2009-2010

Latin America and the Caribbean
in the World Economy

A crisis generated in the centre and a recovery driven by the emerging economies

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Notes
The following symbols have been used in the tables shown in the Survey:
Three dots (…) indicate that data are not available or are not separately reported.
A dash (-) indicates that the amount is nil or negligible.
A full stop (.) is used to indicate decimals.
The word "dollars" refers to United States dollars unless otherwise specified.

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Introduction

The 2009-2010 edition of *Latin America and the Caribbean in the World Economy*, which discusses the crisis generated in the developed world and the recovery driven by the emerging economies, is divided into five chapters.

Chapter I undertakes a short- and medium-term analysis of the post-crisis international economic situation, concentrating on its implications for international trade prospects in Latin America and the Caribbean. It examines the recovery of the global economy, which has centred mainly on the Asian economies (especially China) and other emerging economies, together with the role played by international trade in this recovery both globally and regionally and the heterogeneity of trade performance between different regions of the world. Some latent uncertainties that could throw the recovery off course are also identified, including: (i) the difficult task of sustaining growth and ensuring fiscal stability in the main economies by ensuring an orderly transition in the sources of global demand from public-sector stimuli to private-sector spending and from stimuli provided by economies running external deficits to stimuli generated by economies in surplus; (ii) weak final demand in the industrialized countries and the possibility of economic and financial contagion from the euro area, which could negatively affect commodity prices and demand; (iii) asymmetries in monetary policies between emerging and industrialized economies that could send destabilizing capital flows into the former, setting them up for eventual overheating and speculative bubbles that could affect macroeconomic stability; (iv) large differences in economic growth rates and interest rates between emerging and industrialized economies which, if not moderated, could progressively be reflected in currency appreciation in Latin America and the Caribbean and other emerging regions, affecting the potential for progress in diversifying exports; (v) a shift in the main sources of economic, trade and financial growth towards developing Asia and emerging countries generally, which highlights the importance of South-South trade and initiatives to strengthen it.

Chapter II reviews developments in regional trade during and after the crisis from both a long-term and a more immediate perspective, as well as the trade policy applied by the region's countries during this period. It offers a detailed analysis of the evolution of goods trade flows by origin and destination and of their sectoral composition over the past two decades, finding a high degree of heterogeneity between the region's countries: export growth has been stronger in the countries of South America than in Mexico, Central America and the Caribbean, owing to strong demand for commodities from Asia, particularly China. Consequently, while the recovery in regional trade has been substantial, particularly in South America, it has heightened an already somewhat excessive reliance on commodities that incorporate little know-how or technological progress. The challenge, then, is to find a way of taking advantage of this upsurge by strengthening the linkages between natural resources, manufactures and services, encouraging innovation in each of these links and coordinating them into clusters in which there is room for small and medium-sized enterprises, so that a vigorous export performance has greater spillover effects on the rest of the economy and so that the results of this growth are distributed more equally. This means there is a need for an integrated approach to stimulating competitiveness and innovation, as argued in the document presented at the thirty-third session of the Economic Commission for Latin America and the Caribbean (ECLAC) in Brasilia,[1] with a view to coordinating policies on export promotion and diversification, technological innovation and dissemination, inward foreign direct investment (FDI) and human resources development.

Chapter III reviews recent trade developments (particularly in the last 12 months) within the main subregional Latin American integration schemes: the Southern Common Market (MERCOSUR), the Andean Community and the Central American Common Market (CACM). It also examines progress with more recent initiatives such as the Latin American Pacific Basin Initiative and the Community of Latin American and Caribbean States. Also looked at are the most prominent recent initiatives to enhance trade ties between countries in the region belonging to different integration schemes. The chapter then briefly analyses the state of regional cooperation efforts relating to physical infrastructure, given the importance of this for integration, not least in the area of trade. Lastly, it examines the main milestones since the second half of 2009 as regards trade negotiations conducted by Latin American countries and integration schemes with partners outside the region.

Chapter IV analyses recent trends and future prospects in the Caribbean Community (CARICOM), an incomplete customs union of 15 States in the Caribbean that includes most English-speaking countries in the region plus Suriname and Haiti. It reviews: (i) progress with reforms to complete the CARICOM Single Market and Economy (CSME) by 2015, taking stock of progress towards this goal; (ii) progress with different subregional integration commitments currently being implemented, considering that integration efforts have been hit hard by the global economic and financial crisis; (iii) evaluation of progress on the Economic Partnership Agreement with the European Union now in force, which offers great opportunities both to boost trade and investment with Europe and to enhance trade integration within the Caribbean itself; and (iv) the state of initiatives, programmes and policies designed to diversify what is a highly concentrated export base.

Chapter V examines the strategies recently adopted by Japan to enhance its economic relationship with Latin America and the Caribbean from the perspective of a public-private partnership that aims to take advantage of opportunities in the region not only in the area of natural and energy resources but also in respect of food security and infrastructure. The chapter also analyses Japanese economic partnership agreements (EPAs) and official development assistance (ODA), which provide substantial opportunities to enhance the region's systemic competitiveness; the former seek to supplement trade liberalization with cooperation, while the latter, following the Japanese ODA model applied in Asia, puts the emphasis on infrastructure improvements, training and participation in the regional and global value chain with a view to revitalizing the productive economy and promoting external trade and investment with the recipient country. The conclusion is that this is a good time for Japan and Latin America and the Caribbean to revisit and strengthen their economic relationship, including a reformulation of ODA.

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[1] ECLAC, Time for equality: closing gaps, opening trails (LC/G.2432(SES.33/3)), Santiago, Chile, May 2010.

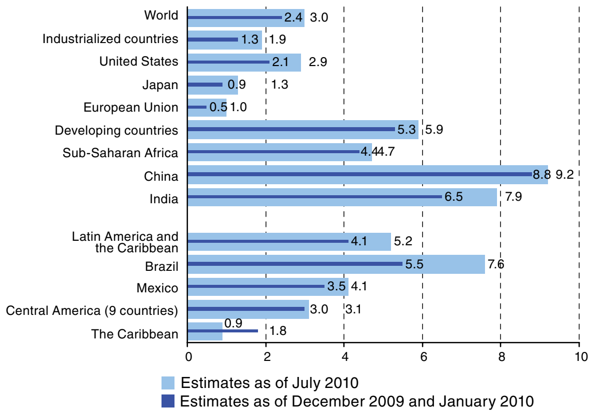
Summary

A. A crisis created in the centre and a recovery driven by the emerging economies

As of mid-2010, the recovery in the global economy and trade is proving more robust than expected, but more uneven than could be desired. The world economy grew at an annualized rate of over 5% during the first quarter of 2010, essentially because of strong growth in Asia. Not only did China grow by 12% (see figure 1), but Hong Kong (Special Administrative Region of China), Malaysia and Singapore grew at even higher rates. GDP projections for the year were revised upward in mid-2010, as the recovery was seen to be taking place faster than had been anticipated (see figure 1). International trade in the quarter, meanwhile, was 25% up on the same quarter in 2009. This sharp recovery in international trade, also led by the Asia-Pacific region, Japan and India, has helped to gradually restore confidence among consumers, businesses and the financial markets, reactivating consumption and investment. Notably, the buoyancy of the emerging economies has not been confined to the four countries (Brazil, the Russian Federation, China and India) known as the BRICs.

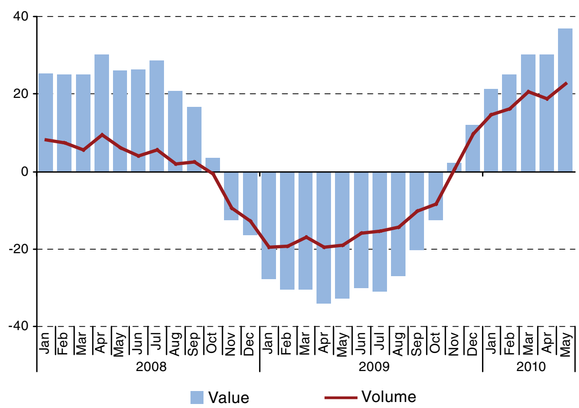
International trade has played a vital role in the recovery of the global economy. Trade and open markets prevented the crisis from deepening further and have successfully transmitted signals of rising demand. A number of the factors that led to the decline in global trade in 2008 and early 2009 are now contributing to its recovery, with final demand in emerging countries acting as the main engine of growth (see figure 2). Other factors include the reactivation of demand for capital goods and intermediate inputs, partly thanks to the normalization of financial markets and credit and to fiscal stimulus plans. These have also supported an adjustment in inventories and a new cycle of electronic products. Growth in world trade by value has also been helped by recovering prices for a number of commodities, particularly oil. More generally, the regulations of the international trading system have helped ensure a better outcome by providing scope for crisis measures to be taken without threatening trade relations. This has helped to sustain confidence in the trading system and has allowed the Asian recovery to rapidly spread worldwide.

Figure 1
SELECTED COUNTRIES AND REGIONS: ESTIMATED GDP GROWTH, 2010 [a]
(Percentages)



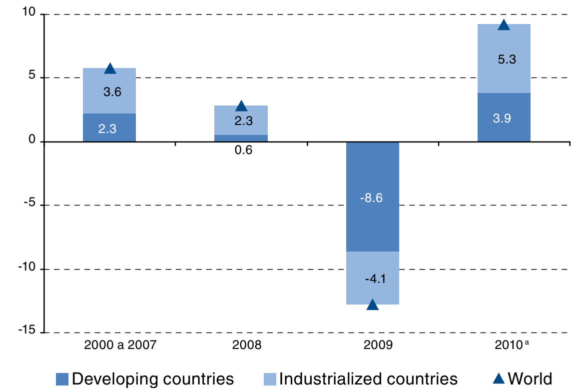
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Economic Situation and Prospects 2010*: Update as of mid-2010 (WESP2010), New York, July 2010. United Nations publication, Sales No. E.10.II.C.2; *Economic Survey of Latin America and the Caribbean 2009-2010* (LC/G.2458.P), Santiago, Chile, July 2010; and Preliminary Overview of the Economics of *Latin America and the Caribbean 2009* (LC/G.2424.P), Santiago, Chile, December 2009, Sales No. E.09.II.G.149.
[a] Aggregate GDP for countries outside the region was calculated on an exchange-rate basis.

Figure 2
WORLD TRADE: 12-MONTH GROWTH RATES, BY VALUE AND VOLUME
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau for Economic Policy Analysis (CPB), "World Trade Database" [online] http://www.cpb.nl/eng/research/sector2/data/trademonitor.html [date of reference: 18 June 2010].

Figure 3
INDUSTRIALIZED AND DEVELOPING COUNTRIES: CONTRIBUTION TO REAL GROWTH OF GLOBAL EXPORTS, 2000-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau for Economic Policy Analysis (CPB), "World Trade Database" [online] http://www.cpb.nl/eng/research/sector2/data/trademonitor.html [date of reference: 18 June 2010], and World Trade Organization (WTO) projections for 2010, "Trade to expand by 9.5% in 2010 after a dismal 2009, WTO reports", *Press releases*, Nº Press/598, 26 March 2010.
[a] Projections by the World Trade Organization (WTO), *press release* 26 March 2010.

Output and trade in Latin America and the Caribbean have also recovered more quickly than expected. This solid revival is largely based on the dynamism of domestic demand, a pick-up in investment and robust exports driven by demand from China and the rest of Asia, and by the normalization of demand in the United States. This positive overall picture, however, masks a high level of heterogeneity in the region's countries (see table 1). The best performance has been seen in commodity-exporting countries. The recovery has been slower in countries that are importers of commodities and depend on tourism and remittances, owing to the still weak performance of the industrialized countries that are the main source of these latter flows.

Large disparities in growth rates (high in emerging economies and low in industrialized ones) undermine the chances of a more sustainable recovery. The faster recovery has partly been due to the great dynamism of Asia and the emerging economies and to the remarkable countercyclical reaction in the fiscal, monetary and financial policies of most industrialized and developing economies. The recovery in the first group of countries has been weak on the whole, with the United States doing relatively well, especially in comparison with the European Union. In the latter, the recovery has been complicated by large fiscal deficits in certain countries and the additional fiscal impact of financial rescues, a situation that severely affected Greece before spreading to other Mediterranean countries and those in the east of the Union. Public-sector budgets in the largest European Union economies have also been cut sharply, setting the stage for even weaker European growth in 2011.

Table 1
LATIN AMERICA AND THE CARIBBEAN: ANNUAL GROWTH RATES FOR GOODS TRADE
(Percentages)

	Exports			Imports		
	2008	2009	2010 [a]	2008	2009	2010 [a]
Latin America and Caribbean (35)	16.2	-22.6	21.4	21.7	-24.9	17.1
Latin America (19 countries)	15.8	-21.9	22.0	21.7	-24.9	18.2
Southern Common Market (MERCOSUR)	24.4	-21.9	23.4	40.3	-27.4	29.6
Andean countries	30.0	-27.8	29.5	21.9	-20.8	5.8
Central American Common Market	8.3	-9.3	10.8	14.5	-22.8	14.6
Caribbean Community (CARICOM)	31.1	-43.6	23.7	20.1	-25.6	9.8
Other countries						
Chile	-2.2	-19.2	32.6	30.9	-31.0	18.5
Mexico	7.2	-21.2	16.0	9.5	-24.0	16.3
Panama	10.6	5.6	10.1	18.7	-13.0	17.8
Dominican Republic	-5.8	-19.0	12.5	17.6	-23.2	16.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The figures for 2010 are preliminary projections prepared by the Economic Development Division.

Other trends also point to reduced dynamism in the world economy and trade in the second half of 2010 and during 2011. First, much of the restocking of inventories carried out to meet demand in the recovery phase is complete. Second, the effect of fiscal and monetary stimulus measures is fading. Third, the massive expenditure involved in fiscal measures means that public debt has been rising to very high levels. In the Group of Seven (G-7) countries, for example, debt is expected to reach 113% of GDP in 2010. A number of countries are accordingly taking fiscal austerity measures, reducing public expenditure drastically. Yet the withdrawal of fiscal stimulus could imperil economic performance over the coming months.

Ahead lies the difficult task of sustaining growth while maintaining fiscal stability in the industrialized economies. This challenge involves not only matching the gradual withdrawal of stimulus with a recovery in private spending, but also ensuring that two necessary transitions take place in the sources of global demand. The first transition is from public-sector stimulus towards private-sector spending, and the second is from economies running external deficits to those running a surplus. This is where action is needed on fiscal sustainability, financial sector restructuring and stagnating productivity growth. Progress towards these goals requires international coordination on exit strategies, financial reform and rebalancing of the global economy.

The direct impact of the European fiscal crisis on Latin America and the Caribbean appears to be limited, but the medium-term consequences could be greater. Only a small proportion of the region's exports go to the European countries worst affected. If risk premiums spike because of a sovereign debt default, however, emerging regions, including Latin America and the Caribbean, could find it much harder to access financing. It is also possible that European firms, and Spanish ones in particular, might invest less in the region. If the fiscal crisis were to spread to the other large European countries, and if austerity measures were long-lasting, European demand would weaken yet further, and this would certainly affect Latin American exports to the continent. This is a low-probability scenario, however, given that recent data for the European economies show an increase, albeit marginal, in projected growth and financial market confidence.

Regarding emerging economies, there are doubts about the sustainability of their recovery in a context of limited economic activity in the Organisation for Economic Co-operation and Development (OECD). If the industrialized economies do not fall back into recession and are able to keep growing, even at current low rates, emerging economies will be able to sustain growth of some 6% a year in the next two to four years, giving a growth floor of 3% for the world economy. This is being made possible by the growing bonds between emerging economies themselves, notably the close trade relations among Asian economies, as well as China's stronger ties with Africa and Latin America and the Caribbean.

There are particular concerns about the future pace of growth in China. This is the variable of most interest for the external trade of South America, just as the growth of the United States economy is of greatest concern to Mexico, Central America and the Caribbean. China could continue growing at rates of some 9%, relying on domestic consumption and investment demand. Indeed, it grew by 9.1% in 2009, with private-sector consumption growth exceeding output growth for the first time in many years, while net exports deducted 4 points from GDP growth. A gradual appreciation of the renminbi would help with this by reducing the external surplus and creating demand for products from the rest of the world. Conversely, an abrupt revaluation would be risky because it could heighten the dangers of overheating in the Chinese economy by accelerating capital inflows and overstimulating asset markets.

Monetary policy shows excessive differences around the world. A number of emerging economies have already begun to gradually dismantle their stimulus packages and raise interest rates, widening the rate differential with the industrialized economies. Capital flows into emerging economies have recovered strongly following the drastic slump of 2008 and 2009. The recovery has been more marked for bonds and shares and less so for syndicated loans, which are still below pre-crisis levels. This growth disparity between industrialized and emerging economies is worrying because it is encouraging destabilizing flows of capital into the latter, potentially leading to overheating in these economies and fuelling speculative bubbles and currency appreciation that are bringing down import prices and impeding export diversification. This is why the International Monetary Fund (IMF) is taking an innovative approach in this area, having expressed a willingness to consider the possibility of controls on capital inflows.

A possible (although improbable) government debt crisis in certain countries could complicate the global economy and finances and the outlook for Latin America and the Caribbean. A European financial crisis would raise the cost of investment and trade financing. Lower growth in these industrialized countries would in turn affect emerging countries' exports. Weak final demand in the industrialized countries and possible economic and financial contagion from the euro area could adversely affect commodity prices and demand, damaging commodity exporters in Latin America and other emerging regions.

The economic and financial crisis has raised the profile of emerging economies, not only in global production and trade but also in international finance and governance. Long-term projections indicate that what are currently developing countries will probably account for 60% of global GDP by 2030. The combined GDP of the BRIC countries accounted for 15% and 22% of global output in 2008 at current prices and in purchasing power parity terms, respectively. The developing-country share of FDI was almost 40% in 2009. In 2010, international reserves held by developing countries were 1.5 times as great as those held by industrialized ones. The BRICs hold 39% of reserves, Latin America and the Caribbean 6%. This is of structural significance. The 2008-2009 financial crisis laid bare a tremendous asymmetry: the developing countries are the main sources of savings, while it is the industrialized countries that are spending them.

For all their growing importance in the global economy, the emerging economies are not yet in a position to take up all the slack from the United States, Europe and Japan. Notwithstanding the short-term uncertainties, it is safe to say that in the medium and long terms the focus of economic, trade and financial growth will shift towards developing Asia and emerging countries generally, which drives home the importance of South-South trade and initiatives to strengthen it.

South-South trade is increasingly substantial and is now becoming one of the main engines of global goods trade, while South-South FDI is rising steadily. South-South trade grew at an annual rate of 13% between 1990 and 2008 to reach US$ 2.9 trillion in the latter year. The share of South-South trade in the global total rose from 9% to 18% over the same period; over 40% of world trade involves developing countries, and 43% of that amount is South-South trade. Although South-South FDI flows are still small, intraregional FDI in developing Asia and Latin America and the Caribbean has been dynamic and is showing signs of entering an important stage of international expansion. In the latter case, almost 10% of inward FDI flows are from the region itself, originating with so-called "trans-Latins".

South-South trade is already a major trade segment in Latin America and the Caribbean, accounting for almost 29% of total exports. The most important developing-market export destination is the region itself, accounting for 18% of total exports, followed by developing Asia with 6%. Africa, the Middle East and central Europe are still minor destinations in the region's export total. Trade between emerging Asia and the Middle East has continued to grow and is based mainly on oil, while intra-Asian South-South trade is known as the best example of global production complementarities.

B. Overview of regional trade during the past decade

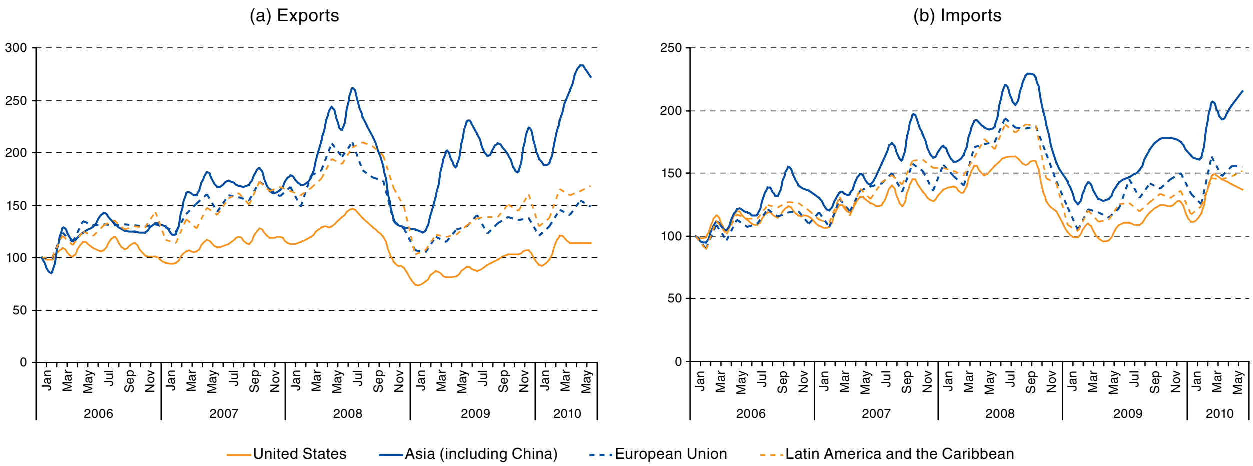
Trade with leading extraregional and intraregional trading partners expanded strongly in the post-crisis period, recovering from the sharp contraction of 2009. Comparing export and import growth by value in the first half of 2010 from the levels seen in the same period of 2009 reveals that the three leading destinations experienced double-digit increases, with exports to Asia and the United States expanding more strongly than those to the European Union (see figure 4).

In the post-crisis period, the exports of the Andean countries, MERCOSUR and Chile performed the best, while those of Mexico and the Central American countries lagged behind. This is a result of the relatively strong prices for commodity exports, which account for a larger share of total exports in South America than in Mexico and Central America.

Figure 4

LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): TRADE WITH SELECTED PARTNERS, BY REGION, JANUARY 2006-JUNE 2010 [a]

(Index: January 2006=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information provided by the national statistical offices, central banks and customs departments of 14 countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Erica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

[a] Preliminary figures.

Four main factors have been driving the recovery of regional exports and imports since the second quarter of 2009: first, the recovery in the world economy, including the strong upturn in economic activity in the region, which has also stimulated intraregional trade; second, steady demand from China and the rest of Asia for a number of the commodities exported by the region, which has kept international prices for these high; third, improved financing conditions, including trade credit; and, fourth, the stimulus of the "pro-trade" measures applied by some countries, especially Mexico and Brazil.

Breaking down sectoral growth in exports from Latin America to both the European Union and the United States shows that agricultural export values have been less volatile than those of mining products and oil, reflecting greater volatility in the prices of the latter. Again, the region's export basket is more manufacturing-intensive in the case of the United States than of the European Union.

Lower demand for agricultural and mining products in the United States and the European Union during the crisis was partly offset by the strength of

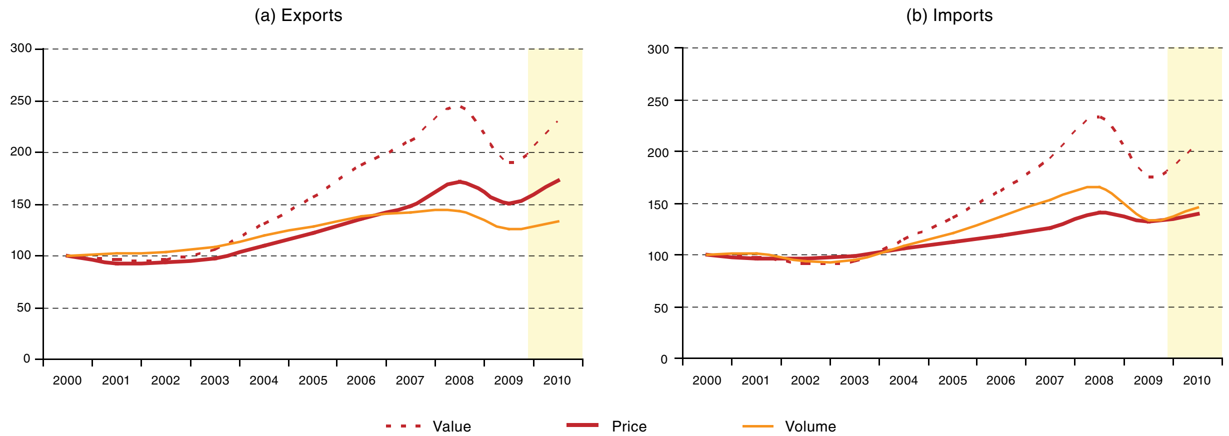
China's imports. A sample of volume growth rates for the most important products to the region's countries during the crisis and post-crisis periods illustrates the remarkable role played by the Chinese market in cushioning the effects of the crisis, as demand for products such as fresh fruit, vegetables, crude oil and iron ore held up strongly despite the adverse conditions.

When trade growth is broken down by value, the data show that prices increased for both the region's exports and its imports. Export prices have increased by more in 2010, which will improve the terms of trade, reversing some of the deterioration experienced by commodity exporters during the crisis in 2009 because of highly volatile fuel prices. The renewed surge in the region's export volumes during 2010 is also striking. Despite the strength of the recovery so far in 2010, the value of the region's trade has yet to return to its pre-crisis peak (see figure 5).

Figure 5

LATIN AMERICA AND THE CARIBBEAN: GOODS TRADE DURING THE 2000s [a] AND BREAKDOWN OF GROWTH DURING THE PRE-CRISIS, CRISIS AND POST-CRISIS PERIODS

(Index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the balance of payments of 35 countries.

[a] Levels for 2010 and the breakdown of growth for that year correspond to projections made by ECLAC, on the basis of information available for January-May.

A preliminary overview of export performance in the past decade shows that the region's exports have grown by less than the global average and have underperformed relative to other developing regions such as Asia, Africa and the Middle East in both value and volume. The region's export growth rate has also been lower in the past decade than it was in the 1990s. The export effort of Latin America and the Caribbean is thus proving inadequate and the region is continuing to lose global trade share (see figure 6).

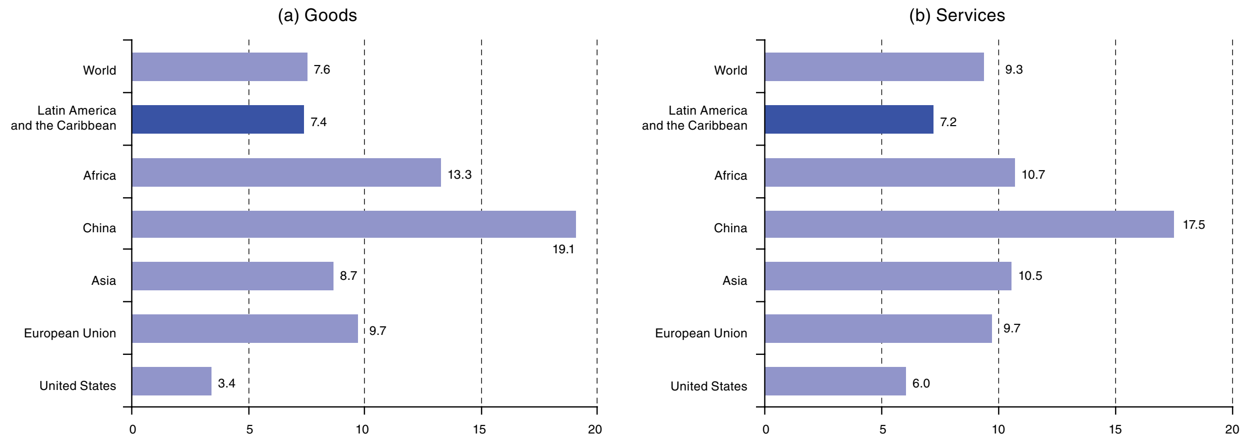
Two differentiated patterns can be distinguished within the region. While the export growth rate of South America has doubled, that of Mexico and Central America has fallen by more than half. Exports from all South American countries other than the Bolivarian Republic of Venezuela have grown by more than the regional average over the past decade. Conversely, export growth rates have underperformed the regional average in all Central American countries except Nicaragua. The slackening of export growth in both Mexico and Central America over the past decade has been reflected in the performance of imports, since these countries' exports include a large component of inputs imported for the maquila industry.

Natural resources have been the region's most dynamic exports over the past decade, especially in South America. This pattern of growth has created the conditions for a recommodification of the regional export structure. After falling from some 52% of total exports in the early 1980s to a low of 26.7% in the late 1990s, the share of raw materials has risen over the past decade to reach almost 40% of the total in the last two-year period (2008-2009) (see figure 7). This increase in the share of raw materials has taken place at the expense of medium-, high- and low-technology manufacturing exports, all of which have grown by much less than in the 1990s. This is consistent with the reduced dynamism of engineering- and labour-intensive manufacturing exports.

Figure 6

SELECTED WORLD REGIONS: AVERAGE ANNUAL GROWTH IN GOODS AND SERVICES EXPORTS, BY VALUE, 2000-2009

(Percentages)

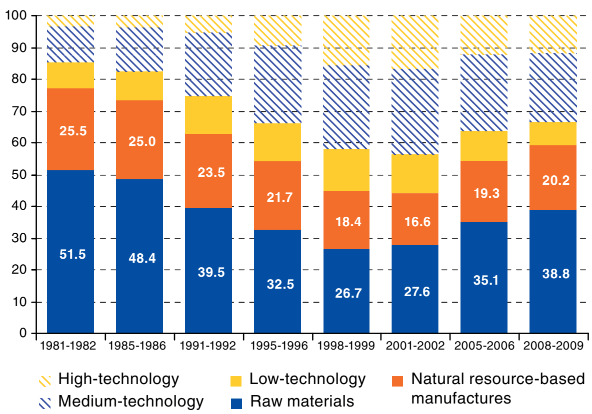


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure 7

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF WORLDWIDE GOODS EXPORTS, BY VALUE, SINCE THE EARLY 1980s

(Percentages of the total)

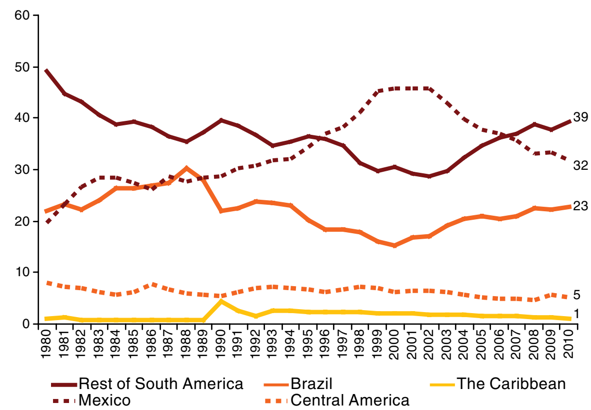


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

Figure 8

SELECTED SUBREGIONS, BRAZIL AND MEXICO: SHARE IN TOTAL EXPORTS OF GOODS FROM THE LATIN AMERICAN AND CARIBBEAN REGION, 1980-2010

(Percentages of the regional total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data.

Differences in the growth rates of raw material and manufacturing exports have led to a readjustment of the relative shares of exports from Mexico on the one hand and South America on the other. The former's share of the region's total goods exports fell from 40% in 2000 to 30% in 2009. Meanwhile, Brazil increased its share from 13% in 2000 to about 20% in 2009, recovering the share of total exports it had in the early 1980s. Other countries in South America also increased their share of the region's goods exports, particularly Argentina, Colombia, Peru and Chile. The low growth rates of CARICOM and the Dominican Republic meant that all these countries' shares of the region's total goods exports declined (see figure 8).

By contrast with goods, services exports have expanded slightly faster in the past decade than they did in the 1990s. Nonetheless, they grew more slowly than global exports of services and than those of Africa, Asia, China and the European Union. As with goods, Mexico has significantly underperformed the region as a whole over the past decade. Also noteworthy is the weakness of export growth in the Caribbean subregion, where services constitute a large share of total exports. As for South and Central America, no well-defined pattern exists and there is a high degree of heterogeneity.

This preliminary overview of export performance in the decade shows that the region has not succeeded in significantly improving the quality of its international

trade. On the one hand, the South American countries have displayed greater export dynamism in the aggregate, but this has largely been determined by exogenous factors such as the renewed strength of international demand for raw materials and the consequent rise in their prices. On the other, Mexico and Central America, whose exports include a greater share of manufactures, have proved less dynamic in the aggregate, largely because of intense Chinese competition in their main market, the United States, especially for products whose manufacture involves intensive use of unskilled labour.

The expansion of natural resource-related sectors, driven mainly by demand from Asia, has not contributed enough to the creation of new technological capabilities in the region. Although returns in these sectors have improved, and there have actually been productivity gains, the absence of active production development policies has led to a widening of productivity gaps with countries deemed to be at the frontier, especially the United States.

The region's trade relations with Asia offer both opportunities and challenges. One major challenge is to prevent the growing trade between the two regions from reproducing and entrenching a centre-periphery trade pattern in which Asia (particularly China) emerges as a new centre and the countries of the Latin American and Caribbean region as a new periphery. What is needed, then, is progress towards trade relations that are more in keeping with the economic and social development patterns this region needs.

There is thus an urgent need for an effort to promote higher levels of innovation and endogenous development of technological capabilities, both in natural resource-related sectors and in manufacturing and services. Public policy has an irreplaceable role to play in generating such capabilities and the systemic competitiveness they bring with them. This effort requires, among other things, the coordination of a wide range of policies, including those designed to increase the competitiveness of small and medium-sized enterprises (SMEs), with programmes to improve quality certification, compliance with technical and sanitary standards and training, all necessary instruments when it comes to fostering a greater presence for SMEs in export flows, clusters and international value chains.

Actions to further the development of intraregional trade are also desirable given that this trade presents positive features such as greater manufacturing intensity and a greater presence of SMEs, the main drivers of high-quality job creation and social cohesion. Furthermore, intraregional markets could serve to cushion demand shocks originating outside the region, provided progress is made with financing mechanisms for intraregional trade. This is the intention of traditional organizations such as the Inter-American Development Bank (IDB), the Andean Development Corporation, the Foreign Trade Bank of Latin America(BLADEX) and the Latin American Reserve Fund (FLAR), to which might be added the potential contribution of the Bank of the South in this area. The data show that the potential for intraregional trade was not sufficiently exploited during the recent crisis.

C. Regional integration initiatives and negotiations with extraregional partners

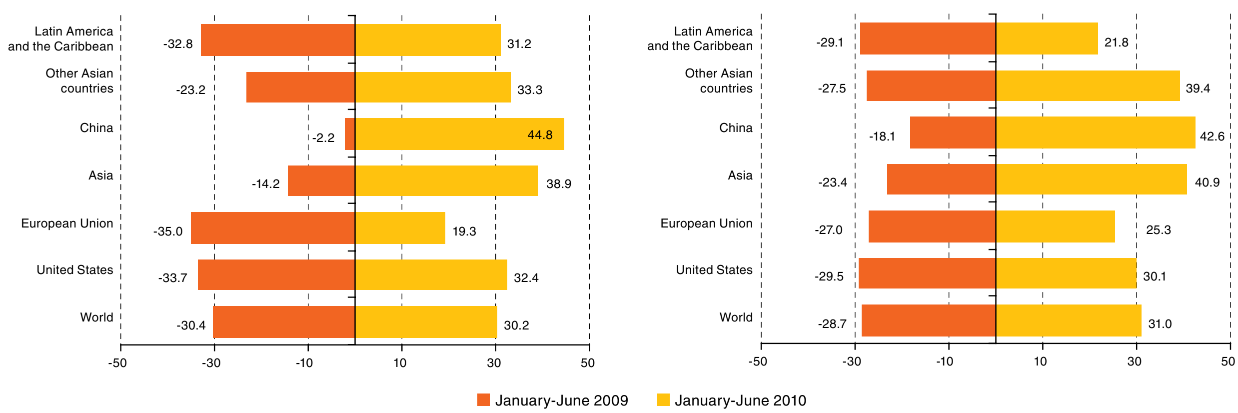
The crisis strongly affected intraregional trade, and recovery has been slow. The exports of Latin America and the Caribbean to all leading destinations other than China contracted during 2009. Intraregional trade fell by 28% in 2009, by much the same proportion as the region's exports to the United States and the European Union (26% and 28%, respectively). Exports to Asia fell by just 5% and those to China actually rose 5%. The recovery in intraregional trade during the first half of 2010 compared with the same period the previous year has been slower than the recovery in trade with Asia and the United States (see figure 9).

The crisis led to a drop in intraregional trade ratios, with the exception of MERCOSUR. Intraregional trade has yet to revisit its earlier highs. After rising steadily from the early 1980s onward, by the late 1990s intraregional trade accounted for a little over 20% of the total in Latin America and the Caribbean as a whole and 25% in the case of MERCOSUR and the Central American Common Market. These increases were reversed after 1999, however, when the level of intraregional trade dropped sharply as the repercussions of the Asian financial crisis struck the region. Currency upheavals in MERCOSUR and the Andean Community subsequently led to a collapse in trade between the South American countries. Although the intrasubregional trade ratio continued to rise in the Central American Common Market (CACM), the region as a whole did not see a return to the earlier peak (see figure 10).

Figure 9

LATIN AMERICA AND THE CARIBBEAN: VALUE OF TRADE BY MAIN DESTINATION, JANUARY-JUNE OF 2009 AND 2010

(Percentage growth over the same period of the preceding year)



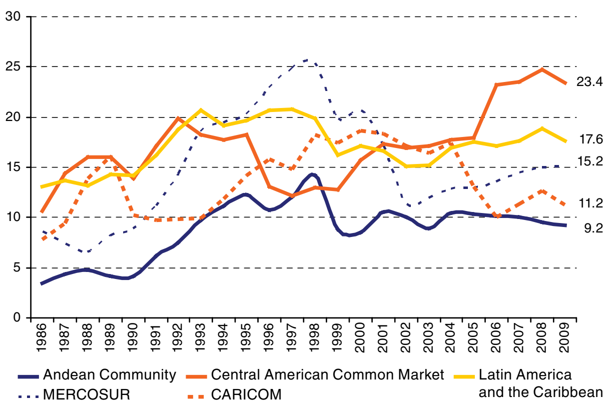
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

[a] Preliminary figures.

Figure 10

COEFFICIENT OF INTRAREGIONAL AND INTRASUBREGIONAL TRADE, 1986-2009

(Percentages of total exports from the region and each integration scheme)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The state of economic and trade integration in Latin America and the Caribbean presents large variations between the different subregions or integration schemes. In particular, the more ambitious trade integration initiatives have been badly affected by differences of opinion in the region. This can be seen in the abandonment of the project of creating a South American free trade zone, which was floated in 2005 within the framework of the then South American Community of Nations (SACN). Likewise, negotiations to create a free trade area under the auspices of the Latin American Integration Association (LAIA) have progressed little since they were launched in 2004.

MERCOSUR has shown some positive developments in the last 12 months, most notably with the agreements reached at its summit in San Juan, Argentina, from 2 to 3 August 2010, dealing with a number of measures designed to improve the customs union. These agreements include the gradual abolition of double charging of the common external tariff (CET), the adoption of a mechanism for distributing customs revenue and the adoption of a common customs code. These three issues, it should be noted, were the subject of intensive negotiations from 2004 onwards. In addition to these advances, progress was made in the liberalization of trade in services and in the consolidation of the MERCOSUR Structural Convergence Fund (FOCEM) and the creation of the MERCOSUR Guarantee Fund for Micro, Small and Medium-sized Enterprises and Local-Currency Payment System. Pending challenges for MERCOSUR include making faster progress towards the goal of doing away with non-tariff restrictions on intra-zone trade, making greater use of the mechanisms provided by MERCOSUR itself for the resolution of trade disputes arising between its members, and making headway with the incorporation of community regulations into national law. Another important development during the period was the resumption of negotiations for an economic partnership agreement with the European Union. These are testing negotiations but, if they come to fruition, they could create major benefits for MERCOSUR.

The members of the Andean Community have continued to pursue further cooperation and integration in a number of areas. These efforts are embodied in the 12 agreed areas of operation of the Strategic Agenda approved by the foreign and trade ministers of the Andean

Community in February 2010. The starting point for the Agenda is the recognition of the diversity of approaches and views among Andean Community members, on the basis of which it seeks to preserve the achievements built up over its four decades of existence and advance pragmatically into new areas that command consensus, including economic complementation and trade integration issues. Major efforts here include those being made to develop Andean technical standards, strengthen Andean agricultural health, food safety and quality systems, and facilitate trade.

The Central American Common Market (CACM) economic and trade integration process has been more dynamic over the past 12 months than similar processes in South America. Having achieved free trade between them years ago, with minimal exceptions, the CACM members are now working to complete their planned customs union. To this end, they are in the process of harmonizing the 4% of their tariff universe that is not yet subject to a common external tariff. Progress is continuing in areas such as modernization of the Standard Central American Tariff Code, the development of Central American technical regulations for different products, mutual recognition of sanitation records for food, drinks, medicines and hygiene and cosmetic products, and the establishment of integrated customs.

The process leading to effective Panamanian membership of the Central American Economic Integration Subsystem is also under way, with completion planned for late 2011. Deeper trade links between Panama and Central America have been accompanied by growing integration in other areas. These include energy, with Panama forming part of the Electrical Interconnection System for Central America (SIEPAC), whose purpose is to create a common Central American market for electricity. Panama is also coordinating work to develop a Central American short-distance sea transport system (cabotage).

Depending on their outcome, the contacts that have been taking place between Brazil and Mexico since August 2009 with a view to negotiating a strategic economic integration agreement may favourably influence economic and trade integration initiatives in the region. A decision to begin negotiations during 2010 could act as a catalyst for integration efforts throughout the region by tying together the leading economies of South America and Meso-America.

Since its creation in 2007, the Latin American Pacific Basin Initiative has been exploring initiatives to achieve trade convergence between its 11 members. These discussions have not as yet included the subject of tariff convergence, as the priority has been to achieve convergence via cumulation of origin. By connecting up the different bilateral agreements, this would favour the integration of production between Pacific Basin countries and reduce the transaction costs involved in trade between them. Its members have also agreed to seek progress on technical barriers to trade, sanitary and phytosanitary measures, customs procedures, services, dispute resolution and trade defence, among other topics. This forum could serve as a catalyst for convergence in terms of expanded markets and integrated production by contributing to the development of regional value chains and thereby increasing the attractiveness of Latin America and the Caribbean as an economic and trading partner for Asia-Pacific.

Most Latin American and Caribbean countries have continued to actively negotiate trade agreements with partners outside the region, particularly the European Union and, increasingly, Asian countries. This intensive activity undoubtedly owes something to the lack of movement on the Doha Round, but it could also be a response to slow progress with the main trade integration projects in the region. The list of extraregional agreements signed recently or under negotiation is long and includes: (i) the agreements recently concluded between the European Union and Central America (including Panama) and with Colombia and Peru, (ii) the free trade agreements (FTAs) signed by Costa Rica with China and Singapore, (iii) the FTA currently being negotiated between four Central American countries and Canada, (iv) the bilateral FTAs being negotiated by the Republic of Korea with Peru and Colombia, (v) the economic partnership agreement (EPA) negotiations between Peru and Japan and (vi) the FTA recently signed between MERCOSUR and Egypt. Conversely, not much progress has been made on the region's trade relations with the United States, as demonstrated by the fact that the United States Congress has yet to ratify the FTAs signed with Colombia and Panama over three years ago.

Having concluded negotiations on a partnership agreement with CACM and a trade agreement with Peru and Colombia, the European Union continues to implement the strategy of forging closer ties to Latin America that it decided upon in the mid-1990s. Both agreements will now have to go through their respective signing and ratification processes, and are expected to come into force in early 2012, joining the agreement signed in October 2008 between the European Union and 15 Caribbean countries that are members of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) and the agreements in force with Chile and Mexico. Negotiations on a partnership agreement between MERCOSUR and the European Union have recently resumed and will be interesting to follow over the coming months.

Another scheme that offers some potential as a platform linking Latin America and the Caribbean to the Asia and Pacific region is the Trans-Pacific Strategic Economic Partnership Agreement (TPP), also known as the P4, which was signed in 2005 between Brunei Darussalam, Chile, New Zealand and Singapore. Negotiations to bring the United States into the TPP began in March 2010, and have now been joined by Australia, Peru and Vietnam, while other countries from both Asia and Latin America are considering joining the process. While not economically imposing now, the TPP offers the potential to build a "trans-Pacific community" that could counteract the centripetal tendencies now being seen in East Asia.

A number of countries in the region are still very actively pursuing extraregional negotiations. This could create strains within the subregional integration schemes, as has been demonstrated by the negotiations between the Andean Community countries and the United States and European Union. Commitments that countries from the region negotiate individually with extraregional partners (particularly developed countries) may present discrepancies with the obligations they have accepted in their regional or subregional scheme, with potentially large implications for the latter. Although this situation poses a major challenge to Latin American trade integration, there are no obvious solutions. Consequently, there seems to be a need to retain some scope for flexibility and even variable geometry in the different subregional schemes so that this situation can be accommodated.

There is currently no obvious framework for implementing the ambitious South American trade convergence initiatives launched in the middle of the last decade. This limits the scope for progress towards a larger integrated economic space, even though such a space would benefit the development of intraregional trade, with all its benefits (a larger presence for manufactures and SMEs, greater potential for integrating production systems, etc.). This situation contrasts with that in Meso-America, where intensive negotiations are going on both to enhance current agreements or replace them with more comprehensive ones, and to create larger economic spaces by bringing about convergence between existing agreements.

Nonetheless, the difficulties in progressing towards liberalization of intraregional trade must not become an obstacle to enhanced regional or subregional cooperation in other areas where action is needed at least as urgently to deal with the competitiveness challenges facing Latin America and the Caribbean. Among these, ECLAC has identified eight priority areas: (i) the development of infrastructure for integration, (ii) measures to support trade (progress with the trade facilitation agenda and the provision of proper financing, especially for intraregional trade), (iii) efforts to strengthen the social component of integration, (iv) a renewed effort to deal with the asymmetries between countries and regions, (v) regional cooperation on innovation and competitiveness, (vi) a joint strategy for enhancing ties with Asia and the Pacific, (vii) regional coordination in debates about international financial system reform and (viii) regional cooperation to deal with climate change.

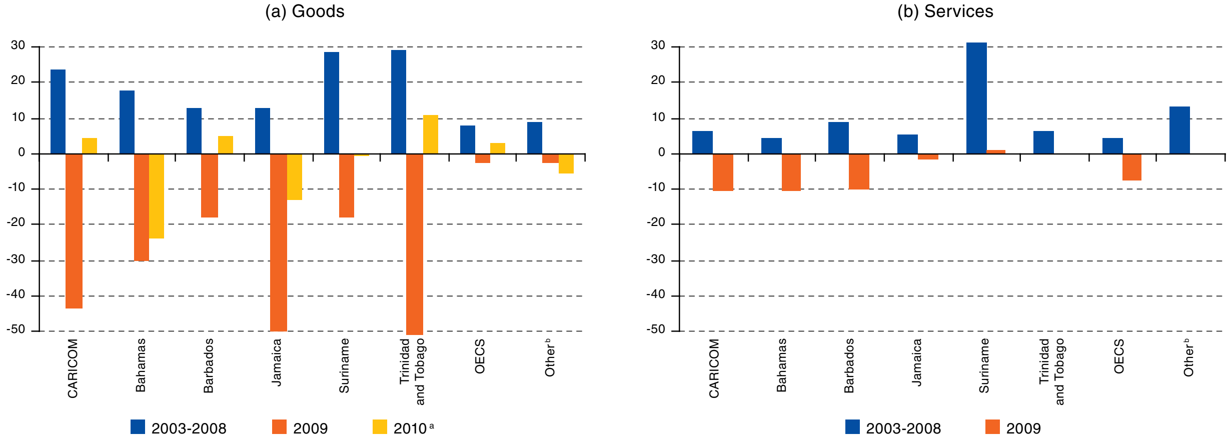
D. Trade and integration in the Caribbean: trends and outlook

The global financial crisis has worsened the economic difficulties of the Caribbean countries and exposed their vulnerability to external shocks. The crisis had a large impact on the trade of the Caribbean Community (CARICOM) because of its dependence on external markets. In 2009, Caribbean goods exports fell 43% by value, largely because of lower prices for the energy products and raw materials that dominate the export baskets of the largest goods exporters, such as Jamaica, Suriname and Trinidad and Tobago. External sales of services were less affected, although they also fell by 10% (see figure 11).

Following record growth in 2005 and 2008, exports fell substantially in 2009, especially in Trinidad and Tobago (51%), Jamaica (50%), Bahamas (30%), Barbados (18%) and Suriname (18%). Given that Jamaica, Suriname and Trinidad and Tobago have large goods-producing sectors by the standards of the rest of the Caribbean economy, these declines were very significant. Preliminary data for 2010 show that exports have begun to recover, albeit with large variations between countries.

Services exports suffered less in the crisis. This is partly because trade in services is more crisis-resistant than trade in goods, being less dependent on trade financing, less fragmented globally and less sensitive to changes in demand. Other than Guyana, Suriname and Trinidad and Tobago, the CARICOM economies specialize in services, particularly tourism and to a lesser extent financial services. These countries have suffered from the drop in tourist arrivals from Europe and, especially, the United States. Tourist arrivals recovered slightly in the first quarter of 2010.

Figure 11
CARICOM: AVERAGE ANNUAL GROWTH RATES OF GOODS AND SERVICES EXPORTS, 2003-2008, 2009 AND 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics", and "Direction of Trade Statistics" [online] http://www.imf.org/external/data.htm, and official figures from the respective countries.
[a] Refers to the period January-February 2009 and January-February 2010.
[b] Includes Belize, Guyana and Haiti.

Goods now circulate very freely within the Caribbean, as most tariffs on merchandise originating in the countries of the common market were abolished in the 1990s. A number of non-tariff barriers have also been eliminated and a timetable has been adopted for abolishing unauthorized import duties and taxes.

CARICOM is currently implementing the CARICOM Single Market and Economy (CSME) in two phases. In the 2001 Revised Treaty of Chaguaramas, a timetable from 2006 to 2015 was agreed, with two sub-phases: the single market (2006 to 2009) and the single economy (2010 to 2015). With the single market, all barriers to trade in goods and services and to the movement of several categories of workers are to be removed. Implementation of the single market is further entrenching the integration process via harmonization of the regulatory regime and economic policies and the creation of a monetary union.

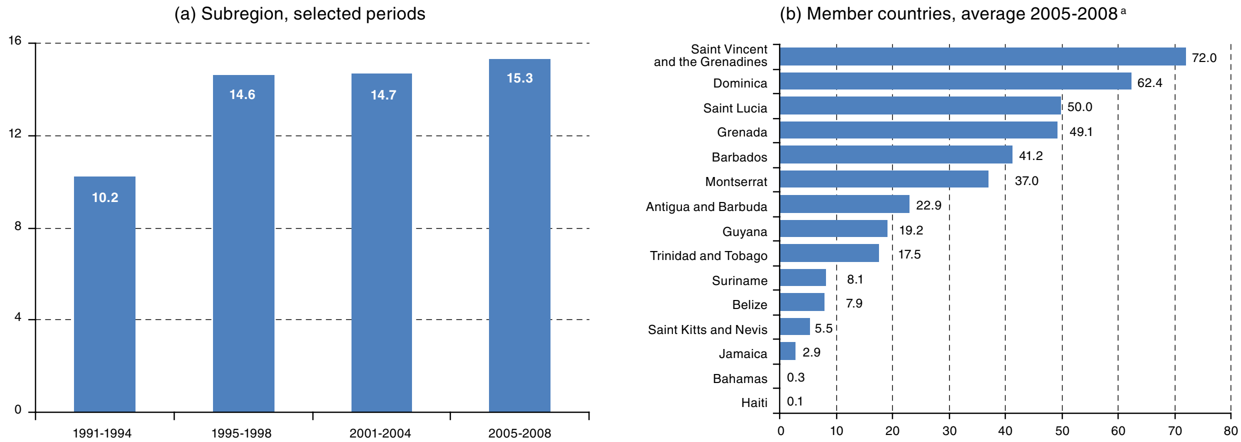
Substantial advances have been made in applying the CSME. Like other regional integration schemes, CARICOM remains an imperfect customs union. New CARICOM agreements have been signed, ratified and enacted into domestic law by most members. The exceptions are the Bahamas and Montserrat, which have decided to remain outside the CSME, and Haiti, which has postponed implementation.

Intrasubregional trade represents a large share of the total, but is skewed towards a few countries and a handful of products. Exports to CARICOM members as a share of the total grew from 10.2% in 2005 to 15.3% in 2008. Intra-Caribbean exports are increasingly dominated by Trinidad and Tobago, which accounted for 80% of the total in 2008. The country mainly sells natural gas and oil to Jamaica, Barbados and Guyana. Energy products accounted for 65% of intrasubregional exports in 2008. This trade is very important for small economies; the Organization of Eastern Caribbean States (OECS), and Grenada, Dominica and Saint Vincent and the Grenadines in particular, sell half their exports in the subregional market. Intra-Caribbean trade is also above the average for the subregion in Guyana and in Trinidad and Tobago, but represents a smaller proportion of total trade for the Bahamas, Haiti and Jamaica (see figure 12b).

All countries other than Bahamas have adopted the Common External Tariff (CET), which has itself been substantially reduced. The weighted average import tariff was lowered from 20% in the early 1990s to 10% in 2009. CARICOM has also adopted a common trade policy towards external partners, albeit with some exceptions. For this purpose, the Caribbean Regional Negotiating Machinery (CRNM) was integrated into CARICOM in 2008 and renamed the Office of Trade Negotiations (OTN).

Progress has also been made on free intraregional trade in services, the main comparative advantage of the region. All members have adopted a negative list whereby all sectors and measures are to be liberalized unless otherwise specified. All member countries have put into place legislation to permit the free movement of highly skilled personnel, including university graduates, media workers, sportsmen, artists and musicians wishing to provide a service or set up a business.

Figure 12
CARICOM: INTRA-CARIBBEAN TRADE OF THE SUBREGION AND THE MEMBER COUNTRIES AS A PROPORTION OF ALL EXPORTS
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).
[a] The information for Haiti is based on data from the International Monetary Fund (IMF) Direction of Trade Statistics. The data for Suriname should be interpreted with caution since no specific destination is attributed to most of the country's exports.

Another important achievement has been the establishment of a Regional Development Fund to assist disadvantaged members. The Fund seeks to alleviate difficulties faced by some countries in the transition to an integrated market for goods and services.

Notwithstanding progress towards the establishment of CSME, there has been less movement in certain areas. Issues on which there is room for improvement include the following: (i) monetary and fiscal policy are uncoordinated and unharmonized, (ii) tariff suspensions and reductions and national exceptions to the CET are widely used, even though all members except Bahamas have adopted the CET, (iii) free movement of goods is still being hindered by non-tariff barriers such as phytosanitary rules and technical barriers to trade, (iv) the free movement of capital and skilled labour needed to develop service industries and their exports is still incomplete, (v) decisions by the various CARICOM bodies are non-binding, (vi) there has been a failure to develop and apply common sectoral policies, (vii) progress in harmonizing competition policies and consumer protection regulations has been slow and (viii) the technical and administrative capacity of member governments is weak.

The promotion of exports is of the utmost importance for all CARICOM countries, because in the medium term smaller economies can only build up their economic infrastructure and develop by importing capital goods and intermediate inputs, as well as technology. Over the long run, countries must maintain equilibrium in their balance of payments, as they can only grow over the long run at rates of growth compatible with their external position. This is the main reason why the performance and development patterns of small open economies have been and continue to be heavily constrained by the vicissitudes of the external sector.

Given the very limited financial resources of Caribbean countries, aid for trade (AfT) has a key role to play in strengthening their ability to capitalize on international trade opportunities. The ability to implement regional decisions depends heavily on external financial assistance. Financial support for regional integration also needs to be increased.

The implementation of the single economy component of the CSME, which should have started in 2009, needs to be fast-tracked. In particular, the Revised Treaty of Chaguaramas provides for the development of a common trade policy and coordination of policies to promote the development of critical economic sectors including industry, agriculture and transport. This creates opportunities for the integration of development and trade policy that will allow the region to maximize the benefits from trade agreements.

CARICOM needs to establish a mechanism to manage the implementation of decisions taken by the Heads of Government Conference. CARICOM States are still failing to enact regulations agreed on by the organization's decision-making bodies into local law. CARICOM should take the necessary action to remove the remaining obstacles to effective functioning of the single market. These include the harmonization of sanitary and phytosanitary measures and technical standards, removal of unauthorized taxes on regional goods, implementation of the consumer protection regime, abolition of work permit requirements for service providers and implementation of licensing arrangements for service providers.

The recently created CARICOM Development Fund (CDF) may not be enough to deal with the issue of special treatment for the most disadvantaged members. Because of the lack of secure funding for the CDF, the inadequacy of its capital fund and the temporary nature of its assistance, it is possible that it will be not able to achieve its goals. Therefore, the CDF needs more secure funding and a larger pool of resources. As an alternative for supporting the less advanced members, consideration could be given to the World Bank recommendation that additional resources be sought to strengthen the role of the Caribbean Export Development Agency.

The Economic Partnership Agreement (EPA) with the European Union provides opportunities for export diversification, increased inflows of investment and financial and technical assistance to promote regional integration. Concerns about slow disbursement of European Development Fund (EDF) resources notwithstanding, those Caribbean governments that have not yet established EPA implementation units need to move quickly to do so. CARICOM should try to clarify the development cooperation components of the EPA. This issue could be addressed within the Joint CARIFORUM-EU Council. Caribbean governments should urge the European Union to speed up disbursement of the funds allocated to promote regional integration.

It is important for CARICOM and the Dominican Republic to rapidly resolve their differences over the tariff treatment of exports from the Dominican Republic to CARICOM. This is necessary to facilitate effective application of the EPA. The CARICOM member countries need to position themselves better to capitalize on the market access provided by the EPA and thereby diversify their exports. This repositioning will require that countries take full advantage of the financial and technical assistance available under the EPA with a view to developing production capacity, strengthening institutions and improving competitiveness.

To attract inflows of FDI from the European Union, CARICOM needs to improve the business climate. Required measures include promotion of macroeconomic stability, creation of a skilled workforce, provision of adequate infrastructure and development of strong, independent institutions.

Export diversification efforts under way in the Caribbean are moving in the right direction, but the process needs to be accelerated. Export diversification is critical to reduce the effects of external shocks, enhance productivity, create new comparative advantages and promote economic growth. Supply-side constraints have to be addressed if export diversification is to be successful. Significant constraints that require urgent attention include deficient physical infrastructure including roads, ports and telecommunications, weak private sectors, weak institutions and an inadequate supply of expertise.

It is important to strengthen local technical capacity to produce more sophisticated exports based on human capital development and to achieve export diversification that enhances intersectoral linkages. Foreign technologies have few spillovers without the development of local capacity to innovate. Deepening the regional integration process will not by itself solve these issues of low technical capacity and limited human capital development. In particular, tourism services need to be linked more strongly to the creative industries and domestic agriculture with a view to enhancing production and employment spill overs.

Given the limited financial resources of Caribbean countries, aid for trade (AfT) will have a vital role to play in relaxing supply-side constraints. AfT can help to promote export diversification by providing the financial and technical assistance needed to implement and administer the EPA, improve infrastructure, strengthen institutional capacity and improve the innovation and marketing capacities of private-sector firms. CARICOM should encourage donors to improve the implementation and effectiveness of AfT initiatives by correcting the main shortcomings identified by beneficiaries. Most importantly, the predictability of AfT funding needs to be improved to facilitate speedy and efficient implementation of export diversification programmes. Other improvements that should be considered include increased input from Caribbean countries in the design of AfT initiatives and more emphasis on the development of local capacity.

E. Economic cooperation and ties between Japan and Latin America and the Caribbean

This section analyses the recent strategies adopted by Japan to intensify its economic relationship with Latin America and the Caribbean. These are areas of cooperation that can be enhanced and expanded. ECLAC has emphasized the need to create opportunities for cooperation in the region. In the previous edition of *Latin America and the Caribbean in the World Economy*, and in the recent report *Opportunities for Convergence and Regional Cooperation*, ECLAC has proposed that cooperation efforts should be concentrated, as the cooperation agenda is becoming more important than the trade liberalization agenda. In this context, ECLAC has suggested promoting regional cooperation in eight areas, four of which relate to the intraregional level (intraregional trade promotion, infrastructure investment, social cohesion and the reduction of asymmetries) while the other four are important in the effort to address today's global challenges (innovation and competitiveness, the forging of joint ties with Asia and the Pacific, international financial system reform and climate change).

Asia, viewed through Japan, offers some clues as to the possible paths to promote regional cooperation. Integration and cooperation in Asia have generally been mutually reinforcing and complementary. After many years of market-led integration, the Asian economies are pursuing formal integration with an approach that goes beyond free trade to include innovative agendas such as industrial development, competitiveness and scientific and technological development. Cooperation is one of the major drivers of this integration. The proposals formulated by ECLAC to promote cooperation in Latin America and the Caribbean closely match the historical experience of the Asian economies. Accordingly, ties with Asia-Pacific do not have to be confined to trade and investment but also need to include cooperation. Latin America and the Caribbean have a great deal to learn from Asia where this agenda is concerned, and the region should also be exploring new ways of enhancing inter-regional cooperation with Asia.

Japan is not only the largest donor in Asia, but the main Asian donor to Latin America and the Caribbean. Cooperation is one of the pillars of Japanese external economic policy. One of the main contributions made by Japan in Asia has been to promote interaction between investment, trade and official development assistance (ODA). The Japanese ODA model applied in this region has emphasized infrastructure improvements and training with a view to revitalizing the production sector and promoting trade and investment in the recipient country. Similarly, the economic partnership agreements (EPAs) offered by Japan have sought to supplement trade liberalization with a broad framework of medium- and long-term cooperation.

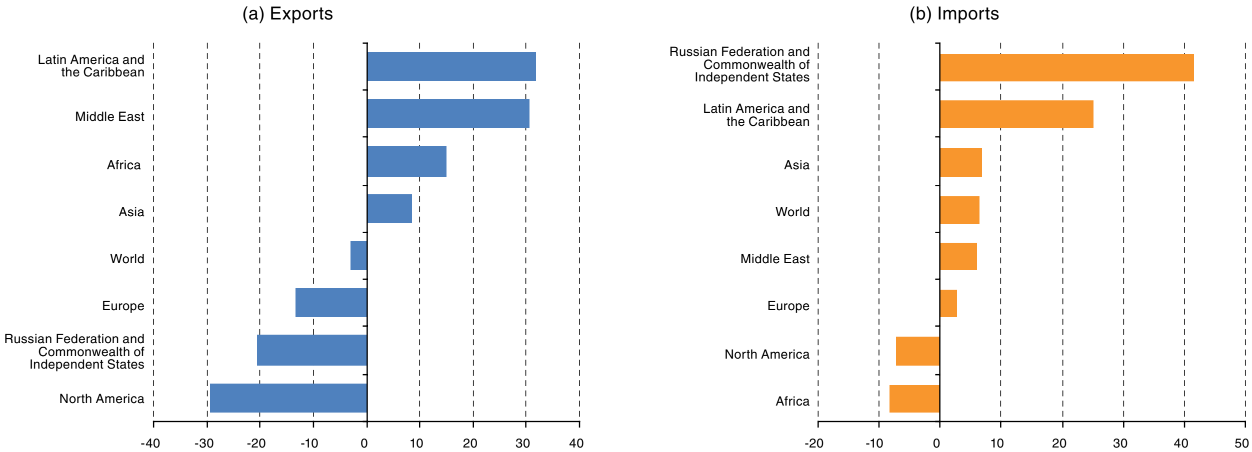
A number of Japanese firms now regard the region as a strategic base for their global operations. Historically, the relationship between the two parties has turned mainly on economic issues. At present, the private sector and government in Japan are coordinating their efforts in a public-private alliance set up to take advantage of opportunities in the region. In the 2010 edition of the Diplomatic Bluebook, the Japanese Government emphasizes that Latin America and the Caribbean are increasing their economic presence in the world. The basic data underlying this opinion are clear enough: a population of 560 million, regional GDP that is currently three times as great as that of the Association of Southeast Asian Nations (ASEAN) and growing rapidly, and considerable mining, energy and food resources. Japanese firms' perception of the region has improved in recent years, particularly since it became clear that Latin America and the Caribbean had been able to overcome the challenges of the global economic and financial crisis and resume growth at higher rates than expected. To strengthen economic ties with Latin America and the Caribbean, the Government of Japan is trying to provide Japanese firms with the support needed to facilitate operations in the region.

A major effort is needed from Latin America and the Caribbean so that Japan comes to regard the region as one of the hubs of its global corporate strategy. The Japanese business sector is still in shock over its experience during the "lost decade" and this experience continues to colour its perception of the region. When the crisis broke out in August 1982, Japanese banks were involved in the region's largest projects with private-sector financing operations worth over US$ 30 billion, including more than US$ 13 billion in syndicated loans. The Japanese Government had to commit large quantities of public funds to roll over private debt. Along with the banks, many Japanese firms pulled out of the region at a time when

Asia was becoming a better option. A number of Japanese firms have overcome their bias, but the memories remain. Despite these experiences, however, economic relations between Japan and Latin America and the Caribbean have started to show some signs of improving.

In the last five years, the region has been the world's fastest-growing destination for Japanese exports in percentage terms, while for imports it ranks second. Latin America and the Caribbean are home to the largest accumulated stock of Japanese FDI outside Asia. Although the amounts involved do not place Latin America and the Caribbean near the top of the ranking, Japanese trade with the region is growing rapidly (between 2005 and 2009, exports increased by 34.8% and imports by 26.3%, see figure 13). This trend is expected to strengthen in the coming years as both sides' economies recover. Recent Japanese investment has concentrated on natural resources. The countries of Latin America and the Caribbean need to embark upon initiatives like those of Brazil and Mexico, the two main recipients of Japanese FDI in the region, with a view to participating in Japanese and global value chains.

Figure 13
JAPAN: TRADE GROWTH, 2005-2009
(Percentages)



Source: Japan External Trade Organization (JETRO) database [online] www.jetro.go.jp.

