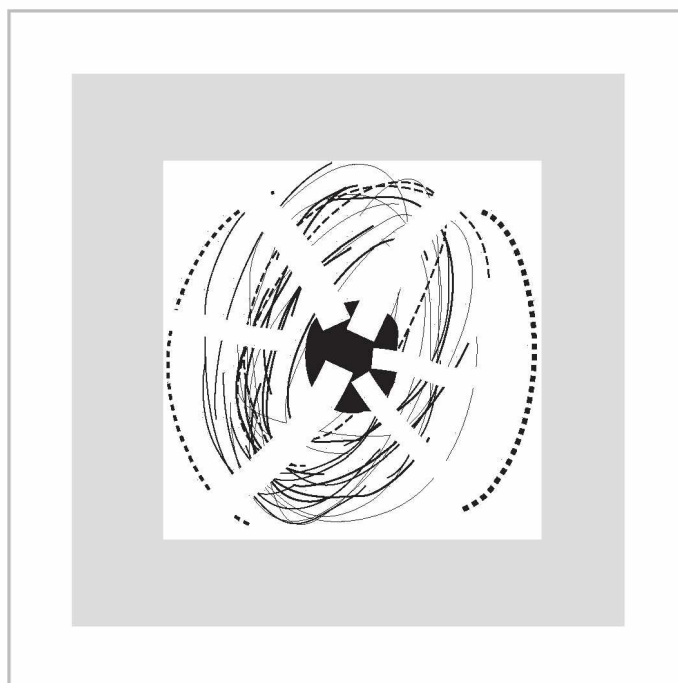


2002-2003



Latin America and the Caribbean in the world economy



UNITED NATIONS

ECLAC

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Notes

The following symbols have been used in the tables in this document:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (–) indicates that the amount is nil or negligible.

A full stop (.) is used to indicate decimals.

The word “dollars” refers to United States dollars, unless otherwise specified.

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Abstract

The 2002-2003 edition of *Latin America and the Caribbean in the world economy* is divided into three parts.

The first part, which concerns trade and regional integration in Latin America and the Caribbean (chapters I and II), analyses the main features of the international situation and their impact on the countries' external trade in 2002 and 2003. It also examines developments in the regional integration process in Latin America and the Caribbean in 2002-2003 and the ambivalence demonstrated by some of the governments involved, which affirm their political will to continue to deepen regional integration but make no specific commitments in that regard.

The second part is devoted to Latin American trade policy, particularly export promotion policy (chapters III and IV). Chapter III deals basically with the export promotion policies of Mexico and the countries of Central America and the English-speaking Caribbean. Chapter IV looks at some aspects of an export promotion policy for services, as this area is largely undeveloped in the region.

The third and last part (chapters V and VI) analyses two important elements of the international trading system. Chapter V examines the inclusion of the development dimension in multilateral negotiations, which is intended to address the differences in development levels between the members of the World Trade Organization (WTO) and to strengthen the impact of trade on development, and chapter VI describes, from the region's perspective, the changes brought about by China's accession to WTO. China's role is analysed from several different angles: as a strong competitor in world markets for labour-intensive products, as a consumer market for commodities and manufactures and as an ally in defending the development process in international forums.

Summary

1. Positive and negative aspects of the structural diversity of regional trade in 2002-2003

Merchandise exports from Latin America and the Caribbean, which were already showing signs of recovery in late 2002, strengthened further in 2003. Some 10 countries saw their exports rally strongly in terms of both volume and value. The most outstanding cases were those of Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, Haiti and Peru, which, given their export structure, were able to benefit from better prices for their principal products and, in some cases, from robust demand in several Asian countries, notably China. These price rises increased the value of agricultural and mining products, especially soybeans and soybean products, cotton, wool, copper and iron, while prices for manufactures rose at a proportionally lower rate in aggregate terms. The net effect of these variations was a slight improvement in the region's terms of trade. Imports were up in a number of countries, although external purchases by major importers such as Brazil, Mexico and especially Venezuela, along with Bolivia, the Dominican Republic, Nicaragua and Panama, remained low.

After recovering slightly in 2002, the world economy seems to have advanced towards a moderate expansion in 2003 and early 2004, on the basis of growth in the Asian developing countries and, since late 2003, the United States economy. According to data from the World Trade Organization (WTO), world trade rallied in 2002 and 2003, expanding by about 2.5% and 4.5%,

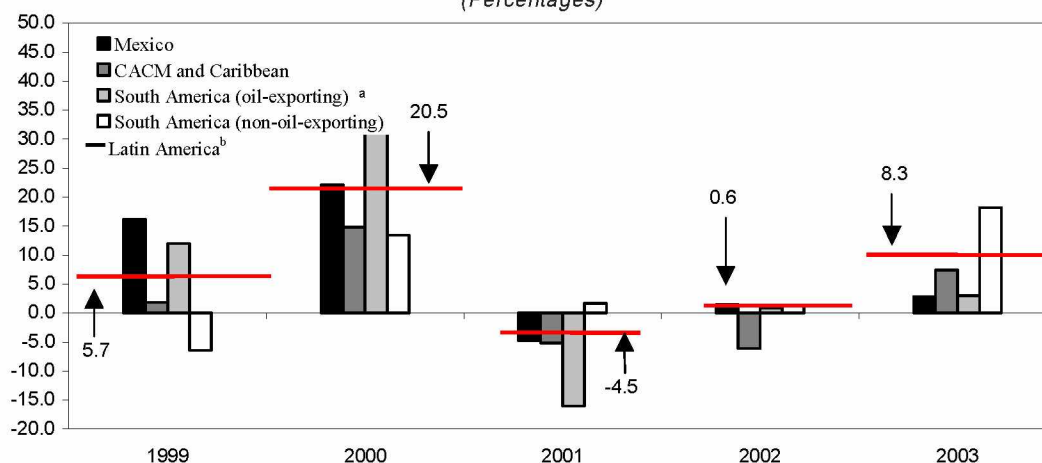
respectively, in terms of volume. However, these values are nowhere near the average growth recorded in the 1990s, of more than 5%.

Starting in late 2002 and throughout 2003 prices for Latin American and Caribbean commodities rose sharply, fuelling the recovery of the region's exports. The increase in external sales was particularly significant in the South American and Central American countries, where commodities account for a large share of exports. Agricultural exports from Argentina, Brazil and Uruguay were up, buoyed by higher prices for soybeans and soybean products. Similarly, increases in coffee prices boosted exports of this product from Colombia, Brazil and the Central American countries; the same was true of cotton and wool from Paraguay and Uruguay. Peru and Chile benefited from an extraordinary rise in the price of copper; at the end of the year, the per-pound price exceeded the US\$ 1 mark—one of the highest levels of the last three years—and in late February 2004 rose above US\$ 1.30. For the Central American and Caribbean countries, the biggest boost came from the recovery in the price of sugar, the main product in their export basket. Other countries that benefited from higher commodity prices were Belize, Colombia, Ecuador, Mexico and Trinidad and Tobago, which recorded growth rates of over 20% in the mining and oil sectors thanks to the sustained buoyancy of oil prices.

In 2003 the region's exports grew by 8.3%, with the biggest jump observed in the non-oil-exporting South American countries. The stronger recovery of those countries' basket of exports to the United States, the European Union and the Asian developing countries –especially China– helped to improve the region's export position (see figure 1 and table I.17). The region's imports, meanwhile, were again very low

in comparison to their 2000 value, as noted above. Here again, the non-oil-exporting South American countries showed higher growth than the other countries of the region (see figure 2). The combination of more robust exports and clearly waning demand for imports enabled the region to accumulate a merchandise trade surplus of some US\$ 42 billion (see figure 3).

Figure 1
LATIN AMERICA AND THE CARIBBEAN: EXPORT GROWTH, 1999-2003
(Percentages)

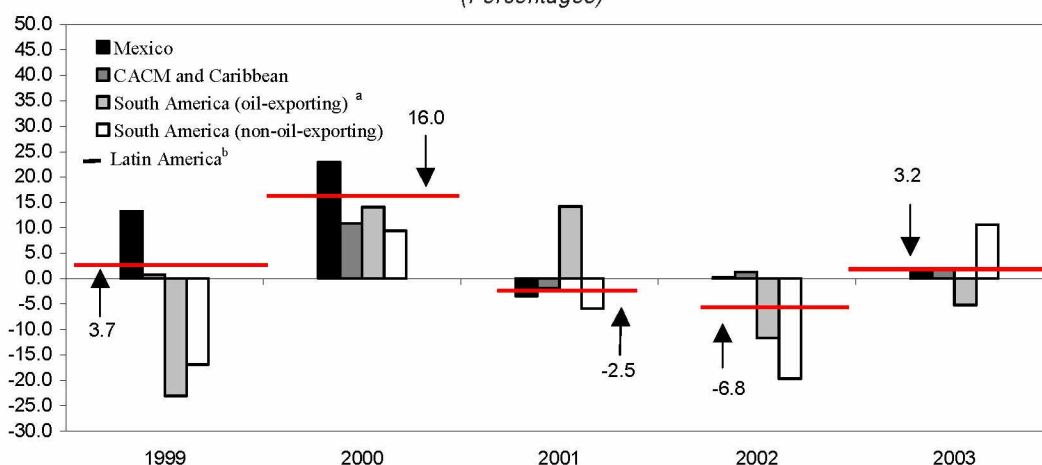


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and estimates prepared by the Statistics and Economic Projections Division.

^a South America (oil-exporting) includes Colombia, Ecuador and Venezuela; South America (non-oil-exporting) includes Argentina, Bolivia, Brazil, Paraguay, Peru and Uruguay.

^b Includes the 37 countries of the region considered in tables I.11 and I.12 of chapter I.

Figure 2
LATIN AMERICA AND THE CARIBBEAN: IMPORT GROWTH, 1999-2003
(Percentages)

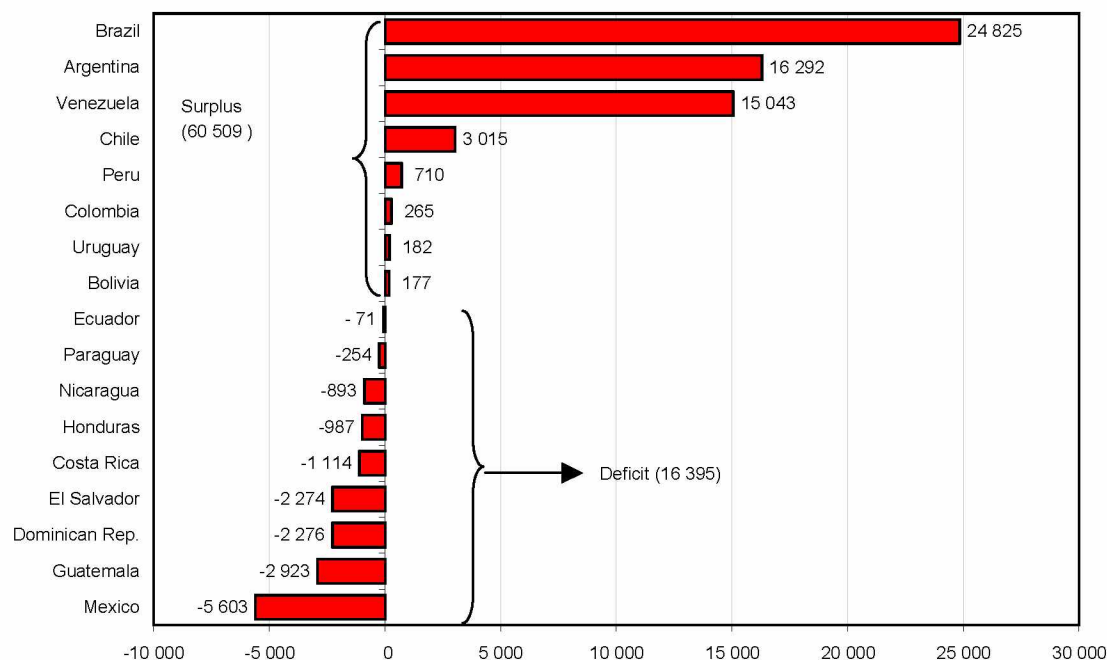


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^a South America (oil-exporting) includes Colombia, Ecuador and Venezuela; South America (non-oil-exporting) includes Argentina, Bolivia, Brazil, Paraguay, Peru and Uruguay.

^b Includes the 37 countries of the region considered in tables I.11 and I.12 of chapter I.

Figure 3
**LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): MERCHANDISE
 TRADE BALANCE, 2003**
(Millions of dollars)

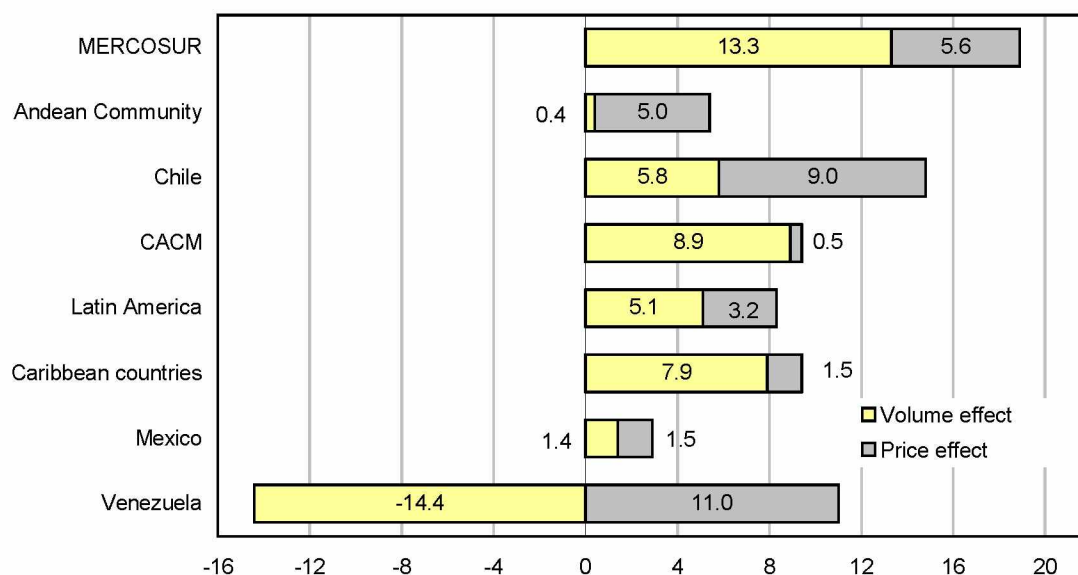


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries.

The region's merchandise trade surplus was concentrated in Brazil, Argentina, Venezuela and, to a lesser extent, Chile. This accumulation may be attributed to four factors: (i) real exchange-rate depreciation, especially in Brazil, Argentina and Venezuela; (ii) higher prices for these countries' main raw materials exports (soybeans, copper and oil); (iii) an increase in export volume in response to growing demand for raw materials in Asian markets, especially China and India; and (iv) continued low levels of goods imports, which were still far below historical levels (see figure 2).

