Globalization and the new international trade environment

Osvaldo Rosales V.

The combination of profound technological change and the emergence of powerful competitors such as China and the other BRIC countries has led to dramatic shifts in competitiveness and a tendency for production to be structured around global value chains. Against this background, traditional protectionist threats have reappeared and others have arisen in connection with new security requirements, private-sector quality standards, good practices and climate change. These issues are integral to the new competitive environment but could turn into protectionist barriers in the absence of the right multilateral approach. In view of this and of the current global crisis, the present paper offers some policy proposals oriented towards the adoption of an internationalization strategy in the region’s countries, emphasizing the importance of innovation and on issues that can be addressed from a regional cooperation standpoint.

Osvaldo Rosales V.
Director,
Division of International Trade and Integration
ECLAC
✉️ osvaldo.rosales@cepal.org
Over the past three decades, the international economy has been undergoing a rapid transition characterized by the advance of globalization, intense technological change and the rise of major new competitors such as China, India and the Asia-Pacific region in general. The implications of these three developments are manifold and complex. They include, for example, dramatic changes in the global map of trade and competitive advantage and the emergence of new winners and losers among economic areas, countries, production sectors and firms. The scale of these changes could even lead to some adjustments in the “centre-periphery” view of the world since, at least in its less refined versions, this does not accommodate the growing presence of competitive developing countries that are increasingly making their presence felt in dynamic segments of the global economy and acting as drivers of technological change.

The slowdown in global economic growth observed so far would have been worse had it not been for the dynamism of major emerging markets such as those in the so-called BRIC group comprising Brazil, the Russian Federation, India and China, at least up to the first half of 2008. These countries and emerging economies generally are now accounting for the bulk of world gross domestic product (GDP) growth and a substantial share of international trade. The BRIC countries are also gaining importance in the financial sphere, as they are playing an increasingly important role in sustaining global economic equilibria. Any hint as to what they (and particularly China) might do with their enormous reserves has immediate repercussions on global financial markets. Again, to be sustainable in the long run, any solution to the crisis would have to attribute a greater role to the BRIC countries and emerging economies in the system of international financial governance.

One of the most striking features of globalization is that financial flows are far larger and moving faster than real flows in the economy. This marked disparity, however, distracts attention from the equally spectacular changes taking place in global production and trade, which are critical to growth prospects in the coming years. It is on these changes that this article will focus. The severe repercussions of the current global financial crisis do not invalidate these issues. The greatest damage to Latin America and the Caribbean from this crisis would come if the region were to repeat the mistakes of adjustment policies in the 1980s by unnecessarily undermining growth and employment and, most critically, by sacrificing investment in infrastructure, education and innovation. These costs explain the widening of the gap between the region and the Asia-Pacific economies.

Despite the scale of the changes in the global economy, which have coincided with a strong expansion (2003-2007), the dangers of traditional protectionism —export subsidies and direct domestic support in agriculture, and antidumping arrangements, to name some of the most important— have yet to be avoided, while the uncertainty associated with the new international situation is hindering progress with multilateral trade negotiations and creating scope for the application of new types of protectionist measures. If the global economy contracts in 2009 and 2010, it is not only the Doha Round that will be affected. In the context of an economic slowdown and credit crunch in the industrialized economies, the competitive challenges posed by emerging economies may trigger pressures for renewed forms of protectionism. There are new issues on the global agenda such as trade security, the links between trade, climate change and the environment and some competitiveness-related aspects such as certification of quality or good production practices which, if wrongly handled, could deepen these tendencies, particularly affecting exports of natural resources and natural resource-based manufactures.

The growing importance of innovation and the expectation of a less dynamic international environment highlight the need to apply internationalization policies which focus on increasing the knowledge incorporated into exports and encouraging international alliances, the creation of international trade networks, a greater presence in global value chains, investment abroad, support for small and medium-sized enterprises (SMEs) that emphasizes access to the intangible aspects of the new competitiveness and, in short, a more determined effort to train human resources that is commensurate with the intensity of the technological change we are experiencing.
To address the new global challenges, there is a pressing need to modify the institutional structure and mode of action of the World Trade Organization (WTO). First, though, the Doha Round needs to be completed, not least because there would be less scope for significant WTO reform if it were to fail.

1. The need to complete the Doha Round

Given the seriousness of the international situation resulting from the subprime crisis, there have been suggestions that the Doha Development Round should be postponed until a more propitious time. This would be the worst possible course of action. On the contrary, precisely because the crisis is so severe, negotiations need to be concluded as soon as possible, ensuring that the results are balanced and meet the declared goal of contributing to development. The need to complete the Doha Round becomes more urgent as the outlook for the world economy and trade in 2009 and 2010 deteriorates.

Awaiting better times before resuming the Doha Round negotiations would be particularly ill-advised for at least two reasons. First, because the process has coincided with the most favourable cycle in the world economy for the past 40 years (2003-2007), and yet no significant progress has been made in that period. Second, because the message sent out by suspending negotiations specifically with a view to resuming them only under better economic conditions would worsen the prospects for the world economy yet further by opening the way not only to measures that directly blocked trade but also to others that, under the pretext of supporting the sectors affected by the crisis, would lead to new sectoral disputes that would overload the WTO dispute resolution system without allowing it to make progress with trade negotiations. This would be undesirable for the Organization, distracting it from the agreements process and forcing it to focus on conflicts.

The current international economic crisis, the worst in almost 80 years, poses a serious challenge to recent progress on trade liberalization, particularly because the two driving forces of globalization — trade and capital flows — will be depressed in 2009 and part of 2010. The threat of protectionism is a challenge for the immediate future. In a scenario of simultaneous economic contraction in the United States, the European Union (EU) and Japan, with rising unemployment and tightening credit, the political authorities will find the pressure for subsidies and trade barriers difficult to resist. The debate on the enormous bailout for the United States automobile industry illustrates these dangers. If other trading partners went down the same route, competitiveness would no longer be about quality and low costs but about the budgetary capacity of governments. Sectoral bailouts of this kind could damage international trade, since the entire global manufacturing sector is suffering from a drastic downturn in demand but special financial support programmes favour only certain segments of it. In a context of continuing weakness in global demand, support programmes could give rise to artificial competitive advantages derived exclusively from various forms of fiscal support.