The Japanese public-private alliance is becoming more active as the region is rediscovered. Large general trading companies (*sogo shosha*) remain at the forefront, accompanied by other Japanese firms. During the 2010 fiscal year (April 2010-March 2011), the *sogo shosha* are expected to implement worldwide investments for what is likely to be a record total of over US$ 27.5 billion. Latin America and the Caribbean need to make an effort to attract this capital. Much of the fresh investment by the Japanese private sector is likely to go not only to natural and energy resources, but also to infrastructure and food security. EPAs and bilateral investment treaties (BITs) should help to spur business and investment by Japanese firms in the region. The Government of Japan is prepared to use the public and private advisory and assistance tools available to it to help Japanese firms (ODA, financial assistance for the Japanese private sector, insurance for commercial activities abroad, and so on). The next task for Japan is to strengthen its assistance mechanism by pledging more resources to the region. Another need is to streamline interactions between Japanese government institutions, as there is no "one-stop shop" for Japanese firms requiring assistance. Latin America and the Caribbean could help with this by seeking more and better Japanese investment in the region.

Besides liberalizing and facilitating trade and investment, the Japanese EPAs include additional measures to strengthen the economic relationship. Japan signed the first "full" EPA in its history with Mexico after agreeing to open up its farm sector. Mexico negotiated the agreement with a view to it becoming the cornerstone of the country's strategy to expand and diversify trade and investment with Asia. The effects of this EPA have been generally positive. In its first five years of operation (2004-2008), Japanese exports rose by 60%, driven by the automotive sector and steel products, while Mexican exports to Japan increased by 50%. The EPA has also enhanced the role of Mexico in Japanese and global value chains. According to a study by the Japanese Embassy in Mexico, in 2008 Mexico imported what were mainly intermediate goods from Japan (parts, components, etc.) to the value of US$ 11 billion. Mexico then used these goods to make final products and export them to the world's leading markets in a trade worth US 14.3 billion.

The Japan-Mexico EPA included a special chapter on bilateral cooperation for the first time in the history of the agreements of this type signed by Japan. The cooperation covered by the agreement encompasses nine areas: trade and investment promotion, supporting industries, SMEs, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism, and the environment. Cooperation in these areas has been expanded and deepened thanks to the EPA. Technical cooperation is the common denominator of a system of cooperation in which Japanese ODA plays an important role. In Asia, cooperation has expanded into new areas such as monitoring of financial institutions and transactions and cooperation to expand electronic transactions. There is also great demand for human resources development in practically all areas.

For the first time, the EPA between Japan and Mexico also included a specific chapter on measures to improve the business environment. This is another innovative mechanism Japan later adopted in subsequent EPAs. The country's EPAs also seek to improve the business environment with a view to enhancing the bilateral economic relationship. Even in Asia, Japanese firms face a variety of difficulties that in practice turn into non-tariff barriers (continual and unexpected changes in laws and regulations affecting business, lack of transparency in administrative procedures, inadequate infrastructure, concern about citizen security, non-compliance with intellectual property rules, and so forth). Latin America and the Caribbean could become a rival to Asia if the region were to resolve these problems in the medium or long term. Under the auspices of the Japan-Mexico EPA, efforts have been made to integrate firms from the two countries more closely in the global value chain, develop scale economies and increase productivity. In practice, this mechanism also operates as a cooperation framework, in the sense of both parties cooperating to resolve some particular problem. In the years it has been operating it has produced positive results.

The concept of the public-private alliance arose in Japan as a result of successful Japanese cooperation within Asia. Japan played an important role in the construction of what is now known as "Factory Asia". In the mid-1980s, the Japanese private sector became the catalyst for an inward investment boom in Asia. Japanese ODA played a decisive role in creating an investment-friendly environment by funding infrastructure and human resources development. The next goal for Japan is to double the size of Asia's economy by 2020. Since mid-2009, Japan has been implementing an initiative whose main component is an ODA package of up to US$ 20 billion. This initiative is meant to enhance the growth capacity of Asia and increase domestic demand in the region's countries. The main goal of Japan is to grow along with Asia.

Latin America and the Caribbean also need Japanese ODA, not only to develop economically and socially but also to drive innovation and scientific and technological development with a view to improved participation in the global economy. Like Asia, Latin America and the Caribbean are now paying back more than they receive in loan assistance within the Japanese ODA framework. Given the contraction in loan demand, a large part of the ODA resources made available by Japan in Asia are now devoted to technical cooperation. Asia is the largest recipient of this type of Japanese cooperation in the world; China heads the ranking, followed by other Asian countries. In 2008, China and the members of ASEAN received US$ 265.22 million and US$ 345.72 million, respectively, while Latin America and the Caribbean received US$ 182.69 million. It is important for the region's countries to better inform Japan of their technical cooperation priorities and needs. The experience of Japan in Asia provides a number of lessons that the region should study carefully.

The region needs a revival of Japanese ODA. It is important for Japan to participate more actively in its capacity as world leader in . In 1999, the region received US$ 814 million in Japanese ODA. Owing mainly to fiscal constraints, this amount was gradually reduced until, by 2008, it had fallen by more than two thirds. The picture looks completely different when Japan's aid for trade (AFT) ODA flows to the world are analysed. In three years, the Japanese Government delivered a promised increase in AfT that was originally scheduled to take place over five years. At the World Trade Organization (WTO) ministerial summit of 2005, the main donors increase the amounts they committed to aid of this type by 2010. In 2008, Japan exceeded its initial target and made the largest contribution at that time, US$ 13.5 billion. In July 2009, Japan announced a new strategy for the 2009-2011 period that consists of a US$ 12 billion assistance package and technical assistance for 40,000 people. This assistance has gone mainly to Africa and Asia. It is important to realize how great the demand for this type of assistance is in Latin America and the Caribbean too, particularly where infrastructure is concerned.

F. Conclusions

Over the coming years, the region will face an international economy that will be less dynamic and more uncertain than in the previous half-decade. This is a reminder that the cycle of financial instability is not over. This situation is also one in which emerging economies will play an ever-greater role in trade and finance.

A preliminary overview of export performance during the past decade shows that, at a time of greater challenges in innovation and competitiveness, the region has not significantly improved the quality of its integration with the global economy. The countries of South America have displayed greater export dynamism in the aggregate, but this is strongly associated with exogenous factors such as the renewed strength of global demand for raw materials and the consequent rise in prices. Meanwhile, Mexico and Central America, whose exports are more weighted towards manufactures, have been less dynamic overall, largely because of intense Chinese competition in unskilled-labour-intensive products in their main market, the United States.

Growth in natural resource-related sectors has not contributed enough to the creation of new technological capabilities in the region. Although returns in these sectors have risen, and there have been notable gains in productivity, the absence of active production development policies has meant that the productivity divide relative to countries considered to be at the frontier, especially the United States, has widened. This being so, the trade relationship between the region and Asia presents both opportunities and challenges. Among the latter, it is particularly important to ensure that the growing trade between the two regions does not reproduce and reinforce a centre-periphery type of trade pattern between the countries of the South, with Asia (and China in particular) becoming a new centre and the countries of the region a new periphery. There is a need to forge a trade relationship that stimulates not just growth, but also greater progress with innovation, export diversification and job quality.

An effort is urgently needed to promote greater levels of innovation and endogenous development of technological capabilities, both in natural resource-related sectors and in manufacturing and services. Production and trade tied to the strongest comparative advantages in natural resources do not necessarily represent an obstacle to higher-quality participation in the international economy, but can rather complement the development strategies of the region's countries. The hypersegmentation of global markets on the one hand, and the acceleration of technological developments in areas such as the life sciences and cognitive sciences on the other, offer a variety of opportunities to decommodify the raw materials the region exports by means of stronger differentiation and the incorporation of value added and know-how. This in turn requires the development of specialized services that allow more value to be generated and captured up and down products' value chain (product design, advertising, improved input management, logistics, transport, engineering and consultancy services, insurance and finance, among others). This provides a way of enhancing forward and backward linkages by strengthening the ties between direct and indirect export sectors and the rest of the economy, especially SMEs producing goods and services, which are the main creators of jobs in the region.

Actions to further the development of intraregional trade are also desirable given that this trade presents positive features, such as greater manufacturing intensity and a greater presence of SMEs, the main drivers of high-quality job creation and social cohesion. Furthermore, intraregional markets could serve to cushion demand shocks originating outside the region, provided progress is made with financing mechanisms for intraregional trade. The data show that the potential of intraregional trade was not adequately exploited during the recent crisis.

The region is strengthening its South-South ties, particularly in its remarkably dynamic trade with China and other Asian economies. The region's future growth will increasingly depend on its success in improving the quality of these relationships. Thus, export diversification, a stronger commitment to competitiveness and innovation and a greater effort of regional cooperation in infrastructure, logistics, intraregional trade, regulatory convergence and policy are measures that would allow Latin America and the Caribbean to improve the quality of their participation in the global economy by closing productivity divides and taking advantage of international trade opportunities to achieve growth with greater equality.

Chapter I

A crisis created in the centre and a recovery driven by the emerging economies

A. Introduction

As of mid-2010, the global economic and trade recovery is proving more robust than expected, but more uneven than could be desired. This faster rebound is due in part to the expanding Asian and emerging economies and in part to the forceful countercyclical response in the form of fiscal, monetary and financial policies adopted by most of the industrialized and developing countries. Markedly dissimilar rates of growth —high in the emerging economies and low in the industrialized ones— are working against a more sustainable recovery. Progress towards such a recovery requires international coordination in managing strategies for exiting the crisis. Financial reforms and a rebalancing of the world economy are needed, too, with the economies with the largest current-account surplus stepping up domestic spending.

Some emerging economies have begun to phase out their stimulus packages and raise interest rates. This increases the interest rate differential with the industrialized economies and could send destabilizing capital flows towards the emerging economies, setting them up for eventual overheating and speculative bubbles. Currencies tend to appreciate as speculative bubbles form, making imports cheaper and hampering the diversification of exports. The bubbles can burst if the rise in spending is not managed well, with grave fiscal, financial and balance of payments repercussions.

Countercyclical policies helped cushion the impact of falling private spending and stem the loss of confidence in the financial markets. The recovery began in China and continued in India, spreading to the rest of the Asia-Pacific region and from there to the other emerging economies. The swift recovery of industrial activity in the Asian economies in turn spurred demand for raw materials, with positive spillover effects for raw material exporters such as South America.

As a result, since late 2009 some international organizations have been revising upward their projections for world economic growth in 2010. The world economy grew at an annualized rate of more than 5% during the first quarter of 2010 (IMF 2010a), essentially because of strong growth in Asia. Not only did China grow by 12% but Hong Kong (Special Administrative Region of China), Malaysia and Singapore grew at even higher rates. International trade in the quarter, meanwhile, was 25% higher in value terms than in the same quarter in 2009. This sharp recovery in international trade, also led by the Asia-Pacific region, China, Japan and India, has helped to gradually restore confidence among consumers, businesses and the financial markets, reactivating consumption and investment.

Despite the global recovery, marked disparities between industrialized and emerging countries persist. The recovery in the first group of countries has been weak on the whole, with the United States doing relatively well, especially in comparison with the European Union. Recovery in the European Union has been complicated by the fiscal impact of financial rescues, a situation that severely affected Greece before spreading to other Mediterranean countries and those in the east of the European Union. Public-sector budgets in the largest European Union economies have also been cut sharply to ensure their sustainability over time, setting the stage for even weaker European growth in 2011. Recent trends in the emerging countries are better than expected. China posted better-than-anticipated economic and trade growth in the second half of 2009 and first half of 2010. The other major emerging markets are also recovering well.

This expansion in emerging economies has not been confined to the countries known as the BRICs (Brazil, the Russian Federation, India and China). Several emerging economies are growing briskly in 2010, with a common thread running through them in the form of potential for long-term sustained growth; large, young populations; macroeconomic balance; low public debt; reasonably diversified exports; relatively sophisticated financial systems; and good prospects for political stability.[1] As of mid-July 2010, the stock markets with the highest yields in dollars during the first seven months of the year are Chile, Colombia, Indonesia, Malaysia and Thailand (*The Economist*, 2010).

International trade has played a vital role in the recovery of the global economy. Trade and open markets prevented the crisis from deepening further and then successfully transmitted signals of rising demand. A number of the factors that led to the decline in global trade in 2008 and early 2009 are now contributing to its recovery, with final demand in emerging countries acting as the main engine of growth. Among these factors is the revival of demand for capital goods and intermediate inputs, owing in part to the normalization of the financial markets and lending and to the fiscal stimulus plans. These have also supported inventory restocking and a new growth cycle for electronic products. Growth in world trade by value has also been helped by recovering commodity prices, particularly oil.[2] More generally, the international trade system helped ensure a better outcome by providing scope for emergency measures to be taken without infringing trade regulations (Lamy, 2010). This has helped to sustain confidence in the trading system and has allowed the Asian recovery to rapidly spread worldwide.

Output and trade in Latin America and the Caribbean have also recovered more quickly than expected. This solid revival is largely based on growing domestic demand, a pick-up in investment and robust export performance driven by demand from China and the rest of Asia, and by the normalization of demand in the United States. This positive overall picture, however, masks a high level of heterogeneity in the region’s countries. The best performance has been seen in countries that export raw materials. The recovery has been slower in countries that import commodities and depend on tourism and remittances, owing to the still weak performance of the industrialized countries that are the main source of these latter flows.

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1 The Economist Intelligence Unit (EIU) puts Colombia, Egypt, Indonesia, Turkey, South Africa and Viet Nam in this category (EIU, 2010).

2 As figure I.2 shows, these prices peaked in mid-2008, plummeted in the third quarter of that same year and began to recover in early 2009. They are now substantially below the 2008 peak but are holding above historical levels.

B. Crisis and recovery: the world and trade blocs

1. The world economy and finance

Between the second half of 2009 and May 2010, the global economy recovered from a crisis —which, according to the United Nations, drove global GDP down by 2% in 2009— faster than expected thanks, above all, to dynamic growth in Asia. Between January and June 2010, the United Nations raised by 0.6 percentage points —to 3%— its projection for global GDP growth in 2010 (aggregate based on exchange rates) (United Nations, 2010). The International Monetary Fund (IMF) increased its projection as well, by 0.4 percentage points, to 4.6% (aggregate based on purchasing power parity).[3] Generally speaking, confidence on the part of economic agents and private demand is beginning to return, with double-digit growth in production and world trade. Global economic recovery from the recent crisis is very uneven: while the slump in output and trade was pretty much synchronous throughout the world, recovery has been modest in the industrialized countries and substantial in most of the emerging areas.

Table I.1
WORLD AND SELECTED COUNTRIES AND REGIONS: GDP AND EXPORT VOLUME GROWTH, 2003-2010 [a]
(Percentages)

	Gross domestic product				Exports of goods and services			
	2003-2007	2008	2009	2010	2003-2007	2008	2009	2010
World	4.7	3.0	-0.6	4.6	8.0	2.8	-11.3	9.0
Industrialized countries	2.7	0.5	-3.2	2.6	6.7	1.8	-12.6	8.2
United States	2.8	0.4	-2.4	3.3	8.5	5.4	-9.6	...
Euro zone	2.1	0.6	-4.1	1.0	5.7	0.8	-12.9	4.2
Japan	2.1	1.2	-4.9	1.4	9.7	1.6	-24.1	...
Developing countries	7.4	6.1	2.5	6.8	11.5	4.5	-8.5	10.5
Developing countries in Asia	9.2	7.7	6.9	9.2	16.2	6.2	-8.0	11.0
China	11.0	9.6	9.1	10.5	20.4	13.9	-9.1	...
India	8.6	6.4	5.7	9.4	24.6	19.3	-6.7	...
Latin America and the Caribbean	5.0	4.2	-1.9	5.2	7.5	1.1	-8.9	...
Brazil	4.0	5.1	-0.2	7.6	9.0	0.0	-9.8	...
Mexico	3.4	1.5	-6.5	4.1	6.1	0.4	-14.1	...
Sub-Saharan Africa	6.3	5.6	2.2	5.0	6.4	0.3	-7.0	7.0
Middle East and Northern Africa	5.9	5.3	2.4	4.5	7.0	2.4	-6.4	4.2

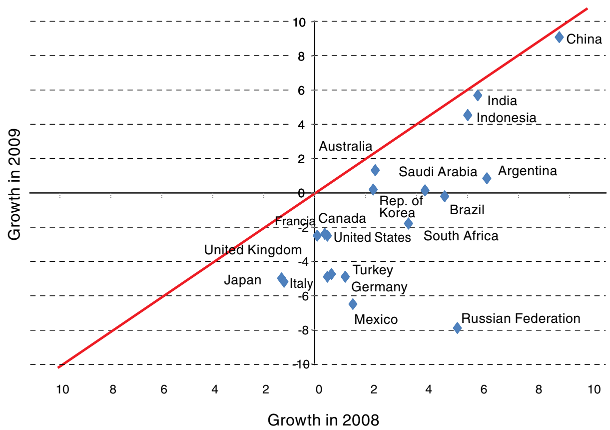
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook Update*, July 2010; ECLAC, *Economic Survey of Latin America and the Caribbean, 2010* (LC/G.2458-P), Santiago, Chile, July 2010. United Nations publication, Sales No. E.10.II.G.3 and official figures from the countries.

[a] Aggregate GDP for the countries was measured on the basis of purchasing power parity, which yields a higher global GDP growth rate than does the aggregate measurement based on exchange rates because the emerging economies have greater weight and growth rates in the first of the two methods.

[3] The method used by the IMF and the World Bank to calculate global GDP differs from the one used by the United Nations (aggregate based on purchasing power parity), which gives higher rates of growth.

As a consequence of the global crisis, all of the countries performed worse in 2009 than in 2008. Within the Group of Twenty (G20), which includes the world's largest economies, the worst decline was in the Russian Federation: following a positive growth rate of nearly 6% in 2008, the crisis triggered a drop of almost 8%. There were significant setbacks in Germany and Italy in both years (see figure I.1).

Figure I.1
GROUP OF TWENTY (G20) COUNTRIES: GROSS DOMESTIC PRODUCT GROWTH, 2008 AND 2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook Update*, July 2010.

By May 2010 external financial conditions were gradually returning to normal. Massive intervention in the financial markets prevented their collapse and contributed to the subsequent recovery. Money markets stabilized, stock markets picked up and banks in most countries resumed lending. According to Institute of International Finance estimates (April 2010), net official and private capital flows to the principal emerging markets will continue to recover in 2010 after dropping 10% in 2009.

In May 2010 turmoil in the global financial markets reappeared along with waning confidence in the fiscal sustainability —especially in the euro zone— of the policies adopted to address the Greek crisis and in prospects for future growth. Confidence shrivelled further in May 2010 in the face of the critical fiscal situation in Greece and other European countries with high indebtedness and public deficits; for some of them this led to the downgrading of their debt ratings. Pressures on financing, uncertainty as to the policies that would be adopted and more pessimistic expectations for the future rippled through the interbank markets and decreased the appetite for risk as shown by massive purchases of assets in emerging regions.

Capital flows into emerging economies have recovered well after contracting drastically in 2008 and 2009. The rebound is more substantial in stocks and bonds and less so in syndicated loans, which are still below pre-crisis levels (OECD, 2010a). Heterogeneous growth across industrialized and emerging economies is a delicate issue because it is encouraging the flow of capital to the fastest-growing economies and increasing the risk of overheating the carry-trades that favour the formation of asset bubbles. This hampers economic policy in the emerging economies because failure to restrict capital flows encourages bubbles and currency appreciation, with a negative impact on competitiveness and export diversification. Attempting to limit the expansion of private spending by increasing interest rates would reinforce the interest rate differential and encourage speculative attacks against the currency. That is why the IMF is exploring innovations such as controlling capital inflows (IMF, 2010b).

So, considerable uncertainty remains. For starters, the root causes of the financial crisis have not been addressed satisfactorily. Most of the industrialized countries have still not put in place the stricter financial regulations that could prevent or moderate future crises. At the G20 meeting in Toronto, Canada in June 2010 it was agreed that the countries will not have to strengthen bank capitalization until 2012 and that a global bank tax seemed unlikely. It was also decided that the countries need to regulate the financial derivatives markets more strictly in order to protect banks from overexposure. The goal is, then, to make trading in financial derivatives more transparent and require that all transactions go through exchanges that would act as guarantors.

One exception to this general picture is the United States, where sweeping new financial regulation legislation was enacted that encompasses financial derivatives, increases government authority over banks and puts new consumer protections in place (see box I.1).

Box I.1

FINANCIAL REFORMS IN THE UNITED STATES AND THE EUROPEAN UNION

In the United States, the Dodd–Frank Wall Street Reform and Consumer Protection Act strengthens regulation of the creation, purchase and sale of derivatives and requires that banks segregate their financial operations from their activities on the commodity, energy, metal and agricultural derivatives markets and in variable-interest assets and credit risk swaps. Banks may continue to operate in the markets for interest rate, currency swap, gold, silver, high-risk swap and hedge derivative instruments. The legislation raises portfolio risk capital reserve requirements and bars banks from financial activities that are not in the interest of their clients. It also bars them from investing in hedge funds and private equity funds, and limits their liabilities.

The Dodd–Frank act increases government powers to intervene in troubled financial institutions that put the financial system at risk. It also sets up a council of experts to identify and prevent systemic risks and, if necessary, authorize the tax charges needed to address the problems. The legislation also steps up consumer protections, creates a new body within the Federal Reserve that can issue new rules, even for the risk rating agencies, and establishes new conditions for mortgage lending. This agency's consumer protection regulations do not extend to the automobile industry.

The European Union committed to reform its financial system rules along the lines of the principles agreed by the G20 and has indicated that it is determined to change the existing regulation model in favour of a more centralized, transparent system that would encompass all types of financial institutions and instruments. Following a round of studies and consultations, the European Union is expected to propose new rules in September 2010, for implementation in 2011.

This European Union bill has many similarities with the law enacted in the United States. Both reforms give greater powers to the authorities in charge of financial derivatives markets, require that derivatives be traded through a central clearinghouse and require transparent disclosure of transactions in a central database. But there is one significant difference: while the United States act sets some limits on banks' financial operations, the European Union bill tends to be stricter and is geared to preventing speculation in credit risk swaps.

Source: David M. Herszenhorn, "Congress sends financial overhaul bill to Obama", The New York Times, 15 July 2010; Pat Garofalo, "What happened last night to the financial reform bill?", Think Progress, 2010 [online] http://wonkroom.thinkprogress.org/2010/06/25/reg-reform-chart-last/; EIU ViewsWire, "USA finance: bank reform sealed", 2010 [online] http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=467277831&region_id=&country_id=1530000153&refm=vwCtry&page_title=Latest+analysis&fs=true; Paco G. Paz, "EEUU aprueba la mayor reforma del sector financiero desde la Gran Depresión", Finanzas.com, 16 July 2010 Jim Brunsden, "Europe exchanges: Commission warns on derivatives-reform risks", EIU ViewsWire, 2010 [online] http://viewswire.eiu.com/article1307275715.html?pubtypeId=1132462498&text=financial%20reform; Lexology, "Developments in EU regulation of derivatives", 2010 [online] http://www.lexology.com/library/detail.aspx?g=caeded48-f6ac-49a1-8d5e-36c44d656fa5.

2. Strengthening international cooperation

Addressing the global financial situation requires enhanced international coordination and cooperation on several fronts, such as making progress on financial reforms, bank recapitalization and restructuring requirements and the timing of and modalities for exiting the crisis in keeping with specific national realities. This coordination should be permanent and is a relevant task for the G20. Close countercyclical coordination when the crisis broke out in the third quarter of 2008 prevented a deeper, more prolonged recession. There was also a coordinated —if perhaps somewhat belated— effort in May 2010 to deal with the Greek crisis. The fact that it was necessary to resume that coordinated effort 18 months later shows that the cycle of financial instability is not over (OECD, 2010b). After all, following the great crisis of the 1930s, the early withdrawal of stimulus measures in the United States, the lack of international coordination and the turn towards protectionism in the United States and subsequently in Europe made the crisis more prolonged and severe. Indeed, the plunge in world trade took place in 1937, several years after the onset of the crisis.

A sustained recovery also requires rebalancing global demand, encouraging those countries with low inflation and larger current-account surpluses as a percentage of GDP (China, Chinese province of Taiwan, Germany, Hong Kong (Special Administrative Region of China), Japan, Malaysia, Norway, Russian Federation, Saudi Arabia, Singapore, Switzerland and Thailand) to increase domestic spending and for China in particular to continue to increase its levels of social protection, improving service productivity and adopting a more flexible exchange policy (IMF, 2010b).

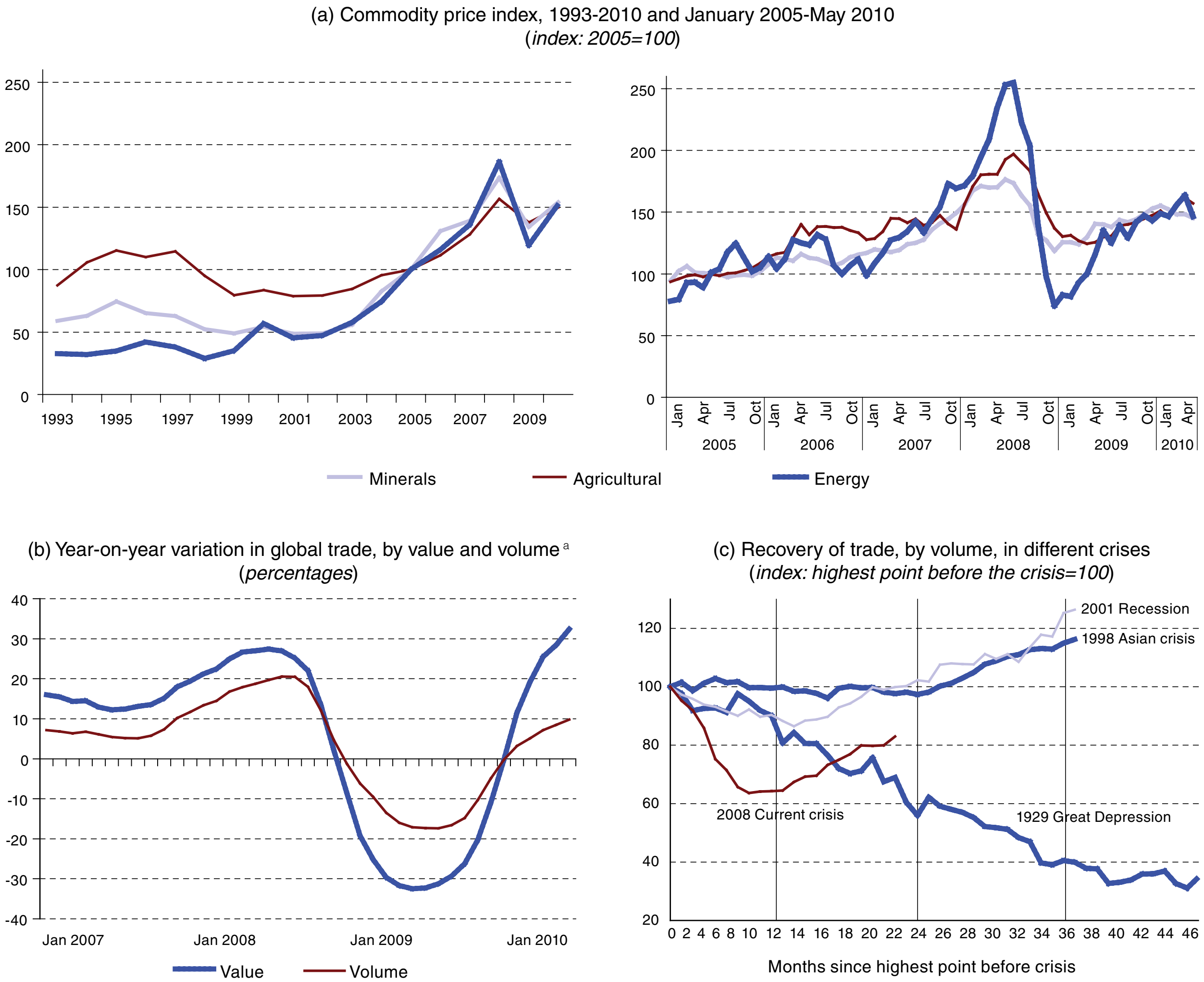
3. Global trade

Global trade in goods rallied in the second half of 2009 and early 2010 after the crisis of 2008 and early 2009. The value of world trade dropped by 30% during the crisis but is recovering at a similar pace (see figure I.2).

The remarkable global economic expansionary cycle from 2003 to 2007 characterized by burgeoning growth started to improve somewhat. For products with rising prices, the average improvement between the lowest point in Asia put considerable upward pressure on international prices. This trend reversed suddenly in the second half of 2008 when the global crisis hit the region hard. Indices began to stabilize in the second quarter of 2009 and then and the current price is 79%. For products with falling prices it is 34%. Among products in the latter category, the recovery of coal and natural gas prices ran from October to December while steel and wheat continued their downward trend (ECLAC, 2010a).

Figure I.2

EVOLUTION OF COMMODITY PRICES AND WORLD TRADE BY PRICE, VOLUME AND VALUE



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CBP Netherlands Bureau of Economic Policy Analysis, "World Trade Database" http://www.cpb.nl/eng/research/sector2/data/trademonitor.html.

[a] Rolling quarterly averages.

In terms of volume, global trade rose 18% in the first four months of 2010 compared with the same period in 2009 (see figure I.2b). So, not only was the drop in global trade larger than in previous crises —the recovery has been faster. Nearly half of the variations are price movements on internationally traded products. Commodity prices (especially energy commodities) rose sharply during the pre-crisis period until mid-2008, fell during the crisis and partially recovered post-crisis.

Figure I.2a shows how the commodity price cycle has fluctuated: there was a sharp rise in 2007 and the first half of 2008, a dramatic decline in the second half of 2008, a gradual recovery starting in early 2009 and a slight relapse in the second quarter of 2010. The fluctuations in energy prices are quite marked, less so for agriculture products. All in all, the general index for these prices is still high compared with their historical trend; the average is similar to 2007 values.

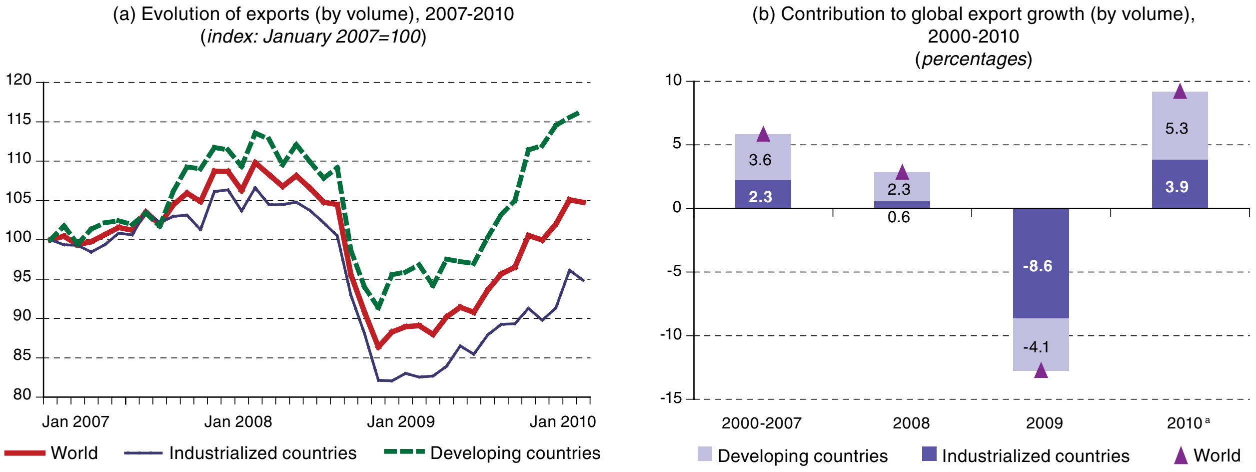
The revival of global trade from mid-2009 on into 2010 is being driven by the developing countries, especially in Asia. The pace of recovery has been slower in the industrialized countries, and they have contributed less to the worldwide growth in exports (see figure I.3). After the crisis, Asian trade rebounded at twice the speed of the industrialized countries. In emerging countries, exports and imports have already neared or surpassed their pre-crisis levels while flows in the industrialized countries are still below the levels posted in 2008.

High trade growth rates in the Asian countries reflect thriving domestic demand and their relative specialization in manufactured goods, the global demand for which has partially recovered. China is at the hub of many global value chains, especially for medium- and high-tech products. Because many of the segments of these value chains are Asian, rapid growth in China has pulled Asian exports —including Japan's— up. The value of Chinese exports rose 65% in the first quarter of 2010, spurring a 48% expansion of exports from Japan and a 34% rise in Asian exports (WTO, 2010a).

China's expanding trade ties with Africa and Latin America, plus trade among Asian countries, is making South-South trade an increasingly relevant driver of world trade. So, the liberalization of South-South trade in goods and services and initiatives geared to promote such trade will likely be the key force behind future global economic growth. Decisions made by Latin America and the Caribbean to strengthen and improve trade ties with China, India, Africa and the Association of Southeast Asian Nations (ASEAN) will therefore determine how much growth the region can aspire to in the near future.

In the past decade, developing countries contributed more to the growth of global exports than the industrialized world did. Thanks to this strong performance, developing areas —especially the developing countries of Asia— doubled their share of global exports between 1991 and 2009 (see figure I.4).

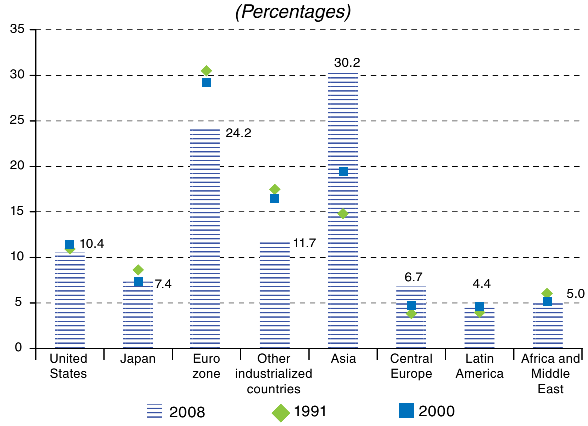
Figure I.3
INDUSTRIALIZED AND DEVELOPING COUNTRIES: EVOLUTION OF EXPORTS AND THEIR CONTRIBUTION TO REAL GLOBAL EXPORT GROWTH



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CBP Netherlands Bureau of Economic Policy Analysis, "World Trade Database" 2010 [online] http://www.cpb.nl/eng/research/sector2/data/trademonitor.html; and World Trade Organization (WTO) projections for 2010, "Trade to expand by 9.5% in 2010 after a dismal 2009, WTO reports", *Press releases*, No. Press/598, 26 March 2010.

[a] World Trade Organization (WTO) projections.

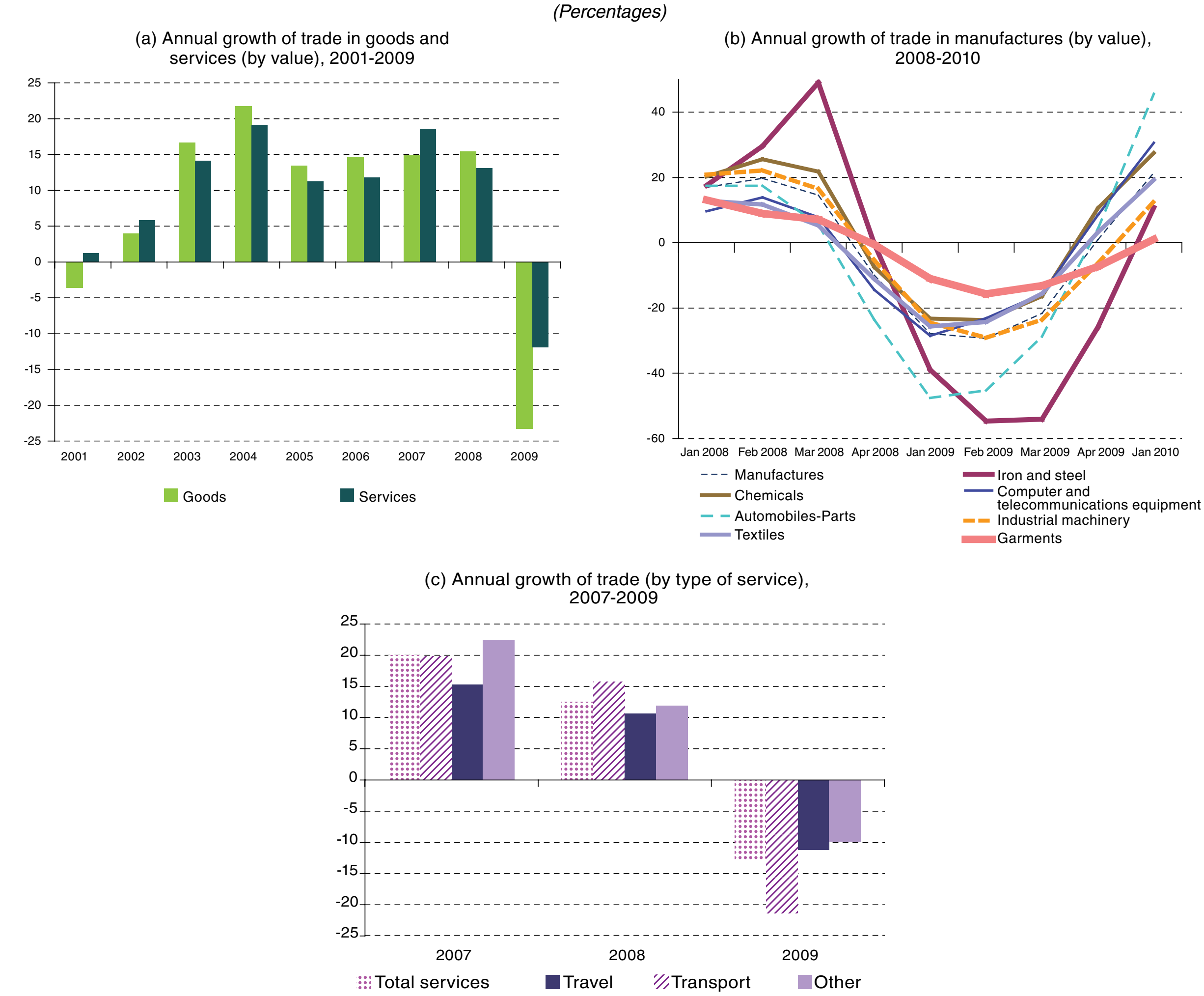
Figure I.4
SELECTED REGIONS AND COUNTRIES: SHARE OF GLOBAL EXPORTS, 1991, 2000 AND 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CBP Netherlands Bureau of Economic Policy Analysis, "World Trade Monitor", May 2010.

Recovery was also strikingly uneven among the different categories of trade. For example, the impact of the crisis on global goods trade was greater than on trade in services. This is similar to what happened during the 2001 recession (see figure I.5a). Regarding the evolution of global trade by product, trade in durable goods fell the most during the crisis. Between the third quarter of 2008 and the first quarter of 2009, the largest drops were in consumer durables such as automobiles and auto parts and in investment goods such as industrial machinery (see figure I.5b). Purchases of these goods were postponed in the face of lower final demand, scarcer credit and uncertainty as to the future. For this reason and because of the construction industry crisis in several countries, trade in iron and steel was also hit hard since these are key construction inputs (WTO, 2010b).

Figure I.5
GLOBAL TRADE: EVOLUTION BY TYPE OF GOODS AND SERVICES
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Trade to expand by 9.5% in 2010 after a dismal 2009, WTO reports", *Press Releases*, No. Press/598, 26 March 2010.

The greatest drop in services was in transport, which is closely linked with goods trade. By contrast, "other services", which include financial, business, information technology and construction services, weathered the crisis better. These services depend less on financing than does trade in goods; they are less fragmented internationally, and demand for them is more stable (Borchert and Mattoo, 2009).

The global automobile industry was one of the durable goods sectors most impacted by the crisis, although demand in Brazil, China and India actually increased thanks to government stimulus programmes.[4] The automobile industry's sharp drop is due in part to its nature as a durable good, meaning that purchases depend on the flow of bank credit (which was unavailable in many of the countries hit hardest by the recession). Moreover, the internationalization of the production chain, the huge number of parts and components needed to build a motor vehicle and falling global demand for cars had a domino effect that weakened the position of countries where the weight of the automobile industry in the productive and export base is substantial (for more details see box I.2).

Box I.2

GLOBAL AUTOMOBILE INDUSTRY AND TRADE: RECENT EVOLUTION AND PROSPECTS FOR LATIN AMERICA AND THE CARIBBEAN

Global motor vehicle production fell 14% in 2009 although by 2008 there were already clear signs of a downturn (-4%) (International Organization of Motor Vehicle Manufacturers (OICA)). Among the leading producers, only China and India posted positive growth rates in 2009 (48% and 13%, respectively). Those most affected were the Russian Federation (-60%), the United States (-34%) and England (-34%).[a] Major producers such as Germany, Japan and the Republic of Korea saw declines of 31.5%, 13.8% and 8.2%, respectively.

Support from governments and private banks to stimulate the domestic market considerably helped offset the drop in external markets, in industrialized and emerging countries alike (ECLAC, 2010b). In industrialized countries, tight credit, the lack of a strong domestic market and the automobile industry's close trade ties with the United States (epicentre of the global crisis) combined to push the industry into a steep decline in most of the top producer and exporter countries, making restructuring inevitable.

Post-crisis, the automobile industry faces a new scenario caused in part by the phase-out of incentives for the sector both in developed countries and in emerging ones. According to several consulting firms, growth in the automobile sector will be moderate and will be led by Brazil, China and India because consumers in the developed economies will tend to moderate their spending on durables.

There are new challenges, too, that can be grouped into four trends. First, because of high oil prices and shrinking family income in the wake of the global crisis, plus fiscal adjustments in most of the European countries, consumers will tend to prefer smaller (economical) automobiles. Producers will thus be faced with narrower margins. Second, continuing weak demand will put pressure on costs and thus intensify competition. Countries like Mexico could benefit considerably from this. Third, new fuel consumption and greenhouse gas emission standards are being put in place, especially in mature markets. Compliance with them will require substantial investments in new technology research and development that will not necessarily have a guaranteed return. And there is the challenge posed by the need for a labour force that is flexible both in skills and in working hours. In this new environment, mergers and acquisitions will be the order of the day, as will alliances among automobile companies.

According to a recent survey of 200 business leaders from the world's major automobile companies, published by the consultancy ABECEB, the following will gain market share over the next five years: (i) the new Chinese and Indian manufacturers; (ii) Kia/Hyundai; (iii) Toyota; (iv) Volkswagen; and (v) Ford, because they are in a better position to capitalize on the automobile industry's new circumstances.

The automobile industry in Latin America: Recent evolution and prospects

Brazil, Mexico and Argentina are the region's leading producers of motor vehicles; respectively, they rank 6th, 10th and 21st worldwide. As for exports the order is partially reversed. Mexico ranked 6th worldwide in 2009, and Brazil was 14th. Argentina's position was similar to its ranking among producers worldwide.

The reconfiguration of the global automobile industry, hastened by the global crisis, has so far favoured Brazil and Mexico. In Mexico, companies such as Volkswagen, Chrysler and Ford will invest substantially in new projects in 2010. Prospects are also very good for Brazil this year, according to estimates from the consultancy ABECEB. Unlike Mexico, the impetus in Brazil is coming not only from the international auto makers installed there but also from a long-term development plan for the industry that has firm government support through the Brazilian Development Bank (BNDES). In Argentina, production and exports are expected to reach a record high in 2010, boosted above all by external demand from Brazil although other relevant markets will recover as well. Nevertheless, Argentina's trade deficit with Brazil has been widening over the past few years because its auto part industry is not competitive enough. To correct this weakness, the government recently announced a soft financing line that could range from US$ 101.7 million to US$ 305 million.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from ABECEB; Motor Vehicle Manufacturers Association (ADEFA), Argentina; and International Organization of Motor Vehicle Manufacturers (OICA).

[a] These three countries' share of worldwide output in 2009 was 1%, 9.3% and 1.8%, respectively.

[4] In 2009 China surpassed the United States as the largest automobile market, with sales of nearly 10 million units.

4. The crisis and financing for trade

The recent global financial crisis once again put trade finance at the top of the international agenda. Heavily globalized financial markets, in addition to making financing more accessible, are also an effective vector for financial malaise in the principal markets and institutions. Trade finance was thus not spared from the deep financial crisis. Stricter lending terms, capital allocation restrictions and curtailed interbank lending, plus the preference for stricter, securitized loans, made financing for international trade less available. Trade finance was off by 6% in the third quarter of 2008 compared with the same period in 2007 (Tàpia, 2010). Data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) show that the volume of interbank trade transaction messages fell in 2008 and 2009 but began to rebound in February 2010 (CCI, 2010).

Shrinking trade finance made it harder for importers and exporters to access credit. The World Bank estimates that the tight supply of credit for trade was behind 10% to 15% of the drop in global flows during the crisis. A survey of 161 banks in 75 countries shows that the volume of financing continued to fall during most of 2009 (Auboin, 2009; CCI, 2010). The drop in financing would have had an even greater impact were it not for the measures taken by multilateral, regional and national institutions to increase lending and guarantees. They managed to sustain, in part, the supply of trade finance. Especially noteworthy are the commitment by the G20 members to ensure the availability of at least US$ 250 billion in additional trade finance and the role of the export credit agencies (see additional details on the measures to support trade finance in chapter II).

The multilaterals also have trade finance support programmes to help ensure the liquidity of private institutions in countries where this is needed, by means of guarantees and insurance in addition to credit facilities. For Latin America and the Caribbean, the Inter-American Development Bank (IDB), the Andean Development Corporation (ADC) and the Foreign Trade Bank of Latin America (BLADEX) are some of the major actors in this area.

Also noteworthy in this regard is the WTO's aid for trade initiative, which identified improving access to trade finance in developing countries as a work area since the launch of the initiative in 2005. Regional reviews of aid for trade in Latin America and the Caribbean, Africa and Asia cited improving access to trade finance as one of the priorities for the regions, and the WTO aid for trade work programme for 2010 and 2011 focuses on the need to improve access to financing for the private export sector, especially small and medium-sized enterprises (SMEs) (CCI, 2009; OMC, 2009a).

Box I.3

THE LINK BETWEEN FINANCING AND WORLD TRADE

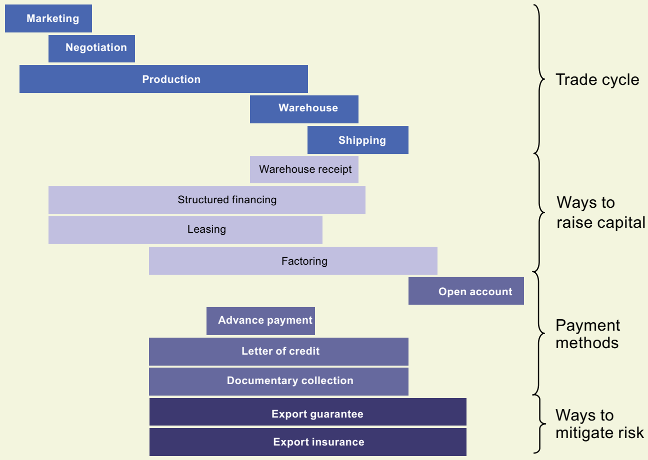
International transactions between importers and exporters involve domestic production chains, transport and port logistics systems, incentives and regulatory barriers and the personal networks needed to link buyers and sellers in different countries. Behind this process is a complex financial system that, depending on its capacities, can either greatly facilitate or obstruct international trade. Exporters use financial instruments to leverage their accounts receivable in order to finance their operations, buy importer default insurance and gain more freedom to seek out new markets and clients. And they take advantage of financial incentives to win sales through competitive advantages and to free up capital for other uses. Buyers are able to finance their purchases and obtain guarantees for the timely delivery of a product. Because of these benefits, the expansion of world trade is closely tied to the availability of low-cost financing for long-term investments and more immediate needs.

The many financial instruments currently available to facilitate cross-border trade reflect the sophistication of the global financial system. Even before the physical exchange of goods, buyers and sellers can access financing, insurance and guarantees to meet their cash flow and risk reduction needs. For example, an exporter can take out a loan using documentary proof of the transaction (such as an invoice) as collateral. Financing can also be granted with collateralized securities or, for highly standardized commodities, warehouse deposit certificates. Suppliers who offer credit to their buyers can also raise capital immediately or limit their foreign exchange risk by turning to medium-term discounting of promissory notes (forfaiting). Besides financing and payment arrangements, exporters may turn to guarantees and insurance plans to lessen their exposure to economic, commercial transport and political risk, among others. These guarantees and insurance are provided by private institutions (such as insurance companies and banks) or government agencies (credit export agencies).

The usefulness and flexibility of financial instruments in meeting the needs of importers and exporters explain why the annual flow of credit and insurance for international trade is estimated to be US$ 12 trillion, or 80% of global trade flows in 2008 (Auboin, 2009).

Box I.3 (concluded)

THE TRADE CYCLE: FINANCING, PAYMENT, AND RISK REDUCTION INSTRUMENTS



Source: Economic and Social Commission for Asia and the Pacific (CESPAP), *Trade Finance Infrastructure Development Handbook for Economies in Transition* (ST/ESCAP/2374), 2005. United Nations publication, Sales No.E.05.II.F.30

Commercial credit is available, above all, from private banks; it is mostly short-term. It also commonly provides financing for activities related to the transaction, such as the purchase of raw materials or working capital loans. Because the security for the financing depends on the transaction itself (delivery of the product to the importer, or payment to the exporter) and because any of the parties could fail to meet its obligations, banks require a significant amount of documentation. But market conditions frequently make credit expensive or credit facilities largely unavailable to exporters.

When bank credit is tight, the impact is greatest on smaller companies, which are often hard-pressed to meet the documentary and security requirements imposed by banks (Duval and Sengupta, 2003). Conversely, large companies are in a better position to lend and obtain financing from nonbank sources because they can more easily turn to other instruments such as bills of exchange, countertrade arrangements and promissory notes. They can also provide the buyer with direct credit to expedite the sale.

Countries with larger economies have government trade support programmes that complement financing available in the private sector. A good example are export credit agencies, which offer insurance and guarantees to lower the cost of private bank loans for importers. By lowering the cost to the importer and decreasing the risk for the bank, these agencies act as trade facilitators in transactions in which traditional financing methods are not viable.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

C. Trade trends in the main countries and regions of the world

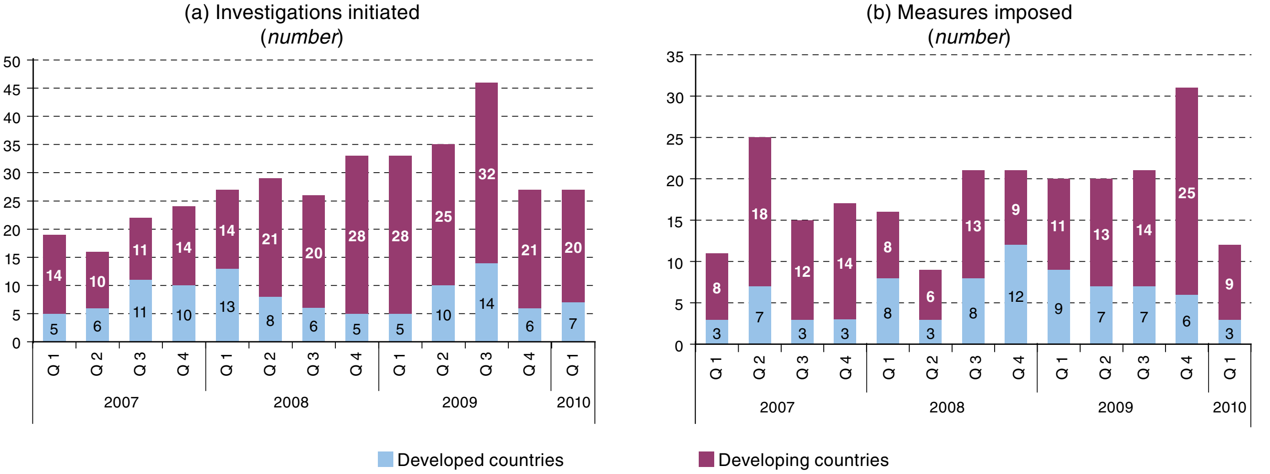
1. Overview of the main trade policy measures during the crisis

During the months immediately following the outbreak of the crisis, industrialized and developing countries alike adopted measures that had a restrictive impact on trade. This gave rise to concern as to a likely resurgence of protectionism, especially in view of the experience of the 1930s. Then, the trade barriers erected by the principal economies contributed to the plunge in world trade and intensified the effects of the Great Depression (Baldwin and Evenett, 2008, 2009; Gamberoni and Newfarmer, 2009). This concern led the governments of the G20 member countries to adopt, in November 2008, the policy commitment to refrain from imposing new barriers to investment or to trade in goods and services for a 12-month period. In April 2009 the commitment was extended through the end of 2010.[5]

Trade restriction measures adopted around the world at the peak of the crisis (between the fourth quarter of 2008 and the close of the second half of 2009) took many forms. Generally, the industrialized countries favoured subsidies for sectors affected by the crisis, such as the automobile industry, iron and steel and financial services. This aid was occasionally provided within the framework of actual rescue programmes for these industries. The developing countries resorted principally to traditional trade policy measures. Among them were increasing tariffs and introducing import licenses and minimum customs values (ECLAC, 2009).

During the quarters immediately following the outbreak of the crisis, the number of trade defence investigations rose in industrialized and emerging countries alike. Most concerned dumping (see figureI.6a). This trend was less marked in the case of new trade defence measures (see figure I.6b). But it is consistent with historical evidence, which shows that measures are usually implemented 12 to 18 months after an investigation is initiated (Bown, 2010a). The developing countries —led by India— accounted for 80% of the trade defence investigations initiated from the third quarter of 2008 to the second quarter of 2009. Most investigations were against China.

Figure I.6
WORLD: INVESTIGATIONS AND TRADE DEFENCE MEASURES, FIRST QUARTER 2007-FIRST QUARTER 2010 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Chad P. Bown, First Quarter 2010 Protectionism Data: Requests for New Trade Barriers Fall for Second Consecutive Quarter; Newly Imposed Barriers also Fall, World Bank, May 2010.
[a] Includes antidumping investigations and measures, countervailing duties, global safeguards and transitory safeguards against China for specific products.

The crisis also triggered a rise in government procurement discrimination, often in the context of economic stimulus plans. Such developments were seen in industrialized countries and in developing countries, too, and they have spread to the two largest economies in the world: the United States and China (see table I.2). Such discrimination is often informal, in the form of discretionary public authority practices, especially at the subnational level. This opacity, which makes it difficult to detect and combat such practices, is an example of what has been called "murky protectionism" (Baldwin and Evenett, 2009). Rising protectionism in government procurement is worrying, since such contracting accounts for 15% to 20% of the gross domestic product of the OECD countries (WTO, 2009b). The percentage has probably risen since the crisis erupted, because of the more active role taken on by the State as an economic actor and even as a buyer of goods and services.

[5] Despite this commitment, 17 G20 countries introduced trade restriction measures between then and late February 2009 (Gamberoni and Newfarmer, 2009).

Table I.2
GROUP OF TWENTY MEMBER COUNTRIES: MEASURES RESTRICTING GOVERNMENT PROCUREMENT, DECEMBER 2008

Country	Type of measure	Effective date
Australia	Local (Australian and New Zealand) content requirements established for purchases by the State of Victoria.	1 July 2009
	Price preferences granted for local (Australia and New Zealand) goods and services for purchases by the New South Wales government.	16 June 2009
Brazil	Ban on the use of certain imported wind turbines by parties bidding on power generation projects under the Alternative Sources of Energy Incentive Programme (PROINFA).	28 May 2009
China	Removal of items from the list of goods exempted from the “Buy China” policy.	4 June 2009
France	For construction projects, raise (from 206,000 euro to 5,150,000 euro) the threshold below which local authorities may award contracts on a discretionary basis without following the European Union rules for government procurement.	19 December 2008
United States	The “Buy American” clause of the American Recovery and Reinvestment Act requires that funds appropriated by the act must be used for public works in which all of the iron, steel and other manufactured goods used are produced in the United States. Exempted from these restrictions are countries that are signatories of the World Trade Organization plurilateral agreement on government procurement (primarily, industrialized countries) and countries that have a free trade agreement in force with the United States.	17 February 2009
Russian Federation	Price preferences through 31 December 2010 for local producers of agricultural products, textiles, footwear, machinery, medical equipment and automobiles, among other goods.	5 December 2008
	Subsidies for certain federal subjects of the Russian Federation for purchasing automobiles produced locally.	31 December 2009
Indonesia	At least 35%, in value terms, of bids for energy services must be sourced locally.	1 December 2009
Turkey	Government authorities instructed to strictly apply the 15% price preference for local suppliers under Turkish law.	1 December 2008

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data of Global Trade Alert, July 2010 [online] http://www.globaltradealert.org.

2. Recent evolution of trade policies in the global economy

The institutions that have been monitoring world trade policy since the crisis erupted continued to do so during the second half of 2009 and the first half of 2010. The principal conclusion emerging from their analysis is that, despite the seriousness of the crisis, there has been no generalized trend toward protectionism (OECD, 2010b; WTO, 2010c). At the aggregate level, the restrictive trade measures that were introduced were not a significant factor in the 12.2% drop in world trade volume in 2009. The drop was caused, above all, by the collapse of demand and the shortage of financing for trade triggered by the crisis, and by the proportionally larger decline in the demand for highly-traded goods and the vertical integration of global value chains (OECD, 2010b).

The WTO Secretariat estimates that new import restrictions introduced around the world between November 2009 and mid-May 2010 affected some 0.4% of global imports.[6] This figure is down from the estimated 1% of global imports affected by import restrictions imposed between October 2008 and October 2009, at the peak of the crisis (WTO, 2010c).

The sectors most affected by restrictive trade measures introduced between November 2009 and May 2010 were basic metal products (especially steel), agricultural products and transport materials. The measures most commonly adopted during the period

[6] This figure includes investigations initiated that could potentially lead to the application of trade defense measures. Some of the investigations might not lead to definitive measures, so including them in the estimate would tend to overstate the percentage of trade actually affected by restrictive measures.

were the initiation of new trade defence investigations (especially antidumping), import tariff hikes and import licenses (WTO, 2010c).

Initiating new investigations and imposing new trade defence measures have followed similar trajectories since the second half of 2009: they peaked when (or even before) the crisis broke out and subsequently dropped off sharply. So, the third quarter of 2009 saw the largest number of new investigations since the onset of the crisis. Subsequently, during the fourth quarter of 2009 and the first quarter of 2010, the numbers returned to levels similar to those posted in the three quarters immediately preceding the crisis (see figure I.6a). The fourth quarter of 2009 saw the largest number of trade defence measures imposed in more than two years, in response to the rising number of new investigations during the quarters immediately following the eruption of the crisis. After this peak, the number of new measures fell off sharply in the first quarter of 2010, to the lowest level since the second quarter of 2008 (see figure I.6b).

As happened during the period between the fourth quarter of 2008 and the second quarter of 2009, the developing countries —led this time by Argentina— accounted for most of the new trade defence investigations initiated between the third quarter of 2009 and the first quarter of 2010, with 73% of the total. China was once again the chief target, both of new investigations and of new measures imposed. Seventy-one percent of the new investigations in the fourth quarter of 2009 named China, as did 47% of those initiated in the first quarter of 2010. Its share of new measures imposed was 72% and 82%, respectively (Bown, 2010a, 2010b).[7]

Measures such as subsidies for certain industries and discriminatory practices in government procurement could well have had a greater impact on trade flows than direct trade restrictions did. As explained earlier, recent data show that the latter affected less than 1% of global trade (WTO, 2010c). However, it is difficult to quantify that impact because, among other reasons, the measures implemented are many and diverse and the information available as to their nature is incomplete, especially when subnational levels of government are involved. Even so, the crisis has shown that the lack of multilateral discipline on government procurement leaves considerable leeway that the governments of many countries have used to favour local providers of goods and services to the detriment of their foreign competitors (ECLAC, 2009).

In principle, it is to be expected that the global economic recovery under way since mid-2009 would bring protectionist pressure down from the levels seen during the past two years. But elements of uncertainty remain. The industrialized countries need to reduce their large fiscal deficits in an environment of high unemployment (around 10% in the European Union and the United States) and rebounding imports. In such an environment, phasing out the stimulus programmes implemented by governments during the crisis (which did moderate protectionist pressure to some extent) could lead to an increase in trade barriers (Gregory et al., 2010; WTO, 2010c). For that same reason, there is no certainty that the number of new trade defence investigations, which has been falling since the last quarter of 2009, will continue to decline in the coming months.

Another risk factor is the possibility that the recovery of raw materials prices will lead some countries to tax or restrict exports of certain products.[8] The resumption of capital flows into developing countries could trigger rapid appreciation of their currencies and exert competitive pressure on export sectors and sectors that compete with imports, leading, in turn, to protectionist pressure (Gregory et al., 2010). Although the pace of new trade restriction measures has slowed in the past few months, the risks associated with their cumulative effect should be borne in mind. Several sources have noted the relatively slow pace at which the restrictive measures adopted since the outbreak of the crisis are being lifted (OECD/WTO/UNCTAD, 2010; Evenett, 2010).

In short, awareness of the risks associated with protectionism, the existence of multilateral trade system regulations and the stabilizing role of stimulus packages have, among other factors, helped contain protectionist excesses.[9] Nevertheless, these risks make it necessary to continue to monitor the trade policies deployed since the crisis erupted. It would also seem advisable to extend beyond 2010 the Group of Twenty's November 2008 commitment to refrain from introducing new barriers to investment or trade in goods and services (OECD/WTO/UNCTAD, 2010). As explained above, while none of the G20 countries have fully honoured this commitment, it has helped keep trade restrictions from proliferating.

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7 Global safeguards are excluded from the figures for both periods because they are applied on a most-favoured-nation basis and thus are not country-specific.

8 There seems to be a growing tendency to restrict exports, chiefly food products and raw materials. The most frequent measures involve introducing or increasing export duties, banning exports or establishing export contingencies. This increase in export restrictions would seem to be worldwide (WTO, 2010c).

9 The case of the Russian Federation illustrates the importance of multilateral regulations in this regard. According to several studies, the Russian Federation was among the countries that implemented the most trade restrictions during the crisis (WTO, 2010c; Evenett, 2010); it is not yet a member of the WTO.

D. Recent evolution of trade in the region's principal trade partners

1. United States

Following the contraction between late 2008 and mid-2009, the pace of recovery of the United States economy has slowed. The unemployment rate remains high, and economic growth is still below potential. The value of imports during the first few months of 2010 is still 16% below the pre-crisis level, constrained by the weak recovery of domestic demand.[10] This performance reflects the sharp drop in 2009 and the partial recovery in 2010. Exports recovered considerably during this period, initially thanks to the depreciated real exchange rate but also because of the strong recovery and high demand in China and other emerging countries. The value of exports during the first four months of 2010 is only 6% below the figure for the same period in 2008, before the crisis (BEA, 2010).

The crisis drove imports down more than exports. The value of imports was off 31% during the first four months of 2009 over the same period in 2008. Exports fell 22%, bringing the trade deficit down. Exports and imports have been recovering at similar paces in 2010. Imports during the first four months of 2010 were up 23% over 2009; exports rose 21% (BEA, 2010). As a result, the trade deficit went up again, but it is still 30% lower than before the crisis.

The revival of imports in the United States is driven largely by the restocking cycle, rising fuel imports and a normalization of consumer spending (*Roubini Global Economics*, 2010). But, despite the substantial impact of fiscal stimuli, economic growth —and imports— have been weaker than expected. The current political debate centres on how to contain public debt and the fiscal deficit, making it hard to introduce new stimulus measures that would boost economic recovery.

High rates of growth in the emerging countries of Asia, led by China, are affecting trade relations between the United States and its partners. Because of the crisis and weak demand in Europe, Asia has moved ahead of the United States as the chief destination market. Exports to China led the recovery (see figure I.5b). Between January 2009 (their lowest point during the crisis) and January 2010, United States exports to China grew 65%. Sales to other regions grew more slowly. Burgeoning growth in China thus supported economic growth in the United States.

The dollar's appreciation against the euro had a substantial impact on United States imports and exports. It is estimated that towards mid-2010 the dollar was overvalued by 10%, even considering its 25% depreciation since 2002. According to estimates, this overvaluation of the multilateral exchange rate reduces United States exports by between US$ 200 billion and US$ 250 billion (Cline and Williamson, 2010; Bergsten, 2010). Overvaluation is due mainly to the bilateral exchange rate with China (and other currencies pegged to the renminbi). This bloc of currencies is estimated to be undervalued with relation to the dollar. Correcting this rate imbalance would increase United States exports and decrease its imports, bringing the trade deficit down by between US$ 100 billion and US$ 150 billion a year (Bergsten, 2010).

Figure I.7 shows the evolution of United States foreign trade between 2007 and early 2010. Exports to China were the chief cause of the 2009 increase in United States exports. Mexico was the principal beneficiary of the recovery of United States imports.

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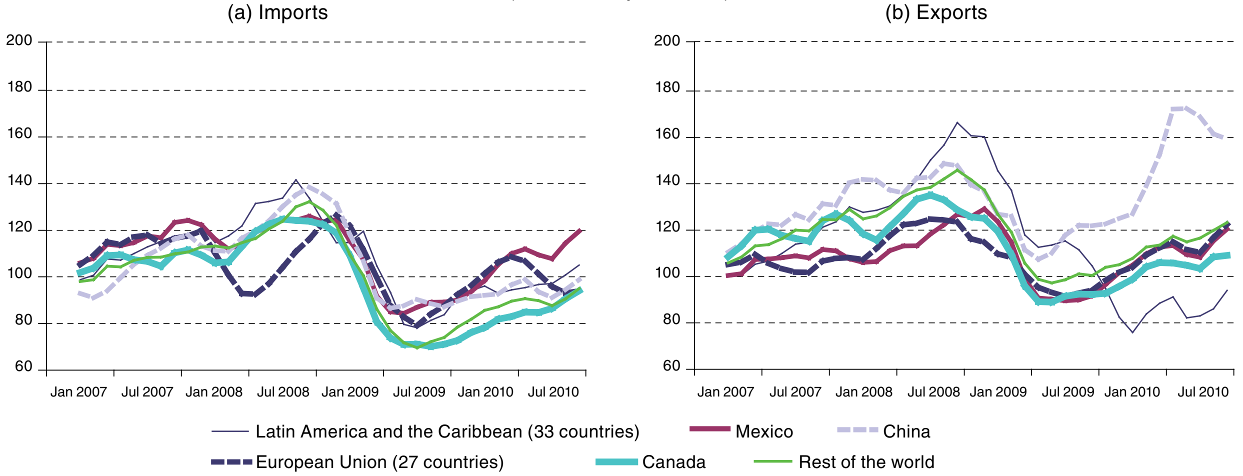
[10] According to data for the period from January to April 2010, compared with the same period in 2008 (BEA, 2010).

