Opportunities for Convergence and Regional Cooperation

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FOREWORD

In September 2008, the financial crisis turned into the worst global economic crisis in 80 years as the world experienced the largest drop in international trade ever and sharp contractions in foreign direct investment flows and income from remittances and tourism. In 2009, the economies representing 80% of global GDP were hit by the ensuing recession, which, in scope and depth, was comparable only with the Great Depression of the 1930s.

Latin America and the Caribbean did not escape the repercussions of this international crisis: regional GDP fell by 1.7%, unemployment rose, and poverty indicators worsened slightly. The region nevertheless withstood the situation better than in previous crises, when lesser shocks had a far greater impact on the economies and far more serious social consequences. The region's resilience this time around speaks well of the economic capacity it built up during the preceding international economic boom cycle and its good macroeconomic management practices, including fiscal responsibility, inflation control, the sound administration of the external accounts and the maintenance of adequate international reserves. The strong performance in these areas meant that, also for the first time, the region was not rocked by exchange or financial and balance-of-payments crises as is has been in the past. Most of the countries were in fact able to react by adopting countercyclical measures that softened the impact of the crisis on employment and social indicators.

The worst of the crisis now seems to be over. The global economy's recovery is showing signs of being rather fragile, however. In the world's major economies, the recovery is still dependent on the fiscal stimulus packages that the Governments have implemented. The mode and timing of the withdrawal of these stimuli, the restructuring of the financial balances of private actors and the return to more sustainable fiscal deficits and public debt levels in the industrialized economies are issues that will shape the world economic situation in the years ahead.

The crisis has not lessened (and in some ways it has heightened) the urgency with which Latin America and the Caribbean should tackle some of the basic issues that need to be addressed to improve the region's integration in the world economy: the intensity of technological change and the importance of innovation, the growing weight of China and other emerging economies in the global economy and, last but by no means least, climate change. The characteristics of the latest crisis have highlighted the need to reform financial regulation and the international financial system. And this complex agenda will have to be tackled during a period of slower economic growth and comparatively high unemployment in the industrialized economies, which will necessarily be making major adjustments to their budgets. Given the magnitude of the political and economic challenges facing countries in the twenty-first century, some signs of protectionism are to be expected.

The international agenda is becoming increasingly complex, not only because of the fragility of the macroeconomic and financial situation, but also because of the slow response of the global institutions to the emergence of new issues and stakeholders. The emerging economies, headed by China, India, other Asian economies and Brazil, will in fact gain an increasingly larger presence on the world stage in the second decade of the century, underscoring the importance of South-South trade. Even larger cracks will appear in countries' capacity to govern the forces of globalization unless they adapt to the new rules for competing on international markets and the new distribution of international power and as long as they remain incapable of fielding effective responses to such pressing global demands such as the handling of climate change and the reform of the international financial system, to name but a few of the principal challenges facing the world today.

Now is the time to establish regional forums that have sufficient technical support to react opportunely at key moments in the international debate. A renewed, effective multilateralism is urgently needed to give legitimacy to international negotiations on finance, trade and climate change. Spaces for dialogue and regional cooperation are needed where diagnoses and proposals can be sharpened and shared with a view to presenting unified positions at international forums that make it possible to better defend the region's interests.

The countries of Latin America and the Caribbean will therefore have to redouble their efforts to build broader regional forums and undertake cooperation initiatives that can unlock the synergies of the different subregions. Coordination among the various subregional cooperation and integration schemes is now urgently required, as are progress with their gradual convergence and the eventual transition towards more unified schemes.

It is in light of these considerations and upon the request of the Government of Mexico that the Economic Commission for Latin America and the Caribbean (ECLAC) submits this document for the consideration of the region's highest authorities. Opportunities for regional cooperation are examined in eight areas. Four of these pertain to intraregional cooperation: infrastructure, aid for trade, strengthening the social component of integration, and the reduction of asymmetries. The other four refer to cooperation on global issues: innovation and competitiveness, the joint pursuit of closer ties with Asia-Pacific, the reform of the international financial system, and climate change.

We trust that this document will make a contribution to furthering regional cooperation and integration, which constitute two of the most effective instruments for tackling the economic and social challenges facing the region in the wake of the crisis.

Alicia Bárcena
Executive Secretary of the Economic Commission
for Latin America and the Caribbean (ECLAC)

INTRODUCTION

Compared with 2003-2007, which was the most favourable period the world and regional economies had seen in 40 years, the outlook for the future is less encouraging. In the early 2010s the world economy and global trade will experience reduced growth rates, increased competitive tension and protectionist pressure, and tighter access to financing. In the wake of the crisis, the industrialized countries will face slower economic growth and high unemployment at a time when they will also have to restore the sustainability of their public accounts. The emerging economies, headed by China, together with India, other Asian economies and Brazil, will gain an increasingly larger presence on the world stage in the second decade of the century. The driving forces of economic growth and international trade will shift even more rapidly towards the Pacific and the emerging economies, underscoring the importance of South-South trade.

Fragile international macroeconomic conditions and the slow response of the global institutions to the new challenges that are arising are eroding the relevance of the multilateral institutions, which has worrying implications for the developing countries, as no effective alternatives exist that can address the new challenges of this century. The Doha Round of trade talks will soon have been under way for a decade but is still far from fulfilling its commitment to development. The fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, in Copenhagen, concluded with more uncertainties than certainties. And the meetings of the Group of Twenty (G-20) allow for little optimism regarding the new financial regulations and the forthcoming reform of the international financial system.

Consequently, greater regional cooperation and closer collaboration between and within the subregions is no longer merely a major political objective, but also an economic imperative if the region is to integrate into a global economy that is increasingly structured around regional or subregional value chains. Thus, measures in areas such as infrastructure, energy, connectivity and trade and transport facilitation will be crucial for competitiveness and growth.

Given the weak demand for the region's products among most of its major partners, intraregional trade has a key role to play in spurring the recovery of demand for the goods and services the region produces. This has not occurred yet, however, in part, on account of the emergence of trade-restricting measures, but mainly owing to the persistence of major deficits in infrastructure and connectivity and discrepancies in the rules governing the flow of goods, services, investments and persons. More open intraregional trade that respects the liberalization commitments already assumed would not only help to offset the fall in external demand, at least in part, it would also stimulate the development of small and medium-sized enterprises (SMEs). Intraregional trade has been shown to be more intensive among SMEs, to consist of goods with a higher value added content and to be more labour-intensive than extraregional trade. It is therefore imperative to ensure that regional integration does not fall victim to the repercussions of an international crisis that the region did not generate.

It is with this purpose in mind, and after examining the main characteristics of the post-crisis scenario and identifying the ensuing demand for greater regional cooperation, that the following proposals to boost that cooperation are presented. These proposals are not dependent on free trade agreements and, consequently, the differing views held on trade and development in the region should not hamper the action that is urgently needed to confront the challenges to the region's competitiveness.

SUMMARY OF PROPOSALS

The Economic Commission for Latin America and the Caribbean proposes focusing regional cooperation efforts on eight areas: four of them refer to intraregional issues (fostering trade within the region, investment in infrastructure, social cohesion and reducing asymmetries) and the other four to cooperation for addressing global challenges: innovation, forging closer ties as a region with Asia-Pacific, reforming the international financial system and climate change. Specific proposals for action are presented for each of these areas.

Advances in the selected areas would benefit from a unified and more effective institutional framework within the region. A representative framework of this kind could help to reconcile any opposing interests that may arise between countries, while paying special attention to the interests of the smallest or relatively less developed countries.

A. PROPOSALS FOR PROMOTING REGIONAL COOPERATION

1. Fostering intraregional trade

A programme for fostering intraregional trade should be set up, supported by more substantial financial resources and concerted trade facilitation measures. Attracting more inflows of aid for trade would help to achieve this. It is not necessary to establish new institutions but rather to generate coordination mechanisms between existing ones, drawing on their strengths and mobilizing financial resources.

Financing for trade. The recent crisis demonstrated how important it is to strengthen international financial institutions by building up their capital and capacity for rapid response in order to forestall possible balance-of-payment crises, as well as regional financial institutions, by promoting their capitalization and by ensuring greater complementarity with development banks. In the short term, national and regional financial agencies must cover risks and boost liquidity for foreign-trade operations, while ensuring that the necessary credit is available. In the medium term, financial institutions must ensure that businesses are kept abreast of the characteristics of their instruments and understand the techniques of risk assessment and compilation of data on trade financing.

An integrated approach to trade facilitation. This means not just reducing the amount of bureaucratic formalities involved in foreign trade or the time needed to complete them but also speeding up trade transactions, notably by ensuring the availability of transport infrastructure and information and communications technologies (ICT) at internationally competitive prices. Emphasis should be placed on public policies that facilitate access by small and medium-sized enterprises (SMEs) to these improvements.

In terms of trade facilitation, the region must go beyond the Doha Round. The countries of the region should consider implementing the proposals they themselves put forward at the Doha Round at the national, subregional or regional level. Indeed, at the regional level, it is possible to go beyond the scope and depth envisaged within the World Trade Organization. To this end, steps must be taken to strengthen coordination between regional finance agencies and regional research and advisory bodies, such as ECLAC. In this way, Governments can receive assistance in updating their technical know-how and in building capacities in trade facilitation and other related areas.

At the national level, this means not just improving coordination between the Government agencies involved but also relying on various public-private partnership mechanisms that reinforce communication between stakeholders as well as dialogue on policy reforms and the commitment of business organizations to innovation and competitiveness.

At the subregional and regional level, the following suggestions are made: (i) facilitate the convergence of procedures, in particular with respect to their interoperability and standardization by advancing in successive phases to harmonize, streamline, automate and interconnect customs and foreign-trade procedures in general; and (ii) move forward more rapidly to obtain legal recognition of modern business instruments and procedures, such as electronic billing, electronic certificates of origin and inter-agency single windows for foreign trade.

The Latin American and Caribbean region should increase its share of aid-for-trade flows, which stood at 8% in 2007, compared with 42% for Asia and 37% for Africa. To improve their share, the countries of the region must make aid for trade a central component of their requests for international cooperation, establish priorities and present relevant projects to secure new flows of resources. The focus should be on attracting funds towards projects such as the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Meso-American Project, in which several countries participate and which have a clear trade-facilitation component.

2. Preserving and boosting investment in infrastructure

Regional cooperation should seek to reduce the "infrastructure gap" characteristic of Latin America and the Caribbean. To this end, the proposals are as follows: (i) agree on a regional or subregional indicative target for investment in infrastructure, which could be of the order of 5% of GDP, bearing in mind the specificities of each subregion or country; (ii) set up regional or subregional infrastructure funds with inputs from public resources, financial institutions and regional development banks; (iii) strengthen capital markets and their regulation in such a way as to ensure that capital and pension funds play a more important role in infrastructure financing; (iv) reinforce support at the highest level for physical infrastructure initiatives in the region, monitoring and resolving rapidly any bottlenecks that may develop; and (v) step up convergence between land-traffic and multimodal regulation and control systems.

At the national level, the following steps should be taken: (i) develop integrated infrastructure, transport and logistics strategies that can be sustained over time; (ii) review policies for regulation of infrastructure services, seeking to ensure that improvements in this area not only boost private participation but also are transmitted effectively to society and become channels for achieving greater efficiency, productivity and competitiveness; (iii) strengthen national public investment systems, improving the quality of projects and effective opportunities for securing external financing; (iv) support the development of benchmarking systems for the main categories of infrastructure works, by facilitating the comparability of projects and avoiding overpricing in relevant bidding processes. Once these proposals have been successfully implemented, it will be easier to move towards adopting an integrated regional infrastructure, transport and logistical strategy that can be sustained over time.

3. Strengthening the social aspect of integration

What is needed is regional competitiveness that is compatible with social equity. This implies addressing issues relating to social cohesion and inclusion as well as multicultural and gender policy issues. One of the merits of the Bolivarian Alliance for the Peoples of our America (ALBA) has been to give prominence to social issues as being central to regional cooperation and integration efforts. It is recommended that steps be taken to: (i) improve the quality of social statistics at the national level while seeking to harmonize them and make them comparable at the regional level; (ii) identify regional best practices on corporate social responsibility; (iii) evaluate ways to reduce remittance costs for migrants sending funds to their countries of origin; (iv) promote the certification of labour skills across countries, so as to stimulate intraregional movement of less-skilled workers; (v) obtain reciprocal recognition of professional qualifications; (vi) support the implementation of portable social protection schemes; (vii) encourage investment in infrastructure and integrated production development strategies along border areas, including social policy measures for the protection of migrants; (viii) set up a structural fund for social cohesion to help finance production and labour restructuring and reproduce the best experiences of social protection during crises; and (ix) create a social inclusion observatory that can provide Governments, academics, parliaments and civil society with the information necessary to monitor social policy, share experiences and disseminate good practices.

4. Improving treatment of asymmetries

The issue of asymmetries is horizontal in nature. Therefore, a special effort is required to ensure that in each area of regional cooperation described herein an approach is taken that adjusts for asymmetries to the benefit of the relatively less developed economies. In this context, a special effort on behalf of Haiti is imperative as the region's commitment to solidarity should manifest itself fully in this case.

Without undermining the comprehensive treatment that should be given to asymmetries, the following specific actions are proposed: (i) strengthen structural fund systems aimed at relatively less developed countries along the lines of the positive experience of the MERCOSUR Structural Convergence Fund (FOCEM) and similar initiatives in other subregional systems; (ii) encourage larger partners to open their markets to exports from relatively less developed countries, which would include reducing not only tariff but also non-tariff barriers; and (iii) encourage larger partners to consider carefully the impacts their macroeconomic policies and incentives for investment and exports have on the competitiveness of the smaller economies.

B. BUILDING REGIONAL CAPACITY TO ADDRESS GLOBAL CHALLENGES

1. Increasing regional cooperation in innovation and competitiveness

The knowledge economy presents new challenges to the region’s countries. Science, technology and innovation play increasingly important roles not only for their integration into the global economy but ultimately in their prospects for economic and social development. However, with few exceptions, the countries of the region allocate limited amounts of resources to these issues. Therefore, it is essential that national efforts be combined, giving preference to associative approaches, an example of which would be to engage technology centres in integrated, multinational research and business activities, creating synergies and generating a critical mass of human and financial resources. At the national level, this approach also requires the following: (i) greater coordination among the various public agencies involved in competitiveness issues; and (ii) the creation of public-private alliances that allow information to be shared and objectives to be defined by common agreement.

In this context, the following actions are proposed: (i) establish a regional innovation forum that will facilitate cooperation and joint actions by countries in addressing the challenges of innovation and technological development; (ii) create a regional innovation cooperation fund that will finance programmes or actions as determined by the regional forum or by other cooperation initiatives; (iii) promote the creation and development of regional corporate foundations for innovation; (iv) prepare an annual report on regional innovation initiatives, to serve as a guide for national and regional efforts on this issue and as a compendium of experiences to be shared; (v) continue with comparative analyses of national strategies relating to the information society, though country reviews; (vi) support the White Book of e-Government Interoperability in Latin America and the Caribbean as a common framework for regional action and discussion on ICT; and (vii) develop the region's capacity to use ICT effectively in sectors such as e-government, ICT-related industries, high-speed networks, health and education.

2. Deepening regional integration through closer ties with Asia-Pacific

Asia-Pacific, the most dynamic region in the world economy, offers multiple opportunities to Latin America and the Caribbean in areas such as mining, energy, agriculture, infrastructure and science and technology. Given the vast size of Asia's markets, it will only be possible to take full advantage of these opportunities through a coordinated partnership-building effort among the countries of the region. Nevertheless, until now no coordinated strategy has been developed among countries or groups of countries to forge strategic investment and trade links with Asia-Pacific; rather, there have mainly been sporadic, individual attempts.

The countries of Latin America and the Caribbean need to take a more coordinated approach to building closer ties with Asia-Pacific. The countries of the region should strengthen their trade ties and increase their productive complementarity with Asia-Pacific, striving to integrate into Asian production and export chains. To do so, they will need to form trade and investment partnerships that go beyond free trade agreements. Although these agreements may be important, they are not enough to generate the scale and critical mass needed to encourage trade and technology partnerships between the two regions, or to reduce the marked asymmetry between the large volumes of trade and small reciprocal levels of investment.

Joint efforts to strengthen ties with Asia-Pacific through multinational business and ministerial missions would help to promote project portfolios in infrastructure, energy, banking, tourism and logistics, to the benefit of both regions. Reaching consensuses on such a portfolio, as well as on other trade and investment initiatives, might be a first step for holding technical meetings with Asian counterparts, including the Association of Southeast Asian Nations, the Asian Development Bank and the China Development Bank. Subsequently, high-level political meetings could be held to raise the level of dialogue with Asia-Pacific on the basis of a shared regional agenda. A collective response to the Policy Paper on the relations of the People's Republic of China with Latin America and the Caribbean, presented in late 2008, is still pending.

3. Reforming the international financial system

The governance of the institutions that make up the international financial architecture must undergo a thorough reform. Such a reform should ensure that decisions are taken and rules established in such a manner as to take account of the requirements of all countries, especially developing ones. The lack of representation of developing countries at multilateral forums makes these institutions' analyses and recommendations on regulatory policies incomplete, which leads to significant mistakes, as evidenced by the oversight and regulatory failures that were among the leading causes of the recent crisis. The region should do more to make the most of the presence of Argentina, Brazil and Mexico in the Group of Twenty (G-20) in order to take common stances and defend them in this and other important forums.

Subregional financial cooperation must play a significant role by complementing reforms to the global financial architecture. Stronger subregional institutions would serve as an additional line of defence against the effects of future financial crises and prevent them from spreading. Hence, it is necessary to: (i) strengthen the Latin American Reserve Fund; (ii) consolidate the regional and subregional capital markets; and (iii) give a larger role to subregional development banks.

4. Jointly tackling climate change challenges

For the region, the best way to reduce the risks associated with unilateral, protectionist measures by the industrialized countries is to reach a sound multilateral agreement on climate change. Consequently, there is a need to move forward with efforts to reach a binding agreement in 2010, based on the modest results of the fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change, held in Copenhagen in December 2009. The region needs to prepare well for these negotiations, because, if it fails to do so, within a few years it might have to comply with global standards that overlook its interests and to face environmental and energy standards that limit its ability to become more competitive.

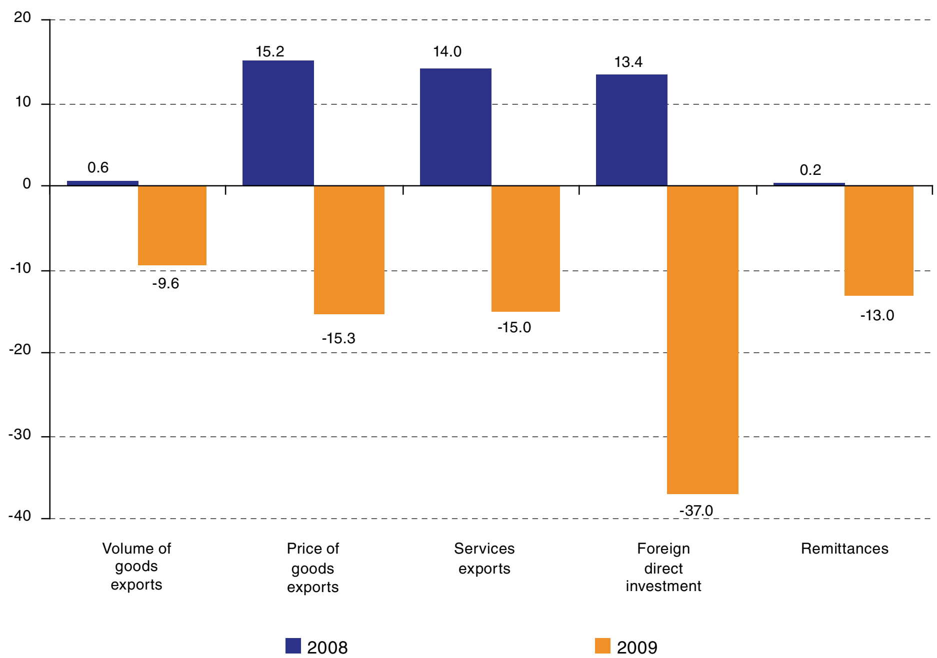
The region must strengthen and broaden its initiatives for regional cooperation on the adaptation and mitigations policies that are part of national and regional development strategies. Some cooperation activities in this field are as follows: (i) creation of a climate-change policy observatory to monitor discussions and progress on the topic and corporate- and public-policy measures; (ii) development of specific studies and methodologies for evaluating the economic impacts of climate change in the various sectors and subregions; (iii) implementation of programmes to support the development of renewable energy and energy efficiency in consumption, production and transportation, and of clean industries, among others; (iv) sharing of experiences with carbon-market projects; (v) cooperation on adapting national finance institutions and granting facilities to fund projects for mitigating the impact of climate change; (vi) a proposal on mechanisms that will make it possible to obtain joint access to international funds for capacity-building and technology transfer, for both adaptation and mitigation; (vii) agreement on necessary carbon-market reforms, including the evaluation of mechanisms used to finance adaptation measures; (viii) coordination of policies for boosting lower-carbon investments; and (ix) building of a regional consensus on a set of public policies for moving towards less carbon-intensive economies.

I. POST-CRISIS SCENARIOS

A. THE MAIN EFFECTS OF THE CRISIS ON LATIN AMERICA AND THE CARIBBEAN

The deep economic crisis of 2008-2009, which had its epicentre in the United States and other industrialized countries, spread to the real economy of Latin America and the Caribbean by a number of channels. The impact of this external shock was more severe than that of the Asian crisis or the external debt crisis (see figure I.1). Estimates for 2009 show a drop of 10% and 15% in volumes and prices, respectively, for goods exported by the region. There was also a decline of 15% in exports of services, 37% in foreign direct investment flows and 13% in remittances. Overall, the region has been coping without suffering drastic repercussions in terms of GDP growth or employment, thanks to the combination of the favourable business cycle from which it is emerging (2003-2007) and improved economic policy management, which means that it has been able not only to cope better with the crisis but to respond with countercyclical policy measures.

Figure I.1
LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR CHANGE IN GOODS AND SERVICES EXPORTS, FOREIGN DIRECT INVESTMENT AND REMITTANCES, 2008 AND 2009



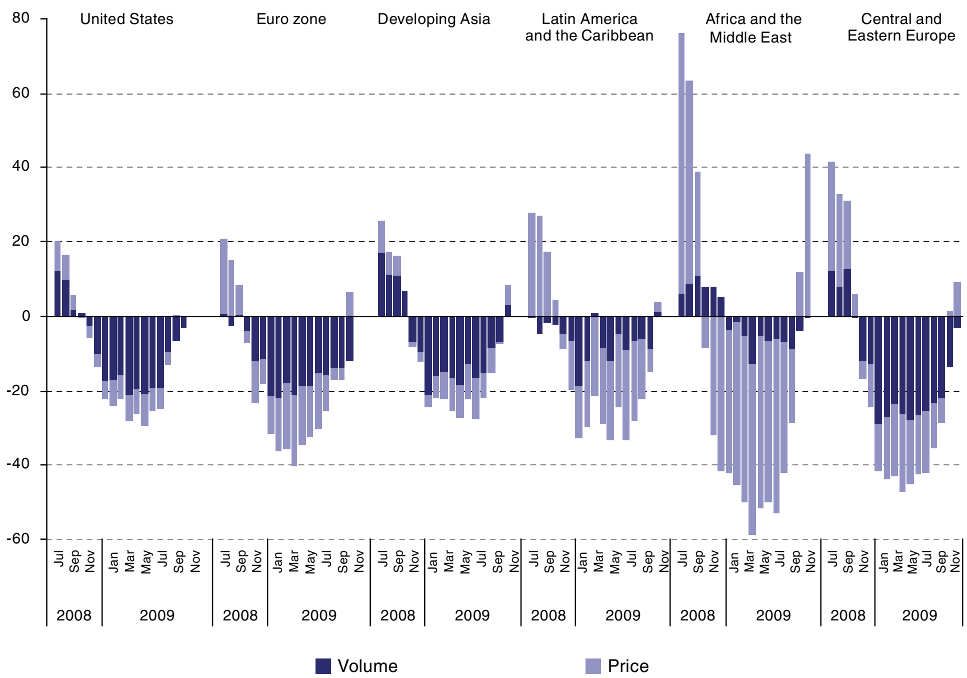
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2009* (LC/G-2424-P), Santiago, Chile, 2009.

One of the variables most affected by the crisis was international trade. In late 2008 and the first half of 2009, the value of the region's exports fell at annualized rates in excess of 30%. Latin America and the Caribbean experienced a smaller decline in external sales than Africa and the Middle East or Central and Eastern Europe, but a similar one to the United States and the euro area (see figure I.2). While the loss of revenue from (basically manufacturing) exports in 2009 in the industrialized countries and developing Asia is mainly accounted for by the decline in export volumes, in Latin America and the Caribbean it has been due in particular to lower prices (-15%, mostly commodities). The region's imports also underwent a severe adjustment, collapsing by 24% in 2009. By contrast with exports, the reduction in imports was mainly due to the decline in volume (-16%).

