SPECIAL REPORT

Flexibilization and diversification, the keys of the new Latin American commercial model

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1. INTRODUCTION: TRADE AND STRUCTURAL CHANGES IN LATIN AMERICA

"Since 2000, the region has maintained its 6 percent share of world goods exports, with minor variation. This contrasts with the performance of developing Asian countries, whose weight in global trade increased considerably over the same period. This increase is largely due to China, whose share more than tripled, up from 4 percent in 2000 to 14 percent in 2015. The relative stagnation of its exports reflects the region's difficulty in overcoming an export structure with limited diversification, in which more than half of the value of its total exports is concentrated in commodities and natural resource-based manufactures".[1]

The introductory excerpt from the Economic Commission for Latin America and the Caribbean (ECLAC) very clearly summarizes the major issues affecting Latin American trade. These are obstacles that are not specifically related to the exchange of goods, as they are also found in many other aspects of the political, social, economic and even cultural reality of Latin America, a region experiencing significant gaps in productivity and competitiveness, undermined by a lack of investment in human and physical capital which, in turn, leads to serious deficiencies in innovation and in the capacity to introduce added value to exports which, in the majority of cases, are concentrated in only a handful of products that are exported to a limited group of countries.

As it appears in the excerpt from the ECLAC report, diversification is one of the buzzwords, very much on-trend, in Latin America. And rightfully so, as diversification is one of the region's major pending issues. This concept refers to both production and export markets diversification, particularly at a time when protectionist trends are gaining ground and greater influence around the world (first with Brexit, followed by some of the initiatives promoted by Donald Trump's administration in the United States, particularly the decision to withdraw the U. S. from the Trans-Pacific Partnership (TPP)). Latin America's unfinished business in trade diversification is part of a much broader process to which the region must submit if it does not want to miss the train of modernization and adaptation to the new digital economy, which forces the region to promote new strategies of world trade before Latin America's current cycle of economic prosperity comes to an end.

[1] *Latin America and the Caribbean in the World Economy: The region amid the tensions of globalization. Published* by ECLAC, 2017.

"Structural changes must also be made in trade: double diversification is the key here"

This economic slowdown has brought to light the main challenges in Latin America. The commodity boom during the Golden Decade (2003-2013) hid all these structural weaknesses in the political, economic and social spheres. These issues, however, are nothing new, and the countries in the region have struggled to solve them for decades with mixed and insufficient success. Progress and improvements have been made in all these areas since the reforms of the 1980s and 1990s, but they clearly have not been enough and now, during a period of shifting paradigms and deceleration, these issues have surfaced more clearly and have become increasingly evident.

From a political point of view, the region's biggest success since 1978 has been to stay on the sidelines of democracy and respect for rights. The times of coups, and weak and fragile democracies have had their day. However, the region has not advanced sufficiently in terms of improving its institutional model and building an effective State capable of promoting efficient public policies and effectively channeling social demands. Economically, a boom in raw materials resulted in extremely rapid growth for Latin America, particularly from 2003 to 2008. However, this growth was not based on a commitment to productivity and competitiveness; rather, informal employment continued to dominate as did the lack of capacity to create value-added production, coupled with major shortcomings in terms of innovation. All which indicate, therefore, that the new Latin American productive model–in order to reverse the current deceleration–should be based on prioritizing investment in physical capital (infrastructures) and human capital (education), as well as promoting an innovation-oriented economic model in order to be more competitive and productive.

Structural changes must also be made in trade: double diversification is the key here. Production (ending the region's heavy dependence on certain areas and the export of raw materials without added value) on the one hand, and diversification in terms of markets on the other. This strategy is vital, especially under current circumstances, because while world trade had a year-on-year growth of 17 percent from 2003 to 2008, growth has now turned negative: foreign trade in Latin American has experienced over 30 months of accumulated decline since 2012. This decline affects Latin America more than other regions of the world, first by impacting its most important partners (the United States, the European Union and China) and secondly by affecting not only export volume, which is clearly on a downturn, but also its price.