The growth of Latin American and Caribbean merchandise exports reflected increases in both price and volume. Although this was the norm, the South American countries benefited most from the rise in prices, which generally exceeded 5%; the most outstanding case was that of Venezuela, where a decline in export volume was largely offset by higher prices. Meanwhile, prices had less of an impact on exports from Central America, the Caribbean and Mexico, whose growth was much more modest than that of South American exports. In aggregate terms, the Andean Community countries were hard hit by the adverse situation in Venezuela (see figure 4).

Figure 4
**LATIN AMERICA AND THE CARIBBEAN: DISAGGREGATION OF GROWTH IN THE
 VALUE OF MERCHANDISE EXPORTS, BY SUBREGION, 2003**
(Annual growth rates)



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

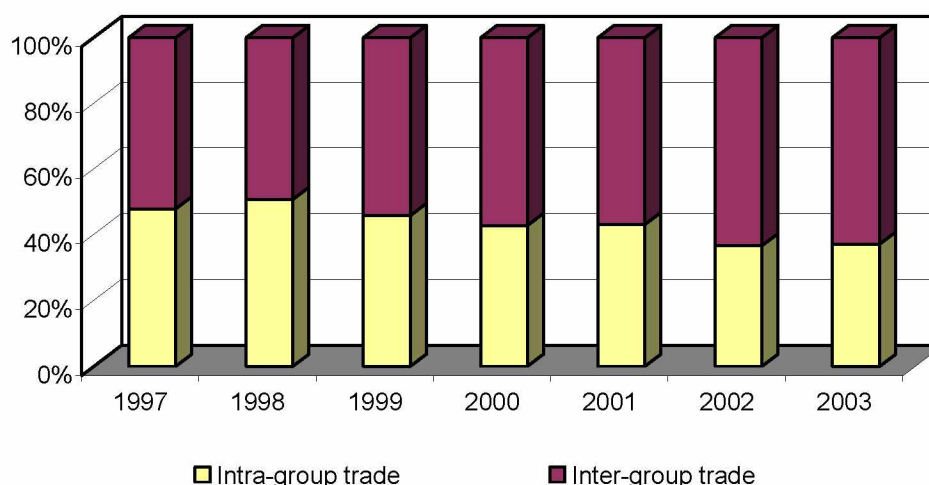
Pressured by the appreciation of its currency, Mexico, which accounts for more than 45% of the region's exports, has not managed to compensate for the steep drop in its external sales in 2001, with the result that its earnings are still lower than they were in 2000. In terms of sectors, Mexico's non-oil exports are the ones whose growth has slowed down the most; this slump is worst by far in the manufactures subsector, which shrank by 0.3% in 2003. Conversely, oil exports surged by 28.7%.

Intraregional exports in 2003 recovered from a two-year slide, as the climate for reciprocal trade improved. Despite its ups and downs, this trade is still very important in the region, especially in the case of manufactures. Trade among Latin American and Caribbean countries may be divided into two categories: (i) trade between countries members of subregional groupings (intra-group trade) and (ii) trade between countries parties to the economic complementarity agreements of the Latin American Integration Association (LAIA) or free trade agreements (inter-group trade). Whereas inter-group trade accounted for less than half the exports absorbed by the region in 1998,

the proportion rose to 57% in 2000 and 63% in 2003. Between 2000 and 2002 total Latin American purchases of products exported by other countries of the region diminished from US\$ 62.551 billion to US\$ 52.816 billion. However, this reflected the fact that intra-group trade fell sharply while total purchases between the four integration arrangements –the Southern Common Market (MERCOSUR), the Andean Community, the Central American Common Market (CACM) and the Caribbean Community (CARICOM)– and other countries not affiliated with those groupings stayed practically the same, rising only from US\$ 33.415 billion to US\$ 33.45 billion (see figure 5). In 2003 intraregional trade amounted to US\$ 60 billion, which was still 4% lower than the peak value recorded in 2000.

The estimated value of reciprocal trade within the four subregional common markets in 2003 shows that these trade flows followed a procyclical trend whereby intra-group trade expanded and contracted in line with third-party trade. What did vary significantly was the relative extent of the expansion or contraction. In 2003 there was a pronounced upturn in trade within MERCOSUR, CACM and CARICOM, which contrasts

Figure 5
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF INTRAREGIONAL TRADE,
1997-2003
 (Percentages of total trade)



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

with the continuing difficulties experienced by the Andean Community since the last quarter of 2002. The downturn in trade among the MERCOSUR countries was reversed starting in the first quarter of 2003, and a 26% expansion was recorded for the year as a whole. The relative share of reciprocal trade out of the member countries' total exports diminished, as its growth was outstripped by the increase in the countries' trade with third markets, especially Asia, the European Union and the United States. Likewise, trade within CACM and CARICOM increased by 6.8% and 12%, respectively, which represents an improvement after the economic slowdown of 2002. At the other extreme, trade within the Andean Community contracted by 5.5%; this, together with the downturn in 2002, yields a cumulative loss of 12% with respect to the value of intra-Community trade in 2001 and of 1.5 percentage points in terms of the ratio of intra-Community exports to total exports, which slipped from 10.6% in 2001 to 9.1% in 2003.

The analyses in *Latin America and the Caribbean in the world economy, 2001-2002* stressed the idea that the expansion of Latin American exports to new markets in Asia was offsetting the effects of the sharp economic slowdown in the main traditional import markets, essentially the United States and the European Union. In 2003 the stronger performance of the Asian economies,

including Japan, was reflected in increased demand for Latin American products such as meat, fresh fish, cereals, coffee, forestry products, certain minerals (copper, iron, tin, nickel, lead) and agricultural raw materials. Although the Asian countries together absorb between 8% and 13% of the region's total external sales, depending on whether or not Mexico is included in the calculations, these sales are particularly significant for Chile, Peru, Ecuador, Argentina and Brazil, which sell between 8% and 32% of their total exports to these countries.

For the first time in 13 years the Latin American and Caribbean countries managed to accumulate a goods and services trade surplus on the order of US\$ 25.5 billion and a current account surplus that reached the unprecedented figure of US\$ 2.8 billion, or US\$ 5.3 billion excluding the deficit recorded in the Caribbean economies and Panama. Results comparable to these had not been seen in the region for half a century. One of the interesting things about this surplus is that it reflects the combined effects of an increase in export supply and a substantial, widespread increase in transfers from abroad. And yet, while Mexico and the countries of Central America and the Caribbean also benefited from higher export values and volumes and from an increase in current transfers, they still posted large trade deficits and, consequently, negative current-account balances.

With respect to international trade integration, Latin America and the Caribbean participated actively in various negotiations in 2003. In terms of multilateral negotiations, the fifth WTO Ministerial Conference was held in Cancún in mid-September. The meeting concluded without agreement because of problems in making headway with negotiations on the agricultural sector, as well as the reservations of some developing countries concerning the discussion of negotiating modalities for the issues of investment, competition policy, transparency in government procurement and trade facilitation (the so-called Singapore issues), among others. Negotiations in the framework of the Doha Round are to continue within WTO, although they may extend beyond the agreed time frames.

In terms of extraregional negotiations, in 2003 Chile reached an important milestone –and one that consolidates its trade policy– with the ratification of its free trade agreement with the United States, which went fully into effect on 1 January 2004. The Central American countries held several rounds of trade negotiations with the United States that culminated in the conclusion of a free trade agreement between that country and El Salvador, Honduras, Guatemala and Nicaragua. These negotiations prompted reactions from particularly sensitive sectors in Central America such as the dairy, grain, meat and sugar industries, especially in Costa Rica, where the greater liberalization of sectors such as telecommunications and insurance led to the conclusion of an agreement different from the one reached with the rest of the Central American Common Market countries. In fact, Costa Rica did not reach agreement with the United States until January 2004, after it had won special treatment for its sensitive sectors and a longer period for liberalizing telecommunications and insurance. In mid-March the Dominican Republic concluded its trade talks with the United States by becoming a party to the United States-Central American Free Trade Agreement (CAFTA).

In late 2002 the United States extended the term of the Andean Trade Preference Act (ATPA), which became the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Furthermore, the United States Trade Representative announced his country's interest in negotiating free trade agreements with the Andean countries. For his part, the Secretary General of the Andean Community expressed the hope that the negotiations would take place in a spirit of coordination and collaboration. The United States is expected to begin negotiations with Colombia, Peru and Ecuador on 18 May 2004 and with Bolivia at a later date. The countries have not yet decided whether to negotiate as a group or bilaterally. For the time being, they are organizing their

negotiating teams and strategies and have opened a dialogue with business circles, workers and civil society in general.

With regard to the Free Trade Area of the Americas (FTAA) initiative, the participants in the eighth Ministerial Meeting, held in Miami in November 2003, decided to dispense with the “single undertaking” approach, in which the issues were to be negotiated as a whole, and adopted a mixed arrangement under which the countries would undertake a common set of obligations in certain areas, with the option of agreeing to additional obligations in other areas through bilateral or plurilateral negotiations. While this solution makes it more likely that the negotiations will be completed within the agreed time frame, the fragmentation of the negotiating agenda could work to the detriment of countries with less bargaining power.

Meanwhile, negotiations between MERCOSUR and the European Union have continued on schedule. The two blocs hope to sign an agreement in the course of 2004 in the framework of the European Union-Latin America and the Caribbean Summit.

With respect to intraregional negotiations, both MERCOSUR and the Andean Community issued declarations (the Brazilian proposal “Target 2006” and the Quirama Declaration, respectively) aimed at strengthening these processes. These declarations call for the inclusion of new items on the integration agenda, such as macroeconomic coordination, the treatment of asymmetries, sustainable development, border integration and closer ties between the subregions and between them and the rest of the region. The declarations express a clear political will to deepen the regional process, which will have to be translated into effective measures that give priority to subregional trade and investment and give rise to greater economic, regulatory and institutional convergence among the economies involved.

In early April 2004 Colombia, Ecuador and Venezuela and the MERCOSUR countries concluded their negotiations on a free trade agreement at their eighth meeting, held in Buenos Aires, Argentina. This represented the culmination of a negotiation process begun almost 10 years earlier and laid the groundwork for the creation of a South American trading bloc consisting of the countries members of the Andean Community and MERCOSUR. However, the countries have yet to agree on how the liberalization process will take place in terms of timetables –which could extend up to 2016– and final lists of products.

The CARICOM countries have maintained a consistent stance in the various negotiating forums by coordinating their position through the Caribbean Negotiating Machinery.

2. Policies for promoting and developing Latin American and Caribbean goods and services exports

Almost all the Latin American and Caribbean countries have formulated and implemented programmes to promote and develop exports, with varying degrees of success. This shows that the region's governments are aware of the importance of fostering export growth with a view to achieving more balanced integration of their economies in the global economy. However, after almost four decades of Latin American and Caribbean experience in attempting to promote and develop exports through entities expressly devoted to this endeavour, there is still no consensus as to the effectiveness of the strategies used. In addition, the Latin American and Caribbean countries have been characterized by sudden institutional changes, and the export promotion area is no exception. The lack of institutional continuity in this area poses a twofold risk: that the services provided to exporters will be discontinued and that the development of statistical time series to serve as a basis for objectively evaluating the technical, financial and human efforts deployed in each case will be interrupted, so that the impact of the export strategy and progress towards goals will be harder to measure.

When policies are not subjected to a cost-benefit analysis, they tend to be perceived as inefficient or irrelevant. Given the widespread need for budgetary belt-tightening in the region, the countries have tended to cut funding for export promotion and financing programmes, when, on the contrary, export development activities should be adequately supported, in line with clear and explicit priorities that give preference to the firms most in need of such help.

The broad objective of public policies to expand and diversify exports is to reduce the economy's anti-export bias and the transaction costs that must be borne by exporters, which distort the relative profitability of foreign- versus domestic-market-oriented production. Clearly, this profitability depends on various prices that change over time. Under the import substitution model, for example, production costs and profit margins depended to a large extent on the protection regime (tariff and non-tariff barriers), which pushed up the cost of the inputs used throughout the chain of production. By eliminating competitive pressure from imports, protection resulted in wider profit margins, making import substitution sectors and sectors catering exclusively to the domestic market extremely lucrative.

This meant that more efficient firms producing goods in which the country had revealed comparative advantages had a disincentive to export.

In Latin America and the Caribbean, institutions to promote and develop exports have another important role: to remove all obstacles that hinder this activity. This involves improving infrastructure, streamlining bureaucratic procedures, providing suitable financing conditions, adjusting the tax burden, expanding market access, increasing information availability and encouraging practices that enhance productivity and quality. Trade openness has drastically reduced the degree of nominal and effective protection, although exchange-rate appreciation has affected the relative prices of tradable goods in most of the region's countries, creating another type of anti-export bias. Any export promotion policy must be based on three pillars: policies to reduce the export sector's vulnerability to exchange-rate volatility or misalignment, an appropriate protection structure for producers and consumers and a system of non-distorting incentives. It should be borne in mind that the WTO Agreement on Subsidies and Countervailing Measures prohibits the use of fiscal or financial incentives that are specific to certain production sectors or branches of activity.

Unquestionably, the sectoral composition of external sales reflects a country's degree of development, resource endowment, average productivity and technological advancement. In other words, at any given time, the volume and composition of a country's exports are limited by its production and technology structure. The structure of comparative advantages and the removal of distortions and flaws in the domestic market define what products a country can export today, while its policies on technology, investment and education determine what it will be able to export in the medium and long terms. When countries fail to invest in technology training, human resources development and infrastructure, their policies to promote and develop exports will probably not be viable, since underdevelopment in these areas makes it necessary to compensate firms for the high systemic costs of producing each unit of the good or service to be exported. In the long run, these exports are not sustainable once subsidies are reduced or eliminated.

As part of a broad effort by ECLAC to propose effective policies for changing production patterns with social equity in the region's open economies, the countries' systems for promoting and developing exports were analysed. This edition of *Latin America and the Caribbean in the world economy* focuses on the experience of Mexico, Central America and the Caribbean, while the next edition will look at the policies and institutions of the South American countries.

Mexico, Central America and the Caribbean Community (CARICOM)

An assessment of the institutional framework for promoting exports in Mexico and the countries of Central America and CARICOM and an analysis of domestic and external constraints on export promotion show that activities in this regard play an important role but are not enough in themselves to increase exports. The small economies of the Caribbean have lost market share outside CARICOM. In the absence of a suitable macroeconomic environment, certain aspects of systemic competitiveness are essential, such as physical and technological infrastructure, financial intermediation, human resources development, trade facilitation and non-price aspects of competitiveness (rules, international standards, quality). The contribution of export promotion instruments is still limited in terms of their impact on the formation of linkages between different sectors of the countries' production structures. Furthermore, the recent diversification of Mexican, Central American and Caribbean exports has been determined more by the decisions of foreign firms and preferential access to the United States market than by traditional export promotion and development instruments. This means that export promotion activities must be seen as part of the institutional structure of business services, whose existence facilitates but *does not determine* the decision to export.

The institutional framework for export development was designed for the explicit purpose of steering production towards external markets. However, the goods exported by Mexico, Central America and some Caribbean countries since their economies were opened up do not come from a pre-existing supply of export products, but rather from a new supply generated by foreign investment and preferences in the target markets. In turn, this new specialization, which is based on international production sharing arrangements, has been criticized as having too few linkages with the rest of the economy and no sunk costs; this situation gives firms a great deal of mobility, while giving the host countries little bargaining power in relation to these firms.