The protectionist danger does not lie only in measures that could infringe WTO commitments. After two decades of unilateral cuts, applied tariffs are well below consolidated ceilings agreed at the WTO. Indeed, countries could double tariffs without violating those commitments, which would lead to an 8% decline in international trade (The Economist, 2008a). This is precisely what it would take for the current crisis to turn into a depression of historic proportions. If we have learnt anything from the depression of the 1930s it is that procyclical policies and protectionism served to make the problem worse and more protracted. The debate seems to have been going the right way so far, as was demonstrated at the Group of Twenty (G-20) meeting held in Washington, D.C. in November 2008. However, if we examine the extent to which the three main commitments have been complied with so far, there is little room for optimism.

1 Up until now, none of the 20 economies has met the commitment to apply a countercyclical fiscal policy and a programme of extra spending equivalent to up to 2% of GDP; the commitment to complete the Doha Round in 2008 failed, while the agreement
2. Reforming the World Trade Organization

The main WTO reforms discussed are the following: (i) dealing with the erosion of basic non-discrimination principles (most-favoured-nation treatment and national treatment) that has resulted from the proliferation of preferential trade pacts and free-trade agreements, (ii) improving special and differential treatment for developing countries, particularly the least developed, (iii) improving coordination between the WTO and multilateral financing agencies so that trade reforms are accompanied by financial assistance to developing countries, (iv) creating institutional mechanisms that allow decisions to be taken more quickly and efficiently and (v) strengthening the ties between the WTO and civil society organizations (WTO, 2004).

(a) Preserving non-discrimination

One of the most striking features of today's international economy is the proliferation of bilateral or plurilateral free-trade agreements whose benefits, by definition, are confined to their signatories. They run counter to the principles of non-discrimination established by virtue of both most-favoured-nation treatment, which obliges WTO members to give similar treatment to all trading partners, and national treatment, which requires them to give these partners the same treatment as local economic actors in certain respects. Agreements of this type have been made possible by article XXIV of the General Agreement on Tariffs and Trade (GATT), which permitted customs unions and free-trade agreements to exist subject to certain conditions. Hitherto, these conditions have been interpreted vaguely and countries have not shown any particular enthusiasm for defining them more precisely to ascertain how far the web of preferential agreements is compatible with GATT (now WTO) requirements.

Because of this proliferation of free-trade agreements, the world is moving towards a situation in which most-favoured-nation treatment, from being the norm two decades ago, is now becoming the exception.

(b) Improving special and differential treatment provisions

Traditional mechanisms have consisted, first, in giving the least-developed developing countries more time to meet their commitments and, second, in allowing a significant range of their products to enter the markets of the main countries or groupings completely or partially tariff-free. The analysis by the group of experts convened by the WTO concluded that these provisions were inadequate and, in some cases, actually counterproductive. It was judged that the Generalized System of Preferences (GSP) applied, for example, by the United States and EU to exports from developing countries is ultimately ineffective for the following reasons: (i) because the benefits are concessionary and not binding, they are unstable and do not provide a basis for long-term investment planning, (ii) preferences are sometimes tied to obligations unrelated to trade, (iii) most benefits tend to go to the provider of the concessions, something that can be deduced from the number of products included and the margins of preference granted, (iv) benefits tend to have a low ceiling, with preferences being altered arbitrarily as the product involved becomes more competitive, and (v) there is a tendency to refrain from imposing new trade barriers for 12 months has already been broken by several of the governments participating in the summit.

The conditions are basically as follows: (i) that the creation of these groupings does not result in more restrictive tariff barriers or trade regulations either between the members of a particular customs union or free-trade area or between them and non-member countries and (ii) that the trade agreements deriving from these customs unions or free-trade areas serve to remove the main obstacles to trade between the signatory countries.

If this comes about, the World Trade Organization will be severely weakened, as the bulk of trade flows will be governed by disciplines that, while similar to those of the WTO, do not come under its authority. Countries signing agreements of this type must notify them to the WTO, but this is a formality and the Organization does not have effective mechanisms for evaluating their internal effects and their repercussions on other partners. From this point of view, the more attractive option could be to start examining the possibility of improving links between the different agreements so that they become building blocks for free trade and not stumbling blocks, i.e., using preferential agreements to move towards the multilateralization of commitments and prevent them from turning into fortresses that block trade with non-members.

3 It has been suggested that this aspect should be incorporated into the Trade Policy Review Mechanism to give the WTO greater powers to evaluate the real contribution of free-trade agreements to the liberalization of trade flows. However, this would mean screening the entire trade agenda, old issues as well as new, as this would be the only way to reduce the incentive to sign agreements of this type. But this is highly unlikely and everything suggests that the trend towards free-trade agreements will continue over the coming years.
for beneficiary countries to become over-reliant on these preferences and slacken their efforts to diversify exports (WTO, 2004).

There is scope, then, to recast the concept of special and differential treatment by linking it more closely to the issues of trade assistance and facilitation and by providing developing countries with the resources they need to improve and expand their infrastructure, their exportable product baskets, their education systems and their worker training, as well as groupings of SMEs and their access to credit and new technology. This requires a closer and more functional relationship between the WTO and multilateral financing agencies such as the World Bank and regional banks so that resources can be made available to buttress trade reforms with the infrastructure, human resources and technology needed to complement them. Trade agreements, discriminatory or not, only generate opportunities for higher demand if the necessary exporting capacity is available. This need to expand and diversify the range of exportable products is even greater in the least-developed developing countries. In the renewal of special and differential treatment, in short, the emphasis should be shifted from export demand to export supply.

(c) Improving the workings of the WTO

Another subject for debate is the decision-making procedure of the World Trade Organization, as decisions are taken by consensus and not by vote. Each of these methods has pros and cons, but what is being discussed now is the need to make mechanisms more responsive and ministerial meetings more efficient, and to strengthen high-level political participation. Consideration has been given to forms of “variable geometry” that would allow commitments to apply only to those who originally supported them, but with room for multilateralization as new partners sign up.