2. UNFINISHED BUSINESS IN THE TRADE SECTOR

The current situation implies more than just economic crisis and slowdown: it is also a teaching lesson, exemplifying the need for Latin America to liberalize, facilitate and diversify its trade by following numerous lines of action:

First, by promoting reforms that streamline and liberalize free exchange while removing obstacles to all types of trade.

Second, by committing to diversification and growing trade with a broad range of new stakeholders: with neighbors through intra-regional trade, strengthening trade links with extra-regional partners, like the EU and countries in Asia and Oceania and, at the same time, transforming the pattern of trade relations with emerging partners like China and more traditional partners like the US.

"Before diversifying, Latin American countries must move towards facilitating trade relations"

TRADE LIBERALIZATION

Before diversifying, Latin American countries must move towards facilitating trade relations by removing both administrative and bureaucratic barriers by designing an cohesive set of rules to improve and simplify foreign trade operations, supporting transparency, reducing formalities, and promoting the creation of electronic one-stop shops, keys to paperless and cross-border trade. All these efforts are targeted at reaching the ultimate goal of reducing the resources and time that different trade stakeholders spend in order to comply with administrative procedures in both the origin and destination markets. To that end, innovation and new technologies expedite the exchange of goods through the implementation of effective public policies, such as the creation of electronic customs systems, faster internet connection, the development of up-to-date legislation on electronic transactions, and the creation of a recognized authority that validates and certifies electronic signatures.

The region shows some progress in terms of transparency, the online publication of laws and regulations, and the existence of one-stop shops (especially in South America and Mexico), although it falls behind in other areas. The Global Enabling Trade Report by the World Economic Forum shows a highly heterogeneous situation in which most countries fall in the middle of the table with two clear exceptions. Chile, which ranks 21st in the world in terms of trade facilitation and Venezuela, which closes the ranking in 136th place. This ranking, which measures 136 world economies through six areas (domestic market access, foreign market access, efficiency

“The commitment to trade facilitation would drive forward significant improvements for Latin America in terms of its economic and commercial competitiveness”

and transparency of border administration, availability and quality of transport infrastructure, availability and quality of transport services, and availability and use of information and communication technologies), places the majority of the 18 Latin American countries measured between 70th and 136th place on the ranking. According to the report:

“Latin America is the only area, together with Europe and North America, to perform better than the global average in terms of both domestic and foreign market access, but the capacity to tap into the opportunities offered by free trade is hindered by the inefficiency of border administration and the low quality of infrastructure and transport services–three areas where the region lies far from world standards, with little or no sign of improvement in the former two and a deterioration in the latter.”

Trade facilitation has the ability to become a key tool and one of the springboards to changing the region’s development model with the aim of building a more productive, more competitive economic model based on innovation, better infrastructures and a better trained labor force. Thus, the commitment to trade facilitation would drive forward significant improvements for Latin America in terms of its economic and commercial competitiveness.

DIVERSIFICATION

Latin America has historically been a region heavily dependent on foreign financing, with little diversification as to what it exports and where it exports to. It went from being a Spanish colony to being commercially and financially linked to the United Kingdom throughout the nineteenth century, and to the U. S. since the early twentieth century, even more heavily since the end of the First World War (Mexico, Central America and the Caribbean in particular). There have been some advances in trade, financial and economic diversification in the 21st century, but the region is still home to countries that are highly dependent on a single export (Venezuela and oil) or a single country (Mexico and the U. S.).