Although some institutions have impact assessment systems, the effectiveness of export promotion activities is very hard to gauge. Export performance hinges on the national and international economic environment; as a result, export development policies, however well designed and appropriate, may not lead to an increase in external sales. In times of global economic slowdown, indicators such as export growth or growth in the number of export firms may decline even though sound export promotion policies are in place. Similarly, in boom periods, exports and the number of export firms may increase *without export promotion being the trigger*.

All the countries of the region have used similar export incentives. All the Central American countries have provided export subsidies by giving export firms exemptions from income tax and import duties, although exports to the regional market are excluded from these benefits. Since 1985 Mexico's incentives have consisted mainly of import tax exemptions, although its incentive systems have virtually disappeared, primarily because of North American Free Trade Agreement (NAFTA) requirements. Globalization and regional integration have tended to reduce the economic and policy flexibility enjoyed by the CARICOM countries. The tariff reduction resulting from these processes force the countries to expand their tax base, thereby limiting their ability to offer tax incentives and, in general, to implement a discriminatory economic policy.

In the context of the Doha Round, a procedure was established for extending the transition period provided for in the Agreement on Subsidies and Countervailing Measures (article 27, paragraph 4). Under this procedure, export subsidies, which are prohibited because they are contingent on export performance, must be gradually phased out starting in 2008 and must be completely eliminated by the end of 2009. In the case of the Central American countries, such subsidies consist of income tax exemptions for export firms.

A compelling argument for changing the kinds of export incentives offered is that even though export firms are the most successful and fastest-growing sector of the economy, they do not contribute to fiscal income. Currently, income tax exemptions apply to two different categories of firms: (i) foreign firms that operate on a cost-centre basis and do not generate profits, for which the income tax exemption is irrelevant, as the tax is paid in the country of origin, where the profits are generated; and (ii) foreign firms that do generate profits but do not pay income tax in the host country, paying it instead in the country of origin under the global income concept. In view of these circumstances, a sensible solution would be to negotiate double taxation treaties providing for the payment of income tax in the country in which the

profits are generated and for a corresponding reduction in the income tax payable in the firms' countries of origin. There are also domestic firms that do not pay income tax because they operate under special regimes, and these are the ones that really reap the full benefit of the exemption. As countries cannot extend income tax exemptions to all firms, they should set their income tax rates at internationally competitive levels.

Moreover, in order to boost the production of goods for export, incentives should be designed to promote domestic production regardless of the target market and of whether the products are traditional or non-traditional. This would not only bring them into line with international trade rules, but would also help to make more national products available for export directly and automatically, without demanding that they meet special requirements, and indirectly by creating a network of suppliers for the export sector. It would also be a way to overcome one of the main obstacles that have prevented existing incentive schemes from having a "knock-on" effect on the country's other productive activities and, in the case of the Central American countries, would even strengthen regional trade. When incentives are granted solely for export production¹—that is, when imported inputs are exempted from tariffs and other specific taxes—it is very hard for domestic firms to become suppliers for export firms. Local companies have to pay taxes and other charges on imported inputs, and although some countries offer rebates of such taxes, the procedures tend to be so complicated that foreign firms prefer to import their inputs. It is often easier and cheaper for companies operating under special regimes to import inputs from abroad than to purchase them locally.

The adoption of incentive schemes not contingent on target markets and compatible with international trade rules would also encourage the establishment of joint export promotion programmes, especially in the Central American countries. The enhancement of competitiveness, which is considered the prime objective of policies to boost production sectors, requires the construction of a new institutional framework in the countries of the Central American subregion and Mexico. This institutional framework should coordinate simultaneous actions to promote production and place exports on international markets.

Promotion of service exports

While they have no comprehensive policies for promoting service exports, many countries of the region

have policies to boost specific service sectors, such as tourism, audio-visual and information services and consulting and engineering services. Such promotional measures are usually coordinated by the relevant ministries, rather than the public agencies responsible for promoting merchandise exports, which would be more appropriate.

Like trade in goods, trade in services involves transactions between residents of different countries, but the ways in which services can be delivered are more varied. The residents of the countries involved in a transaction may temporarily go to another country to carry it out, either to acquire services (as in the case of international tourists) or to provide them (as in the case of a singer who gives a concert abroad). Trade in services that can be digitized or incorporated into a physical medium is identical to trade in goods because the transactions take place via electronic media or more traditional means of transport or communication. The WTO General Agreement on Trade in Services (GATS) recognizes that residents of the same country may establish a trade relationship in which the service provider is a foreign-owned enterprise. This is the case when the provision of services requires the provider to be in permanent physical proximity to the consumer (commercial presence). These means of international service provision correspond to the four modalities identified in GATS: (i) cross-border trade, (ii) consumption abroad, (iii) provision through the establishment of a commercial presence and (iv) provision by movement of the supplier.

Services are not only multimodal, but also multifunctional, since they are critically important as the foundation of the economic and social fabric (transport, financial services, distribution, education, health care, communications), as a vehicle for trade and in their own right (professional services). In contemporary economics, the generation of value added along the chain of production stems precisely from the provision of services, whether supplied within goods-producing firms or sold on the market by independent service firms. The information and knowledge used in producing goods and services is generated mainly in services related to product and process design, information technology, research and development activities, consultancy and management, to name just a few. Therefore, to enhance their participation in the global economy, the Latin American and Caribbean countries must adopt public policy measures that enable

1 In Central America, incentives are provided only for exports to countries outside the region.

them to progress further in producing and trading services, particularly more knowledge-intensive services.

The Latin American and Caribbean share of world trade in services is relatively modest, amounting to 3.5% in 2003, which is less than the region's share of world trade in goods (5.3%). The region's leading service exporters are Mexico and Brazil, which account for almost 37% of the regional total.

Service exports should be encouraged in Latin America and the Caribbean not only because services are important, but also because the region has accumulated a significant trade deficit in this sector. The major service exporters are also major importers, and this presents the countries of the region with huge challenges in terms of adapting and strengthening innovative instruments for boosting service activities and promoting service exports. The aims of service export promotion are similar to those of merchandise export promotion: to increase the number of export firms and the value exported, to diversify target markets and to increase the quality and value added of the export supply. In the case of services, however, special complications arise. Most service transactions involve the sale of an intangible that cannot be stored or digitized, and generally require more or less direct and simultaneous contact between the provider and the consumer, which is reflected in the multiple modalities of international service transactions.

In view of this variety of modalities, national strategies for integration into the global service economy must combine a range of elements, including policies on foreign investment, migration, competition, education and technological development; dispute settlement mechanisms; protection of intellectual property rights; technical standards and criteria for the accreditation of service providers; and a number of issues closely linked to the sphere of domestic regulation. All these interrelationships involve particularly sensitive areas such as culture, national security and State sovereignty and may therefore give rise to situations in which the legitimacy of public policy objectives is called into question. Moreover, as services are also exported indirectly through their incorporation into the value chain associated with exports of goods and services, measures to encourage service production and import substitution by goods producers should also form part of the countries' service export strategies. An appropriate promotional strategy, then, is one that links instruments and institutions with the formulation of medium- and long-term scenarios, with a view to creating new competitive advantages. Accordingly, it is hard to separate policy measures to promote the development of the production system from those designed to promote exports.

In this connection, the debate as to whether promotional tools should be selective or neutral is particularly relevant in the case of services. The fastest-growing services are produced in a highly competitive environment and quickly become obsolete. The useful life and competitiveness of services are constantly vulnerable to the emergence of new actors in a market that is increasingly globalized and open. Thus, it is hard for States to determine, *a priori*, which activities will remain "winners" long enough to enable them to recover the resources invested in promoting those activities. The existence of a transparent and open market is what enables countries to choose and support the services that seem most likely to be "winners"; at the same time, they must take steps to create conditions in which fast-growing segments –especially those based on knowledge and information technologies– can be broadened and diversified, giving rise to services with higher value added.

Policies to promote and develop service exports should include at least three key elements: (i) the explicit incorporation of services into the design and implementation of macroeconomic policies to promote and develop the country's production system and exports, since, with the exception of a few traditional services such as tourism, transport, telecommunications, construction and engineering, economic policies tend to focus on firms that produce and export goods (in the mining, fishing, agricultural and industrial sectors); (ii) the strengthening of the technological and telecommunications infrastructure, together with long-term investments for continuously upgrading the country's human resources; in Latin America, Costa Rica is an example of a country that is strengthening its service industries by making long-term investments in education and infrastructure; and (iii) the modernization of specific rules and regulations in each segment of the service sector, with a view to retaining and strengthening those of a prudential nature and those that encourage competition in the domestic market.

The primary concern should be to give priority to integrating service exporters into the formal economy, defining support instruments on the basis of the four modes of service provision. At the same time, given the precariousness of the public resources available for export promotion, the appropriateness and effectiveness of the measures implemented should be constantly monitored. The countries should have a well-defined strategy for achieving sustainable export development. To this end, they should adopt measures in the areas of supply and demand (improvement of market access and cost reduction, for example) that help to increase the technology-intensiveness of services and reduce

productivity differences between sectors and between firms in the same sector.

Institutional improvements in areas such as electronic signatures and billing, document encryption, digital literacy and better access to information and communication technologies are essential if countries are to take full advantage of electronic commerce and other means of reducing transaction costs and overcoming existing information asymmetries.

Lastly, regional measures to expand service exports are very important. Experience has shown that the natural economic environment for the region's service exporters is found mostly in the markets of Latin America and the Caribbean. This is due not only to geographical proximity but also to cultural similarities, which largely determine the degree to which services provided from abroad are accepted. A number of trade facilitation

activities can be undertaken at the regional level. Priority areas include the following: (i) the exchange of experiences in meetings and contacts between government officials responsible for implementing development policies; (ii) cooperation with regard to trade intelligence and the development of the region's image, and dissemination of the main available sources of trade information; and (iii) the adoption by governments of region-wide promotional measures essentially involving the mutual recognition of academic degrees, records and technical standards; agreements on double taxation and double social security contributions; protection and promotion of investments; and facilitation of the temporary movement of individuals—especially business people and their representatives—through initiatives such as the issuance of a regional business visa.

3. Highlights of trade and trade negotiations

From Doha to Cancún: the development dimension in WTO negotiations

The fifth WTO Ministerial Conference (Cancún, September 2003) ended without results, thus dashing the countries' hopes that the new round of multilateral trade talks launched in Doha in late 2001 would become a true "development round".

In the two years of preparatory work and at the Cancún Conference itself, developing countries' demands and proposals in relation to the tasks agreed upon in Doha received little attention. In Doha, the participating ministers had pledged to ensure that the benefits deriving from the increased opportunities and welfare gains generated by the multilateral trading system were extended to all members of WTO, and had affirmed that enhanced market access, balanced rules and well-targeted, sustainably financed technical assistance and capacity-building programmes had important roles to play in that regard.

Moreover, it had been intended that the Doha negotiations should give priority to the interests of developing countries, meaning that the participants were to focus, among other things, on addressing outstanding issues; guaranteeing full compliance with provisions on special and differential treatment; correcting and preventing restrictions and distortions in world

agricultural markets; reducing or eliminating tariff peaks, high tariffs, tariff escalation and non-tariff barriers in respect of exports; and implementing and interpreting the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement) in a manner supportive of public health, by promoting both access to existing medicines and research and development into new medicines.

The failure to reach a consensus in Cancún shows how hard it is to translate rhetoric into action for effectively incorporating the development dimension into the multilateral trading system. The weakening of the multilateral framework is forcing developing countries to turn to various kinds of bilateral or plurilateral liberalization agreements as an alternative, even though they are sometimes placed at a disadvantage by sharp disparities in bargaining capacity and power relations. The international trading system should be based on clear rules that apply to all countries regardless of their economic and political power.

The consideration of the development dimension within WTO should focus on the factors that enable developing countries to benefit from integration into a world economy that is hierarchical and asymmetrical in terms of risks and opportunities, as well as on the characteristics that the system of multilateral principles and rules should have in order to ensure that trade

liberalization and openness effectively contribute to growth. Both ideas had been taken into account in the provisions on special and differential treatment in the application of disciplines in the multilateral system. The voluntary and non-binding nature of many of these provisions, however, has detracted from their effectiveness. The need to reformulate special and differential treatment has become more important as the multilateral system's scope of application has extended further, to the point where it is no longer limited to customs instruments, but also covers other aspects of national policies, such as, to a large extent, the Singapore issues.

About 80% of the 147 countries members of WTO are developing countries.² Two main blocs of developing countries have participated in the discussions and negotiations of the past few years: the African and least developed countries, which have made demands concerning special and differential treatment, and some larger and more proactive countries such as Brazil, Egypt and India, which were joined by China at the most recent Conference. These are heterogeneous groupings in which the interests of developed and developing countries converge in relation to specific issues, as happens in the Cairns Group, which promotes the liberalization of trade in agricultural products, and among the so-called "Friends of Anti-Dumping Negotiations", which advocate tighter disciplines on anti-dumping investigations. Developed and developing countries remain divided, however, with respect to newer regulatory questions, such as the Singapore issues. The Latin American and Caribbean countries have been leaders and have even represented the majority in some of the groupings organized around specific interests, especially since the Seattle Conference.

To a large extent, developing countries have taken reactive or defensive positions in response to proposals from developed countries, but they have also tried to participate more proactively in the negotiations. UNCTAD has helped them to formulate a positive agenda, as this new type of developing-country participation is called. This endeavour includes the identification of policy development forums and the preparation of proposals for broadening those forums, as well as opposition to rules that limit them and recommendations for making international policies more coherent, strengthening WTO and implementing agreements and decisions aimed at improving the system's functioning.

In the run-up to the Cancún Conference and during the Conference itself, various country groupings emerged, including one led by Brazil, China and India, referred to as the Group of 20 or Group of 22, which became well known. These groupings played a pivotal role in the deliberations at the Conference, initially in the area of agricultural negotiations.

In the 1990s there was a major push among the countries of the region to negotiate in various spheres with a view to achieving "open regionalism". This effort initially focused on strengthening the countries' trade relations with their regional partners, sometimes by deepening integration within long-standing subregional blocs. All the countries except Cuba are involved in the negotiations on the formation of the Free Trade Area of the Americas (FTAA), and most –either individually or as members of regional groupings– are also parties to preferential or reciprocal agreements or negotiations with the United States and the European Union. Only two countries –Mexico and Chile–, which are parties to a wide array of bilateral agreements with different partners, have also participated in negotiations and signed agreements with Asian countries.³ Many of these agreements include rules for which no multilateral framework yet exists.

In the multilateral sphere, the countries of the region have participated in different interest groups at the most recent WTO conferences. In general, they have shown special interest in promoting further agricultural reform, as many Latin American countries are members of the Cairns Group. However, they have also put forward more proactive proposals (in line with the "positive agenda") in areas such as affording more policy space to developing countries and improving certain rules (such as those on anti-dumping), and this has clearly been the case in relation to intellectual property and public health. Their coordination with other developing countries was very issue-specific during the preparation and holding of the Doha Conference. Even within the region, the different countries have participated in different groups, depending on the focus of their liberalization strategies, their specialization, their target markets and their size and geographical location. This means that they also differ in terms of their reluctance or willingness to support the new issues added to the agenda, such as the environment or the Singapore issues. Prior to the Cancún Conference, however, these countries participated to a

2 Nepal and Cambodia were recently approved for admission to the system. They are the first two least developed countries to join since the formation of WTO. Their accession confirms the universal nature of the organization. As of late April 2004 only Nepal had completed the process of becoming a WTO member.