Figure I.2

SELECTED COUNTRIES AND REGIONS: EXPORT VOLUMES AND PRICES, JULY 2008-OCTOBER 2009

(12-month rates of change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis, "World-trade monitor", 2010.

The fall in exports in 2009 was very heterogeneous across the different categories of goods and the different origin and destination markets. First, the drop in exports hit all sectors but to differing degrees: while the value of agricultural product exports fell by less (-18%) than that of regional exports overall, mining products and oil fell by more than the average (-42%), while manufacturing export revenues fell by 25%. Second, regarding exports by destination, while sales within the region and to the United States and European Union fell by between 31% and 33%, sales to China declined by a mere 2%. Lastly, there were also significant differences between the subregions of Latin America and the Caribbean as regards the drop in export revenue: the greatest decline was seen in the Andean countries and the smallest one in Central America.

The downturn in regional trade is unprecedented in recent history. In 2009, the volume of regional exports fell by almost 10%. A comparable drop in trade, both volume and prices, has not occurred in 72 years (1937) in the case of exports, and in 27 years (1982) in the case of imports. This is an historic record only surpassed by the sharp slowdown in trade in the period immediately following the crisis of 1929.

Large numbers of developed and developing countries have introduced trade measures to try to contain the impact of the global crisis on their economies. These measures include tariff hikes, antidumping duties, non-tariff barriers such as import licences and more stringent technical standards, subsidies to the banking sector, the automobile industry and agriculture, discriminatory public procurement practices and restrictions on immigration or on the hiring of foreign workers, among others. Despite these signs of protectionism, the experience of the 1930s is unlikely to be repeated, owing to the existence of global value chains and a multilateral framework of rules in the World Trade Organization (WTO), and the fact that nowadays most countries have flexible exchange rates. Nevertheless, the protectionist measures taken in response to the crisis highlight the need to conclude the Doha Round of trade talks as soon as possible.

The speed of the recovery that began in the region in the second half of 2009 suggests that a number of countries could start growing again in 2010 at rates similar to those of the pre-crisis period. This projection is not without short-term and medium-term risks, however, and there are doubts as to whether the recovery will lead to a period of sustained growth, in the region or the wider world.[1]

In the second half of 2009, trade flows began to recover everywhere in the region except the Caribbean (see figure I.3). The export recovery was similar across South America and Mexico and Central America. The improvement in South American exports, manifested in higher volumes and prices, was due to continuing Chinese demand for commodities (copper, zinc, oil, wheat and soy). The recovery in Mexico and Central America is largely accounted for by the gradual normalization of demand and imports in the United States. Broadly speaking, there has also been a partial restoration of international trade financing flows, with a reduction in the region's risk levels. The data for the Caribbean to the third quarter of 2009 did not yet show a definite upward trend.

ECLAC is forecasting economic growth of some 4.1% for the region in 2010, following a GDP decline of 1.7% in 2009. Both figures show that the Latin America and Caribbean region withstood the crisis better than the industrialized economies and Central and Eastern Europe and is recovering sooner. The rate is expected to be higher in South America than in the other subregions, owing to the relatively large size of certain countries' domestic markets (Brazil, Argentina and Colombia), the greater diversification of their export markets and the greater weight of China as a destination for a number of countries' foreign sales (Argentina, Brazil, Chile and Peru). Conversely, slower growth is expected in economies with a less diversified portfolio of trading partners that buy mainly manufactures, as in the case of Mexico and the Central American economies.

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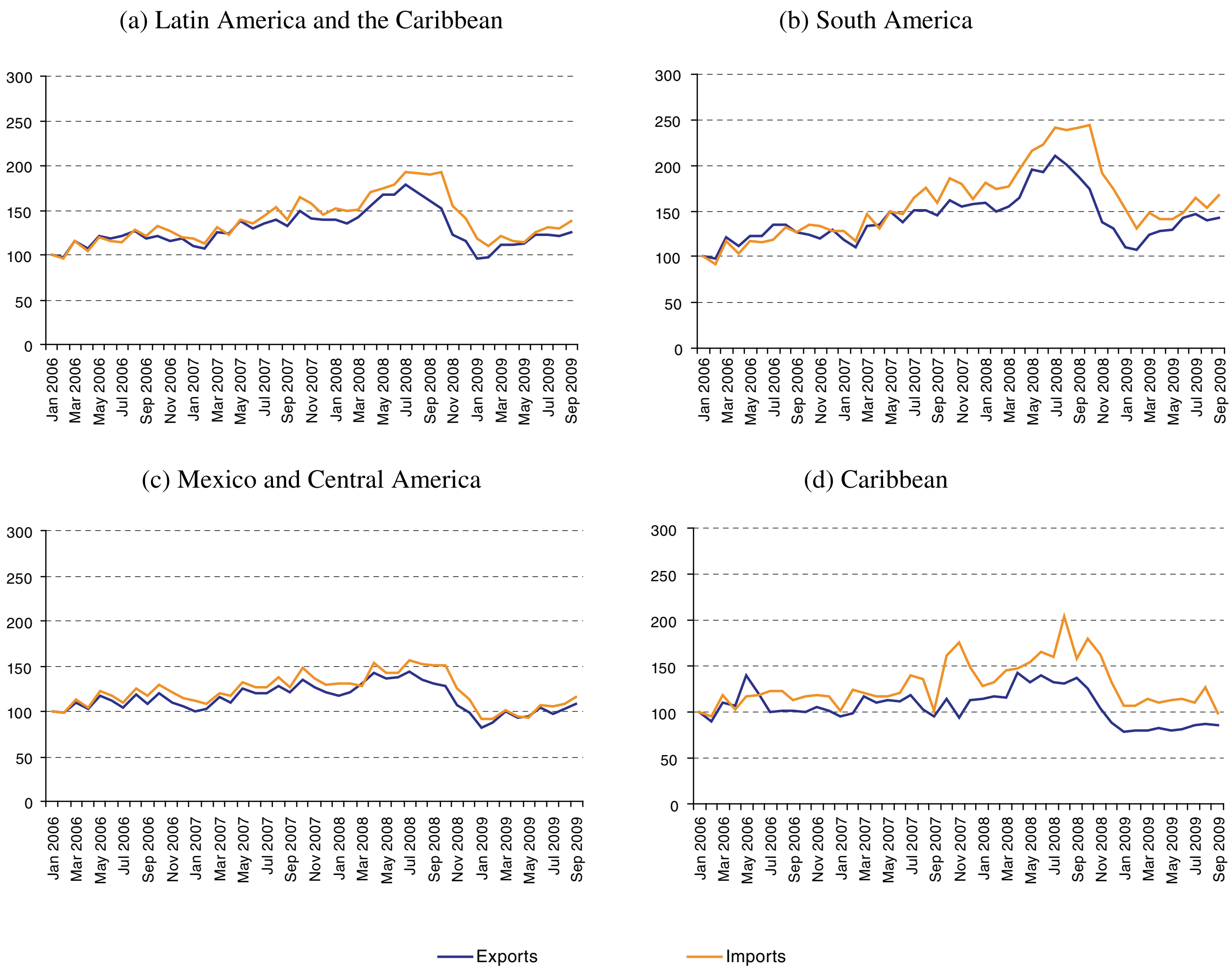
[1] See ECLAC (2009c).

Figure I.3
SUBREGIONS OF LATIN AMERICA AND THE CARIBBEAN: INDICES OF GOODS EXPORTS AND IMPORTS BY VALUE, 2006-2009
(*January 2006=100*)

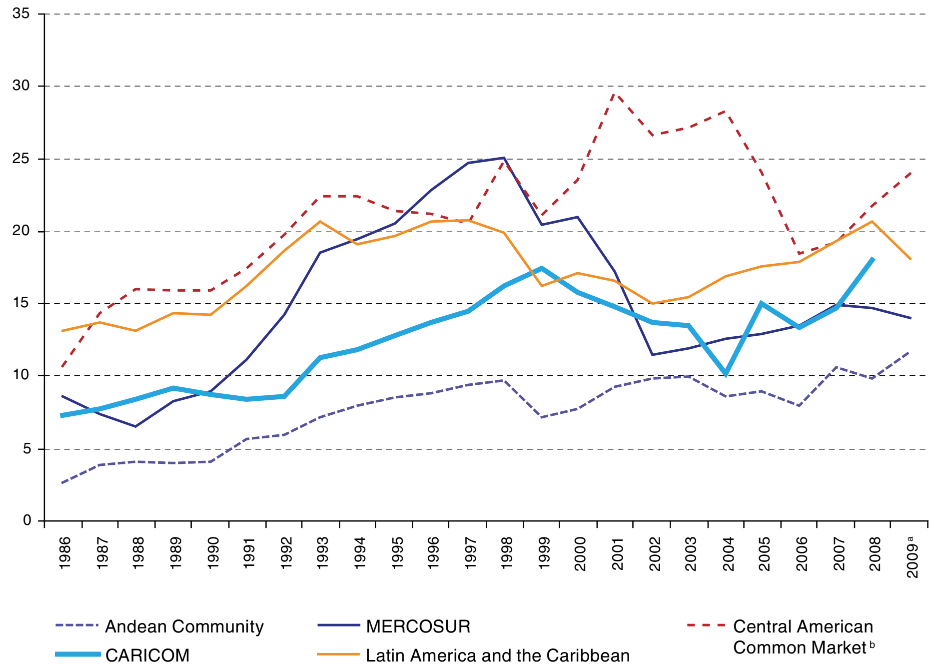


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

B.THE EVOLUTION OF THE REGION'S EXTERNAL TRADE STRUCTURE

Intraregional trade has yet to return to its historic highs. Intraregional trade expanded steadily from the early 1980s onward to peak at just over 20% for Latin America and the Caribbean as a whole in the late 1990s and 25% in the case of MERCOSUR and the Central American Common Market. These increases were halted and sharply reversed from 1999, however, when the Asian financial crisis hit the region. Subsequently, currency upheavals in MERCOSUR and the Andean Community caused trade between the countries of South America to plummet. Although the intrasubregional trade ratio carried on rising in the Central American Common Market, the region as a whole did not regain its historic peak (see figure I.4).

Figure I.4
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, 1986-2009
(Percentages of each group or subregion's exports to the rest of the world)



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

[a] Data for 2009 are projections.
[b] The Central American Common Market data do not include maquila exports and free-trade zones.

Intraregional trade in Latin America and the Caribbean has lagged well behind that of other regions of the world. The internal trade ratio in the European Union is 67%, a figure that reflects the depth of integration there and the density of intra-industry trade, while the indicators for the Asian economies are also considerably higher than those for our region (see table I.1).

The regional market has a high manufacturing density. Intraregional trade is mostly based on manufactured goods, especially those with a high natural-resource content, and on low- and medium-technology products (see figure I.5). Processed foods, chemicals and pharmaceuticals, plastics, household appliances (such as cookers, washing machines and heaters), motor vehicles and textiles are among the goods usually exported through intraregional trade networks. Those segments are all largely dependent on SMEs and a small group of large corporations which are highly internationalized within the region.

Table I.1

LATIN AMERICA AND THE CARIBBEAN AND REFERENCE REGIONS: INTRAREGIONAL EXPORTS AND THEIR SHARE IN WORLD GOODS TRADE, 1986-1989, 1994-1997 AND 2005-2007

(Percentages of total exports)

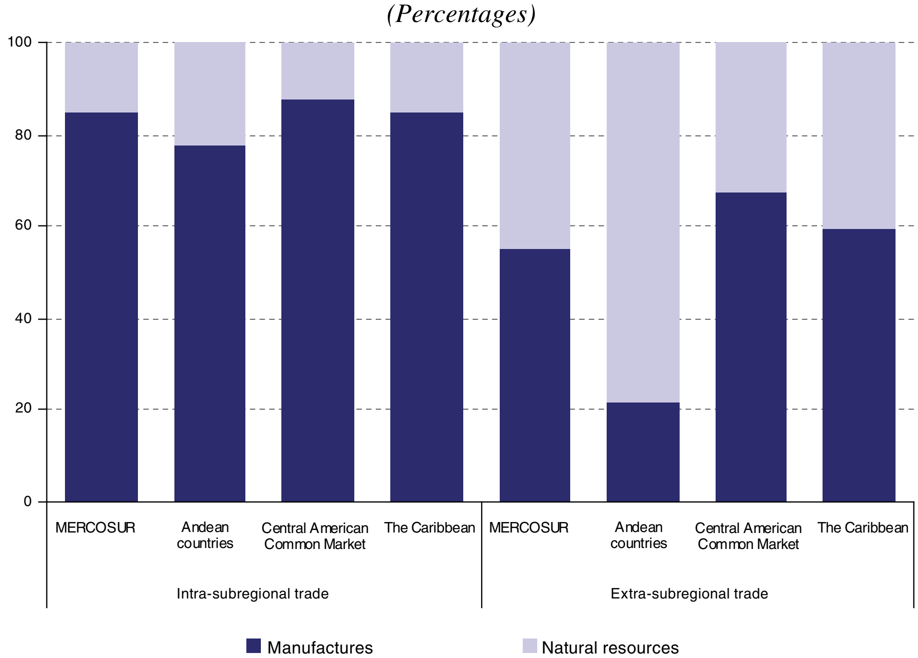
	Ratio of intraregional trade measured by exports (A) = (Xintrai/XToti)*100			**Exports within the region as a proportion of global exports (B) = (XToti/XMundo)*100**		
	1986-1989	**1994-1997**	**2005-2007**	**1986-1989**	**1994-1997**	**2005-2007**
Andean Community	3.7	8.7	9.1	0.4	0.4	0.5
Southern Common Market	7.7	21.9	13.8	1.5	1.4	1.6
Central American Common Market	14.2	21.4	20.9	0.1	0.1	0.2
Caribbean Community	8.1	13.2	14.2	0.2	0.1	0.2
Latin America and the Caribbean	**13.6**	**20.0**	**18.2**	**3.8**	**4.6**	**5.6**
Africa	4.3	9.4	14.5	1.1	1.0	1.7
Association of Southeast Asian Nations	17.9	24.5	25.2	3.4	6.1	6.1
European Union	64.2	65.7	67.1	41.1	39.7	38.0

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

Figure I.5

LATIN AMERICA AND THE CARIBBEAN: COMPARISON OF INTRA-GROUP TRADE IN NATURAL RESOURCES AND MANUFACTURES, 2008

(Percentages)



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

As regards the main export destinations, the region has been forging closer trade links with Asia-Pacific and China over the past decade (see table I.2), a process that has been intensified by the signing of various bilateral free trade agreements and visits by business leaders, ministers and presidents. The corollary of the growing importance of Asia-Pacific has been a decline in the share of trade accounted for by the United States and European Union, with some exceptions.

Table I.2

LATIN AMERICA AND THE CARIBBEAN: MAIN EXPORT MARKETS, 2000-2001 AND 2008-2009

(Percentages)

	Latin America and the Caribbean		United States		European Union		Asia-Pacific [a]		China	
	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]
MERCOSUR	**32.1**	**28.1**	**19.9**	**10.7**	**24.0**	**21.7**	**9.5**	**20.1**	**3.0**	**9.7**
Argentina	47.2	39.1	11.4	6.9	17.8	18.7	9.1	16.2	3.6	8.6
Brazil	23.7	22.8	24.5	12.5	27.3	23.1	9.9	22.3	2.6	5.7
Paraguay	69.6	66.7	3.4	1.6	12.4	15.1	2.8	1.8	0.9	1.8
Uruguay	52.7	40.6	8.5	3.5	17.6	17.4	8.5	7.6	4.5	3.5
Andean Community [c]	**24.3**	**23.4**	**48.7**	**44.8**	**11.5**	**12.5**	**4.2**	**9.5**	**1.1**	**6.3**
Bolivia (Plurinational State of) [d]	51.2	63.9	19.2	7.2	14.0	5.8	1.2	17.6	0.4	1.1
Colombia	32.0	28.1	47.0	38.1	14.1	13.4	2.4	2.6	0.2	1.6
Ecuador	31.8	37.6	38.1	41.7	13.8	12.7	9.7	3.2	0.7	1.6
Peru	19.0	18.1	26.4	16.7	24.6	16.4	16.4	25.3	6.3	13.3
Venezuela (Bolivarian Republic of)	19.4	16.9	58.2	62.3	6.6	11.4	1.3	7.6	0.2	7.3
Central American Common Market	**30.0**	**36.6**	**35.6**	**39.5**	**13.7**	**11.7**	**3.6**	**8.4**	**0.1**	**3.1**
Costa Rica	21.0	27.4	50.9	36.9	19.9	16.6	5.6	17.2	0.3	7.7
El Salvador	28.6	44.0	9.3	47.3	4.0	5.2	0.3	2.6	0.0	0.0
Guatemala	46.2	43.8	31.7	39.9	9.1	5.7	4.9	3.3	0.1	0.6
Honduras	34.0	32.3	42.3	40.2	17.3	21.2	1.5	4.1	0.0	1.2
Nicaragua	36.2	43.5	34.7	29.4	19.4	14.2	0.8	3.2	0.1	0.0
Caribbean [e]	**4.9**	**8.6**	**83.9**	**59.6**	**4.5**	**33.4**	**1.6**	**2.7**	**0.3**	**0.7**
Antigua and Barbuda [f]	37.5	27.4	23.9	23.6	19.2	10.6	0.3	0.7	0.0	0.1
Bahamas [g]	4.5	4.0	13.6	69.9	77.9	12.7	0.7	0.8	0.0	0.3
Barbados [g]	44.7	36.3	16.1	21.0	15.4	11.8	0.8	0.7	0.1	0.3
Belize [g]	7.8	26.2	30.0	45.0	52.8	26.8	4.7	1.5	0.0	0.0
Cuba [h]	9.6	20.0	40.2	0.0	0.0	9.8	8.0	0.7	4.5	0.8
Dominica [g]	58.6	61.8	30.2	2.9	6.9	27.1	0.0	0.0	0.0	0.0
Dominican Republic [g]	16.2	17.9	18.8	61.0	40.2	13.7	4.9	2.0	0.0	2.1
Grenada [g]	20.9	58.5	33.4	16.3	43.5	16.1	0.2	3.9	0.0	0.6
Guyana [g]	15.8	16.9	26.3	17.4	32.2	30.1	0.6	2.9	0.2	1.5
Jamaica [g]	6.1	4.3	29.8	40.3	36.2	29.8	4.1	1.6	1.6	0.1
Saint Kitts and Nevis [f]	5.3	6.5	22.5	86.6	68.7	3.4	0.5	0.5	0.2	0.0
SaintLucia [g]	28.3	44.9	50.8	34.0	18.1	17.0	0.9	0.9	0.2	0.6
Saint Vincent and the Grenadines [g]	50.0	83.9	43.0	3.9	2.6	9.6	0.1	0.0	0.0	0.0
Suriname [g]	4.2	12.6	6.7	1.3	1.8	14.7	0.5	0.2	0.5	0.9
Trinidad and Tobago [g]	37.4	29.0	10.2	46.0	44.3	14.3	2.1	2.7	0.0	0.1

Table I.2 (concluded)

	Latin America and the Caribbean		United States		European Union		Asia-Pacific [a]		China	
	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]	2000-2001	2008-2009 [b]
Mexico	**3.7**	**6.8**	**87.2**	**80.3**	**3.5**	**5.6**	**1.5**	**3.5**	**0.2**	**0.8**
Other [i]	**23.0**	**20.9**	**18.8**	**12.4**	**25.1**	**24.0**	**23.1**	**38.0**	**5.1**	**16.7**
Chile	22.9	20.9	17.6	11.9	25.3	23.9	24.0	38.5	5.3	16.9
Panama	24.0	16.9	46.7	40.1	20.3	29.2	1.9	5.3	0.3	3.6
Latin America and the Caribbean	**16.6**	**21.9**	**57.0**	**36.8**	**12.0**	**15.8**	**5.3**	**13.5**	**1.3**	**5.9**

Source: 2000 and 2001 data: United Nations, Commodity Trade Database (COMTRADE); 2008 and 2009 data: national figures. China data for the Plurinational State of Bolivia in 2009: International Monetary Fund (IMF), Direction of Trade Statistics. Caribbean data for Asia-Pacific and China in 2008-2009 actually relate to 2007-2008 and are from United Nations, Commodity Trade Database (COMTRADE).

[a] Includes ASEAN, Australia, China, Japan, New Zealand and Republic of Korea.
[b] 2009 figures are up to September.
[c] 2008 includes Bolivarian Republic of Venezuela for statistical consistency with 2000, even though the agreement had been repudiated by that time.
[d] The 2009 data for the Plurinaitonal State of Bolivia are for January-June.
[e] Constructed using mirror statistics and data available in COMTRADE.
[f] The 2008-2009 data refer to 2007.
[g] The 2008-2009 data refer to 2008.
[h] The 2008-2009 data refer to 2006.
[i] Includes Chile and Panama.

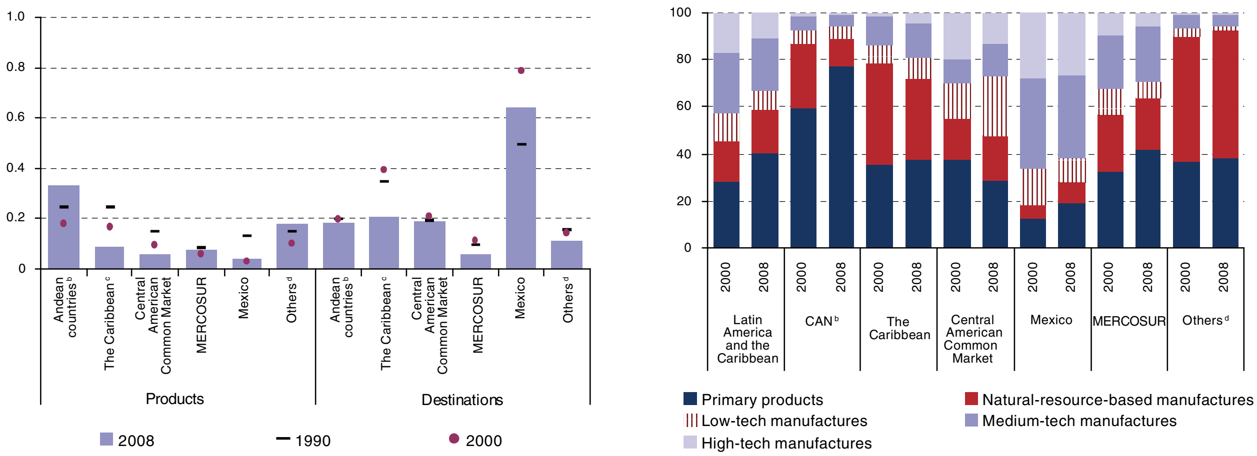
For decades there was also a tendency for Latin American exports, particularly those of Mexico and Central America, to become more diverse and sophisticated in terms of technology content. This tendency ended with the beginning of the commodity price boom in 2003 (see figure I.6). From then until 2008, the external sales of commodity exporters went slightly backwards in terms of diversification and technology content. In 2008, the product exports of all subregions and countries were more diversified, with the exception of the Andean countries, Chile and Panama. Exports are generally more concentrated as regards destinations than as regards products, although diversification took place between 1990 and 2008. The exception is Mexico, which is highly dependent on a single market (the United States) although became less so between 2000 and 2008.

Figure I.6

LATIN AMERICA AND THE CARIBBEAN: EXPORT CHARACTERISTICS

(a) Diversification
(Herfindahl-Hirschman index) [a]

(b) Technology intensity
(Percentages of export total)



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

[a] The Herfindahl-Hirschmann index has a range of 0 to 1 and indicates the degree of diversification of a country's exports to a particular destination; from 0 to 0.10 indicates a diversified structure and from 0.10 to 0.18 moderate concentration, while a score over 0.18 indicates that exports are concentrated among a few products or destinations.

[b] Includes Bolivarian Republic of Venezuela.

[c] Does not include Haiti.

[d] Includes Chile and Panama.

C. THE MAIN FEATURES OF THE POST-CRISIS SCENARIO

The crisis may have heightened some of the initial challenges involved in the integration of Latin America and the Caribbean with the global economy, namely: the intensity of technological change, the greater weight of China and other emerging economies and the challenge of climate change. Moreover, the depth of the international economic crisis has made the reform of financial regulation and the functioning of the international financial system itself an absolute necessity.

1. Macroeconomic scenarios

For the coming years, projections of the world economy are tending to converge around a "new norm", characterized by the following elements: (i) the economies of the Organisation for Economic Co-operation and Development (OECD) will see their potential rates of growth reduced and may even grow below these rates as a result of lower investment and higher unemployment, at least until 2015; (ii) world trade will grow more slowly than it did in the expansionary cycle from 2003 to 2007.[2] While the trade of the industrialized countries will grow slowly, that of China and Asia will probably be more dynamic, although it will not match the rates of recent years; (iii) protectionist measures applied because of the crisis will persist rather than being rapidly dismantled as economies gradually recover their levels of activity; and (iv) there will be excess capacity in a number of production sectors. As a result of all this, limited international demand will increase competitive pressures on the supply side.