Latin America and the Caribbean have built and maintained a production and export structure characterized by two major factors:

1. **First, by a specialization in low-productivity and low-tech sectors, which makes these countries highly vulnerable to sudden changes in international demand**: in this regard, there is a clear difference between what happens in the region of South America compared to what

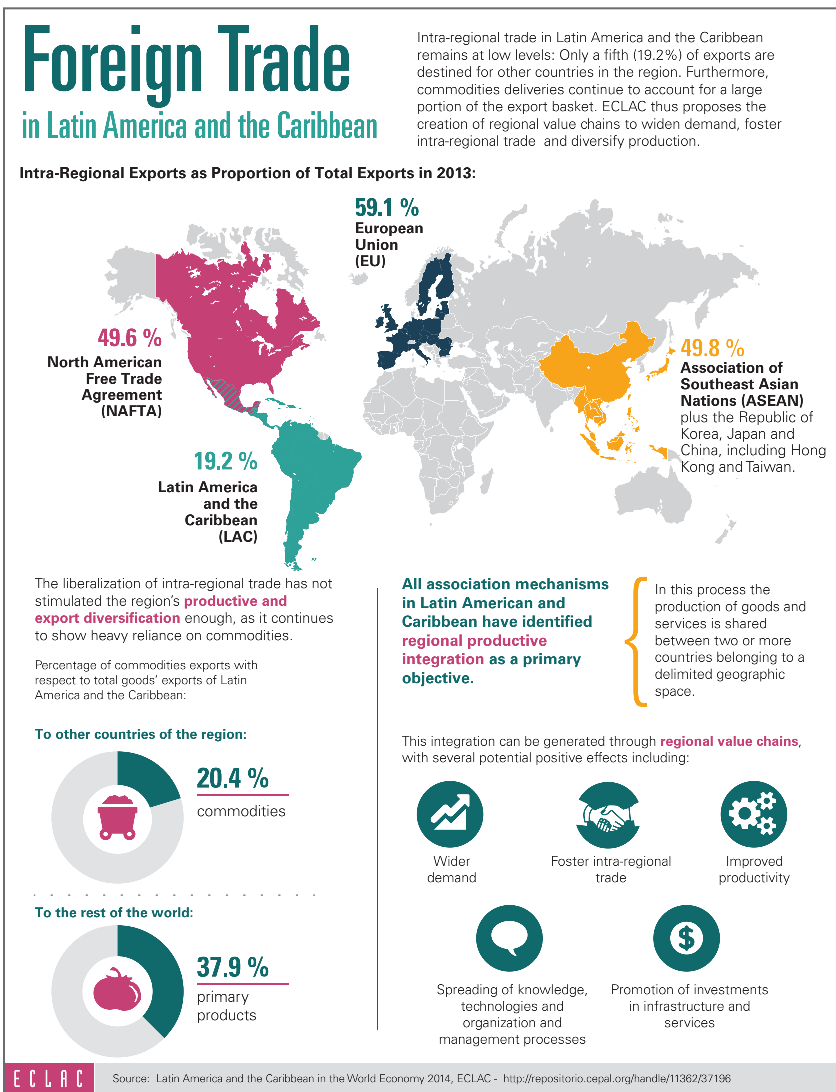
"The challenge for Mexico and Central American nations is to continue to export manufactured goods with a special focus on boosting exports with higher tech"

happens in Central America and Mexico. The latter countries have managed to insert themselves more deeply into international manufacturing production networks, especially with respect to the United States. The challenge for Mexico and Central American nations is to continue to export manufactured goods with a special focus on boosting exports with higher tech. For South American countries, perhaps with the exception of Brazil, Chile and certain sectors of Argentina, the challenge is their dependence on the export of raw materials without added value (Venezuelan and Ecuadorian oil, Peruvian copper, Bolivian gas, Paraguayan soybeans and meat), which has led to sharp deindustrialization processes.

In addition to adding value to traditional exports (in agroindustry, for example) and boosting the high-tech component of industrial production, the region has another unexplored area –booming on a global scale– in which to grow: services exports. With huge advances in digital technologies, services already account for a fifth of world exports. The region lags behind other countries in the services segment of world trade. According to the ECLAC, the region's share of total exports is around 15 percent, and the region's share of world services exports barely exceeds 3 percent. The region has made progress in some areas such as information services, especially in the outsourcing of services associated with information technologies (Costa Rica), transport services (Panama), tourism and manufacturing services (export assembly plants in Honduras and Nicaragua), but it has led to a significant setback in the provision of more modern and advanced services like digitization. While the region is experiencing a rapid expansion in internet use –mainly through smartphone connections– there is little presence of regional companies that provide digital platforms and social networks, as well as in the area of digital services, cross-border e-commerce.