3 In 2003 Panama signed a free trade agreement with Taiwan Province of China.

greater extent in various groupings, especially the Group of 22 in connection with agricultural issues.

The problems encountered in WTO deliberations, negotiations and decision-making are attracting more interest, as reflected in a number of communications to the most recent Conference. The lack of results in Cancún is but the latest example of the difficulties that have emerged with the multilateral trading system's methods of work and decision-making, which attest to the fact that WTO faces new, more complex challenges owing to the increase in the number of member countries and in the number of topics considered in its debates. These challenges arise in areas such as transparency, the WTO work process and its effects on the participation of its 147 members, the role of the secretariat and the decision-making process, the dispute settlement system and so forth.

With regard to transparency, guidelines have been formulated on how the Ministerial Conferences should take place and proposals for improvement have been put forward. Specifically, a group of developing countries –including Cuba, Honduras and the Dominican Republic– made a number of recommendations on the definition of the agenda, the role of the Committee of the Whole, the designation of facilitators and consultation procedures, among other matters. Some of these recommendations were supported at the most recent Conference. In addition, it seems that the organization of the negotiations ran counter to the interests of these countries, since their areas of concern were diluted among various negotiating groups, as has happened in the case of implementation-related issues and special and differential treatment since the Doha Conference.

The number of members and the need for consensus are definitely among the main causes for concern with regard to the decision-making process, and the secretariat's role in that process has also attracted attention and criticism. For example, CARICOM has pointed out that the WTO secretariat should include more experts from developing countries. The dispute settlement system also poses problems for developing countries with regard to how they should deal with cases in which they may be interested or involved.

The developing countries do not have enough resources to devote to the many events held for discussions or negotiations, which cover a growing number of increasingly complex issues. This means that they find it hard to meet the multiple demands of the organization's regular work, as well as the preparation and holding of formal and informal meetings and the "green room" meetings involving a limited number of delegations. Although some of their recommendations were

implemented in Cancún, recognition of these problems in the system and of the need for reform has gained momentum in the wake of the criticism levelled at WTO even by developed countries, particularly the European Union, for the Conference's failure to produce results.

In general terms, this situation has drawn attention to the governance of the multilateral system and to the need for new approaches to cope with differences and correct imbalances. Both the member governments and the WTO secretariat have developed strategies to strengthen the system's credibility, which include measures to improve the dissemination of information, discussions with domestic actors, linkages with non-governmental organizations, etc. This, in turn, is related to domestic governance, which is no less important for enabling the countries to design development strategies and defend –in the various negotiations, at different levels, in which they are involved– proposals that would help them implement those strategies.

As ECLAC has pointed out, different institutions –multilateral, subregional and national– have complementary roles to play in tackling development tasks (ECLAC, 2002). Given the clear interdependence between the negotiations held at these levels, societies and governments should seek to foster complementarity in their institutional development.

The effects of China's accession to WTO on economic relations with Latin America and the Caribbean

In 2003 China again surprised the world with a huge expansion in its external trade, which made it the world's fourth largest exporter and third largest importer. Its exports surged by 35% and its imports, by 40%, with the result that its level of trade exceeds that of Latin America and the Caribbean as a whole. This is particularly striking in view of the fact that, in 1990, the region exported twice as much as China did (see table 1). As noted previously, China is becoming a very important market for some countries of the region (see figure 6).

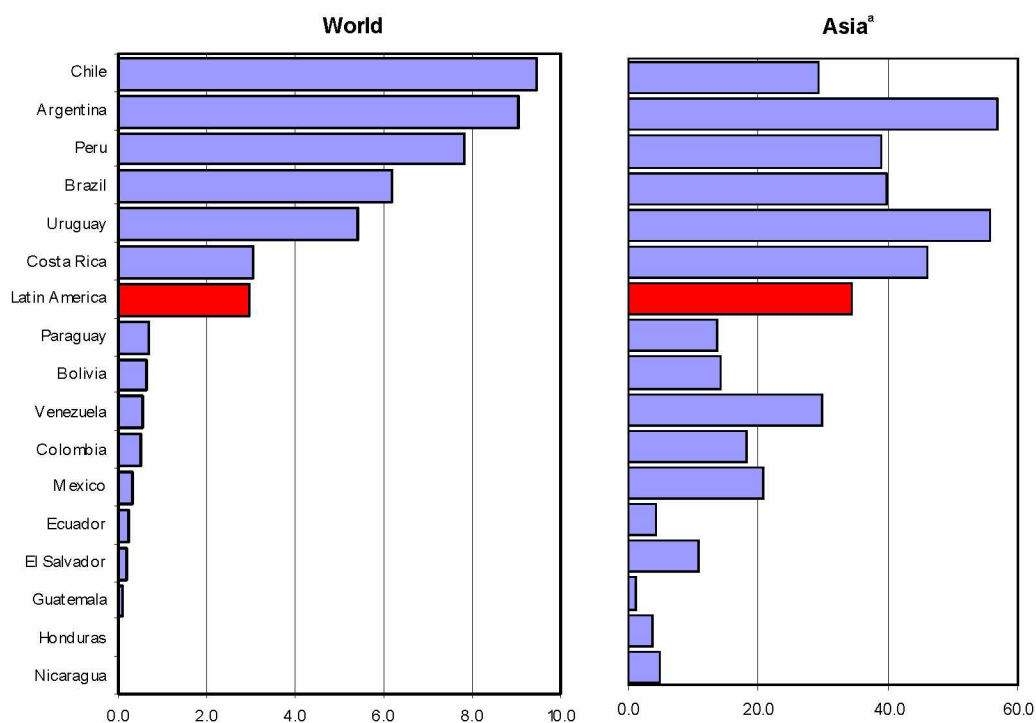
In the past two years the weight of intra-Asian trade in the international economy has increased and new patterns of export specialization have been established. In the biennium 2002-2003 merchandise trade between China and Japan exceeded the US\$ 120-billion mark, thus continuing the explosive growth posted for five straight years. Even more significantly, China overtook the United States, also for the first time, as the primary origin of Japanese imports, reaching 21.3% of the total over the same period, while its exports to the United States exceeded those of Japan. China is thus

Table 1
**CHINA: RELATIVE SHARE OF EXTERNAL TRADE IN DIFFERENT REGIONS
 AND COUNTRIES, 1990 AND 2003**
(Billions of dollars and percentages)

Regions/Countries/Years	Exports				Imports			
	Billions of dollars		Percentages of worldwide total		Billions of dollars		Percentages of worldwide total	
	1990	2003	1990	2003	1990	2003	1990	2003
World	3 448	7 274	100.0	100.0	3 538	7 557	100.0	100.0
United States	394	724	11.4	10.0	517	1 306	14.6	17.3
European Union (15)	1 509	2 894	43.8	39.8	1 558	2 914	44.0	38.6
Japan	288	472	8.3	6.5	235	383	6.7	5.1
China	62	438	1.8	6.0	53	413	1.5	5.5
Latin America and the Caribbean	150	387	4.3	5.3	119	350	3.4	4.6

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

Figure 6
LATIN AMERICA (16 COUNTRIES): RELATIVE PROPORTION OF EXPORTS TO CHINA, 2003
(Percentages of total trade with the world and with Asia)



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

^a Includes Japan.

consolidating its status as a major player in world trade, on the basis of its strong trade relationship with Japan, the newly industrialized economies of Asia and the Association of South-East Asian Nations (ASEAN). According to the investment projections of leading Japanese companies, production in northern Asia should become even more closely integrated in both the short and long terms, stimulated by the growth of intra-industry and intra-firm trade in sectors making intensive use of information and communication technologies.

Most studies predict that China's membership of WTO since 11 December 2001 will have a strong impact on trade through the significant gains which China is likely to achieve in terms of access to fast-growing markets in the global economy, at the expense of exports from other developing nations, especially the low-income countries of southern Asia and the western hemisphere. Estimates of how strong this impact will be, however, vary widely.

In 2003 China accounted for about 6.05% and 2.54% of world exports of goods and commercial services, respectively. Some analysts think that China's output growth as a result of its accession to WTO will be concentrated in the textile and clothing industry, to the detriment of agriculture and the automotive sector. Even China's capital- and technology-intensive export sectors specialize in labour-intensive assembly operations. In fact, the Chinese economy's large supply of cheap labour is considered to be its most important source of competitiveness, as its labour market consists of an estimated 712 million workers, 499 million of whom engage in agriculture-related activities in rural areas of the country's interior.

There is evidence, however, that China is gaining market share in capital- and technology-intensive goods and losing it in labour-intensive goods, including most of its main textile exports. Thus, on the one hand, the significant growth in Chinese-Japanese trade referred to above has been stimulated by the expansion of Japanese exports of capital goods and manufactured production inputs, such as semiconductors, electronic parts and accessories, metalworking machinery and automatic cranes, in addition to traditional exports of iron and steel products. On the other hand, the growth of Chinese exports to Japan is led by shipments of machinery, which are in this position for the first time and are displacing traditional textile products. Shipments of office, communications and telephone equipment have also increased significantly, revealing new patterns of intra-industry export specialization and China's advancement towards more high-technology manufactures.

The impact of China's accession to WTO on Latin America will mainly be felt in traditional trade, structured according to revealed comparative advantages based on the relative supply of production resources. The net static effect on the region will be produced by the combination of increased exports to China –which, in turn, will result from improved conditions of access to its market and from its economic growth– and the potentially threatening impacts associated with keener competition from Chinese products in both domestic and third markets. Specifically, the competitiveness of Chinese products, as revealed by the profile of imports of these products to Latin America and the Caribbean, will result in the displacement of locally produced textiles, clothing and footwear, as well as plastics and rubber manufactures.

Except in the case of Mexico, the share of manufactures, mainly light industry products, in Latin American exports is not as high as in most Asian nations. However, the region's exports go mainly to the United States, which is also the main market for China. Unlike South-East Asia, which benefits from significant complementary effects (growth of intra-industry trade, cross-investment, strategic alliances), Latin America and the Caribbean has much more limited and circumscribed prospects in this area, confined to the intra-industry trade that takes place in certain links of the production chain in the automotive, electronics and information technology sectors. Latin America and the Caribbean is also unlikely to benefit directly from growth and liberalization in the infrastructure sector, including ports and airports, with the possible exception of a small group of Brazilian and Argentine companies. The same is true of tourism and professional services, where cultural distance adds to the physical distance.

China's new affinities and potential complementarities with Brazil stem from the two countries' shared positions on major issues of the agenda being negotiated in the multilateral economic system, in particular the Doha Development Round of WTO. As indicated previously, at the WTO Ministerial Conference in Cancún, China largely agreed with the positions taken by Brazil and 11 other Latin American countries with regard to the agricultural agenda and the Singapore issues. Brazil became the leader and spokesperson of a coalition of developing countries dubbed the Group of 20+, which considered that the joint proposal on agriculture put forward by the European Union and the United States fell far short of the vision reflected in the Doha mandate and threatened to compromise all the negotiations. The Group of 20+ submitted an alternative proposal that included an ambitious plan for eliminating subsidies and a formula for giving differential market

access to developed and developing countries. The formation of that group and its continued existence, even though some of the 12 Latin American members eventually dropped out, preferring not to jeopardize their chances of concluding free trade agreements with the United States, has been interpreted in Brasilia and Beijing as a triumph for the developing world.

Brazil is virtually the only country for which China was not only one of the main target markets for exports and a source of imports throughout the 1990s, but also a partner with which it has a shared vision with respect to many of the key issues being discussed and defined in international trade organizations. In both countries there are broad sectors that fear the establishment of regional protection measures that will restrict the external integration of the actors involved. In the 1990s the two countries' positive political dialogue was supplemented by an expanding trade relationship. In the past two years

Brazil's exports to China have outstripped those of Japan and the ASEAN countries, as China became the country's second most important target market, after the United States. Brazil's imports from China were surpassed only by those of Japan and the Republic of Korea.

Latin America and the Caribbean as a whole is benefiting from the fact that China is now subject to WTO-administered trade disciplines and, in general, from the possibility of submitting complaints to the WTO Dispute Settlement Body with regard to practices that adversely affect its rights. In areas in which multilateral regulations are either absent or incomplete, as in the case of agricultural subsidies and anti-dumping practices, the Latin American and Caribbean region and China have a common interest in reforming the rules and eliminating provisions that are too restrictive or arbitrary. As has been demonstrated in the recent work of WTO, China can indeed be a valuable ally.

Chapter I

Trade in goods and services in Latin America and the Caribbean in 2002-2003



Introduction

Estimated export figures for most of the countries in the region for 2003, in volume and value terms, show a significant expansion in comparison with the same period of the preceding year, and in contrasts with the paltry performance observed in the 2001-2002 biennium. The rally in exports in value terms exceeded 10% in ten countries, in particular Brazil and Argentina, compared with 2002, when only a few Latin American countries managed to increase either the volume or the value of their exports. Agricultural and mining products, especially copper and iron benefited from the recovery in prices thanks to the favourable international situation, at the same time as the prices of manufactures remained on the decline. The net effect was a slight improvement in the region's terms of trade. Imports into several countries in the region expanded although the leading importers, that is, Brazil, Mexico and above all Venezuela, continued to restrict their purchases from abroad. Reversing their fall of 0.6% in 2002, the economies of Latin America and the Caribbean will grow by approximately 1.5% in 2003, although preliminary estimates, which put rates at higher levels, were not achieved owing to a lower economic activity in Uruguay, Dominican Republic and, above all, Venezuela (ECLAC, 2003d). GDP is expected to grow by 4.5% in 2004.

Following a slight upturn in 2002, the world economy seems to be advancing towards a moderate increase in 2003 and the first few months of 2004, although there is much uncertainty as to the vigour and extent of this growth over time (see table I.1). The main concerns are centred on the United States' fiscal and current account deficits, the cooling of the European economies in the euro zone and the weak recovery of the Japanese economy. According to data from the World Trade Organization (WTO), world trade picked up in 2002 and 2003, with volume expanding by close to 2.5% and 4.5%, respectively (WTO, 2003h, 2004). The recovery was more pronounced in the developing countries, especially those of East, South and South-East Asia, with strong increases in exports from China and India.

In the previous edition of *Latin America and the Caribbean in the World Economy*, emphasis was placed on the fact that the expansion of Latin American exports towards new markets in Asia was counterbalancing the effect of the sharp economic slowdown in the main traditional import markets, such as the United States and the European Union (ECLAC, 2003c, figure I.7). In 2003, a better performance by the Asian economies, including Japan, was reflected in stronger demand for Latin American products, such as meats, fresh fish, cereals, coffee, forest products, some minerals, such as

copper, iron, tin, nickel and lead and various agricultural raw materials. Although the Asian countries combined account for between 8% and 13% of the region's total external sales, according to whether Mexico is included or not, they are particularly important for Chile, Peru, Ecuador, Argentina and Brazil, which export to those countries between 8% and 32% of their total exports (see chapter VI concerning China's potential as a market for exports from the region).