Fiscal and financial considerations support the above diagnosis. They suggest that there is still a great deal of adjustment ahead for the portfolios of families and financial institutions in industrialized economies, particularly the United States, if they are to clean up their balance sheets and borrow less or even pay off debt.[3] This suggests that import demand in these economies will be curtailed, which means the world economy will have to find new engines of demand. China and the other emerging economies have yet to match the weight of the industrialized economies in the evolution of global demand and as markets for world exports. Although the relative weight of emerging economies in the global economy and trade is expected to carry on increasing, this will not be enough to offset the loss of dynamism in the United States and Europe. In any event, this rebalancing of world trade highlights the growing importance of South-South trade.[4]

China, India and the rest of Asia will become the main source of growth for exports from Latin America and the Caribbean in the coming years. Economies that are exporters of natural resources, like those of South America, have been less affected by the crisis because the high growth rate of China has sustained international demand for such commodities. In the case of Mexico and Central America, competition with Chinese manufactures in the United States market is more intense, and this could accelerate structural change in certain industries, especially maquila.

International financing will be harder to obtain in the next few years. The drastic decline in accumulated wealth throughout the world, but especially in the industrialized countries, turned a situation of virtually endless low-risk liquidity into one of limited liquidity with variable risks. The link between financial flows and production and external trade flows will have to be redefined. The reduction in global liquidity will lead to a decline in capital flows to Latin America and the Caribbean and other developing regions. Furthermore, the large financing needs of OECD governments will compete with those of developing countries. It is possible that some new factors, such as the sovereign wealth funds of emerging economies and the internationalization of Chinese firms, will come to play an even more important role in the de facto architecture of international finance, given the large amount of liquidity built up by Chinese firms and banks and oil economies on the one hand, and the low yields of United States Treasury securities on the other.

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[2] In its *World Economic Outlook* update of January 2010, the International Monetary Fund projected 5.8% growth in the volume of world trade in 2010. The OECD projected a slightly higher growth of 6% in its *Economic Outlook* report of November 2009.

[3] By 2011, the public debt of the OECD member countries is expected to be in excess of 100% of GDP, as compared to 70% in 2007 (OECD, 2009).

[4] According to WTO figures, South-South trade accounted for 46% of developing countries' exports and 54% of their imports, respectively (WTO, 2009).

2. Innovation and technological change: two key challenges

The current technology shock is redefining the competitive outlook for a very large number of production sectors. This technology shock consists in multiple convergence of information and communications technologies, biotechnology and a number of general-purpose technologies such as nanotechnology and the development of new materials and renewable energy sources. All these technologies are convergent and are resulting in profound transformations in production and services, driving major innovations in processes, products and business models. The countries that best capture and adapt to the challenges and opportunities generated by this technological dynamic will be best placed to benefit from the opportunities globalization offers.

The crisis will intensify processes of production restructuring and will have an impact on competitiveness. Tighter international financing will affect investment, especially in sectors where investment is long-term, such as energy and mining, and in areas that require a high level of investment to stay at the forefront of technological progress, like some manufactures. The crisis caught a number of sectors with excess capacity, so weaker demand will hasten corporate consolidations, mergers and acquisitions. The incentive to purchase cheap assets —whose value has been eroded by the crisis— is generating good opportunities for those who can raise the necessary financing. The post-crisis period will thus be characterized by greater economic concentration, and competition policies will become more important in domestic economies and in world trade.

The business models applied to production and foreign trade need updating. In a global context of flagging international trade and external financing, greater competitive pressures and rising protectionism, the typical reaction of firms is to cut costs, postpone investment, shorten their decision-making horizon and try to protect their main markets and customers. This reasonable defensive reaction and the process of weighing the new opportunities than may arise should, however, be accompanied by a reformulation of the long-term business model. Detecting and seizing on new opportunities and using the new technological and business organization tools could help to redefine firms' competitive advantages. Outsourcing or offshoring to maintain the status quo is less attractive than deploying these tools in a forward-looking business strategy. As a result of the crisis, global and regional value chains will need to be redefined on the basis of different economies' capacity to recover from the crisis, of access to scarce raw materials, of a renewed emphasis on geographical or logistical advantages such as proximity to the main centres of consumption, or of the existence of a critical mass of human resources in specific technological environments. Looking beyond the obvious differences between firms and countries, the latter should also reformulate their competitive strategies to adapt to the demands of the new post-crisis world.

There is a tendency for production to be organized around global value chains. This involves fragmenting production processes geographically by taking advantage of the increasing digitalization of many activities, the growing internationalization and commercialization of services and reductions in transport and logistics costs. Firms are increasingly operating globally, acting as a unit and in real time thanks to a network of interconnections. Technological progress is bringing with it new forms of industrial and geographical organization. Some firms move part of their production abroad, an activity known as offshoring or near-shoring (in the case of a nearby country) that leads to a new form of corporate organization known as "extended organization" in which the parent company exercises strict oversight of services transferred abroad. Other developments that have increased in importance in recent years are outsourcing and insourcing, the latter involving subcontractors being brought into the firm that is sourcing the work. Besides technological developments, this process has been supported by the liberalization of capital flows and by the gradual opening up of markets to trade and investment.

The increasing integration of national economies in this global context is generating an array of opportunities and threats for firms, sectors, countries and regions, depending on how they read this context and prepare themselves to deal with it. In any case, it is clear that the future performance of countries will increasingly depend on their ability to absorb new techno-economic paradigms creatively. Innovation and new technologies offer unprecedented opportunities to close the gap with the industrialized countries. However, this requires a considerable internal effort to enhance a country's human resource base and presence in international technological innovation and business networks, thereby orienting the production and export structure towards more innovation- and knowledge-intensive activities.

How successfully countries participate in these chains will depend on the progress they make with systemic competitiveness, i.e., the extent to which they deliberately and systematically incorporate technical progress into production activities in the quest both to increase productivity (to close the productivity gap with the industrialized economies) and to narrow excessive productivity differences between different companies and sectors, i.e., reduce the domestic productivity and income gaps that underlie the structural heterogeneity and inequalities of the region. Competitiveness is systemic because the effort to transform production needs to include the whole system within which companies operate: infrastructure, technology, energy and transport, the education system, relations between employers and employees, the public and private institutional apparatus and the financial network. The systemic character of competitiveness makes it necessary to work towards integration of the production system and progressive homogenization of productivity levels.

Regional cooperation is crucial when it comes to improving competitiveness, since the scale of these tasks exceeds national capabilities in a number of areas. Greater cooperation would make it possible to combine efforts to achieve the levels of quality, scale and productivity the global economy requires. Accordingly, the region's countries could benefit from regional forums for dialogue allowing them to share successful experiences with innovation, competitiveness and social cohesion between public and private actors.

3. The growing weight of China and other emerging economies

Another tendency that will continue in the coming decades is the increasing weight of China and India, along with some other major emerging economies, as global actors in the international economy, trade and finance. Thus, the centre of world output and trade growth is shifting from the Atlantic to the Pacific. In 2009, China became the world's second-largest economy after the United States in purchasing power parity terms and the third-largest behind the United States and Japan in current dollar terms. Many other indicators also illustrate the enormous weight acquired by the Chinese economy in the first decade of this century.[5] On the basis of some projections, China and India will be two of the world's three largest economies by 2050, while these two economies plus Brazil and the Russian Federation will be larger than today's Group of Seven (G-7) by the early 2030s.

China and Asia are also increasing their share of world trade with great speed and accounting for a growing proportion of global industrial output. In the first half of 2009, China overtook Germany to become the world's largest exporter. Furthermore, Asia and the Pacific together account for

5 Between 2000 and 2008, China accounted for almost 30% of world GDP growth and 40% of the global rise in oil consumption. The country is now the world's largest consumer of aluminium, copper, tin, soy and zinc and the second-largest consumer of sugar and oil. In 2009 it held 29% of the world's total reserves, and it is the largest holder of United States Treasury securities.

about a quarter of world trade. China is at the heart of what is known as "factory Asia", a complex network of regional supply chains served by transnational enterprises. In fact, China, Japan, the Republic of Korea and the countries of the Association of Southeast Asian Nations (ASEAN) are one of the world's most important centres of intra-industry trade.[6] These chains were constructed as a result of the unilateral liberalization of trade in parts and components, along with foreign direct investment (FDI) flows stimulated by a favourable investment climate. The growth of intra-Asian trade is both cause and consequence of the increasing degree of trade complementarity between the economies participating in it.

4. Climate change

In addition to its social and human effects, climate change is affecting production and international trade through various channels. Climate change is manifesting itself in a variety of ways (temperature changes, increasing water shortages, a rising sea level and the rising frequency of extreme weather events), affecting the productivity of the agricultural sector and the competitive advantages of nations, the infrastructure of trade (ports, airports and bridges), trade routes and tourism. In addition, increasing awareness of environmental issues among consumers and firms is creating new parameters in international trade that could give rise to restrictions on the use of certain critical resources (such as hydrocarbons) as well as political pressure to deal with environmental bottlenecks, increasing the private and public cost of investment.

Another way in which climate change might affect trade is through the adoption of unilateral trade measures on the argument that they are needed to combat it. This happened in 2009, with the discussion of a number of initiatives in various industrialized countries such as the United States and France. References to so-called "green protectionism" have become popular as a result. The modest results achieved at the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15), held in Copenhagen in December 2009, make it more likely that unilateral initiatives such as those mentioned will increase in number over the coming years. This creates large potential risks for the access of the region's exports to industrialized-country markets, highlighting the urgent need for a multilateral agreement on the issue.

International trade also affects climate change. First, the shift of production activities from industrialized countries to developing ones could increase or reduce emissions, depending on energy efficiency levels in the two and on the additional emissions generated by trade-related international transportation. Second, international trade facilitates the spread of technological goods and services that mitigate climate change. Third, trade affects the environment through changes in volume (scale), structure (composition) and the use of cleaner production methods (technology).

It is imperative to include the issue of climate change on national and regional agendas for growth, competitiveness and innovation. Henceforth, it will be the only way to reconcile growth and competitiveness with progress on equity and better environmental standards. Section V of the present document presents some specific proposals for this area.

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[6] ASEAN includes the following 10 countries: Brunei Darussalam, Cambodia, Philippines, Indonesia, Malaysia, Myanmar, Lao People's Democratic Republic, Singapore, Thailand and Vietnam. ASEAN is at the heart of a range of trade initiatives that could come to fruition over the coming years. The most important of these, besides the agreement between China and ASEAN, which has been in force since January 2010, are ASEAN+3, covering the 10 ASEAN economies plus Japan, the Republic of Korea and the People's Republic of China, and ASEAN+6, which would add Australia, India and New Zealand to the aforementioned countries.

II. MORE AND BETTER REGIONAL COOPERATION IN THE CONTEXT OF AN INCREASINGLY COMPLEX INTERNATIONAL AGENDA

The international agenda is becoming more complex because of fragile macroeconomic and financial conditions, weakness of global institutions and the emergence of new issues and stakeholders. These factors are eroding the relevance of multilateral institutions, but without offering yet other effective alternatives that address the new challenges of this century. Establishing spaces for dialogue and regional cooperation is therefore both urgent and called for. These would not only enable diagnoses to be sharpened and shared, but also enable the countries of the region to participate in global forums with a unified position and thus better defend the region's interests.

A. FRAGILE MACROECONOMIC CONDITIONS

The most recent projections indicate that in 2010-2011 the world economy is expected to resume annual growth of about 4% as it makes its way out of the worst international economic crisis in 80 years. The recovery, however, is expected to be somewhat unbalanced, with industrialized countries growing by close to 2%, on average, while emerging and developing economies will grow by about 6%. A wide disparity is expected in the recovery of developing economies. Asian economies are expected to grow at about 8% annually, whereas Latin America and the Caribbean, the developing region that has the slowest growth, will only grow at half that rate (IMF, 2010).

The industrialized economies are recovering with less zeal and still rely critically on the fiscal, monetary and financial measures that were put in place to counter the crisis. Though there is no evidence that private demand has recovered, the financial markets are heating up again, and once again are distancing themselves dangerously from the real markets. The appetite for risk and big gains in the stock markets are returning, though urgent financial reforms, which seemed so obvious and consensual at the end of 2008, have not been addressed yet. There are also growing concerns about the fiscal sustainability of industrialized economies, with their double-digit fiscal deficits (as a percentage of GDP) and with public debt burdens that are greater than their GDP.

So, in 2010-2011, the industrialized economies will face complex challenges such as the following: (i) deciding exactly when and how to remove the fiscal, monetary and financial stimuli without damaging the recovery, which is still anaemic; (ii) restoring the balance sheets of families and financial institutions, particularly in the United States; (iii) controlling and gradually reducing the fiscal deficit and public debt; and (iv) implementing regulatory controls on banks and financial institutions so as to prevent the recurrence of crises as deep as this most recent one.

These formidable challenges will have to be addressed in a context of slower growth and unemployment rates of about 10% in Europe and the United States, and with lingering protectionist measures —trade and financial— that were put in place in the darkest hours of the crisis.

B. WEAKNESS OF GLOBAL INSTITUTIONS

The 2008-2009 crisis made clear that global institutions were unprepared to face the new challenges of this century. The G-7 was probably one of the main victims of the crisis when it became evident that all its members had substantial roles in the financial crisis and subsequent worldwide recession and that any solution to the crisis would inevitably involve bringing new actors to the negotiating table, especially those from emerging economies. The shift from the G-7 to a new G-20 is a clear expression of how the world economy is being reshaped.

The delayed responses to the crisis of the International Monetary Fund (IMF) and the World Bank —and their failure to prevent it— highlighted the need to reform these institutions, not only to enhance their effectiveness, but also to ensure that they better serve the interests of developing countries. Also, the difficulties in resuming negotiations in the Doha Round, which began in late 2001, and the frustrating outcome of the Copenhagen conference on climate change remove all doubt that global institutions are incapable of handling the forces that are being unleashed through globalization and technological change. It is no longer enough to build institutions that oversee the globalization of economies, trade and finance, a task that in itself is already quite complex. Today's challenges also include handling public health issues and pandemics, migration, climate change and environmental conservation, not to mention the fights against terrorism, drugs and organized crime.

C. PROGRESS IN REGIONAL COOPERATION: AN INDISPENSABLE INGREDIENT

The scenario described above heightens the importance of finding a unified voice that advocates on behalf of the interests of the region in a timely and effective manner within the various international forums that deal with the complex agenda of development and multilateralism of the twenty-first century. Experience shows that every time multilateralism is not up to the task of addressing this agenda, it ends up being addressed unilaterally or regionally, in those cases where communities are structured to do so, as Europe has done, for example, regarding certain issues. If the Latin American and Caribbean region fails to find a unified voice, the region's countries may arrive late and ill-prepared to the debates, miss out on opportunities and find themselves faced with complex situations that even further limit the region’s prospects for development.

Thus, it is important that progress be made in organizing unified regional bodies that would enable Latin America and the Caribbean to frame timely and proactive responses to international challenges. This would also strengthen engagement between the region and other actors in the international community and would more effectively promote regional interests in global forums. A corollary need is for the various subregional bodies and institutions to improve their own cooperation and coordination of efforts, which would ultimately lead to their convergence.

D. MOUNTING DEMAND FOR POLICY COORDINATION

Convergence is a complex task that cannot be resolved in the short term; however it is possible to create conditions that increase its feasibility, particularly if convergence evolves in tandem with the region's advances in public policies. In order to apply the lessons learned from previous crises and take advantage of the opportunities arising in the wake of the most recent one, the Governments of the region should, for example, aim to produce coordinated, participatory and mutually informed policy responses (Velasco, 2009). In particular, policies should be coordinated in the following areas:

- Gradual and persistent progress in countercyclical fiscal policies, since the absence of coordination reduces incentives to continue advancing in that direction.

- Financial regulation, since lack of coordination allows room for regulatory arbitrage. The need to improve financial regulation and maintain exchange-rate flexibility is another lesson learned from earlier crises.

- Re-establishment of capital flows, combining access to external financing with measures to deepen domestic capital markets.

- Avoidance of protectionism, particularly between countries of the region.

- Provision of trade financing, especially for intraregional trade.

- Strengthening of international financial institutions, giving them enhanced capital endowments and the capacity to lend quickly in order to stave off balance-of-payments crises, and of regional financial institutions, promoting capitalization and greater complementarity with development banks.

- Increase investment in economic infrastructure and national and regional logistics services. This would not only help reactivate the economy through countercyclical programmes that have lasting medium- and long-term outcomes, but would also improve the region's capacity to respond to future increases in international demand.

E. URGENT NEED FOR GREATER COOPERATION TO INCREASE COMPETITIVENESS

Beyond containing the fallout from the current crisis, greater cooperation is needed to improve the region's position in the world economy. This implies dealing with the challenges of productive complementarity, competitiveness and innovation, which will certainly play a greater role in the well-being of the population in the medium and long terms. The consequences of losing the global competitiveness race would be much worse than the effects of the current crisis which, harsh as they may be, will be temporary (Rosales, 2009). Lags in competitiveness, innovation and productivity, on the other hand, represent permanent obstacles to progress in growth-with-equity strategies. Cooperation on competitiveness and innovation issues is, then, a central challenge facing Latin America and the Caribbean.[7]

F. REGIONAL INTEGRATION AS THE BEST OPTION

Regional integration offers the opportunity to broaden national markets and production scales and to promote trade in services and intraregional investments. It also helps SMEs owing to their larger relative weight in intraregional trade, and stimulates diversification of production by supporting exports with higher value added and manufacturing content. Regional integration can also encourage the formation of regional value chains and constitutes a learning platform which can lead to improved competitiveness at the worldwide level (ECLAC, 1994).

The traditional arguments in favour of integration are reinforced by needs arising out of the current phase of globalization, such as the need to create strategic international partnerships in production, logistics, marketing, investment and technology. In order to achieve growth with equity in the present-day world, countries now need expanded markets, legal certainty and the convergence of standards and disciplines, together with progress in infrastructure, energy and connectivity and integration into global value networks.

The Latin American and Caribbean region has come a long way in freeing up intraregional trade, especially in goods. Major challenges remain, however, which must be tackled if the region is to move towards the formation of a regional expanded market. The most significant of these include convergence in the tariff-reduction schemes agreed upon in the framework of the various subregional agreements and the need to strengthen commitments in areas such as services, investment and government procurement, in which the region's negotiating experience is more recent and therefore more limited.

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[7] "The greatest challenge now being faced around the world is that of technological progress and knowledge. Each country's position in the global economy depends on its capacity to absorb that knowledge and shorten distances from the technological frontier" (Bárcena, 2009).

Box II.1

COMPETITION POLICY COOPERATION IN CENTRAL AMERICA

Subregional cooperation on competition policy has been strengthened by the creation of the Negotiating Group on Competition Policy as part of the Central American integration process. The Group comprises the highest competition authorities of each country and its purpose is to design activities of subregional scope that enhance the operations of the agencies engaged in promoting competition. In a context of free trade agreements with important mega-markets (the United States and the European Union, with which negotiations are currently under way), the subregion has been learning that uncompetitive practices in domestic markets can cancel out the effects of trade liberalization, making it necessary to adopt further-reaching approaches that integrate tariff reductions with the promotion of competition and consumer protection. Equally, more competitive and transparent markets are conducive to innovation and higher productivity.

The importance of such cooperation between the countries of the Central American isthmus is great because, as small, adjoining countries, they often experience monopolistic practices by companies operating in some or all of them. These countries frequently find it necessary to investigate such companies, which means committing scarce resources to identifying and demonstrating anticompetitive practices by some firm that has already been investigated in a neighbouring country. The opportunity to share information or even carry out joint investigations in the future could greatly enhance the capacity of national competition agencies.

Meanwhile, there has been a tendency for competition laws to converge: they have tended to become more comprehensive as many of the most effective exceptions that used to exist have been removed, especially with the strengthening of competition agencies. In the future, there is likely to be further harmonization of the legal framework for competition to facilitate joint action by the countries. This would benefit all Central American nations, as it would prevent large firms from engaging in regulatory arbitrage by taking advantage of laxer competition legislation in certain countries.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC subregional headquarters in Mexico.

III. RENEWING INTEGRATION WITH REALISTIC COMMITMENTS

All the integration schemes in Latin America and the Caribbean show progress in a number of important respects. For example, MERCOSUR has made a noteworthy contribution to the creation of peaceful conditions and democratic stability in the subregion. Advances in the institutional structure of the Andean Community, the Caribbean Community (CARICOM) and the Central American Integration System (SICA) are such that they can now undertake new tasks made possible, precisely, by their institutional maturity. These integration schemes have created a sense of belonging, as well as political, business and academic links which can serve as the basis for undertaking new challenges.

Notwithstanding this progress, there are some shortfalls in fulfilment of commitments —in the area of trade, for example— and a number of lags in respect of the countries' own expectations of the integration schemes. The challenge for the integration schemes is to achieve renovation in a way that improves the region's international integration.

Highly disperse efforts have led to a proliferation of regional and subregional integration mechanisms and bodies in Latin America and the Caribbean. This diversity of integration and cooperation bodies is partly the result of the wide array of issues that fall under integration, including policy, economics, trade, infrastructure and interconnectivity. Nevertheless, at the very least, channels of communication and convergence must be established among these different schemes in order to harness potential synergies and minimize duplication of efforts.

Now is the time to enhance the complementariness between efforts aimed at integration into the world economy and regional or subregional integration schemes. The region needs to advance towards deeper integration that is characterized by shared disciplines, legal certainty and joint initiatives in infrastructure, energy and connectivity, including cooperation on trade facilitation, logistics and technological partnerships like those that are forming in the Asia-Pacific region.

Deeper integration in the framework of open regionalism will promote competitiveness because integration into the main world markets will be complemented by the stimulus of intraregional trade and the share of SMEs in export flows will rise. This would not only promote trade within the region but would also help to attract FDI and create "trans-Latin" corporations. Integration would thus begin to pay off its old debts in terms of contributing to the region's development and competitiveness.

Integration can be strengthened in several ways. The most demanding is to create a common market, including policy convergence and community institutions. While the gradual and realistic establishment of incremental goals can contribute to progress in that direction, the current challenge is much more modest: to protect what already exists, comply with commitments entered into and build bridges of convergence between the various subregional groups. A pragmatic revision of the existing agreements and the establishment of a realistic timetable for effective compliance, including the incorporation of community agreements into national legislation, would do more than anything else to boost economic actors' confidence in integration.

Another option would be to develop the region's physical integration, which, in addition to solving issues related to physical connectivity, would foster intraregional trade, stimulate the reorganization of production chains and act as a catalyst to regional integration processes. Obviously, there is an urgent need to move forwards on this, and to do so does not necessarily require progress in trade liberalization let alone shared visions of trade and development.

ECLAC is driven by conviction and doctrine to affirm the need for regional integration, and has done so at length in a great number of publications. But even in the favourable years —politically and economically speaking— of 2003-2007, too little progress was made on integration, and particular difficulties arose in South America.

As a result, a number of strategic issues arise:

- **Recognizing diversity among the subregions**

Mexico and Central America, on the one hand, and South America, on the other, are clearly at different places as regards integration and trade initiatives, with the first generally much more open to international trade and trade agreements. The situation in the Caribbean differs even more. Given the scale and diversity of problems, the most appropriate integration strategy is necessarily different for each subregion. Even while upholding the ideal of Latin American and Caribbean integration, it must be acknowledged that analyses and proposals need to be differentiated if they are to be effective. From this viewpoint, ECLAC proposes increased flexibility in regional integration processes and acceptance of schemes that vary in shape and size, differing speeds of implementation and multiple types of relationships as a function of the issues involved, while affording priority to the goal of integration in the medium and long terms.

- **Acknowledging political obstacles**

There is a long list of high-level political conflicts among the Governments of the region, in some of which the parties have had recourse to international tribunals outside the region. It is obviously difficult for progress to be made on integration policies in these circumstances.

To be realistic, it must be recognized that the lack of progress in the areas of infrastructure and energy is not solely a matter of economic constraints. There are considerable political differences concerning the meaning of these initiatives and until those are tackled and resolved, it will be hard to achieve more satisfactory progress.

It is important to create awareness that integration cannot be limited to countries which share ideological affinities. Rather, integration is a matter of finding the lowest common denominator which will serve the various national interests involved. By definition, it transcends Governments, since it must become a State policy.

- **Building areas of convergence, accepting diversity**

South America shows a broad range of international integration modalities. These clearly reflect conceptual discrepancies in the approach to trade, integration, innovation and competitiveness, in sum, on how to approach the challenge of globalization. It would be unrealistic to pretend that these differences do not exist or that they are likely to disappear in the short term. The challenge of integration in the modern world requires that these differences be understood and accepted, and that priority be given to forums for dialogue and convergence that enable progress based on concrete initiatives and interests shared by all parties. Also needed now is more collective and flexible leadership, according to the issues under consideration.