2. Second, by its dependence on a limited number of export markets: Latin America and the Caribbean have seen how total domestic demand and several of its main extra-regional markets are currently adjusting downward. Both processes explain poor export performance due to the falling prices of primary export products (oil, gas, copper, iron, nickel, soybeans, cotton, sugar, coffee and fish products). The region is particularly hit by this situation. First, because its export structure is based on these type of goods; secondly, because its product supply is low tech when world demand is mainly oriented towards more innovative products.

China's economic slowdown, which directly affects Latin America and the Caribbean, especially South America; the wave of protectionism sparked by the Trump administration (which mainly affects Mexico), and the European crisis severely condition the future of the region and its insertion in the world economy. New Latin American strategies must not only include trade liberalization and production diversification, but also the diversification of trading partners and a commitment to new markets (intra-regional, Asia Pacific and European) as alternative ways to offset fluctuations from China and the U. S.



Source: CEPAL

a. The commitment to the intra-regional market.

Latin American countries have historically been isolated in terms of trade. Communication (poor or insufficient infrastructures) and logistics issues, as well as the lack of integration of regional economies, many of which produce the same products, largely explain this problem. The result: Latin America intra-regional exports only account for about 20 percent of its total exports, far below the 56 percent in Asia or the 69 percent in the EU.

Despite what some would believe, intra-regional trade cannot be considered the definitive solution to many of the region's trade deficits. It is, however, a tool that helps to improve Latin America's position in these trade flows, particularly because Latin American intra-regional trade has a lot of space in which to grow; it accounts for just one fifth of the region's total trade, a very low level compared to

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EU (around 70 percent) and Asian countries (55 percent). There is little trade between Latin American countries and few companies participate in global value chains. The amount of trade between Central American countries has increased slightly only because the current crisis/ slowdown has hit this sub-region less intensely. In addition, Central America has built a vast network of integration agreements with its main foreign trade partners (the United States, the European Union and Mexico), a situation that favors and increases trade among Central American countries.

The new model of development that the region must design should also include an integrated regional space with common rules that facilitates productive chains, thus fostering production and export diversification. Along these same lines, the region is forced to reduce costs and times: non-tariff costs and the time required to carry out foreign trade operations with its closest neighbors. The regional deficit in physical capital (transport, logistics and communications) and the inefficiencies that result from long and complex administrative procedures translate into these high non-tariff costs for intra-regional trade. The result is that the cost of trade with the United States is significantly lower than that of trade among Latin American countries, which becomes a double obstacle: first, for production integration between regional economies, and second, for their links to global value chains.

As Héctor Casanueva, Permanent Representative of Chile to the World Trade Organization in Geneva, points out:

"The obstacles to the growth of our intra-regional trade are no longer in tariffs, but in what is known as 'trade facilitation', a set of policies, applications, customs and administrative practices that either facilitate or impinge upon, as the case may be, the smooth flow of trade of goods, particularly cross-border, that is, for nearby or neighboring countries. Modern integration depends precisely and largely on this. According to the OECD, the main components of trade liberalization, with a strong impact on foreign trade, are the availability of information, agility in border documentation, process simplicity and automation, customs transparency and system governance."

b. Diversification of the relationship with China.

China has become a key player in Latin America's economic and trade growth since the late 1990s, particularly in South