Other concerns include making progress with transparency rules and improving links with civil society organizations by publicizing WTO functions and activities more vigorously and providing training and technical assistance on trade rules to governments, academia, employers’ organizations and the media. The dispute resolution mechanism—one of the Organization’s most highly regarded—is among the few multilateral forums in which the complaints of developing countries have not only been heard, but in many cases have led to changes in the industrialized-country policies they challenged.

The main contribution of the WTO to a stronger world economy consists in a set of trade disciplines ensuring that predictable ground rules are applied and preventing backsliding at times of crisis or economic contraction or slowdown like the present. In the absence of initiatives to restart the Doha Round, greater efforts should be made to identify and publicize the trade implications of the financial crisis by recording the protectionist measures being taken by the Organization’s members, irrespective of whether they comply with current rules. These efforts should also document the amount of resources involved and the costs the measures represent for developing countries. Much the same could be done for the cost of protectionist measures applied by these same countries and their distributive effects, whose main victims are usually lower-income groups. This awareness-raising effort would alert the international community to trade developments and help WTO members appreciate the need to resume the Doha Round negotiations.

4 See WTO (2004) for a more detailed discussion.

5 An overview of WTO disputes can be obtained by consulting the Integrated Database of Trade Disputes for Latin America and the Caribbean (IDATD) prepared by the ECLAC Division of International Trade and Integration [online] http://badicc.eclac.cl or http://www.cepal.org/comercio, both of which contain links to English versions.
The acceleration of technological change and its repercussions for the competitive hierarchy of firms, conglomerates and nations is tending to manifest itself in the appearance of new trade issues affecting competitiveness, although many of them have yet to be addressed in multilateral trade rules.

The rules on trade security brought in unilaterally by certain countries, or recommended by multilateral organizations such as the World Customs Organization (WCO), have created strong pressures for institutional and operational improvements throughout the chain of trade activities. In this context, private-sector rules have been developed whose application is voluntary but which can affect countries’ competitiveness. They include good practices in agriculture, safety certification, the rules of the International Organization for Standardization (ISO) and quality certification. The influence of environmentalist and consumer movements has also grown, particularly in Europe, and this has had indirect consequences for international trade by increasing requirements for the safety and “traceability” of food products in industrialized-country markets. Lastly, mention should be made of the environmental and climatic effects of economic and international trade growth.

The multilateral trading system has by no means kept up with the speed of technological change or with unilateral initiatives backed largely by the new system of business actors from the private sector whose influence on trade issues is often greater than that of industrialized-country governments themselves. This interaction of technological and business developments with new trade issues and institutions is complex, combining requirements arising from technological progress, such as quality certification, and business models based on technological change that set out to limit competition and protect private-sector activities, such as certification requirements associated with specific laboratories and firms.

The boundaries between technological progress, new issues, the creation of new agencies and institutions and protectionism are blurred and can easily be overstepped, particularly if developing countries do not have the technical capacity to distinguish changes inherent in technological change or new modalities of trade (like global value chains), to which they need to adjust, from what are merely novel ways of transacting private-sector business that may hinder competition or encourage protectionism.

1. Security in international trade

Following the attacks of 11 September 2001, security rules gained importance in international relations and began to affect trade regulations owing, in particular, to the need to prevent the global supply chain from being used for terrorist purposes. This led to the creation of the Customs-Trade Partnership Against Terrorism (C-TPAT) in the United States (2002), the Authorized Economic Operator (AEO) programme of the World Customs Organization (2005) and the Partners in Protection programme of Canada, all designed to secure supply channels. The new trade security programmes take in not just products themselves but also the proper handling and traceability of cargo right along the supply chain, on the basis that “the security of a transport chain depends upon its weakest link” (Commission of the European Communities, 2003).

Complying with the new requirements brings new costs; furthermore, they depend on the situation of the firm and the level of certification demanded. These measures may adversely affect small and medium-sized producers, since if they are not able to comply with the requirements of these programmes they risk losing markets as they cease to be competitive relative to firms which do comply, whose goods enter not only more rapidly but with stronger security guarantees. Thus, products no longer compete just

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6 See ECLAC (2008a, chapter III) for a more detailed account of these initiatives.
7 This encompasses, for example, physical security measures at the firm, cargo protection, staff security procedures, staff identification and monitoring systems and electronic communication and database systems.
on quality and price but also on security, a variable whose importance for access to more sophisticated markets could increase further.

2. Private-sector rules on food quality and safety

There is growing concern about food safety and the possibility of accidental contamination. One consequence of the globalization of agrifood chains is that they have started to include production links which operate under different national institutional standards, including the quality of sanitary and phytosanitary regulation, cross-border protection and even the efficiency and honesty of officials. Although food safety has improved greatly in recent decades, progress at the individual country level has been uneven, so that there are still major outbreaks of disease transmitted by foods which have been contaminated with micro-organisms, chemicals or toxins. Thus, the cross-border trade in contaminated foods may be contributing to the spread of such outbreaks (WHO, 2007).

Voluntary quality standards have increased both in quantity and in strictness, with a view to ensuring product safety and corporate commitment to protection of the environment and employment rights, among other things. Several public and private institutions that oversee safety and sustainability are promoting concepts and programmes of good practice in agriculture and manufacturing, together with different actors in the agrifood chain.8

In addition, in recent years multiple organizations have emerged to promote the concept of “fair trade” and private certification, i.e., the granting of labels guaranteeing that a particular product has been produced in accordance with their standards. There are currently 20 certified fair trade initiatives, most of them in Europe and North America, whose objective is to regulate the use of product certification labelling.9

To participate in global value chains, it is of course necessary to meet international quality standards. Complying with the relevant voluntary private standards can facilitate access to the more profitable segments of these chains. Sometimes, however, the concept of “fair trade” may turn into protectionism, particularly when the aim is to impose specific business practices from industrialized economies, even though they may be no better than those in developing countries. Another unfair trading practice, which is not emphasized enough, is the agricultural protectionism in industrialized economies. In other cases, quality certification itself can become an attractive business and relax its original focus on upholding quality standards throughout the value chain. The proliferation of private standards and the growing market demand for them, particularly in the food sector, is forcing exporters to turn to a quality certification market that is lacking in transparency, has considerable barriers to entry and suffers from certain conflicts of interest between these agencies and the leading producers in the central economies. This being so, it is worrisome that what were originally private, voluntary standards originating in major global consortia are tending to become predominant in international markets, whether because of gradual de facto multilateralization, their great influence in key markets or the oligopolistic nature of certification agencies.