Figure I.7

UNITED STATES: TRADE WITH PRINCIPAL TRADE PARTNERS (ROLLING 3-MONTH AVERAGE), JANUARY 2007 TO JULY 2010 [a]

(Index: January 2007=100)



Source: United States International Trade Commission (USITC)), "Interactive Tariff and Trade DataWeb" [online database] http://dataweb.usitc.gov/, 2009.

[a] Share of exports by partner: Latin America and the Caribbean, 21.0%; Canada, 21.4%; China, 5.6%; Mexico, 11.7%; European Union, 21.3%; other countries or regions, 30.8%. Share of imports, by partner: Latin America and the Caribbean, 17.7%; Canada, 16.0%; China, 16.5%; Mexico, 10.8%; European Union, 2%; other countries or regions, 31.7%.

2. European Union

Because of the slow recovery of domestic demand, imports into the European Union and the United States as of April 2010 are still some 10% below their pre-crisis level. Exports have not returned to their pre-crisis level, either, owing largely to poor domestic market performance and weak demand in the United States.[11] The value of European Union foreign trade (excluding intraregional trade) fell 20% in 2009 compared with 2008. In value terms, exports were off 23% and imports dropped by 25%. The decline in terms of volume was 14.8% and 14.5%, respectively. The trade deficit decreased from 1.6% of GDP to 0.7%. The hardest hit countries in the region were Bulgaria, Finland, Greece, Lithuania and Romania, all of whose exports shrank by more than 30% (EUROSTAT, 2010).

In 2009, exports to the region's principal destination fell more than average. External sales to the principal extraregional destination market (the United States), declined more than those to the other main destinations (China and the Russian Federation). Imports from China, the region's principal extraregional origin, dropped by 13% —less than the overall average of 23%. Purchases from the other important trade partners (Brazil, Japan, Norway and the Russian Federation) declined by more than 25% (Gambini, 2010; Pappalardo and Nowak, 2010).

Government measures to boost the recovery were hampered by the complex fiscal situation and high public indebtedness of the countries in the region. The problems faced by some European Union members, especially Greece, made a new stimulus plan to spur domestic demand impossible. Indeed, countries like England, Ireland, Spain and Portugal have taken a conservative fiscal stance that is driving domestic demand down even further. In any event, the European Union's economic difficulties led the euro to depreciate against the dollar. The benefit that this has for extraregional exports should be more obvious in the second half of 2010.

Exports from Latin America and the Caribbean to the European Union have been recovering in 2010, although they are still below pre-crisis levels. In the first half of 2009 these exports fell 35% over the same period in 2009; by the first half of 2010 they were growing at an estimated 19%.

[11] Approximately 60% of European trade is intraregional.

3. Asia

In Asia, the economies with the largest domestic market, such as China, India and Indonesia, weathered the crisis better than did the countries that are more dependent on foreign trade (IMF, 2010c). By early 2010 Asian imports and exports surpassed pre-crisis levels, thanks to recovering domestic demand, restocking inside and outside the region and strong Chinese demand for commodities. Domestic demand in Asia continues to recover; the International Monetary Fund (IMF) expects 7.5% growth for the region in 2010. The rate of economic growth is projected to slow to below 7% in 2011 as fiscal stimulus measures are dismantled and the pace of restocking slackens in the rest of the world. Because Asia's trade ties with the euro zone are less substantial than with the United States, the economic and financial problems of some European countries should have a limited effect on this region. For Asian exports, though, there will certainly be direct consequences (due to falling demand in Europe) and indirect ones (because of the impact on other economies, such as the United States') (FMI, 2010b).

In 2009, while the world was facing its worst economic crisis in eight decades, the Chinese economy continued to grow at the rate of 9.1%, thus consolidating China's position as one of the key actors in the global economy and the centre of the subsequent global recovery. Continued strong growth in China is due in part to a major economic stimulus package, coupled with a tremendous expansion of credit. In addition, as global trade flows plummeted in 2009 (by 12.2% in volume terms) China displaced Germany as the world's leading exporter of goods and became one of the key trade partners of Latin America and the Caribbean (ECLAC, 2010c). With growth at nearly 10% for 2010 (11.9% in the first quarter and 10.3% in the second because of adjustments in the real estate market and in lending), China will continue to be the main engine of global growth and the best external market for exports from Latin America and the Caribbean.

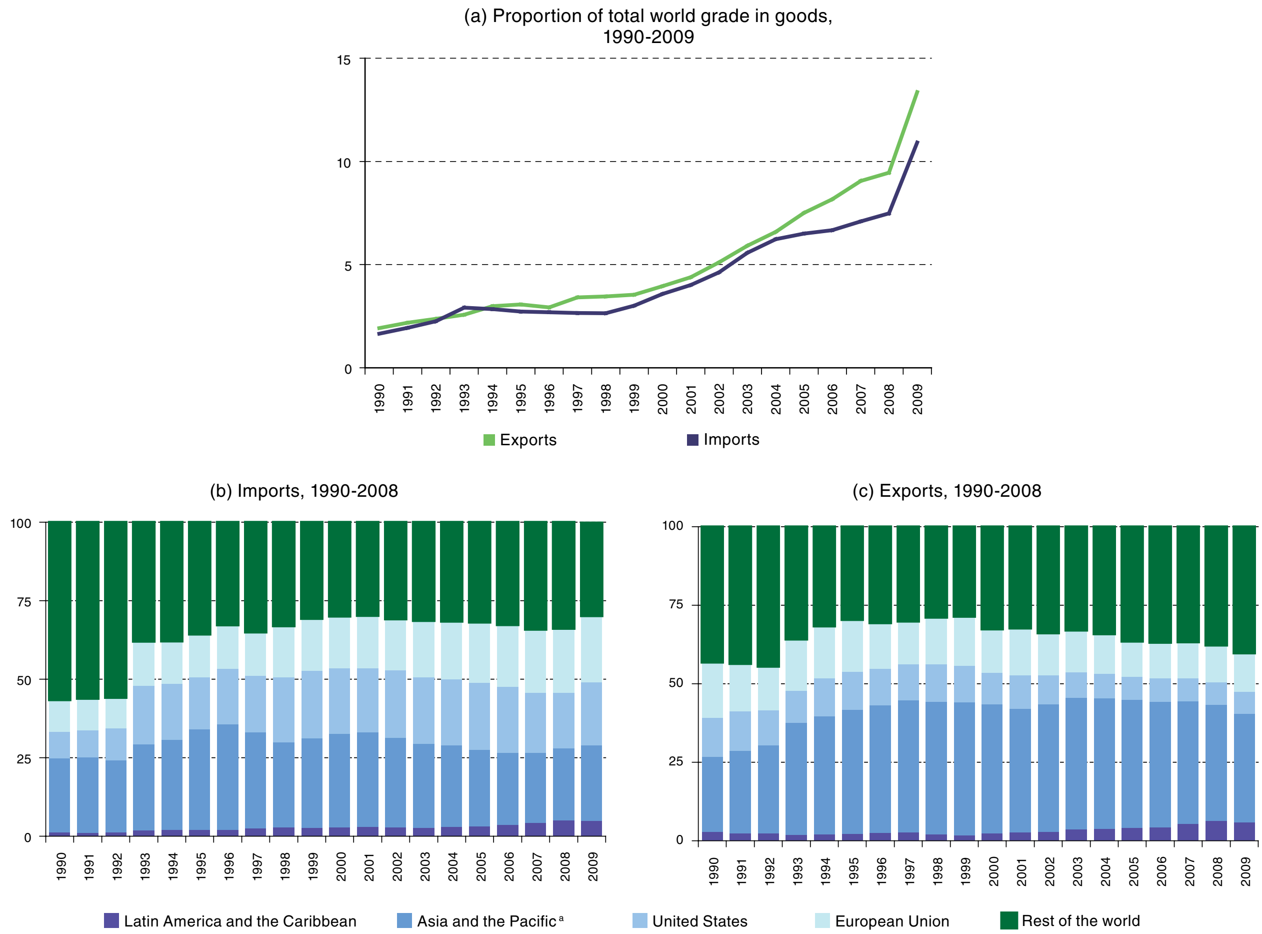
Chinese exports plunged 16% in 2009 and imports were off 11%, generating a trade surplus of US$ 196 billion. The processing trade, as part of global value chains, accounted for 49% of China's total trade, while processing trade exports and imports fell 13% and 15%, respectively, in 2009 (Hong Kong Trade Development Council, 2010a).

The rebound of Chinese trade has been remarkable. During the first four months of 2010, China's international trade rose by 43% over the same period in 2009, to US$ 856 billion dollars. Exports were up 29%, and imports posted a 60% rise. This brought the trade surplus down by 79% during the period, compared with the first four months of 2009. Trade (processing trade excluded) grew by 46% in the first four months of 2010 compared with the same period in 2009. Processing trade, which accounted for 39% of China's total trade during the period, was up 38%. China's overall trade balance went from a US$ 12 billion surplus to a US$ 39 billion deficit during the period. The processing trade balance posted a US$ 85 million surplus for the first four months of 2010 —a 6.5% increase over the same period one year prior (Hong Kong Trade Development Council, 2010b).

The Japanese economy is showing signs of recovering from the crisis despite a stubborn unemployment rate that is stuck at about 5% (which is high for Japan). Industrial production is recovering, business expectations and earnings are improving and exports have picked up, thanks especially to Chinese demand. However, the Japanese economy is going through another deflationary phase (Cabinet Office of the Government of Japan, 2010).

External conditions are still challenging for the Japanese economy. Emergency economic measures and partial recovery in the United States and the European Union, albeit weaker in the latter, have helped grow exports. These factors should contribute to an economic growth rate of 2.4% in 2010 (IMF, 2010b). But there is concern that deflation and persistently high unemployment could impact private consumption and undermine the economic recovery as exports continue to perform poorly because of weaker demand in Europe.

Figure I.8
CHINA: SHARE OF WORLD TRADE IN GOODS AND SHARE OF PRINCIPAL TRADE PARTNERS
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Database (COMTRADE), 2009.
[a] Includes the Association of Southeast Asian Nations (ASEAN), Australia, Japan, New Zealand and the Republic of Korea.

4. Short- and medium-term prospects

Some governments of the industrialized countries that rescued their national banks and companies in 2008 and 2009 are now in need of rescue, while others face severe fiscal policy margin restrictions. Fiscal consolidation is a pressing need in the industrialized economies. But the biggest global economic policy challenge is how to sustain growth and ensure fiscal stability over the medium term. Doing so requires matching the phase-out of stimulus programmes with a recovery of private spending. If fiscal stimulus measures are withdrawn too early in Europe, recession will be the most likely result. Once it takes root, fiscal outcomes will worsen. Only when the recovery faces fewer challenges than at present will it make sense for fiscal consolidation to be a priority. In other words, premature austerity programmes that jeopardize growth should be avoided. Otherwise, fiscal consolidation throughout the OECD countries will fuel recessionary trends. On the other hand, if public debt is not controlled and credible signals for fiscal consolidation in the medium term are not sent, financial tensions will persist and could worsen, restricting economic policy further.

There should therefore be two changes in the drivers of global demand: (i) a transition from government stimulus measures to private spending and (ii) a transition from economies with external deficits to others with surpluses (IMF, 2010a). This is where action is needed on fiscal sustainability, financial sector restructuring and stagnating productivity growth.

The current fiscal crisis in Europe is generating uncertainty as to the soundness of the global recovery in the coming months, with potential consequences for the economy and trade in Latin America. High fiscal deficits and doubts as to the sustainability of public debt have set off a crisis of confidence in southern Europe, with Greece at the epicentre since early 2010. As a result, the government bond differentials of some countries have skyrocketed, and the governments of those countries have implemented substantial budget cuts. Greece is also receiving aid from the IMF to clean up its fiscal accounts.

The slow recovery of the economies of the European Union and the high risks that several of them face are breaking the historical economic pattern that deep recessions are usually followed by rapid rebounds. This pattern is known as the Zarnowitz rule (Mussa, 2010). This time, several circumstances are holding back the pattern: (i) higher automatic stabilizer values in the European Union are delaying the cyclical recovery compared with the United States; (ii) progress in recapitalizing and restructuring European banks has been slower than in the United States; and (iii) the Greek crisis set off a round of fiscal adjustments in the European Union that are hobbling the recovery. Historically, the European cycle has lagged behind the cycle in the United States by two to three quarters. So, just when the response could start to gain traction, the round of fiscal adjustments put the brakes on growth again and is delaying recovery.

The increased sovereign risk of some European countries is affecting Europe's financial stability because some banks —especially in Germany and France— have significant exposure to the sovereign debt of those countries. In turn, uncertainty as to vulnerability and economic policy challenges have increased interbank funding tensions. Another factor that is complicating the bank situation is funding pressure related to bond maturities over the next few years. In view of the situation, in June 2010 the European Union established a financial stability facility that can issue debt guaranteed by its shareholder countries for on-lending to countries that cannot raise funding normally, such as Greece. This measure eased financial concerns in Europe, at least temporarily.

A potential —albeit quite unlikely— fiscal debt crisis in certain countries could complicate the global economy and financial picture, as well as the prospects for Latin America and the Caribbean. A European financial crisis would increase the cost of financing for investment and trade. Demand could fall, and the euro would weaken. This could favour Europe's extra-Community exports but would check external sales from the United States. Slower growth in those industrialized countries would in turn impact emerging country exports. As their revenue fell they would import fewer consumer and capital goods as well as fewer intermediate goods for re-export. Some of these negative impacts could be mitigated with new, modest fiscal stimulus measures in the emerging countries. But emerging country demand and imports would not be enough to offset falling demand in the European Union and the United States, and the overall effect would be slower growth worldwide than in 2010. There is no question that the emerging economies have come to the rescue of the global economy and that their importance is growing. However, they are still not in a position to fully supplant the relative weight of the United States, Europe and Japan.[12]

The direct impact of the European fiscal crisis on Latin America and the Caribbean appears to be limited. Only a small portion of the region's exports go to the hardest hit European countries. However, if risk premiums spiral out of control because of sovereign debt default, emerging regions, including Latin America and the Caribbean, could find it harder to access financing. It is also possible that European firms, and Spanish ones in particular, might invest less in the region.

There are other trends that point to weaker global economic and trade performance in the second half of 2010 and in 2011, although it seems unlikely that the world will fall back into recession. First, the new cycle of inventories to meet demand during the recovery is nearly complete. Second, the impact of fiscal and monetary stimulus measures is fading. Third, because of the massive spending associated with the fiscal measures, public debt is mushrooming. Such is the case with the Group of Seven countries, whose relative debt is estimated to be 113% of GDP in 2010 (World Bank, 2010). That is why reducing public spending is urgent. But dismantling the fiscal stimulus measures

12 China's GDP is approximately one third of that of the United States, and private consumption accounts for just 36% of China's GDP. Therefore, if export growth slows by 10%, private consumption would have to increase at least five points more in order to maintain a constant rate of growth. That is why it is important for the Chinese economy to transition towards growth that is driven more by private consumption (Akyuz, 2010).

could endanger economic growth during the coming months. Timing the phase-out of stimulus measures to match the gradual recovery of private spending is thus the main OECD economic policy challenge.

In the current environment, there is also some uncertainty as to the future of global trade in raw materials. On the positive side, the potential postponement of stimulus withdrawal in many countries (above all, the low interest rates), international liquidity and steady demand from China and other emerging markets would sustain a certain degree of growth in those markets. On the negative side, weak final demand in the industrialized countries and the potential for economic and financial contagion from the euro zone could negatively impact commodity prices and demand, as well as commodity exporters in Latin America and the Caribbean and other emerging regions. In any event, it seems unlikely that commodity prices will fall because demand in general remains high, driven by China and other emerging economies.

Regarding emerging economies, there are doubts about the sustainability of their recovery in a context of limited economic activity in the OECD (Mussa, 2010). If the industrialized economies do not fall back into recession and manage to keep growing, even at the current slow pace, emerging economies will be able to sustain growth of some 6% a year in the next two to four years, ensuring a growth floor of 3% for the world economy. This would be thanks to growing ties among the emerging economies themselves, notably the intense intra-Asian trade (linking China to Japan, the Republic of Korea and the 10 ASEAN economies), as well as China's growing trade ties with Africa and Latin America. Of course, if the industrialized economies fall back into recession in 2011 it would be hard to maintain the current rapid pace of growth in some emerging economies.

There are, in particular, concerns as to the future rate of growth in China. This is the variable of most interest for external trade in South America, just as the growth of the United States economy is of the most concern for Mexico, Central America and the Caribbean. China can continue to grow at rates hovering near 9%, relying on domestic consumption and investment demand. Indeed, it posted 9.1% growth in 2009 as private consumption outpaced output for the first time in many years while net exports subtracted four points from GDP growth.[13] A gradual appreciation of the renminbi would help reduce the external surplus and create demand for products from the rest of the world. Conversely, an abrupt revaluation would be risky because it could heighten the danger of overheating the Chinese economy by accelerating capital inflows and overstimulating asset markets. In this case, monetary and fiscal policy should offset these pressures on spending by limiting the expansion of output. This does not seem conducive to a more robust recovery of the global economy.

5. The emerging economies in the global environment and South-South trade

Notwithstanding the short-term uncertainties, it is safe to say that the focus of economic, trade and financial growth will increasingly shift towards developing Asia and emerging countries generally, which drives home the importance of South-South trade and initiatives to strengthen it.

The economic and financial crisis has raised the profile of emerging economies, not only in global production and trade but also in international finance and governance. Long-term projections indicate that what are currently developing countries will probably account for 60% of global GDP by 2030. The combined GDP of the BRIC countries (Brazil, the Russian Federation, India and China) accounted for 15% and 22% of global output in 2008 at current prices and in purchasing power parity terms, respectively. The developing-country share of foreign direct investment (FDI) was almost 40% in 2009. In 2010, international reserves held by developing countries were 1.5 times as great as those held by industrialized ones. The BRICs hold 39% of reserves, Latin America and the Caribbean 6%. This is of structural significance. The 2008-2009 financial crisis laid bare a tremendous

[13] Although the GDP grew 9.1% in 2009, exports in constant currency dropped 10.5% and imports rose 2.8% (WTO, 2010b).

asymmetry: the developing countries are the main sources of savings, while it is the industrialized countries that are spending them.

The developing countries, especially China, are thus playing an increasingly important role in international finance. Of particular note is China, which holds more than one fourth of global reserves. China's enormous and growing reserves are the direct result of its permanent current-account surplus and its efforts to manage the renminbi exchange rate.[14] China is the principal holder of United States government debt, but it recently diversified its holdings as explained in greater detail in box I.4.

Box I.4

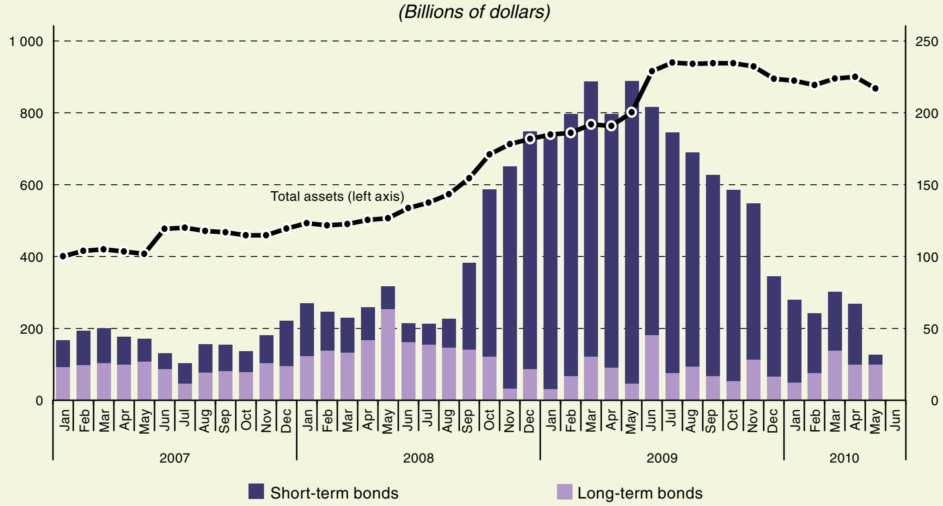
INTERNATIONAL RESERVES HELD BY CHINA AND DIVERSIFICATION OF ITS SOVEREIGN FUNDS

As of mid-2010, China holds the largest reserves in the world: US$ 2.5 trillion, or 27% of the world's reserves. In this regard China thus far surpasses Japan, the second largest holder at US$ 990 billion.

With its enormous reserves, China has become a key player in the international financial markets. China's State Administration of Foreign Exchange (SAFE), which manages China's international reserves, has actively invested in United States treasuries, with assets of US$ 868 million at the close of May 2010 (see the figure below). At month-end May 2010 it held the equivalent of US$ 630 billion in euro-zone country bonds (Oakley and Anderlini, 2010).

CHINA: UNITED STATES TREASURY BOND PURCHASES AND ASSETS, JANUARY 2007-MAY 2010

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Department of the Treasury [online] http://ustreas.gov/tic/country-liabilities.html.

[14] To keep the value of the renminbi from strengthening too much and jeopardizing Chinese exports, the Chinese central bank purchases foreign currency and issues renminbis in exchange. This keeps the exchange rate under control, but the United States and other countries accuse China of manipulating its exchange rate to keep the price of its products artificially low on the global markets. The renminbi is still far from being an international reserve currency (Dobson and Masson, 2009), but it is already circulating informally in the Russian Federation, Pakistan, Viet Nam and five other Central Asian countries. Currency swap agreements are in place with Hong Kong (Special Administrative Region of China), Malaysia and the Republic of Korea as a step towards using the renminbi for bilateral trade. Argentina, the Republic of Belarus and, more recently, Brazil, have joined these initiatives. These accords now total US$ 95 billion, with an additional US$ 15 billion to US$ 20 billion expected for Brazil (Deloitte, 2009).

Box I.4 (concluded)

As the United State's main creditor, China has stabilized its position following a significant decline between November 2009 and February 2010. It is believed that this decrease in China's holdings is due to the Chinese authorities' decision to diversify their sovereign bond holdings in favour of other markets, especially European ones. The uptick after March could be due to their sudden withdrawal from the European markets in view of the euro zone's fiscal crisis and resulting devaluation of the euro, which had a negative effect on returns in renminbis. Before the onset of the European financial crisis, there were doubts as to whether the Chinese central bank would continue to buy large amounts of United States treasury bonds. United States authorities were worried about the potential withdrawal of Chinese investors from these markets. But during the first half of 2010 Chinese investors tended to withdraw from the European markets and turn to the United States market and, to a far lesser extent, to the Japanese market.

By late June 2009, short-term United States debt held by China reached US$ 159.5 billion, of which most (US$ 158.5 billion) was in Treasury bonds and the remainder was in agencies (US$ 244 million) and corporations (US$ 1.129 billion) (United States Department of the Treasury, 2010). As Chinese reserves grew, China focused on purchasing United States treasury securities, which bear the explicit guarantee of the United States government, and, to a lesser extent, on debt issued by the United States mortgage agencies Fannie Mae and Freddie Mac, which bear the same implicit guarantee.

According to data from Japan's Ministry of Finance (MOF, 2010), between January and May 2010, Chinese investors also invested 1.3 trillion yen (approximately US$ 14 billion) in Japanese sovereign bonds, most of them short-term. In May alone, the Chinese bought bonds for the equivalent of 1.02 trillion yen and sold nearly 280 billion yen, for a net balance of 735 billion yen (US$ 8.2 billion). Despite the small amount involved, this is a new trend. If China's appetite for investing in the Japanese market continues, it would be easier for the Japanese authorities to issue such instruments in the future while maintaining a relatively stable interest rate.

As part of the diversification process, SAFE purchased several foreign companies: in 2008. For example, it acquired minority shareholdings in large corporations such as Rio Tinto, Royal Dutch Shell, BP, Barclays, Tesco and RBS. China Investment Corporation, which manages sovereign funds equivalent to US$ 300 billion, is mandated to invest its enormous reserves overseas.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Department of the Treasury, "Preliminary report on foreign holdings of United States securities at end-June 2009", *Press Release*, No. tg568, 2010; Ministry of Finance of Japan (MOF), "Balance of payments, May 2010 (preliminary)", *Press Release*, July 2010; and David Oakley and Jamil Anderlini, "China eyes cut in euro exposure", *Financial Times*, 27 May 2010.

South-South trade grew at an annual rate of 13% between 1990 and 2008 to reach US$ 2.9 trillion in the latter year. The share of South-South trade in the global total rose from 9% to 18% over the same period. In short, more than 40% of world trade is between developing countries; 43% is South-South trade. Although South-South FDI flows are still small, intraregional FDI between developing countries in Asia and Latin America and the Caribbean has been dynamic and is showing signs of entering an important stage of international expansion. In the latter case, almost 10% of inward FDI flows are from the region itself, originating with so-called "trans-Latins". By contrast, the relative importance of industrialized countries as an export destination has diminished. The United State's share of Latin America's export basket fell from 60% in 2000 to 40% in 2009, while the European Union's share has held at 13%. Japan's share fell off sharply as well.

South-South trade is already a major trade segment in Latin America and the Caribbean, accounting for almost 29% of total exports. The most important developing-market export destination is the region itself, accounting for 18% of total exports, followed by emerging countries in Asia with 6%. Africa, the Middle East and central Europe are still minor destinations for exports from Latin America and the Caribbean. Trade between the emerging countries of Asia and the Middle East has continued to grow and is based mainly on oil, while intra-Asian South-South trade is known as the best example of global production complementarities. South-South trade in Latin America becomes even more relevant if Mexico is excluded from the figures; in this case, nearly half of the region's exports are South-South. The region's South-South trade is balanced equally between intraregional and interregional trade.

The developing countries of Asia, especially China, have become relevant trade partners for several of South America's economies. China is the main export market for Brazil and Chile, and the second most important for Argentina, Costa Rica, Cuba and Peru. Strong Chinese demand for food, energy, metals and minerals has benefited the countries that export them, improved their terms of trade and spurred their economic growth. Exports from Latin America and the Caribbean to China rose 5% during the recent crisis while exports to other regions fell 27%. China's expanding economy thus rescued the region's exports.

Nevertheless, developing Asian countries are still an underexploited export market for Latin America and the Caribbean. The region's trade with those countries is subject to the same —albeit more marked— limitations that affect the region's international trade in general. Its exports are chiefly primary and semi-manufactured goods. Latin American and Caribbean exports to Asia are skewed more to natural resources than its exports to the rest of the world. The region needs to find ways to increase the degree of processing of its natural-resource-based export products and seek new Asian markets for differentiated, higher value-added products.

Table I.3
SOUTH-SOUTH TRADE: PROPORTION OF TRADE WITH OTHER REGIONS, 2005-2008
(Percentage of total exports in each region)

Exporters	Importers					
	Latin America and the Caribbean	Central and Eastern Europe	Africa	Middle East	Developing countries in Asia	South-South trade
Latin America and the Caribbean	18.4	1.3	1.7	1.1	6.4	28.9
Central and Eastern Europe	1.6	19.4	1.4	3.2	7.5	33.1
Africa	1.7	0.3	10.0	2.4	15.5	29.9
Middle East	0.2	0.9	3.8	12.2	33.6	50.7
Developing countries in Asia	2.4	2.1	2.6	2.9	37.4	48.5
South-South trade	4.2	3.5	3.1	4.5	27.8	43.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from World Trade Organization (WTO) and United Nations, Commodity Trade Database (COMTRADE), 2009.

The countries of Latin America should take greater advantage of dynamic growth in Asia and the Pacific, developing new ties to forge ahead in innovation and competitiveness (a gap in Latin America’s experience) and strengthen the link between trade and investment and between production and technological development. Developing countries in Asia offer investments that could provide complementary financing for regional initiatives, especially in infrastructure and energy. A major challenge is to identify projects in areas in which Asian investments are most viable, in order to expedite execution. This should not only facilitate trade and trade ties with the Asia-Pacific region but also generate externalities for Latin American integration. The strategic partnership with Asia should therefore be linked to the modernization of regional integration so as to create unified markets with increasingly shared standards and a more certain legal environment.

To raise their profile in Asian production and export chains, the countries of the region need to form trade and investment associations that go beyond free trade agreements. Although such agreements can be useful, they are not enough to generate the scale and the critical mass required to promote trade and technological partnerships between the two regions or to reduce the marked asymmetries between the large volumes of trade and the small volume of reciprocal investments. But this does not obviate the need to carefully examine the potential effects of proliferating free trade agreements in the Asia-Pacific region, since they could lead to a shift in trade that would work against exports from Latin America and the Caribbean to developing countries in Asia.

In short, in the next few years the region will face an international environment that will probably be less dynamic than in the past five-year period, with uncertainties that will serve as a reminder that the cycle of financial instability is not over. This environment in turn highlights the emerging economies’ increasingly important role in trade and finance.

Latin America and the Caribbean are strengthening those South-South ties, particularly in its remarkably dynamic trade with China and other Asian economies. Future prospects for growth in the region will depend more and more on reinforcing those ties. Thus, export diversification, a stronger commitment to competitiveness and innovation and a greater effort to attain regional cooperation in infrastructure, logistics, intraregional trade, regulatory convergence and policy are challenges that would allow Latin America and the Caribbean to improve the quality of their participation in the global economy by closing productivity divides and taking advantage of international trade opportunities to achieve growth with greater equality.

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Chapter II

A decade of regional trade: an overview

A. Introduction

This chapter presents a preliminary overview of the Latin American and Caribbean region's trade performance in the 2000s. It also offers an analysis of the trends in trade seen before the 2008-2009 crisis, the region's pattern of trade specialization, its level of technological intensity, the trends observed in concentration and diversification indicators, and the growth of the region's exports of goods and services at the country and subregional levels.[1]

A comparative analysis of the trade performance of Latin America and the Caribbean vis-à-vis the performance of other developing regions (especially those of Africa and the Middle East, Central and Eastern Europe, and the developing countries of Asia) is also presented. The chapter also includes a detailed review of the trade policies applied by the countries of the region during and since the crisis. As discussed in the 2008-2009 edition of *Latin America and the Caribbean in the World Economy*, these measures were more targeted and more restricted in scope than those applied by industrialized countries.

1 This analysis is a preliminary version of a more exhaustive examination of the situation which will be prepared by the Division of International Trade and Integration for publication later this year.

B. Regional trade during the crisis and post-crisis periods

1. Trade in goods

After having experienced one of the steepest declines in the last 72 years in 2009, the Latin America and Caribbean region's trade flows rebounded in 2010. An upturn in the value of trade (exports plus imports) of 20% (21.4% in exports and 17.1% in imports) is expected this year.[2] This upward trend is being seen in all the subregions, although export growth is much stronger in South America and CARICOM than in Central America, the Dominican Republic, Mexico and Panama. Import growth will be highest in the MERCOSUR countries, but will be far below the regional average in the Andean countries and CARICOM (see table II.1).

The main factors driving this recovery have been the growing strength of the world (including the region's) economy and China's and the rest of Asia's sustained demand for a several of the Latin America and Caribbean region's commodity exports. The recovery has also been fuelled by better terms and conditions for commercial credit (see box II.1) and the trade incentives offered by some countries, especially Brazil and Mexico (see section C).

Table II.1
LATIN AMERICA AND THE CARIBBEAN: ANNUAL RATES OF GROWTH IN GOODS TRADE, 2008-2009 AND PROJECTIONS FOR 2010
(Percentages calculated on a current dollar basis)

	Exports			Imports		
	2008	2009	2010 [a]	2008	2009	2010 [a]
Latin America and the Caribbean (35 countries)	16.2	-22.6	21.4	21.7	-24.9	17.1
Latin America (19 countries)	15.8	-21.9	22.0	21.7	-24.9	18.2
Southern Common Market (MERCOSUR)	24.4	-21.9	23.4	40.3	-27.4	29.6
Andean countries	30.0	-27.8	29.5	21.9	-20.8	5.8
Central American Common Market (CACM)	8.3	-9.3	10.8	14.5	-22.8	14.6
Caribbean Community (CARICOM)	31.1	-43.6	23.7	20.1	-25.6	9.8
Other countries						
Chile	-2.2	-19.2	32.6	30.9	-31.0	18.5
Mexico	7.2	-21.2	16.0	9.5	-24.0	16.3
Panama	10.6	5.6	10.1	18.7	-13.0	17.8
Dominican Republic	-5.8	-19.0	12.5	17.6	-23.2	16.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the national statistical offices, central banks and customs departments of 16 countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Plurinational State of Bolivia and Uruguay) and The Economist Intelligence Unit for the Caribbean countries.
[a] ECLAC projections based on preliminary information for January to May 2010.

[2] The slower growth rate for imports is largely accounted for by the weaker demand for imports of goods in the Bolivarian Republic of Venezuela, which is in turn a result of the drop in its GDP and the restrictions placed on imports as part of its reform of the foreign-exchange market. Under this reform, since June 2010 all purchases of foreign exchange have been handled by the central bank through the new Transaction System for Foreign Currency Denominated Securities (SITME).

Box II.1
EASIER TERMS IN TRADE FINANCE MARKETS

In response to the crisis, multilateral, regional and national institutions have taken unprecedented steps to facilitate trade financing. These measures, together with those applied by export credit agencies, have helped to soften the downturn in financing and its impact on world trade (Chauffour, Saborowski and Soylemezoglu, 2010; ICC, 2010; O'Connell, 2010).

The International Finance Corporation (IFC) of the World Bank, as well as the major regional development Banks (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank) have increased their trade facilitation allocations and operations. Many institutions have also created a liquidity window to supplement their traditional programmes. These efforts to provide more financing options in line with the rules of the World Trade Organization (WTO) have been led by regional development institutions and programmes.

The countries of the region have also had greater access to financing from export credit agencies in the United States, Europe and Asia. When credit markets in Latin America began to run into trouble, official lenders increased their credit operations, especially in the energy and telecommunications sectors in Brazil and Mexico, and some firms in the region used credit from these sources to shore up their export and import activities during the crisis.

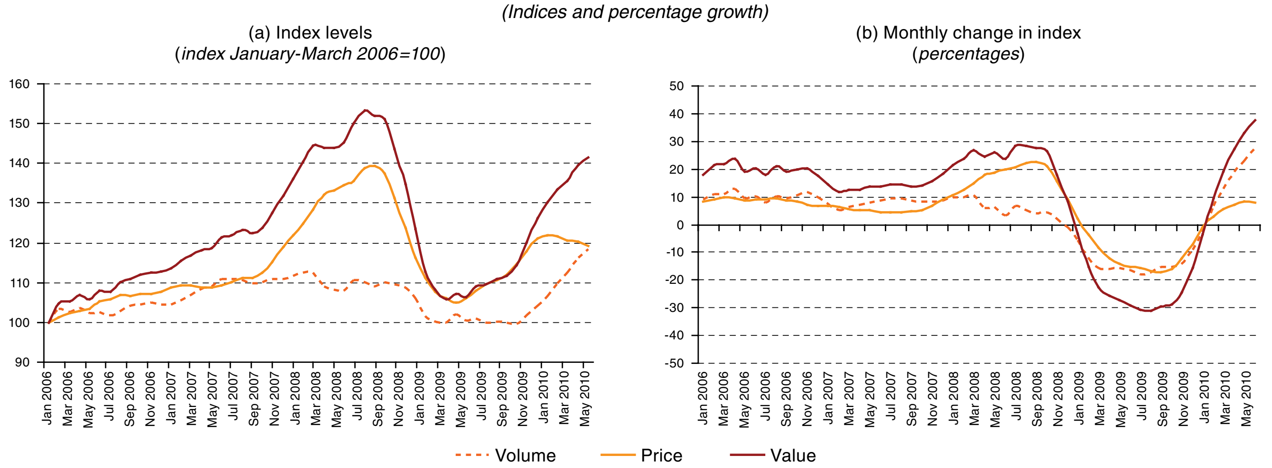
In 2008, Brazil's and Argentina's central banks launched a new clearance system for trade between the two countries. The objective of the Local Currency Payment System is similar to that of the Reciprocal Payments and Credit Agreement of the Latin American Integration Association (LAIA), which is to reduce the need to buy and sell dollars for trade operations between participating countries. Under this system, importers make payments in their local currency, and the Argentine and Brazilian central banks settle the dollar amount of such payments between themselves. Exporters receive payment in their own currency.

With the help of these financial measures, since mid-2009 the region has regained much of the ground that it had lost during the crisis. The increase in the cost of finance seen in late 2008 and 2009 was reversed, thus bolstering banks' lending capacity.

Source: Latin American Integration Association (LAIA), "Convenio de Pagos y Créditos Recíprocos" [online] http://www.aladi.org/nsfaladi/arquitec.nsf/VSITIOWEB/iyc_principal [date of reference: 28 July 2010]; Central Bank of Brazil, "SML – Local Currency Payment System" [online] http://www.bcb.gov.br/?SMLE [date of reference: 28 July 2010]; J.P. Chauffour, C. Saborowski and A. I. Soylemezoglu, "Trade finance in crisis: should developing countries establish export credit agencies?", *World Bank Policy Research Working Paper*, No. WPS5166, Washington, D.C., World Bank, January 2010; International Chamber of Commerce (ICC), "Rethinking trade finance 2010: An ICC global survey", Paris, April 2010; and O. O'Connell, "Americas trade and supply chain: lessons learned", *Trade Finance*, April 2010.

A close analysis of the upturn in the value of trade shows that prices have improved both for the region's exports and for its imports. The sharper increase in export prices seen in 2010 will improve the terms of trade and thus make up for part of the loss sustained by commodity exporters during the 2009 crisis as a consequence of the marked volatility of fuel prices. The volume of the region's exports also picked up in 2010. Nonetheless, despite the strong recovery observed thus far in 2010, the region's trading activity has not yet regained its pre-crisis highs in value terms (see figure II.1).

Figure II.1
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF EXTERNAL TRADE, JANUARY 2006 TO JUNE 2010
(Indices and percentage growth)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures for the period January-June 2010.

2. Trade in services

The crisis had considerably less of an impact on trade in services than it did on merchandise trade in 2009, with service exports and imports falling less (10.6% and 6.3%, respectively) than exports and imports of goods (22.6% and 24.9%, respectively). Chile and Mexico had the steepest decreases in service exports, and Central America and Mexico experienced the sharpest declines in service imports. Post-crisis growth rates for exports and imports of services have been robust for MERCOSUR, but slower for Chile and the Andean countries (see table II.2).[3]

Table II.2

LATIN AMERICA: GROWTH RATES OF SERVICES TRADE IN 2008, 2009 AND THE FIRST QUARTER OF 2009 AND 2010

(Percentages calculated on the basis of trade flows by value)

	Exports				Imports			
	2008 [a]	2009 [a]	(January-March 2009) [b]	(January-March 2010) [b]	2008 [a]	2009 [a]	(January-March 2009) [b]	(January-March 2010) [b]
Latin America [c]	16.5	-10.6	-7.0	7.9	18.5	-6.3	-7.9	21.4
Central America	13.1	-8.8	-5.5	5.6	11.7	-17.1	-13.6	6.3
Chile	20.3	-21.1	-13.0	-0.3	10.2	-4.3	-10.8	5.2
MERCOSUR	23.6	-8.1	-5.3	14.3	25.6	-3.3	-8.4	37.2
Mexico	3.1	-18.1	-11.0	6.9	5.6	-9.3	-4.7	7.1
Andean countries	14.7	-1.4	-2.8	3.9	21.7	-7.0	-6.5	5.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from national statistical offices, central banks and the International Monetary Fund.

[a] Year-on-year growth rates.

[b] Rate of growth between the quarter indicated and the same quarter the year before.

[c] Latin America includes: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Trade in services displayed greater resilience during the crisis for a number of reasons, including the fact that the production of services is less geographically dispersed and that many specialized service contracts in such areas as accounting, information technology and legal services are not necessarily subject to economies of scale.

In the service sector, imports have rebounded more strongly than exports, primarily because of the boost given to the transport sector by the recovery in international merchandise trade. The fact that the "other services" category has been particularly robust during and since the crisis backs up the argument for specialization, since that category tends to be associated with knowledge-intensive activities (ECLAC, 2007 and 2008).

3. The region's trade performance, by origin and destination

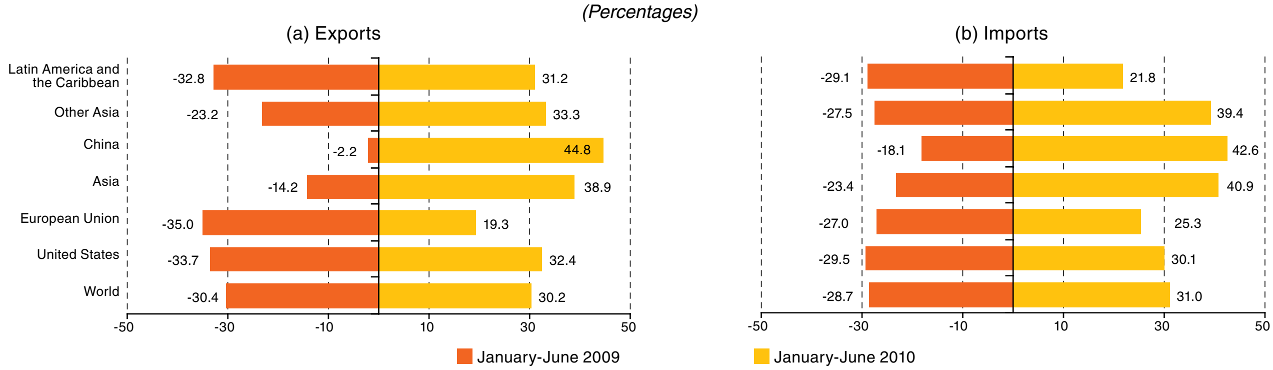
The region's export and import trade levels plunged in 2009 in the wake of the international crisis, but this trend was reversed in 2010, when trade flows in both directions made a comeback (see figure II.2). In the first half of 2010, trade flows were up by some 31%. The increase was particularly sharp in trade with China and the rest of Asia, and trade flows with those markets appear to be approaching their pre-crisis highs (see figure II.3). This swift recovery reflects the high elasticity of international trade relative to the recovery of GDP, especially in South-South trade, and most particularly in the case of commodities.

[3] The post-crisis period is defined as January-March 2010, which is when flows of service exports and imports stabilized.

Figure II.2

LATIN AMERICA AND THE CARIBBEAN: RATES OF TRADE GROWTH BY MAJOR DESTINATIONS AND ORIGINS IN THE FIRST HALF OF 2009 AND 2010, WITH RESPECT TO YEAR-EARLIER PERIOD [a]

(Percentages)

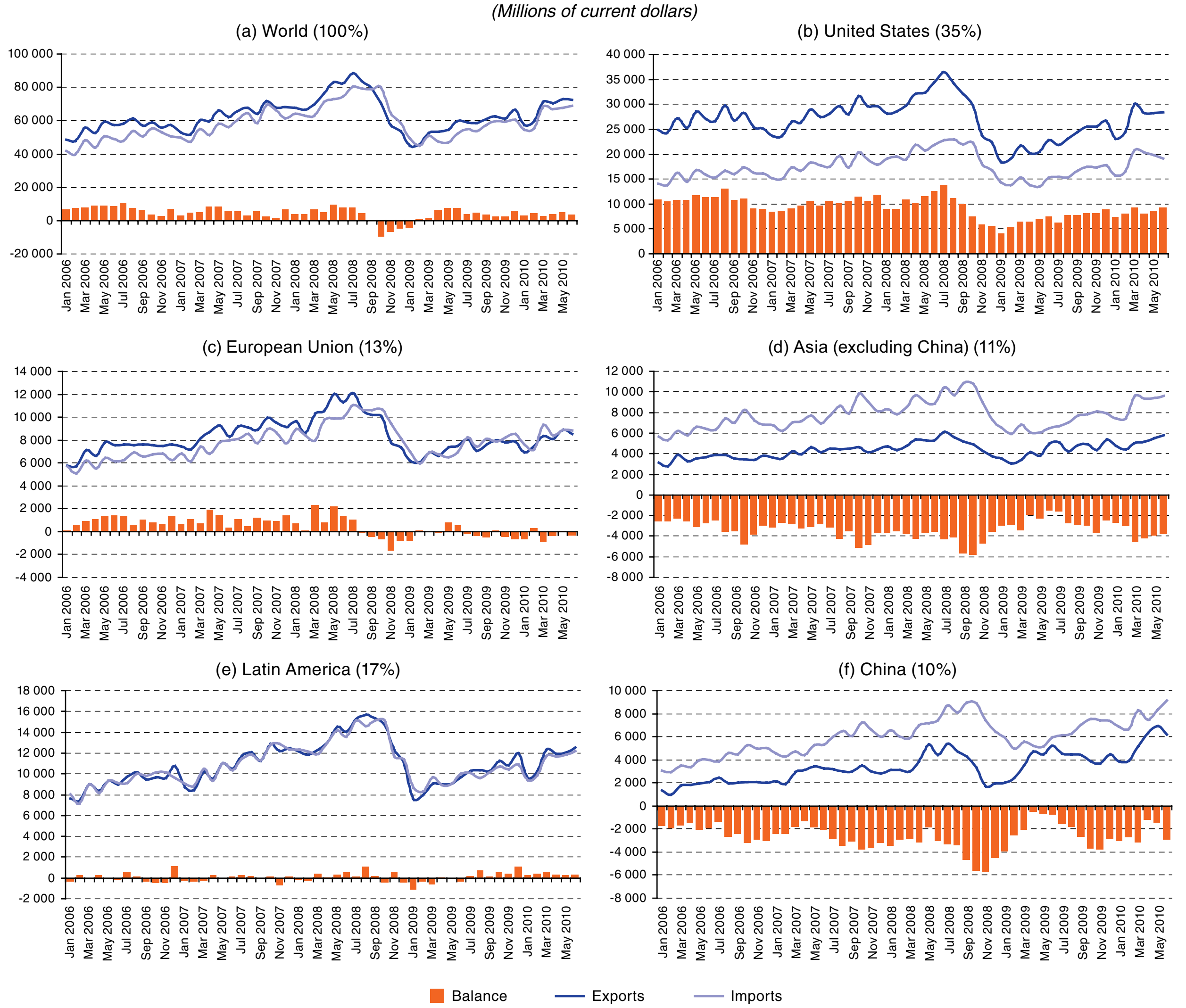


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and preliminary estimates conducted by ECLAC.
[a] Preliminary figures.

Figure II.3

LATIN AMERICA (15 COUNTRIES): EVOLUTION OF EXTERNAL TRADE BY MAJOR DESTINATIONS, JANUARY 2006-JUNE 2010 [a]

(Millions of current dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the national statistical offices, central banks and customs departments of 16 countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Plurinational State of Bolivia and Uruguay).
[a] The figures in parentheses are each subregion or country's share in the total trade of the 16 countries considered (exports plus imports) for the period January-June 2010.

Thanks to the post-crisis strength of the region's trade flows, which is reflected in the fact that, as of June 2010, it had posted a trade surplus for 16 months in a row, a trade surplus of slightly over US$ 46 billion is expected for 2010. As a result of the sharper increase in exports recorded for the first half of 2010, the region posted a surplus of slightly over US$ 22 billion for that period. This was in large part due to the recovery of its trade with the United States, the trading partner with which it has the largest surplus of all. Although the region continued to run deficits with China and the rest of Asia, its trade balances with these markets were significantly better in the second quarter of 2010 than before; this was thus another factor in the growth of the region's overall trade surplus.

Exports to the European Union were higher in the first half of 2010 than in the first half of 2009, but the increase was smaller than it was for exports to the region's other trading partners, including those within the region (see figure II.2 and table II.3). This appears to be a sign that the region has been subject to some degree of trade contagion from the European crisis and that European demand for the region's products will lag behind as a result. The South American countries are the ones that are feeling this the most. This is especially the case for Argentina, Brazil, Chile, Peru and Uruguay. Costa Rica, as the Central American country with the closest trade links to Europe, is also being affected to some extent. On the other hand, a number of countries in the region, particularly Mexico and the Central American and Caribbean countries, will benefit from the more vigorous recovery of import demand from the United States. This is also true of the upswing in demand in intraregional markets, where the recovery is more solid and is being led by private consumption and exports.

The figures for trade with the United States for January-June 2010 reflect the positive impact that its economic recovery is having on the region's exports, as well as that country's strengthening demand for goods (see figure II.4 and table II.3). The growth of the region's exports to the United States in the first half of 2010 was especially strong in the cases of Mexico, Nicaragua and the Andean countries and, to a somewhat lesser extent, the rest of the Central and South American countries, with the exception of Argentina, Honduras and Paraguay, which have continued to post negative growth rates (-14%, -14% and -10%, respectively). Imports from the United States were up during this period in all the countries except the Bolivarian Republic of Venezuela, whose imports from this source are expected to drop further as a result of the projected reduction in its GDP and tighter exchange controls (ECLAC, 2010d).

Bilateral relations with China and the rest of Asia are of particular importance because trade flows with these countries have been the most robust before, during and since the crisis (see figure II.4). The international crisis notwithstanding, in 2009 the region's exports to China were up by 8%, with most of the increase being accounted for by Brazil and, to a lesser extent, by Colombia, Costa Rica, Guatemala and Honduras. In the first half of 2010, during what has been defined as the post-crisis period, exports to and imports from China both climbed steeply (see figure II.5).

Since the crisis, growth rates for exports to Asia (and especially China) have risen sharply for all the countries except Costa Rica and Honduras, and some countries (including Bolivarian Republic of Venezuela, Colombia, El Salvador and Plurinational State of Bolivia) have actually posted triple-digit growth rates (see table II.3).

Intraregional export trade plunged by more than 30% during the crisis, but has surged since then, particularly in the case of trade flows between Mexico and the rest of the region (see figure II.6). The recovery has been widespread, but has been especially strong in intermediate- and low-technology manufactures, where growth rates for MERCOSUR have been between 30% and 40%.

Table II.3

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TRADE WITH THE UNITED STATES, THE EUROPEAN UNION, CHINA AND THE REST OF ASIA, BY COUNTRY, FIRST HALF OF 2010 AND 2009 COMPARED TO THE SAME PERIOD THE YEAR BEFORE [a]

(Percentage changes in value)

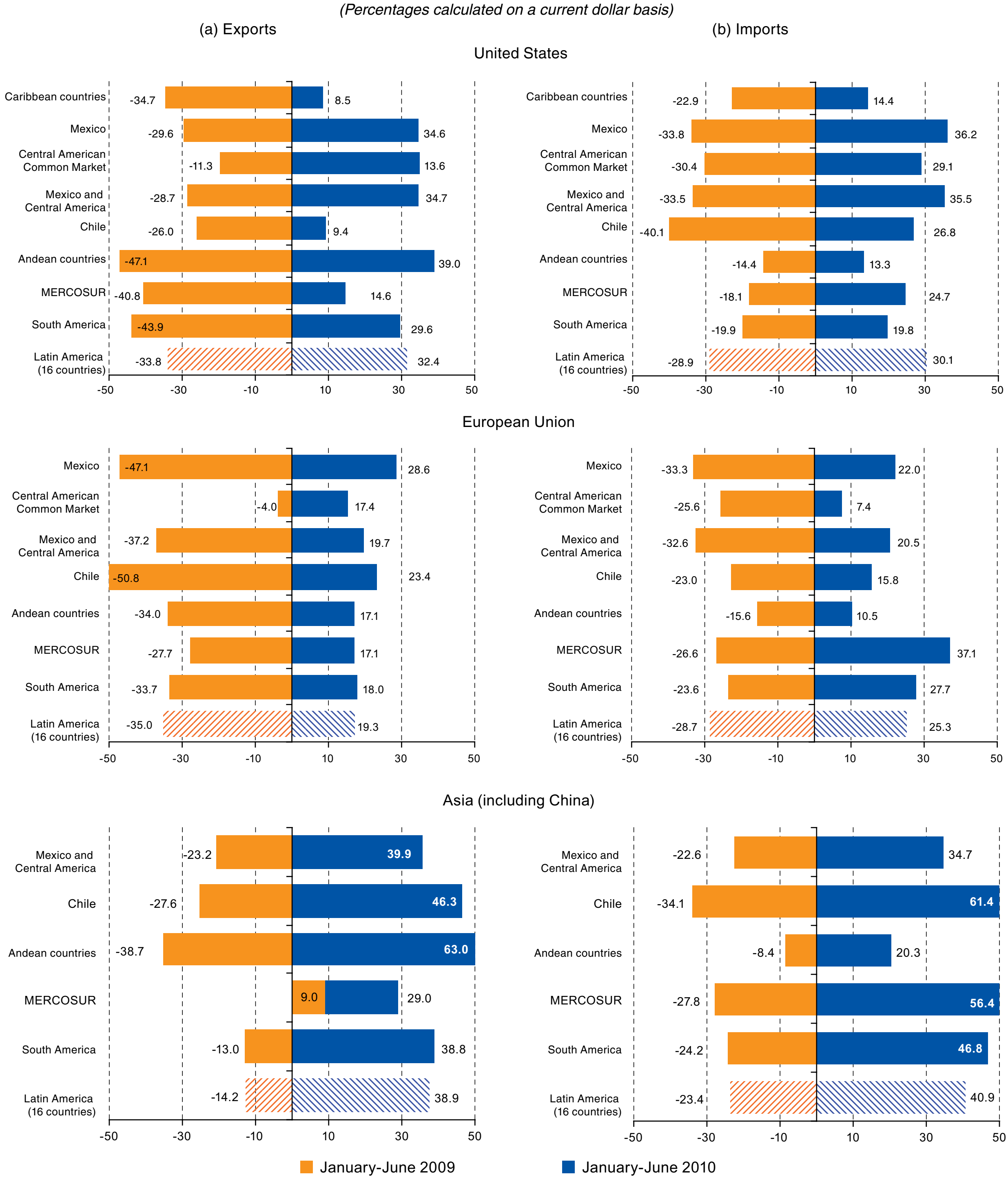
	United States				European Union				China				Rest of Asia			
	Exports		Imports		Exports		Imports		Exports		Imports		Exports		Imports	
	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010	January-June 2009	January-June 2010
Latin America and the Caribbean	-33.8	31.4	-28.9	28.9	-34.9	16.6	-27.6	24.6	-2.2	44.8	-18.0	42.5	-9.1	37.5	-23.4	40.8
Argentina	-26.5	-14.0	-29.5	18.3	-25.5	0.4	-35.6	55.6	-17.6	33.0	-35.4	23.6	-0.1	24.6	-31.4	39.2
Bolivia (Plurinational State of)	-13.8	46.4	20.7	14.2	-41.1	116.8	-21.3	17.3	-40.9	128.7	-7.7	21.4	-23.6	18.3	-30.4	32.0
Brazil	-43.7	23.7	-14.1	24.2	-27.8	20.6	-22.5	34.4	42.7	27.4	-24.4	59.0	12.5	30.0	-27.1	59.9
Chile	-26.0	9.4	-40.1	26.8	-50.8	23.4	-23.0	15.8	-10.0	52.5	-20.8	40.8	-27.6	46.3	-34.1	61.4
Colombia	-24.8	46.3	-21.1	10.6	-12.0	0.0	-7.4	13.0	39.4	331.3	-14.8	31.0	96.5	140.6	-4.4	27.2
Costa Rica	-15.3	10.5	-33.9	51.6	-4.8	13.4	-37.9	13.4	5.2	-37.2	-17.6	24.0	-16.3	4.9	-32.9	23.2
Ecuador	-54.5	30.4	11.0	33.2	2.6	16.0	-1.1	12.8	-64.5	224.7	-9.1	19.4	-47.9	302.2	-14.0	21.0
El Salvador	-21.4	18.2	-25.3	19.4	57.7	-19.9	-9.8	-5.6	…	124.4	-33.3	28.7	13.0	5.6	-37.9	26.9
Guatemala	-6.2	20.2	-28.5	29.8	-8.1	33.1	-11.3	-1.1	9.1	29.1	-16.8	21.6	21.7	22.2	-30.1	30.7
Honduras	7.0	-14.1	-37.8	20.5	-10.3	39.1	-39.3	13.8	236.7	-20.9	1.5	55.6	77.2	41.0	-14.6	33.3
Mexico	-29.6	34.6	-33.8	36.2	-47.1	28.6	-33.3	22.0	-0.3	61.6	-13.7	39.9	-26.5	46.7	-22.1	35.4
Nicaragua	-8.5	44.4	-15.0	8.2	-21.2	6.9	-16.1	42.0	…	…	…	…	-47.5	210.5	-21.9	1.6
Paraguay	-22.5	-9.9	-30.3	49.7	-55.7	252.3	-39.6	84.7	-74.3	6.3	-28.4	79.8	-39.7	-5.6	-28.4	69.9
Peru	-41.5	53.3	-28.5	34.6	-42.6	77.2	-25.9	10.2	-3.9	39.2	-16.1	50.4	-27.3	42.1	-20.6	47.5
Uruguay	0.0	9.0	-6.8	50.5	-31.2	22.5	-51.8	-11.5	-1.3	102.0	-16.1	42.7	-23.7	62.7	-18.8	46.7
Venezuela (Bolivarian Republic of)	-52.9	35.0	-9.3	-0.7	-49.1	-4.9	-19.4	2.0	-75.8	114.0	22.9	-9.6	-59.4	77.8	10.4	-6.9
Caribbean countries	-34.7	19.3	-22.9	22.0	-34.0	17.4	-36.0	47.3	…	…	…	…	…	…	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure II.4

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TRADE WORLDWIDE AND WITH THE UNITED STATES, THE EUROPEAN UNION AND ASIA, FIRST HALF OF 2010 AND 2009 COMPARED TO THE SAME PERIOD THE YEAR BEFORE [a]

(Percentages calculated on a current dollar basis)



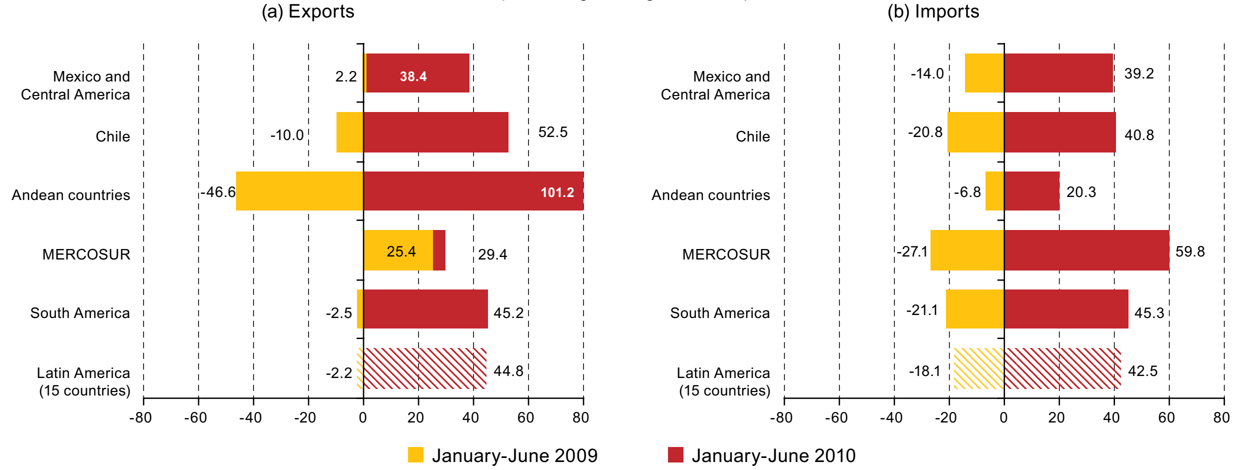
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

[a] Preliminary figures.

Figure II.5

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TRADE WITH CHINA IN SELECTED COUNTRIES AND SUBREGIONS, JANUARY-JUNE 2009 AND JANUARY-JUNE 2010 COMPARED TO THE SAME PERIOD THE YEAR BEFORE

(Percentage changes in value)

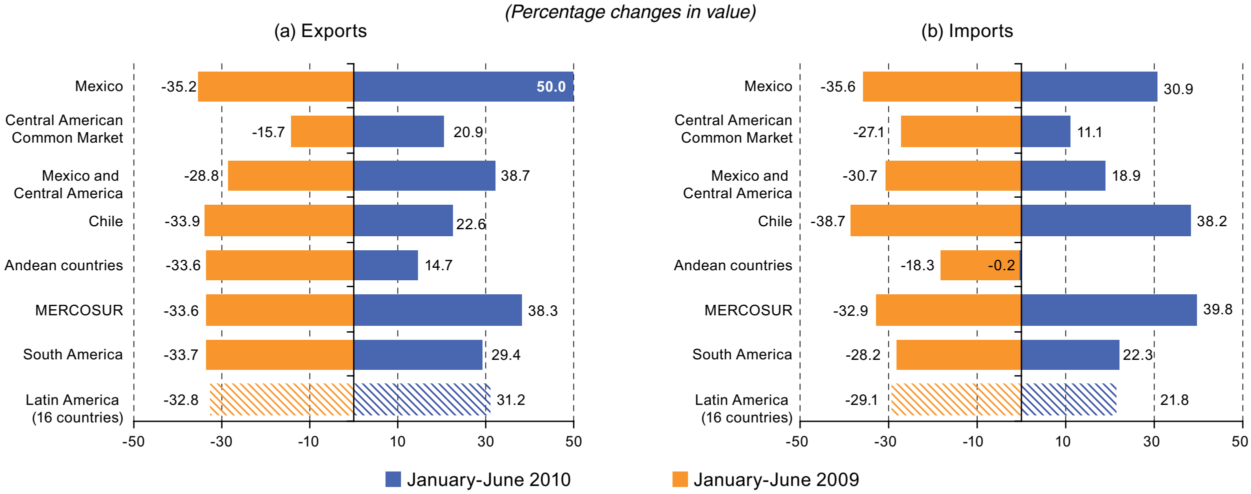


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

Figure II.6

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF INTRAREGIONAL TRADE, JANUARY-JUNE 2009 AND JANUARY-JUNE 2010 COMPARED TO THE SAME PERIOD THE YEAR BEFORE

(Percentage changes in value)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

The data available on the region's exports, disaggregated by country, for the first half of 2010 point to a fairly evenly distributed recovery for the region, with two exceptions: Colombia and Honduras. Colombia's negative growth rates are attributable to the tighter restrictions applied by the Bolivarian Republic of Venezuela on imports in general, and on those from Colombia in particular. In the case of Honduras, political tensions in 2009 had an impact on relations with El Salvador, Guatemala and Nicaragua, but export and import figures are expected to improve in the second half of the year, once these difficulties, which are not directly related to trade, are overcome.

4. The region's trade, by product category

As the region emerges from the crisis, it has been witnessing growth in all product groups, but especially in mining and petroleum, which jumped by almost 59% in the first half of 2010 (see table II.4). The upswing in agricultural products has also been particularly robust, with these exports surpassing their pre-crisis levels (see figure II.7). Exports of manufactures and mining products will have to gain greater momentum if they are to return to their pre-crisis levels in value terms, however.

Demand for imports of intermediate goods and fuels has been on the rise, but a full return to pre-crisis averages will depend on the region's success in sustaining high growth rates.

Table II.4

LATIN AMERICA AND THE CARIBBEAN: EXPORT AND IMPORT GROWTH RATES BY PRODUCT GROUP DURING THE PRE-CRISIS, CRISIS AND POST-CRISIS PERIODS [a]

(Percentages)

	Pre-crisis		Crisis	Post-crisis
	2006-2008	January-June 2008	January-June 2009	January-June 2010
Exports				
Farm products	21.3	23.6	-10.6	18.8
Mining and petroleum	18.3	48.2	-46.0	58.9
Manufactures	11.3	16.3	-24.3	23.1
Total exports	14.5	26.5	-30.4	30.2
Imports				
Capital goods	22.7	24.8	-15.3	14.5
Intermediate inputs	15.9	22.6	-26.4	28.3
Consumption goods	21.8	28.3	-25.6	32.0
Fuels	38.6	74.8	-51.9	63.9
Total imports	20.4	29.1	-28.7	31.0

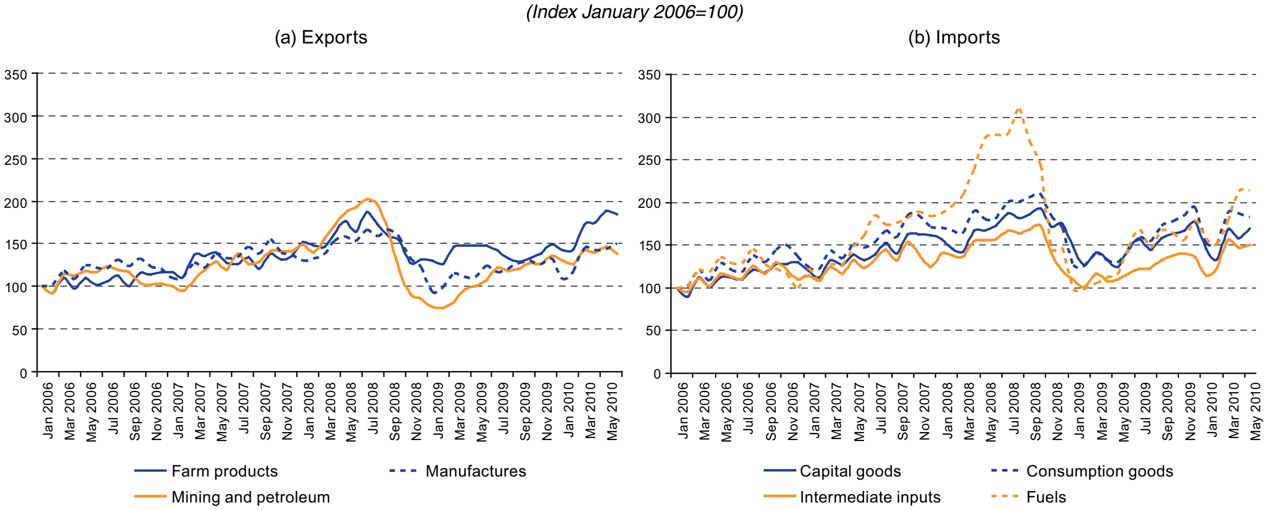
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

[a] Preliminary figures.

Figure II.7

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF EXPORTS BY MAJOR PRODUCT GROUPS, JANUARY 2006 TO JUNE 2010

(Index January 2006=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

C. Trade policy responses during and after the crisis

Trends in the region's trade policies since the second half of 2009 demonstrate that policymakers resisted the temptation to revert to protectionism following the outbreak of the recent worldwide economic crisis (ECLAC, 2009). As shown in table II.5, most of the restrictive measures implemented during this period were confined to just a few countries. The number and scope of these types of measures are quite limited, given the scale of the external shocks affecting the region in 2009 (for more information on the measures taken or announced by each country during the period under review, see table A.1 in the annex).