- **Creating opportunities for subnational cooperation and integration**

The areas of cooperation which arouse the greatest interest, such as infrastructure, energy, connectivity, logistics, aid for trade and trade facilitation, are very much territorially driven. Making those links clear will open up even greater scope for coordination initiatives between subnational governments whose geographical proximity may dictate a greater interest in joint projects with neighbouring provinces in other countries than in centralized projects in which they would have only a minor role. In the region there are numerous subnational joint initiatives in export and FDI promotion, twinning of local governments and cross-border production programmes. Given the greater flexibility of subnational governments, they are well placed to pilot cooperation projects in energy efficiency, renewable energy sources, environmental technology and climate change.

Despite all of the economic and political challenges that have already been mentioned, some major subregional connectivity projects have been improving the physical integration of the infrastructure for transport and related services (see box III.1).

- **Applying programmatic realism**

A larger dose of programmatic realism should lead to greater value being attached to existing efforts —for example, current intraregional preferences and the development of the trans-Latins— and to greater realism in setting objectives for regional integration. Integration is typically viewed in the light of the European experience, in which the surrender of degrees of sovereignty has enabled the creation of a single-currency economic union and free movement of goods, services and factors of production, as well as strong community institutions. Apparently, the time has come to recognize that the region’s integration model is far removed from the European one and will remain so for a long time. This in no way signifies that the region should renounce goals as ambitious as those attained in Europe. What it does mean is that proposals for integration in the region should be consistent with the real strengths and weaknesses of the existing integration schemes. The European route is not necessarily the only way to move forward on regional integration, and the sooner the realities of Latin American and Caribbean integration are made explicit, the easier it will be to agree on the road towards deepening it.

- **The need for leadership**

Obviously, an undertaking of the size described here –especially, on the heels of decades of attempts– requires special leadership. It is clear immediately, from the numbers, that Brazil and Mexico would have to play an important role in any effort of this type. Brazil alone accounts for one third of the region’s GDP and one third of the region’s population. Brazil and Mexico together account for half of any relevant economic variable in the region. Brazil generates 37% of the region's total exports to Asia and the European Union; while Mexico accounts for 64% of all exports from the region to the United States. These two countries would therefore play a decisive role in any regional strategies for dialogue and negotiation with the great powers in the world economy (see table III.1 and figure III.1).

Box III.1

PROGRESS WITH PHYSICAL INTEGRATION IN THE REGION: THE ROLE OF INFRASTRUCTURE

Regional integration can be viewed in at least three dimensions: economic and trade integration, political integration and physical integration. The first two of these have been thoroughly aired and analysed, but not so physical integration, which has often escaped analysis despite the considerable progress made in this area.

The main arguments in favour of region-level physical integration will now be summarized:

- it turns economic, trade and political integration into a reality (without infrastructure, none of these would be possible);
- it allows countries to find joint solutions to shared problems, such as physical bottlenecks, missing sections in communication systems, barriers to trade, etc. It stimulates the creation or reorganization of production chains, facilitates a more competitive role in global and regional markets, encourages the harmonization of public policies and regulatory frameworks between countries and sectors, fosters the development of geographically isolated areas, nurtures decentralized development and reduces trade and distribution costs, among other things;
- it is essential to improve social equity and reduce asymmetries between countries by stimulating regional and local development;
- it fosters long-term initiatives that benefit all countries participating, and this in turn helps to extend the planning horizon beyond short-term political cycles;
- it gives local governments and the private sector the opportunity to participate in decision-making and become involved in promoting, financing, building or operating physical integration infrastructure.

At least three current initiatives in Latin America and the Caribbean incorporate regional physical integration planning: Regional Infrastructure Integration in South America (IIRSA), the Meso-America Project (PM) in Central America and the Caribbean Community (CARICOM) in the Caribbean. In the first case, progress has been made in implementing the physical integration infrastructure projects in a portfolio agreed upon by the 12 countries of South America (514 projects worth US$ 69 billion in the fields of transport, energy and communications, although the first of these predominates, accounting for almost 60% of the total). By early 2009, concrete progress had been made with 68% of IIRSA projects: 10% had been completed, 38% were being implemented and 20% were in active preparation. The initiative has also made progress with the structuring of methodological tools for the analysis of production process integration, logistical services development and environmental and social assessment.

The Meso-America Project (formerly Puebla-Panama Plan) can show substantial progress, such as the International Network of Meso-American Highways (RICAM), designed to improve the internal and external connectivity of the region’s economies by building, rehabilitating and maintaining 13,132 km of highways, the River Hondo international bridge (Mexico-Belize), the La Amistad border crossing bridge (El Salvador-Honduras), the international bridge over the River Sixaola (Costa Rica-Panama) and a new international bridge between El Salvador and Guatemala. Other major initiatives are being developed in the fields of energy integration (the Electricity Interconnection System for the Countries of Central America-SIEPAC), information and communication technologies (the Meso-American Information Highway-AMI) and modernization of customs and border crossings (the Meso-American Procedure for International Goods Traffic-TIM).

In the case of the Caribbean Community (CARICOM), a Community Transport Policy has been agreed upon and progress was made during 2009 in establishing the Infrastructure Fund for the Caribbean to finance transport, energy and information and communication technology projects. Another project of importance to Caribbean regional integration involves a study of intraregional air transport costs and the establishment of the Caribbean Aviation Safety and Security Oversight System (CASSOS).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), “Infraestructura física e integración regional”, *FAL Bulletin*, No. 280, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009.

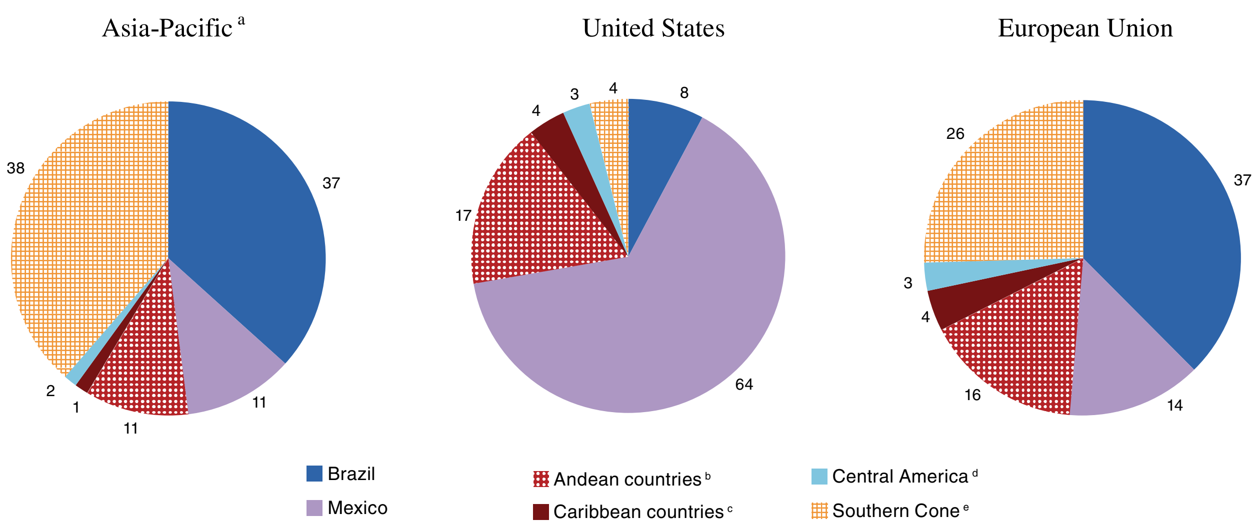
Table III.1
THE ECONOMIC WEIGHT OF BRAZIL AND MEXICO IN THE REGION, 2008
(Percentages)

	Population	GDP	Exports			
			Agriculture [a]	Manufacturing [a]	Services [b]	Total
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 (millions of dollars)	570	2 804 477	339 926	534 080	115 116	989 122

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Balance of Payments Statistics and United Nations Commodity Trade Database (COMTRADE).

[a] Data for Antigua and Barbuda, Honduras, Nicaragua and Saint Kitts and Nevis are for 2007.
[b] Data for Trinidad and Tobago are for 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, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.
[e] Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[f] Includes Argentina, Chile, Paraguay and Uruguay

Figure III.1
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF REGIONAL EXPORTS TO VARIOUS DESTINATION MARKETS, 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Balance of Payments Statistics and United Nations Commodity Trade Database (COMTRADE).

[a] Includes ASEAN, China, Hong Kong Special Administrative Region of China, Japan, Australia and New Zealand.
[b] Includes the Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru and the Plurinational State of Bolivia.
[c] Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Grenada, Guyana, Haiti, Jamaica, the Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.
[d] Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[e] Includes Argentina, Chile, Paraguay and Uruguay.

It is also clearly possible —and even necessary— to create flexible leadership systems that can adapt to the issues and stages through which regional cooperation and integration pass. However, it is unquestionable that Brazil and Mexico play pivotal roles in building these new spaces for regional cooperation and convergence. To this end, any initiatives Mexico can spearhead in the Meso-American subregion, and any Brazil can spearhead in South America could further progress in those areas in which geographic proximity can make a significant difference. The subsequent regional convergence of the two processes would be less complex if the issues have been first addressed at the subregional level.

Brazil's recent economic performance, its energy finds and policies, its progress in narrowing inequalities and the strength of its corporations that invest abroad mean that the country has been playing an increasingly larger role on the international scene. This is reflected in Brazil's participation in the new G-20 (in addition to its creation of the other G-20 that represents agriculture exporters in WTO negotiations), the consolidation of the dialogue among the so-called BRICs (Brazil, Russian Federation, India and China), the country's strong presence in the climate change talks and the strategic character it has been working into its relationships with the United States, the European Union and China. This is excellent news for regional cooperation because, for the first time, one of the countries of the region has access to the major global forums. With Argentina and Mexico also members of the new G-20, this means that regional positions on issues related to the global agenda need to be formulated with unprecedented urgency, given that these positions can now become part of the major international debate. If these positions are formulated responsibly and with full knowledge of the facts, Latin America and the Caribbean could take advantage of this situation to give an enormous boost to their capacity for integration and development.

It is with this end in mind that the proposals below are presented.

IV. OPTIONS FOR CONVERGENCE WITH REGARD TO THE REGIONAL TRADE AGENDA

Technical proposals for furthering trade convergence among South America's integration schemes have been on the table for some years. In 2006, in compliance with a mandate handed down by the Heads of State and Government of the then South American Community of Nations (SACN) in September 2005 to pursue the gradual establishment of a South American free trade area, the secretariats of the MERCOSUR, the Andean Community, and the Latin American Integration Association (ALADI) drafted several proposals for trade convergence.[8]

The proposals address a wide range of the trade issues covered by the integration schemes: tariff reduction; rules of origin; customs valuation and special customs regimes; trade remedies; non–tariff measures; technical barriers to trade; sanitary and phytosanitary measures; trade in services; investment; intellectual property; competition policies; government procurement; and dispute settlement (see table IV.1 for a summary of the proposals as well as for complementary proposals prepared by ECLAC). These proposals form a solid technical base upon which to move ahead with the process of trade convergence in South America. The decision to actually do so now lies in the political realm.

Table IV.1
CONVERGENCE PROPOSALS BY SECRETARIATS OF INTEGRATION SCHEMES AND COMPLEMENTARY ISSUES PROPOSED BY ECLAC

Areas	**Secretariats of the Andean Community, MERCOSUR and LAIA**	**Complementary proposals by ECLAC**
Tariffs	Speed up convergence towards tariff elimination, especially in favour of the smaller and relatively less developed countries.	The objective proposed by the Secretariats is very important.
Rules of origin	Harmonize rules; strengthen the legal basis; certificates of origin; reduce time limits for verification and control.	Rapid progress could be made without complex negotiations, e.g., by accumulating origin.
Customs valuation and special customs regimes	WTO agreements and LAIA resolution 226 of 5 March 1997 provide a common base.	Further progress with customs procedures is needed. In particular, a greater effort should be made to automate, simplify and facilitate trade without reducing oversight.
Trade remedies	Maintain national provisions in accordance with WTO rules (antidumping and subsidies).	Eliminate antidumping measures for originating products in intra-zone trade. Maintain countervailing duties in cases where subsidies are applied.
Safeguard measures	Two safeguard mechanisms: a mechanism consisting of a general safeguard (trade safeguard) and another one that would be applicable to a small group of agricultural products and would be triggered by volume and price.	Eliminate safeguards in intra-community trade and maintain the mechanism during transition period. With respect to third parties, maintain WTO individual mechanisms.
Non–tariff measures	Begin negotiations among members with a view to gradually eliminating non-tariff measures. In terms of offers, these negotiations would entail setting a deadline for the elimination of all measures, including a timeline for elimination of NTMs.	Strengthen non-tariff-measure disciplines, e.g., by reference to the corresponding WTO provisions, and the prohibition of non-tariff measures along with the relevant explanations, emphasizing the impact of the measures and their possible justification in the context of the agreed rules. They could eventually be eliminated through dispute settlement procedures.

[8] See "Declaración sobre la convergencia de los procesos de integración en América del Sur" [online] http://2005.sice.oas.org/TPD/SAMCOM/1st_meeting_s.asp.

Table IV.1 (concluded)

Areas	**Secretariats of the Andean Community, MERCOSUR and LAIA**	**Complementary proposals by ECLAC**
Technical barriers to trade	Move forward on substantive issues in the framework of this agreement, in particular, in areas relating to harmonization of technical rules and regulations; sign agreements on mutual recognition of national conformity assessment procedures, as well as other initiatives relating to confidence building and technical assistance.	It does not seem advisable to proceed with harmonization of technical rules and regulations. Decisive action should be taken on the issues of equivalency and mutual recognition, as well as on trade facilitation measures in connection with accreditation and conformity assessment procedures.
Sanitary and phytosanitary measures	(i) promote harmonized rules for the development of common sanitary and phytosanitary requirements for specific products; (ii) promote free movement of agricultural products through recognition of sanitary and phytosanitary certificates; (iii) develop harmonized mechanisms and procedures for inspection tasks and quarantine control; (iv) promote training activities for personnel specializing in the application and development of the principles embodied in the SPS Agreement; and (v) promote the strengthening of agricultural health institutions.	Effectively implement in the region the operating criteria of "pest —or disease— free zones", improvements in management and decision–making, risk assessment and cooperation with responsible institutions.
Trade in services	There is a suitable framework for moving forward at the regional level in the area of services, given the common framework provided by the General Agreement on Trade in Services (GATS) and the experience of the Andean Community and MERCOSUR. Future negotiations should: (i) have a greater scope and depth than commitments made by South American countries in the WTO; (ii) consider substantial coverage of sectors and supply chains so the agreement can benefit from the exception in the Most Favoured Nation clause of GATS, and (iii) develop with transparency and equity, assuming the commitment not to introduce new obstacles or restrictions to trade in services.	The key is to undertake, within a short period of time, to eliminate restrictions that are incompatible with the guiding principles of trade in services. This means doing away with the current focus on holding to the status quo and establishing commitments based on a positive list.
Investment	There are no concrete negotiation proposals. Nonetheless, negotiations should begin with: (i) the creation of a common legal structure designed to promote and protect investment in the region; and (ii) cooperation initiatives among national investment promotion agencies, and eventually the creation of a strategy for promoting South America as a safe destination for investment.	For now, convergence is hard to achieve because of the differences in approach and the network of existing bilateral agreements.
Intellectual property	Given the diversity of rules and approaches in the region, consider common principles and procedures for the region, including procedures for monitoring, institutional cooperation and dispute settlement.	It is important to first identify the objectives being pursued in this area.
Competition policies	Move forward with two options: (i) establish a mechanism for cooperation between the relevant national agencies (including those charged with consumer protection); and (ii) establish a regional legal framework, covering general areas that are applicable to all South American countries.	Cooperation between responsible agencies seems to be the most feasible mechanism.
Government procurement	Agree on a common public procurement framework that includes standards for information dissemination, national treatment, and overall transparency.	
Dispute settlement	Consider the creation of a regional framework for dispute settlement with at least three phases: direct negotiations among the disputing parties, intervention by the administrator of the agreement, and binding arbitration. An instrument of this kind is important for providing judicial security to future trade rules in the Union of South American Nations.	This mechanism should be one option among others that are available, including in WTO.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Andean Community, "Documentos elaborados por las secretarías generales de la Comunidad Andina, Mercosur y ALADI para el proceso de convergencia sudamericano" [online] http://www.comunidad_andina.org/csn/estudios.htm.

The 11 members of the Latin American Pacific Basin Initiative have also explored trade convergence initiatives since the forum's creation in 2007.[9] Specifically, during its Fifth Ministerial Meeting, held in Puerto Vallarta, Mexico, in November 2009, members agreed to begin negotiations towards this end, starting with the issue of cumulation origin, and advancing in parallel on the topics of technical barriers to trade, sanitary and phytosanitary measures, customs procedures, services, dispute settlement, trade remedies, among others.[10] The negotiations will be based on two modalities: (a) existing agreements among the countries of the Latin American Pacific Basin Initiative, and (b) a new agreement for the gradual convergence towards free trade between its members. The process is expected to be flexible, allowing each country to advance in both modalities.

Until now, discussions about convergence within the Latin American Pacific Basin have not included the issue of tariff convergence or the creation of a free trade area among its 11 members. This reflects the fact that the matrix of preferential trade relations among its members is still incomplete (see table IV.2).[11] Alternatively, negotiators have pursued convergence through cumulation of origin.[12] This certainly results in technical complexity given the different rules of origin procedures that exist in the several trade agreements linking members of this initiative and the fact that some members still lack a preferential trade agreement with other members of the group. Despite this, cumulation of origin could provide a way to achieve greater integration of the Latin American Pacific Basin Initiative economies by expanding the range of suppliers that producers and exporters in each member country would have access to while maintaining preferential access.

As mentioned above, following the recent Ministerial Meeting in Puerto Vallarta, efforts —in addition to starting negotiations on trade convergence— aim to define the most appropriate legal foundation for implementing future agreements. The next Ministerial Meeting, to be held in Peru during the first half of 2010, should shed light on this issue.

Despite any advances during the upcoming negotiations of the Latin American Pacific Basin countries, the larger objective of Latin American convergence, which involves building bridges between the Pacific- and the Atlantic-based initiatives, should not be forgotten. Only then will countries be able to maximize the benefits of convergence, in terms of broader markets and greater production chain integration, and make Latin America and the Caribbean more attractive for potential trading partners in other regions (particularly in Asia). As a result, the ongoing process in the Pacific Basin should be understood as a step along the way to that goal, not as an end in itself.

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9 Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panama and Peru.

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

11 The table overestimates the degree of free trade among the members of the Latin American Pacific Basin Initiative since it does not distinguish among the different types of agreements currently in effect. While some of these agreements cover nearly all trade between the countries, others are much more limited in the number of products covered and the degree of tariff reduction.

12 This consists of allowing inputs from any of the 11 members of the Latin American Pacific Basin Initiative used in products traded within the region to qualify for preferential tariffs.

Table IV.2

MEMBERS OF THE LATIN AMERICAN PACIFIC BASIN INITIATIVE: NETWORK OF PREFERENTIAL TRADE AGREEMENTS, JANUARY 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

Being implemented Signed Under negotiation

Source: Organization of American States (OAS), Foreign Trade Information System [online] http://www.sice.oas.org.

V. PROPOSALS FOR FOSTERING REGIONAL COOPERATION

Today regional cooperation is more important than progress in trade liberalization. Thus, although it is important to make progress on freeing up intraregional trade, the proposals made here reflect a greater emphasis on other aspects of regional cooperation. Differing views coexist within the region today as to the role of international trade and modalities of integration into the global economy. The challenge is therefore to build integration on the basis of these differing views. Discrepancies on market access issues should not prevent progress on other matters that may be more urgent for dealing with competitiveness challenges in the region.[13] In any case, many of the proposals presented below relate to trade facilitation and financing, which are of interest to all the countries of the region and do not give rise to the same disagreements as trade liberalization.

To summarize, the proposals made here focus on eight areas: infrastructure, aid for trade, innovation, reduction of asymmetries, social cohesion, closer ties with Asia-Pacific, reform of the international financial system and climate change.[14] The approach adopted is based on the following three premises:

- A regional approach to internationalization, on the assumption that regional cooperation is more effective than isolated efforts by each country to lay the foundations for international competitiveness linked to sustainable economic development and social cohesion and inclusion.

- Bottom-up integration, which will become more effective as cooperation grows between the various sectors of the economy, local regions and civil society. This is the case, for example, of areas that share a border or of businesses and communities that have the complementarities or affinities to form clusters.

- Regional cooperation at work, reflected in an approach based on action, coordination and results rather than on "foundational" goals.

In short, rather than expending efforts and resources on sweeping reforms which are scarcely viable in the short term, the idea is to adapt to existing resources and institutions, establish which measures and initiatives garner the greatest consensus, and foster the convergence of public and private stakeholders around practical proposals of mutual interest. Last but not least, the regional cooperation agenda is facing a crucial test: putting in place a regional cooperation plan with Haiti (see box V.1).

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[13] Trade issues are not necessarily any more complex than, for example, cooperation on energy. On the contrary, experience shows that the latter area involves larger numbers of public and private entities and greater regulatory complexities, and that taxation factors and exchange-rate risks are more significant than in the case of trade issues. In any case, these are issues that need to be approached from the viewpoint of regional integration if the emphasis is to be on a future agenda.

[14] The proposals on infrastructure, aid for trade, innovation and social cohesion are the result of joint efforts over a number of years, corresponding to a forthcoming publication of the Andean Development Corporation and ECLAC.

Box V.1

INTERNATIONAL AND REGIONAL COOPERATION FOR HAITI

Haiti has been going through one of the most difficult periods in its history since the earthquake that struck on 12 January 2010. This is estimated to have cost the lives of some 200,000 people so far, while over 200,000 have been left injured and 3 million have lost their homes. The experience acquired by ECLAC in supporting reconstruction after previous disasters suggests that this one will be considerably more expensive for Haiti than the 2008 hurricanes, which themselves cost 15% of GDP. Over 600 international organizations and institutions are currently assisting and coordinating their efforts so that Haiti can come through this dramatic situation.

The United Nations is urgently seeking to improve the way assistance is organized in Haiti by coordinating the political, aid and military efforts. This will require the Haitian Government to take over leadership of the operations before long, with strong support from the international community. The recent Montreal conference, involving the United Nations, the Organization of American States (OAS), the European Union and the Inter-American Development Bank (IDB), together with representatives of 20 countries, agreed to set up an international agency to assist development in Haiti by meeting needs identified by the Haitian Government, coordinating aid and laying out a recovery plan. The reconstruction of Haiti is an undertaking that will need to be sustained over the long term, most likely throughout the current decade.

For the moment, the urgent need is to continue to attend to the basic health, food, and shelter needs of the population. The next step will be a proper assessment of the damage, after which a plan can be drawn up to rebuild infrastructure, create jobs and develop the economy. It will be necessary to restore essential services and institutions, re-establish and enhance the country's production capacity and support the affected population with housing, health, education and productive employment programmes.

Haiti was receiving increasingly substantial net flows of aid before this catastrophe, and some progress towards the Millennium Development Goals, such as the reduction of mortality rates, was being made as a result, while in other cases, such as the prevalence of disease, progress was clearly inadequate. In any event, the disaster will set back progress towards each of these goals.

The challenge following the Haiti earthquake, in the medium and long terms, is development, where social, physical and institutional reconstruction are key ingredients.

This will require a long-term project that needs to transcend and sustain the commitment and determination of the different nations involved once the initial humanitarian work is over, focusing on essential issues such as extending and enhancing trade integration, encouraging investment for more and better jobs, fostering agricultural competitiveness, generating specific guidelines for education and creating a secure environment towards a path to sustainable long-term development.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nation News Centre and remarks of the Secretary-General Ban Ki-moon to the General Assembly on Haiti, 22 January 2010 [online] http://www.un.org/apps/news/infocus/sgspeeches/search_full.asp?statID=713 [date of reference: 5 February 2010].

A. INTRAREGIONAL COOPERATION

1. Protecting and promoting infrastructure investment

Infrastructure is critical for economic growth, productivity and balanced territorial development, and expanding it helps to reduce regional and local inequalities. The endowment of trade-related infrastructure is key to export development. To a great extent, infrastructure advances or lags determine transport costs, whose effects on trade equal —and sometimes exceed— the cost of tariffs or exchange-rate fluctuations. The available estimates show that trade flows have an elasticity of over 2 with respect to transport costs; in other words, a 10% increase in transport costs may lead to a 20% fall in trade volumes (Martínez and Suárez, 2005).

Latin America and the Caribbean suffers from a severe infrastructure deficit (see figure V.1). As the region emerges from the crisis, it is vital that infrastructure investment is not allowed to fall, as occurred during the external-debt crisis. That was the cause of much of the lost productivity and the competitiveness lags that the region still suffers in comparison with other developing regions.[15]. For example, while the emerging Asian economies have expended considerable resources on infrastructure investments since the 1980s, in Latin America that spending has fallen from 6% of GDP in the early 1980s to a little over 2% in the early 2000s (see figure V.2). If infrastructure spending is once again allowed to suffer, this will weaken the region's ability to bounce back when the world economy recovers, and its lag in competitiveness will worsen.