In some cases, governments wholly or partly adopt private-sector quality requirements and pursue standardization, which means that, in practice, these requirements can become compulsory. In this way, the agricultural sector, and exporters in particular, are forced to adapt to many requirements of both a public and a private character (Salles de Almeida, 2008).10

3. The trade effects of private standards

The adoption of private standards (in addition to compulsory official norms) is both a challenge and an opportunity for the region’s countries, as compliance with these may become a de facto prerequisite for exporting agricultural products to markets that are more environmentally aware and increasingly demanding about quality. Even though compliance with rules may create greater opportunities to access stringent

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8 “Good agricultural practices” are the measures applied in the production, processing and transportation of agricultural products to ensure product safety and protection for the environment and workers.

9 These initiatives are members of Fairtrade Labelling Organizations International (FLO), an association that provides direct support to certified producers by defining the parameters of what is deemed “fair trade”. Working on the basis of ISO standards for certification bodies, FLO inspects and certifies some 500 producers’ organizations in over 50 countries of Africa, Asia and Latin America.

10 Among the most important are ISO rules on organic production, safety, good practice, denomination of origin and geographical descriptions.
markets, they may also act as trade barriers because of the costs they represent, especially for developing-country suppliers. They could also be protectionist if their requirements exceed those established in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). By and large, agricultural exporters in developing countries are uncomfortable with the proliferation of private standards. In this area, the WTO distinguishes between concerns about content and concerns about compliance (see table 1).

The main concerns raised at the WTO relate to the relationship between private-sector organizations and international standards organizations (private standards are generally stricter than international ones), certain unnecessary trade restrictions imposed by private-sector norms (especially for small farmers), the measures governments could adopt to ensure that private-sector organizations comply with the SPS Agreement, and their relationship with other areas of WTO work, such as technical barriers to trade. Another concern is the lack of transparency of private standards, as they are not notified to the WTO.

With regard to good agricultural practices, developing countries face three major challenges: (i) ensuring that the interests of small producers are considered in standards relating to both product safety and the sustainability of domestic production, since excessively strict requirements could drive out small producers, (ii) ensuring that producers are not overloaded with practices and norms which, while not legally binding, in practice condition market access, and (iii) monitoring their effects on production, certification and marketing costs, particularly for smaller producers.

4. The implications of climate change for the trading system

Climate change will be one of the main challenges facing the international community over the coming years. The trading system is a source of tension, given potential conflicts between climate change and the basic principles of international trade: non-discrimination, removal of quantitative restrictions, and non-arbitrary discrimination. Governments have begun to draw up specific legislation to comply with international obligations in this area, particularly those deriving from the Kyoto Protocol. If this legislation fails to take basic WTO principles into account, members will probably try to settle their differences through the dispute settlement mechanism, which will increase the cost of cooperation and intensify opposition to the workings of the multilateral system based on WTO rules (Hufbauer, 2008).

Different initiatives have arisen in the developed countries to deal with the link between climate change and trade by implementing “offsetting border measures” (Brewer, 2007). In 2007 and 2008, different legislative proposals were discussed in the European Union and the United States to address these issues. The initiatives range from the possible application of tariff surcharges varying by the contribution of each product’s entire supply chain to the “greenhouse effect” (or its equivalent, the requirement to purchase international emissions permits) to new areas for “green”

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<td><strong>Concerns about the application of private sanitary and phytosanitary standards</strong></td>
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<td><strong>Content-related</strong></td>
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<td>Multiplication of private standards systems within and between markets.</td>
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<td>Unclear boundary between official and private sanitary and phytosanitary standards.</td>
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<td>Relationship between private systems and the international standardization institutions mentioned in the Agreement on the Application of Sanitary and Phytosanitary Measures.</td>
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<td>Scientific justification for certain prescriptions relating to production processes and methods.</td>
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subsides, trade defence mechanisms (safeguards and antidumping) or even a “level playing field” for emissions requirements. If they lead to measures to keep local industries competitive with imports, these proposals could severely affect international trade.11

A review of the initiatives mentioned reveals an interesting paradox. The proposals of the United States, a country that has not signed up to the Kyoto Protocol, are not only unilateral but tend to be considerably stricter than those of the European Union, which focus mainly on environmental subsidies and adaptation of the WTO regulatory framework to the challenges of climate change. If the region is not adequately prepared for this debate and any negotiations that ensue, it could find once again that it has arrived too late and that after a few years it is having to adjust to global standards that take no account of its interests, involving energy and environmental standards that may constrain its competitiveness.

5. A space for regional cooperation

The international agenda requires greater cooperation between countries in Latin America and the Caribbean to improve their position in the global economy. This not only means agreeing on regional mechanisms to mitigate the effects of the international financial crisis, but also requires them to address the challenges of competitiveness and innovation, which will certainly have a greater medium- and long-term impact on the living conditions of most people in Latin America and the Caribbean (ECLAC, 2008b).

The issues considered above, namely security, best practices, private quality standards and climate change may be diverted into protectionist channels. This is why Latin America and the Caribbean should address these aspects in regional forums and take steps to increase technical and institutional preparedness so that countries can adopt common positions on matters of growing importance to international trade.

Trade security is a good area in which to coordinate the region’s trade facilitation and assistance efforts by establishing synergies between governments and employers’ organizations in the region and by sharing information both on outside markets and on the steps being taken in each country, so that positions can be coordinated. For example, mutual recognition agreements with leading trade partners could be approached in a more coordinated fashion, since if the region succeeded in reaching common standards and finalizing a set of internal agreements on the matter it could improve its negotiating position vis-à-vis its main partners while at the same time boosting intraregional trade.