This relatively positive assessment of the region's trade policy outcomes notwithstanding, individual countries' policy positions differed significantly. Figure II.8 shows the countries that adopted the highest number of actually or potentially trade-restrictive measures at the international level between May 2009 and May 2010 according to the Global Trade Alert (GTA) database, which was launched in June 2009 to monitor the application of restrictive trade measures during the global downturn.[4] GTA classifies measures as green (those that liberalize trade on a non-discriminatory basis or enhance the trade regime's transparency), red (those that almost certainly discriminate against foreign commercial interests) and amber (those that may discriminate against foreign commercial interests). Figure II.8 shows that the Russian Federation, Argentina, India and the United States head the list of countries that applied measures falling into the amber and red categories (taken together), while Brazil ranks eighth.

Table II.5

LATIN AMERICA AND THE CARIBBEAN: MAIN TYPES OF ACTUALLY OR POTENTIALLY TRADE-RESTRICTIVE MEASURES ADOPTED OR ANNOUNCED BETWEEN JULY 2009 AND MAY 2010

Type of measure	Argentina	Brazil	Chile	Colombia	Costa Rica	Ecuador	Jamaica	Mexico	Paraguay	Peru	Dominican Republic	Trinidad and Tobago	Venezuela (Bolivarian Republic of)	Number of countries
Higher tariffs	X	X				X						X		4
Application of anti-dumping duties	X	X						X						3
Dumping investigations opened	X	X	X	X	X		X	X		X	X			9
Non-automatic import licensing	X													1
Export incentives		X												1
Minimum import values	X								X					2
Application of safeguards			X											1
Safeguard investigations opened			X								X			2
Countervailing duty investigations opened										X				1
Quotas		X						X					X	3
Exchange controls													X	1
Import bans													X	1
Technical barriers to trade	X													1
Export reference values	X													1
Discrimination in public procurement		X												1

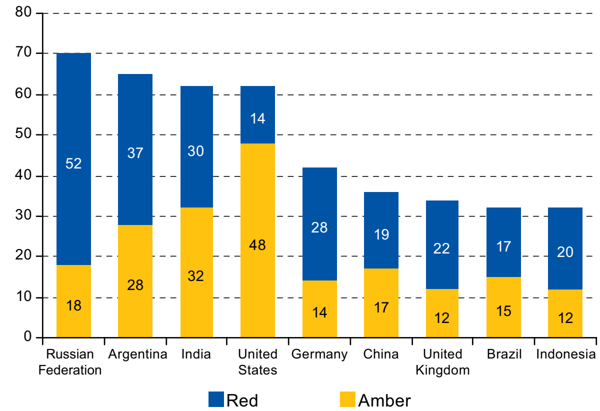
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Overview of Developments in the International Trading Environment. Annual Report by the Director-General" (WT/TPR/OV/12), Geneva, 2009; "Report to the Trade Policy Review Body from the Director-General on Trade-related Developments" (WT/TPR/OV/W/3), Geneva 2010; OECD/WTO/UNCTAD, *Report on G20 Trade and Investment Measures (September 2009 to February 2010)*, 2010; European Commission, *Sixth Report on Potentially Trade Restrictive Measures*, Directorate-General for Trade, May 2010; Centre for Economic Policy Research, "Global Trade Alert" [online] http://www.globaltradealert.org/ [date of reference: 19 July 2010]; Chad Bown, "Global Antidumping Database" [online] http://econ.worldbank.org/ttbd/gad/ [date of reference: 15 July 2010]; Cliff Stevenson, "Antidumpingpublishing.com" [online] http://www.antidumpingpublishing.com/ [date of reference: 19 July 2010]; and J. Durán, S. Herreros and G. Veliz, "Medidas de política comercial adoptadas por los países de América Latina para hacer frente a la crisis", *Opciones de política comercial para mitigar los impactos de la crisis internacional en América Latina: ¿hay margen para el diseño de políticas regionales?*, Red MERCOSUR, 2010.

4 See [online] http://www.globaltradealert.org.

The use of trade defence (and particularly anti-dumping) measures increased sharply in 2009. This is reflected in the 38% upswing in the number of anti-dumping investigations initiated in 2009 compared to 2008 (see figure II.9a), which was far larger than the overall increase at the global level (6%). The number of definitive anti-dumping measures applied in the region jumped by 130% between 2008 and 2009 (see figure II.9b), which also greatly outstrips the corresponding figure at the global level (28%) (Bown, 2010). This increase does not necessarily bear any direct relation to the crisis, however, since the anti-dumping measures applied in any given period are usually the outcome of investigations that were begun between 12 and 18 months earlier (Bown, 2010).

Figure II.8

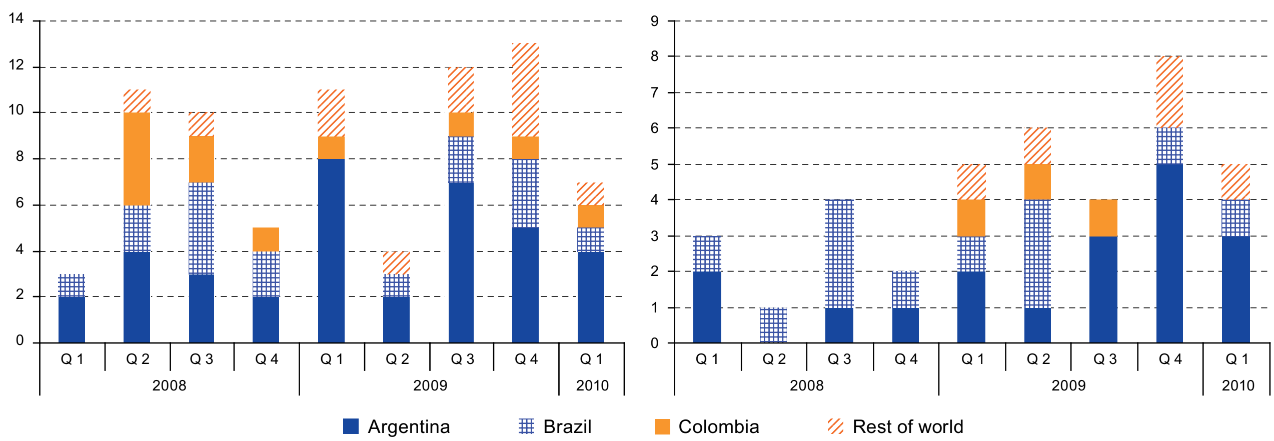
COUNTRIES WITH THE MOST AMBER AND RED MEASURES, MAY 2009 TO MAY 2010



Source: Institute for the Integration of Latin America and the Caribbean (INTAL), *Monthly Newsletter*, No. 166, June 2010.

Figure II.9

LATIN AMERICA AND THE CARIBBEAN: NUMBER OF ANTI-DUMPING INVESTIGATIONS INITIATED AND DEFINITIVE ANTI-DUMPING MEASURES IMPOSED, FIRST QUARTER OF 2008 TO FIRST QUARTER OF 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Chad Bown, "Global Antidumping Database" [online] http://econ.worldbank.org/ttbd/gad/ [date of reference: 15 July 2010] and "Antidumping, safeguards, and protectionism during the crisis: two new insights from 4th quarter 2009", VoxEU.org, 18 February 2010.

In 2009, Argentina initiated the largest number of new anti-dumping investigations in the region (55% of the total) and applied the largest number of definitive anti-dumping measures (48% of the total). A wide range of Chinese industrial products were the main object of the investigations and of the measures applied in the region.

As in the rest of the world, the number of new investigations and new anti-dumping measures decreased in the first quarter of 2010 (see figures II.9a and II.9b). The large number of investigations initiated in the second half of 2009 may translate into an increase in the number of measures applied during the second half of 2010, however.

There are a variety of reasons why the countries of the region show a preference for trade defence measures and for anti-dumping duties in particular. For one thing, these measures are generally less visible internationally than an increase in tariffs would be and can target specific countries and specific industries within them, whereas tariff increases should, in principle, be applied to all markets that do not enjoy preferential status under the most-favoured-nation regime. They can even be applied to imports from trading partners that do enjoy preferential status and that are usually not subject to tariffs,[5] and can be justified as a response to unfair trade practices. Nevertheless, it is important to note that the large number of dumping

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5 Unless the preferential agreement prohibits the use of anti-dumping measures between the parties, as is the case with the free trade agreement between Chile and Canada. This is not the case with most of the trade agreements and subregional integration systems in Latin America, however.

investigations initiated in the region during the reporting period will not necessarily lead to the application of definitive anti-dumping measures in all cases.

Partly, in all likelihood, for the reasons just discussed, there have been relatively few tariff increases during the reporting period. Those that there have been have mainly been applied within the framework of MERCOSUR in specific sectors, such as dairy products, textiles and clothing, and leather items. There have been some cases in which other types of non-tariff barriers have been used, such as non-automatic import licensing, minimum customs values and quotas, but these measures have generally been confined to one, two or three countries in each case.

One recent development which falls outside the domain of trade policy as such but which has important implications for external trade has been the establishment of a dual exchange rate for imports in the Bolivarian Republic of Venezuela. Under this system, which was established in January 2010, the exchange rate for public-sector and priority imports (the latter category includes, for example, some foods, medicines and medical equipment) is 2.6 bolívares fuertes to the dollar, whereas the rate for other imports is 4.3 bolívares fuertes to the dollar. This makes imports that fall into the second category more expensive and consequently promotes the substitution of local products. This measure may have a considerable negative impact on Venezuelan imports from countries such as Argentina and Chile, which produce various items that are subject to the 4.3 bolívares fuertes/dollar exchange rate (ICTSD, 2010).

The increasing discrimination that has been seen in public procurement in many industrialized countries and other developing regions since the outbreak of the crisis has been less common in Latin America and the Caribbean during the reporting period.[6] This is generally also the case with sanitary, phytosanitary and technical trade barriers, restrictions on trade in services and investment, and export restrictions.

In spite of the above assessment, a number of informal trade barriers have been in use in the region during the reporting period. These barriers' lack of transparency hinders efforts to check, monitor and quantify them. For example, in the case of Argentina, unspecified restrictions on imports of food products that are also produced locally were announced in May 2010 and immediately prompted complaints by Brazilian and European Union authorities. The European Union even indicated that these restrictions could hamper its negotiations with MERCOSUR, which had been relaunched in June 2010 after a hiatus of nearly six years.[7] Since August 2009, the Bolivarian Republic of Venezuela has also imposed various import restrictions on Colombian products following the suspension of its diplomatic relations with that country in July 2009. The agreement to re-establish diplomatic relations between the two countries reached by their Presidents on 10 August 2010, which includes the normalization of trade relations among its objectives, is thus a very promising development (see box II.2).

Box II.2

TOWARDS THE NORMALIZATION OF TRADE RELATIONS BETWEEN COLOMBIA AND THE BOLIVARIAN REPUBLIC OF VENEZUELA

On 10 August 2010, the President of Colombia, Juan Manuel Santos, and the President of the Bolivarian Republic of Venezuela, Hugo Chávez, met in Santa Marta, Colombia, and agreed to reinstate diplomatic relations between the two countries. They also decided to work towards bilateral integration as a means of promoting the development of both nations, particularly border areas and communities, where they agreed to undertake joint social and economic programmes.

The Presidents of these two countries also decided to set up the following five commissions:

1. A commission to work on debt payments and the reactivation of trade relations.
2. A commission to work on an economic complementarity agreement between the two countries.
3. A commission to develop a work plan on social investment in border areas.
4. A commission on joint infrastructure projects.
5. A security commission.

These commissions were established during the visit paid by the Minister for Foreign Affairs of Colombia, María Ángela Holguín, to Caracas on 20 August 2010.

Source: Ministry of Foreign Affairs of Colombia, "Colombia y Venezuela restablecen relaciones", 10 August 2010 [online] http://www.cancilleria.gov.co/wps/portal/espanol [date of reference: 13 August 2010].

6 The main exception has been the announcement by the Brazilian authorities in May 2010 regarding preferences for domestic goods and services in government procurement operations. See "Governo lança medidas para aumentar competitividade das exportações" [online] http://www.desenvolvimento.gov.br/sitio/interna/noticia.php?area=5&noticia=9798.

7 See "EU suggests Argentina's import restrictions could delay Mercosur trade talks" [online] http://en.mercopress.com/2010/07/02/eu-suggests-argentina-s-import-restrictions-could-delay-mercosur-trade-talks.

Argentina's imposition of a large number of anti-dumping measures and other restrictions on imports from China (see table A.1 in the annex) has prompted initial indications of possible retaliation by that country. In April 2010, China temporarily suspended imports of soy oil from Argentina and, since then, has reduced its imports of that product by a considerable amount. While the official reason offered for this was the adoption of stricter quality standards, the Chinese authorities themselves have intimated that the cuts are connected with Argentina's increased barriers to its exports. Argentina is the world's largest exporter of soy oil and, prior to the introduction of these restrictions, China was the largest importer (accounting for 45% of Argentine exports of this product in 2009). Argentine and Chinese authorities have met a number of times in recent months in an attempt to resolve this situation.

A number of trade liberalization measures have been taken in the region during the reporting period, including tariff reductions in various countries.[8] For example, Brazil cut its tariffs for a large number of industrial goods that are not produced in the country (including capital goods, electrical items, metallurgical products, paper and pulp, graphics, medical equipment and motor vehicles). On 1 January 2010, Mexico launched the second stage of the broad industrial tariff reductions that it has been phasing in since January 2009 (ECLAC, 2009). Other countries, such as Ecuador and Nicaragua, have moved to cut tariffs on strategic products (especially intermediate and capital goods not produced in the country, in Ecuador's case, and foodstuffs, in the case of Nicaragua). Along these same lines, in November 2009 the Bolivarian Republic of Venezuela lowered its tariffs on more than 50 items that are used in the generation of electricity. In addition, Ecuador terminated the balance-of-payments safeguard that it had introduced in January 2009.

Summing up, the region's responses to the external trade crisis have varied substantially from one country to the next and have encompassed both restrictive and liberalizing measures. Be that as it may, trade restrictions clearly heightened the impact of the crisis on intraregional trade to some extent, and this has particularly been the case in South America. In 2009, intraregional trade shrank by about 30%, which was five points more than the decrease in the region's total imports. This is partly attributable to the fact that intraregional exports are more income-elastic than extraregional exports because they include a larger proportion of manufactures. It is also likely, however, that part of this differential is due to the trade barriers put in place since late 2008, which have had a particularly strong impact on some of the main intraregional trade flows (such as the Argentina-Brazil and Colombia-Bolivarian Republic of Venezuela flows).

As was also true in the first half of 2009, Central America and the Caribbean erected far fewer new trade barriers than South America (see table A.1 in the annex). The Central American governments, in particular, continued to work to deepen subregional integration during this period. The subject will be discussed further in chapter III.

D. Preliminary overview of export performance in the 2000s

As the countries of Latin America and the Caribbean approach the end of the first decade of the twenty-first century, it is clear that they are more closely linked to the international economy and have more open trade regimes than before. At the start of the decade, the world economy had been sluggish as a result of the "dot.com" crisis and the terrorist attack on the Twin Towers, which not only curbed world demand but also led to the introduction of a series of additional security measures at ports, airports and customs clearance points that have had a dampening effect on international trade. This gave way to a sustained period of rapid growth in the world economy and trade (2003-2008), both of which were buoyed by the strength of the Chinese economy and, in particular, by the extremely active level of commercial dealings between China and the United States (ECLAC, 2007). Then, late in the decade, in September 2008, another crisis erupted. This crisis was the most serious that the world had known since the Great Depression of the 1930s, and it triggered the steepest downturn in world trade since that time. The region did not emerge unscathed from this series of events but, in the second half of 2009, it benefited from the swift recovery of world trade and GDP.

8 As of February 2010, tariff reductions accounted for 58% of the liberalization measures adopted by the countries of the region since the onset of the crisis (Durán Lima and Herreros, 2010).

This seems to be an appropriate point in time to look at what effects these events have had on external trade and, hence, on the region's integration into the international economy. A preliminary analysis of the Latin America and Caribbean region's external trade performance is offered in the following section. The indicators that have been calculated for this purpose are: (i) average growth rates for exports and imports for 1990-1999 and 2000-2009; (ii) the sectoral distribution of exports by technology intensity at the start and end of the decade; (iii) the structure of exports to the region's main trading partners; (iv) Herfindahl-Hirschman indices for export concentration and diversification; (v) intra-industry trade indices based on the Grubel-Lloyd methodology; and (vi) disaggregations of the region's major exports by value and volume. Another section is devoted to trends in intraregional trade during the past decade. The analysis of trade in goods is based on data from the United Nations Commodity Trade Database (COMTRADE), while that of trade in services is based on the services accounts of the countries' balance of payments.

1. The overall picture

An analysis of the region's export and import growth rates for the last three decades points to a decline in its exports of manufactures in the 2000s relative to the results for the 1990s. These figures are heavily influenced by the slowdown in Mexico's exports in that period, however. In fact, if the results for Mexico are factored out of the regional calculations, the growth rate for the region's exports jumps by over four percentage points (see table II.6). Two different export patterns thus emerge since, while South America doubled its export growth rate, Mexico and Central America saw their rates plummet by over 50%. All the South American countries except the Bolivarian Republic of Venezuela had export growth rates above the regional average, whereas the growth rates of all the Central American countries, apart from Nicaragua, were below it.

Table II.6

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF GOODS TRADE OVER THE LAST THREE DECADES

(Average annual growth rates calculated on a current dollar basis)

Trade flows / Country/subregion	Exports			Imports		
	1980-1989	1990-1999	2000-2009	1980-1989	1990-1999	2000-2009
Latin America and the Caribbean	2.6	8.5	7.4	-0.4	11.7	6.5
Latin America and the Caribbean (excluding Mexico)	1.1	5.4	9.8	-2.6	9.8	8.7
South America	2.4	5.2	10.6	-2.8	10.7	9.6
MERCOSUR	5.2	5.3	11.0	-3.9	12.5	8.5
Argentina	2.0	7.3	8.7	-9.4	23.1	5.0
Brazil	6.1	4.8	12.0	-2.5	10.1	9.6
Paraguay	12.8	1.1	10.6	4.6	5.3	10.1
Uruguay	4.7	3.4	11.6	-4.2	10.8	8.1
Chile	6.2	8.3	12.1	2.1	8.5	9.8
Andean countries	-1.9	4.0	9.6	-2.6	8.4	11.6
Bolivia (Plurinational State of)	-2.9	2.6	16.3	2.7	7.9	10.9
Colombia	4.7	6.1	10.6	0.7	8.1	12.3
Ecuador	-0.8	6.0	12.3	-3.1	6.5	16.3
Peru	-1.1	7.0	16.2	-3.3	9.7	12.4
Venezuela (Bolivarian Republic of)	-4.2	1.9	6.2	-4.2	8.6	9.6
Mexico	7.7	14.4	3.7	5.7	14.6	3.3
Central American Common Market (CACM)	-1.6	14.7	5.6	0.5	13.9	6.9
Costa Rica	3.2	19.2	4.8	1.5	14.3	6.8
El Salvador	-7.0	16.4	3.0	3.5	12.9	4.0
Guatemala	-3.3	9.7	7.1	0.1	12.8	7.5
Honduras	0.6	12.9	5.3	0.0	15.9	8.2
Nicaragua	-3.8	9.4	11.7	-4.2	13.8	9.0
Panama	0.9	5.2	7.2	0.2	7.3	7.1
Caribbean countries	-8.1	1.8	4.5	-4.0	4.6	5.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data from the countries.

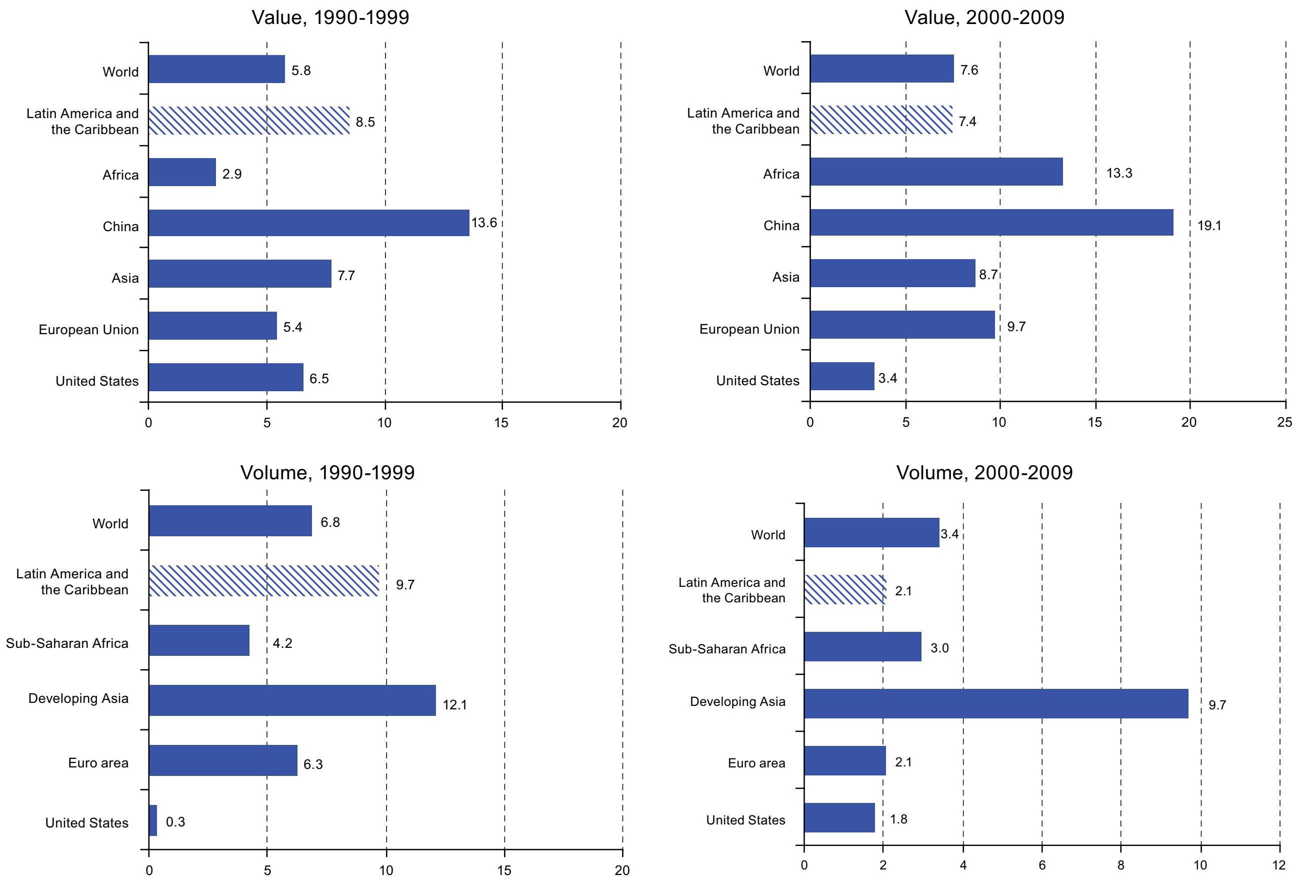
Over the last two decades, the region's imports have slowed more than its exports. Here again, if the results for Mexico are factored out of the equation, the decline is much smaller. The plunging growth rate for imports in Argentina (the rate dropped from 23% in the 1990s to just 5% in the 2000s) has also been an influential factor. These figures reflect the collapse of Argentine imports in 2001 and 2002 in the wake of the demise of the convertibility regime and the region-wide downturn in 2009. Central America's imports followed a pattern similar to Mexico's. The slackening growth rates for Mexico's and Central America's exports and imports in the 2000s are linked, since these countries' exports contain a large component of inputs that are imported by the maquila industry.

The results of a comparison of the Latin America and Caribbean region's exports of goods with those of other world regions are cause for concern (see figure II.10), since the region's exports, whether measured in terms of value or volume, grew by less than world exports and the exports of the developing countries of Asia, Africa and the Middle East. This, viewed in conjunction with the fact that the region's exports also grew more slowly than they had in the 1990s, leads to the unavoidable conclusion that the Latin America and Caribbean region's export effort is falling far short of what is required and that its share of world trade is shrinking.

Figure II.10

EVOLUTION OF GOODS EXPORTS WORLDWIDE AND IN SELECTED MAJOR REGIONS, BY VALUE AND VOLUME, 1990-1999 AND 2000-2009

(Average annual percentage growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO) and World Bank.

The region's service exports expanded at a slightly higher rate in the 2000s than in the 1990s (see table II.7), although more slowly than world exports of services and those of Africa, Asia, China and the European Union (see figure II.11). In other words, the region's share of global service exports is also on the decline.

An examination of the countries' individual results for exports of services shows that, as in the case of merchandise exports, Mexico's performance during the 2000s was significantly weaker than that of the region as a whole. The performance of the Caribbean subregion (where services account for a large share of total exports) was also lacklustre. No clear pattern emerges for South America or Central America, where the results were quite uneven from country to country.

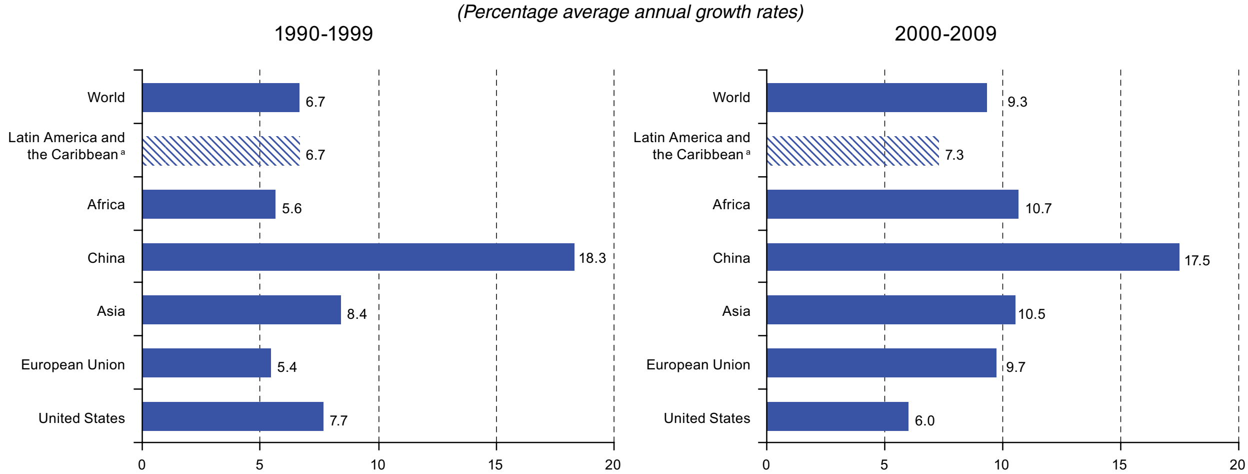
In order to provide a detailed analysis of the modest showing of the region's exports in the 2000s compared to those of its main competitors in the international market, the following section offers an examination of disaggregated figures for the different components of goods and services exports at the country and subregional levels in the 2000s and 1990s.

Table II.7
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF SERVICES TRADE OVER THE LAST THREE DECADES
(Average annual growth rates calculated on a current dollar basis)

Trade flows / Country/subregion	Exports			Imports		
	1980-1989	1990-1999	2000-2009	1980-1989	1990-1999	2000-2009
Latin America and the Caribbean	4.6	6.7	7.3	0.4	6.8	7.2
Latin America and the Caribbean (excluding Mexico)	4.4	7.6	8.7	-0.1	7.9	8.0
South America	3.1	6.6	10.1	-0.7	8.1	9.0
MERCOSUR	4.4	7.7	11.1	0.2	8.9	9.3
Argentina	1.7	7.6	9.3	-3.3	12.3	2.7
Brazil	7.2	7.5	12.7	2.3	7.6	12.2
Paraguay	10.3	3.6	8.4	7.0	1.4	2.6
Uruguay	-0.8	11.7	6.0	-1.3	8.3	2.4
Chile	2.2	8.6	8.5	2.6	9.3	8.0
Andean countries	1.7	3.7	7.9	-3.0	6.1	8.7
Bolivia (Plurinational State of)	5.6	6.6	9.7	1.6	4.2	9.0
Colombia	-0.4	2.2	8.3	3.3	6.7	8.5
Ecuador	3.9	3.4	4.0	-1.3	4.4	8.3
Peru	1.8	8.2	10.0	3.0	7.4	8.5
Venezuela (Bolivarian Republic of)	3.3	1.5	6.0	-8.5	5.7	9.0
Mexico	5.1	4.2	0.8	2.1	3.8	4.0
Central American Common Market (CACM)	7.8	10.6	6.7	2.2	9.9	5.1
Costa Rica	11.0	11.9	7.7	6.3	9.0	2.9
El Salvador	10.9	7.7	2.0	4.1	11.3	3.4
Guatemala	3.9	7.8	7.7	-2.8	8.4	8.7
Honduras	7.0	14.3	5.1	3.2	10.8	5.3
Nicaragua	-7.5	15.2	8.7	1.6	12.9	5.2
Panama	0.9	6.0	11.8	-0.2	5.8	7.4
Caribbean countries	7.7	8.8	5.9	2.4	6.2	3.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data from the region's countries.

Figure II.11
EVOLUTION OF COMMERCIAL SERVICES EXPORTS WORLDWIDE AND IN SELECTED MAJOR REGIONS, BY VALUE, 1990-1999 AND 2000-2009
(Percentage average annual growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO).
[a] The data for Latin America and the Caribbean are from the ECLAC database.

2. Exports of natural resources and manufactures

A first-level disaggregation of trade data that is quite revealing in analytical terms is the breakdown of total exports into natural resource exports and those that entail some degree of processing. The resulting figures indicate that exports of primary products surged in the 2000s, marking up a growth rate four times as high as the rate for the 1990s,[9] and that they were particularly strong in the South American and CARICOM countries (see table II.8). As mentioned earlier, the stronger showing of exports of natural resources stems from the sharp rise in the prices of these subregions' main export products, especially in the case of petroleum, copper, soy, coffee, bananas, iron and steel. These price rises are closely associated with the emergence of the Chinese economy as a major source of demand for raw materials, as a central player in the world economy and as an increasingly important trading partner for the region.

The region's performance in exports of manufactures marks a sharp contrast with its showing for primary products, with the growth rate for the former falling sharply from one decade to the next. This overall rate conceals sharp differences from one country to the next, however. On the one hand, Mexico witnessed a steep drop in the average growth rate for its exports of manufactures, as did countries such as Costa Rica, the Plurinational State of Bolivia and the member countries of CARICOM. Panama and the Bolivarian Republic of Venezuela also posted negative average growth rates. On the other hand, South America's average growth rate for manufactured exports surpassed the region's overall average and its own rate for the 1990s.

Table II.8

LATIN AMERICA AND THE CARIBBEAN: GROWTH IN EXPORTS OF PRIMARY GOODS AND MANUFACTURED GOODS, 1990-1999 AND 2000-2009

(Average annual growth rates by value)

Region/country	Primary products		Manufacturing exports	
	1990-1999	2000-2009	1990-1999	2000-2009
Latin America and the Caribbean	2.6	11.4	14.7	5.3
South America	2.7	13.0	6.4	8.3
Andean countries	0.3	11.1	9.6	5.3
Bolivia (Plurinational State of)	-1.3	21.1	11.5	5.0
Colombia	5.4	10.6	7.9	9.5
Ecuador	3.9	12.4	14.7	12.1
Peru	4.7	19.1	3.5	14.7
Venezuela (Bolivarian Republic of)	-3.1	8.8	12.8	-4.3
Chile	7.9	13.4	6.5	12.2
MERCOSUR	4.8	15.0	5.4	8.4
Argentina	7.5	8.1	6.7	8.8
Brazil	3.8	19.2	5.0	8.4
Paraguay	-5.1	17.2	5.3	11.1
Uruguay	0.7	15.0	5.1	5.2
Central American Common Market (CACM)	6.4	4.9	19.8	7.8
Costa Rica	7.2	1.4	28.6	2.1
El Salvador	4.8	-2.0	17.4	15.9
Guatemala	6.6	7.9	11.1	14.5
Honduras	4.4	8.5	17.5	6.6
Nicaragua	4.0	7.6	5.4	11.9
Mexico	1.8	6.3	27.3	2.9
Panama	9.7	-0.1	7.1	-9.4
Cuba	…	-30.6	…	…
Dominican Republic	…	13.0	…	…
CARICOM	-1.4	12.2	4.8	2.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.

When exports of manufactures are broken down into technology-intensive and factor-intensive goods, it becomes clear that natural resource-intensive manufactures were more dynamic[10] (see table II.9). On the other hand, exports of low-, intermediate- and high-technology manufactures, as well as engineering- and labour-intensive manufactures, had below-average growth rates, which points to a weak link between the export sector and knowledge-intensive production sectors.

9 Only three countries (Cuba, El Salvador and Panama) had negative growth rates for raw material exports in the 2000s.

10 Central America, where low-technology manufactures have seen the strongest growth, and the Caribbean, where intermediate-technology exports have risen the most, have not followed this trend.

Table II.9

LATIN AMERICA AND THE CARIBBEAN (MEXICO AND SELECTED SUBREGIONS): EVOLUTION OF GOODS EXPORTS BY TECHNOLOGY INTENSITY AND FACTOR INTENSITY, 1990-1999 AND 2000-2009

(Percentage average annual growth rates)

	Latin America and the Caribbean		South America		Mexico		Central America		The Caribbean	
	1990-1999	2000-2009	1990-1999	2000-2009	1990-1999	2000-2009	1990-1999	2000-2009	1990-1999	2000-2009
By technology intensity [a]										
Primary products	2.6	11.4	2.7	13.0	1.8	6.3	6.4	4.9	-1.4	12.2
Manufactures	14.7	5.3	6.4	8.3	27.3	2.9	19.8	7.8	4.8	2.9
Natural resource-based manufactures	7.5	8.9	6.8	9.4	10.8	8.0	12.0	7.8	4.3	2.5
Low-technology manufactures	13.4	2.1	2.9	4.8	31.6	-0.8	15.4	13.0	4.9	-4.9
Intermediate-technology manufactures	16.3	4.7	6.4	8.8	24.6	2.7	19.4	8.4	7.6	7.8
High-technology manufactures	35.0	3.8	14.1	5.5	46.8	3.5	41.0	1.3	2.4	5.8
Total (excluding gold and unspecified products)	10.0	7.3	4.7	10.5	20.1	3.4	12.9	6.7	2.2	6.9
By factor intensity [b]										
Extractive industries	2.6	8.2	2.4	8.8	1.4	6.3	14.0	4.5	-2.4	16.4
Agriculture, hunting, forestry and fisheries	6.0	9.2	4.8	11.1	6.9	5.6	13.9	3.5	0.5	-4.8
Mining and quarrying	0.5	7.7	1.0	7.6	-0.4	6.5	16.7	17.1	-3.1	17.9
Manufacturing industries	14.2	6.0	5.9	10.1	27.4	2.6	22.3	8.5	4.3	1.3
Engineering-intensive sectors	24.3	3.4	9.2	7.4	32.1	2.3	45.6	3.3	5.7	7.9
Natural resource-intensive sectors	6.3	10.9	5.1	12.0	11.4	7.9	13.7	9.2	3.8	1.0
Labour-intensive sectors	15.1	2.2	5.4	4.7	33.0	-1.1	21.0	13.0	6.6	-3.0
Total (excluding refined petroleum)	10.1	6.6	4.5	9.6	20.0	3.1	18.7	7.1	2.1	8.1

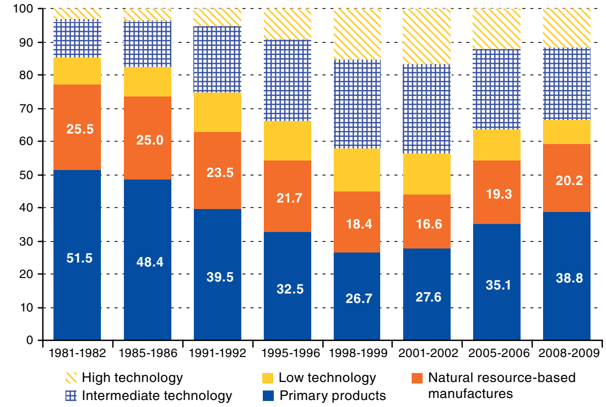
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).
[a] Aggregated to the 3-digit level of the Standard International Trade Classification (SITC), Rev. 2.
[b] Aggregated by the International Standard Industrial Classification of All Economic Activities (ISIC). Excludes refined petroleum (353).

As a result of these sharply differing growth patterns for exports of primary products and manufactures, the share of commodities in the region's exports has been expanding once again.[11] After that share had declined from nearly 52% of total exports in the early 1980s to a low of 26.7% in the 1990s, it rebounded to almost 40% of the total in 2008-2009 (see figure II.12). The positive effects that price increases for many of South America's export products had on its terms of trade during much of the 2000s were a decisive factor in this regard (see box II.3).

Figure II.12

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE STRUCTURE OF WORLDWIDE EXPORTS SINCE THE EARLY 1980s

(Percentages of the total by value)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

Box II.3

HIGHER COMMODITY PRICES BOOST EXPORTS IN THE 2000s

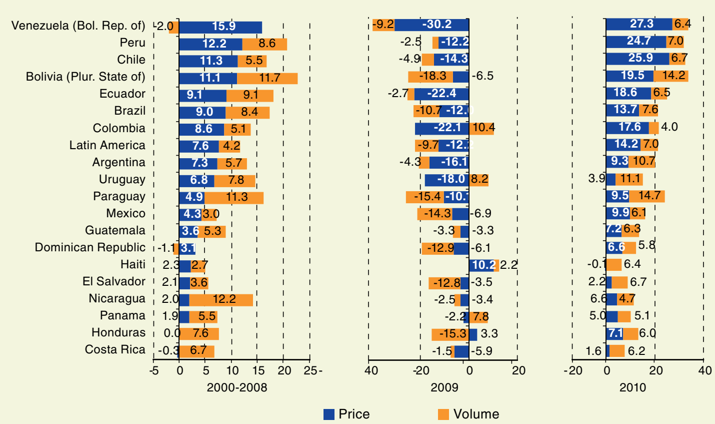
A breakdown of the region's exports in the 2000s by value and volume shows how much of a driving force prices were, and those price trends were generally favourable for producers of basic raw materials, especially in South America. Between 2000 and 2008, these countries' average export growth rate was 22% when measured by value, whereas it was just 6% when measured by volume. Prices for crude oil, copper, iron ore, soybeans, natural gas, and meat and offal rose the most. Mexico and Central America, on the other hand, registered larger increases in export volumes (see figure 1).

The statistics on the prices and volumes of the region's exports for 2009 and the projections for 2010 underscore the price volatility of the items in the region's export basket. In 2009, as international demand slackened in the aftermath of the crisis, exports dropped by somewhat over 12% when measured by prices and by 9.7% when measured by volume. The projections for 2010 are encouraging for both components, although the anticipated outcomes are still quite disparate between regions, specifically between South America on the one hand and Mexico and Central America on the other.

Figure 1

LATIN AMERICA (19 COUNTRIES): BREAKDOWN OF EXPORT GROWTH BY PRICE AND VOLUME, 2000-2008, 2009 AND 2010

(Percentage average annual growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

11 This increase in the relative share of the region's total exports represented by unprocessed raw materials corresponds to the figures for the "primary products" heading in the tables and figures given in the following sections. Processed raw materials are included in the "natural resource-based manufactures" category rather than in the "primary products" category.

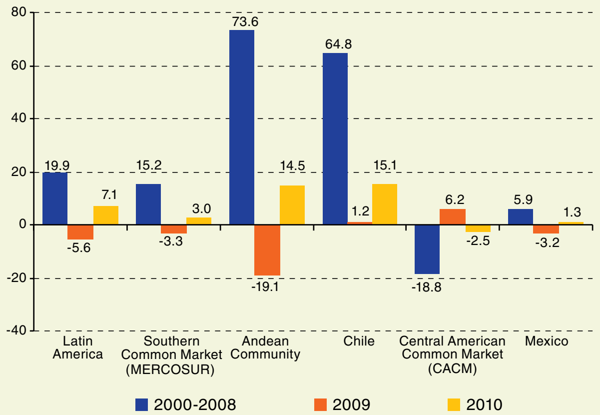
Box II.3 (concluded)

The stronger growth of commodities in 2000-2008 is reflected in the product breakdown of selected countries' exports. For the Bolivarian Republic of Venezuela, the prices of crude oil and petroleum products climbed by an average of 17% between 2000 and 2008, while the volume of those exports slipped somewhat (-1.5%). As a result, the oil industry's share of total exports, measured by value, rose from 83% to 93% between 2000 and 2008. For Chile, the combined price increase for just three products (copper ore, processed copper and non-monetary gold) was nearly 26.6%, while the volume of those exports increased moderately (4.6%). As a result, the share of total exports represented by these products jumped from 41% in 2000 to 61% in 2008. In Peru, the 33% rise in the prices of four products (fresh vegetables, copper, petroleum products and non-monetary gold) was coupled with a 14% increase in volume. Similar patterns were seen in the other South American countries, Mexico and Central America. Because manufactures account for a larger share of total exports in these other countries, however, their overall average price increases were smaller.

Thanks to the steadily increasing prices of the region's main export products, its terms of trade improved by an average of 20% between 2000 and 2008, although the rate differed from one area to another. The terms of trade for the Andean countries and Chile improved by slightly over 70% and 60%, respectively, but they rose less for MERCOSUR and Mexico and worsened by some 18% for Central America, primarily because it is a net importer of food and fuel. In 2009, after the crisis, the terms of trade for the region as a whole deteriorated, but the Central American countries posted a 6.2% improvement in their terms of trade thanks to lower prices for fuel and some food items (see figure 2).

Projections for 2010 indicate that the region will witness a further 7.1% rise in its terms of trade, with the Andean countries gaining more ground than MERCOSUR and Mexico (see figure 2).

Figure 2
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE TERMS OF TRADE, 2000-2008, 2009 AND 2010
(Percentage average annual growth rates)

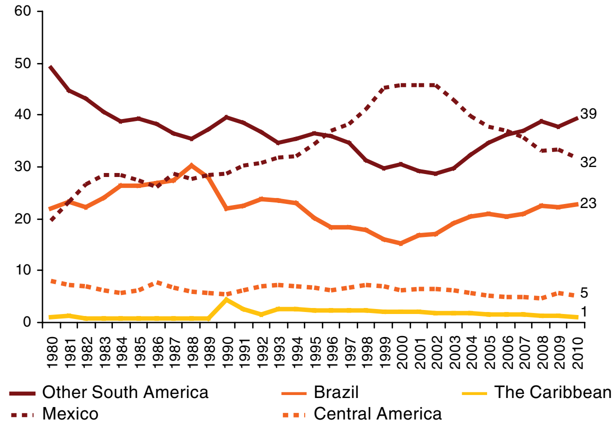


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and projections for 2010.

Primary product exports have thus taken a larger share of the total at the expense of high-, intermediate- and low-technology manufactures, which expanded by far less than they had during the 1990s. This is consistent with the slower growth of exports produced by engineering- and labour-intensive manufacturers.

The differing growth rates for exports of primary products and manufactures gave rise to a shift in the export shares of Mexico and South America. Mexico's share of the region's total goods exports fell from 40% in 2000 to 30% in 2009, while Brazil saw its share climb from 13% in 2000 to nearly 20% in 2009 and thus regained the total export share it had achieved in the early 1980s (see figure II.13). A number of other South American countries (especially Argentina, Brazil, Chile, Colombia and Peru) increased their share of the region's total goods exports. The low growth rates posted by the CARICOM countries and the Dominican Republic, meanwhile, meant that their share of the region's total merchandise exports shrank.

Figure II.13
SHARES OF SELECTED SUBREGIONS, BRAZIL AND MEXICO IN THE EXPORT TOTAL OF LATIN AMERICA AND THE CARIBBEAN, 1980-2010
(Percentages of the regional total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data from the countries.

3. Service exports

Service exports over the past decade were relatively robust in the balance-of-payments categories of “other services” and “transport”, but fairly flat in the “travel” category, where the growth rate was below the average for the preceding decade (see table II.10). As a result, the first two categories, particularly “other services”, have increased their share of the region’s total commercial services exports (see figure II.14).

As in the case of goods exports, Mexico’s service exports performed less well than those of the region overall, with a sharp downswing in “other services”. This may reflect the weaker showing of Mexico’s merchandise exports, since some components of the “other services” category, such as legal, logistical, financial and accounting services, are directly linked to export activity. These figures should be viewed with caution, in any event, since the available statistics on trade in services are less reliable than the figures on merchandise trade, although the countries of the region have been making a determined effort to increase the accuracy of their services trade information systems. The member countries of CARICOM for which information is available also performed less well than the region as a whole. The reasons for this include: (i) the series of natural disasters that hit the subregion during the decade, which had a strong impact on tourism; (ii) the sluggishness of merchandise trade, which had a dampening effect on the “transport” and “other services” categories; and (iii) the recent financial crisis and the fallout from that crisis in the subregion’s tourism and financial services sectors, among others.

South America outperformed the region as a whole. The upswing in service exports in the “transport” and “other services” categories went hand in hand with the boom in exports of goods and especially exports of natural resources. Panama also posted double-digit growth rates in all three categories, thus consolidating its economy’s increasingly service-oriented profile.

Table II.10

LATIN AMERICA AND THE CARIBBEAN (24 COUNTRIES): EVOLUTION OF COMMERCIAL SERVICES EXPORTS BY MAJOR BALANCE-OF-PAYMENTS CATEGORIES, 1990-1999 AND 2000-2009

(Percentage average annual growth rates)

Region/country	Transport		Travel		Other services	
	1990-1999	2000-2009	1990-1999	2000-2009	1990-1999	2000-2009
Latin America and the Caribbean	3.6	7.9	7.3	5.8	8.5	10.1
South America	3.0	8.7	8.0	7.5	9.7	13.1
Andean countries	2.0	7.4	4.6	8.0	6.2	7.5
Bolivia (Plurinational State of)	1.2	2.8	4.6	16.9	12.8	5.6
Colombia	2.5	7.5	9.6	7.6	-5.9	10.5
Ecuador	0.8	1.7	6.9	5.7	1.7	3.4
Peru	-2.9	13.0	17.0	10.4	7.0	7.0
Venezuela (Bolivarian Republic of)	-2.4	7.1	1.8	7.2	6.5	3.4
Chile	12.4	10.4	6.2	6.7	4.8	8.2
MERCOSUR	-0.8	8.3	8.2	7.6	14.4	14.0
Argentina	-0.6	3.6	13.8	3.4	7.3	22.4
Brazil	-1.8	12.4	1.8	12.7	17.6	12.7
Paraguay	-2.2	9.4	-0.6	3.5	5.9	8.9
Uruguay	5.0	-0.6	12.8	7.0	16.1	11.3
Central American Common Market (CACM)	11.3	3.5	15.4	5.8	5.0	9.7
Costa Rica	11.2	0.8	16.2	5.3	3.8	16.1
El Salvador	11.7	1.0	12.7	4.4	1.8	0.5
Guatemala	15.3	11.3	13.1	6.1	2.1	9.4
Honduras	1.0	-2.5	24.5	8.5	14.3	0.9
Nicaragua	12.9	5.2	12.2	5.6	20.3	7.2
Mexico	4.6	3.7	3.0	3.5	7.3	-9.8
Panama	6.4	11.0	9.7	14.1	2.7	11.5
Cuba [a]	…	…	25.7	2.0	14.5	26.2 [b]
Dominican Republic	1.1	20.5	14.6	4.3	-0.4	2.4
CARICOM [c]	4.2	2.1	9.5	5.5	8.9	4.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data from the countries and information from the International Monetary Fund (IMF) for the Caribbean countries.

[a] Average growth rate for the 2000-2007 period.

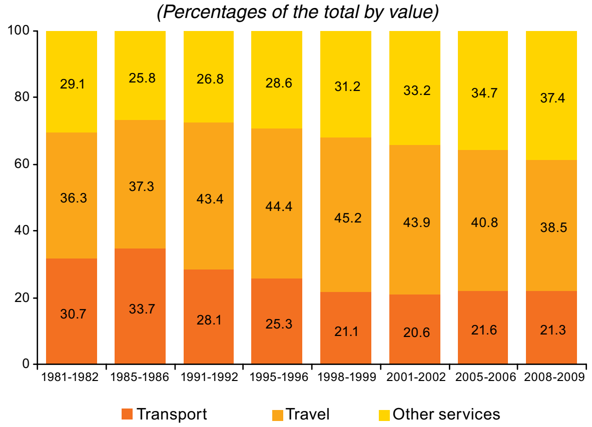
[b] Includes the transport category.

[c] Includes Bahamas, Guyana, Haiti, Suriname and Trinidad and Tobago.

Figure II.14

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE STRUCTURE OF TOTAL SERVICE EXPORTS BY MAJOR CATEGORIES SINCE THE EARLY 1980s

(Percentages of the total by value)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance-of-payments data from the countries.

4. Changes in the structure of trade in goods and services during the 2000s

The overall structure of the region's exports of goods and services changed significantly between the start and end of the 2000s, as the share of total exports represented by primary products jumped by nine percentage points (from 25% to 34%). The growth of this category has largely been at the expense of high-, intermediate- and low-technology manufactures, since the share of natural resource-based manufactures expanded slightly and the share of services remained fairly steady (see table II.11).

Table II.11

LATIN AMERICA AND THE CARIBBEAN: SECTORAL DISTRIBUTION OF EXPORTS, 2000-2002 AND 2007-2009

(Percentages of the total)

	2000-2002				2007-2009			
	Primary products	Natural resource-based manufactures	High-, intermediate- and low-technology manufactures	Services	Primary products	Natural resource-based manufactures	High-, intermediate- and low-technology manufactures	Services
Latin America and the Caribbean	25.0	16.2	51.9	6.8	34.1	18.4	41.1	6.4
South America	38.3	24.9	29.5	7.3	44.4	23.4	25.9	6.3
Andean countries	55.6	22.6	16.7	5.2	64.4	14.8	17.2	3.6
Bolivia (Plurinational State of)	57.7	17.9	17.3	7.1	80.3	12.0	4.3	3.4
Colombia	44.9	15.7	32.4	7.0	46.6	16.1	32.0	5.3
Ecuador	67.1	16.1	9.1	7.7	71.4	16.4	8.6	3.6
Peru	37.2	34.7	17.2	10.9	45.7	33.8	14.2	6.2
Venezuela (Bolivarian Republic of)	63.3	24.8	9.7	2.2	79.3	5.5	13.6	1.6
Chile	30.9	48.0	10.8	10.3	34.4	51.4	7.8	6.4
MERCOSUR	30.0	21.4	40.7	7.9	35.6	20.7	35.9	7.8
Argentina	42.3	21.2	29.4	7.0	38.2	23.5	30.4	7.9
Brazil	23.7	21.8	47.1	7.5	33.6	19.8	39.1	7.4
Paraguay	49.9	13.6	9.6	26.9	64.3	15.2	8.9	11.5
Uruguay	28.6	19.5	33.6	18.3	40.8	19.0	24.2	16.1
Central American Common Market (CACM)	27.2	18.0	39.6	15.3	23.9	17.1	46.0	13.0
Costa Rica	21.2	11.7	51.9	15.1	18.6	14.4	49.2	17.7
El Salvador	13.9	23.7	43.4	19.0	6.5	18.9	65.0	9.6
Guatemala	34.4	21.1	31.8	12.7	28.1	20.3	42.1	9.4
Honduras	39.0	30.0	14.0	17.0	43.1	12.7	30.0	14.1
Nicaragua	56.2	19.2	10.1	14.5	51.0	19.0	19.4	10.6
Mexico	11.0	5.9	79.2	3.9	17.2	8.6	71.1	3.1
Panama	28.1	10.8	6.2	55.0	20.6	3.5	2.7	73.1
Cuba [a]	20.4	23.2	5.6	50.8	…	19.8	9.3	70.9
Dominican Republic	4.8	8.1	41.9	45.2	6.2	12.7	50.7	30.4
CARICOM	20.8	29.4	16.9	32.8	35.9	29.0	13.7	21.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE) and balance-of-payments information from the countries.

[a] The information for Cuba in the second period is based on official data from the Cuban National Statistical Office (ONE). The natural resource-based manufactures total includes exports of raw materials.

This expansion of the share of primary products was seen throughout South America, as well as in Mexico, the Dominican Republic and the member countries of CARICOM. The exception to this trend was Central America, where the share of primary product exports shrank and the share of low-, intermediate- and high-technology manufactures swelled by slightly over six percentage points. Panama and Cuba are special cases, since their already strong specialization in trade in services increased further during the decade, with services coming to account for nearly three quarters of these two countries' total exports.

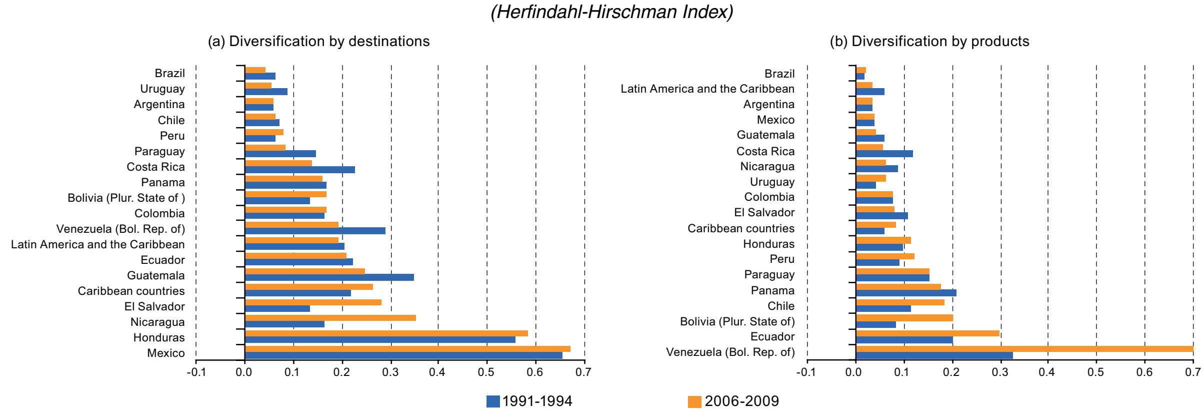
As noted earlier, this readjustment between the share of primary product exports and the shares of manufacturing and, to a lesser extent, services exports is primarily a consequence of the rise in raw materials' prices sparked by heavy demand from Asia. The strength of primary product exports has not, however, been accompanied by equally robust growth in exports of related services (logistics, quality certification, marketing, biotechnology consulting services and so forth). In the closing years of the decade, China's and the rest of Asia's share of total exports from the region began to climb, as will be discussed in greater detail in the section on trends in intraregional and extraregional trade.

5. Concentration and diversification in the region's trade in goods, by product and destination market

An analysis of changes in the degrees of concentration and diversification in the region's exports of goods by product type, based on the Herfindahl-Hirschman Index, points to an increase in diversification between the start of the 1990s and the late 2000s (see figure II.15). This aggregate result is the sum total of sharp differences across countries, however. Brazil, Argentina and Mexico are the most diversified, just as they were in the early 1990s. Countries that rely on raw material exports (such as the Bolivarian Republic of Venezuela, Ecuador, the Plurinational State of Bolivia, Chile, Panama and, to a lesser extent, Paraguay and Peru) are at the other extreme. The levels of concentration in all these countries, except Panama and Paraguay, have risen during the last two decades. The Central American and Caribbean countries, Colombia and Uruguay are somewhere in between, all within a range that is considered to be highly diversified (a Herfindahl-Hirschman coefficient below 0.10). All the Central American countries except Honduras registered major gains in their degree of diversification.

In terms of destination markets, the region's exports as a whole are still quite heavily concentrated, although slightly less so than before. Here again, however, trends vary sharply across countries. This can be accounted for by the closer geographical ties that Mexico, the Central American and Caribbean countries and, to a lesser extent, Ecuador, Colombia and the Bolivarian Republic of Venezuela have with their main export market: the United States. The MERCOSUR countries, Chile, Peru and, in Central America, Costa Rica are at the other end of the spectrum. For most of these countries, the increase seen over the last decade in the share of their exports going to Asia, which had previously been quite small, has been a factor in reducing the high degree of market concentration exhibited by some of these countries' exports in the early 1990s.

Figure II.15
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): EVOLUTION OF THE DIVERSIFICATION INDEX BETWEEN THE EARLY 1990s AND LATE 2000s [a]
(Herfindahl-Hirschman Index)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country figures.
[a] The calculations include maquila exports for all the Central American countries and Mexico.

6. Intra-industry integration

An analysis of intra-industry trade flows at the end of the decade, measured by the Grubel-Lloyd Index (GLI), shows that the countries with the highest average weighted coefficients for bilateral trade, by major trading partner (i.e., those with the highest levels of intra-industry trade), are Argentina, Brazil, Colombia, Costa Rica and Mexico.[12] The highest level of intra-industry trade of all is seen between Mexico and the United States, with the latter being the destination market for practically 80% of Mexico's exports. Mexico is the only country of the region with a GLI coefficient of over 0.33, the threshold above which a more technologically sophisticated pattern of specialization is considered to exist (see table II.12).

Where intraregional bilateral trade is concerned, three countries exhibit high levels of intra-industry trade (Brazil, Colombia and Argentina); 10 others have coefficients of between 0.10 and 0.33, which point to potentially more technologically sophisticated trade relations that have yet to take firm hold. Inter-industry trade predominates in the four remaining countries (a GLI coefficient of below 0.10). When the figures are broken down by trading partner, the Latin America and Caribbean region's highest intra-industry trade coefficients are with the United States and with itself. This result is in keeping with the higher percentage of manufactures in trade flows within the region and with the United States.

Table II.12
LATIN AMERICA: INTRA-INDUSTRY TRADE WITH MAJOR TRADING PARTNERS, 2008
(Grubel-Lloyd indices as per the 3-digit Standard International Trade Classification (SITC), Rev. 2)

	Latin America	Asia	United States	European Union	Total
Argentina	0.41	0.03	0.28	0.14	0.27
Bolivia (Plurinational State of)	0.10	0.00	0.07	0.02	0.08
Brazil	0.36	0.08	0.36	0.30	0.28
Chile	0.17	0.02	0.11	0.05	0.09
Colombia	0.43	0.02	0.17	0.07	0.23
Costa Rica	0.32	0.08	0.26	0.23	0.25
Ecuador	0.20	0.00	0.02	0.03	0.09
El Salvador	0.28	0.02	0.13	0.03	0.18
Guatemala	0.27	0.02	0.06	0.05	0.10
Honduras	0.15	0.01	0.09	0.02	0.10
Mexico	0.28	0.07	0.49	0.18	0.38
Nicaragua	0.04	0.00	0.06	0.01	0.04
Panama	0.08	0.00	0.03	0.02	0.04
Paraguay	0.17	0.00	0.03	0.03	0.11
Peru	0.08	0.01	0.12	0.02	0.06
Uruguay	0.32	0.02	0.07	0.05	0.22
Venezuela (Bolivarian Republic of)	0.05	0.00	0.02	0.03	0.03
Latin America	0.29	0.05	0.36	0.20	0.27

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

12 The Grubel-Lloyd Index measures the intensity of intra-industry trade between any two countries, that is, a situation where the two are trading similar goods. The index yields a coefficient of between 0 and 1. The closer the coefficient is to 1, the greater the level of trade in similar industries, a high level being generally associated with a more technologically sophisticated trading pattern.

Bilateral trade flows with Asian countries are largely made up of inter-industry trade, with Latin America primarily exporting raw materials and importing manufactures. This situation is a cause for concern, particularly since China and the rest of Asia are becoming an increasingly important market for the region's exports. So far, the region has been benefiting from the dynamism of these markets by drawing upon its traditional, static comparative advantages. The challenge is to prevent the flourishing trade between the two regions from reproducing and entrenching a centre-periphery trade pattern in which China emerges as a new centre and the countries of the Latin America and Caribbean region as a new periphery (ECLAC, 2010b). What is needed, then, is to move towards trade relations that are more in keeping with the economic and social development patterns that this region needs.

7. Intraregional trade during the past decade[13]

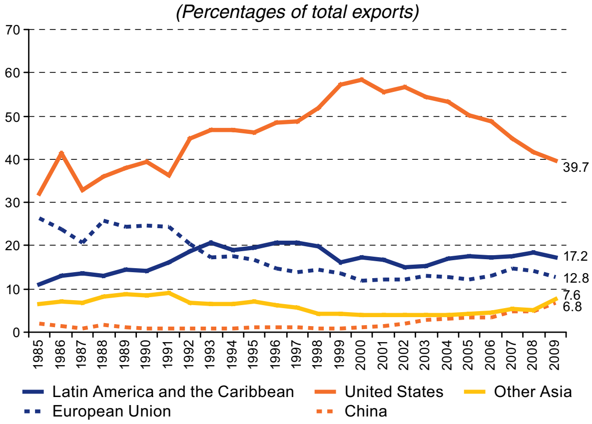
The levels of intraregional trade flows (measured by exports) in Latin America and the Caribbean have fluctuated between 12% and 20% of total trade over the past 25 years, with the figure for the late 2000s being 18% (see figure II.16). Traditionally, the United States has been the region's principal trading partner. At the end of the 1990s it was buying nearly 60% of the region's total exports, but this percentage has been declining, and by 2009 the United States' share had shrunk to 40%. Along similar lines, the European Union's share slipped from over 20% in the late 1980s to 13% in 2009. In contrast, China's share, which was less than 1% in the early 1990s, has climbed steadily during the 2000s and now stands at nearly 7%.

Despite the international and regional financial shocks experienced by the region between 1990 and 2009, export flows to markets within the region grew more than flows to outside markets as a whole (see table II.13).[14] This pattern is seen to a greater or lesser extent in the region's exports to all the various groups and to Chile and Mexico. This long-standing trend was interrupted in 2009, however, when a procyclical trend re-emerged, and intraregional trade fell off steeply in the aftermath of the international crisis, plunging by nearly 28%—five percentage points more than the drop in exports to the rest of the world. The evident conclusion is that the intraregional market's potential effectiveness in cushioning extraregional demand shocks was not adequately exploited during the crisis.

Figure II.16

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TOTAL EXPORTS BY MAJOR DESTINATION, 1985-2009

(Percentages of total exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

Table II.13

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF WORLDWIDE EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN, BY SUBREGION AND COUNTRY, 1990-2000, 2000-2008 AND 2009/2008

(Average annual growth rates by value)

Subregion/country	1990-2000	2000-2008	2009/2008
Andean countries	12.4	19.3	-20.1
Southern Common Market (MERCOSUR)	14.0	12.9	-26.6
Central American Common Market (CACM)	12.3	14.5	-23.4
Caribbean Community (CARICOM)w	10.1	18.2	-22.2
Chile	13.2	15.6	-32.2
Mexico	12.3	13.8	-31.5
Latin America and the Caribbean	14.4	15.2	-27.9
Rest of world	7.9	11.7	-21.7
World	9.2	12.4	-22.8

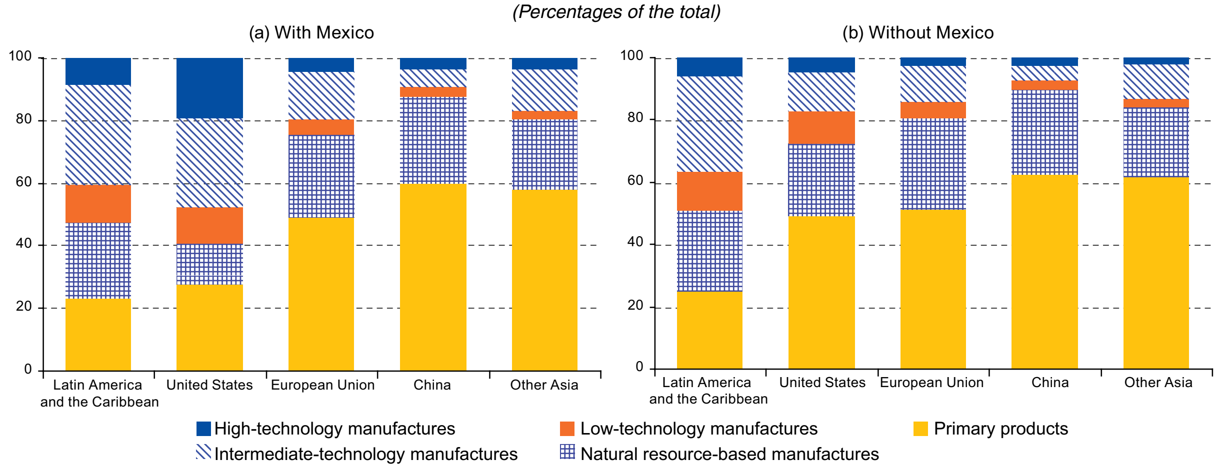
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

[13] This section is based on Durán Lima and Lo Turco (2010).

[14] In the 1990s, the region underwent two severe financial crises: the Mexican crisis of 1995 and the 1998 Asian crisis. In 2001, trade in information technology products plummeted and world import demand slumped. In addition, fallout from the Asian crisis and sluggish international demand triggered two financial crises within the Andean Community and MERCOSUR following bank failures in Ecuador and the Bolivarian Republic of Venezuela, in the first case, and the end of the convertibility regime in Argentina, in the second.

An examination of the composition of exports to the region's main markets shows that intraregional trade contains a larger share of manufactures and is more diversified.[15] Practically 80% of the total is accounted for by manufactures, primarily natural resource-based and intermediate- and low-technology products. By contrast, exports to the European Union, China and the rest of Asia display a more concentrated trade pattern. Primary products represent over 55% of total exports to these markets, on average, followed by natural resource-based manufactures such as processed ore (copper, iron and others) and, to a lesser extent, agroindustrial products such as foodstuffs, beverages and tobacco (see figure II.17).[16] The United States is the only trading partner outside the region for which the proportion of manufactures is similar to the proportion seen in intraregional trade. This is largely a reflection of the composition of Mexico's exports; if they are factored out, then the share of the total represented by manufactures falls to 50%.

Figure II.17
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF EXPORTS TO MAJOR DESTINATION MARKETS BY TECHNOLOGY INTENSITY, 2005-2008
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

Much as was found when exports to markets within and outside the region were compared, the figures for exports within each integration scheme reveal a much higher percentage of manufactures than is the case with exports to other markets. Manufactures make up 82% of total trade flows within each of the four subregional integration schemes, but natural resources account for a larger share of exports to other subregions. This is particularly true in the cases of the Andean Community and MERCOSUR (see figure II.18a).