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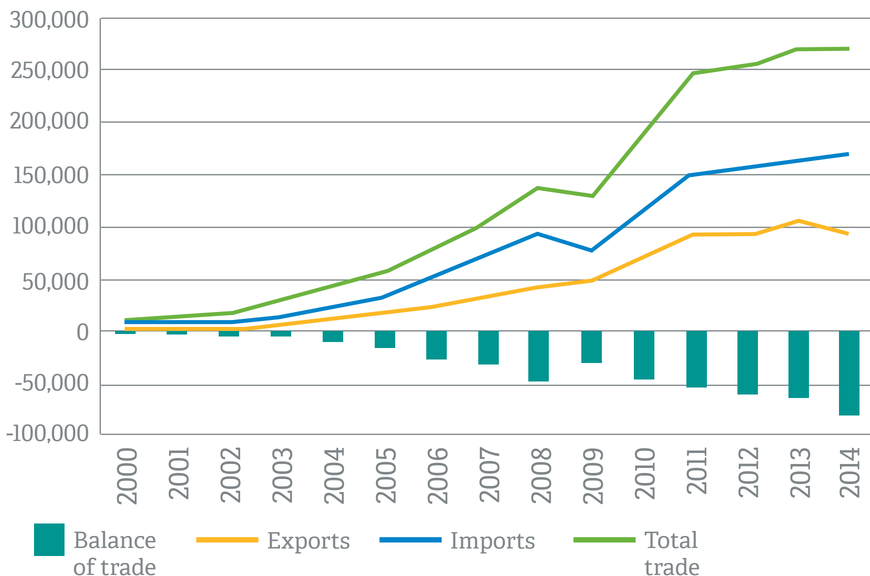
America, strengthening its presence in the region even further after its entry into the World Trade Organization (WTO) in 2001: China's share of regional imports rose from more than 2 percent to 17 percent between 2000 and 2014, while exports increased from 1 percent to 9 percent The period of prosperity that the region experienced between 2003 and 2013 is largely explained by the emergence of China, which has become the main partner of several of the most powerful countries in the region, including Brazil, Chile, Argentina, Mexico, Peru, Venezuela and Ecuador. Bilateral trade surpassed US$216 billion in 2016 (an increase of almost 90 percent over 2009), although 93 percent of exports corresponded to only six countries (Brazil, Chile, Venezuela, Mexico, Argentina and Peru), Brazil alone accounting for almost 40 percent of regional exports to region and about 46 percent of those destined for China.

Figure 1. Latin America and the Caribbean: trade in goods with China, 2000-2014 *(in millions of dollars).*



Source: ECLAC (translated graph from the original)

In terms of trade, the flow of exports and imports between the Asian giant and Latin American countries experienced a twenty-two-fold increase between 2000 and 2015, reaching a volume of $250 billion in 2014. China has already signed free trade agreements with Chile, Peru and Costa Rica and could sign others in the medium term, at the same time opening the door for Latin American countries to access to the Free Trade Area of the Asia-Pacific projected by the Chinese Government.

"Judging from what I hear from Latin American presidents and diplomats, Xi sees an opportunity to increase China's presence in Latin America despite the recent decline in China-Latin American bilateral trade and investments", says analyst Andrés Oppenheimer. "Trump's continued anti-Mexico tirades, his appointment of NAFTA[2] critic Wilbur Ross as Secretary of Commerce, and—more importantly—his announcement that he will scrap

[2] North American Free Trade Agreement.

the TPP[3] agreement with Asian and Latin American countries as soon as he takes office, will be a golden opportunity for China in the region, many diplomats say."

Moreover, China is–along with the EU, Spain and the United States–the only international power that has a clear and coherent Latin America agenda aimed at strengthening, consolidating and boosting its links with Latin American countries. First was the publication of the White Paper on relations with the region (2008). This initiative was completed in 2012 with the launch of a project to strengthen political, economic and cooperation relationships, which led to the proposal for a new cooperation framework for 2015-2019, known as "1 + 3 +6" (2014). This project was promoted by President Xi Jinping, and is part of the 2015-2019 Cooperation Plan, in which "1" refers to "one program", that is, to develop the China-Latin American Countries and Caribbean States Cooperation Plan 2015-2019 with the aim of achieving inclusive growth and sustainable development. The "3" stands for the "three major drivers" (trade, investment and financial cooperation) and "6" encompasses the "six priority areas of cooperation" for boosting China's industrial ties to Latin America and the Caribbean: energy and natural resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies.