While countries and subregions in Latin America and the Caribbean show differing levels of development in terms of transport infrastructure, they also share a number of common challenges. Road and rail infrastructure is old and not properly maintained. The main road corridors lack capacity and there is a shortage of competitive rail services for freight transport. International transport networks suffer from operational restrictions, deficient interconnections and technical asymmetries between modalities, countries or both. Compliance with Government regulations is not properly enforced and standards differ between countries and between jurisdictions within countries. There are also failings in planning, public policy design and the allocation of roles to the public, private and international sectors. Regulatory frameworks are insufficient, and contracts are weak and insecure (Sánchez and Wilmsmeier, 2005).

Cross-border development axes, including bioceanic corridors, not only help to increase competitiveness and improve transport times and costs for extraregional trade; they also open up new production and urban planning opportunities, improving the balance at the geographical (between coastal areas and uplands) and social levels, and raising living standards for poor and backward communities, which tend to be located in the interior of the subregions (Maira, 2008). To this end, investments in these axes must address not only physical infrastructure requirements but also the traditional problems of border-crossing and transport regulation and facilitation.

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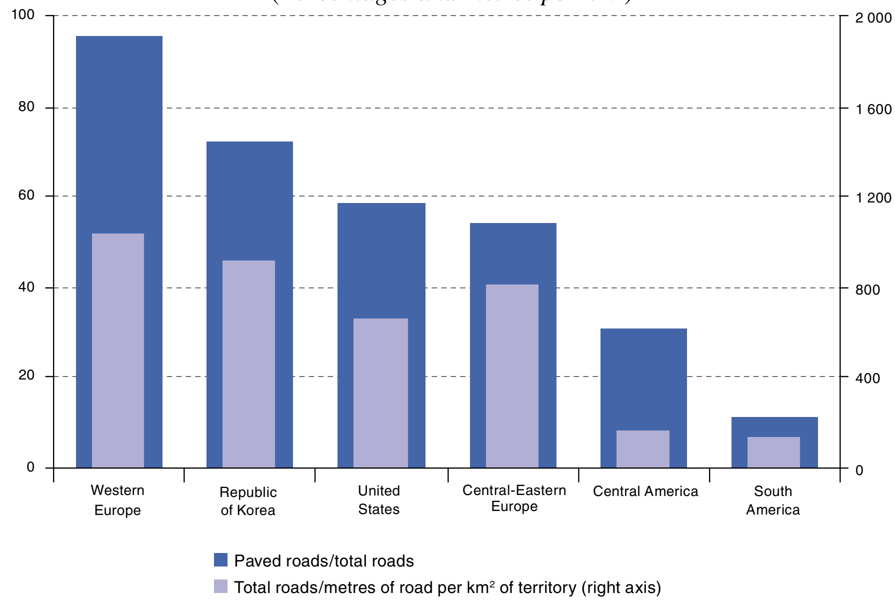
[15] Calderón and Servén (2003) estimate that GDP growth rates in the South American countries would be higher by between 2.6 percentage points (Uruguay) and 5.8 percentage points (Plurinational State of Bolivia) if the region had an infrastructure comparable in quantity and quality to the average in South-East Asia.

Figure V.1

INFRASTRUCTURE IN SELECTED COUNTRIES AND REGIONS: ROAD DENSITY AND PERCENTAGE OF PAVED ROADS [a]

(*Percentages and metres per km^2*)



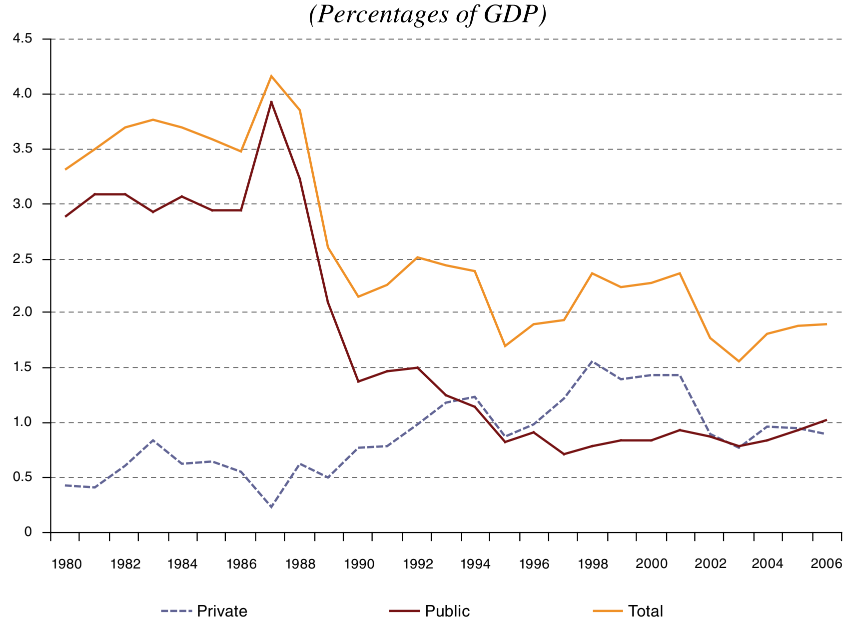
Source: R. Sánchez and G. Wilmsmeier, "Provisión de infraestructura de transporte en América Latina: experiencia reciente y problemas observados", *Recursos naturales e infraestructura series*, No. 94 (LC/L.2360-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2005.

[a] Simple indices of road availability are used as a proxy for the relative scarcity of infrastructure and logistics.

Figure V.2

LATIN AMERICA (6 COUNTRIES [a]**): INFRASTRUCTURE INVESTMENT, 1980-2006**

(Percentages of GDP)



Source: C. Calderón and L. Servén, "Infraestructuras y desarrollo en América Latina: avances y retos", document presented at the seminar Infrastructure 2020, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), November 2008.

[a] Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Some of the region's countries have developed public-private partnership mechanisms that leverage resources for high-cost infrastructure works, freeing up public funds for smaller projects such as rural and approach roads, small fishing harbours and other ventures that have a direct impact on the living standards of the most disadvantaged areas and social groups. Such projects show both achievements and weaknesses, and their dissemination could encourage binational initiatives that could take advantage of good practices.

Regional cooperation could help to narrow the "infrastructure gap" in the Latin American and Caribbean region. In this regard, the following measures are proposed:

- Agree upon an indicative regional or subregional target for infrastructure investment, which raises the sum invested and effectively enhances the provision and quality of national and subregional infrastructure services. Investment and financing mechanisms must be reviewed in order to ensure greater efficiency. Based on international experience, an ambitious target but one that is essential for closing this gap might be on the order of 5% of GDP, taking into account the specificities of each subregion or country. Involve multilateral and regional finance bodies in the attainment of this target, developing the necessary programmes and projects through dialogue with the countries.

- Create regional or subregional infrastructure funds involving public resources and regional financial institutions and development banks.

- Engage the Tripartite Committee (IDB, OAS and ECLAC), together with the Andean Development Corporation (CAF), in providing advice to Governments for selecting the subregional projects that are most viable technically and financially and those which maximize synergies for the development of border areas.

- Strengthen capital markets and their regulation so that capital and pension funds can play a greater role as sources of infrastructure financing. Complement national or regional efforts by mobilizing greater volumes of resources from private capital, sovereign funds and transnational corporations.

- National authorities should improve their own capacities in the following ways:

  – Move forward towards national and regional infrastructure, transport and logistics strategies which are clear, shared, integrated and sustained over time. This will entail unifying visions at the level of government as well as among business and social sectors, and improving coordination at the regional level (see box V.2).

  – Review policies relating to the regulation of infrastructure services, to ensure that, in addition to encouraging private sector involvement, improvements in this area are effectively passed on to society and become channels for enhancing efficiency, productivity and competitiveness (ECLAC, 2008e).

Box V.2

INTEGRATED POLICIES FOR INFRASTRUCTURE, TRANSPORT AND LOGISTICS

Public policies relating to infrastructure and transport have traditionally been handled separately in Latin America and the Caribbean and implemented on a unimodal basis. This has hindered the efficient operation and provision of infrastructure services. Another concern is that government policies do not include logistics in transport infrastructure and services planning or treat it as a strategic tool for competitiveness.

In globalized economies, productivity and competitiveness depend on numerous interrelated and interdependent variables. Policies to enhance them thus need to be similarly complex. In view of this, key components of competitiveness such as infrastructure, transport and logistics need to be examined as part of a system and not in isolation. The internal links between each of the groups of policy measures mean that programme synergies and scale will yield greater benefits than if these components were dealt with separately.

Increasing infrastructure investment means bringing in new forms of financing to supplement traditional ones, which in turn means better regulation. To strengthen the link between infrastructure and transport services planning, it is essential to improve inter-agency cooperation and public-sector efficiency and to create better links with the private sector by way of public-private partnerships.

Although a variety of national peculiarities need to be considered, the analysis of subnational, national and regional situations undertaken by ECLAC has revealed a number of common elements or best practices in the move towards an integrated infrastructure, transport and logistics policy. The main conclusions regarding the strategic, political/organizational and regulatory aspects are grouped below.

Strategic considerations

- National policies for the development of infrastructure, transport and logistics need to be comprehensive from the start and not just the sum of sectoral development plans. Accordingly, national plans must take precedence over any sectoral planning.
- This integrated approach combines policies dealing with productivity and competitiveness, external trade and trade facilitation, infrastructure and multimodal transport (road, rail, river, sea and air, and the ports, airports, border crossings, logistics platforms, etc. that connect them), information and communication technologies, research and development and so forth.
- Policy planning, design and implementation should turn not on the mode of transport but on freight services, always with a view to ensuring the productivity and competitiveness of the goods or services the country produces and/or trades both in the home market and internationally.
- Decisions about planning horizons are critical and must take into account the dynamic of trade and international economic relations. It is essential to set and enforce deadlines.

Political and organizational considerations

- Establish a lead agency that is the visible face of the policy development, implementation and oversight effort and guides the process.
- Strengthen intersectoral dialogue and analysis, favouring the creation of public-private partnerships.
- Secure political backing at the highest level of government and from other State authorities so that the policy is conceived as a State policy transcending the political cycle.

Regulatory considerations

- Establish a legal reference framework that is clear, consistent and condensed into a single body of regulations to facilitate implementation (all-inclusive policy), reflect a consensus vision of the State and help maintain a model that is sustainable over time.

Source: T. Cipoletta, S. Pérez and R. Sánchez, “Políticas integradas de infraestructura, transporte y logística: experiencias internacionales”, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2010.

  - Strengthen national public investment systems, improving the quality of proposed projects and real possibilities of external financing.

  - Support the development of benchmarking systems for the main areas of infrastructure projects, facilitating project comparability and avoiding potential overpricing in bidding processes.

- Organize workshops to share experiences on public-private partnerships for infrastructure projects, in order to draw lessons from successful outcomes or from failures both within and outside the region.

- Strengthen support for the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), for the Meso-America Project and CARICOM by means of the following measures:

  - Continuously monitor potential bottlenecks that could obstruct the progress of priority projects already identified, owing to financing problems. Then create plurinational programmes incorporating solidarity-based support from several countries and financial institutions in the region, in order to expedite the launching of those projects.

  - Organize open-ended meetings to provide information on the activities conducted and under way to parliaments, business organizations and civil society.

  - Organize working groups to facilitate convergence between regulation and oversight systems for land-based and multimodal transport.

- Modernize external trade logistics by means of the following measures:

  - Promote the use of modern transport and distribution methods by export SMEs.

  - Set up smart transport systems in ports and airports, on roads and railways and at distribution centres.

  - Create automated systems for all customs formalities and procedures.

  - Prepare an agenda to simplify port procedures and promote competition between and within ports.

2. Promoting intraregional trade

A number of experts have proposed the creation of a cooperation programme to promote intraregional trade, in which regionalized financing is combined with a flexible governance structure that brings together and coordinates countries and multilateral and regional bodies, including the private sector.[16] The idea is not to establish new institutions, but to generate mechanisms for coordination among existing ones in order to make the most of their respective advantages and help to mobilize financial resources.

It is suggested that such a programme might include strengthening the different mechanisms of multilateral and regional organizations with contributions from donors, associated agencies and other international and private sector entities.[17] Some of the activities such a fund could support are described below.

(a) Short-term financing of intraregional trade

A central issue that arose during the recent financial crisis is dealing with liquidity constraints in external trade transactions. Financing is crucial to facilitate international trade, especially at the level of SMEs, be they exporters or importers. Following the outbreak of the crisis the cost of credit rose sixfold in just a few months. This caused considerable adversity, given that some 90% of world trade is financed by short-term loans. In the course of 2009, the situation returned to normal and the region's risk levels have fallen, in some countries even to below pre-crisis levels.

Although credit access for trade operations may have returned to normal, the recent crisis demonstrated that existing hedging mechanisms, which, under normal circumstances, may be sufficient, prove inadequate for dealing with periods of uncertainty such as the current period. Moreover, SMEs in several countries of the region almost invariably experience difficulties in accessing loans, especially medium-term loans, for their business operations. Finance institutions should take steps to inform businesses about the characteristics of their instruments and make them aware of how risk is assessed and trade financing data collected. Much would be gained from expanded regional collaboration in this area among private banks, public bodies, international financial institutions and export credit agencies.

In this regard, a number of countries are looking at the possibility of setting up regional or subregional mechanisms to allow a higher proportion of intraregional trade to be conducted in local currency (see box V.3).

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16 See Stiglitz and Carlton (2006).

17 There are several multilateral and regional agencies that support trade and competitiveness. These include the World Bank, the Inter-American Development Bank, the Central American Bank for Economic Integration, the Bank of the South, the Andean Development Corporation and the Financial Fund for the Development of the River Plate Basin.

Box V.3

FACILITATING INTRAREGIONAL TRADE BY REDUCING THE USE OF FOREIGN CURRENCY

Some of the countries of the region have been seeking mechanisms to reduce the need for foreign exchange in intraregional trade. The only regional mechanism that promotes the use of local currencies is the Agreement on Reciprocal Payments and Credit, created in 1982 by the Latin American Integration Association (LAIA). Under this Agreement, the central banks of 12 countries[a] process and clear on a quarterly basis payments on mutual bilateral trade in goods and some services. Brokers participate voluntarily in transactions, which are conducted in local currency. At the end of the consolidation period the participating central banks calculate their net bilateral balances, which are expressed and settled in dollars.

The Agreement was widely used in the 1980s —accounting for nearly 90% of intraregional trade in 1989, owing to the widespread liquidity squeeze in dollars in the region at that time. During the 1990s, use of the system gradually became less prevalent and by 2003 it had practically fallen into disuse. Since then, it has made a slight comeback. Today the Agreement is used for approximately 10% of intraregional trade —primarily that of the Bolivarian Republic of Venezuela, all of whose trade must be channelled through it owing to foreign-exchange controls, and to a small extent that of Brazil (the operations of the National Bank for Economic and Social Development, or BNDES) and Colombia. Various factors explain the limited use of the Agreement today, particularly the high credit risk incurred by central banks (which guarantee payments), the high interest rates charged for debits in Agreement-based accounts compared with other international rates and the growing ease of conducting financial transactions through private banking networks.

The scarcity of foreign currency and tight trade financing restrictions that prevailed during the recent crisis revived interest in creating a mechanism to facilitate intraregional trade through the use of local currencies. Various proposals have been put forth, such as updating or complementing the arrangement provided for under the Agreement on Reciprocal Payments and Credit, or replacing it with a regional-trade clearing house that would overcome the limitations of the Agreement and would follow the best practices recommended by the Bank for International Settlements. Such an arrangement could also adopt various features of the Brazil-Argentina Local Currency System, which began to operate experimentally for bilateral trade in October 2008.

A new clearing house would have to operate efficiently and in a flexible manner if it is to compete with other forms of payment. For example, a company and its counterpart abroad would have to choose the currency in which they would conduct the trading operation and determine which party would absorb the exchange-rate risk. Commodity exporters might find it best to draw up their invoices in a reserve currency such as the dollar. On the other hand, small exporters of non-primary goods might find it preferable to prepare theirs in the currency of the import market (especially if it is a large one) and assume the exchange risk in order to consolidate their market access. Medium-sized exporters with a high domestic-cost component may prefer to prepare their invoices in their own currency. The daily exchange rates of local currencies would be calculated in relation to a widely traded currency (the euro or dollar). A regional financial entity could serve as a clearing house. A well-designed mechanism could reduce the use of foreign currency in intraregional trade by 70%. The adoption of a system based completely on local currency is not considered advisable, because countries running a surplus would build up reserves in the currency of those running a deficit, thereby paying them seigniorage. Moreover, liquid spot markets or futures markets do not exist for all the currencies that might be expected to participate.

This system offers several advantages. First, if a crisis becomes prolonged, the countries of the region could continue to trade among themselves, using mainly their own currencies —provided the crisis does not trigger great volatility in the price of national currencies. Second, the mechanism would be of particular benefit to microenterprises and SMEs, which have difficulties accessing futures markets and, in addition, conduct most of their trade operations within region.

In the Central American integration process, the clearing house mechanism played a significant part up to the early 1990s. With the introduction of structural reforms and the greater inflow of foreign currency, the mechanism was discontinued. Today, it is once again being considered as an instrument for boosting intraregional trade. In the same connection, the countries of the Bolivarian Alliance for the Peoples of our America (ALBA) are advocating the establishment of the Unified System for Regional Compensation (SUCRE) with a view to its entry into force in the first half of 2010 as a means of relieving the shortage of foreign exchange in economies that tend to run a current-account deficit. If this form of cooperation, based on the SUCRE, is successful, it could stimulate trade among member countries at a time when external demand is weak.

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

[a] Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

(b) Trade facilitation as a means of supporting intraregional trade

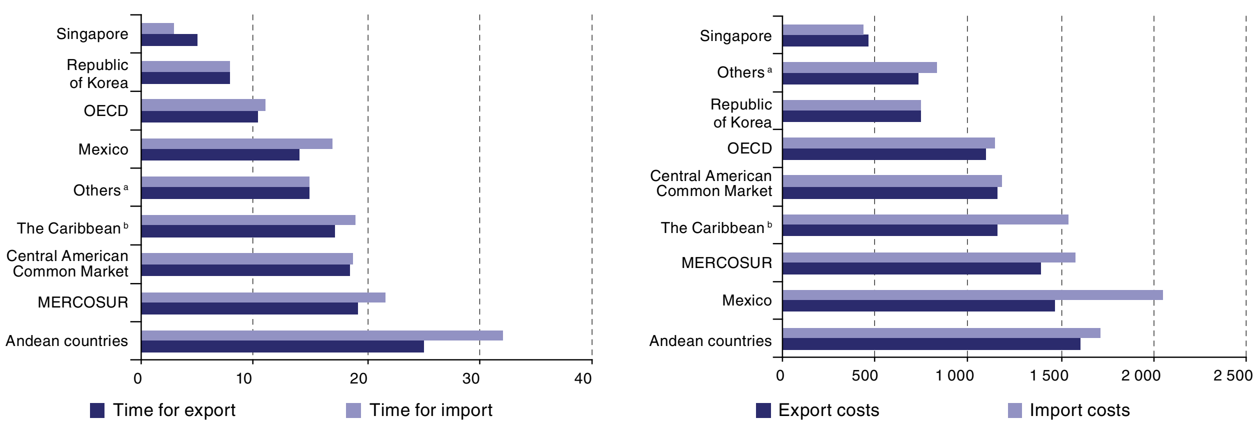
Trade facilitation must be understood not just as a reduction in the number of bureaucratic formalities associated with external trade, or in the time necessary for completing them but also as an integrated approach that seeks to streamline trade transactions, including the availability of transport and ICT infrastructure. Thus, trade facilitation goes beyond bureaucratic red tape and relates to the development of a logistical system for international trade which includes, but is not restricted to, export and import procedures. As such, it plays an essential part in developing a country's international competitiveness. Nevertheless, the Latin America and Caribbean region presents major lags in this area (see figure V.3).

Figure V.3

LATIN AMERICA AND THE CARIBBEAN, REPUBLIC OF KOREA, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT AND SINGAPORE: SELECTED INDICATORS OF COST AND TIME INVOLVED IN FOREIGN TRADE

(a) Time for export and import
(In days)

(b) Import and export costs
(In dollars by container)



Source: World Bank, *Doing Business 2010*.

[a] Others: includes Chile and Panama.

The existence of an integrated logistical system can make it easier to attract FDI and can contribute to the modernization and gradual globalization of SMEs. Clearly, this challenge means not only strengthening coordination among the Government agencies involved, but also relying on various public-private partnership arrangements that enhance communication between stakeholders, sharing of information, dialogue on administrative reforms and the commitment of business organizations to innovation and the competitiveness.

Box V.4

COOPERATION IN CENTRAL AMERICA ON TRADE FACILITATION

The Meso-America Project (formerly the Puebla-Panama Plan) has worked closely with the Central American Economic Integration Secretariat (SIECA) to support the Meso-American Procedure for International Goods Traffic (TIM). This has involved installing computer systems and introducing standardized procedures at border control posts to optimize and improve customs and quarantine procedures and formalities in international goods traffic operations, thereby making border crossings easier for such operations, reducing transport costs and increasing competitiveness. The pilot trials of TIM at the El Amatillo border crossing (El Salvador-Honduras), which began in July 2008, and its implementation at the Pedro de Alvarado-La Hachadura crossing (Guatemala-El Salvador), cut average crossing times from over an hour to less than eight minutes. The design of the procedure and system and the implementation of the first phase of the project were financed with non-reimbursable technical cooperation of US$ 2 million from the Inter-American Development Bank (IDB). Financial support was also provided by the Central American Bank for Economic Integration (CABEI). The project was implemented by SIECA (Meso-America Project, 2009).

The Meso-American Procedure for International Goods Traffic (TIM): concrete results

1. Finalization of the uniform standard procedure for international goods traffic operations, from the southern border of Mexico to Panama.
2. Determination of the data to be shared electronically between customs, migration and quarantine authorities in eight countries of Meso-America.
3. Computerized procedure for international goods traffic.
4. Interconnection and functionality of the computer systems managing goods transit operations between Honduras and El Salvador.
5. Operational testing in progress since July 2008 under a pilot plan at the border posts of La Hachadura (Guatemala-El Salvador), El Amantillo (El Salvador-Honduras) and Guasaule (Honduras-Nicaragua).
6. Improvements to telematic and computer infrastructure in customs and quarantine administrations (head offices and border establishments).
7. Single unified border traffic control.
8. Cutting-edge tools to facilitate risk analysis at customs.
9. Unification of data and declarations in a single electronic declaration.
10. Reduction of over 80% in time spent on border operations.
11. Reduction of operating costs.
12. Substantial improvement in transparency and predictability.

Source: Meso-America Project, *Informe ejecutivo 2008-2009*, Meso-America Project Executive Commission, 2009.

Effective progress in coordinating all the institutions involved in international trade operations in each country is possible only when the political commitment exists among authorities at the highest level. A permanent institutional framework is required, which aims to achieve an optimum balance between regulation and efficiency. This applies equally well at the subregional and regional levels. At these levels, it is indispensable to set up institutions for harmonizing procedures, especially to ensure interoperability and standardization of procedures. An attempt must also be made to speed up legal agreements that recognize modern business instruments (electronic billing, electronic certificates of origin, and inter-agency single windows, among others). This means that the remaining steps to be taken to achieve this convergence of procedures also involve the judicial sector and parliaments.

In this regard, projects such as the Meso-American Procedure for International Goods Traffic (see box V.4), the Digital Certificates of Origin being pursued by the Latin American Integration Association (LAIA), the implementation of inter-agency single windows in Colombia and Brazil and the remarkable experiences of Colombia, Chile, Costa Rica, Dominican Republic, Nicaragua and Peru prove that ICT can be a valuable instrument for raising regional competitiveness. Developments relating to customs procedures include the signing of the Central American Uniform Customs Code (CAUCA), an essential component of the Central American Customs Union.

The countries of the region have been active participants in the negotiations on trade facilitation[18] taking place as part of the Doha Round of the World Trade Organization and which, according to various studies, could have a more significant impact on global trade flows than the tariff results of the Round itself.[19] Given the uncertain prospects for concluding the Round, the countries of the region should consider implementing nationally or regionally the proposals they have formulated at the multilateral level, irrespective of the advances achieved in Geneva. Moreover, agreements can be concluded at the regional level that go beyond the scope of the WTO negotiations. Emphasis should be placed on initiatives to improve transport and logistics, especially those recommended for landlocked countries in the Almaty Programme of Action.

Table V.1 shows a number of proposals for action in the area of trade facilitation which could have a positive impact on regional integration, the streamlining of transport flows and international trade costs. As regards facilitating the free movement of people, the cooperation initiatives under way in Central America are an interesting development (see box V.5).