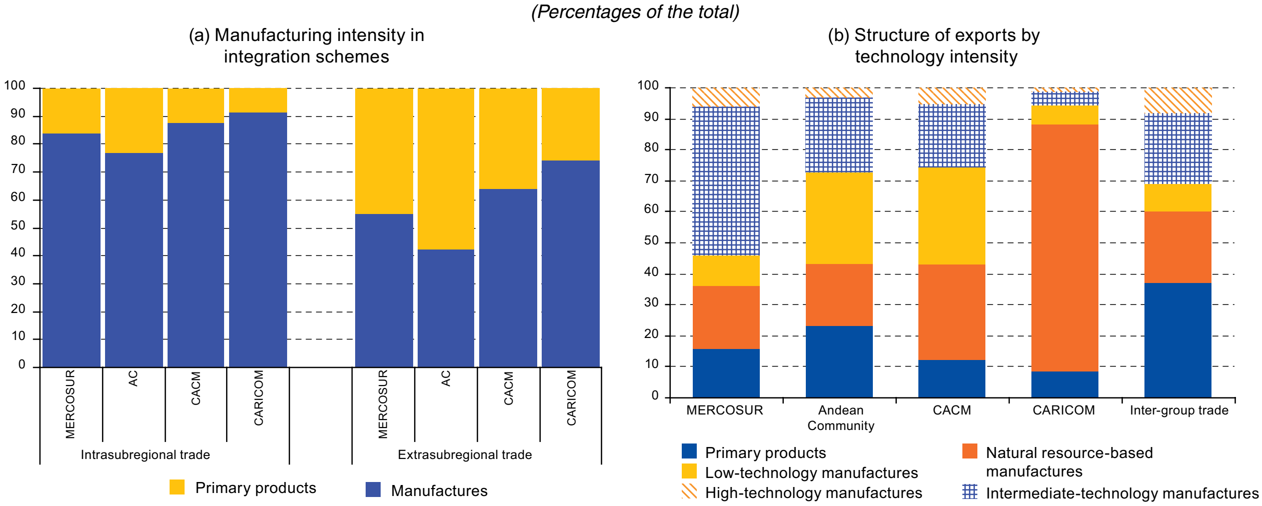
Trade in manufactures within the different integration schemes involves a significant percentage of products with a greater technology content (especially intermediate and low technologies), as well as natural-resource-based manufactures, the latter being particularly important in the case of CARICOM (see figure II.18b). Products figuring prominently in intraregional trade flows include prepared foods, items used in the chemical and pharmaceutical industries, plastics, white goods (stoves, washing machines, heaters, etc.), motor vehicles and textiles. All these categories of goods are mainly produced by medium-sized and small firms, together with a limited number of highly internationalized enterprises operating on a region-wide scale (ECLAC, 2010c).

The growth rates for exports of manufactures from the various subregional integration schemes to the Latin American and Caribbean countries in 2000-2008 outstripped the rates for those subregional schemes' total exports of manufactures to the world as a whole in every case (see table II.14). Only the growth rates for Latin America's exports of manufactures to Asia and China were higher. This is a reflection of the fact that China and the rest of Asia have become important markets for Mexico's and Costa Rica's exports of electronics and spare parts.

[15] Using Lall's classification (2000), manufactured products are defined as those involving some degree of processing, which differentiates them from basic commodity exports. Thus, for example, they include processed copper, petroleum-based oils and agroindustrial products.

[16] Although the composition of exports to China, the rest of Asia and the European Union is clearly concentrated in commodities and natural resource-based manufactures, there are some exceptions. For example, a larger proportion of Costa Rica's and Mexico's exports to China are made up of high-, intermediate- and low-technology manufactures.

Figure II.18
INTEGRATION SCHEMES IN LATIN AMERICA AND THE CARIBBEAN: THE STRUCTURE OF INTRASUBREGIONAL EXPORTS, 2009
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

Table II.14
LATIN AMERICA AND THE CARIBBEAN: MANUFACTURING EXPORT GROWTH RATES, 2000-2008
(Average annual growth rates)

Origin / Destination	Andean Community	Southern Common Market (MERCOSUR)	Central American Common Market (CACM)	Caribbean Community (CARICOM)	Rest of Latin America and the Caribbean	Latin America and the Caribbean
Andean countries	15.0	21.5	14.8	12.6	20.9	18.7
Southern Common Market (MERCOSUR)	4.7	12.8	23.0	15.6	18.3	13.2
Central American Common Market (CACM)	5.4	19.9	11.7	-0.5	14.9	12.1
Caribbean Community (CARICOM)	3.2	20.5	13.2	15.1	25.2	15.4
Chile	11.3	13.5	31.0	-0.7	12.9	13.2
Mexico	7.6	13.5	16.0	14.4	12.4	13.1
Latin America and the Caribbean	10.9	14.6	13.0	14.0	17.6	14.4
United States	-0.2	7.3	12.3	14.8	5.0	5.3
European Union (27 countries)	14.5	13.7	5.8	8.4	15.6	13.5
Asia	13.8	19.1	19.1	17.7	20.0	18.9
China	34.8	32.4	62.1	35.5	30.7	32.2
World	7.0	13.9	12.7	14.1	7.4	9.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

The average annual growth rate for intraregional exports of manufactures was 14.1% in the 1990s and 14.4% in 2000-2008. The annual growth rates for commodity exports were 8.3% in the 1990s and 14.1% in the 2000s. An analysis of the data indicates that, in addition to representing a larger share of the total, intraregional exports of manufactures have been very dynamic and did not slacken during the 2003-2008 boom in commodity markets.

In order to gain a fuller understanding of the nature and importance of intraregional trade, an attempt was made to identify the pairs of countries and subregions between which intraregional trade flows have been strongest in the late 2000s. This analysis confirmed that the bulk of intraregional trade takes place within integration schemes: 24% of all intraregional trade in Latin America and the Caribbean occurs among the countries that belong to MERCOSUR, and another 10% takes place among the Andean countries;[17] 64% of all intraregional trade occurs within South America, and 8% within Central America and the Caribbean. These types of flows will be referred to as "intrasubregional trade" (see table II.15).

[17] The member countries of the Andean Community plus the Bolivarian Republic of Venezuela are classified as "Andean countries".

Table II.15
LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF INTRAREGIONAL TRADE, 2008
(Percentages of total intraregional exports)

Destination Subregion/country / Origin Subregion/country	South America			Mexico, Central America and the Caribbean				Latin America and the Caribbean
	Andean countries	Southern Common Market (MERCOSUR)	Chile	Mexico	Central American Common Market	Caribbean Community (CARICOM)	Rest of Latin America and the Caribbean	
Andean countries	10.4	4.5	3.3	0.8	1.0	0.8	1.6	22.4
Southern Common Market (MERCOSUR)	10.0	24.1	5.8	3.4	0.9	2.8	1.1	48.0
Chile	2.6	3.2		1.3	0.4	0.0	0.3	7.8
Mexico	4.2	2.9	0.9		2.3	0.2	1.2	11.7
Central American Common Market (CACM)	0.2	0.1	0.1	0.6	3.7	0.2	0.7	5.5
Caribbean Community (CARICOM)	0.2	0.1	0.0	0.4	0.2	2.1	0.9	3.8
Rest of Latin America and the Caribbean	0.3	0.0	0.0	0.0	0.1	0.2	0.1	0.8
Latin America and the Caribbean	27.8	34.9	10.1	6.4	8.6	6.3	5.9	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

Trade flows between different subregions ("intersubregional trade") are strongest between the Andean Community and MERCOSUR. This type of trade is also greater from South to North, as the South American integration schemes export more to Central America and the Caribbean than the reverse, owing to the South American countries' larger production scales and the more inward-looking nature of intrasubregional trade among the Central American and Caribbean countries, as will be discussed in a later section.

As measured by the value of exports, Mexico has closer trade ties with the countries of South America and the Central American Common Market (CACM) than with the member countries of CARICOM, Cuba, the Dominican Republic and Panama. The exports of South American integration schemes to Mexico are also significant, although Latin America is the destination market for no more than 4% of Mexico's exports.

In order to take the analysis of intra-industry trade presented in the preceding section to a deeper level, the Grubel-Lloyd Index coefficients were calculated for trade between each pair of countries in the region based on trade statistics for 2008. The highest-density intra-industry trade flows were found to be those occurring between El Salvador and Guatemala and between Costa Rica and Guatemala. These flows could already be classified as intra-industry trade (with a GLI coefficient of over 0.33) as far back as 1990, and the data for 2008 point to a considerable increase that has raised their coefficients to over 0.5 in both cases. The highest GLI coefficient for 2008 (0.56), and the one that rose the most during the period in question, corresponds to Argentina and Brazil. Other bilateral trade flows that qualify as intra-industry flows for 2008 are those between El Salvador and Costa Rica, Mexico and Brazil, and Ecuador and Colombia. These countries are promising candidates for the establishment of regional or subregional value chains, and public policymakers should explore and help develop that potential.

The country pairs with the second-highest intra-industry trade potential, based on data for 2008 (GLI coefficients of between 0.10 and 0.32) include Mexico and Argentina, Colombia and Peru, and Argentina and Uruguay. Although somewhat lower, the coefficients for Brazil and Uruguay, Colombia and Costa Rica, and Ecuador and Costa Rica are also noteworthy (see table II.16). Finally, some countries' bilateral trade relations with countries in the same subregion are clearly of an intra-industry nature. This is true of the Plurinational State of Bolivia, Nicaragua, Panama and the Bolivarian Republic of Venezuela.

Table II.16
LATIN AMERICA: INTRA-INDUSTRY TRADE RELATIONS, 2008
(Grubel-Lloyd Index)

Country \ Partner	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Costa Rica	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Paraguay	Peru	Dominican Republic	Uruguay
Bolivia (Plurinational State of)	0.05															
Brazil	0.56	0.01														
Chile	0.19	0.06	0.09													
Colombia	0.09	0.01	0.14	0.18												
Costa Rica	0.13	0.00	0.17	0.12	0.23											
Ecuador	0.03	0.02	0.05	0.07	0.36	0.22										
El Salvador	0.00	0.05	0.00	0.02	0.03	0.43	0.00									
Guatemala	0.01	0.01	0.03	0.02	0.05	0.50	0.02	0.52								
Mexico	0.30	0.02	0.38	0.16	0.16	0.12	0.05	0.09	0.14							
Nicaragua	0.00	0.00	0.00	0.04	0.01	0.16	0.00	0.12	0.10	0.01						
Panama	0.00	0.00	0.00	0.06	0.02	0.15	0.01	0.08	0.03	0.12	0.01					
Paraguay	0.10	0.06	0.12	0.03	0.04	0.06	0.01	0.01	0.00	0.00	0.04	0.00				
Peru	0.08	0.13	0.03	0.20	0.29	0.13	0.08	0.02	0.02	0.06	0.00	0.02	0.14			
Dominican Republic	0.01	0.02	0.03	0.17	0.01	0.05	0.09	0.13	0.08	0.11	0.02	0.02	0.00	0.02		
Uruguay	0.25	0.03	0.23	0.19	0.20	0.05	0.01	0.00	0.00	0.03	0.05	0.00	0.02	0.14	0.07	
Venezuela (Bolivarian Republic of)	0.02	0.00	0.01	0.02	0.10	0.05	0.08	0.02	0.08	0.01	0.03	0.00	0.05	0.00	0.05	0.05

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

E. Conclusions

This preliminary overview of the region's export performance in the 2000s suggests that, against a backdrop of mounting challenges in terms of innovation and competitiveness, the region has not succeeded in making significant headway towards greater integration into world trade flows. On the one hand, the South American countries have, in the aggregate, turned in a stronger export performance, but this showing is closely associated with exogenous factors, such as stronger world demand for raw materials and the resulting price rises. On the other hand, Mexico and Central America, whose exports include a larger share of manufactures, have turned in a weaker performance in the aggregate as a consequence, in large part, of greater competition from China in their principal market (the United States), especially for products that are intensive in unskilled labour.

The expansion of natural resource-related sectors has not been a significant contributing factor for technological capacity-building in the region (ECLAC, 2010a; Pérez, 2010). Although higher rates of return and even productivity gains have been seen in these sectors, the absence of proactive policies to enhance productivity has resulted in widening productivity gaps between the countries of the region and those on the leading edge, especially the United States. The region's trade relations with Asia thus offer both opportunities and challenges. One major challenge is to prevent the growing trade between the two regions from reproducing and entrenching a centre-periphery trade pattern in which Asia (particularly China) emerges as a new centre and the countries of the Latin America and Caribbean region as a new periphery. What is needed, then, is progress towards trade relations that are more in keeping with the economic and social development patterns this region needs.

There is thus a pressing need to promote higher levels of innovation and endogenous development of technological capabilities, both in natural resource-related sectors and in manufacturing and services. Production activities and trade flows linked to natural resource-intensive comparative advantages need not necessarily hinder the region's efforts to position itself more advantageously in the international economy, but can instead complement the Latin American and Caribbean countries' development strategies. The hypersegmentation of global markets, on the one hand, and the acceleration of technological developments in areas such as the life sciences and cognitive sciences, on the other, offer a variety of opportunities to decommodify the raw materials that the region exports by means of stronger differentiation and the incorporation of value added and know-how (Rosales, 2009; Pérez, 2010). This, in turn, requires the development of specialized services that allow more value to be generated and captured up and down the product value chain (product design, advertising, improved input management, logistics, transport, engineering and consultancy services, and insurance and finance, among others) (Kuwayama and Durán Lima, 2003). This offers a way of enhancing forward and backward linkages by strengthening the ties between direct exporters and the rest of the economy, especially SMEs, which are the main source of job creation in the region.

The ultimate aim, then, should be to work towards a systemic form of competitiveness, and public policy has an essential role to play in this. In order to be successful, such an effort will require the coordination of a wide range of policies, including policies to increase the competitiveness of SMEs by means of programmes for improving quality certification systems and enforcing technical and sanitary standards, as well as training programmes. All these components are needed in order to foster a greater presence for SMEs in export flows, clusters and international value chains.

Actions to further the development of intraregional trade are also desirable in view of the positive features of these trade flows, which include greater manufacturing intensity and a greater presence of SMEs, which are key drivers of high-quality job creation and social cohesion. Furthermore, intraregional markets can cushion demand shocks originating outside the region if improved financing mechanisms for this type of trade are made available. This is the intention of traditional organizations such as the Inter-American Development Bank (IDB), the Andean Development Corporation, the Latin American Export Bank (BLADEX) and the Latin American Reserve Fund (FLAR), and the Bank of the South may also be able to contribute to this effort. The available data indicate that the potential offered by intraregional trade was not sufficiently exploited during the recent crisis.

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Annex

Table II.A-1
MAIN TRADE-AFFECTING MEASURES INTRODUCED BY COUNTRIES AND INTEGRATION SYSTEMS IN LATIN AMERICA AND THE CARIBBEAN FROM JULY 2009 TO JUNE 2010

Country/system	Type of measure
	South America
Argentina	Announcement of unspecified restrictions from 1 June 2010 on imports of food produced outside Argentina.
	Introduction of non-automatic import licensing for products such as textiles, car parts, electrical equipment and machinery, vehicles, clothing, chemicals and paper.
	Introduction of "reference values" for imports of products such as fungicides, electromechanical domestic appliances, electric lighters and compact discs from particular countries.
	Application of provisional anti-dumping duties to: • Footwear from China • Certain fabrics from Brazil and China • Recordable compact discs from Paraguay • Manual cooker lighters from China
	Application of definitive anti-dumping duties to: • Air conditioners from Thailand • Flat cold-rolled iron or steel products from South Africa, the Republic of Korea, Ukraine and Kazakhstan (renewal of duties applied in January 2003) • Bicycle tyres from China, Indonesia and Thailand (renewal of duties applied in March 2003) • Agglomerated fibreglass products from New Zealand (renewal of duties applied in March 2003) • Crockery, tableware sets and tea and coffee services from China • Acrylic yarn from Indonesia and Brazil • Stainless steel cutlery from Brazil and China • Chains and zips from Peru and China • Piping accessories from China • Drive chains from China • Flat rolled iron or steel products from Australia, the Republic of Korea, South Africa and Taiwan Province of China (renewal of measure applied in May 2003) • Pumping equipment for oil extraction from China and Romania • Organic colourings from China and India • Refrigeration pumps from China • Footwear from China • Polyester fibres from China, India and Taiwan Province of China
	Initiation of anti-dumping investigations into: • Manual cooker lighters from China • Printing inks from Brazil • Insulation displacement connectors from India • Hypodermic syringes from China • Process-gas screw compressor units from Brazil • Centrifugal electric pumps from China • Chlorodifluoromethane from China • Electrical room and floor heating appliances from China • Motorcycle starting devices from China • Steel tubes for oil and gas from China • Electric fans from China • Tyres from China • Polypropylene yarn from Brazil • Suits, matched clothing and jackets from China • Air conditioners from the Republic of Korea, Malaysia, Thailand and Viet Nam • Manual saw blades from China
	Suspension of a mutual recognition agreement on toy safety with Brazil (November 2009).
	Establishment of reference values for exports of fruit, dairy products, honey and copper products (February 2010).
	Reduction of tariffs from 35% to 2% for up to 200 hybrid automobile units from outside MERCOSUR (March 2010).

Table II.A-1 (continued)

Country/system	Type of measure
	South America
Brazil	Increase in tariffs (from 2% to 14%) for industrial fatty alcohols. Creation of new tariff lines, in some cases resulting in lowered tariffs for products such as cod (from 10% to 0%) and electrical equipment (from 18% to 0%) from 1 January 2010. Creation of new tariff lines, in some cases resulting in higher tariffs for products such as heat-resistant bricks, valves for oleohydraulic or pneumatic transmissions and electric razor parts. Various tariff reductions (from a range of 12% to 14% to one of 0% to 2%) for capital goods and information technology and telecommunications products in December 2009, March 2010 and April 2010. Introduction of a 10,000 ton quota for powdered milk imports from Uruguay in the period from September to December 2009. Application of definitive anti-dumping duties to: • Automobile tyres from China • Disposable syringes from China • Graphite electrodes from China • Viscose yarn from Austria, China, India, Indonesia, Thailand and Taiwan Province of China • Magnesium metal from China (renewal of measure imposed in October 2004) • Footwear from China Initiation of anti-dumping investigations into: • Polypropylene resins from the United States and India • Glass jars from India • Glass tableware from Argentina, China and Indonesia • Viscose mesh from China • Hand tools from China • Coarse salt from Chile • Paper from France, Hungary and Italy • Styrene-butadiene rubber from the Republic of Korea Reduction in ethanol tariff from 20% to 0% until 31 December 2011 (adopted in April 2010). Announcement in May 2010 of measures to enhance export competitiveness. They include, among others, (i) fiscal benefits for mainly export-oriented firms; (ii) the creation of Exim Brasil, a subsidiary of the National Bank for Economic and Social Development (BNDES) specializing in external trade; (iii) creation of a foreign trade guarantee fund; and (iv) a system of preferences for locally sourced goods and services in public procurement processes.
Colombia	Initiation of anti-dumping investigation into casings and tubing from China. Conclusion of dumping investigation into imports of blenders from China (provisional duties reimbursed). Restrictions on rice imports from Peru.
Chile	Start of safeguard investigation into powdered milk and Gouda cheese in September 2009. Provisional duties were applied in October 2009, ending in January 2010. Start of dumping investigations into: Wheat flour from Argentina (December 2009) Melamine resin panels from Austria (March 2010)
Ecuador	Gradual dismantling of balance-of-payments safeguard adopted in January 2009. The abolition of tariff surcharges is being carried out to the following timetable: 10% from 23 January 2010, a further 30% from 23 March 2010, a further 30% from 23 May 2010 and the final 30% from 23 July 2010. Imposition in August 2009 of a foreign-exchange safeguard consisting in the application of the Ecuadorian national tariff to 1,346 products from Colombia. This measure was lifted in February 2010. Introduction in May 2010 of mixed tariffs on imports of footwear (6 dollars a pair plus 10%) and of textile products and wearing apparel (5.5 dollars per net kilo plus 10%). Reduction to 0% for six months of the import tariff on machinery and equipment for the sugar industry (from May 2010).
MERCOSUR	In December 2009, MERCOSUR temporarily increased its common external tariff for 11 tariff lines covering dairy products (from 14% and 16% to 28%), 157 tariff lines covering yarns and fabrics (from 14% and 16% to 18%) and 3 tariff lines covering leather articles (from 20% to 35%). The tariff increases for dairy products are provisional, effective until 31 December 2011.

Table II.A-1 (continued)

Country/system	Type of measure
	South America
Paraguay	Introduction of reference prices for imports of textile products (August 2009).
Peru	Initiation of anti-dumping investigations into: • Biodiesel from the United States (ending March 2010) • Zips from Taiwan Province of China • Polyester/rayon cloth from India
	Start of countervailing duty investigation into olive oil from Spain, France, Greece, Italy and Portugal.
	End of safeguard investigation into imports of cotton yarn (no measures were applied).
Venezuela (Bolivarian Republic of)	Cancellation of the import quotas for vehicles from Colombia.
	Establishment of an import quota (up to 10,000 units) for vehicles from Argentina.
	Establishment of a dual exchange-rate regime for imports from January 2010. For public-sector imports and those identified as of high priority, the applicable exchange rate is 2.6 bolívares fuertes to the dollar. For all other imports the applicable exchange rate is 4.3 bolívares fuertes to the dollar.
	Removal in November 2009 of value added tax from imports of electricity production and generation equipment and material for a period of five years. Imports require prior authorization from the Ministry of Science, Technology and Intermediate Industries stating that the imported goods are not produced locally or are not available in sufficient quantities.
	Import ban from November 2009 on certain new air conditioning appliances with high electricity consumption, and on used air conditioners and refrigerators.
	Lifting from May 2010 of the import ban on parts and components for passenger vehicle assembly under the imported assembly material for vehicles (MEIV) regime. Imports require prior authorization from the Ministries of Planning, Finance, and Science, Technology and Intermediate Industries.
	Central America and Mexico
Costa Rica	Initiation of anti-dumping investigations into tinned tuna from Brazil and El Salvador.
Guatemala	Introduction of sanitary restrictions on imports of meat and milk from Nicaragua in January 2010. These restrictions were due to be lifted in June 2010.
Mexico	Introduction of sugar import quotas.
	Abolition of anti-dumping duties on imports of polyvinyl chloride from the United States.
	End of anti-dumping investigation into imports of malathion from Denmark. No anti-dumping duties were applied; the existing price agreement with the Danish exporter of the product was terminated.
	Start of anti-dumping investigation into: Seamless steel tubes from China Denim cloth from China
	Application of definitive anti-dumping duties to steel chains from China (renewal of measure imposed in July 2003).
	Second stage (from 1 January 2010) in the five-year reduction of the general (most-favoured-nation) tariff applied to 97% of manufactured products from 1 January 2009. In consequence, the average tariff applied to manufactured products was cut from 10.6% in 2008 to 5.2% from 1 January 2010.
	Introduction of the “Base Cero” programme of regulation designed to reduce or eliminate unnecessary procedures in external trade operations and facilitate customs formalities (June 2010)

Table II.A-1 (concluded)

Country/system	Type of measure
	The Caribbean
Jamaica	Start of anti-dumping investigation into Portland cement from the United States (November 2009).
	Start of a safeguard investigation into imports of toilet paper in January 2010. A previous investigation into the same product that began in October 2009 ended in November the same year without any measures being taken.
Dominican Republic	Application of provisional safeguards to imports of tubular fabric and polypropylene sacks.
	Start of safeguard investigation into imports of socks and stockings (March 2010). Provisional duties were applied in May 2010.
	Start of a safeguard investigation into imports of washbasins, bathtubs, china sanitary ware and the like from China (April 2010).
Trinidad and Tobago	Increase in tariffs on alcoholic beverages (15 to 30 percentage points) and on cigars and cigarettes (30 percentage points) in September 2009.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Overview of Developments in the International Trading Environment. Annual Report by the Director-General" (WT/TPR/OV/12), Geneva, 2009; "Report to the Trade Policy Review Body from the Director-General on Trade-related Developments" (WT/TPR/OV/W/3), Geneva 2010; OECD/WTO/UNCTAD, *Report on G20 Trade and Investment Measures (September 2009 to February 2010)*, 2010; European Commission, *Sixth Report on Potentially Trade Restrictive Measures*, Directorate-General for Trade, May 2010; Centre for Economic Policy Research, "Global Trade Alert" [online] http://www.globaltradealert.org/ [date of reference: 19 July 2010]; Chad Bown, "Global Antidumping Database" [online] http://econ.worldbank.org/ttbd/gad/ [date of reference: 15 July 2010]; Cliff Stevenson, "Antidumpingpublishing.com" [online] http://www.antidumpingpublishing.com/ [date of reference: 19 July 2010]; and Ministry of Development, Industry and Foreign Trade of Brazil, "Governo lança medidas para aumentar competitividade das exportações" [online] http://www.desenvolvimento.gov.br/sitio/interna/noticia.php?area=5&noticia=9798 [date of reference: 19 July 2010].

Chapter III

The trade dimension of regional integration

A. Introduction

The state of trade integration initiatives in Latin America and the Caribbean varies significantly from one subregion to another and between different integration schemes. In particular, the region's most ambitious trade integration initiatives have been seriously affected by divergent views on the issue —as evidenced, for example, by the abandonment of the project to establish a South American free trade area, conceived in 2005 under the then South American Community of Nations (SACN). Similarly, negotiations on setting up a free trade area under the Latin American Integration Association (LAIA) have made little progress since they began in 2004.

The Bolivarian Alliance for the Peoples of Our America (ALBA) has been the most outspoken critic regarding the benefits of trade liberalization for the region. ALBA and its associated initiative known as the Peoples' Trade Agreement were both established in 2004 in direct opposition to the Free Trade Area of the Americas (FTAA) project, now also discontinued.

This chapter will review recent trade developments (particularly in the past 12 months) within the main subregional integration schemes in Latin America: the Southern Common Market (MERCOSUR), the Andean Community and the Central American Common Market (CACM).[1] It will also examine progress on more recent initiatives such as the Latin American Pacific Basin Initiative and the Community of Latin American and Caribbean States, as well as recent efforts to strengthen trade ties between countries in the region belonging to different integration schemes. There follows a brief analysis of the status of regional cooperation on physical infrastructure, given its importance for integration, not least in the area of trade. Lastly, this chapter examines the main milestones since the second half of 2009 as regards trade negotiations conducted by Latin American countries and integration schemes with partners outside the region.

[1] The situation in the Caribbean subregion will be addressed in chapter IV.

B. Recent developments in the different subregional schemes

1. MERCOSUR

For the most part, MERCOSUR has shown positive developments in the past 12 months. At its summit held in San Juan, Argentina, on 2 and 3 August 2010, agreements were reached on a number of measures to improve the customs union, including the gradual elimination of double charging of the common external tariff from 2012, the adoption of a mechanism for distributing customs revenue and the adoption of a common customs code. These three issues had been the subject of intensive negotiations in MERCOSUR since 2004.

In addition, in December 2008 MERCOSUR adopted a Plan of Action to Further the Programme for the Liberalization of Trade in Services. This plan of action has a four-stage timeline, the target being to complete the liberalization programme in 2015, as provided under the 1997 Montevideo Protocol on Trade in Services (see table III.1). To date, the members of MERCOSUR have exchanged views on the current situation and the process is still at the first stage.

In accordance with the provisions of the Montevideo Protocol, the seventh round of negotiations on specific services-related commitments was completed in December 2009 with the adoption of the States parties' schedules of specific commitments. The schedules include commitments negotiated previously and their amendments. The six previous rounds of negotiations led to the consolidation of the existing restrictions, but did not bring about a significant liberalization of the market within the free trade zone (ECLAC, 2008).

Table III.1

MERCOSUR: PLAN OF ACTION TO FURTHER THE PROGRAMME FOR THE LIBERALIZATION OF TRADE IN SERVICES

Year	Tasks
2009 [a]	Analyse the current situation in order to define least sensitive sectors (whose liberalization would not pose serious problems), as well as those of intermediate and high sensitivity, and those whose regulatory frameworks could be harmonized or complemented.
2010	Consolidate the regulatory status quo of sectors where no commitments yet exist. Eliminate restrictions on market access and national treatment in the least sensitive sectors. Take steps to harmonize or complement regulatory frameworks in sectors where this is deemed necessary. Identify mechanisms to boost the share of less developed operators in the regional services market.
2012	Eliminate restrictions on market access and national treatment in sectors of intermediate sensitivity. Take steps to harmonize or complement regulatory frameworks in sectors where it is deemed necessary. Identify domestic regulatory measures that could constitute bureaucratic barriers to intra-zone trade, with a view to their elimination. Consider deepening MERCOSUR disciplines on domestic regulation.
2014	Eliminate restrictions on market access and national treatment in the most sensitive sectors. Finalize the process of harmonizing or complementing regulatory frameworks. Conclude the deepening of MERCOSUR disciplines on domestic regulation. Eliminate domestic regulatory measures that have been identified as bureaucratic obstacles to intra-zone trade.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on MERCOSUR Decision No. 49/08, 15 December 2008.
[a] First semester.

A third positive development was the creation in December 2008 of the MERCOSUR Guarantee Fund for Micro, Small and Medium-sized Enterprises, which aims to guarantee, directly or indirectly, the loans taken out by micro, small and medium-sized enterprises involved in productive integration activities in MERCOSUR. Member States will make an initial contribution of US$ 100 million (Argentina will contribute 27%, Brazil 70%, Paraguay 1% and Uruguay 2%). This new fund adds to the coverage provided by the MERCOSUR Structural Convergence Fund (FOCEM), which has been in operation since 2007 and, as at 30 June 2009, had 25 projects approved for a total of US$ 198 million (INTAL, 2009).[2]

[2] At the MERCOSUR summit held in August 2010, nine more projects totalling close to US$ 800 million were approved, in areas such as energy and physical integration, sanitation works and productive integration.

As in the case of FOCEM, under the MERCOSUR Guarantee Fund for Micro, Small and Medium-sized Enterprises (which has been established for 10 years, with the possibility of extension subject to effectiveness), fund distribution is inversely proportional to contributions made, which helps not only to promote the integration of production chains in the MERCOSUR economies, but also to reduce gradually the marked asymmetries between them. In the same vein, a decision of July 2009 grants national treatment to enterprises from or headquartered in any MERCOSUR country in contracts awarded in the framework of FOCEM-financed projects.

Another recent initiative with great potential is the local-currency payment system introduced for bilateral trade. The system is expected to lower the transaction costs associated with using the dollar as an intermediary currency, thereby boosting the share of smaller enterprises in trade between MERCOSUR countries (see chapter II). To date, this scheme has been applied only to trade between Argentina and Brazil, with as yet modest results, but it is being used increasingly. In July 2009, the scope of the local-currency payment system was extended to all transactions among MERCOSUR States.

At the institutional level, in December 2009 a significant step was taken towards the accession of the Bolivarian Republic of Venezuela to MERCOSUR when the Brazilian Congress approved the country's full membership, which now remains to be approved only by the Congress of Paraguay.

With regard to trade negotiations with extraregional partners, the most significant development in the past year for MERCOSUR is certainly the resumption, announced in May 2010 and brought to fruition one month later, of talks for an association agreement with the European Union, which had been suspended since 2004 (see section D). Between December 2009 and March 2010, the free trade agreement (FTA) signed in December 2007 between MERCOSUR and Israel came into force in Brazil, Paraguay and Uruguay. This is the first time that MERCOSUR has entered into an FTA with a partner from outside the region. An FTA was also signed with Egypt during the San Juan Summit in August 2010.[3]

One significant pending challenge for MERCOSUR is to expedite progress towards the elimination of non-tariff barriers to intra-zone trade including, especially, non-automatic import licensing.[4] Progress in the recently resumed negotiations with the European Union could help to catalyse this process.

Another challenge is to make greater use of the mechanisms provided by MERCOSUR for the settlement of trade disputes between its members. In these cases, members tend to take unilateral action and discuss it only afterwards with the partner involved (INTAL, 2010). The bilateral trade frictions between Argentina and Brazil mentioned in chapter II are an example of this. A third challenge is to incorporate the regulations issued by the MERCOSUR decision-making bodies more fully into the regulatory framework of the member States. It is estimated that over 50% of these regulations have not been incorporated (INTAL, 2009).

2. Andean Community

The period since 2006 has been a complex one for the Andean Community, marked as it was by the withdrawal of the Bolivarian Republic of Venezuela, frictions between member States over the negotiation of trade agreements with the United States and the European Union (see section D), and recent political tensions which have sometimes spilled into the trade domain. Also during this period, the different views of individual member States of the Andean Community on the nature of integration and the role of trade in development have become clearer. Taking into account the added effects of the recent crisis, it has not been a good time to progress from the existing zone of free trade in

3 MERCOSUR has preferential agreements with India (signed in 2004 and in force since June 2009) and with the Southern African Customs Union (signed in 2008, currently at the ratification stage). These agreements have a more limited scope than a free trade agreement, both because they cover fewer products and because they involve reciprocal preferential tariffs, but not the total elimination of bilateral trade tariffs.

4 A 1999 arbitral award concluded that non-automatic import licences are compatible with the MERCOSUR regulatory system only when the measures adopted meet the conditions or serve the purposes established in article 50 of the Montevideo Treaty of 1980, including the protection of public morality, security, human, animal and plant life and health, and national treasures of artistic, historical or archaeological value (see [online] http://www.sice.oas.org/dispute/mercosur/laudoI_s.asp).

goods and services towards a more advanced level of trade integration.[5] In particular, the Andean Community has been moving gradually away from the customs union format: member States have been exempted temporarily (since 2007) from applying the common external tariff (CET) and some member States have been negotiating individual trade agreements with third countries (LAIA, 2010).

Despite this, the members of the Andean Community have been extending their cooperation and integration in a range of areas. Progress has been made in incorporating social, political, production and environmental elements into the integration process, in line with the concept of comprehensive integration. These efforts are evident in the 12 areas of the strategic agenda adopted in February 2010 by the ministers of foreign affairs and trade of the Andean Community countries. Underpinning the agenda is a recognition of member States' diverse approaches and points of view; on that basis, it seeks to preserve the achievements made over the four decades of the Community's existence and to advance pragmatically in new areas on which there is consensus, such as economic complementarity and trade integration (see box III.1).

Box III.1

THE 2010 STRATEGIC AGENDA OF THE ANDEAN COMMUNITY

On 5 February 2010, the ministers of foreign affairs and trade of the Andean Community adopted a document entitled "Guiding principles and Andean strategic agenda", which will steer Andean integration in the coming years. The guiding principles are:

- Approach the potential and limitations of the Andean integration process with realism and as an historic opportunity.
- Preserve the common Andean heritage by consolidating the achievements made during 40 years of integration.
- Respect the diverse approaches and points of view that constitute the foundation of Community coexistence.
- Promote the development of the Andean market and trade by developing new opportunities for economic and social inclusion.
- Take steps towards reducing asymmetries in the member countries through initiatives to promote economic and social development.
- Work towards making the integration process comprehensive.
- Forge closer physical and border integration between the member countries.
- Promote consideration of the Amazon region in the Andean integration process.
- Promote citizen participation in the integration process.
- Value and embrace unity in cultural diversity.
- Promote sustainable management of biodiversity resources in the member countries.
- Strengthen the institutions of the Andean Integration System for improved coordination and efficiency.
- Strengthen regional cooperation on security issues.
- Strengthen the common foreign policy.
- Create practical mechanisms for the coordination and convergence of integration processes.

The 12 axes of the strategic agenda are as follows:

1. The participation of Andean citizens in integration
2. A common foreign policy
3. Trade integration and economic complementarity; promotion of sustainable production, trade and consumption
4. Physical integration and border development
5. Social development
6. Environment
7. Tourism
8. Security
9. Culture
10. Cooperation
11. Energy and natural-resources integration
12. Development of Andean Community institutions

The third area relating to economic complementarity and trade integration includes the following actions:

- Promote partnerships and economic complementarity with the inclusive involvement of all relevant sectors.
- Assess the common Andean regulations on investment protection and promotion.
- Assess the possibility of establishing Andean regulations on the public procurement of goods.
- Strengthen the Andean Agricultural Health System and establish an Andean Food Safety System.
- Strengthen the Andean Quality System.
- Continue the work on indicators of external, fiscal and financial vulnerability, and socio-economic indicators.

5 The liberalization of trade in services has been suspended in the Plurinational State of Bolivia since December 2006, in accordance with Decision No. 659 of the Commission of the Andean Community ("Service sectors subject to further liberalization or regulatory harmonization"). Decision No. 659 also provides that financial services and the further liberalization of the minimum percentages of nationally-produced programming on national free-to-air television will be subject to special treatment and will continue to be regulated by sectoral decisions on which, to date, the members of the Andean Community have not yet agreed (see [online] http://www.comunidadandina.org/normativa/dec/D659.htm).

Box III.1 (cocluded)

- Strengthen the macroeconomic convergence programmes and continue to share information and the work relating to the areas covered by the Andean agenda, with a view to preventing and addressing international economic crises.
- Continue working to consolidate the free movement of goods, services and persons, taking account of the domestic regulations of each member country.
- Develop an Andean strategy to identify markets, facilitate trade, boost production, and promote exports and consumption at the regional level.
- Continue to work on establishing a tariff policy for the Andean Community.
- Continue to develop a regulatory framework for the Andean Community that facilitates trade.

Source: Andean Community, "Principios orientadores y agenda estratégica andina", February 2010 [online] http://www.comunidadandina.org/documentos/actas/Agenda_Estrategica2010.pdf.

Against this background, significant efforts are under way to develop Andean technical standards, strengthen Andean agricultural health, food safety and quality systems, and facilitate trade. The Andean Council of Science and Technology met in July 2010 to define a work agenda to address challenges such as drafting a Community science and technology policy, coordinating joint actions on science and technology by Andean countries, updating the science and technology research and training programme, and creating a fund to finance projects.[6]

3. Central American Common Market (CACM)

The economic and trade integration process in Central America has been more dynamic over the past 12 months than similar processes in South America. Having, with few exceptions, achieved mutual free trade years ago, the CACM members are now working to complete their planned customs union. To this end, they are in the process of harmonizing the 4% of their tariff universe that is not yet subject to a common external tariff. Progress is continuing on the modernization of the Standard Central American Tariff Code, the development of Central American technical regulations for various products, the mutual recognition of sanitation records for food, beverages, medicines, cosmetics and toiletries, and the establishment of an integrated customs system.

The inclusion of Panama in the Central American Economic Integration Subsystem is also under way, with effective completion planned for late 2011 (see box III.2). As a precursor to the signing of the agreement on Panama's admission to the Subsystem, from March 2010 the country participated actively (having previously been an observer) in the negotiation of an association agreement between Central America and the European Union, which was concluded in May 2010 (see section C).

Closer trade relations between Panama and the rest of Central America have gone hand in hand with increasing integration in other areas. These include energy, with Panama forming part of the Electrical Interconnection System for Central America (SIEPAC), aimed at creating a common Central American market for electric power. Panama is also coordinating efforts to develop a Central American short-distance sea transport system (cabotage) (Martínez-Piva and Cordero, 2009).

The future association agreement with the European Union should boost Central American economic integration, as the Central American – Dominican Republic Free Trade Agreement (CAFTA-DR) did previously. Under the terms of its agreement with the European Union, Central America, as a subregion, made commitments in a range of areas (see box III.3), which should lead to a substantial reduction in the remaining barriers to the free movement of goods.

[6] See "Reactivan Consejo de Ciencia y Tecnología de la CAN y definen una agenda de trabajo", 2 July 2010 [online] http://www.comunidadandina.org/prensa/notas/np2-7-10a.htm.

Box III.2

ADMISSION OF PANAMA AS A NEW MEMBER STATE TO THE SECRETARIAT FOR CENTRAL AMERICAN ECONOMIC INTEGRATION

The Council of Ministers for Economic Integration (COMIECO) of Central America and the Ministry of Trade and Industry of Panama have signed a joint declaration on the inclusion of Panama as a new member State of the Secretariat for Central American Economic Integration (SIECA), and drafted an accession protocol to be signed by 31 December 2011. The protocol establishes the terms, time frames, conditions and modalities for Panama's inclusion in SIECA and the conditions for the adoption and entry into force of the protocol, which include Panama's participation in COMIECO within the framework of the relevant legal instruments.

Between the signature of the joint declaration and 31 December 2010, Panama will carry out all the preparatory technical activities required to join SIECA. These activities are set down in the Technical Cooperation Agreement between the Ministry of Trade and Industry of Panama and SIECA, and include the holding of specific thematic workshops to engage national stakeholders from the country's public and private sectors in the debate, with the participation of delegates from the other Central American countries.

The Ministry of Trade and Industry will prepare and submit to the governments of the five countries of SIECA, by April 2011, a draft protocol on Panama's incorporation into the Central American economic integration process, which will contain the terms, conditions, modalities and time frames for proceeding with the inclusion of Panama in the SIECA mechanisms. The provisions of the draft protocol will take account of the FTA between Panama and Central America, as well as its bilateral protocols.

Once the negotiations for the accession protocol have been concluded, it will be signed by the Government of Panama and those of the other SIECA member countries, and procedures will be initiated for its ratification by the National Assembly of Panama by December 2011. The protocol for the inclusion of Panama in SIECA will enter into force after ratification by Panama and the States parties to the General Treaty on Central American Economic Integration and its Guatemala Protocol.

The terms, time frames, conditions and modalities for the inclusion of Panama in SIECA may vary or be adjusted depending on the outcome of the association agreement talks between Central America and the European Union, the signing of which could involve a commitment to further regional economic integration that would include Panama as one of the Central American parties.

Panama took part in negotiations on the association agreement between Central America and the European Union, but in order for the agreement to come into effect for Panama, the country will first have to ratify the SIECA accession protocol and adopt the required Central American economic integration instruments. However, any delay in completing Panama's admission to SIECA will not delay the entry into force of the association agreement between Central America and the European Union for the other member States of the economic subsystem.

Until Panama's membership is formalized, it will participate as an observer in the forums of the economic subsystem and its officials will be invited to attend meetings of the SIECA forums as observers, in particular, the meetings of the Council of Ministers for Economic Integration (COMIECO).

Source: ECLAC subregional headquarters in Mexico, on the basis of information from the Secretariat for Central American Economic Integration (SIECA).

Box III.3

REGIONAL COMMITMENTS SET FORTH IN THE ASSOCIATION AGREEMENT BETWEEN THE EUROPEAN UNION AND CENTRAL AMERICA

Customs formalities

- Single tariff mechanism (within two years)
- Single administrative document for imports and exports (within three years)
- Harmonization of customs legislation and customs formalities and requirements relating to imports (within five years)

Technical barriers to trade

- Mutual recognition where harmonized regulations exist
- Recognition of records
- Adoption of specific technical regulations and conformity assessment procedures (within five years) on:
    - Food and beverages
    - Medication and like products
    - Standardization measures
    - Agricultural inputs

Sanitary and phytosanitary measures

- Ensure that European products benefit from the provisions of resolution No. 219-2007 (COMIECO - XLVII) of the Council of Ministers for Economic Integration on facilitating the movement of animals, plants, and animal and plant products.
- Guarantee that the Central American authorities will check the certificate issued by the European Union for plants and animals and derived products at the import point. A sanitary or phytosanitary inspection may be conducted at that point. Once the product has been forwarded, it may be subject to subsequent random inspections at the point of entry to the destination country.
    - Certain products identified as low risk (within two years)
    - Certain products identified as medium risk (within five years)

Implementation of the provisions of the association agreement which relate to economic integration

- Progress reports on implementation and programmes of work relating to customs procedures, technical barriers to trade and agreed sanitary and phytosanitary measures.

Competition

- Adoption of regional standards and establishment of a regional competition authority (seven years).

Government procurement

- Reasonable efforts to establish a single point of access, at the regional level, for public procurement.

Source: Presentation by Juan Carlos Fernández, Executive Director of the Secretariat for Central American Economic Integration (SIECA), at the Workshop on Opportunities for Convergence and Regional Cooperation in Latin America, Santiago, Chile, ECLAC, 8 July 2010.

4. Latin American Pacific Basin Initiative

Since its creation in 2007, the Latin American Pacific Basin Initiative has been exploring initiatives to achieve trade convergence between its 11 members.[7] The discussions have not yet covered the subject of tariff convergence, that is, the creation of a free trade area, reflecting the fact that the matrix of preferential trade relations between the members of the Latin American Pacific Basin Initiative is still incomplete (see table III.2).[8] As an alternative, negotiators have pursued convergence through cumulation of origin, that is, allowing inputs from any of the Latin American Pacific Basin Initiative member countries used in products traded between the member countries to qualify for preferential tariffs.

Cumulation of origin is without doubt technically complex, given the different origin regimes in trade agreements between the member countries of this initiative and the fact, as noted earlier, that some members still lack preferential trade agreements with other members of the group. Nevertheless, cumulation of origin could contribute significantly to greater integration of the production chains of the Latin American Pacific Basin Initiative economies by giving producers and exporters in each member country access to a broader range of suppliers while maintaining their preferential treatment in destination markets.

Table III.2

MEMBER COUNTRIES OF THE LATIN AMERICAN PACIFIC BASIN INITIATIVE: NETWORK OF PREFERENTIAL TRADE AGREEMENTS, JULY 2010

	Colombia	Costa Rica	Chile	Ecuador	El Salvador	Guatemala	Honduras	Mexico	Nicaragua	Panama	Peru
Colombia	X										
Costa Rica		X									
Chile			X								
Ecuador				X							
El Salvador					X						
Guatemala						X					
Honduras							X				
Mexico								X			
Nicaragua									X		
Panama										X	
Peru											X

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Foreign Trade Information System of the Organization of American States (OAS) [online] http://www.sice.oas.org.

- Agreement in effect
- Negotiations concluded
- Under negotiation

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7 Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru.

8 The table overestimates the degree of free trade among the members of the Latin American Pacific Basin Initiative since it does not distinguish between the different types of agreements currently in effect. While some of these are FTAs with almost universal product coverage, others cover a more limited number of products and grant preferential margins instead of eliminating tariffs.

At the fifth Ministerial Meeting of the Latin American Pacific Basin Initiative, held in Puerto Vallarta, Mexico, in November 2009, members agreed to begin negotiations on convergence, starting with cumulation of origin and advancing in parallel on other topics, including technical barriers to trade, sanitary and phytosanitary measures, customs formalities, services, dispute settlement and trade remedies.[9] The negotiations will be based on two modalities: (a) existing agreements between the countries of the Latin American Pacific Basin Initiative, and (b) a new agreement for gradual convergence towards free trade between all the members. The process is envisaged to be flexible, allowing each country to advance in both modalities. The degree of progress in these negotiations is expected to become clearer at the next ministerial meeting, to be held in Peru in October 2010.

Whatever advances are made in the recently launched negotiations among the Latin American Pacific Basin countries, it should be recalled that the ultimate objective is Latin American convergence. Only that will enable the countries to leverage the benefits of convergence towards broader markets and greater production chain integration, and make Latin America and the Caribbean more attractive as a potential economic and trading partner compared with other regions (particularly Asia). As a result, the ongoing process in the Pacific Basin should be seen as a step towards that goal, not an end in itself (ECLAC, 2010a).

5. Community of Latin American and Caribbean States

This new body, which brings together all the Latin American and Caribbean States, was created during the first Unity Summit of Latin America and the Caribbean, held in the Mayan Riviera, Mexico, in February 2010. This group will supersede the Rio Group and the Summit of Latin America and the Caribbean on Integration and Development. Its role includes promoting policy coordination and the improved positioning of Latin America and the Caribbean in relation to major international developments, as well as communication, cooperation, linkages, coordination, complementarity and synergy between subregional bodies and institutions.

Also during the first Unity Summit of Latin America and the Caribbean, heads of State and Government from the region adopted the Cancún Declaration, which contains a programme of work covering a wide range of areas. Box III.4 outlines the content of the Declaration that relates specifically to trade. For example, to continue pursuing integration initiatives at various levels (regional, subregional, multilateral and bilateral) as a means to advance towards the objective of setting up a common economic forum for Latin America and the Caribbean, although it does not indicate how such convergence will be reached. The Declaration similarly urges trade ministers to seek consensus on measures to stimulate intraregional trade in goods and services. It remains now to be decided how these general mandates will be translated into concrete action.

6. Recent bilateral negotiations in the region

(a) Between Mexico and the Plurinational State of Bolivia

In May 2010, Mexico and the Plurinational State of Bolivia signed a new Economic Complementarity Agreement (No. 66), which came into force on 7 June 2010, replacing the free trade agreement the two countries had shared since 1995. The Plurinational State of Bolivia withdrew from the previous agreement in December 2009, considering the chapters on investment, services, intellectual property and government procurement incompatible with the country's new Constitution, which had entered into force in February 2009. The scope of the new agreement is limited to trade in goods and leaves unchanged the liberalization commitments agreed under the previous free trade agreement.

9 See the Puerto Vallarta Declaration [online] http://www.arcodelpacifico.org/pdf/Declaracion_Puerto_Vallarta.pdf.

Box III.4
TRADE-RELATED CONTENT OF THE CANCÚN DECLARATION

Trade

15. Reiterate the importance of promoting the greater integration of our economies as a means of achieving higher levels of growth and economic and social development, as well as guaranteeing the more effective involvement of the region in the global economy by taking steps towards the reduction of technical barriers to trade.
16. Continue to promote integration initiatives at the regional, subregional, multilateral and bilateral levels that are open to international trade in the belief that they will enable the establishment of a common economic forum for Latin America and the Caribbean.
17. Instruct our trade ministers or their equivalents to draw up and seek consensus on the measures needed to maintain and increase, for the benefit of the countries of the region, the levels of trade and access to markets with a view to stimulating intraregional trade in goods and services, since this represents an important way of compensating for the drop in demand in the rest of the world. Furthermore, we entrust them to implement measures to boost the market access of exports from developing countries, especially smaller economies and landlocked developing countries. We want to create the conditions that enable those countries to obtain a greater and more equitable share of the market so that they can reap the benefits of intraregional trade.
18. Furthermore, we entrust our trade ministers to continue working towards the creation of a fairer and more equitable multilateral trade system that is able to satisfy the needs of developing countries, especially least developed countries. In that regard, the urgent need to conclude the negotiations of the Doha Round of negotiations of the World Trade Organization (WTO) should be emphasized.
19. Show our recognition to the Economic Commission for Latin America and the Caribbean (ECLAC) for its contributions to policies leading to the development and integration of countries in Latin America and the Caribbean and express support for its thirty-third session to be held at the end of May in Brazil.

Source: Declaration of the Unity Summit of Latin America and the Caribbean, Mayan Riviera (Mexico), 23 February 2010 [online] http://www.europarl.europa.eu/intcoop/eurolat/key_documents/Cancún_declaration_2010_es.pdf

(b) Between Colombia and Panama and Colombia and Central America

In March 2010, Colombia and Panama opened negotiations with a view to signing a bilateral FTA to replace the existing Partial Scope Agreement between the two countries, signed in 1993. The scope of the existing agreement is very limited, granting reciprocal tariff preferences on only about 300 products. By contrast, the FTA now being negotiated would eliminate tariffs on a substantial number of products, in line with the stipulations of the World Trade Organization (WTO). The agreement would be comprehensive, with chapters on issues including cross-border trade in services, telecommunications, maritime services, investments, government procurement, dispute settlement and cooperation on environmental and labour issues. In addition, the FTA signed in August 2007 between Colombia and the Central American countries referred to as the Northern Triangle (El Salvador, Honduras and Nicaragua) has been in effect for all the signatory countries since March 2010.

(c) Between Colombia and Mexico

In August 2009, after almost two years of negotiations, Colombia and Mexico reached an agreement to broaden their bilateral FTA, the G2.[10] The agreement led to the adoption in April 2010 of five decisions on areas such as the inclusion in the tariff reduction programme of previously excluded products (mostly agricultural or agro-industrial) and on making the rules of origin applicable to the iron and steel, textiles and clothing sectors more flexible.

(d) Between Central America and Mexico

During the tenth Summit of Heads of State and Government of the member countries of the Tuxtla Mechanism for Dialogue and Coordination, held in June 2008, the participants established that negotiations should begin on convergence of the trade agreements in force between the member countries, with a view to advancing towards an association agreement in Meso-America. In accordance with that mandate, negotiations have been under way since November 2009 with a view to converging the three FTAs currently in force between Mexico and Central America —between Mexico and Costa Rica, between Mexico and Nicaragua, and between Mexico and the Northern Triangle— into a single agreement.

This type of initiative has obvious benefits: it facilitates progress towards the creation of a wider economic space in Meso-America, promotes the integration of production between Mexican and Central American enterprises and reduces transaction costs. Progress on cumulation of origin, for example, would enable Central American enterprises to incorporate inputs from different countries in the subregion into the products that they export to

10 Previously known as the G3, until the Bolivarian Republic of Venezuela withdrew from the agreement in 2006.

Mexico without losing access to the tariff preferences established in the existing agreements. Agreement on the text of the instrument, as well as on the common set of rules of origin to be applied to trade between the six countries, is expected to be reached in 2011.

There is already an incipient link, through cumulation of origin, between Mexico and the signatory countries of CAFTA-DR. Following an amendment to this agreement in 2008, the United States allows the application of preferential rates to a certain quota of clothing made in Central America and the Dominican Republic with Mexican fabric, while Mexico does likewise for a certain quota of clothing made in Central America and the Dominican Republic using raw materials from the United States.

(e) Between Peru and Mexico and Peru and Central America

In 2006, Mexico and Peru opened negotiations with a view to the adoption of an FTA to replace the Economic Partnership Agreement currently in force between the two countries, which dates from 1987. Negotiations are at an advanced stage with an agreement remaining to be reached on the treatment of only a few sensitive products. In addition, in April 2010, the Peruvian authorities announced that in August 2010 they would launch negotiations for FTAs between Peru and each of the Central American countries.[11]

(f) Between Brazil and Mexico

The rapprochement between Brazil and Mexico in recent months represents a new development with a large potential impact for strengthening Latin American economic integration. It is the result of a decision adopted by President Lula da Silva and President Calderón in August 2009 to explore the options for deepening their countries' bilateral economic and trade relationship. Although neither country has announced the beginning of talks, in May 2010 they agreed on the terms of reference for the negotiation of a possible strategic agreement on economic integration. The terms of reference are as follows:

- The agreement will be broad. In addition to tariffs, it will cover areas including services, investment, government procurement and intellectual property.
- The coverage of this agreement will be comprehensive and all products, services and other trade issues will be taken into consideration.
- Sensitive areas in both countries will be recognized and special treatment will be granted to vulnerable sectors.
- Real market access will be ensured by dealing swiftly and effectively with specific problems and non-tariff barriers. Among other measures, a mechanism that contributes to legal certainty and the predictability from the point of view of economic agents in both countries will be established.
- The parties will follow the negotiating principles that the substance of the negotiations will dictate the duration of the process and that nothing will be agreed until everything is agreed.

According to the joint press release issued at the end of the meeting held in May, Brazil and Mexico are seeking a strategic agreement on economic integration to go beyond trade and address matters of cooperation and technology exchange, as well as to design an architecture that will promote the integration and development of the Latin American and Caribbean countries in order to enhance the region's competitiveness and its presence in international markets.[12]

A comprehensive trade agreement between Brazil and Mexico could energize the overall economic integration process in Latin America. They are the region's largest and second-largest economies, respectively, as well as the most populous countries and the leading exporters of goods and services (see table III.3). The volume of bilateral trade between the two, however, is not in keeping with these magnitudes: in 2009, Mexico was the destination of 1.8% of Brazil's total goods exports and the source of 2.2% of its total goods imports, while Brazil was the destination of 1.1% of Mexico's total goods exports and the source of 1.5% of its total goods imports.

A trade agreement between the two countries could help to diversify the structure of Mexico's foreign trade, lessening its dependence on the United States market (which received 81% of Mexico's exports in 2009). This, in turn, would help to lessen the knock-on effects on Mexico's economy of drops in United States demand. These effects were seen during the recent global financial crisis when Mexico's GDP shrank by 6.5% in 2009, the largest fall in the region.

[11] See "El Perú iniciaría con Panamá negociaciones para un TLC con Centroamérica", *El Comercio*, 20 April 2010 [online] http://elcomercio.pe/noticia/464709/peru-iniciaria-panama-negociaciones-tlc-centroamerica.

[12] Secretariat of Economic Affairs of the Government of Mexico, "Comunicado de prensa conjunto México-Brasil", *Boletín de prensa*, No. 52, 12 May 2010 [online] http://www.economia.gob.mx/?P=124004# [date of reference: 19 May 2010].

Table III.3
BRAZIL AND MEXICO: ECONOMIC WEIGHT IN THE REGION, 2008
(Percentages and millions of dollars)

	Population (millions of inhabitants)	GDP (percentages)	Exports			
			Agriculture [a] (percentages)	Manufacturing [a] (percentages)	Services [b] (percentages)	Total (percentages)
Brazil	34	30	22	23	26	23
Mexico	19	27	16	44	16	31
Andean countries [c]	22	15	38	9	10	19
Caribbean countries [d]	7	5	3	4	12	5
Central America [e]	7	4	2	4	13	4
Southern Cone [f]	12	19	18	17	23	18
Latin America and the Caribbean	100	100	100	100	100	100
Total	570	2 804 477	339 926	534 080	115 116	989 122
	(millions of inhabitants)	(millions of dollars)	(millions of dollars)	(millions of dollars)	(millions of dollars)	(millions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of balance of payments statistics from the International Monetary Fund (IMF), and United Nations, Commodity Trade Database (COMTRADE).
[a] Data for Antigua and Barbuda, Honduras, Nicaragua, and Saint Kitts and Nevis are from 2007.
[b] Data for Trinidad and Tobago are from 2007.
[c] Includes the Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru and the Plurinational State of Bolivia.
[d] Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.
[e] Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[f] Includes Argentina, Chile, Paraguay and Uruguay.

One issue to be clarified over the coming months is how a possible trade agreement between Brazil and Mexico would relate to the trade agreements currently in force between Mexico and MERCOSUR and its member countries. Mexico signed Economic Complementarity Agreement No. 54 with MERCOSUR in July 2002, whose objectives include the creation of a free trade area between Mexico and MERCOSUR. While the Agreement does not contain commitments on liberalizing trade or offer guidance on measures to that end, it does state that the following can be considered part of the agreement: (i) existing or future agreements between Mexico and each of the members of MERCOSUR; (ii) the agreement between Mexico and MERCOSUR on trade in the automotive sector (also from 2002); and (iii) future agreements between Mexico and MERCOSUR. It stipulates that all these other agreements will remain in force until the implementation of the free trade agreement between Mexico and MERCOSUR.

It will also be necessary to assess the implications of possible bilateral negotiations between Brazil and Mexico for the external negotiations strategy of MERCOSUR, which has so far favoured joint negotiations involving all four members. The only exception to this was when Uruguay signed an FTA with Mexico in 2003. This is a comprehensive agreement which includes commitments on cross-border trade in services, investments, competition policy, intellectual property and dispute settlement.

(g) Between MERCOSUR and Chile and MERCOSUR and Colombia

In May 2009, following more than two years of negotiations, MERCOSUR and Chile signed an agreement on trade in services, which took the form of an additional protocol to their economic complementarity agreement. The new agreement liberalizes trade in services between the parties in a wide range of sectors, including architecture, engineering, editorial, construction, advertising and distribution services. Since 2009, MERCOSUR and Colombia have been engaged in negotiations on trade in services, and the possibility of Ecuador joining this process in the future remains open (LAIA, 2010).

C. Regional infrastructure: physical integration during the crisis [13]

The recent international economic crisis significantly affected the world's economies and global trade and its negative repercussions extended to the infrastructure sector and transport services. Regional integration processes in Latin America would therefore be expected to slow, in line with previous experiences. However, an assessment of the physical dimension of integration (infrastructure and services) shows that the most significant initiatives in this area have made substantial progress despite the crisis. The Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Meso-America Project in Central America are good examples of the progress made in terms of positive integration at the regional level (Cipoletta, 2009).[14] An analysis of progress in the project portfolios of both initiatives is presented below.

A regional perspective determines the selection of IIRSA projects, which must be agreed on by all 12 South American countries. As at February 2010, the project portfolio included 512 transport, energy and communications infrastructure projects, split between nine areas of integration and development and representing an estimated investment of US$ 75.087 billion.

In early 2010, concrete progress was being made on 382 (74.6%) of the 512 projects in the IIRSA portfolio: 52 projects (10.2%) had been concluded, 184 (35.9%) were being executed and 146 (28.5%) were at the active preparation stage. Of the estimated US$ 75.087 billion investment in the project portfolio, US$ 6.209 billion (8.3%) was allocated to projects that have since been concluded, US$ 37.660 billion (50.2%) to projects that are being executed, and US$ 24.998 billion (33.3%) to projects still in the preparatory phase, with the remainder set aside for projects still undergoing profiling.

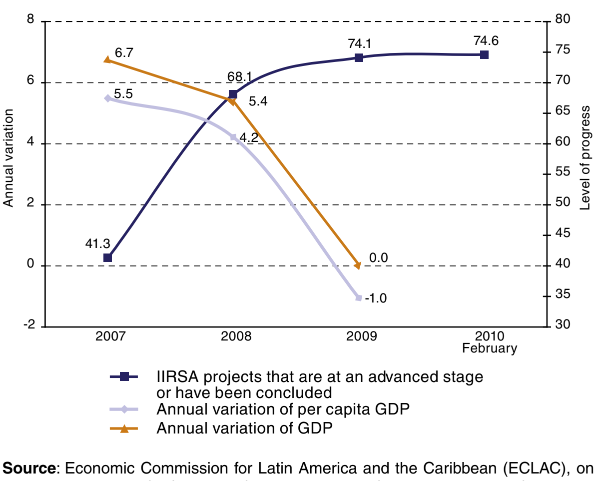
Accordingly, even if only concluded projects and those currently being implemented are considered concrete progress, the overall progress in 2010 remains significant: 236 projects (46.1% of the portfolio) and US$ 43.869 billion invested (58.5% of the portfolio's total estimated investment).

Figure III.1 shows the level of progress on IIRSA projects from 2007 to 2009 compared with GDP in the subregion covered by IIRSA for those years. It can be seen that, although the international economic crisis affected the subregion during that period and led to an economic standstill in 2009, concrete progress was made in terms of physical integration.

Figure III.1

INITIATIVE FOR THE INTEGRATION OF REGIONAL INFRASTRUCTURE IN SOUTH AMERICA (IIRSA): PROJECT PORTFOLIO PROGRESS AND ANNUAL VARIATION IN GDP AND PER CAPITA GDP IN MEMBER COUNTRIES, 2007-2009 [a]

(Percentages, at constant 2000 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), February 2010, and from ECLAC.

[a] The GDP figures correspond to the annual total for the 12 countries of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). Information is given for 2007-2009 and early 2010 so that different periods during the Initiative can be compared with the business cycle in the region (boom period, beginning of the crisis and trough).

[13] This section was prepared by the Infrastructure Services Unit of the Natural Resources and Infrastructure Division of ECLAC.

[14] IIRSA was established in 2000 as a cooperation mechanism between 12 South American countries for the exchange of information and coordination of sectoral investment policies and plans. Its objective is to promote physical integration in the areas of transport, communication and energy and seek to foster sustainable development in the region. The work of the Meso-America Project began in 2001, under the Puebla-Panama Plan, but it was officially relaunched in mid-2008. Its objective is to promote the regional integration of the south-south-east of Mexico and Central America (as well as Colombia and the Dominican Republic, which joined later) through the implementation of infrastructure and social projects to boost development and make the region more competitive, and thereby have a positive impact on the countries' populations. Under the Meso-America Project, cooperation, development and integration activities are being coordinated in various thematic areas, including transport, energy, telecommunications, trade facilitation and competitiveness, health, environment, natural disasters and housing.

Estimated investments in IIRSA portfolio projects that can be considered advanced or concluded totalled US$ 21.2 billion in 2007, US$ 55.6 billion in 2008, US$ 68.2 billion in 2009 and US$ 68.9 billion as at February 2010.[15] Those figures represented 35% of total estimated investments for the IIRSA portfolio in 2007, 81% in 2008, 91% in 2009 and 92% as at February 2010, which represents a positive trend in progress on regional integration infrastructure projects. This upward trend is seen not only in the amounts invested, but also in the number of projects considered at an advanced stage or concluded in those years: 145 in 2007 (41% of all IIRSA projects), 350 in 2008 (68%), 378 in 2009 (74%) and 382 as at February 2010 (75%).

Also noteworthy is the growth in estimated investment in the IIRSA portfolio as a whole in recent years. The amount more than doubled from US$ 37.4 billion in 2005 to US$ 75.1 billion in February 2010.

In addition to making advances on the project portfolio, IIRSA has developed other tools to support its objectives. One of these is the methodology for analysing the productive integration and development potential of value added logistic services, which will be used to identify the contribution of IIRSA projects to the integration of production in their area of influence and to ensure that sufficient logistic services are made available to the productive sector, as a user of infrastructure. Another tool is the Strategic Environmental and Social Evaluation (EASE) methodology, a new environmental and social planning instrument that will make it possible to assess the combined impact of the projects in the portfolio. Work has also been done on a methodology to evaluate transnational integration projects with a view to identifying, in an objective and transparent manner, the cost-benefit implications for each country of multinational projects. This methodology is being developed with the support of ECLAC, and is in the final phase of development.

As part of its work plan on sectoral integration processes aimed at identifying regulatory or institutional barriers to the development of basic infrastructure in the subregion, IIRSA has produced numerous studies and analyses on the standards and regulations governing the provision of infrastructure services. Sectoral integration processes are under way in relation to maritime, air and multimodal transport, border crossings, energy integration, funding instruments and information and communications technologies (ICT). These processes are aimed at convergence of the relevant regulations and standards, competitiveness in service provision, promotion of private investment in infrastructure, and trade and transport facilitation. Two projects in particular (in addition to the 512 projects in the portfolio mentioned above) are linked to the sectoral integration processes and are part of the IIRSA Implementation Agenda based on Consensus 2005-2010:[16] Exports through Postal Services for SMEs and Implementation of a Roaming Agreement in South America, with estimated investments totalling US$ 2.9 million (see [online] http://www.iirsa.org [date of reference: February 2010]).

In sum, IIRSA has achieved significant progress in the planning and implementation of physical integration projects at the regional level, even during periods of economic crisis; however, much ground remains to be covered to attain the proposed objectives. A more efficient way must be found to reconcile the high priority afforded to developing the portfolio of infrastructure projects with the need to address the shortcomings in formulating and achieving the objectives of the sectoral processes, given that these processes are vital to energizing and boosting the efficiency of the infrastructure markets for integration in the region. As well as making a concerted effort to raise society's awareness of IIRSA, the initiative must seek greater complementarity with the economic and political dimensions of regional integration in South America and build effective institutions to implement sustainable policies and systematize the regulatory framework in order to make regional physical integration goals viable.[17]

One of the most significant advances in the Meso-America Project was the development of the International Meso-American Road Network (RICAM), designed to improve the internal and external connectivity of the region's economies by building, upgrading and maintaining 13,132 kilometres of highways over five regional road corridors.