The region’s governments could also share information on the main restrictions facing their products in industrialized markets owing to the application of private standards that ultimately affect competitiveness. This could facilitate joint negotiations with governments or private-sector groupings in those countries or to subregional trade facilitation projects making it possible to adapt to the main trends in the international scene.

In this context, regional integration is urgently needed. In addition to the traditional arguments for it, the requirements imposed by the current phase of globalization have created new needs for strategic international partnerships in the fields of production planning, logistics, marketing, innovation and technology. The standards of competitiveness and technological innovation are rising, while the rapid development of China, India and other Asian countries is radically redrawing the global trade map both for goods and services and for capital and comparative advantage. Larger markets, legal certainty, compatible standards and connectivity are now indispensable for growth with equity. In short, convergence between integration schemes is crucial to a renewed open regionalism in Latin America and the Caribbean (ECLAC, 1992, 1994, 2006a, 2006b and 2008a).

11 See ECLAC (2008a, chapter III) for a review of these proposals.
One of the most striking features of the global economy in the first decade of the twenty-first century is the consolidated presence of a number of developing economies among the leading players on the international stage. The most interesting phenomenon has undoubtedly been the emergence of China as a global actor and of Asia as the continent that has attained the highest growth rate in human history. The situation is best described by Larry Summers in the introduction to Mahbubani’s excellent book charting the shift of power towards Asia.12

1. The importance of China in the global economy

The economic expansion of China has been spectacular: in 1980-2008 the country grew at an average annual rate of 9.9%, much higher than the 2.8% achieved by Latin America and the Caribbean. In consequence, China ranks second behind the United States in total GDP measured at purchasing power parity and third behind the United States and Japan in nominal dollar terms. Every important international indicator captures the growing presence of China in global aggregates. This has created a new configuration in which the production chains of the Asia-Pacific region are organized around China. The country is actively strengthening its trade links with Africa and Latin America and the Caribbean. The Asian economies hold 60% of the world’s international reserves and 53% of United States Treasury securities, and their large current-account surpluses contribute to the stability of the global economy. They are at the heart of a prospering South-South trading system that accounts for 41% of all developing-country trade (ECLAC, 2008c).

Changes in global export rankings reveal the extraordinary competitive leap made by China, which rose from eleventh place in 1995 to second in 2007 (and first in 2008, according to unconfirmed figures). Exports of manufactures and services rose at similar rates (see table 2).

The emergence of China as a global player has been boosted by its ability to forge alliances with other emerging economies in the areas both of trade (the G-20 group of agricultural developing countries organized by Brazil at the Doha Round) and of finance (it has been invited to the other G-20, which should create the template for reform of the international financial system). All this was made more widely known by a Goldman Sachs (2003) study that introduced the concept of the BRIC countries.13

TABLE 2

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<th>Selected countries: changes in global export rankings</th>
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<td>(Positions in the ranking)</td>
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<td></td>
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<tr>
<td>Goods and services</td>
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<tr>
<td>United States</td>
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<td>China</td>
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<td>Germany</td>
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<td>Japan</td>
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Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official World Trade Organization (WTO) figures.

12 The Industrial Revolution was so called because, for the first time in human history, living standards improved fast enough for the change – amounting perhaps to 50% – to be observable in the span of a single lifetime. At current growth rates, Asian living standards could rise 100-fold, or 10,000%, in a lifetime. The emergence of Asia and everything that is coming will feature prominently in the history books written in 300 years’ time, pushing the cold war and the rise of Islam into the background (Mahbubani, 2008, p. 10).

13 These countries account for 43% of the global population, 27% of global GDP, 11% of world goods and services exports and 16% of global foreign direct investment flows (Fitzgerald, 2007).
The remarkable expansion of China is well known, but what is interesting about the study is the information it provides on developments in the other BRICS, forecasting not only that by 2043 the GDP of China would surpass that of the United States, but also that by 2040 the countries of the European Union would have dropped out of the group of the world’s leading industrialized economies (G-8), being displaced by China, India and Brazil (see table 3).

Table 3

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<th>2000</th>
<th>2020</th>
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<td>1 U. States</td>
<td>U. States</td>
<td>U. States</td>
<td>U. States</td>
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<tr>
<td>2 Japan</td>
<td>China</td>
<td>China</td>
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<tr>
<td>3 Germany</td>
<td>Japan</td>
<td>Japan</td>
<td>India</td>
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<td>4 U. Kingdom</td>
<td>Germany</td>
<td>India</td>
<td>Japan</td>
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<tr>
<td>6 Italy</td>
<td>India</td>
<td>Germany</td>
<td>Brazil</td>
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Over 40% of the strong expansion of the global economy in the 2003-2007 cycle was due to growth in the BRICS, a figure that could rise to 70% in 2009 given the recession in the central economies. Indeed, it was due to the dynamism of the emerging economies —of which the BRICS are leading members— that the world economy was not in recession in 2008. The BRIC economies were responsible for the greatest investment boom in history,14 and thus for the rise in energy and commodity prices experienced up to September 2008, before Lehman Brothers went bankrupt and the subprime crisis unfolded into a global financial crisis.

The export presence of the BRICs rose from 7% of global goods exports and 3% of services exports a decade ago to 13% and 8%, respectively, in 2006 (see figures 1 and 2). In 2007, the BRIC countries held 38% of all international reserves (see figure 3), while China (21.3%), the Russian Federation, Saudi Arabia, Kuwait, the United Arab Emirates and Singapore generated almost 40% of global savings (see figure 4), half of which were used to finance dissaving in the United States. These figures indicate not only the scale of the issues that need to be addressed when reforming the international financial system but also the fact that, to be sustainable in the long run, any solution will have to give a greater say on global financial governance to the BRICs and emerging economies (Rosales, 2008).