Table V.1
OPPORTUNITIES IN TRADE FACILITATION AND TRANSPORT

Area	**Suggestions for the short term**
E-commerce	– Seek common ground (such as standards) to enable interconnection among regional actors – Eliminate red tape in customs – Form business partnerships to enhance international competitiveness – Strengthen logistical and transport systems – Recognize electronic signatures
Single window	– Designate a central coordination entity at the national level and a regional centre for system recognition and interconnection – Promote coordination and consistency among national systems to facilitate interconnection – Use universally accepted systems for paperless trade
Customs procedures	– Adopt compatible administrative systems to enable interconnection and reduce the time and costs of procedures – Disseminate such systems in the private sector, particularly among SMEs – Promote regional coordination to expedite procedures – Use pre-shipment inspections and other mechanisms to cut waiting times at loading and unloading points – Strengthen the use of ICT for security purposes, in accordance with international standards
Streamlining the transport chain	– Accelerate regional integration projects, especially those involving infrastructure and interconnections that will benefit landlocked countries – Coordinate with the private sector to identify bottlenecks in a timely manner and propose joint projects – Foster intermodal and complementary means of transport

18 The current negotiations on trade facilitation within WTO are limited to three articles of GATT 1994, namely, article V on Freedom of Transit, article VIII on Fees and Formalities Connected with Importation and Exportation, and article X on the Publication and Administration of Trade Regulations. In other words, this is a subset of the overall trade facilitation agenda.

19 See, for example, Adler and others (2009).

Table V.1 (concluded)

Area	Suggestions for the short term
Adoption of international (United Nations) standards	– Disseminate models for electronic documents (eDocs) available from the United Nations Centre for Trade Facilitation and Electronic Business (CEFACT) – Disseminate and adopt international regulations governing maritime transport, handling of dangerous cargo and other international documents for facilitating international transport – Implement e-government systems, especially international standards and classifications, to permit paperless trade
Phytosanitary standards	– Ensure consistency with international standards and cooperation and training for the fulfilment of health and safety requirements – Put in place sampling and prevention techniques aimed at avoidance or early detection of risks in the distribution chain, thus forestalling large-scale health emergencies
Interface between the public and private sectors	– Set up centres to train SMEs in ICT use – Strengthen export financing mechanisms using elements of trade and e-governance to deal with any reduction in the supply of private financing

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

Box V.5

REGIONAL TOURISM COOPERATION IN CENTRAL AMERICA

Tourism in the Central American isthmus has developed considerably in recent years, becoming a major source of currency earnings. At 8.2% a year, average growth in 2000-2006 easily exceeded the world average of 3.6% for the period (UNWTO, 2007). Indeed, from 2000 to 2006 tourism grew faster in the Central American isthmus than anywhere else in the world except North-East Asia (8.3%).

Regional cooperation has helped both to increase intraregional tourism and to regionalize tourism originating from countries outside the area. In the first case, the creation of a migration document within the C-4 area of Central America (El Salvador, Honduras, Guatemala y Nicaragua), allowing citizens of any of the partner countries to enter the others freely, has helped to increase the amount of travel between these countries. This facility has also been extended to Panama (Costa Rica allows visitors from Panama, El Salvador, Guatemala and Honduras to enter without a consular visa but requires one from Nicaraguan citizens). In addition to migration facilities, improved land communication links have boosted intraregional tourism. This is particularly evident in tourist travel between Guatemala and El Salvador, which accounts for the largest number of journeys within the region.

The countries of the subregion have also developed cooperation mechanisms to allow them to benefit jointly from tourism from elsewhere, especially Europe. As part of their common efforts to promote tourism, the countries of the Central American isthmus have created the Central America Tourism Agency (CATA), a public-private body responsible for implementing the subregional strategy to attract European tourists. Nothing similar has as yet been created to attract tourists from the United States, the subregion's main market, with each country continuing to design its own strategy. The Central American Council for Tourism (CCT) has developed another subregional strategy consisting in a number of investment projects, market studies and regulatory frameworks and the creation of a Central America brand ("Central America: so small… so big…"), while holding an annual fair called the Central America Travel Market and promoting tourism over the Internet, among other things.

CATA activities have included negotiations between European airlines and Central American Air Transport (TACA) to start direct flights between Europe and Central America; promoting the Central America brand referred to above and presenting the subregion as a multi-destination via the Internet and travel agencies; organizing and holding promotional fairs; and creating strategic alliances and cooperation arrangements with organizations such as TACA, the Spanish International Cooperation Agency for Development (AECID) and the Government of the People's Republic of China, among others.

Box V.5 (concluded)

Different subregional projects have been developed under the auspices of CCT and the Central American Integration System (SICA), such as the Regional Tourism and Geography Information System (SIG) (the world heritage route), signposting projects for agreed tourist routes, programmes to improve tourism promotion in Central America, the Central America Tourism Satellite Account Project for the macroeconomic analysis of tourism in the subregion, a tourism services quality project, a network of rural inns in Central America, the preparation of an intraregional tourism promotion strategy, a Central America information CD, a project to strengthen tourism institutions (Central American chambers of tourism), the Central America Travel Market and training programmes (CCT, 2009).

The aim is to present the Central America region as a diverse area that can attract tourists to different destinations in the isthmus. This alliance can help to generate synergies and benefits that exceed the sum of each country's individual efforts. Accordingly, the countries are making an effort to highlight their special characteristics. Costa Rica, for example, is pre-eminently an ecotourism destination, while Panama sees itself as a place for business and trade thanks to its financial centre and logistical developments around the Panama Canal, although it has developed very attractive seaside and beach resorts over the past few years. Guatemala is a very interesting destination for cultural tourism, with a long track record in this niche market. The geographical location of El Salvador makes it a good regional interconnection and meeting point (conventions, events, etc.) and the TACA airline hub is an important element in this regard. It has also benefited from the visits of the growing migrant population now living in the United States. Tourist activity in Honduras and Nicaragua is incipient, but their natural attractions could prove a strong draw. All these projects and initiatives have the potential to strengthen the tourism sector, which has already proved how important it is to the subregion, particularly where job creation is concerned, and they could be extended to Asian countries, where no significant efforts have as yet been made to attract tourists to Central America.

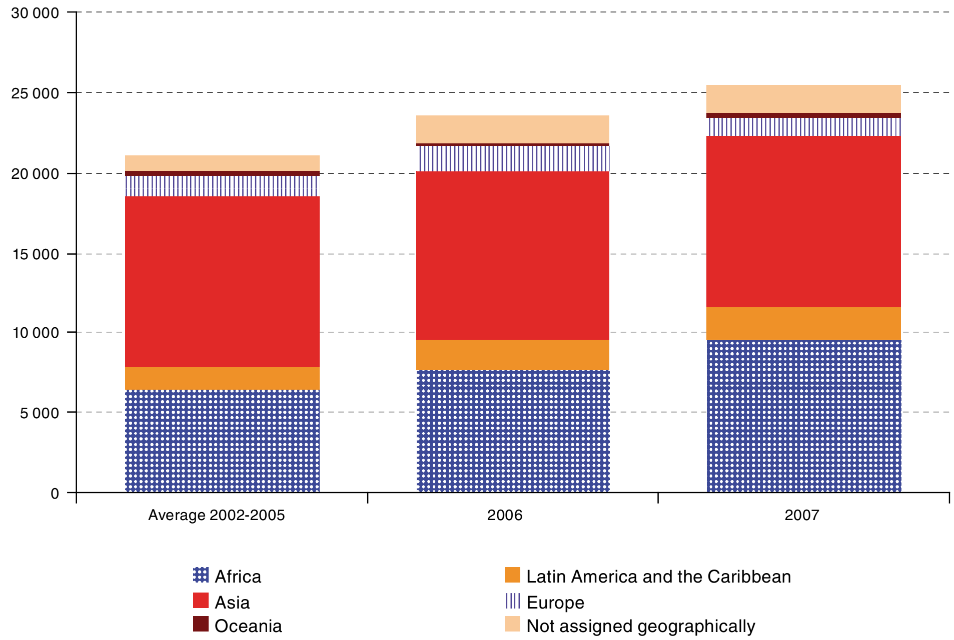
Source: Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC subregional headquarters in Mexico.

(c) Aid for trade

Although trade agreements have considerably improved its access to the principal markets, the region still faces major internal constraints which prevent it from taking greater advantage of its integration into the world economy. These constraints include lack of information on trade opportunities, excessive red tape for exporting or importing, a shortage of financing for SMEs and infrastructure problems. The aid-for-trade initiative introduced by WTO in 2005 aims to reduce these constraints.

The region's share of global aid-for-trade flows (measured as new commitments) rose from an average of 7.1% in the period between 2002 and 2005 to 8% in 2007, the last year for which comparable information for all regions is available. This figure is, however, far lower than the 42% for Asia and 37% for Africa in the same year (see figure V.4). Only two countries in the region —El Salvador and the Plurinational State of Bolivia— ranked among the 20 leading recipients of aid for trade in 2007, with shares of 1.5% and 1%, respectively, of total new commitments (OECD/WTO, 2009). At the subregional level, Central America and the Andean countries were the main recipients.

Figure V.4
REGIONAL DISTRIBUTION OF AID FOR TRADE, 2002-2007
(Commitments in millions of dollars at constant 2006 prices)

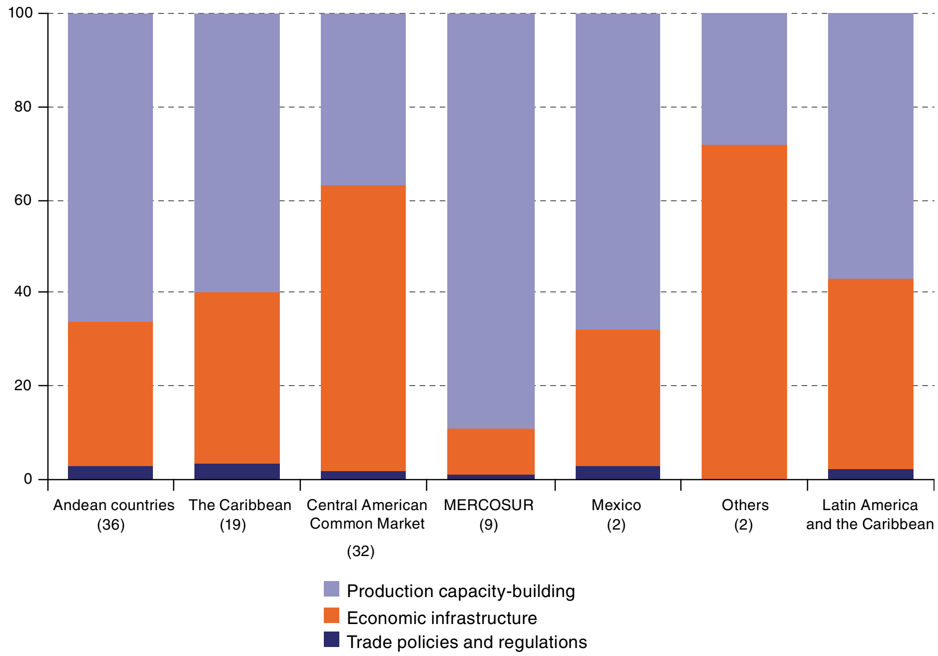


Source: Organisation for Economic Co-operation and Development (OECD) and World Trade Organization (WTO), *Aid for Trade at a Glance 2009: Maintaining Momentum, 2009*.

The region's relatively low share in total aid-for-trade flows is due to a number of factors, including its relatively high per capita income and smaller population compared with Africa and Asia. Moreover, the countries in the region have, generally speaking, greater access to private international capital markets and are able, to finance them through a significant portion of their trade-related infrastructure requirements.

In the region, aid-for-trade commitments in 2007 were concentrated in two categories: building productive capacity (56%) and building economic infrastructure (41%) (see figure V.5). This appropriation differs from that observed worldwide, where the second category is dominant. As regards the distribution between the subregions, building infrastructure takes the larger share in Central America, while, in the other subregions, the most important category is building productive capacity.

Figure V.5
LATIN AMERICA AND THE CARIBBEAN: AID FOR TRADE BY CATEGORY, 2007
(Percentages)



Source: Organisation for Economic Co-operation and Development (OECD)/World Trade Organization (WTO), *Aid for Trade at a Glance 2009b: Maintaining Momentum,* 2009.

Note: The percentages beside the subregions denote their proportion of the region's total aid-for-trade allocations.

The foregoing demonstrates that there is room for the Latin American and Caribbean region to increase its share of aid for trade. The countries of the region should therefore make aid for trade a central component of their requests for international cooperation, defining priorities and outlining major projects that will enable them to obtain new resource flows in response to the principles of additionality, sustainability and effectiveness of aid. Particular, efforts should be aimed at attracting funds for projects, such as IIRSA and the Meso-America Project, which involve several countries and have a clear trade facilitation component.

The fact that the situation and, consequently, the requirements of the different subregions of Latin America and the Caribbean are not the same must also be borne in mind. This is due to the differences between the regions in terms of their production and export patterns and other important variables, such as the institutional maturity of the integration schemes. The Caribbean subregion, for example, has shown a capacity to incorporate more than just trade issues in its schemes (see box V.6).

Box V.6

RECENT COOPERATION INITIATIVES WITHIN CARICOM

Recently, members of CARICOM have stepped up their cooperation in several areas. In regional integration, the countries of the Organization of Eastern Caribbean States, except Montserrat, signed an agreement at the end of 2009 to form an economic union, which is to be ratified by individual parliaments by June 2010. Also, a major step forward was made in the treatment of asymmetries, as the CARICOM Development Fund (CDF), headquartered in Bridgetown (Jamaica), started its operation in August 2009. By end-2009, its member States had contributed US$ 87 million, while another US$ 130 million is expected from donors.

On financial issues, CARICOM members signed the Liliendaal Declaration on the Financial Sector in 2009 to contain the effects in the region of the global financial crisis and reform the financial sector in the subregion. 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 Program (CREDP) has stepped up its activities with new funds from donors, and in-kind contributions from the Organization of American States and regional Governments.

On social issues, the Caribbean Public Health Authority (CARPHA) formed a resource mobilization team and established its main campus in Trinidad and Tobago in 2009. Moreover, the CARICOM Implementing 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. Finally, in 2007 a Caribbean Catastrophe Risk Insurance Facility (CRIFF) was established, which has made payments to Dominica and Santa Lucia (2007), Turks and Caicos (2008) and Haiti.

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

The attraction of increased aid-for-trade flows is all the more necessary following the sharp fall in other flows of external financing to the region in 2009 such as FDI, export revenues, migrants' remittances and tourism earnings. Aid for trade in areas such as infrastructure development may not just boost the economies of the region in the short term, but also strengthen their capacity to stage a more robust recovery in the post-crisis period.

In stating their preferences, the countries of the Caribbean have underscored their need for support in the fields of competitiveness, infrastructure, export diversification and integration. In the case of Haiti, these requirements have clearly escalated dramatically and a substantial support programme must, as a matter of urgency, be developed in these areas (see table V.2).

Table V.2
THE CARIBBEAN: AID-FOR-TRADE PRIORITIES

	Priority 1	Priority 2	Priority 3	AFT commitments (Millions of United States dollars in 2007 prices)	
				2002-2005	2007
Antigua and Barbuda	Trade policy	Competitiveness	Infrastructure	2.1	0.2
Bahamas	Trade policy	Value chains	Export diversification	0.0	0.0
Barbados	Competitiveness	Trade policy analysis	Regional integration	0.4	15.2
Belize	Trade facilitation	Export diversification	Regional integration	9.4	3.1
Cuba [a]	Changing production patterns	Infrastructure	Trade policy	8.8	8.3
Dominica	Competitiveness	Regional integration	Trade policy	12.3	6.3
Dominican Republic	Trade policy	Regional integration	Competitiveness	42.2	33.4
Grenada	Export diversification	Trade policy analysis	Competitiveness	6.4	0.2
Guyana	Infrastructure	Competitiveness	Export diversification	40.7	94.8
Haiti [a]	Infrastructure	Changing production patterns	Trade policy	81.6	54.5
Jamaica	Infrastructure	Competitiveness	Export diversification	33.8	50.8
Saint Kitts and Nevis [b]	Competitiveness	-	-	1.4	0.0
Saint Lucia	Costs of the adjustment	Transport	Competitiveness and export diversification	7.5	8.9
Saint Vincent and the Grenadines	Competitiveness	Infrastructure	Regional integration	4.4	7.8
Suriname	Trade policy	Regional integration	Infrastructure	23.0	21.8

Source: World Trade Organization (WTO)/Inter-American Development Bank (IDB), “Self Assessment Replies”, *Implementing Aid for Trade in Latin America and the Caribbean 2008-2009*.

[a] No information available.
[b] Only indicated one priority.

3. Strengthening the social aspect of integration

Any proposal for regional cooperation must incorporate the social dimension in its agenda. This ageda includes aspects of social cohesion, multiculturalism and inclusion, which are part and parcel of the purpose and rationale of integration and of efforts to build regional competitiveness in a way that is compatible with social equity. In this regard, one of the merits of the Bolivarian Alliance for the Peoples of our America (ALBA) has been to draw attention to the importance of addressing social issues in integration mechanisms (see box V.7)

Box V.7

TREATMENT OF ASYMMETRIES IN REGIONAL INTEGRATION SCHEMES

All the integration schemes in the region have, from their inception, included special provisions for relatively less developed countries (LDCs). In addition to the special and differential treatment (SDT), other measures for smaller economies have been introduced by means of instruments that further industrial promotion, investment and special financing for projects. However, because of the external debt crisis and, later, the Asian crisis, as well as the underdevelopment of institutional and physical infrastructure to address asymmetries, these measures were piecemeal and achieved few successes.

Only in recent years has renewed concern arisen over asymmetries and the need to implement more effective regional measures to mitigate them, given the failure to narrow the gaps that existed when integration processes began. The experiences in the treatment of asymmetries in the main subregional schemes of Latin America and the Caribbean are reviewed briefly below.

Andean Community

In 1999, the Andean Community implemented the Community Policy on Border Integration and Development and the Integrated Social Development Plan. The Community also decided to maintain the preferences for relatively less developed countries in terms of participation in regional project financing as well as trade and tariff rules on market access. Also of note is the support that the Secretary-General of the Andean Community has provided to Bolivia (to strengthen its export capacity) and to Ecuador (in evaluating its trade policies vis-à-vis WTO).

Central American Common Market (CACM)

In 2003, the member States of the Central American Common Market commissioned the Central American Bank for Economic Integration (CABEI) to draft a regional social proposal for a cohesion fund, with the support of the Secretariat for Central American Economic Integration (SIECA). The proposal is in the drafting stage and still subject to regular revision. The aim of the fund is to help reduce the development disparities between the various subnational regions and contribute to making up the lag of the least advantaged.

The Meso-American Project is a cooperation and integration scheme made up of 10 nations (Belize, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama). This scheme was created in 2001 and acquired its structure and current functions in 2008. Its initiatives consist of projects in energy, telecommunications and transport and are designed to set up a physical and digital interconnection network between member States. This scheme also includes projects relating to trade facilitation, sustainable development and social affairs.

Caribbean Community (CARICOM)

The Revised Treaty of Chaguaramas (2001), which succeeded the 1973 charter agreement of CARICOM, addressed asymmetries through SDT, including the possibility of introducing import restrictions to protect the LDCs in the group. This treaty provides for the creation of a regional development fund to provide technical and financial assistance to disadvantaged countries, regions and sectors as the group moves towards deeper integration. This fund became operational in August 2009. In June 2009, it was decided that the first countries to benefit from this fund would be Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The countries have also agreed to create a regional development agency, although this has not yet come into force.

The issue of the treatment of asymmetries has also appeared prominently in the context of the economic association agreement between the member countries of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) and the European Union.

Box V.7 (concluded)

Southern Common Market (MERCOSUR)

Between 2003 and 2004, the MERCOSUR member countries agreed a series of measures designed to benefit the smaller economies. The most significant was the creation of the MERCOSUR Structural Convergence Fund (FOCEM), which became operational in 2007. The Fund's objectives are as follows: (i) structural convergence of the less developed economies and regions; (ii) development of competitiveness by promoting and employment restructuring and the formation of production chains, among other production measures; (iii) social cohesion in human health, poverty reduction and unemployment; and (iv) strengthening of the institutional structure.

FOCEM was set up with US$ 100 million, of which Brazil provided 70%, Argentina 27%, Uruguay 2% and Paraguay 1%. Contributions are made annually, and FOCEM may receive funding from international organizations, institutions or third countries. The distribution of resources from the Fund is intended to favour projects in the relatively less developed countries of the group: 48% was allocated to Paraguay, 32% to Uruguay, and 10% each to Argentina and Brazil. The projects approved to date under FOCEM are geared for the most part towards building and upgrading infrastructure and towards areas such as housing and health.

Latin American Integration Association (LAIA)

Support for the economically relatively less developed countries, a designation reserved for Ecuador, Paraguay and the Plurinational State of Bolivia, is a central component of the 1980 Montevideo Treaty, by which LAIA was established. The main tools at the disposal of LAIA for dealing with asymmetries are: (i) SDT which is reflected in the economic complementarity agreements as non-extensive lists of tariff reductions, a broader extension of concessions and a more flexible use of safeguards, thus seeking stronger protection for local production of the relatively less developed countries; and (ii) technical assistance, provided through an office specially established to study and coordinate measures for improving the relative position of the economically less developed countries.

Union of South American Nations (UNASUR)

The issue of asymmetries is covered in the constitutive agreement of this Union. Listed among its objectives is "the development of concrete and effective mechanisms to overcome asymmetries, thus achieving an equitable integration". In this regard, a few initiatives are being implemented jointly with the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), since the UNASUR agenda does not yet address trade issues. Initial efforts are also being made to address some aspects of harmonization of public policies for social cohesion, through monitoring initiatives and dedicated social policy observatories.

Bolivarian Alliance for the Peoples of our America (ALBA)

The Bolivarian Alliance for the Peoples of our America (ALBA) includes fairly structured initiatives that derive from recognition of its principles for convergent and integrating development, especially from the social perspective and from the express recognition of the differences in the size and level of development of its members. The principal ALBA agreements relating to the treatment of asymmetries are enshrined in the People's Trade Agreement, which encompasses multiple initiatives in the areas of health, education, food security and other cooperation areas.

Another noteworthy initiative is the Petrocaribe agreement, proposed by the Bolivarian Republic of Venezuela in 2005 and signed to date by a total of 16 countries: Antigua and Barbuda, Bahamas, Belize, Bolivarian Republic of Venezuela, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname. Petrocaribe seeks to reduce asymmetries by reducing the energy bill for net petroleum importers, coordinating energy policies, developing and using energy resources and exploring alternative and renewable sources of energy.

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and the Latin American Economic System on the Process for Regional Integration 2008-2009 [online] http://www.sela.org/DB/ricsela/EDOCS/SRed/2009/10/T023600003818-0-informe_sobre_el_proceso_de_integracion_regional,_2008-2009.pdf.

The countries of the region should take steps to strengthen the complementary dynamics among the social, economic and trade aspects of integration. Efforts should be redoubled to build subregional value chains in order to enable export to third markets and bring businesses from the least developed economies into those chains. This would help to reconcile growth with the quest for third markets and social cohesion, combining a more vibrant role on the external front with lower productivity gaps on the domestic front. Structural support to reduce asymmetries among countries would help to generate a competitive export supply in the relatively less developed ones.

Investment in infrastructure can play a decisive role in improving the living conditions of the poorest families, particularly in rural areas. Indeed, in rural areas, infrastructure is a crucial factor not only for increasing and diversifying production, and strengthening competitiveness but also for raising employment and income for poor households and reducing several of their systematic risks. These elements are particularly important in countries such as Mexico and those of Central America and the Andean area, where the incidence of rural poverty is severe and a high proportion of the population is still engaged in agriculture. Moreover, the most serious infrastructure problems occur in regions with a predominantly poor, rural population.[20] Indeed, in these regions, and assuredly more so than in the middle-income countries of Latin America, rural areas have seen very limited public investment in recent years in highway and road construction and maintenance, and in small-scale irrigation and other infrastructure works. Private investment in storage and refrigeration facilities has also been very limited. As is well known, investment in roads and small-scale irrigation projects in rural areas are valuable because they generate indirect employment, as well as direct jobs, by improving the profitability and connectivity of agricultural output.

Investments in cross-border infrastructure can help to reduce asymmetries in the pace of development between neighbouring countries or subregions. One pressing need in this regard is for proper infrastructure between Haiti and the Dominican Republic. This shortcoming helps to underscore the marked differences in the level of per capita GDP and human development by creating obstacles to trade and to the mobility of factors between these two economies. These gaps will have been made more acute by the catastrophic earthquake that struck Haiti on 12 January 2010. Boosting investment in infrastructure is crucially important in the case of countries that share a common border and this should be an important part of any reconstruction programme for the battered Haitian economy.

In terms of the social agenda, the various integration schemes could make progress on the following tasks:

- Support initiatives to raise the quality of social statistics at the national level and seek opportunities to harmonize statistics and make them comparable at the regional level.

- Encourage the identification of best practices in corporate social responsibility at the regional level.

- Evaluate possible mechanisms for reducing the transfer costs of remittances that emigrants send home to their relatives.

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[20] For an analysis of the impacts and policy options for investment in infrastructure with emphasis on rural areas in Central American countries, see the reports "Identificación de la combinación de inversiones públicas más apropiadas durante el periodo de transición hacia la entrada en vigencia del Cafta" (CT. TN/SF-9142RG), IDB-IFPRI-ECLAC, CAFTA rural development project in Central America, November 2007.