As at June 2009, the estimated investment in the network totalled US$ 7.192 billion and the construction and modernization works were 50% complete, equivalent to 6,629 kilometres of highways. Prominent recent achievements include the inauguration of the highway between Guatemala and the state of Tabasco (Mexico) in October 2009 and the modernization of the border crossing

[15] This includes projects that have been concluded, that are being executed or that are at the pre-execution stage (the latter includes the pre-feasibility, feasibility and investment phases). Projects that are at the profiling stage are excluded.

[16] The consensus-based implementation agenda comprises an initial selection of 31 high-impact projects on physical integration and sustainable development in the region, chosen from the IIRSA portfolio and agreed on by all the governments. The aim is to stimulate the funding and implementation of the chosen projects in the short term. The estimated investment in the Agenda is US$ 10.4 million (see [online] http://www.iirsa.org [date of reference: February 2010]).

[17] To that end, in 2010, IIRSA was incorporated into the structure of the Union of South American Nations (UNASUR), specifically in the framework of the work of the South American Infrastructure and Planning Council (COSIPLAN).

point between the two countries. Other major works concluded in 2009 were the River Hondo international bridge (between Mexico and Belize), La Amistad border crossing bridge (between El Salvador and Honduras), the international bridge over the River Sixaola (between Costa Rica and Panama) and a new international bridge between El Salvador and Guatemala.

As part of the modernization of customs and border crossings, progress has been made on applying the Meso-American Procedure for the International Shipment of Goods (TIM) at El Amatillo border crossing between El Salvador and Honduras, with reductions of up to 75% in transit time.

In summary, what stands out with regard to physical integration initiatives in the region (specifically IIRSA and the Meso-America Project) is that such integration works now exist (in the past there were virtually none) and, what is more, were still being built even at the height of the economic crisis. Regional physical integration is progressing and being consolidated and extended and drawing-board projects have become concrete works. These advances not only strengthen the economic and political integration processes under way in the Latin American and Caribbean region, they also facilitate the economic and social development of its countries.

D. Negotiations with partners outside the region

1. Overview

Between the second half of 2009 and the first half of 2010, many countries in the region continued to conduct trade negotiations with partners from outside the region, whether as part of their respective subregional schemes or individually. A major factor in this was the scant progress in the Doha Round during the period, as well as the virtual standstill in the more ambitious trade integration projects within the region.

The flurry of negotiations in the last 12 months with parties from outside the region represents the continuation of a process that Chile and Mexico began in the 1990s, joined by several countries in the region during the 2000s. A wide network of varied agreements has thus been taking shape, especially since the second half of the past decade, linking the region not only to its traditional markets outside the region (the United States and the European Union), but also, increasingly, to the Asia-Pacific region (see table III.4).

2. Negotiations with the European Union

The sixth Summit of Heads of State and Government from Latin America and the Caribbean and from the European Union, held in Madrid in May 2010, had particularly significant outcomes in the area of trade. The negotiation of an association agreement between the European Union and the five countries of the Central American Common Market (CACM) plus Panama was successfully and formally concluded, as was a comprehensive trade agreement between the European Union, Colombia and Peru. Both agreements must now be signed and ratified, and may enter into force in early 2012. These instruments follow in the footsteps of the October 2008 agreement between the European Union and 15 countries of the Caribbean that are members of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) and the association agreements in place with Chile and Mexico. The European Union thus continues to pursue its strategy, adopted in the mid-1990s, of forging closer ties with Latin America.

Table III.4

LATIN AMERICA AND THE CARIBBEAN (COUNTRIES AND SUBREGIONAL SCHEMES): TRADE NEGOTIATIONS WITH PARTNERS FROM OUTSIDE THE REGION INITIATED OR CONCLUDED SINCE 2005

Country or subregional scheme	Partner	Type of agreement [a]	Status as at August 2010
Subregional schemes			
Caribbean Community (CARICOM) [b]	European Union	AA	Signed in October 2008. Provisional application
	Canada	FTA	Under negotiation
Andean Community	European Union	AA	Negotiations with Colombia and Peru concluded in March 2010 [c]
Central American Common Market (CACM)	European Union	AA	Negotiations concluded in May 2010 [d]
MERCOSUR	Egypt	FTA	Signed in August 2010
	Israel	FTA	In force between Israel and Uruguay, Israel and Paraguay, and Israel and Brazil
	SACU [e]	PTA	Signed in December 2008; ratification process under way
	European Union	AA	Negotiations relaunched in May 2010
Country			
Chile	TPP [f]	AA	In force
	Australia	FTA	In force
	China	FTA	In force
	Japan	AA	In force
	Malaysia	FTA	Negotiations concluded in May 2010
	Turkey	FTA	Signed in July 2009; ratification process under way
	Viet Nam	FTA	Under negotiation
Colombia	Canada	FTA	Signed in November 2008; ratification process under way
	EFTA [g]	FTA	Signed in November 2008; ratification process under way
	United States	FTA	Signed in November 2006; ratification process under way
	Republic of Korea	FTA	Under negotiation
Costa Rica	China	FTA	Signed in April 2010; ratification process under way
	Singapore	FTA	Signed in April 2010; ratification process under way
Dominican Republic	Canada	FTA	Under negotiation
	European Union [h]	AA	Signed in October 2008
Panama	Canada	FTA	Signed in May 2010; ratification process under way
	United States	FTA	Signed in June 2007; ratification process under way
	Singapore	FTA	In force
	European Union	AA	Negotiations concluded in May 2010 [i]
Peru	TPP	AA	Under negotiation
	Canada	FTA	In force
	China	FTA	In force
	United States	FTA	In force
	EFTA	FTA	Signed in July 2010
	Republic of Korea	FTA	Under negotiation
	Japan	AA	Under negotiation
	Singapore	FTA	In force

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and Organization of American States (OAS), Foreign Trade Information Service [online] http://www.sice.oas.org.

[a] AA: association agreement. PTA: preferential trade agreement. FTA: free trade agreement.

[b] The other party to the agreement with the European Union is the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), which is made up of 14 countries from the Caribbean Community (CARICOM) plus the Dominican Republic.

[c] The Plurinational State of Bolivia withdrew from the negotiations in June 2008. Ecuador withdrew in July 2009 and then announced its intention to re-embark on negotiations in February 2010.

[d] Panama is also a party to this agreement.

[e] Southern African Customs Union.

[f] Trans-Pacific Strategic Economic Partnership Agreement.

[g] European Free Trade Association.

[h] In the context of the Association Agreement between CARIFORUM and the European Union.

[i] In the context of the Association Agreement between Central America and the European Union.

The decision to resume negotiations for an association agreement between the European Union and MERCOSUR, suspended since October 2004, was also confirmed at the Madrid Summit. The first round of talks following this decision took place in June 2010. However, the main factors that led to the suspension of negotiations almost six years ago (the marked sensitivities of the European Union regarding agriculture and those of MERCOSUR in industry) still remain, as demonstrated by the positions taken by the two parties during the Doha Round of the World Trade Organization (WTO).[18] This negotiation is much more complex than those that the European Union has entered into with other Latin American and Caribbean countries, given that in 2008 half of all exports to the European Union from Latin America and the Caribbean came from MERCOSUR countries (see table III.5) and 20% of all agricultural imports into the European Union in 2009 came from that same group.[19] The main goods that MERCOSUR is interested in exporting to the European Union include agricultural products such as sugar, beef and dairy products, which are highly protected in that market.

Despite the difficulties described, one element that may augur greater progress in the negotiations this time is the sustained increase in China's share of the region's foreign trade. According to ECLAC projections, if this trend continues, China could take the place of the European Union as the region's second largest trade partner after the United States (see figure III.2). In this context, achieving preferential access to MERCOSUR for its exports would allow the European Union to make up, at least partially, for the cost advantages generally associated with Chinese products.

Table III.5

EUROPEAN UNION: TRADE WITH LATIN AMERICA AND THE CARIBBEAN, MEXICO AND SELECTED SUBREGIONAL INTEGRATION SCHEMES, 2008

(Millions of euros and percentages)

	European Union imports [a]		European Union exports [a]		Trade with the European Union [a]	
	Millions of euros	Percentages	Millions of euros	Percentages	Millions of euros	Percentages
Andean Community	10 998	0.7	6 925	0.5	17 922	0.6
Southern Common Market (MERCOSUR) [b]	47 724	3.1	33 484	2.6	81 209	2.8
Central American Common Market (CACM)	4 462	0.3	2 413	0.2	6 875	0.2
Mexico	13 814	0.9	22 082	1.7	35 896	1.3
Latin America and the Caribbean [c]	96 740	6.2	79 836	6.1	176 576	6.2

Source: Statistical Office of the European Communities (EUROSTAT).

[a] Does not include trade between countries of the European Union.

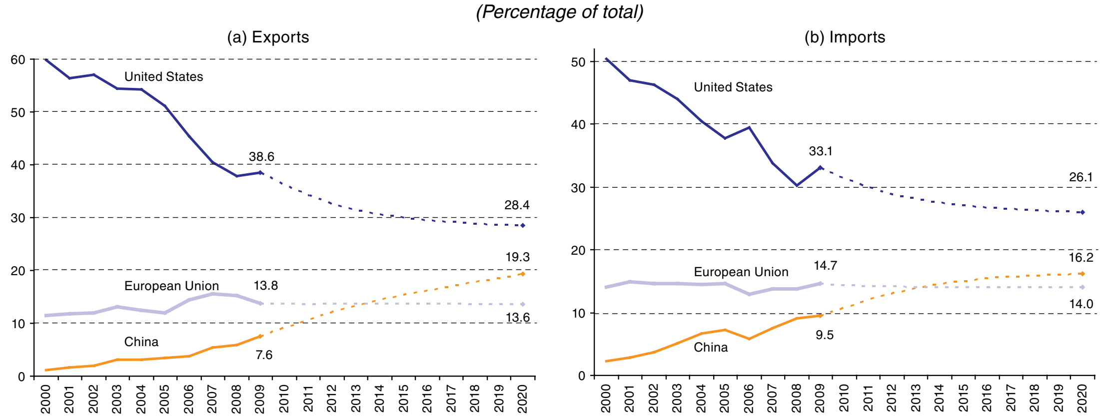
[b] Does not include the Bolivarian Republic of Venezuela.

[c] Includes the Andean Community, MERCOSUR, CACM, Bolivarian Republic of Venezuela, Chile, Cuba, Dominican Republic, Haiti, Mexico and Panama.

Figure III.2

LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): SHARE OF THE UNITED STATES, EUROPEAN UNION AND CHINA IN FOREIGN TRADE, 2000-2020 [a]

(Percentage of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *La República Popular China y América Latina y el Caribe: hacia una relación estratégica* (LC/L.3224), Santiago, Chile, April 2010.

[a] Includes: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. Estimates and projections based on GDP growth rates from 2000 to 2009 in Latin America and the Caribbean, the Asia-Pacific region, China, the United States, the European Union and the rest of the world. The growth in trade is expected to reflect the long-term growth rate of the economies.

18 Days before the Madrid Summit, a group of 10 member States of the European Union with strong agricultural interests (Austria, Cyprus, Finland, France, Greece, Hungary, Ireland, Luxembourg, Poland and Romania) formally expressed their opposition to the resumption of negotiations with MERCOSUR, arguing that it would endanger European agriculture.

19 See European Commission, Directorate General for Trade [online] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/mercosur/ [date of reference: 2 June 2010].

3. Negotiations with the Asia-Pacific region

Over the last decade, Asia has grown in importance substantially as a trade partner for Latin America and the Caribbean (see table III.6). As noted in ECLAC (2010c), the region's trade with Asia in 2009, particularly its exports, fell by less than it did with the rest of the world. This was largely because China was the only leading destination country to record an increase in exports from the region in 2009, a year that was marked by the global crisis (see figure III.3). This is evidence of the strength of the Chinese economy during the crisis, when it sustained demand for various commodities exported by the Latin American and Caribbean region.

Table III.6

LATIN AMERICA AND THE CARIBBEAN: MAIN EXPORT DESTINATIONS AND COUNTRIES OF ORIGIN OF IMPORTS [a]

(Percentages of total)

Exports	2000	2006	2007	2008	2009
Latin America and the Caribbean	19.0	16.4	17.2	18.4	17.2
Asia	5.0	9.7	11.3	11.8	14.5
China	1.1	3.4	4.6	5.0	6.9
United States	61.0	47.6	44.0	41.4	39.8
European Union	11.8	12.8	13.8	13.7	12.8
Imports	2000	2006	2007	2008	2009
Latin America and the Caribbean	15.1	18.9	19.1	18.9	18.8
Asia	10.9	22.2	23.0	23.5	24.9
China	1.8	8.4	9.6	10.4	11.8
United States	55.0	32.4	30.3	29.0	29.2
European Union	12.1	12.8	13.3	13.5	13.8

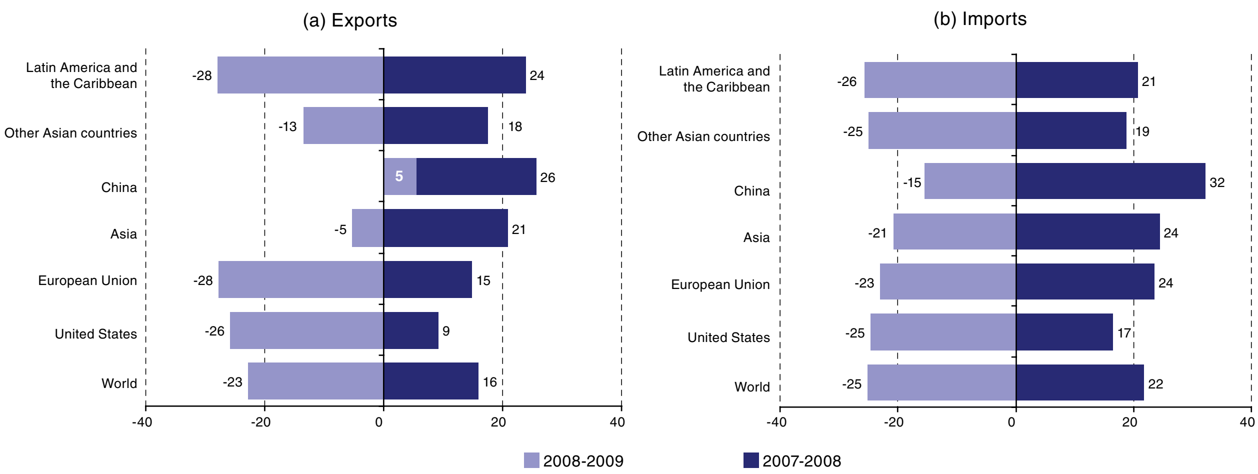
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information, Statistical Office of the European Communities (EUROSTAT), United States International Trade Commission (USITC) and International Monetary Fund (IMF), Direction of Trade Statistics. Figures for 2000 are from the United Nations Commodity Trade Database (COMTRADE).

[a] Data for 2006, 2007, 2008 and 2009 are from national sources. Data for the Caribbean were constructed using mirror statistics from the United States, the European Union and Latin America.

Figure III.3

LATIN AMERICA AND THE CARIBBEAN: ANNUAL RATES OF VARIATION IN TOTAL EXPORTS AND IMPORTS WITH SELECTED PARTNERS, 2007-2008 AND 2008-2009 [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information, Statistical Office of the European Communities (EUROSTAT), United States International Trade Commission (USITC) and International Monetary Fund (IMF), Direction of Trade Statistics.

[a] Data for the Caribbean were constructed using mirror statistics from the United States, the European Union and Latin America. The December figure for the Bolivarian Republic of Venezuela was estimated, following the trend of the previous three months. The data for the Bolivarian Republic of Venezuela are national totals to which the structure of the IMF Direction of Trade Statistics was applied.

The growing importance of Asia as a trade partner, in addition to its economic buoyancy, has led several Latin American countries to develop preferential trade links with the Asian region. These links are relatively recent and to date involve essentially the countries of the region that are on the Pacific coast (see table III.7). The most active countries in this regard have been Chile and Peru, in South America, and Costa Rica, in Central America. In April 2010, Costa Rica signed an FTA with China (the first between the Asian powerhouse and a Central American country) and another with Singapore. In December 2009, Colombia and the Republic of Korea embarked on negotiations for an FTA, the first negotiations of this kind that Colombia has entered into with an Asian country.

While bilateral trade agreements can benefit the partner countries, a more coordinated strategy is needed between countries or groups of countries in the region to create a relationship with the Asia-Pacific region that will reinforce trade and investment links and strengthen production and technology ties. Satisfying the needs of the vast Asian market may often need partnerships between the region's exporting countries. A similar approach may also help to attract Asian investment. The creation of the Latin American Pacific Basin Initiative is a preliminary step in this direction (ECLAC, 2009a, 2010a, 2009b).

Another scheme that offers some potential as a platform for building closer ties between Latin America and the Caribbean and the Asia-Pacific region is the Trans-Pacific Strategic Economic Partnership Agreement. As this initiative is now being led by the United States, it is analysed in greater detail in the next section.

Table III.7

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): PREFERENTIAL TRADE AGREEMENTS WITH COUNTRIES IN THE ASIA-PACIFIC REGION, JULY 2010 [a]

Latin American country	Agreements in force	Agreements signed	Agreements under negotiation
Chile [b]	Australia, Republic of Korea, China, India, Japan, TPP [c]		Malaysia [d] and Viet Nam
Colombia			Republic of Korea
Costa Rica		China and Singapore	
El Salvador	Taiwan Province of China		
Guatemala	Taiwan Province of China		
Honduras	Taiwan Province of China		
Mexico [b]	Japan		Republic of Korea [e]
Nicaragua	Taiwan Province of China		
Panama	Taiwan Province of China, Singapore		
Peru [b]	China, Singapore, Thailand		Republic of Korea, Japan, TPP [c]

Source: Organization of American States (OAS), Foreign Trade Information Service [online] www.sice.oas.org.
[a] Excludes trade agreements with Canada and the United States.
[b] Member of the Asia-Pacific Economic Cooperation forum (APEC).
[c] Trans-Pacific Strategic Economic Partnership Agreement.
[d] Negotiations concluded in May 2010.
[e] Negotiations suspended since June 2008.

4. Negotiations with the countries of North America

(a) United States

In contrast to the progress made in the region's trade negotiations with Europe and Asia, there have been no major developments in negotiations with the United States since the signing of the FTAs between the United States and Peru (April 2006), Colombia (November 2006) and Panama (June 2007). It is particularly worrying that these last two agreements, as well as the FTA signed with the Republic of Korea in June 2007, have yet to be submitted to the United States Congress for ratification. This is because of concerns expressed by members of Congress and a number of circles in the United States that shed doubt over the approval of the agreements. In the case of Panama, the concerns relate to the transparency of the tax system and certain aspects of labour regulations, although a few months ago other obstacles were also raised. As for the FTA with Colombia, several members of Congress have made its approval conditional on the adoption of measures to strengthen the protection of labour rights in that country.

The United States authorities have stated that they are working with the governments of Colombia and Panama to overcome these obstacles, but have not indicated when they might submit either agreement to Congress. It seems unlikely that this will happen before the United States midterm elections, to be held in November 2010 (Van Grasstek, 2009).

The aforementioned elements appear to indicate that the region is a low priority for United States trade policy. In general, trade was not a priority issue during the first year of President Obama's administration, but the 2010 Trade Policy Agenda, presented in March 2010, seems to point to a more important role for trade in the economic recovery.[20] The Agenda refers to the goal of doubling exports in the next five years, which President Obama announced before Congress in January 2010.[21]

To date, the current administration's main initiative in relation to trade negotiations has been the announcement by President Obama in November 2009 that the United States would enter into negotiations to join the Trans-Pacific Strategic Economic Partnership Agreement (TPP).[22] This agreement, also known as P4, was signed in 2005 between Brunei Darussalam, Chile, New Zealand and Singapore, and took effect the following year. TPP is the first free trade agreement to link three continents (America, Asia and Oceania). Negotiations to bring the United States into TPP began in March 2010. Australia, Peru and Viet Nam are also participating in those negotiations, while other countries from both Asia and the Americas are considering joining the process.[23]

The motives of the United States for joining TPP are not related to seeking new markets in the short term, since the other seven participating economies are relatively small and the United States already has current FTAs with four of them (Australia, Chile, Peru and Singapore). Rather, it is a strategic move to make TPP a vehicle for trans-Pacific economic and trade integration. There is some concern in the United States regarding the prospect that the various economic integration initiatives currently being implemented or under consideration could lead to the creation of an exclusively Asian bloc. This would be the case if an initiative on an East Asian FTA, which would bring together China, Japan, the Republic of Korea and the 10 member countries of the Association of Southeast Asian Nations (ASEAN), came to fruition. Another initiative that is under consideration, put forward by Japan, is to set up a larger free trade area that would also include Australia, India and New Zealand. These two projects are commonly referred to as ASEAN+3 and ASEAN+6, respectively (ECLAC, 2009a, 2010a).

According to the United States trade authorities, although it has little economic weight now, TPP offers the potential to build a trans-Pacific community that could counteract the centripetal tendencies now being seen in East Asia. The United States is thus seeking to secure its economic interests in Asia, the most dynamic region in the world economy, which accounted for more than 60% of the United States trade deficit in 2009 (see table III.8). To that end, the United States has expressed its intention to make TPP a twenty-first-century agreement that sets a high standard on trade matters and on labour and environmental protection issues, and which other countries from the Pacific basin could join in the future.

In terms of obtaining preferential access to new markets, the TPP negotiations are currently of limited appeal to the two Latin American participants. Chile, a founding member of TPP, has bilateral FTAs in place with Australia, the United States and Peru, and is currently in negotiations with Viet Nam. Peru has bilateral FTAs in force with Chile, the United States and Singapore, while the other four participants (Australia, Brunei Darussalam, New Zealand and Viet Nam) together represented only 0.5% of its total exports in 2008.

20 See "The President's 2010 Trade Policy Agenda" [online] http://www.ustr.gov/2010-trade-policy-agenda.

21 To meet this objective, the National Export Initiative was created by Executive Order in March 2010. An Export Promotion Cabinet was set up to develop and coordinate the implementation of the Initiative. In order to meet the aims of the Initiative, action must be taken, for example, to promote trade in goods and services, increase the financing available to SMEs for trade and reduce barriers to access to third markets (see [online] http://www.whitehouse.gov/the-press-office/executive-order-national-export-initiative [date of reference: 12 July 2010). The last area will involve the negotiation of new trade agreements, particularly with countries in Asia, and the entry into force of pending agreements.

22 The opening of negotiations to bring the United States into TPP had already been announced at the end of the Bush administration (September 2008) by the United States Trade Representative at that time, Susan Schwab. The decision was ratified by the Obama administration towards the end of 2009, following a review of United States trade policy.

23 As at June 2010, Viet Nam had not yet indicated whether it would participate definitively in the negotiations.

Table III.8
UNITED STATES: TRADE DEFICIT, TOTAL AND BY SELECTED REGIONS AND COUNTRIES, 2007-2009
(Millions of dollars and percentages)

Country/region	2007		2008		2009	
	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total
World	790 991	100.0	800 006	100.0	500 997	100.0
Latin America and the Caribbean	101 508	12.8	86 478	10.8	45 820	9.1
Asia-Pacific	404 399	51.1	392 557	49.1	310 781	62.0
China	256 270	32.4	266 333	33.3	226 826	45.3

Source: United States International Trade Commission (USITC).

Other Latin American countries that have expressed an interest in joining the TPP negotiations, or have been cited as potential members, are in a similar situation to Chile and Peru. For example, Costa Rica has FTAs with the United States (its main trading partner) and Chile, and in March 2010 signed an agreement with Singapore, while the remaining TPP participants (Australia, Brunei Darussalam, New Zealand, Peru and Viet Nam) together represented a mere 0.6% of its exports in 2009. Although Colombia's FTA with the United States has yet to enter into force, the country has arrangements in place with Chile (bilateral) and Peru (in the framework of the Andean Community). The other five participants in the TPP negotiations (Australia, Brunei Darussalam, New Zealand, Singapore and Viet Nam) represented only 0.4% of its exports in 2009. Lastly, Mexico has FTAs with the United States (North American Free Trade Agreement) and Chile, and is currently in negotiations with Peru. The other five participants in the TPP negotiations represented only 0.5% of its exports in 2009.

In short, for the countries of Latin America, TPP in its current form is not a particularly attractive medium for gaining access to new key markets, except to the extent that it promotes cumulation of origin across all the agreements already existing between the eight countries that are party to the negotiations. From the trade viewpoint, the appeal of TPP depends on new economies, especially Asian countries, joining the negotiations. This does not seem likely in the short term, however, owing in large part to the constraints associated with the leadership of the process by the United States. The credibility of United States negotiators is diminished by the uncertain approval prospects of outstanding agreements (all with countries from the Pacific basin) and by the absence of Trade Promotion Authority (TPA). Under TPA, the United States Congress temporarily renounces its powers to introduce amendments to trade agreements negotiated by the Executive Branch and may vote only for or against such agreements. TPA is considered essential for concluding any trade negotiations, since otherwise Congress can subsequently, at its discretion, modify what has been negotiated.

Aside from the opportunities it presents, the expansion of TPP poses risks for the countries of the region involved in the process. As noted above, the United States is seeking to use TPP to set higher standards on issues such as intellectual property and labour and environmental protection. Countries in the region that have already negotiated these issues in their respective FTAs with the United States run the risk of having to make new concessions in politically sensitive areas in connection with a wide range of public policies.

Another initiative which warrants mention although, strictly speaking, it falls outside the realm of trade, is Pathways to Prosperity in the Americas, launched by the United States in 2008. This initiative "links Western Hemisphere countries committed to democracy and open markets in an initiative to promote inclusive growth, prosperity, and social justice."[24] Its partner countries (in addition to the United States) are Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru and Uruguay. All of these countries, apart from Uruguay, have negotiated FTAs with the United States.

The initiative reflects a certain change of vision in the approach of the United States to Latin America and the Caribbean, and the recognition that while trade spurs economic growth for the countries in the region, the gains have not been equitably shared. Pathways to Prosperity seeks to close this gap by empowering small farmers, small businesses, craftspeople, workers, women, indigenous communities, Afro-descendants, young persons and vulnerable groups to participate effectively in the global economy. To this end, the initiative's aims include deepening cooperation to expand access to financial services, ensure the effective enforcement of fundamental labour rights and decent working conditions and expand educational opportunities. However, to date these objectives have led to limited concrete action, consisting mainly

24 See [online] http://pathways-caminos.org.dnnmax.com/Home/AboutPathways/Background/tabid/89/language/en-US/Default.aspx.

of meetings aimed at promoting networks (for example, of women entrepreneurs) and exchanging information and good practices.

In conclusion, the United States does not currently appear to have a clear trade strategy towards the region. To date, its only clear strategic move as regards trade negotiations is TPP, a trans-Pacific project in which the participation of the Latin American and Caribbean countries is not the main objective from the United States' perspective. The priority that the United States has afforded TPP seems to reflect, among other things, an interest in establishing a counterbalance to the evolving Asian regional architecture. The United States is thus seeking to participate more actively in the process of Asian expansion, in order to avoid discrimination against products, services and investments of United States origin.

(b) Canada

Canada has FTAs in force with Chile, Costa Rica, Mexico (in the context of the North American Free Trade Agreement) and Peru (since August 2009). In the past 12 months, significant efforts have been made to extend this network. To this end, for example, the Canadian Parliament adopted legislation to implement the FTA between Canada and Colombia (signed in November 2008) in June 2010 and an FTA was signed between Canada and Panama in May 2010. The country is also engaged in joint negotiations with El Salvador, Guatemala, Honduras and Nicaragua. Lastly, on various occasions Canada has expressed an interest in increasing its links with the Latin American Pacific Basin Initiative by participating as an observer at some of its ministerial meetings.

E. Conclusions

As stated at the beginning of this chapter, the current climate in South America is not conducive to bringing to fruition the ambitious trade convergence initiatives that were launched in the mid-2000s. This limits the scope for progress towards a larger integrated economic area, even though this would promote the further development of intraregional trade, with all the associated benefits, including a larger presence of manufactures and SMEs and greater potential for integrating production systems. This situation contrasts with that in Meso-America, where intensive negotiations are taking place to enhance current agreements or replace them with more comprehensive schemes, and to create larger economic areas by combining existing arrangements.

Another trend that has started to take shape more clearly over the last year is the creation or strengthening of preferential ties between Central America (including Panama), Colombia, Mexico, Peru and Chile. As the network of trade agreements between these countries becomes more complete, it will provide greater leverage for initiatives aimed at gradual trade convergence between the members of the Latin American Pacific Basin Initiative. As a first stage, this could take the form of agreements to allow cumulation of origin between these 11 countries. Connecting the various bilateral agreements would foster integration of production among the members of the Latin American Pacific Basin Initiative and reduce the transaction costs associated with trade between those countries.

The overall dynamic of economic and trade integration initiatives in Latin America may change over the coming months depending on developments in the talks the region's two largest economies, Brazil and Mexico, have been holding since August 2009 on possible negotiations for a strategic economic integration agreement. A decision to open negotiations in 2010 could galvanize integration efforts throughout the region by linking the largest economies in South America and Meso-America.

Nonetheless, difficulties in progressing towards liberalization of intraregional trade must not prevent enhanced regional or subregional cooperation in other areas where equally urgent action is needed to deal with the competitiveness challenges facing Latin America and the Caribbean. Among these, ECLAC has identified the following eight priority areas: (i) the development of infrastructure for integration; (ii) measures to support trade (progress with the trade facilitation agenda and ensure adequate financing, especially for intraregional trade); (iii) efforts to strengthen the social component of integration; (iv) a renewed effort to deal with asymmetries between countries and regions; (v) regional cooperation on innovation and competitiveness; (vi) a joint strategy for enhancing ties with the Asia-Pacific region; (vii) regional coordination in discussions on international financial system reform; and (viii) regional cooperation to address climate change (ECLAC, 2009b, 2010a). In this context, one issue being addressed in the main subregional integration schemes is trade facilitation, in recognition of its importance as a factor in competitiveness (for a brief comparison of activities in this regard within the various schemes, see annex table III.A-1).

Most countries in Latin America and the Caribbean have continued to actively pursue negotiations for trade agreements with partners from outside the region, especially the European Union and, increasingly, Asian countries. These intensive negotiations are without doubt fuelled by lack of progress in the Doha Round, but could also be seen as a response to the abandonment or stagnation of the main trade integration projects in the region. It will be particularly interesting to follow developments over the coming months in the recently resumed MERCOSUR-European Union talks.

Negotiations with partners from outside the region can create strains within subregional integration schemes, as has been demonstrated by the talks between countries of the Andean Community and the United States and European Union.[25] Agreements negotiated by countries of the region individually with non-regional partners (particularly developed countries) may conflict with obligations they have accepted in their regional or subregional schemes, with potentially significant implications for the latter. This situation poses a major challenge to Latin American trade integration, and there are no obvious solutions. Indeed, it seems clear that several countries will continue to pursue negotiations with extraregional partners. Consequently, it seems that the different subregional schemes must retain some scope for flexibility and even variable geometry so that this situation can be accommodated.

[25] On 5 February 2010, the Plurinational State of Bolivia filed several complaints with the Andean Tribunal of Justice, calling into question certain commitments made by Colombia and Peru in relation to intellectual property under their respective FTAs with the United States in contravention of Decision No. 486 (Common Regime on Industrial Property) of the Andean Community. At the same time, the Plurinational State of Bolivia also filed several complaints against Colombia, Ecuador and Peru for non-compliance with Decision No. 667 of the Andean Community, which provides that the Andean Community shall negotiate with the European Union as a bloc. However, on the initiative of the Government of the Plurinational State of Bolivia, Decision No. 738 was adopted on 1 July 2010, which annuls Decision No. 667. It is thus recognized that, where it is not possible to negotiate as a Community, member countries may hold bilateral negotiations with third parties. As a result, the aforementioned complaints were rendered void.

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Annex

Table III.A-1

LATIN AMERICA: TRADE FACILITATION MEASURES IN THE VARIOUS INTEGRATION SCHEMES, JULY 2010

Subject	Latin American Integration Association (LAIA)	Andean Community	Southern Common Market (MERCOSUR)	Central American Economic Integration Secretariat (SIECA)
Digital certificate of origin	In progress since 2004. Technical trials are being conducted in Argentina, Brazil, Chile and Colombia.	The LAIA manual form is used. In Colombia, the electronic format has been used since 2005.	In 2009, it was agreed that paper certificates of origin would be gradually replaced by electronic ones. Pilot project in Brazil and Uruguay.	In El Salvador, electronic certificates of origin are issued for Colombia, Guatemala and Honduras through the Integrated Foreign Trade System (SICEX).
Digital signature recognition	In progress since 2004.	At the national level, this has been used in Colombia since 2005, in Peru since 2000 (established by law), and in Ecuador, since 2008.	Included in the Digital MERCOSUR project carried out in conjunction with the European Union.	In Guatemala, this has been regulated under domestic law since 2008, in Nicaragua, since 2010, and in Costa Rica, since 2009. A bill on this issue was drafted in El Salvador in February 2009.
Harmonization of technical standards and regulations	National technical regulations adopted on the basis of international standards in all countries. With regard to technical standards, all three schemes are involved in the Pan American Standards Commission (COPANT).			Significant progress has been made and work is in hand on outstanding regulations.
Harmonization of sanitary and phytosanitary standards	Not addressed.	The 2009 plan of work includes activities to establish and implement an Andean Food Safety System and update existing standards.	Common standards are compulsory as soon as they are adopted and enter into force when they have been incorporated into domestic legislation in each State party.	Significant progress made in harmonizing the criteria and procedures for the application of sanitary and phytosanitary measures. A list of products exempt from certification has been established.
Integrated border control	It has been established that national administrative procedures at border crossings will be compatible and carried out simultaneously, where possible.	The border integration and development policy (1999) defines the areas for border integration. Moderate progress to date.	Once approved by MERCOSUR, the standards are compulsory, but their entry into force is subject to their incorporation into domestic legislation.	Regional telematics platform for the electronic exchange of information (in progress).
Implementation and harmonization of customs procedures (code, regulations and single manual for customs procedures)	Not addressed.	The unified customs document and the harmonization of customs procedures entered into force on 1 June 2010.	Following the resolution of 97% of the disputes associated with defining the customs code, the code may be adopted at the MERCOSUR summit on 2 and 3 August 2010.	Customs code in force in Guatemala, El Salvador, Honduras and Nicaragua (95.7% harmonized). The ratification process is under way in Costa Rica. El Salvador, Guatemala and Honduras have made further progress towards harmonizing procedures.
Transparency and dissemination of the integrated tariff	Not addressed.	Information System on the Andean Integrated Tariff (ARIAN).	Awaiting adoption of the integrated tariff at the summit in August 2010.	An information system on the Central American tariff has been set up.
Enhance or establish regulations on customs transit	The International Customs Manifest/Customs Transit Declaration is used.	On 9 April 2010, the draft of the new version of the Community customs transit regulations, which will be more effective, was completed.	The International Customs Manifest/Customs Transit Declaration is used.	In the plan of work for July-December 2010, there are plans to sign the customs procedures for international land transport.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Secretariat for Central American Economic Integration (SIECA), the Latin American Integration Association (LAIA), the Southern Common Market (MERCOSUR) and the Andean Community.

Chapter IV

Caribbean trade and integration: trends and future prospects

A. Introduction

The global economic and financial crisis has exacerbated the economic difficulties of Caribbean economies, revealing once again their vulnerability to external shocks. To return to a more stable economic growth path, the Caribbean countries will need to tackle simultaneously four key issues: (i) deepening of subregional integration by taking concrete steps toward the implementation of commitments made thus far and correcting existing deficiencies and weaknesses of the ongoing Caribbean integration process; (ii) empowerment of institutional and human-resource capacities to take full advantage of the opportunities that trade agreements with developed economies offer, particularly the Economic Partnership Agreement (EPA) with the European Union; (iii) diversification of exports to promote value generation, knowledge incorporation and productivity upgrading in export-related activities; and (iv) enhancement of intra- and extra-regional cooperation efforts on "supply-side constraints" accompanied by increased financial resources (including those available from aid for trade (AfT) initiatives) to overcome such constraints in the face of increasingly difficult fiscal balances and limited financial resources in the region.

This chapter analyses recent trends and future prospects of the Caribbean Community (CARICOM), which is an incomplete customs union of 15 states in the Caribbean including most English-speaking countries in the region, Suriname and Haiti. This analysis of trends and the outlook for CARICOM is timely for several reasons. First, the Community is in the middle of a process of reforms to complete the Caribbean Single Market and Economy

(CSME)[1] by 2015, and it is thus useful to take stock of the progress made so far towards this goal. Second, countries in the region have been hit hard by the global economic and financial crisis, in part because their economies and public finances were already fragile before entering the turmoil. These events have diverted the attention of policymakers to mostly domestic issues, while postponing the implementation of various subregional integration commitments already in the pipeline. Third, in 2008 an EPA with the European Union entered into force. Given the potential that the EPA offers in strengthening Caribbean trade integration, it is opportune to assess the implementation status of this Agreement. Fourth, it is necessary to take stock and assess the initiatives, programmes and policies (both in place and forthcoming) aimed at diversifying the region's highly concentrated export base.

Member countries of CARICOM are very heterogeneous with population sizes ranging from 4,500 in the case of Montserrat to 10 million in the case of Haiti, while gross domestic product (GDP) (excluding Montserrat) ranged from US$ 543 million for Saint Kitts and Nevis to US$ 24.1 billion for Trinidad and Tobago in 2008 (Table IV.1). The latter country accounted for the lion share of CARICOM GDP and trade in 2008. Levels of development also vary significantly, with per capita income ranging from US$ 729 in the case of Haiti to US$ 21,683 in the case of the Bahamas. In this context, CARICOM distinguishes between less developed countries (LDCs) and more developed countries (MDCs), with the former group receiving special treatment.[2] The LDCs are more dependent on international trade taxes than the MDCs and, as such, are more vulnerable to revenue losses from tariff liberalization. In 2009, international trade taxes accounted for more than 30% of government revenue in Antigua and Barbuda, Grenada, Montserrat, Saint Kitts and Nevis and Saint Lucia. Several CARICOM members have high levels of public debt as a share of GDP. Within CARICOM, seven small islands have advanced further in their integration within the Organisation of Eastern Caribbean States (OECS).

Table IV.1
CARICOM COUNTRIES: SELECTED INDICATORS [a]

Country	Area (square km)	Population 2009 (in thousands of inhabitants)	Per capita income 2008 (in dollars)	Intra-regional trade balance 2008 (in millions of dollars)	International trade taxes as a percentage of government revenue 2009	Debt as a percentage of GDP 2009
Antigua and Barbuda	442	88	14 048	-46.4	36.5	90.2
Bahamas	13 878	342	21 683 [a]	...	...	43.6
Barbados	430	256	14 425	23.8	...	101.7
Belize	22 966	333	4 218	3.8	...	86.8
Dominica	751	74	4 882	-39.6	20.0	72.3
Grenada	344	104	6 161	-107.3	49.2	95.8
Guyana	214 969	762	1 513	-142.7	...	115.2
Haiti	27 750	10 033	729	...	...	...
Jamaica	10 911	2 700	5 438	-1 143.7	26.5	118.5
Montserrat	102	4.5 [b]	...	-10.5	35.4	6.4
Saint Kitts and Nevis	261	50	11 045	-42.2	31.7	105.2
Saint Lucia	539	172	5 854	-140.3	51.2	63.2
Saint Vincent and the Grenadines	388	109	5 479	-74.2	18.5	57.8
Suriname	163 820	520	5 888	...		25.7
Trinidad and Tobago	5 130	1 339	18 108	1 559.5	8.3	19.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "World Development Indicators (WDI)" [online database] http://data.worldbank.org/, Eastern Caribbean Central Bank (ECCB), *Economic and Financial Review*, 2009, ECLAC, *Economic Survey of Latin America and the Caribbean* (LC/G.2458-P), Santiago, Chile, 2010, and United Nations, *Demographic Yearbook 2004. Fifty-sixth issue* (ST/ESA/STAT/SER.R/35), New York, 2007.
[a] Data for 2007.
[b] Data for 2004.

1 The purpose of the Caribbean Single Market and Economy is to establish a single economic area in which businesses can operate to boost productive efficiency and foster higher levels of investment and trade integration.

2 The groups of more developed and less developed countries were defined in the Revised Treaty of Chaguaramas of 2001. Nevertheless, most of the CARICOM States have been classified as middle income countries.

B. The impact of the crisis and its aftermath on CARICOM trade

The global financial and economic crisis hit CARICOM trade hard, mainly because, as exporters of a limited number of commodities, the economies in the region depend heavily on external markets. In 2009, the value of CARICOM goods exports dropped sharply. As this region's goods exports consist mainly of fuels and other commodities, the decrease in volume was exacerbated by the drop in commodity and food prices in the same year. After posting record growth rates in the 2005 to 2008 period, exports dropped significantly in 2009, especially in Trinidad and Tobago (51%), Jamaica (50%) the Bahamas (30%), Barbados (18%) and Suriname (18%). Bearing in mind that Trinidad and Tobago, Suriname and Jamaica have large goods-producing sectors relative to the rest of the economy, these declines were very significant. Preliminary data for 2010 show that exports have begun to rebound, even though there is a great deal of variation between countries (see table IV.2). Within CARICOM, Haiti deserves special attention, as it was affected not only by the global crisis, but also suffered an earthquake in January 2010. Despite the huge human and economic losses, exports seem to have withstood the quake relatively well. [3]

CARICOM services exports suffered relatively less from the crisis. This is in part because trade in services resists better to a crisis than trade in goods, being less dependent on trade finance, less fragmented internationally and less subject to demand swings (Borchert and Mattoo, 2009). Most CARICOM economies are largely service providers, with service sectors dominated by tourism and to a lesser extent financial services. As can be seen from table IV.2, services exports achieved more moderate increases than goods exports in the past decade or so, but they withstood the crisis in a much better fashion than goods exports. The value of CARICOM services exports dropped by slightly over 10% as opposed to a 43% drop in goods exports, with Jamaica and Suriname showing even a negligible variation on 2008 levels.

Table IV.2

CARICOM: GOODS AND SERVICES EXPORTS, 2003 TO 2008, 2009 AND 2010

(In percentages)

	Goods			Services	
	2003-2008	2009	2010 [a]	2003-2008	2009
CARICOM	23.5	-43.4	4.4	6.5	-10.4
Bahamas	17.5	-30.3	-23.9	4.4	-10.7
Barbados	12.5	-17.9	4.8	8.6	-9.9
Jamaica	12.5	-49.8	-13.0	5.5	-1.5
Suriname	28.5	-17.8	-0.7	37.0	0.7
Trinidad and Tobago	29.1	-50.9	10.8	6.2	-
OECS	7.8	-2.4	2.7	4.3	-7.3
Other [b]	8.7	-2.6	-5.5	13.3	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" and "Direction of Trade Statistics" [online] http://www.imf.org/external/data.htm, and official figures from the respective countries.

[a] Refers to period January-February 2009 to January-February 2010.

[b] Include Belize, Guyana and Haiti.

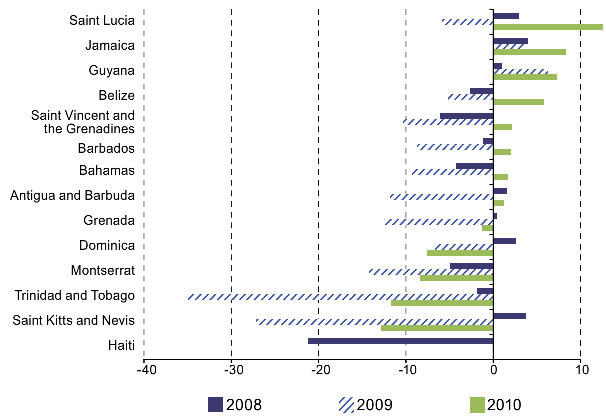
CARICOM countries have been hurt by the decline in tourist arrivals from Europe and the United States. While tourism arrivals had already begun to decline when the financial crisis broke out in the second half of 2008, most countries were hit hardest in 2009. Tourist arrivals rebounded slightly in the first quarter of 2010 for CARICOM as a whole with a 4.5% year-on-year increase. The performance of the leading CARICOM tourism exporter, Jamaica, was particularly encouraging with an 8.3% increase in arrivals in the first quarter over the same period in the previous year (UNWTO, 2010). This is especially noteworthy since this country had already recorded buoyant arrival figures in both 2008 and 2009 (see figure IV.1). Increases in the first quarter of 2010 were

[3] The earthquake that devastated Haiti on 12 January 2010 caused great human suffering —including about 220 thousand fatalities—, and large economic costs in terms of destruction and damage to dwellings, buildings and infrastructure. ECLAC (2010) estimated that the total loss and damage could amount to 20% of GDP in 2009. Even though foreign sales dropped in January, they rebounded rapidly. Exports are highly concentrated in textile and apparel products, which are mainly produced by 23 plants and sold to the United States. The earthquake completely destroyed one, and seriously damaged four others. However, after five months, most plants are again operational with employment attendance rates largely back to pre-quake levels (Hornbeck, 2009).

also posted for the second and third CARICOM travel exporters, Bahamas (+1.6%), and Barbados (+2%). In particular, the Bahamas was successful in its "Companion Fly Free Programme", which brought increases in forward bookings and allowed the hotel sector to reintroduce last-minute offers to fill spare capacity. Nevertheless, the general consensus is that the recovery —especially in receipts— will most likely not make up for the decline experienced during the recession, as demand in source markets remains low and prices have been cut to attract visitors.

Even though in 2009 the drop in the value of goods exports surpassed by a wide margin the fall in the value of services exports, paradoxically, the countries specialized in the former suffered less than those specialized in the latter. capacity. Nevertheless, the general consensus is that the recovery —especially in receipts— will most likely not make up for the decline experienced during the recession, as demand in source markets remains low and prices have been cut to attract visitors. The decline in 2009 in the value of goods exports, (mainly fuels and commodities) was due principally to a drop in prices and only marginally to a reduction in volumes sold. In contrast, in the case of services exports, the drop in the value and the fall in volume were similar as their prices varied little. In other words, the decline in the volume of goods sold was smaller than the fall in foreign sales of services. Services producers lost more as a percentage of their GDP than goods producers. Of this latter group, Guyana and Suriname actually posted positive economic growth in 2009, while Trinidad and Tobago showed only a small drop in its GDP. The services-oriented economies of CARICOM, including the Bahamas, Barbados, and the OECS economies experienced sharper falls in GDP.

Figure IV.1
CARICOM: ANNUAL VARIATION IN TOURISM ARRIVALS, 2008, 2009, 2010 (FIRST QUARTER)
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Tourism Organization (UNWTO).

C. Medium-term trends in the Caribbean trade structure

1. General characteristics

As all CARICOM economies are small, foreign trade is crucial. These countries rely heavily on exports to finance imports, also referred to as the "external or balance of payments constraint". The economic development of these countries is in part restricted by the value of imports —crucial not only for consumption but also for investment and intermediate inputs—, which in turn depend on the volume of exports.[4] Except for Trinidad and Tobago, Guyana, Belize and Suriname, service exports are the main source of foreign exchange for financing the expansion of imports for production in the CARICOM economies. To alleviate the external constraint, these countries can also use foreign direct investment, official aid and multilateral assistance and debt accumulation to pay for their imports.

The increase in export intensity of CARICOM over time is shaped by Trinidad and Tobago alone. For the Community as a whole, the ratio of exports of goods and services to GDP rose from 46% in 1990 to 55% of GDP in 2008 (figure IV.2). The growing share in trade over time reflects two opposite trends: whereas goods exports grew

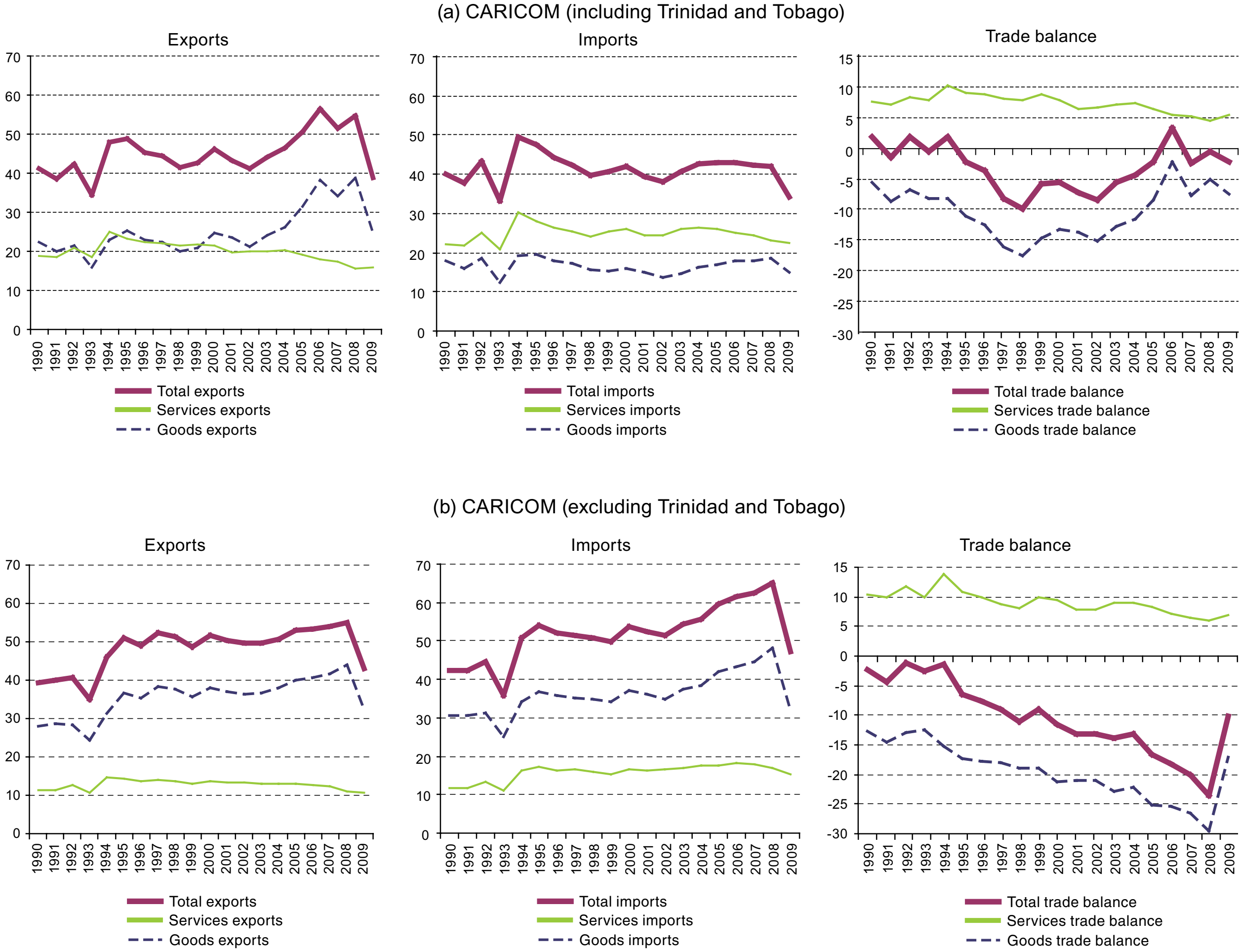
4 In the short run, imports can also be financed by capital inflows, including foreign direct investment. But in the long run, the sustainability of the current account depends in large part on exports of goods and services.

faster than GDP between 1990 and 2008, foreign sales of services grew more slowly, resulting in an increasing share of the former but a declining share of the latter. The growing export intensity of goods for CARICOM reflects the growing foreign sales of one single member: Trinidad and Tobago. When this country is excluded, the intensity of goods exports is stable at best. The trend in services exports to GDP ratio is very similar when Trinidad and Tobago is excluded.

As a share of GDP, goods imports have grown from 1990 to 2008, whereas proportional service imports have remained quite low. The goods imports intensity has increased over time, both for Trinidad and Tobago, and the other CARICOM members. In contrast, imports of services have been stable in the past two decades at around 10% of GDP (see Figure IV.2).

The evolution of the trade balance of CARICOM is strikingly different when Trinidad and Tobago is excluded. The improvement in the regional trade balance between the end of the 1990s and 2006 is mostly due to the dynamic export performance of Trinidad and Tobago. In 2006, this balance even showed a positive sign for the first time since 1994. When the largest regional economy and exporter is excluded, the trend changes completely towards a growing deficit until the economic crisis of 2009.

Figure IV.2
CARICOM: EXPORTS OF GOODS AND SERVICES AS A SHARE OF GDP, 1990-2009
(Percentages)



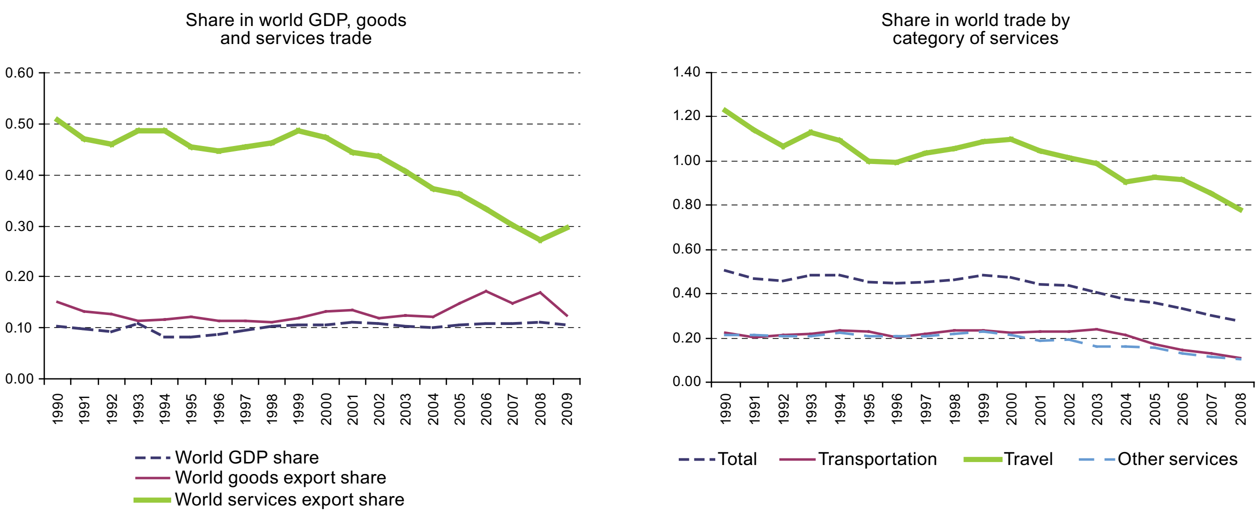
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Balance of Payments Statistics [online] http://www.imf.org/external/data.htm, and World Bank, “World Development Indicators (WDI)” [online database] http://data.worldbank.org/.

The share of CARICOM in world GDP and goods trade has been relatively stable in the past 20 years, and reflects the dynamism of a few countries and stagnation of the rest (see figure IV.3). The recent upward trend in its global goods trade share mainly reflects the dynamics of the booming foreign sales of natural gas and petroleum of one single member: Trinidad and Tobago. Guyana and Suriname have also been relatively dynamic commodity exporters. The other members of CARICOM, however, have been characterized by a stagnant performance in goods exports. This trend has been attributed to the erosion of trade preferences, high energy costs, the impact of trade liberalization and the rise of China in manufacturing.

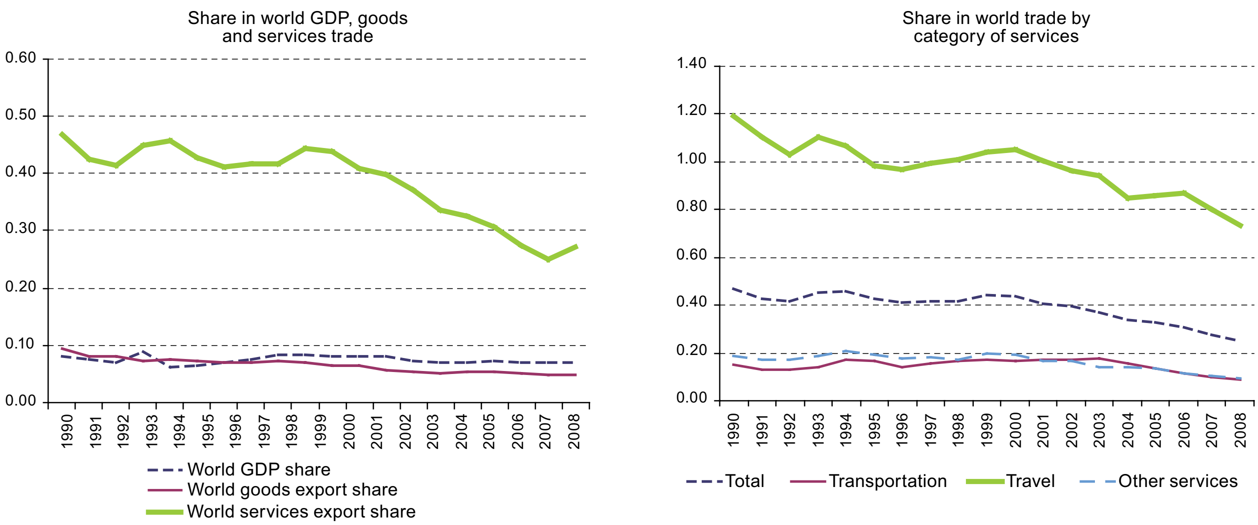
The group has lost market share in the world trade in services. CARICOM services exports have been unable to keep pace with the growth of the global trade in services, and therefore its share in that trade declined steadily after the mid-1990s (see right panel of figure IV.3). In particular, the region lost market share in "other services", which include telecommunications, computers, and financial and business services. This is significant as "other services" is the fastest growing part of world trade in services.[5] CARICOM has a comparative advantage in tourism services, with a 1.2% share in world trade in this category in 1990. Over time, however, the group lost competitiveness and its market share dropped to below 0.8% in 2008. The region also saw its share in world trade in transport services decline (from 0.2% to 0.1% between 1990 and 2008).

Figure IV.3
CARICOM: SHARE OF WORLD GDP, GOODS AND SERVICES TRADE, 1990-2009
(Percentages)

(a) CARICOM (including Trinidad and Tobago)



(b) CARICOM (excluding Trinidad and Tobago)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm.

[5] Over the past two decades, the growth of world trade of services outpaced that of goods trade, benefitting the opportunities created by the widespread use of information technology which has made services more tradable than some decades ago.

Regional GDP and goods exports are increasingly dominated by Trinidad and Tobago, whereas more countries contribute to regional services exports. As GDP and goods exports figures of Trinidad and Tobago increased faster than those of any other CARICOM member from 1990 to 2008, its shares in regional GDP and regional exports almost doubled to nearly 40% and 70%, respectively (table IV.3). Correspondingly, the shares of all other countries and groups in regional GDP and exports fell during the same period. The goods export performance of the OECS countries –due mainly to the erosion of trade preferences in bananas– has been particularly weak, resulting in a large drop in its share of regional trade. The dynamics of the country composition of regional service exports is more heterogeneous, with growing shares for the OECS, Belize, Guyana and Suriname at the expense of the share that of the Bahamas.

Table IV.3
SHARE OF MEMBERS IN TOTAL CARICOM GDP, GOODS EXPORTS AND SERVICES
(Percentages)

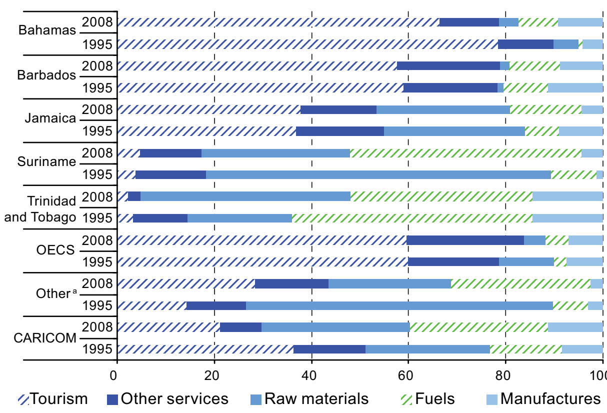
	GDP			Goods exports			Services exports		
	1990	2000	2008	1990	2000	2008	1990	2000	2008
Bahamas	15.0	16.0	10.7	5.4	5.5	3.6	34.3	26.8	24.0
Barbados	7.4	7.5	5.2	4.2	3.3	1.7	15.0	13.8	15.5
Jamaica	22.3	26.1	20.6	22.7	18.5	9.4	23.5	27.5	26.4
Suriname	7.7	2.3	3.4	15.9	4.7	6.5	0.8	1.2	2.7
Trinidad and Tobago	21.7	23.8	38.2	37.4	50.7	70.5	7.5	7.5	8.7
OECS	6.7	8.0	6.5	6.9	4.1	1.7	15.1	16.4	13.8
Other [a]	19.2	16.4	15.4	7.5	13.2	6.6	3.8	6.7	8.9
CARICOM	100	100	100	100	100	100	100	100	100

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm, and World Bank, "World Development Indicators (WDI)" [online database] http://data.worldbank.org/.
[a] Include Belize, Guyana and Haiti.

CARICOM countries, with the exception of Trinidad and Tobago, Guyana and Suriname, are predominantly service exporters. Although CARICOM as a whole mostly exports goods, this mainly reflects the export basket of Trinidad and Tobago. For the other economies, excluding Suriname, service exports accounted for over 50% of total exports of goods and services in 2008 (figure IV.4).[6] Service exports are concentrated in tourism, especially for Barbados, The Bahamas, and the small island states of the OECS. The dynamics of the country composition of regional service exports is more heterogeneous, with increasing shares of the OECS, Belize, Guyana and Suriname at the expense of the share held by the Bahamas. Service exports are concentrated in tourism, especially for Barbados, the Bahamas, and the OECS small island states. In Jamaica, exports are almost evenly divided between goods and services, and tourism is followed closely by exports of raw materials and of other services.

Regarding goods exports, the economies in the region have added value to these goods. This is suggested by the reduction in the share of commodities and concomitant increase in the share of manufactures and fuels from 1990 to 2008.

Figure IV.4
THE CARIBBEAN: COMPOSITION OF EXPORTS BY GROUPS OF GOODS AND SERVICES, 1995 AND 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm, and the United Nations Commodity Trade Database (COMTRADE).
[a] Include Belize, Guyana and Haiti.

Although little has changed in the overall pattern of destinations of CARICOM exports over the past two decades, some major variations have taken place at the country level. The United States has remained the main export destination, representing over 40% of the community's foreign sales. The European Union

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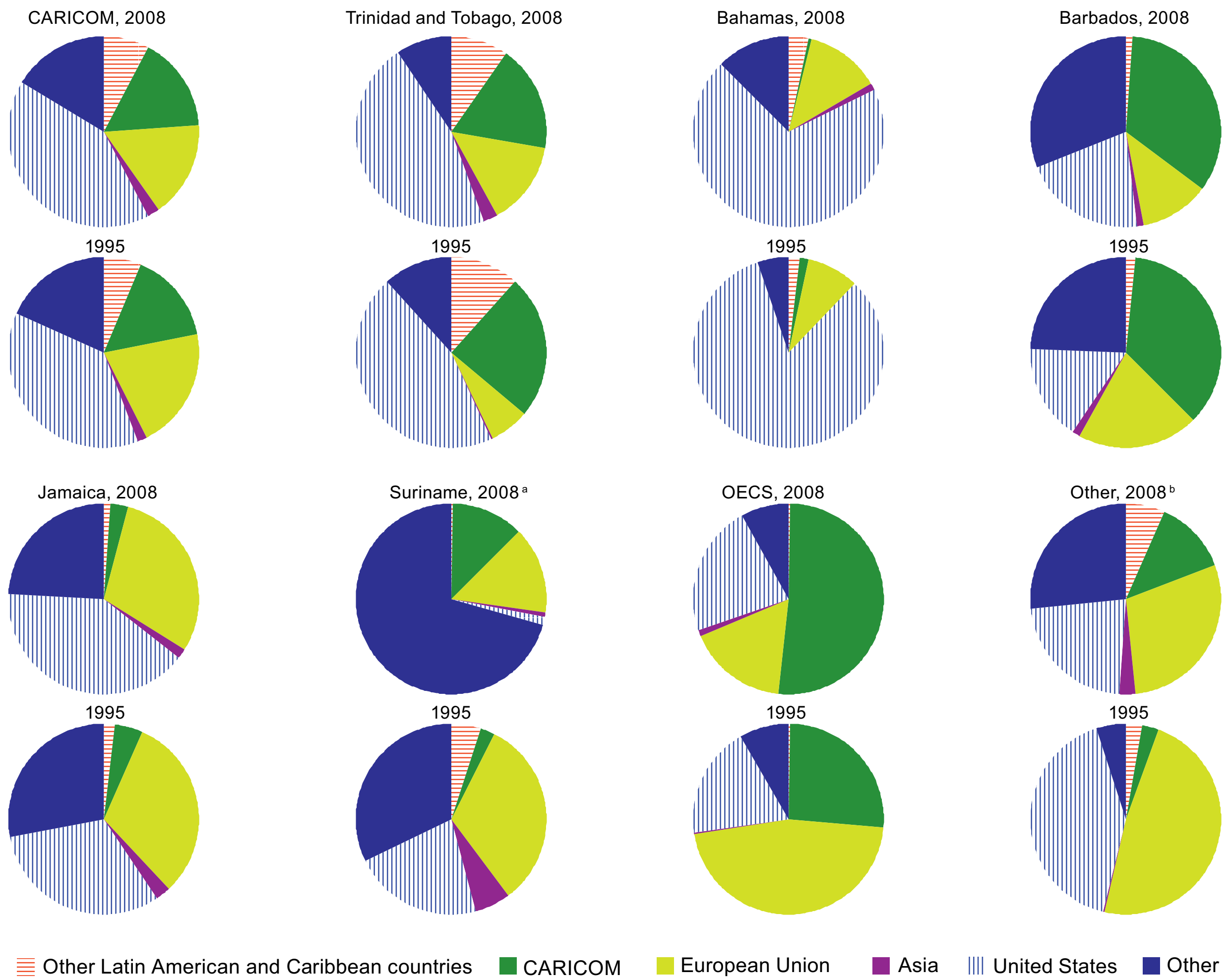
6 This contrasts with the composition of imports of all CARICOM members, which mainly consist of manufacturing products.

has also maintained its relative share over the years. The only noteworthy change is the small increase in the share of exports within the subregion. Less than a quarter of total exports are sold to the Latin American and Caribbean countries (Figure IV.5). The geographical export composition varies strongly between members: intra-subregional trade accounts for an insignificant share of foreign sales in the Bahamas and Jamaica, whereas it represents half of total exports in the case of the OECS group. CARICOM doubled its share as an export destination for goods from OECS over the past 1.5 decades, which points to the success of the special treatment within CARICOM of these countries, aimed at boosting their subregional exports.