2. The BRICs and the centre-periphery concept in the early twenty-first century

According to this widely accepted concept, the global economy is made up of two great groupings that interact with each other: the centre and the periphery. Their production structures are dissimilar, being heterogeneous and specialized in the periphery and homogeneous and diversified in the centre. These differences determine the nature of trade and technology transfers in the global economy. In the long run, the argument goes, the economic evolution of each system causes the periphery to fall further behind in terms of production and technology, while its terms of trade deteriorate (Rodriguez, 1980).15

However compelling this may be as a holistic interpretation, it is clear that the “centre-periphery” concept does not capture the realities of international trade today. For one thing, the experience of China and a number of Asian economies has shown that convergence with the income levels of the central economies, while slow, is possible. However, it could be argued that this convergence has been possible precisely because these economies challenged the primary-export pattern, venturing into the export of manufactures and

14 In the last three years, about half the world’s infrastructure investment is estimated to have taken place in emerging economies, which have allocated 6% of GDP to investments in roads, electricity, railways and telecommunications. This rate of investment relative to output is more than double that of the industrialized nations. It is calculated that, in real terms, China has invested more in five years than it did in the whole of the twentieth century (The Economist, 2008b).

15 The argument is that the large capital goods-producing sectors in the central countries give them access to technological progress, and the advantages of this spread throughout their economies thanks to their more integrated societies and more powerful unions. In the periphery, on the other hand, new technologies are basically imported because capital goods production is marginal if not non-existent and is confined to the export sector, which in turn is restricted to the primary sector. Thus, excess labour keeps wages low, preventing the periphery from retaining the fruits of its limited technical progress. In this way, higher productivity in the primary-export sector ends up being transferred to the centre because of the worsening terms of trade.
FIGURE 1

**BRIC countries: share of world goods exports**

(Percentages)

Source: Commodity Trade Database (COMTRADE).

FIGURE 2

**BRIC countries: share of world services exports**

(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organisation for Economic Co-operation and Development (OECD).
FIGURE 3

**BRIC countries: international reserves**

*Percentages of the world total*

![Graph showing BRIC countries' international reserves from 1993 to 2007.](image)

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

FIGURE 4

**Structure of global saving, 2007**

*Percentages of the total*

- **EXPORTERS OF CAPITAL (SAVING)**
  - China: 21.3%
  - Germany: 14.5%
  - Japan: 12.1%
  - Saudi Arabia: 5.5%
  - Russian Federation: 4.4%
  - Kuwait: 2.8%
  - Singapore: 2.2%
  - U. Arab Emirates: 2.2%

- **IMPORTERS OF CAPITAL (DISSAVING)**
  - United States: 49.2%
  - Italy: 8.0%
  - Spain: 9.8%
  - United K.: 7.0%
  - Australia: 3.8%
  - China: 3.5%

*Source:* International Monetary Fund (IMF), World Economic Outlook Database, October 2008.

*Measured by the countries’ balance-of-payments current-account balance.*
gradually increasing their technology content. Indeed, the “peripheral” economies have shown themselves able to draw closer to the technology frontier in a variety of areas as they have come to play an important role in the global economy as exporters of manufactures, services or particular technologies.

If the above argument is accepted, then a first step would be to incorporate into the analysis the fact that there are two subgroups in the periphery, a traditional one and an innovative one, capable of competing successfully in the global arena of the knowledge economy. The next thing would be to consider what forms the links between the two periphery subgroups might take, i.e., whether it is possible that intra-periphery relations might also be marginalizing for economies on the periphery that have not yet migrated away from natural resource exports. This theoretical concern is of great importance at a time when economic and trade ties between China and Latin America are intensifying (Rosales and Kuwayama, 2007), when South-South trade has become the engine of the global economy and when the growth prospects of the Chinese economy are increasingly important for many Latin American economies.16

V
Towards an internationalization strategy

The global economic context at the end of the first decade of the twenty-first century is characterized by rapid technological change, the emergence of aggressive new global competitors and the marked changes in competitiveness and protectionist threats that have ensued. The sectors most reliant on natural resources or low-skilled labour will be increasingly exposed to traditional and renewed forms of protectionism, and this will have a significant effect on production and external trade activities. The countries that are quickest to grasp this situation and apply the right policies to adapt will be better placed to participate successfully in the international economy.17

1. The global context

Over the coming years, we shall see an acceleration of scientific innovation and technological change, driven by progress in computing, information and communication technologies, biotechnology, nanotechnologies and neurosciences or cognitive sciences (Kelly, 2005). The conjunction of increased computer processing capacity, faster and more efficient broadband, the development of satellite technologies and the Global Positioning System (GPS), wireless technologies, better heat, torsion, vibration and tension sensors in the field of robotics, new materials and brain sciences has actually led to the emergence of new fields of knowledge.18 These changes are radical enough in themselves, but the greatest novelty is the increasing speed with which the new knowledge is being applied to production and exports, shortening product and corporate strategy cycles.

This technological convergence will be more profound than the digital convergence we have experienced over the past 25 years, radically altering the outlook for civilization and, of course, considerably affecting production and international trade. The explosiveness of this conjunction of technological innovations is well captured by the expression “technological big bang.”19

A review of the effects of this innovation synergy on the production structure shows, naturally enough, the importance of innovation as the hub of policies to improve productivity. In the sphere of production, leading innovations include process digitalization,

16 See ECLAC (2008c) for a full account of economic and trade relations between Latin America and China (an electronic version is available at www.cepal.org/comercio).

17 As the Prime Minister of Singapore put it: “As a small country with no natural resources, Singapore has long known that we have no choice but to make the mastery of knowledge our competitive advantage” (Lee, 2008).

18 They include biocomputing (application of biological principles and processes to the development of new technologies such as biological computer programs and DNA computing), proteomics (study of how proteins can be combined to cure diseases) and biomimicry (technologies that replicate biological activity) (Kelly, 2005).

19 The word bang is an acronym for bits (information technologies), atoms (nanotechnologies), neurones (cognitive sciences) and genes (biotechnologies).
barcodes, outsourcing, insourcing, offshoring, online connection, the sharing of information with suppliers and distributors and online innovation, processes that in turn require a permanent connection or connectivity infrastructure, the organization of global networks and rapid and appropriate responses (Friedman, 2005). The processes described affect not only production but also the fields of goods logistics, transport, security and traceability and thence international trade.