- Promote the certification of skills between countries, in order to encourage the intraregional mobility of less skilled workers, and take steps to create multi-country training programmes, utilizing the common certification.

- Support efforts to make social protection portable, so that workers may retain their acquired entitlements and transfer contributions already made.

- Move towards the reciprocal recognition of professional degrees.

- Promote infrastructure investment in border areas, to encourage the formation of integrated economic areas and create positive social synergies.

- Support the development of integrated production development strategies in border areas so that social policy measures to protect migrants are taken into account along with economic issues.

- Establish a structural fund for social cohesion that will contribute both to funding productive and employment restructuring processes and to reproducing the best social protection experiences for dealing with crises. Such a fund —which would be endowed with an institutional structure to ensure that it is properly managed— could complement the structural funds of MERCOSUR and draw on European experience. The respective European entities and regional and multilateral financial institutions would be requested to collaborate in its design and implementation.

- Finance multi-country projects devoted to the issues already identified as priority matters for social integration mechanisms. In the case of Central America, emphasis should be placed on programmes relating to early childhood development; maternal mortality; social protection for migrants and social vulnerability in the face of natural disasters.

- Strengthen regional capacities for monitoring and evaluating social programmes, specifically conditional transfer programmes from the perspective of gender, multiculturalism and the rights of vulnerable groups.

- Create a social inclusion observatory that would provide Governments, academic institutions, congresses and civil society with data needed to monitor social policy and create opportunities for exchanging experiences and disseminating best practices.

4. A decisive approach to asymmetries

One of the original aspirations for integration agreements was that they would achieve greater cohesion among the parties. Every Latin American and Caribbean integration project has recognized the structural disparities between its members’ respective degrees of development (see table V.3 for indicators of asymmetries and box V.7 for a summary of how the various integration schemes treat these asymmetries). Undoubtedly, low income level, the small size of the country and the scale of production, small population or landlocked or island status are among the factors that can hamper the economic growth or international integration of a country or its regions, since these factors raise transaction costs and make it difficult for certain sectors of the economy to compete in the global marketplace.

Table V.3

LATIN AMERICA AND THE CARIBBEAN: ASYMMETRIES IN THE SUBREGIONS, 2008

(Factor by which the highest value in the group exceeds the lowest)

	Per capita GDP	Population	Territory	Countries with the lowest GDP in each subregion
Andean Community (1969)	2.6	4.7	4.5	Bolivia (Plurinational State of) Ecuador
Southern Common Market (1991)	6.4	57.8	48.3	Paraguay, Uruguay
Central American Common Market (1960)	5.8	3.0	6.2	Nicaragua, Honduras
Caribbean Community (1973)	47.1	190.5	624.9	Haiti, Guyana
Latin America and the Caribbean	47.1	3 821.0	24 744.1	Haiti, Nicaragua

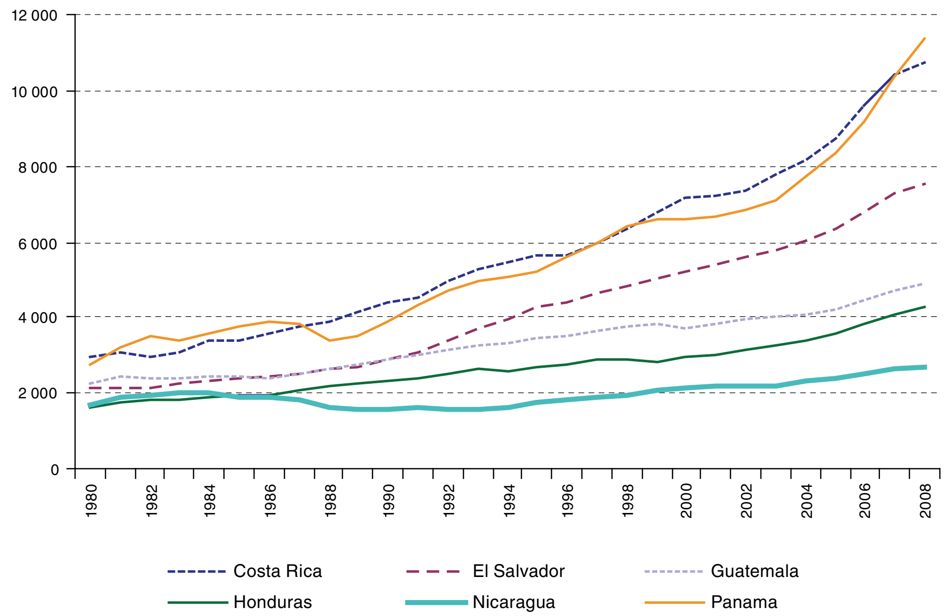
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In addition to the asymmetries stemming from structural differences, both between countries and between or within regions, others result from the cross-border effects of discretionary public policies adopted mainly by the larger countries. These asymmetries are effectively externalities arising from policy implementation —macroeconomic or microeconomic— and resulting in loss of export competitiveness for relatively less developed countries or in undesirable responses such as higher trade barriers or protectionist measures within integration projects. These effects are likely to be especially harmful when the members of an integration scheme depend heavily on each other for their trade. Therefore, more decisive steps must be taken to implement measures that limit the adverse consequences of this type of asymmetry.

In the case of integration in Central America, for several years, development levels, measured in terms of per capita GDP, followed a similar trend. Since the 1980s, however, there has been a strong tendency towards divergence of those levels. This was caused, on the one hand, by conflicts in three countries (Guatemala, El Salvador and Nicaragua) and, on the other, by the economic reforms applied since the 1990s, which have tended to favour the more competitive economies, thereby exacerbating the asymmetries. As a result, a trend towards divergence has tended to be consolidated between Costa Rica and Panama and the rest of the countries of the Central American Isthmus, with El Salvador situated on an intermediate path (see figure V.6).

Reducing asymmetries is a prerequisite for the sustainability and legitimacy of integration processes. However, a recent SELA (2009) report reveals that in all subregional Latin American integration schemes, the gap between the per capita income of its poorest members and the average for the group widened between 1990 and 2007-2008. Under these circumstances, the smallest countries do not perceive the current integration schemes as the best solution for meeting their needs for economic growth and export diversification. A special effort must be made to ensure that the overarching approach adopted for various policy areas —infrastructure, logistics, trade facilitation, energy, and so on— is one that asymmetrically benefits smaller economies. The MERCOSUR Structural Convergence Fund (FOCEM) is a step in the right direction and could be strengthened by providing additional resources and by giving beneficiary countries greater technical capacity to evaluate and propose projects.

Figure V.6
CENTRAL AMERICAN ISTHMUS: PER CAPITA GROSS DOMESTIC PRODUCT, 1980-2008
(*Constant 2000 dollars*)



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

Additional efforts must also be made in favour of the landlocked countries —Paraguay and the Plurinational State of Bolivia— which suffer the worst structural asymmetries. Owing to the characteristics of their production structure and their higher transportation costs, they are also the most dependent on the regional market, with 60% of their goods exports being traded within South America. In particular, such efforts should focus on facilitating customs procedures for goods in transit (see the proposals on trade facilitation in this chapter), the construction of border infrastructure and equipment and the provision of financial and technical support for rural development, the environment and education.

In South America, the Union of South American Nations (UNASUR) could become a forum for cooperation and for the eventual convergence of the region's different integration schemes. UNASUR should explicitly develop policies to reduce asymmetries between its members by setting up financial funds or mechanisms, developing intraregional production chains, promoting physical and energy integration and cooperating on the management of scarce natural resources. In this respect, it will be recalled that, at the request of the Heads of State and Government of the then South American Community of Nations, several organizations (MERCOSUR, SELA, the Amazon Cooperation Treaty Organization (ACTO), ECLAC and the Andean Development Corporation) made a joint effort in 2006 to address this issue. This effort is recorded in a document[21] containing specific recommendations in this regard.

[21] "Un nuevo tratamiento de las asimetrías en la integración sudamericana" [online] www.comunidadandina.org/unasur/Documento_Asimetrias.pdf.

The proposals contained in the above-mentioned document are structured around three pillars: (i) market access, which incorporates special and differential treatment for the least advantaged nations, as well as guarantees of market access for the larger partners; (ii) policies governing treatment of structural asymmetries which seek to generate complementarity and competitive development with emphasis on support for microenterprises and SMEs, as well as infrastructure improvements in the framework of IIRSA; and (iii) strategies for the treatment of asymmetries based on public policies, which should focus on cooperation on macroeconomic policies and incentives for investments and exports. The following sources of financing have been identified for funding these proposals: financial institutions in the region, such as the Andean Development Corporation, the Financial Fund for the Development of the River Plate Basin (FONPLATA) and similar national institutions, horizontal cooperation, and non-refundable international technical cooperation.

In the case of Meso-America, the Heads of State and Government of the Tuxtla Mechanism for Dialogue and Coordination decided, at their tenth Summit, to convert existing trade agreements between Mexico and Central America into a single partnership agreement. This should prove a framework conducive to addressing the issue of preferential treatment for relatively less developed countries.

The creation of FOCEM and the prospective CARICOM regional development fund, together with studies for a similar fund in the Central American Common Market and efforts by the Andean Community (in the framework of its Integrated Social Development Plan), LAIA, UNASUR and ALBA, attest to the political will to persevere with an integration process that will address the concerns of the relatively less developed countries.

B. THE REGION'S STRENGTH IN MEETING GLOBAL CHALLENGES

1. Increasing regional cooperation on innovation and competitiveness

In recent years and until the outbreak of the recent crisis, the Latin American and Caribbean region achieved considerable export growth and improved its access to major destination markets. Nevertheless, its competitiveness gains are still limited (see figure V.7). One of the obstacles to greater competitiveness and higher growth rates has been the region's weakness in areas such as the development of new products and processes, the formulation of business strategies that enable companies to engage more productively in international value chains, and the incorporation of new technologies, including ICT.

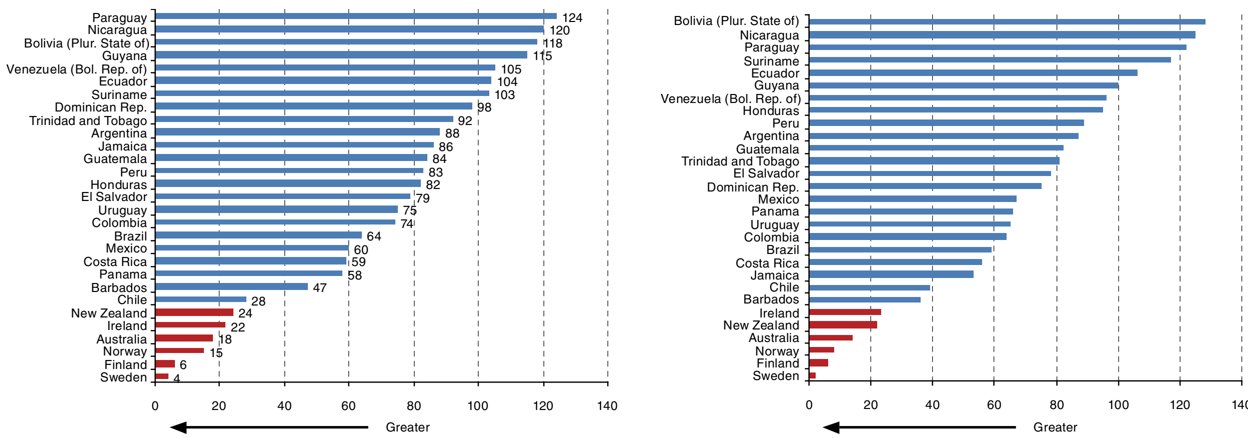
In this regard, the context of the knowledge economy poses new challenges for the countries of the region, where increasingly, science, technology and innovation play a significant role in the pattern of international integration and economic and social development and where, increasingly, synergies, complementarities and networks are needed for the generation, dissemination and application of knowledge and technologies.

Figure V.7

SELECTED COUNTRIES: TECHNOLOGICAL PREPAREDNESS AND COMPETITIVENESS INDICES, 2006-2007

(*In order of the respective global index*)

(a) Technological readiness index (b) Competitiveness index



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistics from the World Economic Forum, *The Global Information Technology Report 2008-2009* and *The Global Competitiveness Report 2008-2009*.

The real challenge in this regard resides in changing production patterns with a view to developing more knowledge-intensive societies, that is, in the capacity to diversify the production and export base and incorporate greater value and knowledge into exported goods and services. For this it is necessary to strengthen the links between exports of primary goods, manufactures and services through production clusters or value chains, encouraging SMEs to participate in them as direct or indirect exporters. This, in turn, requires greater coordination within Government and between Government and the private sector. The most successful international positioning efforts show that it is necessary, on the one hand, to create close public-private partnerships to encourage innovation and investment in export industries and, on the other, to increase coordination among the various public institutions involved in providing productive and technological support to SMEs, promoting exports and FDI, implementing innovation policy and developing human resources (ECLAC, 2008a). A number of these issues figure on national competitiveness agendas in the region (ECLAC, 2008c).

Nevertheless, economies will only be able to incorporate technologies to the extent that they are able to absorb them. A targeted strategy is needed in order to move forward on these challenges, with specific targets and guaranteed financing of policies and programmes. This is illustrated, for example, by Brazil’s production development policy (PDP), which builds on measures to generate positive externalities in the production apparatus, strategic targeting of issues that are important for the country’s long-term development and structural programmes focused on the various production systems. But it is also a systemic strategy inasmuch as it is closely coordinated with the infrastructure projects being carried out under the Growth Acceleration Programme (PAC), innovation work conducted under the Programme of Action on Science, Technology and Innovation, education for new industries and efforts in the area of health, as well as the export policies of the Ministry of Development, Industry and Commerce.

At first glance, the current crisis may not appear to offer the most propitious conditions for developing policies on changing the production structure, increasing competitiveness and strengthening international integration. Nonetheless, crises bring both threats and opportunities and tend to be conducive to seeking new paths and agreements. It is no coincidence that the radical strategies undertaken to change production patterns in Finland, Ireland, Malaysia, the Republic of Korea and Singapore were developed in response to serious crises.

Given the scope of these tasks, which tend to exceed national capacities, regional cooperation is an important alternative that can enable countries to combine their efforts to attain the levels of quality, scale and productivity required in the global economy. The countries of the region could make use of regional forums for dialogue and experience-sharing between public and private stakeholders on successful initiatives in innovation, competitiveness and social cohesion. The following section proposes a regional forum for innovation which could play a part in these tasks.

Today, the agenda of several Governments in the region acknowledges the importance of science, technology and innovation for social and economic development, which favours stressing the need for mechanisms to support regional cooperation on science, technology and innovation policies. Innovation is an increasingly integrated process that takes place in networks and requires interaction and cooperation of various agents in both the public and private sectors. The introduction of mechanisms for cooperation in science, technology and innovation policies is in keeping with the growing concern over the need to strengthen the region’s position in the global knowledge economy, and therefore to leverage existing diversity and complementarities.

The countries of Latin America and the Caribbean have accumulated experiences and capacities in managing policies to support scientific and technological development and innovation. Nevertheless, they face the challenge of designing and implementing policies that are in line with changing needs and priorities and that will guarantee inclusive, sustainable development in a continually evolving context that has been reshaped by the appearance of new actors and new technological paradigms. The diversity of the economies of Latin America and the Caribbean in terms of production specialization, patterns of integration into international markets and accumulated technological and scientific capacities represents an opportunity for the countries to generate synergies and complementarities among themselves in terms of scientific and technological development and innovation.

Use should be made of existing openings for cooperation. In recent years, the countries of Latin America and the Caribbean have made some progress in cooperation. This has enabled a degree of coordination in science, technology and innovation, but still too little to generate synergies that impact decisions relating to trade, investment and international partnerships involving technology businesses and innovation.

Towards the end of 2008, several countries of the region expressed concern over the need to make progress on the topic and signed the Mechanism for Regional Dialogue on Science, Technology and Innovation Policies, which should continue to be promoted. The idea of the mechanism is to create a space for open discussion among the countries of the region in order for questions to be raised and proposals to be tabled on addressing the challenges that the economies face in managing and implementing science, technology and innovation policies.

Both among the countries of the region and within them there are varying levels of scientific, technological and productive capacities. By introducing cooperation mechanisms, the countries of the region would be able to share capacities and learning. Such mechanisms would also increase the available critical mass both at the human resources level and at the financial level for conducting large-scale projects, and thereby bring together fragmented research efforts in order to generate synergies among the various scientific and technological development efforts. This space for discussion is viewed as an open, informal forum for discussion on substantive topics relating to science, technology and innovation policies of regional interest. The most noteworthy of the activities include:

- The organization of discussion forums on topics of a regional interest in terms of science, technology and innovation policies
- The organization of training courses for policymakers and technology managers in order for the countries of the region to exchange experiences and in order for regional dialogue to be strengthened at the policy implementation level
- The development of studies on issues of regional interest
- The facilitation of coordination efforts among the different actors involved with this mechanism for regional dialogue.

Regarding information and communications technologies (ICT), the eLAC regional strategy has been under way since 2005. This new strategy encompasses all of the countries of Latin America and the Caribbean and is based on a long-term vision (through about 2015) that is in keeping with the Millennium Development Goals (MDGs) and the World Summit on the Information Society (WSIS). This vision is also being pursued through short-term action plans that have quantitative and qualitative targets. One phase of the eLAC Plan (eLAC2007) is already complete, and the eLAC 2010 phase is near completion. The second implementation phase of eLAC, approved in San Salvador in February 2008, contains elements that are inherent to an evolutionary process. These elements can be seen in three fundamental areas:

- The need for a multidimensional approach for addressing the various issues, which do not pertain to any specific individual area
- The internalization by the countries of the dynamic change characteristic of technological progress
- The need to make progress towards multi-stakeholder collaboration

This can be seen in the restructuring of thematic areas and their inclusion between phases of the agenda. The evolution of these thematic areas is leading to a change in priorities, which is bringing about a better understanding of the areas themselves. This has led to the consideration of other, complementary areas, facilitating more effective advances.

The private sector, especially in the information technology industry in countries such as Colombia, Mexico and several Central American countries, has been signing cooperation agreements to create synergies through initiatives, strategic partnerships and joint activities. These efforts are aimed at encouraging the opening of new markets, designing and executing training and technology transfer programmes, coordinating and supporting events held to disseminate knowledge on software and ICT and promoting experience-sharing among countries.

A higher profile should be given to regional cooperation on education. Education is fundamental not only for growth, equity and democratic governance. In Central America, for example, the lack of education largely explains the fact that the social exclusion of young people now stands at worrisome levels, with high rates of unemployment that have contributed to a decline in security. In some countries of the subregion, membership in “Maras” and other gangs has reached as high as 500 per 100,000 inhabitants.

Education has acquired a special economic and social importance in the rural areas of Central American countries. Education, training and skills development pose a considerable challenge for raising agricultural production and employment and consequently for reducing rural poverty. ECLAC studies show that in rural Mexico, persons who have completed primary school are, on average, 6% less likely to fall into poverty, and in the case of those who have completed their secondary education, the likelihood is nearly 10% lower (Ordaz, 2009). In addition, modern production processes in agricultural activities require educational and training levels and knowledge not found among most of the rural population, especially with the incorporation of biotechnology and practices for selling on international markets according to standards that conform to trade agreements or to biosafety or food safety rules, among others.

In the context of the knowledge economy, innovation and competitiveness cannot be properly fostered without trained human resources, especially in fields in which the region has or might acquire competitive advantages. The linkages between the educational system and the productive system must be strengthened to allow the former to provide the skills needed by the latter. This requires long-term strategies and action plans for education.

It is clear today that regional synergies between education plans and human resource training are being underutilized. Much could be gained from sharing innovative, successful experiences on curricula, management, the adoption of new technologies, teacher training and refresher courses, online classrooms and distance education. The region could also benefit from examining international best practices and the work done by the European Union and the Association of Southeast Asian Nations (ASEAN) in this regard, exploring the possibilities of both cooperation initiatives and services exports.

Proposals for regional cooperation on innovation and competitiveness:

- Establish a regional forum for innovation to foster cooperation and joint action and help the countries of the region to meet the challenges posed by innovation and technological development

- Create a regional cooperation fund for innovation to source financing for the programmes or actions identified at the regional forum or at other forums for cooperation

- Promote the creation and development of regional business foundations for innovation

- Introduce programmes to encourage a larger number of socially excluded young people and women to study in the various fields of learning available in the higher education system

- Prepare an annual report on regional innovation initiatives that will guide relevant regional and national efforts and contribute to the sharing of experiences

- Continue conducting comparative analyses of national information society strategies through the publication of country reviews

- Support the White Book of e-Government Interoperability in Latin America and the Caribbean as a common framework for regional action and discussion on ICT

- Develop regional capacity in effective ICT use in the following areas: (i) e-government; (ii) ICT-related industries (for example, creative and cultural industries and those involved in software production); (iii) high-speed networks; (iv) health; and (v) education.

2. Deepening regional integration through ties with Asia-Pacific

From 2003 to 2007, per capita GDP in Latin America and the Caribbean rose by more than 3% per year, making this the strongest growth period in 40 years. This was largely the result of a favourable external cycle, heavily influenced by high economic growth in China. It is therefore hardly surprising that the region has been strengthening ties with Asia-Pacific and, in particular, with China. Although this was especially true in South America, Costa Rica offers an interesting Central American example of export diversification towards Asia.

China has become a significant trading partner for most of the Latin American economies and is the largest export market for Brazil and Chile and the second largest export market for Argentina, Costa Rica, Cuba and Peru (see table V.4). Strong Chinese demand for food, energy, metals and minerals has benefitted the countries that export these products, improving their terms of trade and spurring their growth.

Table V.4

SELECTED COUNTRIES: CHINA'S POSITION AS A TRADING PARTNER, 2000 AND 2008

	Exports (destination)		Imports (origin)	
	2000	2008	2000	2008
Argentina	6	2	4	3
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	35	4	15	2
Peru	4	2	13	2
Venezuela (Bolivarian Republic of)	37	3	18	3
Costa Rica	26	2	16	3
Mexico	25	5	6	3
Cuba	5	2	5	2
China is an important destination for exports • Among the top 5 for 10 countries • Among the top 2 for 6 countries		China is an increasingly important source of imports for 32 countries: • Among the top 5 for 23 countries • Among the top 2 for 5 countries		

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

Most of region's exports to China come from South America, while the volume of exports from Central America and Mexico is relatively small. For these countries, with the exception of Costa Rica, China remains an untapped market. China's role as a trading partner is greater in terms of Latin America's imports than of its exports, causing an increase in the region's deficit with that country.

For the region overall, the rapid development of China and India has translated into higher demand for commodities exports and also for more sophisticated good and services. The Asian economies will raise global demand for energy, food, metals and minerals, causing an increase in the volume and value of the region's exports. Hence, in comparison with previous decades, commodity prices will be relatively high, although they can be expected to remain volatile. On the other hand, the labour force in these countries will continue to grow and its consumption will diversify as its income increases. This will create various opportunities: from a huge demand for low-cost products to niches of consumption of high-priced specialized goods and services and numerous intermediate situations.

China and India will also exert additional competitive pressure on global markets. The two countries have a workforce with not only abundant low-wage and low-skill workers but also a large number of highly trained scientists and engineers. They will thus become leading actors in global production and in technological innovation. Consequently, these new global players increasingly pose a threat to the competitive advantages of natural resource-intensive manufacturing and industry in Latin America.

The largely sporadic efforts to bring the region and the Asia-Pacific closer to one another have come from a handful of countries. Chile, Mexico, Peru and several Central American economies have reached transpacific trade agreements in recent years. These initiatives point to the determination of some Latin American countries to establish long-term ties with the Asia-Pacific region. There is, however, a need for a more coordinated strategy among countries or groups of countries to create, through various types of public-private partnerships, a link with that region so as to strengthen the connections between trade and investment and between production and technology. The creation of the Latin American Pacific Basin Initiative in 2007 is a preliminary step in this direction.

Unlike Latin America and the Caribbean, Asia-Pacific has traditionally enjoyed de facto integration, stemming from the prosperity of intraregional trade flows driven by increasing investment and production complementarity between the manufacturing sectors of the different countries.[22] This integration has been fostered by measures taken to facilitate trade and investment flows and promote public-private partnerships for business development and by the availability of low-cost labour. In recent years, Asia-Pacific has evolved towards a more advanced stage of integration, one of the components of which is necessarily an institutional framework. ASEAN has become the hub of this process through a series of initiatives to lift restrictions on trade with other Asian countries (see box V.8).

China's relations with Latin America's northern subregion have been dominated by two factors: the subregion's geostrategic position and the issue of the recognition of Taiwan province of China. The geographic position of the countries of the subregion (Central America, Cuba, Dominican Republic, Mexico and Panama) is of both commercial and geopolitical import for China. From the standpoint of trade, the proximity to the United States market gives the subregion a competitive advantage in terms of logistic costs and responsiveness to consumers. This advantage is enhanced by the fact that the countries of Central America as well as the Dominican Republic and Mexico have free trade agreements with the United States, allowing them tariff-free access to this country's market. This encourages Chinese investment for the final assembly of its production operations in the countries of the subregion, from where its products are sent both to the United States market and to Latin America. Mexico and Central America compete to sell products of Chinese origin on the United States market. Mexico is in turn an excellent springboard for the final export of Chinese products as well as an attractive potential market in its own right. Moreover, the expansion of China in Mexico has increased the interest of companies such as FEMSA, Grupo Modelo and Bimbo in investing in China.