Figure IV.5
CARICOM: GOODS EXPORTS BY DESTINATION, 1995 AND 2008



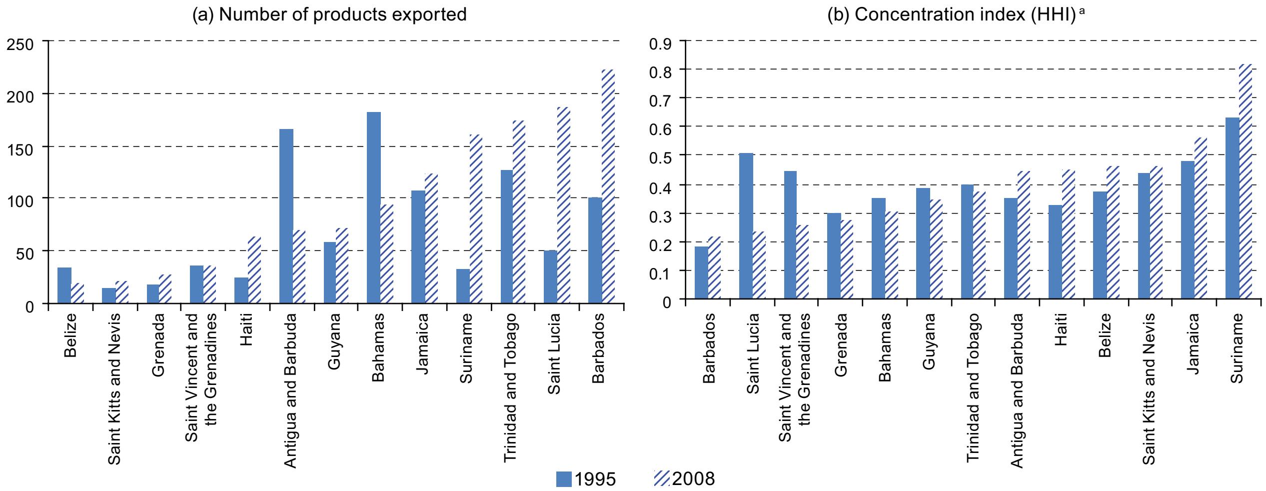
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).
[a] The results for Suriname in 2008 should be interpreted with caution as most exports are not attributed to specific destinations.
[b] The other countries include Belize, Guyana and Haiti.

The product composition of exports by destination country shows significant variations in the case of Jamaica, the Bahamas, Barbados, and the OECS islands. Jamaica mostly sells raw materials such as metal ores to the European Union and Asia, and mostly food products and manufactures based on natural resources to other CARICOM countries and the United States. The Bahamas and Barbados have an opposite structure, with commodities dominating intraregional exports, food products being exported to the EU, and mainly manufactures being sold to the United States. In the case of the OECS islands, exports to the United States are dominated by manufacturing, especially electrical parts, whilst fuels and raw materials are the main exports to the

EU. Intraregional exports from these islands are mainly petroleum products and foodstuffs.

CARICOM exports are concentrated in a few goods and tourism services. The high concentration of goods export, coupled with the heavy reliance on tourism in some countries and declining competitiveness, increases the vulnerability of the region to external shocks. Despite the preferential access to the markets of its major trading partners, CARICOM goods exports are concentrated in a narrow range of products. Over the period 2001-2006 the top 20 goods exported consisted of four agricultural and food products, six minerals and ores, four manufactured goods and six fuel-related products (World Bank/OAS, 2009). Moreover, the concentration of the region's goods exports has increased over time. The top 20 goods exported accounted for 70% of total exports of goods in 2006 compared with 51% in 1997. Despite the fact that most countries increased the number of products exported over time, several experienced an increase in the concentration of their goods exports, including Antigua and Barbuda, Belize, Haiti, Jamaica and Suriname (figure IV.6).

Figure IV.6
CARICOM: GOODS EXPORTS BY NUMBER OF PRODUCTS AND CONCENTRATION INDEX



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), Handbook of Statistics 2009 [online] http://stats.unctad.org/Handbook/ReportFolders/reportFolders.aspx.
[a] The concentration index is the Herfindahl-Hirschman index. It ranges from 0 to 1, with 1 being maximum concentration.

Poor export performance in both agriculture and manufacturing in most CARICOM countries has been compensated in part by a shift to tourism services, particularly in OECS. Several countries have become highly specialized in this industry, with tourism receipts accounting for over 50% of total exports of goods and services in Antigua and Barbuda, Barbados, the Bahamas, Dominica, Saint Kitts and Nevis and Saint Lucia in 2009. Nonetheless, the region has lost market share in world tourism trade and cruise passenger arrivals to more competitive Hispanic Caribbean destinations (World Bank/OAS, 2009).

As part of their efforts to diversify exports, some countries have increased their export share of non-traditional goods and new services such as entertainment. While the share of these new exports may not be very large, they hold great promise in the European Union Economic Partnership Agreement.

2. Intra-CARICOM trade

Intra-subregional trade is a relatively small but growing share of total trade and is skewed towards a few countries and a handful of products. The share of exports to CARICOM members in total exports grew from 10% in the period 1991-1994 to 15% in 2005-2008. Intraregional exports are increasingly dominated by Trinidad and Tobago, accounting for 80% of all intraregional exports in 2008, up from 55% in 1990. This country mainly sells natural gas and petroleum to Jamaica, Barbados, Guyana and smaller amounts to other countries. Energy products from Trinidad and Tobago represented 65% of all intraregional exports in 2008. Low cost energy and production restructuring in the late 1990s have given Trinidad and Tobago a competitive advantage in this sector. Other products traded regionally are food (12%) and different types of other manufactures like construction materials and chemicals (9%). For the smaller economies of CARICOM, however, intra-subregional trade is very important. The OECS countries, in particular Saint Vincent and the Grenadines, Grenada and Dominica, sell half of their exports in the subregional market. Over time, trade links have also increased between OECS and Belize and Suriname.[7]

As regards imports, most goods purchased in the region come from Trinidad and Tobago. This country represents over 80% of CARICOM intra-subregional imports, and about 90% of subregional imports for Bahamas, Jamaica and Suriname.

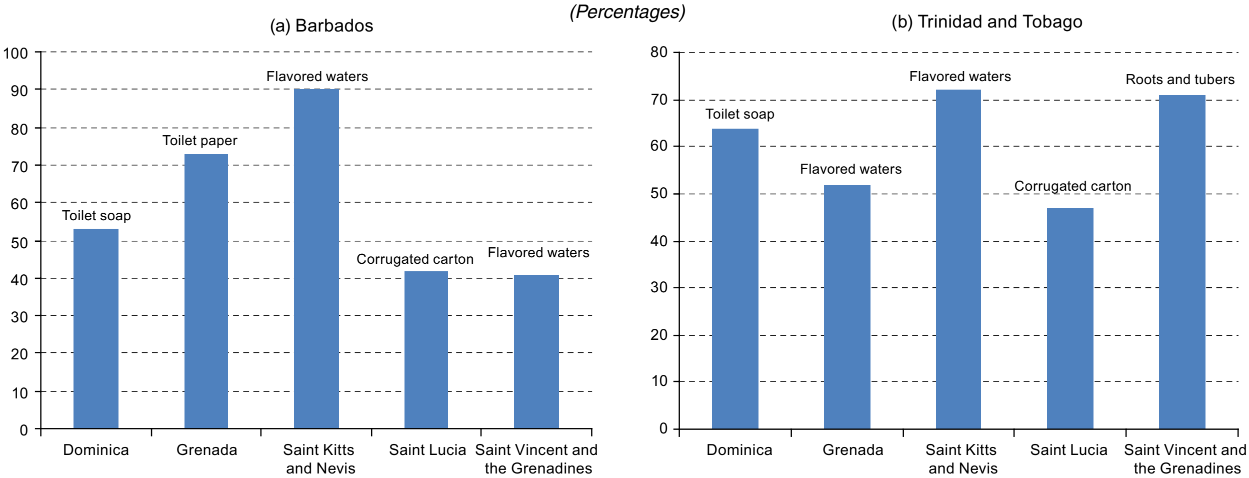
The intraregional trade balances differ widely between CARICOM members, reflecting in part the winners and losers in CARICOM internal exchanges. Trinidad and Tobago posts large surpluses thanks to its exports of gas and petroleum products. In contrast, the small OECS countries incur large deficits. The same is true for Jamaica, where the regional market accounts for less than 3% of its total exports of goods. The OECS countries are at a disadvantage in intra-subregional trade due to the small scale of production and high costs of energy and logistics.

CARICOM members trade few and mostly different products among themselves. In other words, intra-subregional trade is mostly of the inter-industry type. The concentration of the subregion's goods exports has increased over time, with the top 5 goods accounting for 85% of total goods exports in 2008 compared with 75% in 1995. Countries that experienced an increasing concentration of intraregional goods exports over the period 2000-2008 include Antigua and Barbuda, the Bahamas, Belize and Jamaica.

Intra-subregional exports are more concentrated than foreign sales to the rest of the world. The main product exported to the subregion accounts for a higher percentage of the total than in the case of exports to the rest of the world. In Antigua and Barbuda and Trinidad and Tobago, petroleum products represent around 70% of their total exports to the subregion. In Dominica, over 50% of intraregional exports are chemical products including soaps, while in Belize, Guyana, and Haiti, the top products are agricultural goods and also represent around half of the total. The smaller CARICOM economies are basically mono-exporters, with 1 or 2 products accounting for most exports (see figure IV.7).

CARICOM countries still have room to better exploit the opportunities for intra-industry trade that arise from regional integration. Nevertheless, the small size and scale of economies in the region makes it unlikely that intra-subregional trade will account for a large share of total trade. Instead, these economies will need to promote their integration in international value chains, especially with their main trading partners being the European Union and the United States (Duran, 2010).

Figure IV.7
BARBADOS AND TRINIDAD AND TOBAGO: SHARE OF MAIN PRODUCT IN IMPORTS FROM OECS MEMBERS, 2006
(Percentages)



Source: Esteban Pérez Caldentey, "An analysis of OECS economies intraregional trade trends", 2009, unpublished.

7 The exports from the OECS to these two partners have grown fast. The OECS sub-regional partners represent 40% of OECS intra-subregional exports, with Antigua and Barbuda and Saint Lucia each accounting for a 10% share of exports (World Bank/OAS, 2009).

Box IV.1

CARICOM STRENGTHENS TIES WITH BRAZIL

In a bid to strengthen its external relations, the Caribbean Community (CARICOM) attended a series of bilateral meetings in the early months of 2010 with Australia, Brazil, Japan and United States, as well as the second round of negotiations with Canada for the adoption of a trade and development agreement.

The meeting with Brazil was particularly successful. The first CARICOM-Brazil summit took place in Brasilia on 26 April 2010. Its outcome, the Brasilia Declaration, reaffirmed the commitment to integration between Latin America and the Caribbean and to the achievement of a just and democratic society based on peace and cooperation, combating poverty, inequality and all forms of discrimination, on multilateralism, sustainable development and the pursuit of a world free of conflict and nuclear weapons. In addition, 60 memoranda of understanding were signed, including 47 bilateral agreements for technical cooperation in areas such as health, education, culture, energy, agriculture, civil protection, disaster management, transport and tourism. Of particular importance was the decision by the Government of Brazil to become a non-borrowing member of the Caribbean Development Bank (CDB). This initiative has been submitted for approval by the Congress of Brazil and would involve Brazil's making a substantial contribution to the Bank's Special Development Fund. Brazil has also proposed setting up a Brazilian fund for the Caribbean Disaster Emergency Management Agency (CDEMA) in order to improve regional coordination of humanitarian actions. These measures are designed to mitigate and respond to natural and social disasters, as well as to collaborate with the reconstruction efforts of the CARICOM member countries, in particular Haiti. The President of Brazil, Luiz Inácio Lula da Silva, has stated his support for the negotiation of a free trade agreement between the Southern Common Market (MERCOSUR) and CARICOM.

During the period 1999-2008, international trade between CARICOM and Brazil expanded very strongly: Caribbean exports to Brazil increased on average by 27.4% per year, while imports grew by 39.8%, before falling back sharply during the 2009 crisis. Nevertheless, the trade balance has been traditionally negative for CARICOM, whose imports from Brazil in 2009 were 16 times higher than its exports to that country. The 2009 CARICOM trade deficit with Brazil stood at US$ 3 billion, down from the peak of US$ 4.4 billion recorded in 2008. While CARICOM exports to Brazil consist mainly of commodities, in particular chemicals and salts, minerals, and iron and steel, its imports from that source include a very wide variety of goods, ranging from agricultural products to high-tech manufactures.

At the bilateral meeting between CARICOM and Brazil, attention was drawn to the huge imbalance in these trade flows and both parties agreed that ways and means of reducing it should be found; trade in services might be boosted by organizing a CARICOM trade mission to Brazil, a mission to CARICOM by the Brazilian Export and Investment Promotion Agency (APEX) and preliminary consultations between APEX and its counterpart regional export promotion bodies within CARICOM, including the Caribbean Export Development Agency and the Caribbean Association for Industry and Commerce (CAIC). The Government of Brazil also expressed its willingness to prepare a specific study on the pattern of Caribbean exports to Brazil, based on shared information with the CARICOM Secretariat.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the text of the Brasilia Declaration and press information from the Caribbean Community (CARICOM).

D. Regional integration and treatment of asymmetries

1. Context and achievements

Governments and businesses in the region have had a long-standing motivation to promote integration and cooperation in trade and other areas to overcome the constraints of the small size and limited resources of their economies. Economic integration is critical to enhance the region's competitiveness, promote development and facilitate integration into the global economy. A larger market created by integration can promote economies of scale and allow firms to gain the export experience required to penetrate extra-regional markets. Integration also encourages pooling of resources to reach common goals more effectively.

Regional trade integration in the Caribbean has been gradual, and dates back to 1958. In that year, the Federation of the West Indies was created and included all Commonwealth territories except Bahamas, Belize and Guyana. After independence in 1962, both Trinidad and Tobago and Jamaica withdrew and the Federation collapsed. Following several Heads of Government Conferences, an agreement was signed in 1965 to form the Caribbean Free Trade Association (CARIFTA). In 1973, presidents decided to transform the FTA into a common market under the Treaty of Chaguaramas, which created the Caribbean Community (CARICOM). In 1992, members agreed to establish the CARICOM Single Market and Economy (CSME), which was formalized under the Revised Treaty of Chaguaramas of 2001 and entered into force in 2006. All in all, the CARICOM integration process has amply surpassed, at least in its intentions, those existing in the rest of the Americas.

The integration process has taken a long time in part because of the special case of several small and less developed economies in the region, which have special needs. Seven of the smaller and less developed members of CARIFTA formed the East Caribbean Common Market (ECCM) in 1968. In 1981, the Organization of Eastern Caribbean States (OECS) was established under the Treaty of Basseterre. The OECS countries created an economic union in 2010, which allows for the free circulation of goods, services, labour, capital and the establishment of a common external tariff. Most OECS members States have a common monetary authority (Eastern Caribbean Central Bank, 2009) and share a common currency as well as other joint bodies such as the judiciary.

Currently, CARICOM is implementing the Caribbean Single Market and Economy (CSME) in two phases. The originally agreed time frame was 2006 to 2015 with two sub-phases: the single market (2006 to 2009) and the single economy (2010 to 2015). In the single market, all barriers to trade in goods and services, and the movements of several labour categories should be eliminated . The implementation of the single economy further deepens the integration process by harmonizing the regulatory regime and economic policies and introducing a monetary union.

Important progress has been made towards the implementation of CSME as evidenced from several developments. Today, CARICOM is, like other regional integration schemes, an imperfect customs union. First, most CARICOM members have signed, ratified, and enacted into domestic law the 2006 Revised Treaty of Chaguaramas. The exceptions are the Bahamas and Montserrat, which decided to stay out of CSME, and Haiti which has postponed the enactment. Second, the free intra-regional circulation of goods is almost a fact, as tariffs on goods originating in the countries of the common market were eliminated in the 1990s. Several of the non-tariff barriers have also been removed, and a schedule has been adopted to abolish unauthorized import duties and discriminatory taxes. Third, all countries, except the Bahamas, have adopted the Common External Tariff (CET), which has itself been substantially reduced. The unweighted average import tariff came down from 20% in the early 1990s to 10% in 2009 (World Bank/OAS, 2009). Fourth, CARICOM has adopted a common trade policy towards external partners, albeit with some exceptions. For this purpose, the Caribbean Regional Negotiating Machinery (CRNM) was integrated in CARICOM in 2008 and renamed the Office of Trade Negotiations (OTN). Fifth, progress has also been made on free intraregional trade in services, the main comparative advantage of the region, for which all members have adopted a negative list whereby all sectors and measures are to be liberalized unless otherwise specified. Sixth, all member countries have put in place legislation to permit the free movement of highly skilled personnel, including university graduates, media workers, sportsmen, artists and musicians to provide a service or establish a business. Another important achievement was the establishment of the Caribbean Development Fund. The fund seeks to alleviate the difficulties faced by some disadvantaged members in the transition to an integrated market for goods and services.

Major progress has also been in made in functional cooperation in different areas, such as the arts, education, financial supervision, fisheries, health, security and sports. Progress in these areas can be attributed to the desire of Governments of the region to pool scarce resources to achieve common objectives in areas which, unlike free trade, are not viewed as threats to domestic economic interests (see box IV.2).

Box IV.2

COOPERATION INITIATIVES WITHIN CARICOM

In the arts, education and sports, examples of the joint cooperation are the Caribbean Festival of Arts (CARIFESTA), the establishment of the University of the West Indies and the Caribbean Examinations Council Cooperation, and the CARIFTA sports games.

On financial issues, CARICOM members signed the Liliendaal Declaration in 2009 to contain the effects in the region of the global financial crisis and reform the financial sector in the region. The Declaration introduces new guidelines and regulatory standards for the sector and fosters regional collaboration. It also calls for increased transparency, early warning systems and stress tests.

In fisheries, the Caribbean Regional Fisheries Mechanism (CRFM) is developing a Master Plan on Sustainable Use of Fisheries Resources for Coastal Community Development in the Caribbean. In 2009, it reviewed a baseline survey, draft plan and project activities. In energy, the Caribbean Renewable Energy Development Programme (CREDP) has stepped up its activities with new funds from donors, and in-kind contributions from the Organization of American States (OAS) and regional Governments.

On social issues, achievements in the area of health include the Pan Caribbean Partnership against HIV/AIDS (PANCAP), the Caribbean Food and Nutrition Institute and the Caribbean Environmental Health Institute. Moreover, the Caribbean Public Health Authority (CARPHA) formed a resource mobilization team and established its main campus in Trinidad and Tobago in 2009. In the field of security, the CARICOM Implementation Agency for Crime and Security (IMPACS) will introduce a CARICOM Travel Card (CARIPASS), which will reduce travel restrictions for CARICOM residents at regional airports. Other security initiatives address the issue of violent crimes fuelled by the illicit trade in guns and ammunition and the impact of deportees in the Caribbean. Lastly, in 2007 a Caribbean Catastrophe Risk Insurance Facility (CRIFF) was established, which has made payments to Dominica and Saint Lucia (2007), Turks and Caicos Islands (2008) and Haiti (various occasions).

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

2. The OECS Economic Union

The OECS has achieved a deeper level of integration than CARICOM. Within CARICOM, the Organisation of Eastern Caribbean States (OECS) is a subregional integration arrangement among nine small islands.[8] OECS has achieved a deeper level of integration than CARICOM. In addition to free trade, OECS has a single currency and a number of common institutions that provide common services. These include a central bank, securities exchange, a judiciary and security system, joint pharmaceutical procurement service, joint diplomatic missions, telecommunications regulatory body and a regulatory body for civil aviation. The treaty establishing the OECS economic union was signed on June 18, 2010.[9] It is expected that all OECS member states will ratify the treaty by January 2011.

The OECS economic union differs from CSME in that the former establishes a governance structure that will render decisions taken by the OECS Authority legally binding for all member Governments. This arrangement should allow the OECS union to make more rapid progress than CSME. Owing to their small size and to the lack of a national critical mass for implementing any undertaking, the OECS countries of are subject to binding resource constraints and intensifying global competition and are more willing to give up some sovereignty in exchange for deeper integration to facilitate economic growth and human development. Another difference is that, unlike CSME where movement of labour is restricted to approved categories, OECS nationals will be able to live and work in any other country of the union without restrictions.

3. Areas for improvement

Notwithstanding the progress towards the establishment of the Caribbean Single Market and Economy (CSME), progress has been relatively slow in several areas. Issues that could be improved include:

(a) Circulation of goods and the common external tariff

There is broad scope for tariff suspensions and reductions and national derogations from the common tariff, although all members, except the Bahamas, have adopted the Common External Tariff (CET). To compensate for the loss of government revenue relating to the reduction of the CET, several of the smaller members have introduced compensatory measures such as stamp duties, import surcharges, and discriminatory rates of the consumption tax. Moreover, even though the CET is lower than a decade ago, it remains high for some product groups and tariff dispersion is important. The latter causes inefficiency and hinders the Community's market access negotiations with third countries. Also, this factor may cause trade diversion (World Bank/OAS, 2009).

Free movement of goods within the single market is still being hindered by non–tariff barriers such as phytosanitary standards and technical barriers to trade. This reflects the limited progress that has been made towards harmonization of sanitary and phytosanitary measures and technical standards. The CARICOM Regional Organisation for Standards and Quality (CROSQ) was established in 2003 to promote the harmonization of standards. However, the ability of CROSQ to fulfill its mandate has been limited as only five member countries have enacted the agreement establishing the organization into domestic law. Another factor restricting the movement of goods is the unauthorized use of taxes on regional goods by some members.

8 The nine OECS members are: Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Anguilla and British Virgin Islands are associate members.

9 Caribseek Jamaica news http://news.caribseek.com/Jamaica/article_87396.shtml.

(b) **Services trade**

To promote development of services industries and exports, there is a need for the free movement of capital, skilled labour and managerial expertise. Services exports are viewed as having the most potential for the diversification of Caribbean economies given relatively high wage rates that render the region uncompetitive in labour-intensive manufacturing and agriculture (The World Bank, 2005). In this context, increased competition in services within the regional market is necessary to improve competitiveness and prepare service industries for entry into extra-regional markets.

Intra-subregional trade in services is restricted by various factors. For example, most CARICOM countries have not yet implemented licensing mechanisms for service providers. There are also impediments to the right of establishment including work permit requirements and discrimination in the granting of fiscal incentives. Moreover, some sectors, such as air and maritime transport and financial services, continue to face constraints in their trade. In these activities, existing restrictions are not well identified, which explains in part why there is no agreement on a schedule for their removal. Also, CARICOM lacks a common services regime and this complicates the negotiation and implementation of services agreements with external trade partners (The World Bank, 2009).

(c) **Free movement of capital and labour**

Free movement of factors of production is essential for the progress of the single market. Exchange controls on intra-subregional movement of capital have been abolished in most member states but movement of labour is restricted to university graduates and other approved categories. This has been raised as a concern by CARICOM nationals with respect to the status of the CSME. Intra-subregional travel still requires passports but a Caribbean travel Pass (CARIPASS) is being introduced to facilitate hassle-free intra-subregional travel for frequent travellers. The free movement of skilled persons has generated some controversy with some member Governments in the region. They have expressed concern about the potential impact of increased competition in their domestic labour markets. This concern is probably overblown, as only 6,210 skilled persons moved abroad within the region from 1996 to 2008 (CARICOM Secretariat, 2009).

(d) **Institutional factors**

A major constraint is the non-binding nature of decisions made by the various organs of the Caribbean Community. This problem is exacerbated by the absence of sanctions for non-implementation of decisions. Repeated recommendations for the establishment of a CARICOM Commission with executive authority to manage the implementation of decisions and to insulate them from direct political interference have been made since the early 1990s but have not been acted upon.[10]

(e) **The crisis and other factors retarding the implementation process**

Several recent trends have slowed down the implementation process of the CSME. First, the global economic and financial crisis has dealt a harsh blow to the Caribbean economies whose economies and public finances were already fragile. CARICOM economies are experiencing rising fiscal deficits, widening trade deficits and increasing external debt. The adverse economic developments have reduced the pace of market integration. Moreover, the post-recession adjustment has been pursued at the individual country level (particularly in the case of the MDCs) thereby reducing the relevance of the single market and economy strategy.

The fiscal crisis also tightened further the financial constraints in several member Governments. Therefore, the implementation of regional integration programs depends largely on the availability of external funding. The speed of implementation is thus partly determined by the ease with which external funding can be obtained and the quantity of funds available. For example, the disbursement mechanism of funds under the European Development Program is quite cumbersome and bureaucratic, leading to slow release of funding.

Effective functioning of the single market also requires coordination and harmonization in fiscal policy. The Revised Treaty (2001) requires member states to harmonize their fiscal and monetary policies. So far, progress in this area has been limited to regular meetings of the CARICOM finance ministers and governors of the central banks. The Community has not yet implemented binding rules and procedures for policy coordination, nor have members integrated convergence criteria into the budget formulation processes. De facto, a large heterogeneity of fiscal indicators and trends can be observed among members. Much remains to be done in the fields of harmonization and rationalization of tax systems, synchronizing investment incentives, as well as financial policy. In the latter area, some regional coordination has been taking place in response to the recent financial crisis.

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10 Nevertheless, steps have been taken to improve the institutional framework. One such step was the establishment in 2001 of the Caribbean Court of Justice whose role is to settle disputes.

The definition and implementation of common sectoral policies and competition policies is another crucial element for the successful implementation of the single market. The establishment of framework conditions is not sufficient to promote economic growth and development. CARICOM has to define a regional development strategy that pools scarce resources from several small countries in a bid to reach common and national goals. The CARICOM Revised Treaty puts emphasis on such policies, in particular in the fields of industry, agriculture, transport, and human development. Despite expressions of good intentions, no regional policies have been defined yet. This may be due to a lack of human and financial resources, as well as a lack of political will that prioritizes regional goals over national ones (The World Bank/OAS, 2009).

Progress has also been slow in the fields of the harmonization of competition policies and regulations for consumer protection. The CARICOM competition policy has only been implemented in Barbados and only three member states have implemented the CARICOM consumer protection regime.

Another factor impeding progress is the weak technical and administrative capacity of member Governments, in part due to financial constraints. OECS countries find it difficult to provide adequate staff for trade ministries. This constraint has been recognized by high income trading partners. Consequently, the development agencies of some of these partner countries are providing financial and technical assistance to strengthen the capacity to implement the single market and economy.

4. Incomplete implementation of special and differential treatment (SDT) provisions

In CARICOM, special and differential treatment of the less developed countries has been a feature of the integration arrangement since its infancy. This issue was included in the supplemental agreement to the Agreement establishing the Caribbean free Trade Association (CARIFTA) in 1968, which identified as one of its objectives the equitable distribution of benefits among member countries (Article 2).[11] CARICOM has classified the countries of the Organization of Eastern Caribbean States and Belize as less developed countries (LDCs) and has accorded them differential treatment (ECLAC, 2007b).

CARICOM has a broad range of measures to assist its LDCs but implementation has been slow and incomplete. These measures are defined as the "special regime for LDCs" and set out in chapter seven of the Annex to the Treaty of Chaguaramas of 1973, including both trade and finance provisions. By explicitly providing for the financial needs of the LDCs, the CARICOM "Special Regime for LDCs" represents a change in the conceptualization of SDT provisions (ECLAC, 2007b). However, the SDT provisions in the Treaty of Chaguaramas were never fully implemented. Emphasis was placed on the provisions of Article 56, which protected, with some success, the domestic markets of LDCs, but the promise of the innovative financial provisions of the special regime was never realized.[12] A significant weakness of the special regime for the LDCs is the absence of guaranteed differential treatment. As noted by (ECLAC, 2007b), "a regime addressing the needs of the less developed countries of CARICOM should include more than 'good endeavour' or 'conditional clauses or provisions'. In fact it should include a set of provisions providing for asymmetric treatment to level the playing field." (ECLAC, 2007b, p. 32).

[11] Under the CARIFTA agreement, LDCs were allowed to suspend duty free treatment of imports from the more developed countries to protect production in their domestic economies and mitigate government revenue losses.

[12] Article 56 achieved some success to the extent that market protection facilitated the establishment of light manufacturing industries producing products such as beverages, soaps, footwear, paints, and varnishes and corrugated galvanized sheets (ECLAC, 2007b). In addition, available data show that article 56 products account for more than half of intra-OECS trade and provide employment to about 7,000 workers. While article 56 promoted intra-OECS trade, the evidence suggests that the provisions were less successful in promoting LDC exports to the MDCs. Member countries of OECS have recorded persistent and growing intra-CARICOM trade deficits since the 1990s. For the OECS as a whole, the intra-CARICOM trade deficit increased from US$ 125 million in 1995 to US$ 460 million in 2008 (ECLAC, 2007b) (p. 11-12).

The Revised Treaty of Chaguaramas (2001) maintained several provisions of the old Treaty. Special and differential treatment is outlined in chapter VII of the new Treaty and encompasses the special regime for LDCs as well as a regime for countries, regions and sectors that are disadvantaged by the establishment of the CARICOM Single Market and Economy (Article 142). The designated disadvantaged countries are the OECS member states, Belize and Guyana. The special regime for LDCs is contained in articles 160-167. Articles 161, 162, 163 and 166 are clauses of good endeavour in which the needs of the LDCs are to be "taken into account". Therefore, as was the case under the old Treaty, the LDCs should be granted differential treatment in the application of the common external tariff, rules of origin and the fiscal incentives regime. Articles 160 and 164 are conditional clauses. Article 164 replaces article 56 of the treaty of Chaguaramas, whose provisions expired in December 2005. While article 164 provides for the suspension of community origin treatment on the grounds of production in the LDCs, such suspension is granted for economic reasons and is temporary.

The OECS member states have recommended modifications to the application of Article 164 which provides for the suspension of community origin treatment on the grounds of production in the LDCs, to improve its effectiveness. In particular, the OECS recommends that quantitative restrictions be replaced by tariffs in order to protect and expand the OECS domestic market share (ECLAC, 2007b). According to the OECS recommendation, the tariffs would be levied at higher than existing rates hence the CET would have to be suspended. The tariffs would also be applied on a temporary basis with the time frame for their application being dependent on financial and economic considerations. In addition, the OECS member states have requested that the MDCs suspend CET treatment with respect to third countries for beer, malt and flour (ECLAC, 2007b).

The CARICOM Development Fund (CDF), which started operations in 2009, is the main mechanism for financial and technical assistance to disadvantaged countries. Its assistance is temporary, and insufficient to address the structural bottlenecks of the LDCs. CDF is aimed at facilitating investment promotion and mobilization, handling of structural diversification and infrastructure development needs, and enterprise competitiveness and alleviating the social and economic impact of natural disasters. It has been suggested that CDF should focus on the basic requirements for economic development including human capital, investment in research and development and infrastructure (ECLAC, 2007b). Nevertheless, a funding mechanism to address temporary dislocation would still be necessary.

A shortcoming of CDF is the absence of secure funding for its operations. CDF began operations in August 2009 and will offer loans, grants and technical assistance to disadvantaged member States. Its capital fund is expected to stand at US$250 million. Member countries are required to contribute $120 million, with the remainder to be obtained from international donors. However, as of July 15, 2010, the capital fund stood at US$82 million. In addition, CDF has received technical assistance grants from the European Union (834,000), Finland (300,000), Luxembourg (300,000) and the Caribbean Development Bank (US$ 149,000).[13] Much remains to be done to meet the target set for external contributions to the capital fund. The dependence on external funding reflects the fact that, except for Trinidad and Tobago, the more developed countries of the region lack financial resources.

The fund's capitalization is small compared with the needs of the region.[14] Indeed, its total capitalization is smaller than the total aid for trade AfT inflows to CARICOM countries for 2007.[15] Moreover, the proposed size of loans is relatively low, ranging from US$0.5 to US$4.0 million.[16] In light of the limited resources available to CDF, it may be useful to consider alternative approaches in assisting CARICOM countries to adjust to the CSME. One approach that has been suggested is the provision of additional resources to the Caribbean Export Development Agency to facilitate direct assistance to exporters particularly from the LDCs (The World Bank/OAS, 2009).

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13 Data provided by CDF.

14 The Board of CDF approved two country assistance programmes in July 2010 for Saint Lucia and Belize but details of the amount of assistance could not yet be confirmed.

15 Calculations by the Economic Commission for Latin America and the Caribbean based on WTO figures (2009).

16 Data provided by CDF.

E. The Economic Partnership Agreement (EPA) with the European Union

The 2008 Economic Partnership Agreement (EPA) between the countries of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) (CARICOM plus the Dominican Republic) and the European Union (EU) represents a fundamental shift in the region's trade relations with the European Union. A central objective of the Agreement is the promotion of sustainable development in the CARIFORUM countries. Under the EPA, the non-reciprocal trade preferences traditionally offered by the European Union have been replaced with a free trade agreement. While the EPA is essentially a free trade agreement, it also includes investment and development cooperation. The European Union is promoting regional integration as the main underpinning of the EPA; this is deemed necessary to expand markets and promote international competitiveness.

Given the institutional and supply-side capacity constraints of CARIFORUM countries, the development cooperation provisions are aimed at capacity-building to enable these countries to better exploit the trade provisions of the EPA. Article 8 of the EPA provides for a wide range of support measures. These include technical assistance to build human, legal and institutional capacity to implement the agreement; support measures to promote private sector and enterprise development; assistance to enhance international competitiveness; support for export diversification; support for the development of infrastructure; assistance for institution-building for fiscal reform and support to strengthen capacity to comply with international sanitary and phytosanitary standards, technical standards, labour standards and environmental standards.[17]

Some Caribbean academics have expressed concerns that the European Union funds available are inadequate for this purpose (Brewster, Girvan and Lewis, 2008). The development cooperation components of the EPA also need to be more specific with programmes, resources, targets and expected development outcomes.

1. Liberalization commitments

The EPA opted for an asymmetrical approach to tariff liberalization to take account of the lower level of development of the CARIFORUM countries. Effective January 1, 2008, the EPA grants duty free and quota free (DFQF) access to the European Union market for all CARICOM goods, except sugar and rice in respect of which DFQF treatment was postponed to October 2009 and January 2010, respectively. These market access conditions are better than those of the Cotonou Agreement, which excluded some exports from DFQF treatment. CARIFORUM goods imports will be liberalized gradually over a 25 year period.[18] Some agricultural products have a long phase-in period, whereas other are excluded from tariff liberalization; they include animal products, vegetable products, animal or vegetable fat, prepared foods, beverages and tobacco. Other excluded products are chemicals; textiles and clothing; base metals and miscellaneous manufactured articles.

As CARIFORUM countries have a comparative advantage in services, market access in this area is crucial. The European Union's commitments in services are consistent with the CARIFORUM countries potential

17 The funding to be provided by the European Union includes €165 million under the 10th European Development Fund (EDF) and €454 million allocated for national indicative programmes linked to regional integration. Five of these programmes will target competitiveness while three programmes will contribute to governance and public administration reform and three will focus on infrastructure. In addition, 50% of the European Union's trade-related assistance under its Aid for Trade programme is allocated to ACP countries (European Commission, 2008).

18 Over the first ten years, 61% of CARIFORUM imports from the European Union in value terms will be liberalized, 83% over 15 years and 87% over 25 years. The remaining 13% is excluded from liberalization.

for development of service exports. The European Union has granted market access to most service sectors (see table IV.4). In addition, the European Union liberalization commitments in mode 4 exceed those made by developed countries under the General Agreement on Trade in Services (GATS). The mode 4 commitments are valuable for CARIFORUM given the region's comparative advantage in labour-intensive services and skilled labour.[19]

Table IV.4
ECONOMIC PARTNERSHIP AGREEMENT CARIFORUM - EUROPEAN UNION: SERVICES COMMITMENTS BY MODE OF SUPPLY

Mode	Liberalization commitments
Mode 1 Cross border supply	All services except: Audio-visual services, national maritime cabotage, air transport services and services directly related to the exercise of traffic rights
Mode 2 Consumption abroad	All services except: services provided via telecommunications
Mode 3 Commercial presence	All services except: Audio-visual services, national maritime cabotage, air transport services and services directly related to the exercise of traffic rights
Mode 4 Presence of natural persons	(i) Temporary presence of key personnel, graduate trainees and business service sellers in all sectors open to commercial presence Duration of temporary presence limited to: - Three years for intra-corporate transfers - One year for graduate trainees - Ninety days within any twelve-month period for business service sellers (ii) Contractual service suppliers allowed access in 29 service sub-sectors - Duration of temporary presence limited to six months per year - Contractual service suppliers required to have three years of professional experience and to satisfy qualifications requirements (iv) Independent professionals allowed access in eleven service sub-sectors Required to have six years professional experience and to satisfy qualifications requirements

Source: European Commission, "CARIFORUM-EU Economic Partnership Agreement: an Overview" [online] http://ec.europa.eu/development/icenter/repository/cariforum_eu_epa_information_paper_overview.pdf, (2008).

Services commitments are also asymmetrical. While the European Union liberalized more than 90% of its services sectors, the CARIFORUM service commitments cover between 65% and 75% of their services sectors, except in the case of the Dominican Republic, which opened more than 90% of its services sectors. The services sectors liberalized by CARIFORUM countries are sectors in which the region is seeking investment to upgrade infrastructure such as telecommunications, environmental services and transport, as well as sectors that provide opportunities for export development, such as tourism and business services. The CARIFORUM commitments in mode 4 are limited to key personnel and graduate trainees in EU firms that establish commercial presence within the region.

2. Status of implementation

The implementation of the EPA has been slow. One major impediment is the delay in the establishment of institutional arrangements required for effective implementation. The chief decision-making body for EPA, the Joint CARIFORUM-EU Council, did not convene until May 2010. At the CARICOM Secretariat, an implementation unit responsible for coordinating implementation of the EPA was established only in February 2009, while few members have established EPA implementation units (Antigua and Barbuda, Barbados, the Bahamas, Dominican Republic and Jamaica).

Another obstacle is inadequate funding. Most CARIFORUM countries face fiscal constraints, aggravated by the recent economic and financial crisis. They need external financial assistance to implement the EPA. However, the funding of 165 million euros proposed by the European Union under the 10th European Development

[19] The region exports both unskilled workers (domestic workers, hotel workers, farm workers) and skilled workers including teachers and nurses.

Fund (EDF) is considered inadequate by CARIFORUM Governments (Brewster, Girvan and Lewis, 2008).[20]

Unresolved differences between CARICOM and the Dominican Republic also may slow down implementation of the EPA. An important difference relates to tariff treatment for the Dominican Republic's exports to CARICOM. Some CARICOM Governments are reluctant to grant the Dominican Republic the same tariff treatment granted to the EU as required by the EPA (Jessop, 2010).

3. Potential benefits and costs

The European Union's emphasis on regional integration as the foundation of the EPA implies that implementation of the CSME as well as closer integration between CARICOM and the Dominican Republic are essential for smooth progress of the EPA. Acceleration of regional integration must therefore be given priority.

The potential benefits of duty-free and quota-free access to the European Union market for CARIFORUM goods will vary across countries. The Dominican Republic and Trinidad and Tobago are best positioned to take advantage of market access for goods given their relatively dynamic manufacturing sectors. For other CARIFORUM countries, exports to the European Union are concentrated in sugar and bananas. Given the lack of competitiveness of these countries in these traditional agricultural commodities, exporters are adversely affected by preference erosion despite DFQF market access.[21] CARIFORUM countries therefore need to use the new market access provided by the EPA as an opportunity to diversify their exports.

The net benefit to CARIFORUM from tariff liberalization on imports from the European Union depends on whether the revenue losses outweigh the potential gains. The reduction in government revenue due to removal of tariffs will aggravate fiscal deficits. This is likely to be most problematic for those CARIFORUM countries that rely heavily on taxes on international trade as a source of government revenue. Estimates of the annual revenue loss from tariff liberalization indicate that the CARIFORUM countries likely to face the highest revenue loss over the first tranche of liberalization (2011-2013) are the Bahamas, the Dominican Republic and Antigua and Barbuda (Stevens, Meyn and Kennan, 2009). This implies that these countries will need to take immediate steps to introduce alternative tax measures to compensate for the revenue loss. Early disbursement of the financial assistance promised by the European Union is also critical.

CARIFORUM countries will gain from tariff liberalization on imports from the European Union to the extent that it results in access to cheaper capital equipment and intermediate inputs. CARIFORUM countries are lagging behind in technology and are heavily dependent on imported capital goods. Access to cheaper imports of capital equipment from the European Union offers opportunities for technological upgrading and improved export competitiveness.

The provisions of the EPA regarding trade-related measures require adoption and implementation of international standards that will entail substantial costs for CARIFORUM countries. These measures include sanitary and phytosanitary standards and technical barriers to trade. The shortage of the technical personnel required to implement the required policies is also a constraint.

The services provisions of the EPA offer potential benefits that CARIFORUM countries need to take advantage of. In particular, European Union commitments in mode 4 (temporary presence of natural persons) offers opportunities for CARICOM countries to enter new areas besides tourism and entertainment. Examples are professional services and educational services. Moreover, opportunities for the temporary movement into the European Union market have the potential to reduce the brain drain, to the extent that such movement may reduce emigration of skilled persons.

Capitalizing on the opportunities offered by market access for services will require strengthening of the capacity of CARIFORUM to supply services, including improvement of institutional arrangements for registration and certification of service providers and modernization of regulatory frameworks. The financial and technical assistance for service sector development promised by the European Union will be a

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20 Technical Centre for Agricultural and Rural Cooperation (CTA), (2010) "CARIFORUMCOM Tells EC 10th EDF Inadequate", [online] Http://brussels.cta.int/index.php?option=com_k2&id=3490:Cariforum-thttp://brussels.cta.int/index.php?option=com_k2&view=itemlist&month=8&year=2009, 2010.

21 In the case of the banana industry, preference erosion due to reduction in tariffs on Latin American bananas has already reduced exports. Banana exports from OECS declined from 140,495 tonnes in 2000 to 55,079 tonnes in 2008 (OECS Secretariat).

critical determinant of whether CARIFORUM is able to take advantage of enhanced access to the European Union's services market. The opening of the CARIFORUM services market to European Union service providers could benefit CARIFORUM economies by enhancing the competitiveness of other exports, as access to imported services can improve efficiency and reduce costs of production.

The agreement for progressive liberalization of investment, while helpful, may not be sufficient to generate increased inflows of foreign direct investment (FDI) into CARIFORUM countries. CARIFORUM countries have agreed to liberalize investment in most sectors including agriculture, mining, manufacturing and services. The exclusions include small and medium-sized enterprises, public utilities, processing of nuclear materials, audio-visual services, national maritime cabotage and air traffic rights.[22] Nevertheless, realization of increased inflows of FDI depends on the investment climate in CARIFORUM countries. Promotion of macroeconomic stability, creation of a skilled workforce, provision of adequate infrastructure and development of strong and independent institutions will have to be given priority so as to improve the investment climate.

CARIFORUM countries are likely to benefit from the wide range of cooperation provisions in the EPA. These encompass technical assistance and capacity-building in the development of competition policy, cooperation in the development of CARIFORUM innovation systems, institution-building for fiscal reform and cooperation in eco-innovation and renewable energy.

4. Regional response to the EPA

The CARIFORUM response to the EPA has been mixed. Some countries have established EPA implementation units and are pursuing a strategy designed to take advantage of the opportunities offered by the EPA. This strategy emphasizes diversification of exports and improving competitiveness. Policies being implemented to support this strategy include strengthening the private sector, building trade capacity and attracting foreign investment. In the cases of Jamaica and the Dominican Republic, FDI from the EU is being used to upgrade infrastructure and expand tourism accommodation. At the regional level, the Caribbean Export Development Agency (CaribExport) has implemented European Union-funded programmes to inform firms about export opportunities under the EPA, as well as to enhance export capacity. In contrast, the President of Guyana has expressed the view that the EPA is inappropriate for vulnerable CARIFORUM countries and should be reviewed (Girvan, 2009). Regional academics, notably Brewster, Girvan and Lewis have expressed concern that the EPA provisions relating to development assistance are not legally binding (Brewster, Girvan and Lewis, 2008).

F. Challenges for export diversification and the role of aid for trade

Export diversification is critical for various reasons. First, export diversification is beneficial in itself, since it helps to reduce terms-of-trade variability and it also cushions the effects of real external crises. Second, export diversification is usually closely related to changes in production structures that tend to promote knowledge incorporation and increases in productivity. Lastly, export diversification can help create new comparative advantages. International data show that in many cases comparative advantages are obtained by entering new fields of activity, based on a learning process stemming from direct production experience, investment in human capital and institutional development, as well as in the development of private-sector companies, including micro-enterprises.

22 EPA Agreement Annex IV (see [online] http://www.sice.oas.org/Trade/CAR_EU_EPA_e/AnxIV_e.pdf.

1. Incipient examples of export diversification and related policies

Despite the overall increase in export concentration, the region shows several incipient examples of successful export diversification. Recognizing the need for export diversification, several CARICOM member States have mainstreamed their trade strategies into their national development plans. These plans contain various policies to develop new types of exports, including the establishment of free trade zones; provision of tax incentives; cluster development; private-public sector partnerships; improvement of infrastructure; creation of a favourable business climate; private-sector development; provision of market information services; improvement of access to credit for small and medium-sized enterprises; establishment of export financing schemes and provision of export facilitation services (World Trade Organization/ IADB, 2009).

Barbados, Guyana, Saint Lucia and Saint Vincent and the Grenadines are diversifying their agricultural sector, often in response to the decline of banana exports. In Barbados, diversification is being pursued through production of West Indian Sea Island cotton and value added food industries as well as the diversified use of sugarcane (Springer, 2010). Guyana launched an agricultural export diversification programme in 2008 to promote agri-business clusters in fruits and vegetables, livestock and aquaculture. In Saint Lucia, recent policies have focused on the provision of infrastructure, including a tissue culture laboratory; an orchid-production facility; a meat-processing plant; an aqua-culture facility and a fisheries facility. In Saint Vincent, new agricultural exports include mangoes, avocados, plantains, sweet potatoes, taro and hot peppers. Policies used to encourage diversification include investment incentives, upgrading of physical infrastructure such as roads and ports and microcredit programmes for small and medium-sized enterprises (USITC, 2008).

There are also several examples in the manufacturing and energy sectors. In Trinidad and Tobago, petroleum and natural gas have been used to develop new types of petrochemicals including methanol, ammonia and urea. This was achieved through the attraction of private investors and government participation in joint ventures with foreign investors. To take advantage of low energy costs, an aluminum smelter (ALUTRINT) was built and several other manufacturing industries were promoted including plastics, packaging, printing, and food and beverages. A further expansion of the plastics industry is planned (USITC, 2008). Grenada has developed a mineral and aerated water industry, and has created niche markets for products such as jams, jellies, syrups, liqueurs and a nutmeg-based pain reliever. Guyana is pursuing the development of alternative energy sources including hydro power and bio-fuels.[23]

Most CARICOM members are diversifying their tourism sector. Grenada has created a yachting niche market by investing in yachting infrastructure (International Trade Centre, 2007). Guyana is also targeting niche sectors such as yachting, birding and eco-tourism. Trinidad and Tobago are increasing the stock of conference facilities and hotel rooms in Trinidad and Tobago to attract more business tourists and making arrangements to increase airlift. A new Maracas Bay beach facility is planned for completion in 2012. Tobago is to be marketed as a diving and eco-tourism destination.

Another niche market that is being promoted is information technology (IT) services or IT-enabled services, in particular in Guyana and Jamaica. Guyana is upgrading its telecommunications infrastructure, liberalizing its telecommunications market and modernizing the regulatory framework for this sector. In Jamaica, policies include the provision of the relevant infrastructure —in particular, the Jamaica digiport to provide the required telecommunications services—, the establishment of a free-trade zone in Montego Bay to attract foreign investors into the industry, and the creation of a training institute to develop the required skills (Jamaica Promotions).

Financial services are also being developed by several members. In Saint Lucia, the regulatory framework for the international financial centre is being strengthened to comply with international standards and improve the prospects for expansion of exports of financial services. The Money Laundering Prevention Act of 2010 has been enacted and negotiations are underway for the signing of additional Tax Information Exchange Agreements (TIEAs) with foreign countries. Saint Lucia is also seeking to sign double-taxation agreements to promote the competitiveness of its international financial centre. In Trinidad and Tobago, specific initiatives include the establishment of the Trinidad and Tobago International Financial Centre (TTIFC), a Management Company to manage the financial centre, the creation of a Special Purpose Economic Zone (SPEZ) to attract international firms and the reform of the regulatory framework for the financial sector.[23]

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[23] Government of Trinidad and Tobago (2010) Budget Statement.

Lastly, several CARICOM members have promoted creative industries recently. The efforts across the region were centred initially in the bigger economies of the region (Trinidad and Tobago, Barbados and Jamaica), but later on also permeated the policy discourse and initiatives of the smaller OECS economies of . Exports of the creative industries currently represent only a small part of total extraregional trade, but reach 15% of total exports for some smaller CARICOM members (see Box IV.3).

Box IV.3
CREATIVE INDUSTRIES

The development of creative industries (CI) is a recent initiative launched by several CARICOM members to diversify their export base. CI encompass multiple activities linked to music, film, and arts and crafts among others, based on individual talent and creativity. These activities can be an important contributor to exports, GDP and employment. They differ from commodity or traditional service a ctivities as they depend largely on endogenous rather than exogenous factors. Also, their development is not necessarily subject to economies of scale. Finally, they have forward and backward linkages to other traditional and non-traditional sectors.

In several CARICOM countries, CI contribute significantly to trade, GDP and employment. In Jamaica, these industries accounted for 4.8% of GDP and 3% of employment in 2005 (WIPO, 2007). Moreover, this sector has the potential to increase its exports more than four times compared with other economic activities (James, 2010). In Trinidad and Tobago, these activities represented 0.5% of goods exports and 6% of service exports in 2006 (Ministry of Trade and Industry) and employed about 11,000 people (mainly in music and Carnival). In Barbados, employment in the cultural sector also amounts to 11,000 persons.

The growth of creative industries has been stimulated by several policies. In Jamaica, entertainment is identified as a priority sector in the national export strategy. Policies used to encourage film production include tax incentives, active export promotion, and a “one-stop-shop” for the provision of services required by film production companies. This “one-stop-shop” assists foreign film producers to find suitable locations, actors and production crews (United States International Trade Commission) (USITC, 2008). The Government of Barbados has also identified the creative industries as a key pillar of its economic development. Draft legislation (the Cultural Industries Bill) provides exemptions from corporation or income tax and import duties for “cultural practitioners and approved corporate, governmental and other entities as a means of facilitating the requisite investment and capitalization for cultural projects”. Saint Lucia created a National Endowment for the Creative Industries (2010-2011), whose aim is to promote the creative sector by formalizing existing financial assistance to local artists.

Source: Esteban Pérez Caldentey and Nanno Mulder (2010), “The creative industries in CARICOM: trade trends, economic impact and policy responses”, *Comercio internacional series*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), forthcoming.

2. Supply-side constraints

Export diversification in CARICOM countries is mostly constrained by supply side factors and not lack of market access. Insufficient open markets of trading partners are not an issue given the multiple preferential trade arrangements. CARICOM countries benefit from preferential access to the markets of their major trading partners under the Generalized System of Preferences (GSP) offered by developed countries as well as other arrangements including the Caribbean-Canada Trade Agreement (CARIBCAN) and the Caribbean Basin Initiative (CBI) with the United States.

The export performance of CARICOM suggests that market access by itself is not sufficient to promote export diversification. Available data indicate that the utilization rate for the CBI and CARIBCAN has been low, averaging between 10% and 12% (World Trade Organization/IADB, 2009). The utilization rates for individual countries vary from 33% for Trinidad and Tobago to minuscule rates for the small OECS countries (World Trade Organization/IADB, 2009). It has also been argued that preferences have promoted inertia and reduced the capacity for diversification (The World Bank/OAS, 2009)(The World Bank, 2005). It should be noted that some CARICOM members, such as the Bahamas and Barbados, do not receive preferential treatment from their trading partners owing to their high per-capita income .

The poor response to non-reciprocal trade preferences has been attributed to supply-side constraints (World Trade Organization/IADB, 2009) (ECLAC, 2007a). First, the physical infrastructure (including roads, ports and telecommunications) is inadequate. This is true not only for the small islands, but also for larger countries such as Guyana and Suriname. The Global Competitiveness report (2009-2010) ranked the quality of Guyana’s infrastructure at 91 out of 133 countries, while Suriname’s infrastructure was ranked at 86. Second, a shortage of skilled personnel affects several countries of the region. The World Bank (2005) notes that "skill shortages now appear to be an acute hindrance to increased firm competitiveness in some Caribbean countries" (p. 146). Other constraints include high energy and telecommunications costs, inadequate access to capital, low levels of innovation, an underdeveloped enterprise sector, weak institutions and underdeveloped financial markets (World Trade Organization/IADB, 2009). In the case of the smaller islands the inability to take advantage of economies of scale contributes to high production costs and lack of competitiveness (The World Bank/OAS, 2009).

Another important factor is the pattern of specialization that has been promoted by the incentive structure in the region. While the region has attracted relatively high inflows of FDI, this investment has for the most part failed to develop new types of products or services. The incentive policy employed in the region has focused on the use of tax incentives to attract maximum FDI, rather than on policies for attracting FDI into new dynamic sectors. This incentive policy has reinforced specialization in resource-based activities including mining, agriculture and tourism (ECLAC, 2003). In addition, the foreign enterprises in the Caribbean tend to have limited linkages with the rest of the economy.

3. The role of aid for trade

External assistance through aid for trade (AfT) is essential for overcoming the various supply-side restrictions in the CARICOM countries. This need has become even more urgent since the recent crisis, which further aggravated the already weak public finances in the region.

AfT can enhance export development and diversification in CARICOM. This can be done by helping members to adjust to and exploit opportunities arising from (unilateral, bilateral regional or multilateral) trade liberalization, as discussed at the Second Regional Review of aid for trade for Latin America and the Caribbean, held in Montego Bay, Jamaica, on 7 and 8 May 2009). First, AfT can help to lower the costs of labour-market dislocation and mitigate revenue losses due to lower tariff barriers.[24] Second, AfT can assist the region to implement the provisions of trade agreements, such as the CARIFORUM-European Union Economic Partnership Agreement.[25] Third, AfT can help countries to take advantage of opportunities created by trade agreements by improving the region's infrastructure (transportation, communications, and customs infrastructure) and national and regional institutions (customs houses, standard-setting bodies and agreement implementation units). Third, AfT can help producers to meet standards demanded by private buyers, which may exceed the official ones set by trading partners. Fourth, AfT can enhance the capacity of private-sector firms to produce innovative goods and services and to penetrate export markets. Fifth, AfT can serve other purposes such as sharing experiences that encourage countries to implement reforms, promoting value chain analysis and facilitating South-South cooperation.

Recently the number of AfT initiatives underway in the Caribbean has substantially increased. First, the European Union is supporting the Caribbean trade and private sector development programme, implemented by the Caribbean Export Development Agency. Phase I of this programme (2.6 million euros) was completed in June 2007, while Phase II (7.9 million euros) will end in 2011. Second, the United Kingdom funds the Caribbean aid For trade and Regional Integration Trust Fund (CARTFund) (5 million pounds), which is administered by the Caribbean Development Bank. Third, a German technical cooperation project is being implemented by the Caribbean Export Development Agency. The three-year project, started in 2010, will provide 4 million euros to the beneficiary countries. Lastly, IDB, the United Kingdom Department for International Development (DFID) and the Canadian International Development Agency (CIDA) are financing a "Compete Caribbean Program" (US$ 32.5 million), launched in March 2010 for 4 years.

As a result, the AfT commitments to CARIFORUM countries increased from US$ 290.9 million during 2002-05 to US$ 315.2 million for 2007. The largest commitments were made to the Dominican Republic, Haiti, Guyana and Jamaica. Most funds were committed for building economic infrastructure and productive capacity which are critical for export diversification (Organisation for Economic Co-operation and Development (OECD), Creditor Reporting system cited in (World Trade Organization, 2009).

24 For example, the estimated revenue loss for CARIFORUM countries over the period 2011-33 due to tariffs liberalization under the EPA is 502 million euros, incurred mainly by the Bahamas, Dominican Republic, Saint Vincent and the Grenadines and Trinidad and Tobago (Stevens, Meyn and Kennan, 2009).

25 This would include financial and technical assistance to comply with obligations such as sanitary and phytosanitary regulations and overcome technical barriers to trade and competition policy. The cost of implementing the EPA has been estimated at US$ 400million (World Trade Organization/IADB, 2009).

There is room for improvement in the implementation and effectiveness of AfT. The main deficiencies that Caribbean officials identified in the AfT initiatives include unpredictability of funding, insufficient focus on development of local capacity and too little input from Caribbean countries in the design of AfT interventions (World Trade Organization/IADB, 2009).

G. Conclusions and recommendations

The global economic and financial crisis has exacerbated the economic difficulties of Caribbean economies and exposed their vulnerability. Fostering integration into the global economy is essential to prevent the marginalization of the region. This requires the deepening of integration to strengthen economies and promote growth. Diversification of exports, developing local skills and gearing them towards knowledge-based activities will also be necessary to reduce economic vulnerability and promote economic growth and productivity. As financial resources of the Caribbean countries are very limited, aid for trade has an important role to play in strengthening the capacity of the economies of the region to take advantage of international trade opportunities.

Export promotion is of the utmost importance for all CARICOM countries, in particular because they face a major external constraint on their economic growth and development. The recent economic, financial crisis has only aggravated this situation. Over the medium term, the value of imports is limited to the value of exports. Smaller economies can only build their economic infrastructure and develop through foreign direct investment and by enhancing local capacity, such as creative industries and microenterprises, or by building resource-based and technological industries. It follows that countries must earn the foreign exchange required to finance their imports. In other words, they must export or, more to the point, their import capacity cannot exceed their export potential. In the long run, countries must maintain equilibrium in their balance of payments. Countries can only grow over the long run at rates of growth compatible with their external position. In this regard, countries are said to be balance-of payments constrained. This is the main reason why the performance of small open economies and their pattern of development have been and are shaped to a great extent by the vicissitudes of the external sector. Any policy experiment, whether monetary or fiscal, which fails to take this into account, will be short-lived and ultimately, policymakers must reconcile themselves to this reality.

Over the medium term, CARICOM economies went through a period of restructuring of exports and production after the collapse of the European Union price support and the WTO push for trade openness. Several economies have switched from goods to services exports in the search for new engines of growth. The crisis has arrested this process, which calls for fiscal consolidation while stimulating medium term growth. This is the key challenge.

Policy recommendations can be made in several areas. With regard to Caribbean regional integration, it is key to accelerate the pace of regional integration, to promote international competitiveness and facilitate integration into the global economy. Therefore, CARICOM needs to establish a mechanism for managing the implementation of decisions taken by the Heads of Government Conference in order to advance the integration process. Non-implementation of decisions is a long-standing problem and has delayed the progress of regional integration. CARICOM should take the necessary action to remove the remaining obstacles to effective functioning of the single market. These include completion of the harmonization of sanitary and phytosanitary measures and technical standards; removal of unauthorized taxes on regional goods; implementation of the CARICOM consumer protection regime; removal of work permit requirements for services providers and implementation of licensing arrangements for service providers.

The implementation of the single economy component of the CSME, which should have started in 2008, needs to be fast-tracked. In particular, the Revised Treaty of Chaguaramas provides for the development of a common trade policy and coordination of policies to promote the development of critical economic sectors including industry, agriculture and transport. This creates opportunities for the integration of development and trade policy that will allow the region to maximize the benefits gained from trade agreements. The implementation of regional decisions depends largely on external financial assistance. Increased financial support for regional integration should therefore be provided to the extent that this is possible under current economic conditions.

Delays in the release of assistance funds delays the implementation of regional decisions. Therefore, Caribbean Governments need to encourage the European

Union to speed up the disbursement of funds allocated for the promotion of regional integration.

Special treatment of disadvantaged members of CARICOM through the recently established Development Fund may not be sufficient. Because of the lack of secure funding for CDF, the inadequacy of its capital fund and the temporary nature of its assistance, it is possible that CDF will not be able to achieve its goals. Therefore, CDF needs to have more secure funding and a larger pool of resources. Governments in the region could also consider the World Bank's recommendation that additional resources should be found for the Caribbean Export Development Agency to support exporters in disadvantaged countries. The assistance provided by the Caribbean Export Development Agency could also be used to address the short-term adjustment needs. The modification of article 164 of the Revised Treaty of Chaguaramas (that is, the replacement of quantitative restrictions by tariffs) requested by OECS needs to be implemented to allow OECS countries to expand the market share in their own markets.

With regard to extra–regional integration, the Economic Partnership Agreement with the European Union provides opportunities for export diversification, increased inflows of investment, and financial and technical assistance to promote regional integration. Concerns about the slow disbursement of EDF funds notwithstanding, those Caribbean Governments that have not yet established EPA implementation units need to move quickly to do so. This is necessary to facilitate effective coordination of implementation and to allow for realization of the potential benefits of the EPA. CARICOM should seek to obtain clarification of the development cooperation components of the EPA. This issue could be pursued within the Joint CARIFORUM-European Union Council. The European Union-CARIFORUM agreement provides insufficient information with respect to the specific programmes, targets and expected outcomes of the development cooperation provisions.

CARICOM and the Dominican Republic need to strive to resolve their differences relating to tariff treatment for exports from the Dominican Republic to CARICOM. This is necessary to facilitate smooth implementation of the EPA. CARICOM countries need to position themselves to use the market access opportunities offered under the EPA to diversify their exports. This repositioning will require CARICOM to use the financial and technical assistance available under the EPA to build production capacity, strengthen institutions and improve competitiveness.

To attract inflows of foreign direct investment from the European Union, CARICOM needs to improve the business climate. Required measures include promotion of macroeconomic stability, creation of a skilled workforce, provision of adequate infrastructure and development of strong independent institutions.

Lastly, export diversification efforts underway in the Caribbean are moving in the right direction, but the process needs to be accelerated. Export diversification is critical to reducing the effects of external shocks, enhancing productivity, creating new comparative advantages and promoting economic growth. Supply-side constraints must be addressed if export diversification is to be successful. Significant constraints that require urgent attention include: deficient physical infrastructure, including roads, ports and telecommunications; weak private sectors; weak institutions and an inadequate supply of expertise.

It is important to strengthen local technical capacity to produce more sophisticated exports based on human capital development and to achieve export diversification that enhances intersectoral linkages. Foreign technologies have little spillovers without the development of local capacity to innovate. Deepening the regional integration process will by itself not solve these fundamental issues of low technical capacity and limited development in human capital. In particular, tourism services should create linkages with sectors, such as the creative industries and domestic agriculture, which allow for local value added . Export promotion has little effect on growth if exports are not diversified, intersectoral linkages are not strengthened and macroeconomic balance is not restored. In short, trade policy must be linked to development policy and should not be an end in itself. After many years of market access, the Caribbean remains very vulnerable with limited capacity to resist external shocks.

Given the limited financial resources of Caribbean countries, Aid–for–Trade will have to play a significant role in relaxing the supply-side constraints that limit their ability to capitalize on international trade opportunities. AfT can help to promote export diversification by providing financial and technical assistance to implement the EPA, improve infrastructure, strengthen institutional capacity and improve the innovative and marketing capacities of private firms. CARICOM should encourage donors to improve the implementation and effectiveness of Aid–for–Trade initiatives by correcting the main deficiencies identified by beneficiaries. Most important, the predictability of AfT funding needs to be improved to facilitate speedy and efficient implementation of export diversification programmes. Other improvements that should be considered include increasing input from Caribbean countries in the design of AfT initiatives and placing more emphasis on the development of local capacity.

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Chapter V

Economic cooperation and ties between Japan and Latin America and the Caribbean

A. Introduction

In both the previous edition of *Latin America and the Caribbean in the World Economy* (ECLAC, 2009) and the report *Opportunities for Convergence and Regional Cooperation* (ECLAC, 2010a) presented at the Unity Summit of Latin America and the Caribbean in Cancún (Mexico) in February 2010, the Economic Commission for Latin America and the Caribbean (ECLAC) emphasized the need to create opportunities for cooperation in the region. The suggestion was that regional cooperation efforts be focused on eight areas, four of them intraregional (intraregional trade promotion, infrastructure investment, social cohesion and action against asymmetries) and the other four oriented towards confronting global challenges (innovation and competitiveness, the forging of joint ties with the Asia-Pacific region, international financial system reform and climate change) (ECLAC, 2009 and 2010a).

Halfway around the planet, the current situation of the Asian economies is completely different. Following many years of market-led integration, they are now deepening their formal integration to a degree exceeding anything currently being considered in Latin America and the Caribbean. The issues being addressed within Asian integration frameworks go beyond market integration, with the agenda explicitly including matters such as industrial development, competitiveness and scientific and technological development. What triggered this integration? One factor has been deep and far-reaching regional cooperation. In Asia, integration and cooperation have been mutually complementary and reinforcing. The measures put forward by ECLAC to promote cooperation and integration in Latin America and the Caribbean closely match the historical experience of the Asian countries. Thus, stronger economic relations with Asia do not have to mean just trade and investment, but should include the cooperation agenda too. Our region can learn a great deal from Asia and benefit from greater interregional cooperation, since the new international context requires both intraregional and interregional forms of cooperation.

What will be examined in this chapter are the most recent strategies adopted by Japan to enhance its economic relations with Latin America and the Caribbean. Where investment is concerned, the Japanese private sector and government have been coordinating their efforts in pursuit of a public-private partnership to capitalize on opportunities in the region. Latin America and the Caribbean have been in the sights of Japanese firms for a number of reasons, and of late the attention of the Japanese private sector has been focused mainly on the region's natural and energy resources. This tendency will undoubtedly continue, but these sectors will be joined by a further two: infrastructure and food security. It is a good time for the region to enhance its relations with Japan, not just through investment but through cooperation as well, and to learn from Japan what that country has passed on to its neighbours in Asia, a region which presents Latin America and the Caribbean with both opportunities and a number of challenges. One of the great questions for the twenty-first century will be how to compete with the Asian economies. Viewed through Japan, Asia provides a number of clues to the routes that could be followed.