This chapter reviews the main trends in the trade in goods and services in Latin America and the Caribbean in 2002 and preliminary data for 2003. Section A is devoted to the recent performance of the international trade in goods and its impact on the region's trade. Exports from East, South and South-East Asia expanded strongly while China's demand for commodities, many of which are exported by Latin America, was buoyant. Section B analyses the performance of the trade in goods and services in the region in the last two years, with emphasis on the current account adjustments. The determining factors of the performance of the trade in goods are examined in section C. Attention is paid, in particular, to the importance of trade within the region, whether between countries that are members of regional integration schemes or between those without formal links. Lastly, section D considers in greater detail the patterns of trade in services in the 2002-2003 biennium.

Table I.1
CHANGES IN THE VOLUME OF WORLD TRADE AND
GROSS DOMESTIC PRODUCT, 2000-2004
(Percentages)

Institution	Exports					Gross domestic product				
	2000	2001	2002	2003 ^a	2004 ^b	2000	2001	2002	2003 ^a	2004 ^b
WTO	11.0	-1.5	2.5	4.5	7.5	3.8	1.5	1.7	2.0	3.7
UNCTAD	10.8	-0.9	2.0	...	...	3.9	1.2	1.9	...	...
DESA/UNCTAD	12.3	-0.8	3.8	5.1	7.3	3.9	1.3	1.7	2.5	3.5
IMF	12.5	0.1	3.1	4.5	6.8	4.0	1.3	1.8	2.7	3.8
World Bank	13.1	-0.7	3.0	4.6	7.9	3.8	1.3	1.9	2.0	3.0
OECD ^c	12.8	0.0	2.6	4.0	7.8	...	...	...	...	...
United Nations ^d	12.3	-0.8	3.8	5.1	7.3	3.9	1.3	1.7	2.5	3.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Bank, *Global Economic Prospects and the Developing Countries, 2004*, Washington, D.C., September 2003; table 1.1, p. 3; World Trade Organization (WTO) (<http://www.wto.org>); International Monetary Fund (IMF), *World Economic Outlook 2004*, Washington, D.C., April 2004; Organisation for Economic Co-operation and Development (OECD), *Economic Outlook*, November 2003, Paris, p. 4; United Nations/Department of Economic and Social Affairs (DESA), *World Economic Situation and Prospects 2004*, New York; table I.1, p. 4; UNCTAD, *Trade and Development Report, 2003*, New York, September, tables 1.1 and 3.1, pp. 2 and 42.

^a Preliminary estimates.

^b Projections.

^c Arithmetic mean between growth in exports and imports.

^d The data corresponding to GDP have been adjusted by the purchasing power parity (PPP), United Nations Department of Economic and Social Affairs.

A. International trade in goods and services in 2002-2003

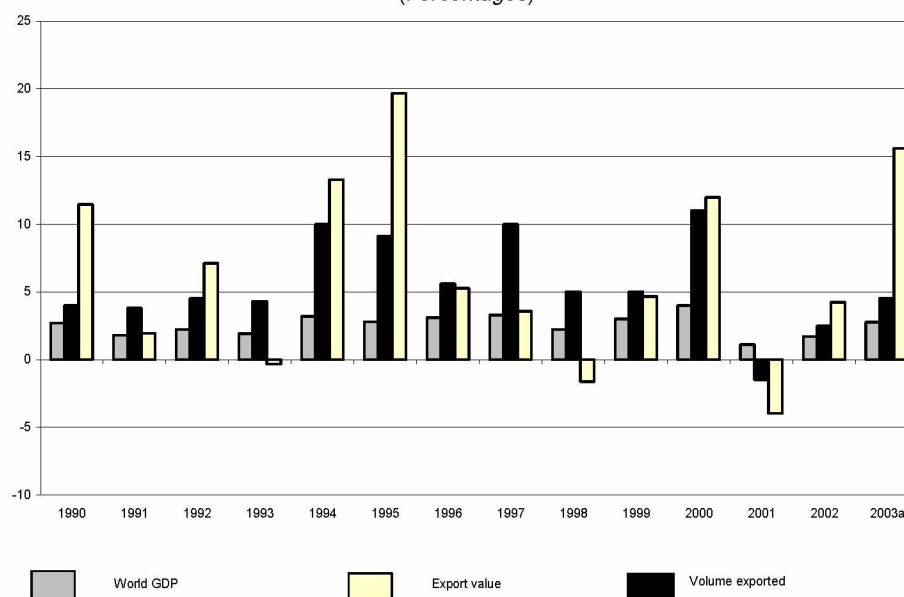
1. The world economy in 2002-2003

In 2002, the world economy experienced a slight recovery compared with the sharp slowdown recorded in 2001, when a series of factors led to a reduction in international trade flows both in value and in volume terms. With production rallying and some degree of calm returning to international financial markets, the third quarter of 2002 saw an upturn in the exports of both goods and services. In the first few months of 2003, geopolitical factors, foremost among them the tensions in the Middle East and the war in Iraq, introduced new uncertainties in the prospects for economic growth. Although these tensions remain, the gradual restoration of confidence among economic agents

has contributed to an improvement in preliminary estimates for the growth of economic activity by specialized multilateral organizations. These prospects boosted exports of goods and services in 2002-2003 (see figure I.1).

The most recent growth figures for output in the United States are in line with the more optimistic projections of a recovery starting in the third quarter of 2003, with an expansion of 2.5% for the whole year and almost 3.5% growth for 2004 (United Nations, 2004). Public spending, particularly on defence, personal consumer spending and fixed investment, especially sales of equipment and software are determining factors of the expansion of the United States economy (BEA,

Figure I.1
GROWTH IN THE VOLUME OF WORLD GROSS DOMESTIC PRODUCT AND
WORLD TRADE IN GOODS, 1990-2003
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO), <http://www.wto.org> and the International Monetary Fund (IMF), International Financial Statistics.

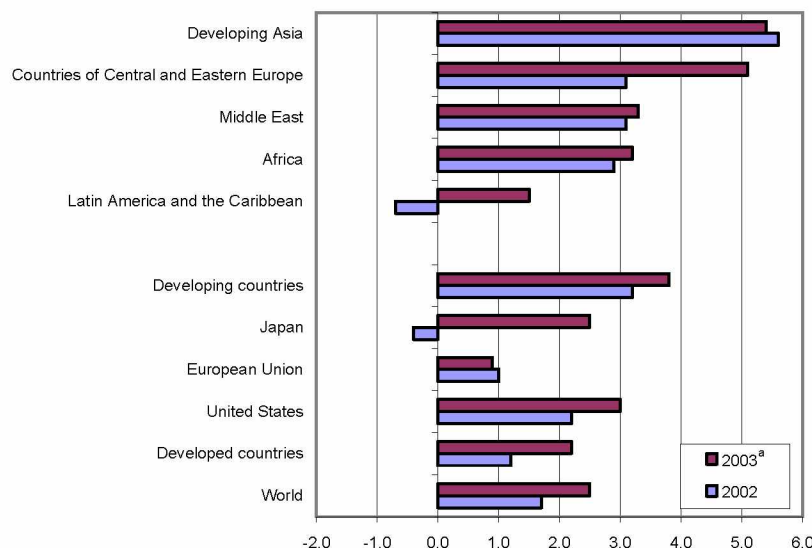
^a Preliminary estimates for the full year (world GDP growth and volume exported).

2003a; 2003b; 2004a). In Japan, the increase in private consumption and investment pushed up growth forecasts for the whole year. Growth in output in the first three quarters of the year exceeded 2% on average and was accompanied by a rise in fixed gross capital formation and purchases of machinery, which up to October experienced an inter-annual increase of 13% compared with the same period of 2002. In the euro zone, economic activity maintains symptoms of cooling recorded at the end of 2002. According to the Statistical Office of the European Communities, during the first half-year, output remained invariable while in the third and fourth quarters of the year, quarterly growth did not exceed 0.4% (EUROSTAT, 2003, 2004a; OECD, 2003a).

The meagre growth in the output in Latin America and the Caribbean made the region the slowest growing

among all the developing economies in 2003, and the second most sluggish of all the regions, bettering only the low rates recorded in the euro zone. Despite outbreaks of severe acute respiratory syndrome (SARS), the developing economies of Asia, especially those of East and South-East Asia, expanded by an estimated 4.7% and 2.5%, respectively (ADB, 2003a; 2003b; 2004). In particular, China recorded a growth rate of almost 9.1% (EIU, 2003a; ADB, 2004).¹ In addition, the countries of Central and Eastern Europe and Russia experienced higher rates of growth, consistently posting rates of 4% and 6%, respectively, in recent years. The Middle Eastern, North African and Saharan economies also posted important gains in output thanks to upswings in consumption and investment, especially in the energy and petroleum sectors (see figure I.2).

Figure I.2
VARIATION IN WORLD GROSS DOMESTIC PRODUCT, BY PRINCIPAL
COUNTRY AND SUBREGION, 2002-2003
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the United Nations.

^a Preliminary estimates.

1 The economic authorities of China are adopting temporary measures to reduce credit and investment in order to avoid a possible overheating of the economy and reduce the risk its exposure to a financial bubble. Moreover, they face strong external pressure to devalue their currency.

2. Trade in goods: the dynamic of purchasing markets and products

Preliminary IMF data relating to the export value of merchandise for the different countries project growth at approximately 16% for the entire year 2003. As in recent years, developing countries' exports have been the most dynamic segment, with China's persistent buoyant growth continuing to be the most outstanding. Although the negative growth in Latin American exports was reversed, average aggregate growth, as

discussed later, was lower than in other regions, standing below the world average (see table I.2).

By the end of 2002, the value of world exports was back at the 2000 level. Growth of just over 4% cancelled out the fall by a similar rate recorded in 2001. Exports from the European Union and the countries of South, East and South-East Asia and to a lesser extent those of Japan, contributed to the

Table I.2
WORLD EXPORTS BY REGION AND PRINCIPAL ECONOMIES, 2001-2003
(Billions of current dollars and percentages)

Countries/Regions	Value exports of goods			Annual variation		
	2001	2002	2003 ^c	2001	2002	2003 ^c
World	6 128	6 385	7 393	-3.7	4.2	15.8
Industrialized countries	3 872	3 984	4 555	-3.2	2.9	14.3
United States	731	694	725	-6.4	-5.1	4.4
Canada	260	252	271	-6.1	-3.1	7.6
Australia	63	65	70	-1.6	3.2	8.1
Japan	403	417	472	-15.9	3.5	13.2
New Zealand	14	14	16	3.0	5.1	14.8
Europe^a	2 363	2 504	2 951	0.6	5.9	17.8
Austria	67	73	88	3.9	9.0	20.9
Germany	571	613	749	3.8	7.4	22.2
Belgium	190	213	252	1.1	12.1	18.3
Denmark	51	56	66	2.0	10.1	17.9
Spain	115	124	157	1.7	7.2	26.3
Finland	43	45	53	-5.9	4.2	17.2
France	296	309	362	-1.3	4.4	17.0
Netherlands	216	222	265	3.3	2.8	19.2
Ireland	83	87	92	7.7	5.3	5.6
Italy	244	253	287	1.7	3.7	13.5
Luxembourg	8	9	11	0.0	12.5	18.8
Norway	59	60	69	-1.5	0.8	14.5
United Kingdom	267	276	306	-5.3	3.4	10.9
Sweden	76	81	99	-12.9	7.0	22.5
Switzerland	78	84	97	4.0	7.7	15.8
Developing countries	2 256	2 401	2 836	-4.6	6.5	18.1
Africa	119	121	148	-5.8	1.4	22.1
Developing Asia	1 183	1 279	1 519	-6.6	8.1	18.8
India	43	49	56	2.1	13.9	13.5
East and South-East Asia^b	1 036	1 142	1 355	-7.1	10.3	18.6
China	266	326	438	6.8	22.6	34.5
Philippines	33	36	37	-17.8	11.0	1.7
Hong Kong						
(Special Administrative Region of China)	190	200	224	-5.9	5.3	11.8
Malaysia	88	93	104	-10.4	6.0	11.5
Taiwan, Province of China	123	131	134	-17.1	6.5	2.4
Republic of Korea	150	162	193	-12.8	8.0	19.3
Singapore	122	125	144	-11.6	2.8	15.2
Thailand	65	69	81	-5.8	6.2	17.1
Central and Eastern Europe	358	393	503	5.4	9.6	28.0
Latin America and the Caribbean	356	358	388	-4.1	0.6	8.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF), "International Financial Statistics" [on line] November and December 2003, and April 2004 (<http://www.imfstatistics.org/imf/ifsbrowser.aspx?branch=ROOT>), and official information from Latin America and the Caribbean.

^a Includes only the 15 European countries mentioned.

^b Includes only China, Philippines, Hong Kong (Special Administrative Region of China), Malaysia, Taiwan, Province of China, Republic of Korea, Singapore and Thailand.

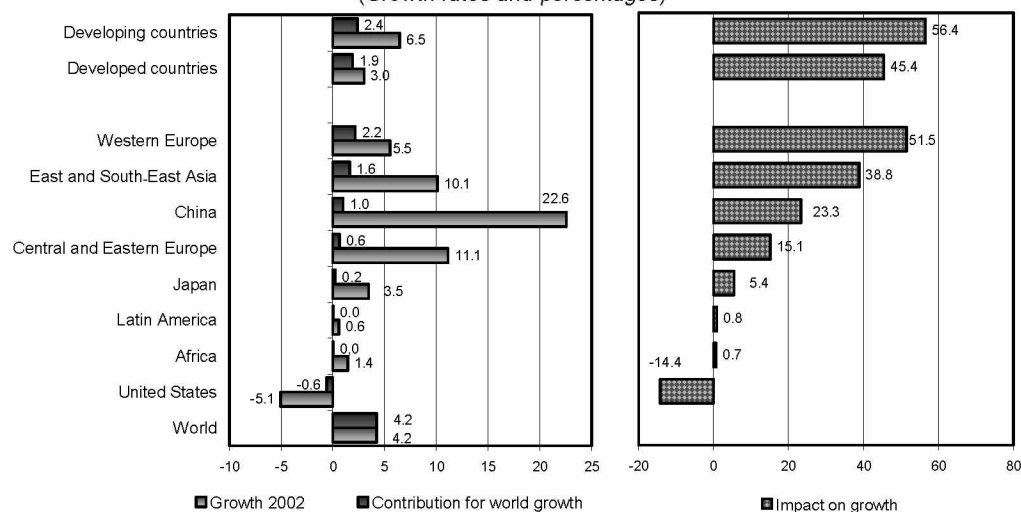
^c Preliminary figures.

recovery of trade flows in 2002, insofar as a strong contraction in United States exports was observed. An analytical disaggregation of exports and imports in 2001-2002 by major country and world region, showing both increase and contribution to total growth, serves to quantify the role that the developing countries have played in the expansion of world trade in recent years (see figure I.3a and I.3b).