Technological change has combined with the liberalization of financial flows and the gradual opening up of markets to trade and investment to speed up the dynamic of innovation, the convergence of international standards and corporate strategies and the tendency for production to be organized around global value chains (OECD, 2005 and 2008). The latter have resulted in the geographical fragmentation of production processes, made possible by the growing digitalization of many activities, greater internationalization and commercialization of services and the reduction of transport and logistics costs. This has also stimulated specialization, innovation in selected activities and the creation of new firms and capabilities. The internationalization of services and the explosive growth of service-sector outsourcing have helped create a global supply of skilled activities in the fields of design, consultancy and the manufacture of specific inputs. This has made possible the emergence of new firms that are internationally competitive in the provision of strategic services and obviates the need to invest heavily in global infrastructure to penetrate global markets, or in the learning of complex business techniques (Hamel, 2007).

Global value chains encompass everything from research and development to product recycling, taking in production, support services, distribution, marketing, finance and after-sales services along the way. The objective of these chains is to increase the knowledge content at every stage, since this determines the value per unit produced. Consequently, the current debate on competitiveness is giving greater importance to the “intangible” aspects that contribute most to the knowledge-intensity of each segment of the global value chain, namely quality, timeliness, connectivity, patentability and trademark registration, traceability, safety, environmental conservation and energy efficiency. All these attributes are what provide the basis for product differentiation and thence access to the most lucrative sectors of demand and a more functional link with trends in technological change and international demand.

2. Some policy orientations

It is suggested here that the objectives of policies to improve the position of the Latin America and Caribbean countries in the international economy cannot be measured solely by the level of exports as a share of GDP. Attention also needs to be paid to their composition (and particularly their knowledge content), the way they are integrated with the rest of the production system and their contribution to the progressive homogenization of productivity levels in the economy. The opportunity now exists to reverse the region’s well-known “structural heterogeneity”, always provided that public policies set out decisively to use access to new technologies to narrow the productivity gaps between firms and sectors. Without substantive efforts in this direction, the level of technological heterogeneity will tend to increase, making it less and less viable to reconcile growth with progress on equity. Furthermore, policies to improve the international position of the region’s economies need to give more room to measures favouring the internationalization of firms and their contacts, since this is where the opportunities for higher growth and better access to innovation sources lie.

(a) From trade liberalization and export orientation to internationalization strategies

International trade and investment policies have evolved from market opening in the 1980s to an export-oriented approach. However, the emergence of global value chains and the growing importance of innovation in production and foreign trade activities now require a further step: the application of policies oriented explicitly towards internationalization, including training of skilled human resources, efforts to stimulate production clusters, innovation programmes and measures to attract foreign direct investment (FDI), which brings technology and know-how to specific sectors or activities. Only then will it be possible to capture significant shares of the major international markets and keep up the pace of innovation needed to preserve the competitive positions that have been won.

Internationalization strategies need to favour the creation of international partnerships and networks in different areas so that local production activities which participate in global value chains can move up the hierarchy to the most profitable links via a range of investments that raise their knowledge content. This means, for example, strengthening the links between goods and services trade and investment,
placing innovation at the heart of competitiveness policies and using public-private alliances to stimulate it. These would improve the prospects of progress with the adoption of production methods that serve to strengthen the linkages between primary, manufacturing and service activities, diversify the production and export base and increase the direct or indirect presence of SMEs in that export dynamic, always with an eye to a more balanced distribution of productivity growth.

(b) From participation in international trade to participation in global value chains

While the earlier goal of internationally oriented economic policies might have been to boost trade, the importance of technological innovation now means there is a need to stimulate the introduction of new technologies and participation in global value chains. This means, for example, that trade policy (centring in this first decade of the twenty-first century on trade negotiations and the signing of free-trade agreements) should now be oriented towards administering these agreements from a strategic perspective. To this end, they should be treated as a form of alliance with major partners in the spheres of investment and technological progress, facilitating the creation of joint programmes in the areas concerned and the possibility of making joint investments in neighbouring markets. The idea is to use trade agreements as a platform for attracting FDI into technology-intensive sectors and, at the same time, for increasing the presence of the country’s firms in international innovation networks, technology businesses and global value chains. In summary, trade policy needs to be a tool at the service of the strategy of international participation in innovation networks and technology businesses.

(i) From research and development to a flow of innovation, investment and marketing (from R&D to I&I&M). This means that instead of the traditional concept of research and development (R&D), what needs to be adopted is an approach based on a continuous flow of innovation, investment and marketing (I&I&M), i.e., of knowledge that quickly feeds through to investment and production and is introduced into the international market via new products, processes or strategies.²⁰ This means taking a more proactive approach to trademarks and patents by encouraging economic actors to obtain and export patents and, through them, knowledge. The incentive structure ought to reflect this orientation, so that the scientific community perceives that a patent brings greater rewards than an academic study. Furthermore, a closer relationship between firms, universities and technology centres would make it possible to develop the idea of a “technology business” benefiting all participants in the alliance, as compared with the current concept of the “research project” financed out of public funds and tied only somewhat tenuously—if at all—to the realm of production.

(ii) Prioritizing innovation and putting it on the business agenda. Innovation has become the cornerstone of successful international strategies. It is a broader concept than that of traditional research and development. It includes everything from technology copying and adaptation to product and process research, new business models and marketing, finance and logistics activities leading to the creation of new realizable value—ideally in the international market—via different forms of brand differentiation, i.e., the “decommodification” of products or services.

In the region’s case, priority should be given to innovation in natural resource processing firms, without neglecting new industries, particularly those related to biotechnology and information and communication technologies. There is no “Chinese wall” between activities of this type. On the contrary, biotechnology is the basis of the new knowledge, accounts for much of the value added to natural resources and makes it possible to commercialize new products in the agribusiness, forestry, aquaculture and mining sectors.

Again, the subject of innovation should be higher up the business agenda. To achieve this, there should be public policies to support SME organizations (e.g., by financing hours of work by professionals specializing in the topic) with a view to encouraging collaboration by SMEs on different innovation measures. It would also be helpful for the leading employers’ organizations to appoint innovation, investment and marketing representatives and develop work programmes and schemes to connect their members to technology centres and universities in the country and abroad. A wide range of grants, reports, placements and research projects are needed to strengthen relationships between academia and the sphere of production and foreign trade.