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[22] The intraregional trade coefficient among the countries of the Association of Southeast Asian Nations (ASEAN), China, Japan, the Hong Kong Special Administrative Region of the People's Republic of China, the Republic of Korea and Taiwan Province of China rose from 43% at the beginning of the 1990s to 55% in 2006. This coefficient is higher than that of the North American Free Trade Agreement and is quickly approaching the figure for the European Union. Currently, close to 60% of trade in machinery and transport equipment and in parts and components in Asia-Pacific is intraregional. With China as its hub, Asia-Pacific has become a "global factory" of machinery and transportation equipment.

Box V.8

THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS AS THE CENTRE OF RECENT INTEGRATION EFFORTS IN ASIA

On 1 January 2010, the final phase of the free trade agreement between the Association of Southeast Asian Nations (ASEAN) and China began to be implemented, creating the world's third-largest free trade area after the European Union (EU) and the North American Free Trade Agreement (NAFTA). The ASEAN-China Free Trade Agreement (ACFTA) encompasses 1.86 billion people, internal trade worth US$ 192.6 billion, a combined GDP of US$ 6.6 trillion and total trade worth US$ 4.3 trillion. Between them, China and ASEAN attracted 10% of global foreign direct investment (FDI) in 2008, worth US$ 167.3 billion.

The agreement includes trade in goods and services and investment, issues that were negotiated sequentially. As of 1 January, over 90% of the goods traded between China and ASEAN-6 (Singapore, Thailand, Philippines, Brunei, Malaysia and Indonesia) will be tariff-free. The 10% of goods not included have been deemed sensitive and will be liberalized later. The agreement will come into force in 2015 for the ASEAN-4 countries (Laos, Myanmar, Viet Nam and Cambodia).

The importance of this agreement lies in the continuity it provides for the Chinese economic structure in the provision of the inputs required to produce final products for sale in international markets. China has been progressively adding value in its production chains and ASEAN is a good supplier of intermediate inputs, by contrast with raw material suppliers located mainly in Latin America and Africa. At the same time, lower demand for ASEAN goods in the United States and Europe has made China a vital alternative market for ASEAN.

In parallel to the trade agreement between China and ASEAN, the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) has come into force, covering a population of 600 million with a combined GDP of US$ 2.7 trillion.

Unlike the agreement reached with China, AANZFTA was negotiated on a "single undertaking" basis, creating greater quality demands. Tariffs on over 96% of goods traded will gradually fall to zero by 2015 for ASEAN-6 and 2020 for ASEAN-4.

As part of the intra-ASEAN integration process, under the terms of the ASEAN Free Trade Area (AFTA), tariffs on over 99% of goods fell to 0% on 1 January 2010 for ASEAN-6 and will do the same in 2015 for ASEAN-4, with an immediate reduction to 5%.

The ASEAN integration process also includes initiatives in the area of trade facilitation, including simplified customs procedures, the abolition of non-tariff measures, development of a one-stop shop system, improved investment protections, a dispute settlement mechanism, an improved intellectual property protection regime and facilitation of the movement of individuals, including professionals and skilled workers.

While the effort to create an integration process between Latin America and the Caribbean and Asia-Pacific requires an agreement to free up trade, there are areas like those mentioned in the previous paragraph that would tie Latin America and the Caribbean and ASEAN together more rapidly by generating the synergies needed for closer links leading to deeper economic integration.

Sufficient elements seem to exist for the two regions to work together in these areas of trade and investment and maintain and improve the links between them, threatened as they now are by the new regional architecture strategies under discussion in Asia-Pacific, which do not include Latin America and the Caribbean. The production and trade complementarity between China and Japan on the one hand and ASEAN on the other, now reinforced by these free trade agreements, is a serious threat to Latin American and Caribbean economies seeking to enhance their trade links with China, as they compete in a number of areas with the ASEAN economies. This is why it is so important to develop joint strategies to create closer ties and strategic links with ASEAN and large Asian economies such as China and Japan, as efforts undertaken in partnership will be more fruitful than isolated initiatives.

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

The issue of Taiwan province of China is significant, as many of the nations of the subregion continue to recognize the government of this entity, rather than that of the People's Republic of China, as legitimate. Because of this, China has taken a special interest in these nations, which has created room for strategic initiatives that the subregion might implement through partnerships.

Costa Rica established diplomatic ties with the People's Republic of China in mid-2007, spurring stronger relations between the two nations, which, in fact, led to the start of negotiations on a free trade agreement. Costa Rica is thus strengthening its ties with China, mainly those related to information technologies, through Intel and its relationship with Lenovo. Petroleum extraction and refining in Costa Rica is another draw for China. The China National Petroleum Corporation has entered into agreements with Refinadora Costarricense de Petróleo to modernize existing infrastructure. Costa Rica is seeking to strengthen its competitive position in the Chinese market, particularly in tourism and high value added products such as gourmet coffee, fruits, juices, vegetables, shellfish and others.

China is keenly interested in strengthening its ties with Panama, among other reasons because the Panama Canal is crucial for Chinese trade with Atlantic seaboard ports, particularly those in Argentina, the Bolivarian Republic of Venezuela, Brazil and the eastern United States.[23]

The countries of Latin America and the Caribbean should examine the growing integration of production in Asia, centred on China, and strive to join the value chains being established there. To this end, they should encourage Asian investment in Latin America and Latin American investment in Asia and the Pacific, as well as partnerships between local and Asian players with a view to making the most of trade and investment opportunities. It would also be useful for Latin America and the Caribbean to emulate the Asian experience with production integration revolving around regional or subregional value chains.

Asia-Pacific offers multiple possibilities for export and investment agreements in mining, energy, agriculture, infrastructure and science and technology. To make the most of such opportunities, and to do so on a significant scale, will take a concerted partnership-building effort. This will require the Latin American and Caribbean countries to work in a coordinated manner to leverage convergent, transparent, stable policies in order to secure long-term commitments between the two regions. To this end, integration mechanisms in the region should be strengthened with a view to developing a regional focal point for biregional dialogue with China and Asia-Pacific,[24] in order to explore mutually beneficial, longer-range initiatives than those that might emerge from isolated national efforts.[25]

Now is the time to forge strategic linkages with China. China has already formulated a foreign policy towards Latin America and the Caribbean, enshrined in an official document that acknowledges the region's potential for comprehensive cooperation on political and economic affairs, as well as social, cultural, legal and security matters.[26] In the economic sphere, China identifies several areas on which joint

23. A Chinese logistics firm, Hutchison, plays a key role in activities in the Canal Zone, in the ports of Cristóbal, Balboa and Rodman. Another Chinese firm, China Ocean Shipping (COSCO), the second largest maritime transportation company and a major user of the Canal, is playing an important role in modernizing and expanding it. In the financial realm, for example, the only Latin American branch of the Bank of China is located in Panama.

24 The Latin American Pacific Basin Initiative, created in 2007 and consisting of the 11 countries bordering the Pacific Ocean, was formed with this intention.

25 Although several such regional focal points exist today, none has yet acquired the status of acknowledged voice for the regional agenda. Progress in creating such a reference would facilitate dialogue between the region and ASEAN and China.

26 The paper refers to several guiding principles: mutual respect for territorial integrity and sovereignty, non-aggression, noninterference in each other's internal affairs, equality and mutual benefit and peaceful coexistence.

progress could be made, including trade, investment, finance, agriculture, industry, infrastructure, natural resources, energy and tourism.

The time is ripe for the Latin American and Caribbean region to identify priorities in its relations with China and to propose a mutually beneficial strategic partnership. The region should respond promptly to China's policy paper with one of its own, following the requisite technical meetings. The two documents could then be reviewed at a summit of the Heads of State of China and the Latin American and Caribbean countries. In preparation for such a summit, a regional programme of trade and investment initiatives to help strengthen the region's economic and commercial ties with China should be drafted.

Regarding investment, although Latin America and the Caribbean as a region is one of the leading recipients of Chinese foreign investment, most of this investment is concentrated in tax havens[27]. Some —but still too few— Chinese companies are now operating in Latin America, especially in the petroleum, transportation and telecommunications sectors (see table V.5). Therefore, the region should actively seek to attract Chinese investment and, at the same time, venture to invest in China.

Table V.5
MAIN CHINESE COMPANIES OPERATING IN LATIN AMERICA, MID-2008

Sector	**Petroleum and gas**				**Mining**					**Fishing**	**Telecommunications**	**ICT**	**Motorcycles**	**Electronics**
Company	**China National Petroleum Corporation**	**China Petrochemical Corporation**	**China National Offshore Oil Corporation**	**Sinochem Corporation**	**China Minmetals Corporation**	**Shanghai Baosteel Group**	**Sinosteel Corporation**	**Company**	**China National Petroleum Corporation**	**China Petrochemical Corporation**	**China National Offshore Oil Corporation**	**Sinochem Corporation**	**China Minmetals Corporation**	**Shanghai Baosteel Group**
Argentina			X							X	X		X	X
Bolivia (Plurinational State of)					X						X			
Brazil		X	X		X	X	X				X			X
Chile					X						X		X	
Colombia	X	X								X	X		X	
Cuba				X							X			
Ecuador	X	X		X							X			
Mexico	X	X	X								X	X		X
Peru	X		X		X			X	X		X			
Venezuela (Bolivarian Republic of)	X	X	X								X			

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the consulates of China in Latin America and from the Ministry of Commerce of China, *Statistics Bulletin of China's Outward Foreign Direct Investment 2006*.

Admittedly, certain questions have been raised about Chinese FDI in other developing regions, especially in Africa. Increased Chinese investment in Latin America and the Caribbean should be based on mutual benefit and efforts should be made to prevent it from reinforcing the pattern of exports to China —natural resources with little processing— that has hitherto prevailed.

See "China's Policy Paper on Latin America and the Caribbean" [online] http://english.gov.cn/ official/2008-11/05/content_1140347.htm.

27 In late 2006, Chinese non-financial enterprises held US$ 75 billion in foreign investments, of which US$ 17 billion was invested in 2006. The region received US$ 8.5 billion, or 48% of all Chinese foreign investment that year. Most of these funds went to the Cayman Islands and the British Virgin Islands.

Infrastructure development is one of the priority areas for progress. The reactivation of existing projects in Latin America and the Caribbean (Regional Infrastructure Integration in South America —IIRSA— and the Meso-America Project) would help to identify specific short-term initiatives, the related requirements and the benefits for the region. There are also possibilities for cooperation in some areas of natural-resource industries, such as mining and energy, in which massive investments are needed to bring projects on stream.

China's investment potential is underscored by the fact that in 2008 the country held 28.7% of global international reserves. The outlook for Chinese investment in the region was recently enhanced when the country joined the Inter- American Development Bank. The China Development Bank, the most highly capitalized financial entity in the world, is also exploring the possibility of a strategic entry into Latin America and the Caribbean. The Bank has offices in 15 countries in the region and is involved in projects in several of them, and runs joint operations with the Andean Development Corporation, the Latin American Export Bank and the Central American Bank for Economic Integration. The work of the China Development Bank could be strengthened by working meetings with regional institutions to discuss investment priorities and the strategic emphasis of the Latin American and Caribbean Governments as regards infrastructure, logistics, trade facilitation, technological innovation and human resource development.

Regarding the services sector, nearly all of the countries of Latin America and the Caribbean, with very few exceptions, have a tourism industry that is full of potential but underdeveloped. One immediate task would be to develop joint initiatives with China to promote tourism from that country, for example, by taking steps to facilitate travel by Chinese to and within the region, including visa issuance. Other areas suggested by the Chinese authorities are banking, telecommunications, transportation, education and medical services.[28] China possesses vast industrial and technological capacities that could support the development of telecoms infrastructure and thus improve connectivity in the region's most isolated areas.

Lastly, there are also opportunities for trade cooperation. One noteworthy example is the 70 billion yuan (US$ 10.2 billion) currency swap agreement struck between Argentina and China in March 2009, allowing the Argentine Government to pay for Chinese imports in yuan. This arrangement is intended to ensure the smooth flow of payments for trade transactions in the event of an international liquidity squeeze. China has reached similar agreements with several Asian countries, including Indonesia, Malaysia and the Republic of Korea

Latin America and the Caribbean still need to find a viable strategy for forging closer strategic ties with China and for seizing the opportunities emerging in Asia-Pacific. The increasingly strong links between China and the economies of the region, particularly those of South America, reinforce the dilemma for the region's development strategy. Among those countries that export mostly raw materials to China, the current type of linkage weakens incentives to diversify into services and manufactured goods and tends to reinforce incentives for countries to continue to rely on static comparative advantages. For the countries of Central America and Mexico, the situation is perhaps more complex, given that they do not sell commodities to China although they do compete with Chinese products in the United States market, where they sell labour-intensive manufactures, an area in which China and other emerging Asian economies have clear advantages.

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[28] Speech by Ambassador Sun Zhenyu, Permanent Representative of China to the World Trade Organization, at ECLAC (2008d).

China's ascendancy may represent both an opportunity and a significant risk in the medium and long terms. It will be an opportunity to the extent that it induces countries to rethink their strategy to change their production model and to enter the global economy, as well as to introduce more proactive policies for productive development, competitiveness and innovation. This will require significantly strengthening technological capacities in order to compete on the global market on the basis of higher valued added products and knowledge-based goods. A regional or subregional cooperation effort along this line appears to be increasingly urgent.

3. A united voice on reforming the international financial system

Given that the current global financial system has been unable to prevent or mitigate the impacts of changes in the economic cycle, as demonstrated by the most recent crisis, the future financial architecture must be endowed with greater countercyclical and crisis-prevention capacity, including a reform of governance at regional and multilateral institutions.

The proper handling of economic crises requires that liquidity be provided on a global scale and in a countercyclical, inclusive manner. The recent reforms at institutions such as the International Monetary Fund and the World Bank, although limited, are a step in the right direction: an increase in their capitalization level, changes in borrowing conditions (greater flexibility on the use and countercyclical potential of loans) and the development of a multilateral framework to manage countries' problems of overindebtedness.

Crisis prevention requires a suitable oversight and regulatory system, to control, monitor and spread financial-system risk. This entails: (i) strengthening microprudential oversight and regulation and complementing it with a macroprudential approach; (ii) designing provisioning rules in order for the financial system to absorb shocks, rather than magnify them; (iii) strengthening surveillance mechanisms, including through an early warning system; and (iv) promoting enhanced transparency and accountability practices.

Subregional financial cooperation may and must play a significant role by complementing the global financial architecture. Stronger regional institutions would provide additional defence against the effects of a financial crisis and help avoid financial contagion, ensuring stability and the proper functioning of the global financial system. To this end, it is imperative to: (i) strengthen the Latin American Reserve Fund; (ii) consolidate the capital market at the regional and subregional levels; and (iii) strengthen the role of subregional development banks.

There is also a need to thoroughly reform the governance of the institutions that make up the international architecture. Such a reform must take account of the requirements of all countries, especially developing countries, in decision-making and the rule-design. Recent efforts of this type have been limited, and substantial changes have not been made in the way the IMF, the World Bank, the Basel Committee on the Banking Supervision or the Financial Stability Forum are managed. The lack of representation of developing countries at multilateral forums makes these institutions' analyses and recommendations on regulatory policies incomplete, which leads to significant mistakes, as evidenced by the oversight and regulatory failures that were among the leading causes of the current crisis.

The reform of global governance hence requires a collective effort to fill the existing institutional void in the coordination and management of globalization. This collective effort should focus on increasing the coherence and consistency of the monetary, financial and trade systems and ensure that these systems promote the fulfilment of the globally agreed development goals, including on environmental and social sustainability, and the Millennium Development Goals.

The United Nations may play a crucial role in meeting this challenge. As the only organization with universal membership, it is in the best position to ensure the legitimacy and viability of a reform to the system of governance. A first step for a new type of governance is to enhance the role played today by the Economic and Social Council, through the creation of a forum to serve as a coordinating body and as a forum for discussion among the countries on economic, social and environmental issues.

In any event, the region's positions on global financial reform would have greater repercussion if, in addition to being expressed with a single voice, they were built on post-crisis achievements in financial cooperation and the efforts of regional or subregional development banks.

4. Jointly tackling environmental and climate change challenges

In recent years, the environmental sustainability of economic activities, particularly as regards climate change, has become a pivotal issue in international discussions. Various initiatives are under way in this area, both at the multilateral level and within some of the world's largest economies (see chapter I). How these processes play out will have many key implications for the region —for example, the ease of its products' access to industrialized country markets. Although the Latin American and Caribbean region accounts for a modest proportion of all greenhouse gas emissions (11.8% in 2000), its share will probably increase in coming decades owing to economic and demographic growth (ECLAC, 2009b chapter VI and ECLAC, 2009e).

It is crucial that Latin America and the Caribbean quickly reach a comprehensive agreement on climate change. Without a new multilateral agreement that reflects the various economies' contribution to climate change more effectively than the current one does, there is an increased risk that industrialized countries will resort to unilateral trade measures. The risk is not only that such measures would be protectionist but that they would weaken international cooperation efforts that are essential to effectively tackle climate change. Consequently, there is a need to step up efforts to reach a binding agreement in 2010, based on the political agreement recently reached at the Copenhagen conference.

Nevertheless, the negotiations currently underway are complex, as made evident by the events in Copenhagen. The explanations for these disappointing results are to be found in the more stringent requirements that will have to be assumed by developed countries on reductions and on financial and technological transfers; the greater role that some developing countries will be required to play in mitigation efforts; and the difficulty of agreeing on criteria that will make it possible to determine who must contribute to future mitigation efforts and under what circumstances these parties must do so. The Governments of the region need to have better information on costs and opportunities and to quickly prepare and unify their stance on these topics and, ideally, on the environmental goods and services talks taking place in the framework of the Doha Round of the World Trade Organization. If the region fails to do so and arrives late, within a few years it might be required to conform to global standards that fail to take into account its interests, thereby having to face environmental and energy standards that will hamper its ability to better compete. The Governments should also strive to apply the principles upheld in international forums at the national and regional level.

There is also great scope for developing regional cooperation in this area, in terms of information, public policy as well as the private sector. For example, the business community is keenly interested in establishing common technical standards on environmental matters and on the "carbon footprint" or on greenhouse gases emitted in the process of producing and distributing certain products. If each country in the region addresses these issues in isolation, the synergies from collaboration and economies of scale will be lost. The expansion of existing cooperation efforts, on the basis of specific projects and sufficient funding, should encourage universities and technology centres to establish closer ties with the production apparatus and hence develop technologies and processes with a high export potential.[29]

Beyond the realm of international negotiations, a central challenge for the region is to enhance regional cooperation initiatives in order to implement adaptation and mitigation measures, for example, on the incorporation of environmentally friendly processes and products into national and regional development strategies. Various types of cooperation will be required, of which ECLAC (2009b) has identified the following:

- Creation of a climate-change policy observatory to monitor discussions and progress on the topic and the measures taken by business and government, including in the industrialized world, in order to prepare for the opportunities and challenges that arise in connection with adaptation and mitigation, including the handling of extreme events.

- Development of specific studies and methodologies for evaluating the economic impact of climate change in the various sectors and subregions, based on different scenarios, in order to identify adaptation needs, mitigation opportunities as well as the need for international transfers. These studies must address public policy options, such as the fiscal approaches, ecosystem-service and biodiversity management and poverty-reduction strategies.

- Conducting of policy development support programmes, including on an international scale, relating to issues such as: renewable energy production; consumer product energy efficiency and labelling; energy-efficient transportation, industries and buildings; clean production; the standardization of biofuels and methods to evaluate their impact; improvement of standards for competitive export sectors; and incorporation of externalities in assessments of public and private investment projects.

- Fostering and sharing of experiences in the design of projects for the carbon market.

- Cooperation on adapting national finance institutions and facilities to the requirements of projects for mitigating the impact of climate change.

- Coordination of different regional initiatives and approaches in order to increase the region's relative influence over the issue. The challenge consists of building competitive advantages based on a shared regional approach to climate change, establishing proposals and jointly obtaining access to international funds for capacity-building and technology transfer, both for adaptation and mitigation.

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[29] A rapid consensus should be reached on automobiles produced within MERCOSUR, as well as on electrical equipment and the chemical and paper industries (statement by Enrique Mantilla, President of the Chamber of Exporters of Argentina, or EXPORTAR). In addition, international transport of primary sector goods and products appears to be a natural candidate for coordination in this area.

- Agreement on needed carbon market reforms, including the evaluation of mechanisms used to finance adaptation measures

- Coordination of policies for boosting investments in lower-carbon technologies, so as to advance towards a regional consensus on a set of public policies that promote the move towards less carbon-intensive economies.

- The encouragement of cooperation initiatives among business organizations from various countries of the region in order to share sectoral approaches to climate change, as well as warning signs regarding the respective opportunities and challenges that arise in international markets.

VI. CONCLUSIONS

In a globalized economy, the overall competitiveness of the region has a strong bearing on that of its individual countries. An auspicious regional context favours national efforts to promote competitiveness, leverages benefits and allows countries to aim for more ambitious goals. Conversely, a less stimulating environment undermines any domestic policy to promote competitiveness, no matter how large the country.

Beyond certain minor nuances, the recent global crisis has made it clear that the broad trends in the global economy tend to override the specific features of individual countries. Trends in country risk, terms of trade, FDI attraction and even ranges of economic growth are becoming increasingly similar across the region. The overall patterns even appear somewhat insensitive to individual efforts in various areas of public policy, especially in the case of the smaller countries. But this “limitation” could be turned into a strength if joint programmes were developed to invest in infrastructure and trade facilitation and finance regional trade —provided that the pillar of macroeconomic stability is preserved. Such action, which is possible today precisely because of gains in terms of economic stability, would make the region more attractive, open up new trade and investment possibilities, help dispel the negative business climate and send out new signals of regional maturity that would soon be reflected in lower indicators of country risk and higher international competitiveness.

The differences on trade matters should not represent an obstacle to making progress on other, perhaps more pressing, issues. Indeed, joint efforts to strengthen ties with Asia and the Pacific through multinational business and ministerial missions would help to promote project portfolios in infrastructure, energy, banking, tourism and logistics, to the benefit of both regions. In addition, encouraging the creation of regional and subregional value chains would link the internationalization decisions of the leading economic players with the integration process.

Crises are the right time to invest in market intelligence, develop the country brand and build the loyalty of importers. Some of these initiatives could be undertaken on a multi-country level to harness synergies and economies of scale, particularly for positioning in the Asian market.

Another pressing task is to strengthen partnering for innovation and competitiveness. Engaging technology centres in joint business and research activities can create synergies and build a critical mass of human resources despite the limited funding that the region allocates to these issues of the future. Aid-for-trade programmes to modernize customs, ports, infrastructure, logistics, connectivity and ICT interoperability across several countries are another ideal area for regional cooperation. Hence, unilateral alternatives will continue to be second-best choices, because they forgo the possibilities offered by coordinated efforts among countries as well as the advantages of expanded markets and policy convergence.

Measures taken to advance this agenda will give a powerful signal of practical commitment to integration. This, in turn, will enable progress towards unification of markets in the region, by stimulating intraregional trade and investment, improving the region’s international position and addressing social challenges and asymmetries. But headway cannot be made in those areas without a more solid and effective regional institutional framework built up around the subregional integration agreements. This framework must play a key role in protecting the interests of the smaller countries with regard to their larger partners. It should also serve to mediate in any conflicts of interest that might arise among the various member countries. Both of these roles would help to strengthen the credibility of the integration processes.

In this regard, one of the promising areas for regional cooperation would be the construction of a shared vision for medium- and long-term development, starting with the definition of the region's strategic objectives and the improvement of its position in global value chains. The current context —the gradual recovery from the international crisis— would seem a good moment to include this topic on the regional agenda as it would raise the status of the subregional integration processes already under way and encourage novel proposals for boosting regional cooperation.

As noted in this document, views on the contribution that international trade and integration in the global economy make to economic growth and the well-being of the population at large vary across the region. These discrepancies should not, however, prevent progress on other regional cooperation matters that may be more relevant to efforts to overcome the challenges to the region's competitiveness. These strategic issues do not need to be subordinated to progress in the area of trade liberalization. Even without moving ahead on that front, steps could be taken to improve infrastructure, connectivity, social cohesion, innovation and aid for trade in the relatively less developed economies and to frame unified positions for responding to the challenges of climate change and the reform of the international financial system and for drawing up a joint strategy to forge closer ties with China and Asia-Pacific.

Bridging communication gaps and furthering the gradual convergence of the various integration and cooperation schemes under way would certainly help the region advance in that direction. By adopting a realistic approach and acknowledging subregional differences and existing political obstacles, it should be possible to foster areas of convergence which, though varying in shape and size and dependent on good will and a profound commitment to integration, will gradually pave the way towards a representative regional institution that speaks with a single voice to defend and promote the interests of Latin America and the Caribbean.

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