliers from Latin America (and other non-EU countries) will benefit from better access to the still highly protected markets of CEECs once the latter become members of the customs union. This may help increase the extremely low share of Central and Eastern Europe in total Latin American exports.[22]

Similar to the risks of trade diversion, the risk is limited that Latin America will be affected by FDI diversion. It seems that the prospects of EU FDI in Latin America depend primarily on the economic conditions prevailing in the Latin American host countries. This applies in particular to FDI oriented towards the local and regional markets in Latin America. This type of FDI, which is most common in services, is largely independent of the attractiveness of new EU members to EU FDI. Major determinants of this type of FDI are economic growth in Latin American host countries as well as ongoing deregulation and the privatisation of services.

The real challenge facing Latin American policymakers concerns efficiency-seeking, i.e. world-market oriented, FDI. This type of FDI is widely expected to gain relative importance with ongoing globalisation. Multinational enterprises refer increasingly to trade and FDI as complementary modalities of serving markets and organising production on a global scale. Close trade relations with current EU members and reduced transaction costs place new EU members among CEECs in a favourable position to compete for efficiency-seeking FDI undertaken by EU companies.

Latin America may still be handicapped in meeting this competition. EU FDI in this region has traditionally been referred to as a substitute for trade in order to surmount Latin American import barriers. However, recent policy reforms have improved Latin America's chances of attracting efficiency-seeking FDI, including FDI from the EU. Latin America will be best prepared to meet fiercer competition for efficiency-seeking FDI if macroeconomic stability is sustained, the process of opening up towards world markets is continued, and remaining bottlenecks (notably with regard to human capital formation and the availability of business-related services) are tackled by Latin American policymakers.

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[21] A. Jessen, op. cit.

[22] In 1997, Central and Eastern Europe (including the former USSR) accounted for about 1 per cent of total Latin American exports. Cf. IMF: Direction of Trade Statistics Yearbook, Washington D.C., various issues.