Also analysed are Japanese-led economic partnership agreements and Japanese official development assistance (ODA). The type of economic partnership agreement offered by Japan sets out from the premise that free trade is not enough and that trade liberalization has to be supplemented by cooperation. The Japanese ODA model that has been applied in Asia emphasizes infrastructure improvements and human resource training with a view to revitalizing the production sector and promoting trade and investment with the recipient country. Japan is not just the largest donor for Asia, but the leading Asian donor in Latin America and the Caribbean. It is also the country that has recently been putting the most substantial funds into aid for trade initiatives worldwide. All this means that it is the right time for Japan and Latin America and the Caribbean to recast their economic relationship in terms of ODA as well.

B. The rediscovery of Latin America and the Caribbean by the Japanese public-private partnership

The relationship between Japan and Latin America and the Caribbean has centred mainly on economic issues, and there is still scope for strengthening this relationship by enhancing and expanding some areas of cooperation.

In the 2010 Diplomatic Bluebook, the Government of Japan emphasized the increasing economic presence of the Latin America and Caribbean region in the world. From the Japanese perspective, the basic data underpinning this perception are fairly clear: a population of 560 million, a growing regional GDP that is currently three times that of the Association of Southeast Asian Nations (ASEAN) and the presence of mineral, energy and food resources (MOFA, 2010b). At the same time, the region has traditionally had friendly diplomatic relations with Japan and is home to the world's largest community of Japanese-descended people. The economic growth experienced in recent years and progress with democracy are factors that, from the Japanese perspective, give the region a stronger voice in the global context. Shared basic values in the realms of both economics (market economy) and politics (democracy) mean that the Latin America and Caribbean region is regarded by Japan as an important partner. Against this background, Japanese diplomacy towards the region rests on three pillars: stronger economic relations, support for stable development in the region and the promotion of cooperation in the international community.

To strengthen economic relations with Latin America and the Caribbean, the Government of Japan is trying to give the country's firms a degree of support to facilitate their operations in the region. In this context, Japan is trying to establish (and strengthen) the necessary legal frameworks, such as economic partnership agreements and bilateral investment treaties, and to promote dialogue and cooperation with the different countries. As will be analysed later, Japanese economic partnership agreements are characterized by their inclusion of certain issues that go beyond trade liberalization, with bilateral cooperation foremost among them. The Government of Japan has also lent its weight to major economic projects in the region, including the expansion of Japanese digital television standards and the participation of Japan in the widening of the Panama Canal. The second pillar of Japanese foreign policy is the provision of cooperation resources for the region, chiefly in the form of ODA. The third pillar is the effort to create common positions and collaborate with the region's countries on different international agendas such as climate change, the global economic and financial crisis and reform of the United Nations Security Council. The 33 votes of Latin America and the Caribbean at different international organizations and bodies give the region a fairly substantial weight from the Japanese perspective.

1. Economic relations between Japan and Latin America and the Caribbean

Latin America and the Caribbean have the potential and attractiveness to further strengthen their economic relationship and cooperation with Japan. In recent decades, the strengthening of economic interdependence with Asia left Japan little scope for considering Latin America and the Caribbean as a strategic base within its global design. The Japanese position has gradually changed over the last few years, however, particularly since it became clear that Latin America and the Caribbean had been able to overcome the challenges of the global financial and economic crisis and start growing again at a faster than expected rate.[1] A number of Japanese firms are now looking at the region with new eyes or with a view to incorporating it into their global operations as a strategic base. Economic partnership agreements and bilateral investment treaties are expected to encourage Japanese firms to do business and invest in the region.

In the last five years, Japanese exports to Latin America and the Caribbean have increased by more in percentage terms than those to any other region. A similar rise was observed in Japanese imports, with the region taking second place. Although further down the ranking in terms of the actual amounts involved, the trade of Japan with Latin America and the Caribbean has been growing rapidly (see table V.1). This tendency is expected to strengthen over the coming years, particularly as the Japanese economy and the region's recover. Studies by the Japan External Trade Organization (JETRO, 2010a) reveal that the Latin America and Caribbean region presents a wide range of new business opportunities, such as food packaging in Chile and the aeronautical industry in Mexico, which could enlarge the current Japanese investment and import "basket".

Table V.1
JAPAN: EXPORTS AND IMPORTS, 2005 AND 2009
(Thousands of dollars)

Exports	2005	2009	Percentage increase
Latin America and the Caribbean	23 321 895	31 440 129	34.8
Asia	289 661 295	314 406 163	8.5
Russian Federation, Commonwealth of Independent States (CIS)	5 191 226	4 129 140	-20.5
Middle East	16 575 402	21 650 329	30.6
Africa	8 252 747	9 498 438	15.1
North America	143 761 913	101 400 407	-29.5
Europe	93 951 571	81 459 616	-13.3
Imports	**2005**	**2009**	**Percentage increase**
Latin America and the Caribbean	14 773 904	18 653 431	26.3
Asia	230 383 254	246 431 358	7.0
Russian Federation, Commonwealth of Independent States (CIS)	6 824 864	9 659 226	41.5
Middle East	87 667 108	92 850 019	5.9
Africa	9 933 739	9 106 629	-8.3
North America	73 543 391	68 312 768	-7.1
Europe	65 973 963	67 731 502	2.7

Source: Database of the Japan External Trade Organization (JETRO) [online] www.jetro.go.jp.

[1] In late 2009, ECLAC forecast average growth of 4.3% for 2010 in Latin America and the Caribbean, but the pace of expansion has been faster. In July 2010, ECLAC projected growth of 5.2% for the year (see ECLAC, 2010b).

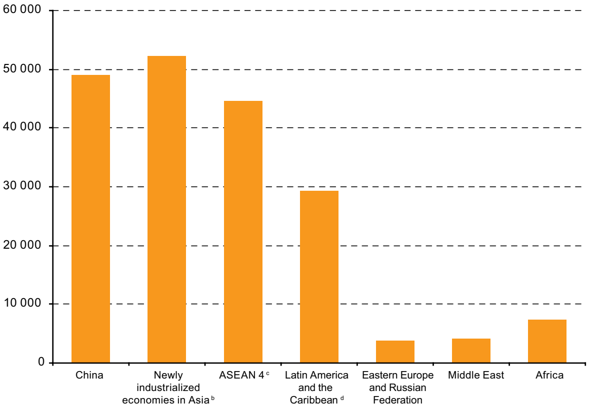
Latin America and the Caribbean need to make a greater effort if Japan is to come to regard the region as a hub of its global business strategy. Many Japanese business people still have the shock of the "lost decade" at the back of their minds. Just as there are Japanese firms that are optimistic about the region's future, so others are more cautious. Japan was one of the countries that had to pay for the most "broken crockery" because of the region's external debt crisis. When the crisis broke out in August 1982, Japanese banks were engaged in private-sector financing operations worth over US$ 30 billion, including over US$ 13 billion in syndicated loans (Stallings, 1990). Japanese banks were also participants in the region's largest projects, such as the Peruvian oil pipeline, the metallurgical industry in Mexico and the development of the Amazon basin. The crisis not only meant the Government of Japan using large sums of public money to participate in the debt rescheduling programme, but also led many Japanese companies to pull out of the region at a time when Asia was becoming a better option.

Japanese investment has recently focused on natural resources. The countries of Latin America and the Caribbean need to join the initiatives of Brazil and Mexico with a view to participating in the Japanese and global value chain. In 2008, Japanese foreign direct investment (FDI) in the mining sector was up almost fourfold on the previous year, becoming the main driver of Japanese investment in Latin America. Amidst an accelerating rise in international raw material prices, investment increased in Brazil, where a group of Japanese steelmaking companies joined forces with the largest Korean steelmaker to purchase 40% of the shares of NAMISA for roughly US$ 3.12 billion. The small proportion of Japanese investment in the region that goes to the manufacturing sector is also concentrated in Brazil (JBIC, 2010). That country and Mexico have been the main recipients of Japanese FDI in the region. Japan has more FDI accumulated in Latin America and the Caribbean than anywhere else outside Asia (see figure V.1).

Figure V.1

JAPAN: CUMULATIVE FOREIGN DIRECT INVESTMENT IN CHINA AND SELECTED GROUPS OF EMERGING-MARKET COUNTRIES AND REGIONS, END-2008 [a]

(Millions of dollars)



Source: Database of the Japan External Trade Organization (JETRO) [online] www.jetro.go.jp.

[a] The amounts were first announced in yen and then converted to dollars using the average Bank of Japan interbank rate for the period concerned.

[b] The newly industrialized economies in Asia include Hong Kong (Special Administrative Region of China), Taiwan Province of China, the Republic of Korea and Singapore.

[c] ASEAN 4 includes the Philippines, Indonesia, Malaysia and Thailand.

[d] Latin America and the Caribbean does not include the main financial centres.

2. The new role of Japanese economic actors in the region

On the corporate side, the large general trading companies (*sogo shosha*) are still making the running, accompanied by other Japanese firms. The Government of Japan continues to make supporting the private sector its first priority.

The *sogo shosha* are changing strategy. Traditionally, they have had four basic functions: trade, financing, economic information and organization. These firms, which conduct operations almost worldwide, played the role of "pathfinders" when Japan began to invest in Latin America and the Caribbean in the 1950s and 1960s (Horisaka, 1993). Today they act mainly as though they were investment banks, participating directly in the management of the firms they invest in. Although the role of the *sogo shosha* has changed over the years, their strengths derive from their original nature. As Kuwayama (1997) put it, "the power of the *sogo shosha* derives mainly from their responsiveness as intermediaries between sellers and potential buyers, backed by their extremely up-to-date trade information systems, their effectiveness with transport and storage and their ability to provide short-term credits for trade financing and medium- and long-term funding for major projects. They also maintain ties with private banks and links to a whole range of production and distribution companies." These firms also act as intermediaries between governments to develop ODA projects.

During fiscal year 2010, the *sogo shosha* are expected to implement worldwide investments totalling what looks set to be a record of over US$ 27.5 billion. Latin America and the Caribbean need to exert themselves to attract this capital. In early fiscal year 2010 (April 2010 to March 2011), the six leading *sogo shosha* (Mitsubishi Corp., Mitsui & Co., Sumitomo Corp., Itochu Corp., Marubeni Corp. and Sojitz Corp.) outlined their respective investment plans.[2] The total was almost twice as high as the previous year's, apparently indicating a return to the dynamism that existed before the global financial crisis. Although the details of the investment plans and their geographical distribution are unknown, the common denominator is the focus on natural resource and energy projects and on infrastructure in emerging economies. While there is some uncertainty about the impact the credit crisis in Europe may have, the investments of the *sogo shosha* are being driven by rising commodity prices. Each of the firms is expected to invest between 30% and 40% in natural resources (such as natural gas, coal and steel), a sector that has become their main source of earnings. The second pillar of their investment packages is infrastructure in emerging economies, including water pipelines, electricity generation, transport and new energy projects, among others.

3. The new Japanese investment strategy

In mid-2008, Japan announced the strategic use it planned to make of its bilateral investment treaties. The region needs to be aware of the new Japanese strategy. Investment liberalization, protection and facilitation are stipulated in a chapter of the economic partnership agreements signed by Japan. Negotiating an economic partnership agreement is not always a viable option, however, given the wide variety of subjects they cover. In these cases, an alternative Japan has employed has been the negotiation of bilateral investment treaties. A bilateral investment treaty with Peru came into force in December 2009, making it the third country in Latin America and the Caribbean to put this legal framework in place after Mexico and Chile had done so with their respective economic partnership agreements. Taking the Peruvian case as an example, the characteristics of bilateral investment treaties are as follows: (1) national treatment and most-favoured-nation treatment for investments as soon as these are authorized, (2) a wide-ranging ban on performance requirements (local content and export performance requirements), (3) investment protection (compensation for expropriation, freedom to transfer money abroad, protection against disturbances, etc.), (4) a mechanism for resolving disputes between government and investor and (5) the establishment of a subcommittee for the improvement of the investment climate, according to METI (2009c) data. The negotiations between Japan and Peru began in May 2008. Following a round of three negotiations, the bilateral investment treaty was signed in November the same year. Peru is now negotiating an economic partnership agreement with Japan.

Japan has now settled its criteria for choosing candidates for forthcoming bilateral investment treaties, and some Latin American and Caribbean countries with natural and food resources are in its sights. In the context of its new investment strategy, Japan takes five basic criteria into account: (1) existing Japanese investments in the country concerned and expectations that such investments will increase, (2) the need to improve the investment climate and petitions from Japanese industry, (3) the country's importance as a supplier of mining and energy resources, (4) the governance capacity and political stability of the country, and (5) political and diplomatic considerations. There is also an alternative mechanism for studying the viability of a bilateral investment treaty at the request of the Japanese private sector or the government of the other country. In Latin America and the Caribbean, Colombia means to follow in the footsteps of Peru and is currently negotiating an agreement of this type with Japan. The list of candidates also includes Argentina, the Plurinational State of Bolivia and the Bolivarian Republic of Venezuela.[3]

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2 According to information from the Japanese financial newspaper *Nihon Keizai Shimbun* (print edition, 15 May 2010), based on the Organisation for Economic Co-operation and Development (OECD) exchange rate (average for the third quarter of 2010, 90.647 yen per dollar). The total announced was 2.5 trillion yen, with Mitsubishi Corp. and Mitsui & Co. planning to invest 700 billion yen apiece, Sumitomo Corp. between 400 billion and 500 billion yen, Itochu Corp. and Marubeni Corp. 250 billion yen each and Sojitz Corp. 90 billion yen.

3 According to information from the Japanese financial newspaper *Nihon Keizai Shimbun* (print edition, 1 January 2009).

The Foreign Investment Strategy Council began operating in late 2008. Within this framework, the Japanese public-private partnership has been studying the difficulties involved in promoting investment in Latin America and the Caribbean. The Council is headed by the Ministry of Foreign Affairs (MOFA) and the Ministry of Economy, Trade and Industry (METI) on the government side, and is also participated in by the main institutions providing assistance to the public and private sectors, such as the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC), among others. The private sector is represented by *Nippon Keidanren*, the country's largest business association, and other employers' organizations involved with the issue of investment. The main agenda of the Council has been the promotion of bilateral investment treaties and strategies to help Japanese firms investing (or planning to invest) in four geographical regions: (1) Latin America and the Caribbean; (2) the Middle East; (3) North Africa; and (4) South Asia and countries in the Caucasus, the Russian Federation and central and eastern Europe. For the Japanese private sector, the business environment in Latin America and the Caribbean presents a number of problems, chiefly institutional in character (double taxation, non-compliance with intellectual property rules, lack of transparency in administrative procedures, etc.) (MOFA, 2009a).

The Government of Japan is ready to use the public and private advice and assistance tools available to it to help the country's firms. Latin America and the Caribbean could cooperate here, in pursuit of more and better Japanese investment in the region. The measures the Japanese government could take in the region are as follows: studying the scope for signing new bilateral investment treaties or amending existing ones, quickly concluding the economic partnership agreements (which include a chapter on investment) or bilateral investment treaties now being negotiated, using and enhancing bilateral political dialogue and economic concertation mechanisms including (sub)committees for the improvement of the business and investment climate, and strengthening the functions of embassies and consulates abroad (METI, 2009a). Besides these measures, the Japanese government is expected to prepare cooperation plans benefiting not just Japanese firms but also the country receiving the investments; these would be determined case by case, but on the basis of certain criteria. Figure V.2 summarizes the basic strategy that would be applied to countries whose infrastructure and institutions were good enough to allow them to receive a relatively large amount of investment. The idea is for this approach to generate a virtuous circle that attracts more investment, contributing at the same time to the development of human resources and infrastructure through ODA and other Japanese cooperation tools. The next task for Japan would be to strengthen this assistance mechanism by increasing the resources allocated to the region. Another pending task is to streamline interaction between government institutions, as there is no "one-stop shop" for dealings with Japanese firms.

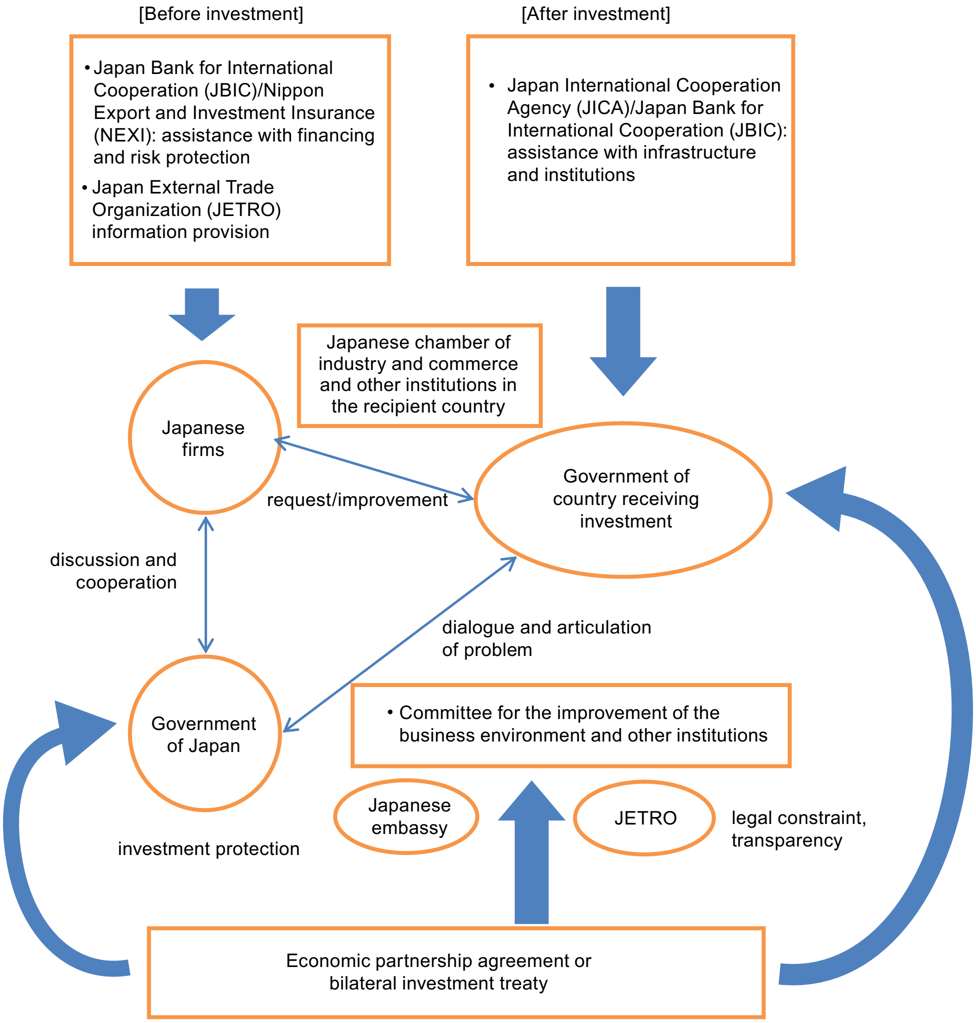
4. New opportunities

In addition to natural and energy resources, the attention of Japan in Latin America and the Caribbean over the coming years will be centred on infrastructure and food security.

Latin America and the Caribbean is a region where demand for infrastructure is growing but financial resources to build it are lacking. Japanese firms have already begun to expand their business in this sector. Although Asia is the main emerging-market focus for the Japanese private sector, in the short term Latin America and the Caribbean is the region that is competing most strongly against Asia for investment and business opportunities with Japan in the area of infrastructure. As of mid-2009, indeed, the two regions were dividing between them the main emerging-economy projects in this sector implemented by the *sogo shosha* (see table V.2). By way of a "structural reform" to make them less dependent on raw materials at times when international prices for these are fluctuating very sharply, the *sogo shosha* have tried to expand their infrastructure business with a view to this sector becoming as important to their operations as natural and energy resources. The main motivation, though, is the increased demand for infrastructure because of economic growth in emerging economies. The experience gained with infrastructure projects in a Japanese ODA context is allowing the *sogo shosha* to expand their business in this sector without having to start from the ground up.

Figure V.2

JAPAN: TOOLS AVAILABLE FOR ADVISING AND ASSISTING JAPANESE FIRMS OPERATING ABROAD



Source: Ministry of Economy, Trade and Industry (METI), "Taigai Toshi Seisaku ni okeru Kadai to Taio" [Problems and measures to be taken in foreign investment policy], reference material in *Dai Ni-kai Taigai Toshi Senryaku Kaigi Gaiyo* [Summary of the second meeting of the Foreign Investment Strategy Council] [online] www.mofa.go.jp, 2009 (in Japanese).

Note: The bilateral financial resources available in principle for Japan to use are: (1) official development assistance (ODA), whose implementation is the responsibility of the Japan International Cooperation Agency (JICA), (2) financial assistance for the Japanese private sector to support its operations abroad through the Japan Bank for International Cooperation (JBIC) and (3) insurance for commercial activities abroad from Nippon Export and Investment Insurance (NEXI). ODA divides into non-reimbursable financial assistance, technical cooperation (also non-reimbursable) and loan assistance. In addition to bilateral ODA, Japan also channels its assistance through international organizations. The Japan External Trade Organization (JETRO) is an institution associated with METI whose objective is to promote trade and investment between Japan and the rest of the world through its offices in the major cities of the world.

Table V.2

MAIN INFRASTRUCTURE PROJECTS IMPLEMENTED BY *SOGO SHOSHA* IN EMERGING MARKETS, JULY 2009

Company	Country	Project type	Date ordered
Mitsubishi Corp.	India	Rolling stock	May 2009
Mitsui & Co.	Mexico	Water and sewage systems	December 2008
	Brazil	Rolling stock	July 2007
Sumitomo Corp.	Mexico	Water and sewage systems	May 2009
Itochu Corp.	Indonesia	Geothermal electricity generation	December 2007
Marubeni Corp.	Peru	Water purification	July 2009
Sojitz Corp.	China	Experimental high-technology sewage systems	July 2009

Source: *Nihon Keizai Shimbun* financial newspaper, 25 July 2009 (Japanese-language print edition).

A Japanese economic assistance policy has already begun to be implemented with a view to procuring rare metals. Japan is providing loan assistance for infrastructure projects in the vicinity of mines where rare metals are extracted, including assistance for viability studies on these metals. As of mid-2009, three of the seven projects of this type were being implemented in South America (Argentina, Chile and Peru), making Latin America and the Caribbean the leading destination over other geographical regions (see table V.3). Additionally, in April 2010 a new Japanese comprehensive assistance strategy was announced, including industrial and infrastructure development. The Plurinational State of Bolivia became the first country in the world to benefit from this strategy (see table V.4).

Table V.3

JAPAN: ASSISTANCE PROJECTS FOR INFRASTRUCTURE NEAR MINES WHERE RARE METALS ARE EXTRACTED (VIABILITY STUDIES), JULY 2009

Country/Japanese firm	Type of infrastructure needed
Argentina/Mitsubishi Materials Techno Corp.	Retraction of lithium in lake
Chile/consortium (Pan Pacific Copper and others)	Water supply and highways
Fiji/Nittetsu Mining Consultants	Construction of electricity generation plant
West Africa/Mitsui & Co.	Railway system
Viet Nam/consortium (Itochu Corp. and others)	System of transportation to port
Viet Nam/Sojitz Corp. and Toyota Tsusho Corp.	Highways and electricity supply
Peru/consortium (Mitsui Mining & Smelting Co. and others)	Electricity transmission grid

Source: *Nihon Keizai Shimbun* financial newspaper, 29 July 2009 (Japanese-language print edition).

Table V.4

JAPAN: THE NEW STRATEGY OF COMPREHENSIVE ASSISTANCE TO PROCURE RARE METALS, THE CASE OF THE PLURINATIONAL STATE OF BOLIVIA (UNDER CONSIDERATION)

Natural resource-related assistance	Non-natural resource-related assistance
• Use of lithium-derived products • Science and technology cooperation and training of human resources for the lithium industry • Financial and technical cooperation for lithium mining	• Loan assistance to construct geothermal electricity generating plant • Non-reimbursable financial cooperation for installation of solar energy equipment • Promotion of the textile industry • Spread of Japanese digital television standards [a]

Source: *Nihon Keizai Shimbun* financial newspaper, 5 April 2010 (Japanese-language print edition).
[a] In July 2010 the Plurinational State of Bolivia officially announced the adoption of Japanese digital television standards, becoming the ninth country in Latin America and the Caribbean to do so.

Japan has begun to adopt a new industrial policy in which infrastructure exports are a central plank. This means that Latin America and the Caribbean will be able to import infrastructure systems and equipment on better terms, including more active economic aid. In recent decades, the Japanese economy has been sustained by two strong export sectors: automobiles and electronics. However, the country's dependence on these two sectors has made it necessary to strengthen other industries. In June 2010, METI published a proposal for a new industrial policy aimed at strengthening five sectors: (1) infrastructure-related industries, (2) new-generation energy solutions, (3) cultural industries such as fashion, tourism and manga, (4) medicine and health care in general and (5) leading-edge technologies, such as robotics and the space industry. The infrastructure sector would include the following branches: water-related businesses, coal-fired electricity generation and coal gasification, electricity transmission, nuclear energy, railways, recycling, the space industry, community development, renewable energies, information and communication technologies (ICTs) and urban development (METI, 2010). There is great potential medium- and long-term demand in all these sectors in Latin America and the Caribbean. The fact that Japan is not only investing in infrastructure but also planning to boost its exports will make Latin America and the Caribbean a more attractive region for Japanese firms.

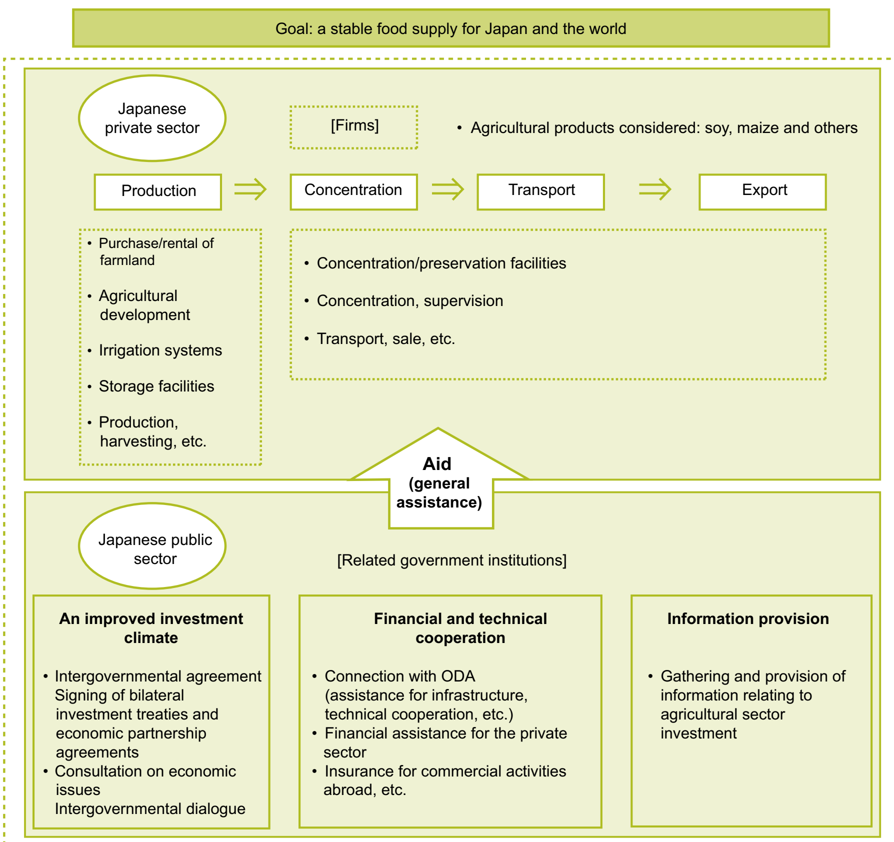
The agricultural trade of Latin America and the Caribbean needs support, investment and innovation policies in the face of a new international food security situation. Japan is launching a strategy that could benefit the region greatly. According to a report by ECLAC, the Food and Agriculture Organization of the United Nations and the Inter-American Institute for Cooperation on Agriculture (ECLAC/FAO/IICA, 2010), food security in Latin America and the Caribbean has regressed to levels not seen since the early 1990s, with some 52 million people suffering from malnutrition. The same report stresses that the agricultural sector is "a complex system integrated into both international and local economies, dependent on climate change, linked through production chains with other economic sectors and boasting considerable poverty-reduction potential". The region, which has a limited group of agricultural commodities as a stable source of revenue, is facing a global context whose agenda includes the reduction of trade barriers, intraregional trade facilitation and improvements in the workings of national markets. At the same time, FDI in the agricultural sector (most of it from multinationals) also needs to take account of social and environmental factors, as well as the sector's development and food security (UNCTAD, 2009).

The Japanese public-private partnership has the agricultural sector of Latin America and the Caribbean in its sights. Japan has now established guidelines for promoting Japanese investment at the bilateral level. Japan is a country with few food resources that can only meet 40% of its domestic demand (based on calories). From the Japanese perspective, one way of contributing towards a solution to the problem of food security would be to strengthen global agricultural production. At the Group of Eight (G8) Summit of July 2009, Japan proposed the creation of an international framework to promote international investment in the agricultural sector. To promote responsible investment in this sector, in September the same year Japan, the United Nations and the World Bank jointly organized a meeting of top officials during the sixty-fourth session of the General Assembly in New York. A month beforehand, Japan established its own "guidelines for the promotion of foreign investment in the interests of food security", which lay down principles of action for Japanese economic actors themselves. These principles include agricultural sustainability in the countries receiving investments, transparency, respect for the law, due consideration for farmers and citizens in the different regions and consideration of the environmental dimension and the food supply (MOFA, 2009b). On the basis of these principles, a number of countries in Latin America and the Caribbean, including Argentina, Brazil and Paraguay, are already on the list of candidates chosen by Japan for enhanced cooperation on food security.

Investment in the agricultural sector would attract more Japanese ODA and promote technology transfer to the region. Japan would use its ODA to build the necessary production and distribution infrastructure (such as highways and ports) and to promote technology transfer (see figure V.3). For their part, Latin America

Figure V.3

JAPAN: PUBLIC-PRIVATE PARTNERSHIP IN FOOD SECURITY, A FRAMEWORK FOR PROMOTING AGRICULTURAL INVESTMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ministry of Foreign Affairs of Japan, *Shokuryo Anzen Hosho no tame no Kaigai Toshi Sokushin ni kan suru Kan-min Renkei Moderu no Imegi* [Image of the public-private partnership model for the promotion of investment abroad in the interests of food security] [online] www.mofa.go.jp (in Japanese).

and the Caribbean should not just sit back and wait for Japanese investment. Besides improving the business environment, it is up to the region's governments to develop and harmonize strategic criteria to facilitate negotiations over Japanese investment and cooperation. If this is not done, other geographical regions such as South Asia and eastern Europe could prove prompter and more effective negotiators.

C. Beyond free trade: the economic partnership agreements promoted by Japan

1. The Japanese economic partnership agreement strategy

Besides trade and investment liberalization and facilitation, Japanese economic partnership agreements include other measures to strengthen economic relations, such as harmonization of regimes and international cooperation. Table V.5 shows the countries with which Japan has already signed agreements of this type (11) and those with which it is negotiating. In Latin America, Japan has now signed agreements with Mexico and Chile and is negotiating with Peru. Other countries, such as Colombia, are also looking to sign an economic partnership agreement with Japan.

Table V.5

JAPAN: ECONOMIC PARTNERSHIP AGREEMENTS SIGNED OR CURRENTLY BEING NEGOTIATED

Economy	Negotiations began	Negotiations concluded	Came into force
Singapore	January 2001	13 January 2002	30 November 2002
Singapore (amended)	April 2006	19 March 2007	2 September 2007
Mexico	November 2002	17 September 2004	1 April 2005
Malaysia	January 2004	13 December 2005	13 July 2006
Chile	February 2006	27 March 2007	3 September 2007
Thailand	February 2005	3 April 2007	1 November 2007
Indonesia	July 2005	20 August 2007	1 July 2008
Brunei Darussalam	June 2006	18 June 2007	31 July 2008
Association of Southeast Asian Nations (ASEAN)	April 2005	14 April 2008	1 December 2008
Philippines	February 2005	9 September 2006	11 December 2008
Switzerland	May 2007	19 February 2008	1 September 2009
Viet Nam	January 2007	25 December 2008	1 October 2009
Republic of Korea	December 2003		
India	February 2007		
Australia	April 2007		
Peru	May 2009		

Source: Ministry of Foreign Affairs of Japan (MOFA) [online] www.mofa.go.jp.

There are some countries in Latin America with which the Japanese private sector would like the government to negotiate trade agreements to facilitate its operations. The greatest benefit looked for is an improved business environment. In a survey conducted by the Japan External Trade Organization (JETRO) in seven countries of the region between July and August 2009, 71.9% of firms (120) replied that the negotiation of an agreement would be helpful in facilitating their operations in these countries. The first five on the list are the Bolivarian Republic of Venezuela (91.7%), Colombia (88.2%), Peru (85.7%), Argentina (78.1%) and Brazil (66.7%). Concerning the effects of any trade agreement, 73.7% of firms (115) replied that they would expect them to include a better business environment, encompassing improved legal security generally and better customs procedures, among other points. While 70.5% of firms thought they would benefit from tariff liberalization, almost 30% would like to see an easing of restrictions on the movement of business people and specialist staff (JETRO, 2010b).

2. The dynamic of the first trans-Pacific Japanese Economic Partnership Agreement

Japan signed its first "full" economic partnership agreement with Mexico after agreeing to open up its farm sector. There were essentially three reasons for Japan to negotiate this agreement, which came into force in April 2005: to gain greater access to the Mexican market, to secure a platform from which to export to the markets of North and South America thanks to the network of free trade agreements signed by Mexico, and to remove the comparative disadvantages (in tariffs, services, investment, government procurement, etc.) affecting Japanese firms relative to their competitors in North America and Europe in the absence of a trade agreement. The main disadvantage was the level of tariffs Japanese firms had to pay, averaging 16%.

Mexico negotiated the Economic Partnership Agreement with the intention that this should be the cornerstone of its strategy to expand and diversify trade and investment with Asia. This was the first trade agreement signed by Mexico in Asia and the last one the country needed in order to have agreements with all the leading industrialized countries. Where exports were concerned, the agreement was intended to enhance the presence of Mexican products in new markets. Regarding imports, the idea was to facilitate the supply of low-cost products, especially those with a large technology component, with a view to boosting output of high value added products in Mexico. For investment, the advantage was that more capital would be attracted to support production in high value added sectors in Mexico, while in the area of cooperation the country planned to use a variety of mechanisms to reap the benefits of liberalization and the opening of markets for goods, services and capital.[4]

In the final phase of the negotiations, five agricultural products were left on the table. Two of them (pork and orange juice) were products that had already been exported to Japan, while the other three (beef, chicken and fresh oranges) were new products Mexico was looking to introduce into the Japanese market. Ever since Japan began to study the viability of an economic partnership agreement with Mexico, what most stood in the way of starting negotiations was the stance of the farm sector. In 2001, the year before negotiations began, the food sector accounted for 20.6% of all Japanese imports from Mexico. Farming is the sector that Japan protects most in its bilateral, regional and multilateral trade negotiations (Kochi, 2008).

On the whole, the effects of the Economic Partnership Agreement have been positive. In its first five years of operation (2004-2008), Japanese exports rose by 60%, driven mainly by the automotive sector and steel products. Mexican exports to Japan, meanwhile, increased by 50%. The automotive sector is also the one that has contributed most to the growth of Japanese investment in Mexico. Trade and investment are expected to return to their pre-global crisis growth rates once the international and Mexican economies recover. According to a study by the Japanese embassy in Mexico, in 2008 Mexico imported mainly intermediate goods from Japan (such as parts and components), to the value of US$ 11 billion, using them to make final products and export these to the United States, Europe and other markets in a trade worth US$ 14.3 billion (Nakamae, 2009).

3. Bilateral cooperation, with special reference to the Economic Partnership Agreement between Japan and Mexico

The Economic Partnership Agreement between Japan and Mexico included a specific chapter on bilateral cooperation, the first time an agreement of this type signed by Japan had ever done so. Thanks to the Mexican negotiating strategy, the Asian countries opted to follow the same path in their negotiations with Japan. Bilateral cooperation encompasses nine areas: trade and investment promotion, support industries, SMEs, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism and the environment. In its five years of operation, the economic

[4] According to information on the website of the Mexican Embassy in Tokyo (www.sre.gob.mx/japon/).

partnership agreement has resulted in Japanese cooperation being expanded and enhanced in all the areas referred to (see table V.6).

Japanese ODA is an important part of the cooperation provided for under the economic partnership agreement, but this cooperation is conceived within a broader context, with technical cooperation as the common denominator. Although the areas of cooperation depend on the outcome of negotiations, this also encompasses collaboration through regional governments, different government institutions, universities and research centres, among others. In Asia, cooperation has been extended into innovative areas such as monitoring of financial institutions and transactions and the expansion of electronic trading. Goods trade negotiations have revealed a strong demand for collaboration in agriculture and in SMEs, while in services negotiations the demand is mainly for cooperation on ICTs and tourism. Human resource development is in demand in practically all negotiations (MOFA, 2007).

Table V.6

THE MAIN COOPERATION PROJECTS UNDER THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN JAPAN AND MEXICO, INCLUDING PROJECTS AT THE IMPLEMENTATION STAGE, 2008-2009

1. Trade and investment promotion
- Corporate mission sent to Mexico by Japanese car manufacturers established in the United States
- Financial cooperation (insurance) to fund the planned expansion of the telecommunications network in Mexico
- Technical cooperation to promote the export of pork to Japan
- Cooperation with Mexico to improve security in goods transportation
2. Backing for support industries and SMEs
- Technical cooperation to develop metal press technology
- Technical cooperation to train human resources in SMEs Technical cooperation to strengthen the automotive support industry
- Technical cooperation to improve quality and productivity
3. Technical and vocational education and training
- Various seminars, symposia and training courses in advanced technology
- Technical cooperation to improve design in a variety of finished products
4. Intellectual property
- Bilateral cooperation for periodic information sharing between the Mexican authorities and the Japanese embassy and firms (once a month)
- Technical cooperation to detect pirated products at customs
5. Agriculture
- Financial cooperation to develop a stem rust-resistant strain of wheat
- Technical cooperation to develop and expand tropical fruit production on small farms
6. Tourism
- Technical cooperation for training to develop sustainable local tourism
- Seminars on tourism and citizen security, among other topics
- Facilitation of migration procedures for Japanese citizens (forms in Japanese)
- Cooperation to implement a value added tax (VAT) refund system for tourists
7. The environment
- Technical cooperation on six large-scale projects (such as the creation of a water quality monitoring network on the coasts)
- Various seminars, symposia and training courses
- Technical cooperation to study water quality
8. Science and technology
- Training in agricultural biotechnology, forestry research and medicine, among other areas

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Ministry of Foreign Affairs of Japan (MOFA).

4. Using economic partnership agreements to improve the business environment

Measures to improve the business environment are another original feature and are covered by a specific chapter in each of the economic partnership agreements signed by Japan, starting with Mexico. The business patterns of Japanese firms are not dominated by external trade with firms from third countries. Many of them have to go outside Japan to do business and invest in a world where global competition increases daily. For this reason, economic partnership agreements seek not just to liberalize and facilitate trade and investment but also to improve the business environment in the signatory countries in order to enhance the bilateral economic relationship.

Even in Asia, Japanese firms face a number of difficulties that in practice constitute non-tariff barriers. Latin America and the Caribbean could become a rival to Asia if the region succeeds in solving the problems with its business environment over the medium or long term. The main problems affecting Japanese firms in China, India and the large ASEAN economies are similar (JETRO, 2010c): continual abrupt changes in laws and regulations affecting business, lack of transparency in administrative procedures, inadequate infrastructure, concern about citizen security and non-compliance with intellectual property standards, among others. The perception of Japanese firms (and thus of other industrialized countries) can serve as an index of business-friendliness. As already mentioned, another of the major problems for Japanese firms operating in Latin America and the Caribbean is the business environment, and the region cannot compete with Asia if it fails to deal with the issue. This can be seen as a great opportunity to improve the region's standing in the global economy.

Economic partnership agreements stipulate the establishment of a committee for the improvement of the business environment involving representatives of the two governments and, where circumstances call for it, representatives of business. The committee (or subcommittee) is to lay out the problems affecting the area concerned, discuss ways and means of solving them and make the necessary recommendations. The committee also has the function of monitoring the measures taken once some recommendation has been formulated. This mechanism makes it possible for representatives of the business world to convey their views directly to the counterparty government, while making it possible to solve problems that with conventional free trade treaties could only be addressed as part of an ad hoc agenda (outside the agreement) or by taking them before the legal authorities provided for in the dispute settlement mechanism.

Under the Economic Partnership Agreement between Japan and Mexico, efforts have been made to integrate firms from both countries more closely into the global value chain, develop economies of scale and increase productivity. Table V.7 presents some examples of the problems raised by Japan and shows the progress made and results obtained with the measures taken by the Committee for the Improvement of the Business Environment. Most of these problems have been in the areas of public security, intellectual property protection, facilitation of immigration formalities, tax and customs procedures, certification standards and infrastructure.[5] Figure V.4 shows the success achieved with flat screen television production in Mexico. Thanks to the work of the committee, it was possible to enhance the capacity of Mexican firms as suppliers to Japanese electronics manufacturers operating in Mexico.

Table V.7
USING THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN JAPAN AND MEXICO TO IMPROVE THE BUSINESS ENVIRONMENT

Area	Specific problem	Progress/results
Public security	- Worsening security in airports and residential areas - Increase in product thefts, rising security costs	- Ongoing discussions with the Ministry of Public Security - Patrols at railway terminals - Improved security at Mexico City International Airport - Improved security on goods transport routes
Protection for intellectual property rights	- Adverse effects on sales and brand image owing to the distribution of counterfeit products - Risk that firms which have fallen victim to counterfeiting may suffer reprisals from the counterfeiters - Customs lack authority to confiscate counterfeit products	- Ongoing discussions with the Mexican Institute of Industrial Property (IMPI) - At the request of Japanese firms, IMPI has sent out letters to firms producing counterfeit products - IMPI staff sent to Japan to study the systems used by Japanese customs to act against counterfeit products - Promise to collaborate with customs on the adoption of measures against counterfeit products at borders - Participation of representatives of Japanese firms as observers on a governmental intellectual property committee
Facilitation of migration procedures	- Complicated customs procedures at the border between the United States and Mexico - Limited access to certain Mexican destinations for Japanese business travellers because of mistakes by migration officers at the borders - Unnecessary migration procedures because situations are misinterpreted by regional migration officials	- Service improved with the establishment of a local office at the border between the United States and Mexico - Official notification drawing attention to the limited access of Japanese business travellers to some Mexican destinations - Preparation of a "Visa Manual" in cooperation with the National Institute of Migration (INM) - Visa seminars in different regions with guidance from INM personnel - Preparation of customs forms in Japanese

[5] The Committee for the Improvement of the Business Environment can also be seen as a cooperation mechanism in the sense that the two parties cooperate on a given problem. It may come about that a certain area (intellectual property, for instance) is dealt with simultaneously within this framework and as part of the bilateral cooperation determined by the economic partnership agreement.

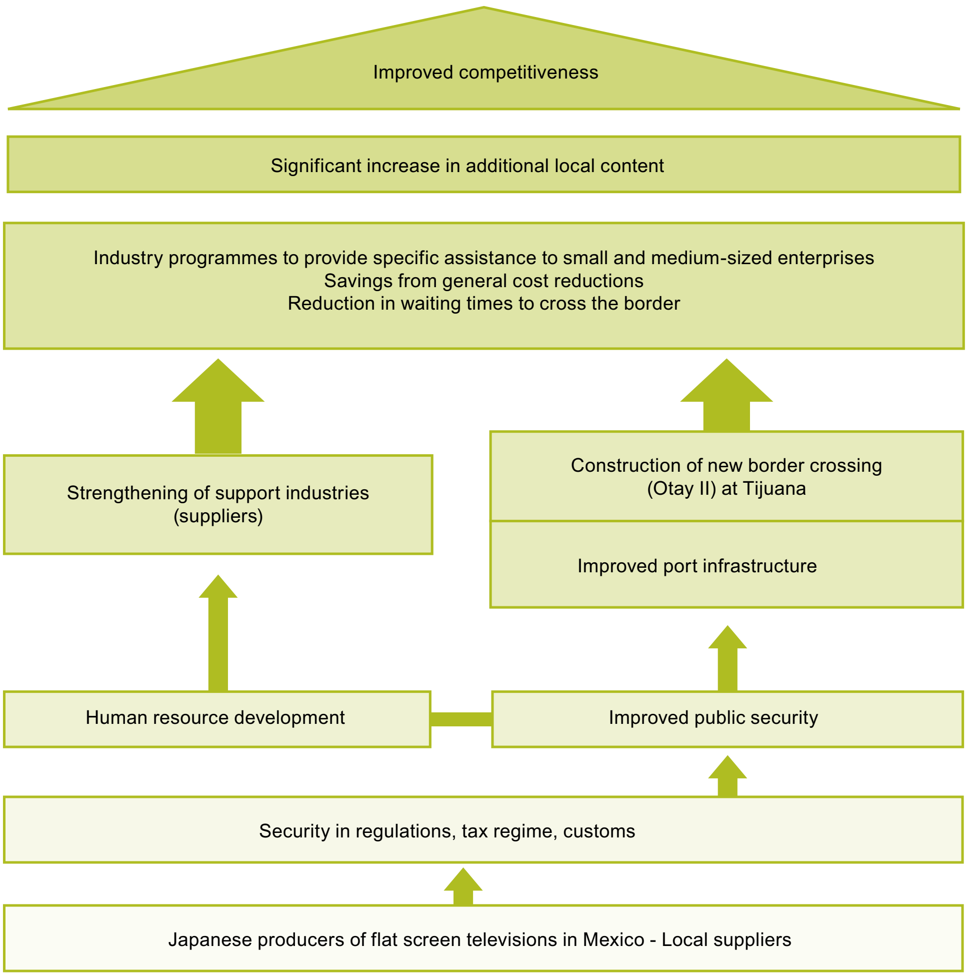
Table V.7 (concluded)

Tax regime/customs procedures	- Japanese competitiveness undermined because of the time and expense entailed by customs procedures - Lack of clarity in decision-making procedures in cases where there are differences in tariff classifications - Excessive time taken to reimburse value added tax (VAT)	- Designation of a contact person for customs and tax matters
Certification standards	- Domestic testing requirements (involving duplication of work), outdated standards that do not match international ones and problematic procedures mean that introducing new products is very time-consuming and imposes additional costs	- Decision to review specifications for electronic devices. The Mexican government has promised Japanese firms that they will be able to participate in this process
Infrastructure	- High electricity costs and frequent power cuts - Expensive land transportation - Expansion of infrastructure in the Otay border zone (Tijuana-San Diego)	- Discussion with local governments to improve infrastructure around the border zone - Surfacing of some highways in Tijuana

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Japan External Trade Organization (JETRO), *White Paper on International Trade and Foreign Direct Investment*, Tokyo, 2008, p. 180.

Figure V.4

USING THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN JAPAN AND MEXICO TO ENHANCE COMPETITIVENESS, THE CASE OF FLAT SCREEN TELEVISION PRODUCTION IN MEXICO



Source: Office of the Mexico-Japan Economic Partnership Agreement, Secretary of Economy of Mexico, Embassy of Mexico in Japan, *EPA News*, No. 13, November-December, 2008, p. 4.

D. Japanese official development assistance

1. The interaction between investment, trade and official development assistance: the case of Asia

The public-private partnership concept in Japan arose out of the country's successful cooperation in Asia, where it played an important part in building what is now known as "factory Asia".

A new stage in the economic history of Asia began after the Japanese private sector unleashed an inward investment boom in the region in the mid-1980s. In the early part of that decade, newly industrialized economies and South-East Asian countries began a series of reforms whose goal was the construction of export-oriented industrialized economies. One of the linchpins of their policies was the creation of a favourable environment to attract FDI from multinational enterprises, and Japan was the driving force behind a first wave of FDI of this type. Because of the overvaluation of the yen from 1986 onward as a result of the Plaza Accord, many Japanese firms substantially expanded their production activities in newly industrialized economies and in South-East Asia to avoid losing export competitiveness. Firms from Japan (and other industrialized countries) not only provided fresh capital but also transferred technology and took with them the administrative resources needed to implement their business operations in Asia. In other words, multinational enterprises of Japanese origin played a leading role in the industrialization of Asia.[6] Over the years, recently industrialized countries would also become major investors in South-East Asia.

Japanese ODA played a decisive role in creating a favourable investment climate via the creation of infrastructure and the development of human resources, which became a comparative advantage of the region relative to other geographical areas. Recently industrialized economies, the countries of ASEAN and China were the main recipients of Japanese ODA, which was channelled primarily through lending to develop infrastructure such as highways, railways, ports and electrical power installations. From a basic conceptual standpoint, building infrastructure has a direct effect on an economy, as it provides work for a variety of firms. Once installed, infrastructure helps firms carry out their operations more productively, giving it a large indirect impact on the economy, something that is of the greatest importance for developing countries (Watanabe, 2010). In short, Japanese ODA has nurtured systemic competitiveness, both at the individual country level and regionally, and is characterized by the large proportion provided in the form of loans. Technical cooperation is also an important element for developing the human resources needed to get the most out of the infrastructure built.

The next target of Japan is to double the economic size of all Asia by 2020, and to achieve this it has been implementing an initiative since mid-2009 whose main component is an ODA package of up to US$ 20 billion in the region. Following a series of prior consultations with the countries of Asia, in April 2009 Japan announced its Growth Initiative towards Doubling the Size of Asia's Economy, the two pillars of which are enhancement of Asian growth potential and strengthening of domestic demand in the region's countries. The aims include attracting investment for major infrastructure projects, fomenting industrial development initiatives in the region and strengthening social security systems, the health sector and education to increase consumption in the intermediate social stratum of the region (METI, 2009b). To achieve these tasks, Japan prepared an aid package that maximized the use of the financial resources available. Asia is now the most economically important region for Japan and the country's main objective is to grow with the region.

[6] The pattern of trade thus created by investment flows is also known by the analogy of the "flying geese". The geese carry investment and other necessary resources to the countries invested in. Thanks to these resources, there is a process of inter-industry specialization in the countries concerned that ultimately generates a high level of productivity and competitiveness. When a country begins to lose its comparative advantage in a given sector, the geese fly to another country where that comparative advantage does exist. The geese flew first from Japan to the newly industrialized countries and thence to China and South-East Asia (ESCAP, 2000).

2. The evolution of Japanese official development assistance in Latin America and the Caribbean

Latin America and the Caribbean also need Japanese ODA, not only for their economic and social development but also to promote innovation and scientific and technological development with a view to participating more effectively in the global economy. The demand for loan assistance has declined because some countries in the region are now more cautious about external borrowing. Because of this contraction, Japan is concentrating a large part of its ODA resources in Asia on technical cooperation. In 2008, China and the members of ASEAN received US$ 265.22 million and US$ 345.72 million, respectively, while Latin America and the Caribbean received US$ 182.69 million (MOFA, 2010b). It is important for the region's countries to convey their technical cooperation priorities and needs more explicitly to Japan.

Japanese ODA has had a major presence in the region. Non-reimbursable financial cooperation and technical cooperation totalled a cumulative US$ 12.081 billion in 2008. Since the last decade, Japan has been the main donor in 27 of the 33 countries in the region, including the largest economies. In 1994, Mexico figured for the first time on the list of the 10 countries receiving most Japanese ODA throughout the world, standing in sixth place (US$ 183 million). The following year it dropped to seventh, but on a larger total of US$ 288 million, a figure that represented 79% of all the ODA received by the country that year. It is interesting to compare this to the situation of Brazil. Until recently, Japan was the main donor in that country, supplying half of all the ODA it received in 2003. It still receives loans from Japan and assistance in the other areas of ODA, and in 2008 it received more Japanese assistance of this kind than anywhere else in Latin America and the Caribbean.

Asia is the region that receives most technical cooperation from Japanese ODA. China heads the list, followed by other Asian countries. In 2008, that region's countries occupied nine of the top 10 positions in the worldwide ranking of recipients of Japanese technical cooperation. The list is headed by China, followed by Viet Nam, Indonesia, the Republic of Korea, the Philippines, Thailand, Cambodia, Afghanistan, Lao People's Democratic Republic and Bangladesh.

In Latin America and the Caribbean, Japanese ODA has implemented projects of differing scale and scope. Japanese ODA in the region has been concentrated in four main areas, of which the last is the most innovative: sustainable development, environmental protection and climate change, poverty reduction, and triangular and macroregional cooperation (Kuramoto, 2009). The goal of triangular cooperation is to promote South-South cooperation with four countries in the region (Argentina, Brazil, Chile and Mexico). Programmes of economic and social development in other countries of the region and in some Portuguese-speaking countries have been implemented jointly (see table V.8). For its part, macroregional cooperation operates for a particular group of countries or regional integration framework. One of the most interesting initiatives based on this type of cooperation is being implemented in Central America (the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua) to improve the standard of mathematics teaching in primary schools. Since 1989, teaching materials and texts have been prepared for students and a training programme has been implemented so that teachers use the new texts. Among other projects, mention may be made of one to promote tourism in the Southern Common Market (MERCOSUR) and one to develop fishing and forestry in the Caribbean Community (CARICOM).

3. The future shape of Japanese official development assistance in the region

Japan has fewer resources than before and needs to focus them on fewer projects within the region. Latin America and the Caribbean need a "renaissance" of Japanese ODA. In 1999, the region received US$ 814 million of Japanese ODA, but the amount was gradually reduced until by 2008 it stood at less than a third of this figure. This was the outcome of a "structural reform" in Japanese ODA due chiefly to fiscal constraints that have forced the country to reduce the amount of its worldwide assistance and concentrate on other regions and on certain issues, with assistance for trade and climate change foremost among them. Some in

Japan think that more attention should be paid to the "strengths" of developing countries, as the traditional ODA strategy has always concentrated more on their problems (Nishigaki, Shimomura and Tsuji, 2009, pp. 341-343). Latin America and the Caribbean now have many more strengths than a few decades ago, making this the right time for a fresh effort by Japan to help the region help itself.

Table V.8
JAPAN: TRIANGULAR COOPERATION WITH LATIN AMERICA AND THE CARIBBEAN

Partnership Programme for Joint Cooperation between Japan and Argentina (PPJA) Signed in May 2001	• Measures to improve livestock health in Peru • Measures to strengthen the microbiology and bromatology laboratory of the Paraguayan National Institute of Technology, Standardization and Metrology (INTN) • Measures to strengthen the INTN packaging department
Japan-Brazil Partnership Programme (JBPP) Signed in March 2000	• Training in the interests of capacity-building at the Josina Machel hospital in Angola • Triangular cooperation to develop agriculture in the tropical savannah of Mozambique • International course on agroforestry technology systems in pan-Amazonian countries
Japan-Chile Partnership Programme (JCPP) Signed in June 1999	• Introduction of biopsychological model at the National Rehabilitation Centre in Costa Rica • Development of shellfish farming in Colombia • Training in the sustainable production of beef cattle on small- and medium-sized farms
Japan-Mexico Partnership Programme (JMPP) Signed in October 2003	• Measures to strengthen sesame seed production by small farmers in Paraguay • Measures to improve building technology and the "social housing" dissemination system in El Salvador • Promotion and empowerment of the maquila industry in Paraguay

Source: Japan International Cooperation Agency (JICA) [online] www.jica.go.jp.

Box V.1
BASIC GUIDELINES FOR JAPANESE OFFICIAL DEVELOPMENT ASSISTANCE IN LATIN AMERICA AND THE CARIBBEAN

1. Aid for economic integration and growth: infrastructure, development of SMEs and promotion of tourism, among other things.
2. Environmental protection: cooperation with the 15 countries in the region that are supporting the Japanese Cool Earth Partnership initiative; measures to strengthen forestry protection systems and improve the living environment in cities, among others; assistance for the development of renewable energies and energy saving, among other things.
3. Strategy for countries with larger economies: combination of loan assistance and technical cooperation.
4. Strategy for countries with smaller economies: combination of non-reimbursable financial cooperation and technical cooperation.
5. Assistance for regional integration mechanisms: education, health care, the environment, disaster prevention for mechanisms such as the Central American Integration System and CARICOM; monitoring of energy production, quality and economy measures in MERCOSUR.
6. Anti-poverty efforts: social development (education and health, for example) and rural development to improve living standards and increase employment.
7. Promotion of South-South cooperation.
8. Enhancement of ties with other development institutions: Inter-American Development Bank (IDB) and others.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Kuramoto Bunkichi (2009), "Shin-JICA to Tai-Chunambei ODA" [The new JICA and official development assistance for Latin America and the Caribbean], *Raten Amerika Jiho*, No. 1385, Tokyo, and information provided by the Japan International Cooperation Agency (JICA).
Note: The numbering used in this report is for analytical purposes only and does not necessarily represent the order of priorities assigned by the Japan International Cooperation Agency (JICA).

4. Japan's aid for trade

Japan is the world leader in aid for trade. In three years, it met a commitment to increase its ODA that was initially expected to take five years to materialize. At the Sixth World Trade Organization (WTO) Ministerial Conference held in Hong Kong (Special Administrative Region of China) in 2005, the main donor countries set themselves targets for increases in their aid for trade by 2010. In 2008, Japan exceeded its original target and contributed a total of US$ 13.5 billion. By 2009, the countries of the European Union were 99% of the way to their goal (9.6 billion euros from member States plus 1.02 billion euros from the European Commission), while the United States was 83% of the way there (US$ 2.24 billion) (OECD, 2010). Much of the aid from Japan went to Asia and to Africa, owing to its policy of doubling ODA to the latter continent. In July 2009, Japan announced a new aid for trade strategy for the 2009-2011 period called the "Development Initiative for Trade 2009", consisting mainly in a US$ 12 billion assistance package and technical assistance for 40,000 people.

Together with Africa, Asia is the region that receives most Japan's aid for trade. Within Asia, a large proportion of this aid goes to the smaller economies of ASEAN. Japanese aid for trade in Asia is characterized by its emphasis on infrastructure (loan assistance) and capacity-building (technical cooperation). In 2007, 56% of Japanese aid for trade loan assistance within ASEAN went to the four smallest economies in the subregion (Cambodia, Myanmar, Lao People's Democratic Republic and Viet Nam), while 52.6% of non-reimbursable financial cooperation and technical cooperation was received by the same group of countries.[7]

Box V.2

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA) GUIDELINES ON AID FOR TRADE AND TECHNICAL COOPERATION

In December 2003, the Japan International Cooperation Agency (JICA) laid down technical cooperation guidelines for its trade and FDI promotion projects in countries receiving Japanese official development assistance (JICA, 2003). This remains the framework for Japanese aid for trade policies, and comprises three main medium-term objectives:

Objective 1

Strengthen adaptation capacity to promote external trade and investment in the international context.

Components:

- Put in place the basic conditions for the promotion of investment and trade.
- Strengthen the capacity to adapt to international investment and trade rules (WTO and other bodies).

Objective 2

Create trade development capacity.

Components:

- Trade-related policies and institutions and training for their implementation.
- Increased information provision for the private sector.
- Development of the private sector.

Objective 3

Create FDI promotion capacity.

Components:

- Investment-related policies and institutions and training for their implementation.
- Increased information provision for the private sector.

Source: Japan International Cooperation Agency (JICA), "Kadai-betsu Shishin–Boeki Toshi Sokushin" [Guidelines by sector: promotion of foreign trade and investment], Tokyo, 2003 (in Japanese).

While Japanese aid for trade in Asia is characterized by the way it combines general infrastructure with capacity-building, in Latin America and the Caribbean the latter is the common denominator, together with the construction of transport infrastructure. Asia mainly uses loan assistance to develop infrastructure. In this sector, Latin America and the Caribbean receive both assistance of this type and non-reimbursable financial cooperation. This has materialized in infrastructure-related projects involving highways, bridges, airports and ports in the region. In both regions, capacity-building is undertaken within a technical cooperation framework. Although the Latin American and Caribbean region has not been made a priority in Japan's aid for trade, Japanese ODA has funded major projects in the region. One of the most recent is the upgrading of the Dominican Republic Export and Investment Centre (CEI-RD), including the construction of facilities adjoining the current centre and the purchase of equipment, within a non-reimbursable financial cooperation framework (almost US$ 7 million between 2008 and 2011).[8] The project has two main objectives: the development of human resources with expertise in trade and investment promotion, both within government and in the private sector (SMEs especially), and the creation of an entrepreneurial environment and the generation of new opportunities to develop export products.

[7] According to data from the Japan International Cooperation Agency (JICA) [online] www.jica.go.jp.

[8] Based on the 2009 exchange rate used by the OECD Development Assistance Committee (93.4 yen per dollar). Non-reimbursable financial cooperation project worth a planned 646 million yen.

Table V.9
JAPAN: AID FOR TRADE, COMPONENT 1 OF OBJECTIVE 1 OF JICA IN PRACTICE (STRENGTHENING OF THE CAPACITY TO PROMOTE INVESTMENT AND TRADE)

Area	Examples of projects implemented
Preparation of the legal framework for commercial transactions	• Implementation of commercial law and other elements (advice on legislative activities, systematization of laws and training of jurists, among other things).
Preparation of infrastructure	• Planning of infrastructure projects (such as airports, ports and highways). • Electricity generation policymaking; planning for the development of electrical energy sources. • Information technology-related policies and institutions. • Implementation of the banking sector and capital market. • Training of human resources in the financial sector. • Enhancement of standardization capacities and technology. • Enhancement of measurement and experimentation capacities and technology. • Assistance with the gathering of statistics. • Establishment of intellectual property.
Preparation of the environment for the development of local industry	• Formulation of comprehensive plans to promote industrial development. • Formulation of policies to strengthen SMEs and support industries. • Basic technology training (metal pressing, etc.), basic research, research and development.
Human resource training	• Training of human resources in the public sector (programme to create a deeper understanding of the meaning of trade and investment liberalization, improved quality of education in economics and international trade, etc.). • Training of human resources in the private sector (trade and other subjects). • Measures to improve worker productivity (e.g., science and mathematics education, technical training and industrial technical education).

Source: Japan International Cooperation Agency (JICA), "Kadai-betsu Shishin–Boeki Toshi Sokushin" [Guidelines by sector: Promotion of foreign trade and investment], Tokyo, 2003 (in Japanese).

E. Conclusions and proposals

The international cooperation activities of Japan in Asia hold a number of lessons that Latin America and the Caribbean would do well to begin studying in depth. In the first place, cooperation and integration have complemented and enhanced each other in Asia. This has had effects in a number of areas, simultaneously driving deeper economic integration in ASEAN and other types of economic partnership between the Asian economies. Latin America and the Caribbean should not neglect these opportunities. If the Japanese initiative of doubling the size of the Asian economy by 2020 is successful, Latin America and the Caribbean will benefit economically from stronger interregional trade and Asian investment on the one hand, but on the other they will have a much stronger rival to contend with than at present.

Second, cooperation requires stable financial resources, as eloquent speeches and goodwill alone are not enough to carry it forward. For cooperation mechanisms to give good results, they need financing with concrete plans and objectives for the medium and long term. Cooperation also requires solid institutional frameworks to maximize results. A number of international cooperation agencies (such as JICA in the case of Japan) and a variety of international organizations have the experience and expertise needed to carry out this type of activity. It would be advisable to enter into a (bilateral or regional) dialogue with Japan so that the latter's actions are more favourable to Latin America and the Caribbean, especially within the multilateral development banks, in which it is a major shareholder (World Bank and Inter-American Development Bank).

Third, it can be shown that cooperation is not a zero sum game and that, depending on how it is implemented, it can yield reciprocal benefits. Irrespective of the type of assistance received (non-reimbursable financial cooperation, technical cooperation, loan assistance), the country receiving ODA can seek to ensure this is used to improve its position in the international economy. The experience of Japan with the Asian countries shows that external aid can be used to raise productivity and promote exports. In a context of market-led integration, cooperation has also been beneficial for Japanese firms themselves. Almost four decades ago, an ECLAC staff member stressed the need to establish a comprehensive programme of financing and technical cooperation between Japan and Latin America and the Caribbean (Hosono, 1973, pp. 388-389). This is now more necessary than ever, particularly given that the volume of Japanese ODA going to the region is diminishing. The region needs to explain its financing and technical cooperation needs to Japan, especially in areas where Asia has been given priority: industrial development, measures to strengthen support industries and SMEs, human resource training and the environment. The current agenda also needs to include follow-up or (re)implementation of cooperation mechanisms as part of the economic partnership agreements signed with Japan, plus assistance to improve the business and investment climate.

Fourth, given the reduction in the Japanese ODA budget in recent years, both Japan and the region's countries are being forced to make choices and focus Japanese assistance on particular areas and projects. The ideal would be to see a "renaissance" of the largest Asian donor in the region. Without giving up hope, there is a need in the meanwhile to consider how Japanese cooperation can be used more strategically. The following proposals are offered:

- Strengthen mechanisms for trilateral cooperation between Japan and the region's countries. At a time when cooperation has become a leading priority in the region, this trilateral approach could encourage other forms of cooperation. In future, it would also be worth considering cooperation frameworks that include Japan and other extraregional donors to create greater synergy.
- The position of Japan as the main donor in Asia and leading Asian donor in Latin America and the Caribbean could give rise to a new type of interregional cooperation. Thought could be given to variants as regards the link with ASEAN, for example, at a time when that subregional bloc is showing an interest in strengthening its economic relations with the region:
  - trilateral cooperation between Japan, ASEAN and Latin America and the Caribbean;
  - cooperation between Japan, regional development banks (IDB, Asian Development Bank), ASEAN and Latin America and the Caribbean, something that could be reinforced on the Latin American side with the assistance of the ECLAC/IDB/OAS Tripartite Committee.
- Greater advantage needs to be taken of the potential of Japan as the largest aid donor for trade in the world. Although the country has concentrated this assistance in Asia and Africa, it is important to realize that there is also great demand for assistance of this type in Latin America and the Caribbean, especially in the area of infrastructure.

The outlook for economic relations between Japan and Latin America and the Caribbean is set fair for the coming years, but greater Japanese cooperation would give a further boost to trade and investment. Failing this, the forecast will still be bright but partially overcast. Perhaps the land of the rising sun can make the sun shine more brightly in this part of the world.

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