In 2002, the remarkable expansion in exports from developing countries, in particular those from South, East and South-East Asia, accounts for 63% of the growth in world trade, while the developed countries contributed the remaining 37% (see figure I.3b). The scant contribution of the countries of Latin America and the Caribbean is due to the limited increase in their exports over the year. China, whose exports in 2001 were equivalent to 78% of Latin America's, in 2002 added close to US\$ 60 billion to the total, that is, practically all that Brazil exported during that period. China's increase represents 1% of world trade or one percentage point of the 5% total, that is, 23% of the increase in the world export value. In 2003, exports from China outstripped by 13% the total exported by Latin America and the Caribbean.

In this context, it is appropriate to underscore the interdependence of trade flows, which are the result of complex relations of buying and selling, between firms of different countries, of raw materials, inputs, parts and components of products processed in distant parts of the globe. This corroborates the statement that trade is not a zero sum game in which the increase in exports in some countries would necessarily represent the decrease in the exports of others. The expansion of external sales of countries such as China, India, Malaysia, Republic of Korea, Singapore, Thailand, Taiwan, Province of China, but also of Central and Eastern countries converts them into new poles of demand for products of Latin America and the Caribbean. For its part, China has incorporated itself into the global trade flows with an extraordinary demand for agricultural raw materials and minerals.² As a result of their forthcoming incorporation into the expanded market of the European Union, principal destination for garment exports, chemicals, paper and cardboard, machinery and electrical appliances as well as for iron and steel manufactures, Central and Eastern European countries represent a potential demand for products from the developing countries (ICEX, 2002) (see box I.1).

Figure I.3a
WORLD TRADE AND EXPORTS: GROWTH, CONTRIBUTION AND IMPACT,
BY REGIONS AND SELECTED COUNTRIES, 2002^a
(Growth rates and percentages)

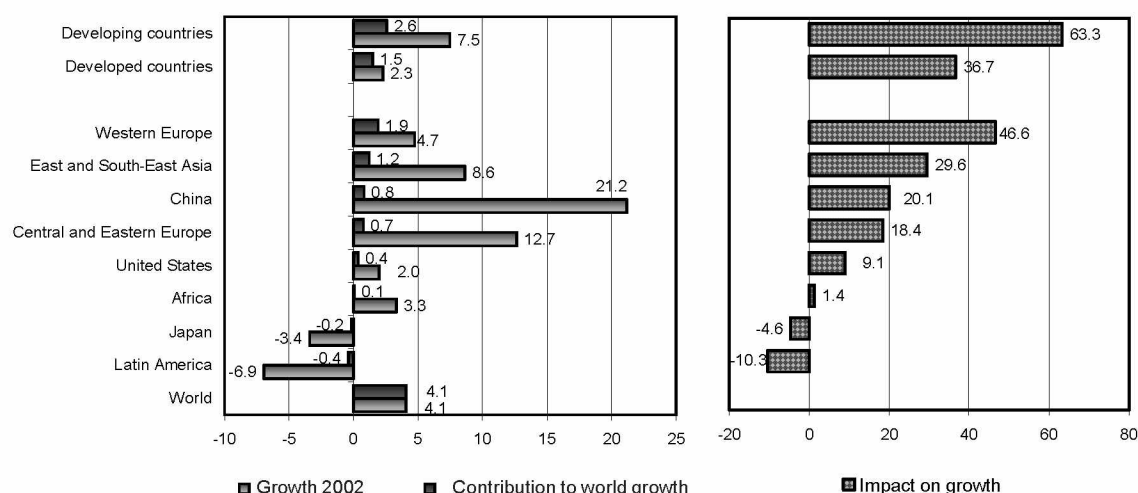


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the International Monetary Fund (IMF).

^a The contribution is the ratio of the relative growth of each country's exports during the period 2001-2002 to the absolute variation in world exports between 2001 and 2002. The sign indicates the direction of that contribution. The impact rate is measured as the contribution of the growth of exports of the country to the total growth of world exports. The sign indicates the direction of that share.

- 2 The demand for steel from China could amount to 257 million metric tons, in 2003, an increase of 22% compared with 2002, according to the International Iron and Steel Institute of Brussels and it is estimated that it could rise another 12.8% in 2004. Without China, world demand for steel would have grown by as little as 1.2% from 2002 on, whereas China's demand helps to drive the growth rate up to 6.4% ("El acero sube por mayor demanda en Asia y débil oferta en Estados Unidos", *El Mercurio* (*The Wall Street Journal Americas*, 15 October 2003, p. B9).

Figure 1.3b
WORLD TRADE AND IMPORTS: GROWTH, CONTRIBUTION AND IMPACT
BY SELECTED REGIONS AND COUNTRIES, 2002 ^a
(Growth rates and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the International Monetary Fund (IMF).

^a The contribution is the ratio of the relative growth of each country's imports during the period 2001-2002 to the absolute variation in world imports between 2001 and 2002. The sign indicates the direction of that contribution. The impact ratio is measured as the contribution of the growth in the country's imports to total growth of world imports. The sign indicates the direction of that share.

Box 1.1 **THE COUNTRIES OF CENTRAL AND EASTERN EUROPE**

Following lengthy negotiations and the eventual satisfaction of the European Union's demanding admissions criteria, 10 countries—eight from Central and Eastern Europe together with Cyprus and Malta—acceded to the Union^a on 1 May 2004. Although the association transcends the

economic sphere, the removal of non-tariff barriers and restrictions on the movement of persons, goods and capital will undoubtedly have an impact on trade and investment. The European Union's current financial commitments for the period 2004-2006 to facilitate the association

amount to almost 41 billion euros and will be used especially to finance the reforms derived from the implementation of structural policies and policies for modernization of the agricultural sector.

The table below presents data on the structure of these economies:

COUNTRIES OF CENTRAL AND EASTERN EUROPE: ECONOMIC INDICATORS (2002)

Population (millions of inhabitants)	73.1
Exports (billions of dollars)	143.0
Imports (billions of dollars)	164.1
Current account balance (billions of dollars)	-17.7

Source: The Economist Intelligence Unit (EIU), "Forecast Eastern Union", 4 September 2003.

Note: Data for Cyprus and Malta are not included.

Exports from the European Union to the countries of Central and Eastern Europe account for more than 12% of European exports, while imports originating in those countries account for more than 10% of total European imports. Data for 2002 indicate that this group of countries has a relative weight

similar to that of Latin America (not including Mexico) since it accounted for 2.3% of exports and 2.7% of global imports. On the one hand, for the region, the countries of Central and Eastern Europe are major competitors on European markets in specific areas, such as textiles, a few agricultural

products, steel and others. However, the economic expansion of these economies in transition and the wider European market will signify opportunities for the export of other products from Latin America, such as soybean and other grains, the iron and copper manufactures and others.

^a The countries of Central and Eastern Europe which have acceded to the European Union are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. The Copenhagen criteria are democracy and institutional stability, the rule of law, respect for human rights, market economy, competitive capacity and ability to comply with economic and monetary union standards.

The World Trade Organization (WTO) indicated that trade between developing countries (South-South trade) has been growing in the last few years at an average rate of 10%, double the average for global trade. Between 1990 and 2001, the proportion of this segment in the total of trade flows increased from 6.5% to 10.7%; or in nominal values, trade between developing countries grew from US\$ 219 billion to US\$ 640 billion. In 2001, exports to other developing countries represented 27% of the total exports of developing countries as a whole and 41% of their imports originated in these same countries. More than two thirds of this trade originated in and was directed towards the Asian countries. In 2003, China must surpass the United States as the main market for the Republic of Korea.³ Exports from Latin America to the other developing countries added US\$ 82,000 or 13% of south-south trade, of which 72% were concentrated in the same region. As analysed below, trade within the subregional schemes represent approximately 15% of the total exchange within the region. On average, 40% of exports from developing countries in Asia and Latin America (excluding Mexico) are directed towards other developing countries. Some items such as iron and steel, chemicals, textiles, machinery and transport equipment, in particular office and telecommunications equipment, agricultural and mining products are important components of this south-south trade (WTO, 2003h).

However, the strongest impetus to world trade continues to come from the United States merchandise imports. An economy equivalent to almost one third of the world economy can have a profound influence on the generation of world trade flows. In the last three years, it had imported one and a half times more than it exported, which was equivalent to more than 11% of GDP, accumulating heavy deficits in the trade in goods, which cannot be offset by the small surplus generated in the trade in services.⁴ The larger deficits originate in consumer

goods, automobiles and intermediate inputs (including oil), at a time when, in 2002-2003, United States trade was in deficit with all its trading partners. The countries which accumulated the largest surpluses in their trade with the United States were China, Japan, Canada, Mexico and Germany, which together accounted for almost 50% of the United States total merchandise trade deficit (BEA, 2003c). A large number of countries of Latin America and the Caribbean benefited from the increase in imports from the United States in 2002 (see table I.3).⁵

In recent years, the question that analysts have been asking is whether the United States can continue to be the engine of global growth, if one considers the adjustments that will be necessary to reduce the current account deficit. The low dynamism of European Union trade, oriented basically towards European countries that are already integrated or in the process of integration, makes it an unlikely candidate to replace the purchasing power of the United States economy, principally for Latin America and the Caribbean (see table I.4). If purchases made within the European Union are discounted, world trade stands at US\$ 5.2 billion and the proportion of United States imports increases from 20% to just over 23% of the total.

Trends in the prices of the main Latin American and Caribbean export products

In the first half of 2003, uncertainties arising from the invasion of Iraq, SARS and sluggish economic activity in the main countries had an impact on the prices of non-energy commodities. The fall in real terms was not felt in the nominal dollar values owing to the depreciation of that currency vis-à-vis other international currencies (IMF, 2003a). In nominal values, the prices of commodities (excluding oil) are estimated to rise by 5.8% in 2003 and by 8% in real terms in 2005 (WTO, 2003h) (see table I.5 and box I.2).

3 In a recent article, Rubens Ricupero, Secretary General of UNCTAD explains the formation of the great alliance between Brazil, China, India and South Africa during preparations for the WTO Ministerial Conference in Cancún, owing to the economic success of the Asian countries and the creation of autonomous sources of demand for imports from other countries (Ricupero, 2003).

4 The sum of exports and imports of the United States now corresponds to more than 19% of GDP.

5 Argentina, Bahamas, Brazil, Chile, Costa Rica, Dominica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Trinidad and Tobago and Venezuela (<http://dataweb.usitc.gov>).

Table I.3
**UNITED STATES: GROWTH IN IMPORTS FROM LATIN AMERICA
 AND THE CARIBBEAN, 2002-2003**
(Monthly and cumulative growth rates)

Subregions/Countries	2002	2003												Jan.-Dec.	
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	2002	2003
Latin America and the Caribbean	14.2	7.1	14.7	11.6	3.6	1.2	4.8	3.1	-0.5	4.0	0.5	2.2	16.4	2.7	5.4
MERCOSUR	32.5	18.6	30.7	30.4	14.5	9.1	5.8	8.5	4.6	5.3	-4.9	4.1	5.5	8.4	9.8
Argentina	50.3	-11.9	45.3	-12.7	3.4	8.0	-0.8	-1.6	11.0	5.2	-21.6	-26.4	-6.8	5.6	-2.8
Brazil	29.4	26.2	28.6	40.2	16.7	9.8	7.1	10.7	3.0	4.7	-3.3	11.5	7.3	9.3	12.0
Uruguay	0.6	-3.7	-7.8	-12.6	17.6	-10.2	4.2	-5.8	63.6	72.4	142.0	42.0	91.9	-15.2	31.0
Paraguay	97.5	37.6	-13.1	161.8	12.9	-37.1	-2.3	4.2	-14.1	-4.1	60.8	50.5	-9.7	33.7	14.7
Chile	10.8	-14.7	6.4	10.8	6.8	10.0	-5.6	31.4	-6.0	29.0	0.8	7.5	3.6	6.4	5.2
Andean Community	21.3	-14.5	21.5	19.7	27.4	11.1	29.4	10.5	12.8	5.3	-6.2	7.5	50.8	-0.1	13.5
Bolivia	-14.4	-4.6	24.9	31.2	24.7	21.5	40.7	59.7	14.1	11.9	-28.7	-5.9	57.7	-3.7	15.4
Colombia	41.9	15.5	34.7	16.2	27.7	16.4	32.4	19.4	21.1	10.5	-6.7	-6.6	-4.7	-1.6	13.2
Ecuador	46.6	46.4	59.2	26.7	18.1	-4.7	39.5	32.6	25.8	41.5	5.6	22.4	18.3	5.1	25.5
Peru	43.7	10.5	52.5	80.8	0.8	17.0	21.6	17.4	28.6	-7.4	23.3	42.4	39.1	5.0	25.1
Venezuela	6.4	-41.4	2.9	14.0	33.4	11.1	27.9	3.7	7.0	1.3	-10.9	6.4	89.5	-0.8	10.4
Mexico	8.7	7.4	10.7	5.4	-4.9	-3.9	-0.2	-2.1	-4.7	2.9	1.9	1.1	11.9	2.5	1.8
CACM	20.7	17.2	14.0	17.1	10.7	5.3	1.3	2.6	-4.6	-0.1	-2.3	-5.7	5.0	7.0	4.6
Costa Rica	16.2	36.0	23.5	19.5	10.3	8.4	5.7	7.6	-6.0	-4.1	-0.2	-6.1	-0.1	8.8	6.8
El Salvador	6.5	1.7	6.4	20.3	21.8	2.9	-24.6	0.1	-1.7	4.6	-1.1	-5.2	8.3	5.4	1.8
Guatemala	29.4	16.0	21.6	17.4	2.8	4.5	13.6	5.2	-3.7	2.4	-8.1	-7.6	8.0	8.1	5.5
Honduras	22.7	10.8	5.3	15.1	9.1	2.9	3.9	-4.4	-8.0	-1.7	-2.9	-6.6	0.7	4.4	1.5
Nicaragua	50.4	23.0	6.3	7.2	31.0	11.9	18.5	13.0	5.0	2.1	11.5	6.9	27.8	12.2	13.2
Panama	16.0	-0.7	-30.0	-14.2	-16.5	-4.4	-28.4	-22.2	47.6	13.4	6.4	-0.5	11.3	3.3	-4.1
Caribbean countries	30.7	43.1	39.7	43.0	44.8	30.0	23.2	35.7	14.8	10.7	15.4	6.4	37.2	-4.0	27.5
Bahamas	34.7	1.0	45.6	98.3	82.4	80.2	-21.6	-4.8	-14.7	-54.0	-13.9	-15.6	-9.3	46.5	3.2
Barbados	-16.2	-7.4	0.0	-23.7	59.7	43.9	323.3	-16.4	8.7	-8.2	-57.6	20.2	44.8	-13.4	25.6
Belize	18.3	25.0	63.0	59.3	-21.3	-34.3	-10.8	106.7	54.0	69.9	52.9	51.9	6.9	-20.1	30.3
Guyana	-36.8	-17.0	-4.8	-6.9	-6.3	27.8	17.2	12.1	-10.1	-11.0	-57.8	-15.3	1.9	-17.7	-8.4
Haiti	51.2	15.4	54.4	25.4	39.4	21.1	33.8	32.6	29.0	16.5	51.8	50.3	6.2	-3.1	30.3
Jamaica	-7.3	41.1	-5.9	-2.2	25.5	-11.5	-4.1	38.3	-26.5	12.5	25.7	-9.4	-6.7	-15.1	5.1
Dominican Republic	12.5	16.4	7.3	16.3	15.3	5.9	6.0	4.9	-2.5	2.1	8.2	-6.3	15.1	-0.3	6.9
Suriname	-2.1	15.0	-40.5	-23.0	112.3	-35.1	8.0	-0.9	83.3	68.6	-6.7	42.7	-42.3	-7.0	5.4
Trinidad and Tobago	76.2	142.1	122.2	126.9	113.8	55.7	59.0	123.7	68.6	53.1	40.0	18.7	91.4	2.4	76.4
Others	76.3	8.1	59.9	23.5	36.3	84.4	36.9	-1.4	-27.7	-16.6	-7.1	14.0	57.7	-24.9	22.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data supplied by the Department of Trade, Washington, D.C.