(iii) Strengthening the links between goods, services and investments. As they have been increasingly

²⁰ I am indebted for the term I&I&M to Ángel Flisfisch, a former Chilean ambassador to Singapore, who used it in some notes to the Office of International Economic Affairs of the Ministry of Foreign Affairs in 2002 or thereabouts.
incorporated into value chains, services have become the main component of product value added. This is particularly true of consultancy, advertising and marketing, legal assistance, accounting and finance, information and communication technologies and quality engineering and control services, among others. Owing to the spread of the new technologies, competitive advantages now tend to be expressed in “international value networks”. At the top of these chains are “knowledge”-intensive aspects such as trademarks, patents, quality and copyright, while further down are activities that are more natural resource-intensive, involve less processing and employ less skilled labour. Widespread access to modern services for firms, particularly SMEs, is a crucial driver of productivity.

It is not realistic, therefore, to separate the competitiveness of goods from the availability on demand of competitively-priced services of international quality or access to modern product, process or management technologies, which are usually incorporated into foreign direct investment. Public policies should facilitate access to these services at something close to international cost and quality standards, while promoting exports of business services in which the country has or can acquire competitive advantages (engineering, architecture, consulting, construction, communications, design, audio-visual techniques, health care, etc.).

(iv) Making investment abroad a public policy goal. Investments abroad follow firms’ own internationalization cycle, once they have ventured into international markets with some degree of success. Successful goods and services exporters quickly find that the returns on the different elements in the value chain associated with a particular product (production, logistics, transport, distribution, marketing) vary with the knowledge-intensity of each segment in that chain. Consequently, the next step in the natural evolution of export activities, particularly natural resource-intensive ones, is to build up a direct or indirect presence in value chains through alliances with importers and distributors in destination markets. For example, the consolidation of Brazilian manufacturing exports in the region has led to considerable growth in exports of Brazilian services to different external markets in the wake of domestic customers. This has been found to be the case with financial, legal and construction services, among others (CNI, 2007).

The purpose of investing abroad, then, is to establish a greater presence in the global value networks associated with the main export products concerned. Since the region is still basically an exporter of natural resources, this means following the backward and forward linkages of the natural resource being exported and developing competitive advantages in the fields of engineering, biotechnology and related business services. This will allow exporters to participate in other new business networks, to pick up on technological and corporate innovation in the main markets and, lastly, to provide a corporate learning platform from which to launch more ambitious global operations. Thus, for example, the entry of developing-country suppliers, distributors and processing firms into global value chains depends not only on the strategy of transnational enterprises but also on the proactive internationalization policies applied by the former. The experience of the “trans-Latins” would repay study in this respect, both to modernize public-sector support policies for international trade and investment and to evaluate regional integration efforts. It would be desirable for integration mechanisms to be compatible with the experience of the trans-Latins and other successful cases of business development.

(v) Making human resources training the cornerstone of changing production patterns. Attaining competitiveness in sectors producing something more than a natural resource with a low level of processing requires the formation of a critical mass of skilled human resources which, in conjunction with natural comparative advantages and certain minimum facilities in terms of infrastructure and connectivity, can attract local and foreign talent to participate in projects of global interest. While it is true that the countries of Latin America and the Caribbean are not in a position to form that critical mass for most products, they can do it for some. This would involve, for example, promoting the development of local suppliers of specialized inputs, parts and services (design, quality control, logistics, distribution) in segments of the value chain associated with the natural resource being exported. This would require the application

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21 There are several interesting examples of service exports of this type in the region. See, for example, ECLAC (2007).

22 If there is one major integration goal that has not been achieved it is precisely that of building regional production chains to help firms compete in international markets.
of public policies to ensure that domestic producers are able to comply with the relevant international standards. On this basis, it is possible to train skilled human resources in fields where the country has or can acquire competitive advantages, supplementing them with specific central or regional government support in education and training activities, as well as infrastructure and logistics. This approach has proved its worth in several Latin American countries, enabling them to attract foreign direct investment into technology-intensive sectors and acquire a presence in exports of high-quality products and services (information technology and pharmaceuticals in the case of Costa Rica, biotechnology and information technology in Argentina and information technology and logistics in Uruguay).

This means not only considering the creation of massive programmes of doctoral study grants, which form part of the right strategy, but also a reform of secondary and university education, special programmes to develop talent, national educational support programmes in mathematics, English and basic science and public initiatives reflecting governments’ strong commitment to improving education quality.23

(vi) Prioritizing the intangible aspects of competitiveness. Production development and export promotion policies designed to improve SME competitiveness ought to give priority to improving their technological and managerial capabilities, staff training, compliance with international quality standards, collaboration with one another and presence in global value networks. This last item includes the possibility of treating firms of this type as indirect exporters in local value chains associated with goods and services exports.

(vii) Enhancing inter-agency coordination and the integrated policy approach. Progress with this orientation requires greater coordination between the different public institutions associated with internationalization support policies, i.e., between the agencies responsible for export promotion and diversification, inward FDI, technological innovation and dissemination, production and business development and human resources training, including secondary and university education.

While there is always some degree of coordination between government agencies, what is meant here is the need for them to operate on the basis of shared planning encapsulating the different territorial interests and with well-defined responsibilities for financing, coordination and performance. This is what we find in countries that have successfully conquered a place for themselves in the international economy, invariably with a strong commitment from the main political authorities.

(viii) From public policies to public-private alliances. Last but not least, the policy criteria suggested require a public-private alliance as a vital institutional framework for progress with the work of innovation, competitiveness and internationalization. It is an alliance of this type that can provide the basis for a vision for the country over the next 10 or 20 years, its strengths and weaknesses and the tasks to be performed by government and by private, employers’ and labour organizations, respectively, if they are to jointly address the challenges of innovation and competitiveness. Such a shared diagnosis of the future, with a medium-term outlook transcending political cycles, makes it easier to determine the commitments, programmes and financing needs that will have to be met by public and private actors and to develop an integrated policy approach that makes inter-agency coordination a vital force rather than a mere formality.

(Original: Spanish)

23 A few years ago, the decision was taken in Malaysia to teach mathematics and basic science in English, the thinking being that this would be an educational asset in the global knowledge society (Lee, 2008).

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