"Latin American exports to China are highly concentrated in a handful of firms and countries"

The deceleration of China's economic growth, which fell from 9 percent to 10percent per year to 6 percent to 7 percent and the shift in the economic model promoted by the Beijing regime, force the relationship between Latin American countries and China to enter a new phase in which the link between the two will remain very intense but clearly different. Latin American countries must strive to diversify in this new area: first, by increasing the number of products exported to China, currently at a very low level compared to other more traditional destinations. Second, productive value chains with China should focus on products based on the development of high-tech manufacturing.

Third, Latin American exports to China are highly concentrated in a handful of firms and countries, as well as in a few primary goods, which has led to the re-privatization and de-industrialization of Latin American production: 75 percent of the value exported by South America in 2013 was in unmanufactured commodities (agricultural products, petroleum and minerals). As

[3] President Donald Trump already signed an executive order ending U. S. participation on January 23, 2017.

"It is also necessary to increase foreign direct investment (FDI) flows, not only from China but also from those large multinational companies headquartered in the region that want to open markets in China"

ECLAC has demonstrated, these figures vary, with these goods representing 60 percent of the value in the Caribbean and 45percent in Mexico, the only country that saw an increase in the share of consumer goods. A sizable portion of Central America's exports are concentrated in intermediate goods (60 percent in 2013), in large part from Costa Rica's sale of electronic components.

Therefore, Latin America's new trade, and therefore production, framework with China should be based on three pillars in the medium term:

1. The increase in the number of products, sectors and services exported by regional countries to China, since trade flows from Latin America to the Asia Pacific area continue to be highly concentrated in terms of origin.

2. Increase added value in exports. Latin American countries should strive to create public policies designed to transform them into China's strategic partners in new fields, particularly those that require introducing more productive innovation to exports, with a special focus on the agri-food (driven by a more urbanized China with a middle class that consumes higher-quality goods) and tourism (the region receives only 0.3 percent of Chinese tourism, which exceeds 100 million people globally) sectors.

It is also necessary to increase foreign direct investment (FDI) flows, not only from China but also from those large multinational companies headquartered in the region that want to open markets in China. This country is already the second largest source of these flows worldwide, although behind the United States and the EU with a strong concentration in the extractive, hydrocarbon and mining industries. According to the ECLAC:

"The region should aim to capture a larger share of these flows, by promoting stronger sectoral diversification and linkages with local firms. Chinese investment could help overcome the region's logistics and transport infrastructure deficits. The limited involvement of Latin America and the Caribbean in global value chains is partly due to high non-tariff trade costs."

3. The new geopolitical framework favors the growth and diversification of the trade links between Latin America and China. The Asian giant, transformed by international political changes into a new champion of free trade, aims to fill the vacuum that Donald Trump's United States would leave in the region after ending the country's participation in the Trans-Pacific Partnership Agreement (TPP), and after learning of Trump's expected

"The vacuum that the Donald Trump's United States would leave in the region can be filled by other powers"

policy with respect to Mexico, especially with regard to the renegotiation of NAFTA. At the same time, China is promoting a Regional Comprehensive Economic Partnership (RCEP) as an alternative to the late TPP; Pacific Alliance countries (Mexico, Colombia, Peru and Chile), nations that were highly committed to the success of the TPP, could possibly join this new partnership. This, in turn, would have a carry-over effect on other regional economies like Mercosur, particularly at a time when countries are shifting towards more favorable positions on free trade, as evidenced by the cases of Mauricio Macri in Argentina and Michel Temer in Brazil.

As Jorge Díaz Lanchas, Researcher in International Economics at the Autonomous University of Madrid and Associate Researcher at the Economic Forecasting Center (CEPREDE):

"China has been pushing the trade alternative to the TPP for some years through a free-trade agreement known as the Regional Comprehensive Economic Partnership (RCEP). This treaty, which includes the vast majority of South Asian countries together with India and Japan, is the best mechanism by which China could move into Latin America if it aims to reduce U. S. influence in that region... Mexico could well reduce its dependence on the U. S., and would even be strengthened internationally at a time when the renegotiations of the North American Free Trade Agreement (NAFTA) that appear to be on the horizon and which it will have to face alone could be extremely tough and very difficult for the country."