Table I.4
**EUROPEAN UNION: GROWTH OF IMPORTS FROM LATIN AMERICA
 AND THE CARIBBEAN, OCTOBER 2002-SEPTEMBER 2003**
(Monthly and accumulated growth rates January-September)

Subregions/countries	2002			2003									Jan.-Sept.	
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	2002	2003
Latin America and the Caribbean	5.8	-2.9	34.9	13.5	8.6	6.0	9.1	24.8	4.1	15.0	8.7	18.0	6.5	11.9
MERCOSUR	19.0	0.5	36.7	28.4	17.4	11.0	15.1	18.1	22.7	21.2	8.1	20.5	0.2	18.0
Argentina	13.8	-3.1	29.8	5.0	32.3	2.1	21.3	-0.4	4.1	8.7	7.8	22.5	18.5	10.7
Brazil	21.0	1.3	38.5	38.3	14.0	15.1	12.7	24.5	28.3	23.6	6.9	16.9	-5.1	19.8
Uruguay	39.9	31.3	54.2	-1.8	-14.1	-0.6	22.5	-5.9	43.8	42.6	47.4	58.1	21.9	21.9
Paraguay	-27.4	-24.8	30.7	15.6	-40.1	-2.1	10.2	308.1	130.3	123.7	28.0	201.0	-38.2	93.2
Chile	3.9	11.2	14.4	2.4	0.4	28.6	-6.0	36.2	37.2	3.6	13.0	39.7	-2.4	16.6
Andean Community	1.6	20.5	17.0	-7.0	-18.1	-7.0	28.9	17.0	-3.8	-3.5	29.6	21.9	4.3	5.3
Bolivia	-47.1	27.6	14.8	-22.5	5.3	-18.9	5.4	-3.1	23.8	-26.3	-21.1	-26.4	-44.5	-10.8
Colombia	18.8	14.8	24.7	16.3	-0.8	5.2	19.0	33.2	0.7	-6.8	60.1	28.5	-3.9	14.7
Ecuador	19.3	0.0	68.9	3.9	36.4	41.1	28.8	28.8	32.5	42.0	12.2	31.9	17.7	28.8
Peru	6.6	89.9	24.8	35.1	40.8	-4.2	19.2	29.8	28.4	-3.2	57.3	10.3	13.0	22.7
Venezuela	-13.5	-18.4	-12.2	-66.3	-79.9	-40.6	48.7	-12.6	-42.8	-15.5	-10.2	26.0	3.8	-25.1
Mexico	3.2	-6.9	24.1	15.6	51.2	26.0	42.4	10.5	8.9	5.9	17.4	11.5	-15.6	19.4
CACM	23.8	25.7	51.6	15.0	51.6	14.6	7.4	35.9	-2.4	9.6	73.8	15.9	2.0	20.9
Costa Rica	41.7	40.4	54.6	7.0	70.8	18.1	5.6	31.3	-11.4	8.9	109.9	6.6	10.2	20.4
El Salvador	24.4	-40.0	62.0	55.0	16.0	-36.3	-12.8	94.9	122.7	-16.1	284.5	231.2	7.0	56.8
Guatemala	11.9	-5.1	20.0	25.5	24.5	5.2	28.9	25.6	14.6	24.7	-3.5	23.3	-24.1	18.4
Honduras	-41.3	-13.9	65.3	83.3	-4.8	26.3	37.5	75.4	4.9	13.4	-21.9	-16.0	-7.2	18.9
Nicaragua	-23.5	3.2	28.5	13.6	-3.3	14.8	-39.0	-34.9	-10.0	23.6	16.9	24.7	-33.9	-4.3
Panama	-33.4	-33.8	26.4	24.3	97.3	-13.8	6.9	84.0	-63.4	123.5	-70.8	-55.5	7.9	-9.1
Caribbean countries	-11.2	-28.6	56.4	6.0	-10.7	-11.9	-17.9	48.4	-17.8	22.8	-13.4	10.9	0.1	-0.4
Bahamas	-22.4	-60.8	-23.3	45.2	-20.8	-24.6	-73.4	155.6	8.3	6.5	10.2	-6.1	41.1	7.1
Barbados	-76.8	-17.5	52.2	-20.9	-38.2	-31.2	-52.3	11.9	113.9	5.0	-32.6	30.2	-24.3	-0.3
Belize	12.6	49.0	717.0	621.2	-31.6	693.9	211.1	58.4	-27.5	134.3	54.2	-40.5	-21.9	63.4
Guyana	37.6	55.3	-6.7	55.1	182.4	38.1	-10.7	64.4	160.7	-23.1	21.9	218.0	-18.6	40.1
Haiti	11.0	-30.6	1.3	-2.7	-19.2	24.8	49.2	92.4	8.8	-3.9	-3.5	71.2	-24.3	19.6
Jamaica	-12.5	23.6	40.2	85.7	-23.8	-10.1	-0.4	53.3	-22.6	9.4	18.4	40.6	-12.0	10.9
Dominican Republic	59.4	-6.6	70.4	47.1	40.9	66.1	18.4	-9.1	24.6	16.4	-19.5	24.4	10.6	18.6
Suriname	-40.0	51.3	72.1	6.9	85.2	10.5	35.4	586.3	53.8	496.7	-37.5	83.4	-30.5	55.8
Trinidad and Tobago	20.1	-4.3	37.7	0.4	43.2	14.9	63.2	10.8	26.8	-22.0	28.6	-9.0	6.1	17.4
Others	-16.4	-36.9	112.3	-16.7	-21.9	-24.6	-26.9	41.3	-26.5	30.4	-25.9	7.0	-0.9	-10.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from EUROSTAT, "Intra and Extra EU Trade. Monthly data" [CD-ROM] 2003.

Table I.5
**PRICES OF PRINCIPAL COMMODITIES EXPORTED BY LATIN AMERICAN
 AND CARIBBEAN COUNTRIES, 1995-2003**
(Indices (1995=100), in dollars and percentages)

Product/Year	Unit	1995	1998	2000	2001	2002	2003 ^a	Last price (Dec. 2003)
Agricultural products								
Rice	Ton	100.0	95.0	63.4	53.4	59.6	61.4	198.30
Sugar	Pound	100.0	67.7	61.7	64.7	51.9	53.4	0.06
Banana	Pound	100.0	108.5	95.5	132.7	121.1	85.4	0.17
Meat	Pound	100.0	90.5	101.5	111.7	111.4	111.9	1.05
Shrimp	Pound	100.0	113.6	116.9	115.3	89.8	88.1	0.05
Wheat	Ton	100.0	72.1	66.6	72.6	84.8	84.1	170.00
Corn	Ton	100.0	80.8	75.7	78.8	86.7	87.3	130.00
Soybean	Ton	100.0	93.6	81.7	75.5	82.0	99.4	327.00
Soybean oil	Ton	100.0	100.2	54.1	56.6	72.7	88.6	638.00
Soy meal	Ton	100.0	89.9	94.8	93.9	90.7	106.6	277.00
Colombian coffee	Pound	100.0	90.2	64.8	45.6	41.2	42.5	0.69
Brazilian coffee	Pound	100.0	68.0	44.6	28.2	25.1	28.4	0.57
Cocoa	Pound	100.0	117.2	62.0	76.0	124.2	122.5	0.74
Cotton	Pound	100.0	62.5	56.7	45.9	44.3	60.7	0.74
Cowhides	Kilogram	100.0	47.3	59.5	84.2	82.2	68.6	0.81
Fishmeal	Ton	100.0	133.7	83.4	98.3	122.7	123.4	656.00
Wool	Pound	100.0	79.5	98.3	76.5	95.4	118.2	219.90
Wood pulp	Ton	100.0	50.9	77.3	52.4	48.5	53.0	448.00
Tobacco	Ton	100.0	126.2	113.1	113.1	103.5	100.0	2 643.30
Minerals								
Aluminium	Pound	100.0	75.2	85.8	80.0	74.7	79.2	0.71
Copper	Pound	100.0	56.3	61.8	53.8	53.1	60.6	1.00
Tin	Pound	100.0	89.1	87.5	72.1	65.3	78.7	2.75
Iron	Pound	100.0	110.0	102.6	107.0	105.9	114.8	0.31
Nickel	Pound	100.0	56.3	105.0	72.2	82.3	112.0	5.48
Lead	Pound	100.0	83.9	72.0	75.5	71.7	81.8	0.31
Zinc	Pound	100.0	99.4	109.4	85.9	75.4	80.3	0.44
Gold	Ounce	100.0	76.6	72.6	70.5	80.7	94.6	407.00
Silver	Ounce	100.0	106.5	96.3	84.5	89.2	94.6	5.65
Petroleum	Barrel	100.0	77.5	166.9	145.0	147.5	171.1	30.07
Compound indices								
Latin American products	...	100.0	82.5	114.9	97.1	100.5	116.0	
Agricultural products	...	100.0	88.8	77.4	77.7	80.9	83.3	
Mining products ^b	...	100.0	83.7	88.1	78.0	77.6	88.5	
Mining products ^c	...	100.0	83.1	96.0	84.7	84.6	96.8	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*, Geneva, December 2003; World Bank, *Global Commodity Markets*, Washington, D.C., January 2004; World Bank, *Commodity Prices Data Pinksheet*, Washington, D.C., December 2003.

^a Index based on the average value January-December for 2003.

^b Arithmetic mean excluding petroleum.

^c Arithmetic mean including petroleum.

Box I.2

RISE IN PRICES OF LATIN AMERICAN COMMODITIES HOW LONG WILL THE CYCLE LAST?

Unexpectedly high rises in Latin American commodity prices since the end of 2002 and throughout 2003 contributed to a recovery in Latin American exports. The industrial commodity price index of the review *The Economist* recorded rises of close to 25% up to September. The main Latin American commodities experienced price rises of the order of 7% and 15%, depending on whether or not oil prices are included. For the set of countries in the region, the highest rises occurred in 2003: petroleum and petroleum-based products: 22%; oils, meals and seeds: 20%; mineral and metal products: 12%; and beverages: 5%. These four groups of products account for 41%, 25%, 8% and 7%, respectively, of the regional export basket.

The export value of primary products improved in all of these countries, except in Venezuela and Bolivia, where short-term conditions prevailed. Argentina, Brazil and Uruguay expanded their agricultural exports aided especially by the rise in the prices of soybean and soy products (oils and meals). Coffee exports from Colombia, Brazil and the Central American countries increased following the rise in prices which was in excess of 16% and 30%, depending on the variety of the bean (robust, arabica or others); Paraguay benefited from the rise in cotton prices (37%) and wool (24%). For

their part, Peru and Chile were favoured by the impressive rise in the price of copper, which at the end of February was over US\$ 1.33 per pound, one of the highest levels in the last three years.

For the Central American and Caribbean countries, the greatest stimulus came from the recovery in the price of sugar, the main product in its export basket. Other countries that received a boost from the rise in prices were Colombia, Ecuador, Mexico, Trinidad and Tobago and Belize, where high oil prices –10% more than in 2002– led to growth rates of over 20% in the mining and oil sectors (see table I.18).

The price rises, especially in Latin America, were due, inter alia, to the following factors: (a) the devaluation of the dollar, which spurred investment in futures in raw material stock exchanges, including copper, nickel and gold exchanges; (b) the expansion of new purchase markets, such as China, India and Russia, which, given their importance in the world economy, pushed prices up; (c) persistent geopolitical tensions in the middle east, which kept oil prices high; (d) the reduction in stocks in some major markets such as soybean, cotton and copper (for example, Indonesia closed one of its main copper mines); and (e) the renewed appeal of raw material investment funds, which had become low-risk diversification points under

hedging operations or positioning in alternative assets.

While the dollar continues to depreciate, expectations from raw material prices will continue to be positive. However, there is no empirical evidence that can determine up to what point the upward trend will last. The only thing that economists are sure about is that there is no long-term or continuous trend towards a worsening in the terms of trade, although they recognize that relative raw material prices deteriorated substantially over a long period, especially in the case of products as diverse as cotton, aluminium, rice, sugar, banana, cocoa, rubber, leather, wood, silver and wheat, with annual variations of 1% or more and cumulative falls of 60% on average (Ocampo and Parra, 2003).

Prebisch and Singer's hypothesis that relative raw material prices would trend downwards over time owing to low income elasticity of demand of these products implies that raw material exports would be completely unfavourable as a trade specialization pattern. However, the recent expansion in trade in this very segment of exportable production in the developing world seems to contradict this hypothesis. Nevertheless, the weakness of the factors that determined the upward trend in raw material prices makes it doubtful that this trend will persist at such a strong pace for much longer.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of José Antonio Ocampo and María Angela Parra, "The terms of trade for commodities in the twentieth century", *CEPAL Review*, No. 79 (LC/G.2200-P), Santiago, Chile, April 2003; *Financial Times*, 29 September 2003.

3. Trade in services: strong impetus given to trade

Trade in services recovered more strongly in 2002–2003, after stagnating heavily in 2001. The main expansion was due to the strong export potential of the Asian developing countries, Central Europe and Russia, which had higher rises than the world average. The decrease of both imports and exports from the

Latin American countries in 2002 due to the lower activity in the trade in goods, on the one hand, and the decline in tourism in the countries of South America and the Caribbean, on the other†contrasted with the recovery in the world trade in services (WTO, 2003b) (see table I.6).

Table I.6
EXPORTS OF COMMERCIAL SERVICES IN THE GLOBAL ECONOMY
(Millions of dollars and growth rates)

	Exports				Imports			
	Value		Annual growth (%)		Value		Annual growth (%)	
	2003	2001	2002	2003	2003	2001	2002	2003
World	1 763	0.2	6.2	12.3	1 743	0.6	5.2	12.8
United States	282	-3.0	1.3	3.6	218	-1.5	1.8	6.0
Japan	70	-6.8	1.9	7.8	110	-7.5	-0.4	3.2
European Union	801	3.2	9.7	16.7	782	3.1	8.7	16.9
Latin America and the Caribbean	62	-2.6	-3.9	6.6	69	0.9	-8.6	3.3
Economies in transition	72	7.1	10.9	19.4	82	11.7	15.8	26.0
Africa	36	0.7	3.3	14.6	46	1.5	2.3	14.1
Middle East	33	-9.7	-1.3	11.9	49	-6.5	1.6	8.6
Developing Asia	275	0.9	8.0	9.4	284	0.1	4.9	11.1
China	45	9.1	19.7	14.3	54	8.9	18.1	17.2
Hong Kong (SAR of China)	43	1.8	9.0	-4.8	24	-0.7	-0.5	-0.8
Republic of Korea	31	-5.5	-3.6	14.5	39	-1.7	8.4	11.0
Singapore	30	-2.2	3.3	11.3	27	-5.9	1.2	31.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the World Trade Organization (WTO) and information taken from the Balance of Payments of Latin America and the Caribbean (see table I.15).