Therefore, the vacuum that the Donald Trump's United States would leave in the region can be filled by other powers. The Beijing government has gone beyond theoretical planning to express a willingness to push for alternative treaties, such as the aforementioned Comprehensive Regional Economic Partnership (RCEP) or the Free Trade Area of the Asia-Pacific (FTAAP). In addition, with U. S. protectionism threatening to cut off investments in Latin America, China has entered the oil market (the China National Offshore Oil Corporation (CNOOC) has acquired operating licenses in the northern Gulf of Mexico, a few kilometers from the maritime boundary between Mexico and the United States) and has redoubled its commitment to infrastructure, one of the region's Achilles' heels.

THE EU AS AN ALTERNATIVE TO CHINA AND THE U. S.

Latin America and the European Union have a long-standing trade relationship. Institutionalized trade dates back to almost a quarter of

“Relations between the European Union and Latin America are currently at a low point”

a century ago and has gone through periods of great heights (80s and 90s), periods of acute stagnation (at different times in the first decade of the twenty-first century), situational resurrections (EU-Latin America summits in Vienna in 2006 and Madrid in 2010) and new periods of pessimism like the present one.

The Rio Declaration and an Action Plan aimed at forging a “strategic partnership” emerged from the First European Union, Latin America and the Caribbean Summit for heads of state and government in 1999. EU partnership agreements were signed with Mexico and Chile between 2000 and 2002, and partnership agreements were signed with Central American countries, Peru, and Colombia in 2010. However, the EU-Mercosur Association Agreement has lasted over three decades after negotiations resumed in 2000 and relations were recovered in 2010.

Relations between the European Union and Latin America are currently at a low point. A honeymoon phase (1990-2006) has been followed by a period of stagnation in terms of the link between the two sides of the Atlantic. Since 1994, the EU has sought an all-encompassing (political, social, commercial, economic and cultural) relationship that has failed to prevent it from losing economic weight and political influence in the region. Nevertheless, it remains an important economic partner for Latin America and above all for Mercosur countries as its top investor, surpassing the United States as a bloc (although it ranks third on a regional scale after losing ground to China). However, in terms of bi-regional trade, these relationships are based on a typical model in which the EU imports raw materials (68.2 percent of total trade in 2015), and exports manufactured goods with high added value to the other side of the Atlantic. In terms of the trade volume with Latin American countries, the EU still lags far behind the United States, which accounts for 44 percent of trade volume. In addition, China already represents 16 percent of total trade with Latin America, compared to the EU’s 14 percent.

The loss of global prominence and leadership of Donald Trump’s United States represents an opportunity for the EU to increase its presence in the region. It is also an excellent opportunity for Mexico to diversify its exports, to play a relevant role in the new Cuban economy and to support governance in regions, like Central America, facing complex challenges. In addition, the EU is at an optimal juncture to push forward the association agreement with Mercosur as the result of changes in

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the bloc: Venezuela has been isolated within the bloc and governments are anxious to sign a treaty that has been delayed for over three decades. Mauricio Macri's recent trip to Spain in February 2017 confirmed the desire of Argentina (and the Brazilian government of Michel Temer) to push for the signing of the EU-Mercosur agreement by the end of 2017, during the WTO meeting in Buenos Aires in December. This opening of South America coincides with similar trade facilitation in certain European circles. A letter by Spanish Socialist MEP Ramón Jáuregui to EU diplomat Federica Mogherini suggested that the European Parliament take advantage of the United States' potential nationalist and protectionist policy to develop a firm policy in the region. "The EU would be in the right position to tap into and fill the void by reinforcing the political, commercial, development and social cornerstones of the European Union-Latin America and Caribbean Strategic Partnership", said Jáuregui. Even Mogherini, upon his return from Washington, has admitted that differences between the United States and the European Union make Latin America an increasingly necessary strategic relationship for the EU.

The EU, which has had a global strategy for the region in place since the 1990s, needs concrete actions to make its Latin American commitment a reality. A few steps in that direction were made in late 2016. One of them was the signing of the Agreement on Political Cooperation and Dialogue between the European Union and Cuba, which marks a return to normalcy in relations that have been formalized under a Common Position since 1996. In addition, the trade agreement between the European Union and Ecuador entered into force on January 1, 2017, and the EU has provided support for peace in Columbia with a €95 million Trust Fund, along with an additional €95 million from the bilateral cooperation, and €400 million from the European Investment Bank. Several aspects in the relationship between the EU and Latin America still need improvement, such as modernizing the global agreement between Mexico, reforming the association agreement with Chile, fully implementing the agreements with six Central American countries (Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua), and moving forward in the implementation of the cooperation agreement with Cuba.

According to Federico Poli, the current geopolitical situation opens a window of opportunity for the EU:

"The Trump earthquake, which paralyzed the difficult negotiations with Europe that were developing under the Transatlantic mega-regional agreement, pushed back the

"The current international situation, marked by a protectionist shift in some countries, can be seen as an opportunity rather than an obstacle for the region"

Transpacific mega-regional agreement, which encroached into China's backyard, and put forward the renegotiation of substantive aspects of NAFTA, perhaps open a window of opportunity to crumbling multilateralism. Some analysts are beginning to suggest that if trade rules (particularly technical regulations and standards) are not established in areas like the mega-regional agreements pushed by the United States, Japan, and Europe, the WTO can again be the focus of discussion and agreement on these issues."

The EU suffers, therefore, from a clear lack of leadership when it comes to Latin America. This lack of leadership and political presence that could be filled by an EU member country like Spain, with its historical, cultural, political and investment ties to the region. In addition, Mariano Rajoy's government has decided to face the current challenge by striving to recover the leading role and prestige that were lost during the economic crisis (2008-2013) and political paralysis (2015-2016) that left the country with an interim government for a year. Both the new Foreign Minister, Alfonso Dastis, and the Secretary of State for Latin America, Fernando García Casas, are convinced of the need for Spain to assume a greater role in the EU (Dastis) and therefore in Latin America (García Casas).

3. CONCLUSIONS

Latin America is undergoing a transitional period and faces a paradigm shift in which it must follow through with its insertion in the new digital economy. To complete this arduous journey (from the commodity boom to the adaptation to this new economic and development framework), the region has to promote profound structural reforms in order to change its growth and production model, including the pillars of its trade relationships. The 2003-2013 boom concealed serious fundamental problems (ineffective states ineffective in promoting public policies) and important shortcomings in areas such as productivity and competitiveness, deficits in infrastructure and education, lack of innovation and technology, and precarious and informal employment. In terms of trade, the challenges the region faces are summarized in two words: liberalization and diversification, that is, to facilitate transactions and trade through the use of technological innovations and to increase the number of trade partners and exports in order to avoid overdependence on single markets and products.

The current international situation, marked by a protectionist shift in some countries, can be seen as an opportunity rather than

an obstacle for the region. China is more receptive to increasing trade flows and the European Union, hit by the Brexit and waiting for the results of the French elections, seeks to reposition itself on an international scale after what is the likely death of the transatlantic agreement with the U. S., an incentive for Europe to conclude the ever complex agreement with Mercosur. Spain plays a decisive role in this context as a bridge and link between the EU and Latin America. It can fulfill the role of the connecting partner between Europe and America in several areas: for example, as an observer member of the Pacific Alliance, the most innovative and active integration process underway to date. In addition, following Macri's visit, the Spanish Government has pledged to accelerate negotiations between Mercosur and the EU.

Spain should focus its efforts on developing a truly effective single trade agreement in order to increase its opportunities and capacities to influence the relationship between Europe and Latin America as a mediator. Spain will hold the Presidency of the Council of the European Union during the second term of 2023, and the country and Europe will face a more concrete future than it currently does if these opportunities and capabilities have been reached by that time.

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