Estimates of world tourism growth in 2002 show that contrary to the flat growth and slower activity expected, tourist travel expanded, surpassing the 700 million person mark, with greater frequency in Asia-Pacific and Europe (WTO, 2003a). Among the different sectors of the trade in services, in addition to the rise in tourism and thus the travel and transport, the strongest boost came from the category “other services” (WTO, 2003h). This category contemplates services, such as construction, finances, telecommunications, computer science, corporate services, insurance, royalties and government services.

In 2003, international tourism closed with a 1.2% decrease in international arrivals. This was the outcome of a difficult year, which saw the conjunction of three negative factors: the conflict in Iraq, SARS and the economic instability worldwide (WTO, 2004). Although circumstances improved gradually over the months, the rally was not sufficient for tourism to recover in all destinations. Thus Europe had zero growth (0%), Asia suffered a contraction (-9%). On the other hand, South America and the countries of the Caribbean recorded significant increases in activity (12% and 8% respectively) (see section D below).

B. The trade in goods and services in Latin America and the Caribbean in 2002-2003: the balance of payments

1. The situation in 2003

In 2003, the region managed to reverse partially the declining trend in its external trade prevailing in 2001 and 2002, thanks to the stronger performance of exports, while in some countries, imports continued to decline in 2003, although to a lesser extent than in 2002. According to the projections of the Statistics and Economic Projections

Division of ECLAC for a set of 19 countries, the value of exports increased by 8.3% with the exception of Panama and Venezuela, which sustained considerable reductions in export volumes. With the exception of Honduras, Nicaragua and Panama, all the other countries showed increases in per unit values of exports (see table I.7a).

Table I.7a
**LATIN AMERICA AND THE CARIBBEAN: EXPORT TREND, VALUE, VOLUME
 AND UNIT VALUE INDICES, 2001-2003**
(Growth rates)

Subregions/Countries	2001			2002			2003 ^a		
	Volume	Unit value	Value	Volume	Unit value	Value	Volume	Unit value	Value
Latin America and the Caribbean	1.7	-6.1	-4.5	1.4	-0.3	1.1	5.1	3.2	8.3
MERCOSUR countries	7.3	-3.3	3.8	6.3	-4.5	1.5	13.3	5.6	18.9
Argentina	4.1	-3.5	0.5	-0.1	-3.0	-3.1	5.2	8.6	14.3
Brazil	9.0	-3.0	5.7	9.1	-5.0	3.7	15.3	5.0	21.1
Paraguay	-16.3	-3.4	-19.1	0.0	0.0	0.0	7.6	4.0	11.9
Uruguay	-7.3	-3.0	-10.1	-9.4	-1.0	-10.3	12.6	5.0	18.2
Chile	7.5	-10.6	-3.9	1.3	-2.0	-0.7	5.3	9.0	14.8
Andean Community	1.1	-16.8	-15.9	-0.1	2.2	2.0	0.4	5.0	5.4
Bolivia	8.1	-4.6	3.1	4.1	-2.0	2.0	13.3	6.0	20.1
Colombia	2.5	-8.5	-6.2	-0.9	-2.8	-3.7	5.2	4.5	9.9
Ecuador	5.9	-10.7	-5.4	6.5	2.0	8.6	12.6	6.0	19.4
Peru	8.2	-7.9	-0.4	5.1	3.8	9.1	8.4	8.0	17.1
Venezuela	-3.8	-18.6	-21.7	-4.2	6.0	1.5	-13.0	11.0	-3.4
Mexico	-1.3	-3.5	-4.8	-0.5	2.0	1.5	1.3	1.5	2.9
Central America and the Caribbean	-6.7	-5.4	-11.7	8.3	-1.3	6.9	15.1	0.5	15.6
Costa Rica	-10.7	-5.1	-15.3	9.6	-2.5	6.8	16.2	0.3	16.6
El Salvador	3.8	-6.0	-2.4	5.2	-0.8	4.4	4.0	0.8	4.8
Guatemala	-1.3	-6.0	-7.2	-7.6	-0.5	-8.1	4.4	1.6	6.1
Haiti	-4.3	-2.9	-7.1	-10.0	0.0	-10.0	18.4	1.8	20.6
Honduras	2.5	-5.8	-3.4	2.4	-3.0	-0.6	8.3	-0.6	7.7
Nicaragua	11.1	-11.1	-1.3	1.3	-1.6	-0.4	1.4	0.0	1.4
Panama	5.8	-3.0	2.6	-11.3	0.0	-11.3	-4.5	-0.5	-5.0
Dominican Republic	-6.1	-2.0	-8.0	-1.8	0.0	-1.8	3.4	2.5	6.0

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

^a Preliminary figures.

In turn, the sluggish performance of imports compared with the two previous years reveals the constant need of countries to maintain equilibrium in their balance of payments, which owing to the high import propensity in the region requires instruments for the control of aggregate demand. In some countries, such as Bolivia, Nicaragua, Panama, Dominican Republic and Venezuela, the growth in the import volume was negative, while in others such as Brazil, Ecuador and Mexico, growth was scant (see table I.7b). These economies, which account for approximately 79% of Latin American imports are responsible for the flat growth of the import ratio in regional GDP at levels below those of the export ratio,

with the consequent generation of surpluses in the merchandise account (see figure I.4). In 2003, the overall level of imports in the region was still 6% lower than its highest level in 2000 and 4% lower than in 2001, with the peculiarity that imports from outside the region were much more strongly affected than imports from within the region (see below). The combined recovery of the per unit value of exports and imports in 2003 as well as the recovery of export prices, together with the lower relative increase of prices of manufactures, favoured trade in agricultural and mining products, giving as a result a slight positive variation in the terms of trade (see figure I.5 and tables I.7a and I.7b).

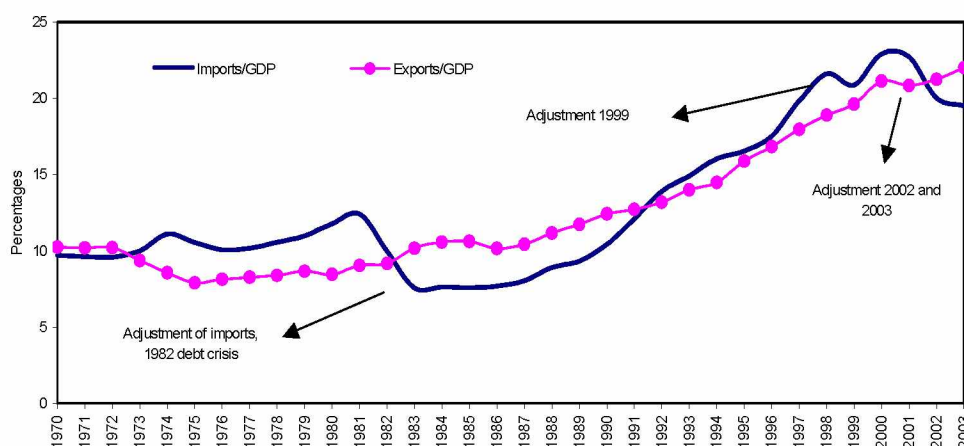
Table I.7b
**LATIN AMERICA AND THE CARIBBEAN: GROWTH IN IMPORTS, VALUE, VOLUME
 AND UNIT VALUE INDICES, 2001-2003**
(Growth rates)

Subregions/Countries	2001			2002			2003 ^a		
	Volume	Unit value	Value	Volume	Unit value	Value	Volume	Unit value	Value
Latin America and the Caribbean	0.8	-3.2	-2.5	-7.4	0.7	-6.8	2.1	1.1	3.2
MERCOSUR countries	-4.6	-2.1	-6.5	-20.5	-0.1	-20.6	9.2	1.0	10.2
Argentina	-17.2	-3.0	-19.7	-54.9	-2.0	-55.8	54.2	0.1	54.4
Brazil	2.6	-2.9	-0.4	-13.3	-2.0	-15.0	1.2	1.0	2.2
Paraguay	-9.8	-3.3	-12.8	-13.5	0.1	-13.5	4.0	5.0	9.2
Uruguay	-8.3	-4.0	-12.0	-35.4	-0.5	-35.7	8.1	3.3	11.7
Chile	0.0	-3.9	-4.0	-1.6	-2.0	-3.6	10.6	3.0	13.9
Andean Community	13.7	-3.0	10.3	-12.0	0.1	-11.9	-5.5	3.1	-2.4
Bolivia	-5.0	-3.4	-8.2	5.3	-1.5	3.7	-9.8	1.0	-8.9
Colombia	14.0	-3.0	10.6	-0.6	-1.0	-1.6	7.1	2.5	9.8
Ecuador	46.3	-3.2	41.6	20.4	-0.6	19.6	-1.4	2.6	1.2
Peru	3.0	-4.0	-1.1	1.5	0.8	2.3	6.6	4.0	10.8
Venezuela	13.8	-2.8	10.6	-26.6	-0.5	-27.0	-22.5	1.4	-21.4
Mexico	0.0	-3.5	-3.5	-1.3	1.5	0.2	0.8	0.5	1.4
Central America and the Caribbean	10.2	-3.6	6.2	12.2	-0.6	11.6	11.4	3.1	14.9
Costa Rica	-0.9	-3.8	-4.7	14.7	-1.0	13.5	7.3	3.5	11.1
El Salvador	5.1	-3.0	2.0	2.6	0.0	2.6	8.2	2.1	10.4
Guatemala	13.0	-4.0	8.4	7.9	0.5	8.5	-1.1	3.5	2.4
Haiti	1.1	-4.0	-2.9	-8.0	1.0	-7.1	9.5	3.9	13.8
Honduras	9.2	-3.7	5.2	-0.1	0.0	-0.1	6.8	2.3	9.3
Nicaragua	1.1	-3.0	-2.0	1.0	0.0	1.0	-4.1	3.5	-0.8
Panama	-0.8	-3.5	-4.2	-6.0	1.0	-5.0	-4.8	1.6	-3.3
Dominican Republic	-4.1	-3.5	-7.4	0.6	0.6	1.2	-9.7	3.0	-7.0

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

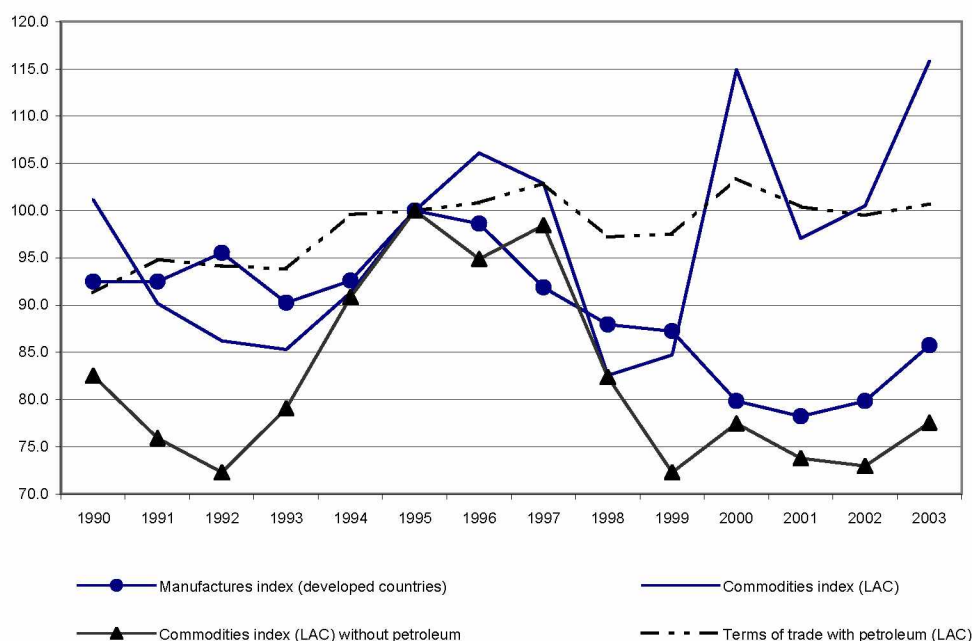
^a Preliminary figures.

Figure I.4
LATIN AMERICA: TRADE IN GOODS AND SERVICES, 1970-2003
(Percentages of GDP, 1995 dollars)



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

Figure I.5
**LATIN AMERICA AND THE CARIBBEAN: PRICE INDICES OF MANUFACTURES,
 COMMODITIES AND TERMS OF TRADE, 1990-2003**
 (1995=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *Monthly Bulletin of Statistics*, Department of Economic and Social Affairs (DESA), New York.

As a result of this combination of trends, the countries of South America accrued a merchandise trade surplus for the first time in 12 years. Amounting to US\$ 60 billion, this surplus was concentrated basically in Argentina, Brazil and Venezuela. The countries of MERCOSUR achieved a trade surplus of goods and services of the order of 4% of subregional GDP, with the exception of Paraguay, whose deficit was -1.1% of GDP. Chile's surplus was 3.3% of GDP, a figure closer to the average for the Andean Community, attributable solely to Venezuela, since the other Andean countries accrued a deficit on the account of the trade in goods and services. Mexico continued to run a high deficit of approximately US\$ 10.07 billion (or 1.6% of GDP) on its trade in goods and services.

The countries of the Central American Common Market (CACM) give the most cause for concern; their current account balance improved but only thanks to

current transfers –including remittances of workers abroad– which are important cushioning mechanisms which make it possible to cover the high payments to external factors for portfolio investment rents (bonds, notes, stocks or others) and foreign direct investment (reinvested earnings), as well as the payment of contributions to social security and private insurance for non-resident workers. In general, the current account deficits narrowed in absolute terms in most of the countries, with the exception of Chile, Colombia, Costa Rica, El Salvador and Honduras (see tables I.8a and I.9a).

In the Caribbean countries, the current account deficit shrank by approximately US\$ 2 billion thanks to the convergence of two positive factors: an increase in current transfers and an upturn in the tourism sector, which helped to offset the merchandise trade balance (see tables I.8b and I.9b).

Table I.8a
**LATIN AMERICA AND THE CARIBBEAN: GOODS AND SERVICES TRADE BALANCE
 AND CURRENT ACCOUNT BALANCE, 2001-2003**
(Percentages of GDP)^a

Subregions/Countries	Goods and services trade balance			Current account balance		
	2001	2002	2003 ^d	2001	2002	2003 ^d
Latin America and the Caribbean^b	-1.3	0.3	1.3	-2.8	-0.9	0.1
Latin America (19 countries)^c	-1.2	0.5	1.5	-2.8	-0.7	0.3
MERCOSUR countries	-0.3	3.0	4.3	-3.4	0.3	1.5
Argentina	1.3	6.5	5.7	-1.5	4.0	3.1
Brazil	-1.0	1.5	3.7	-4.5	-1.5	0.8
Paraguay	-6.2	-1.1	-1.1	-3.7	1.3	0.8
Uruguay	-2.4	1.0	2.0	-2.9	1.5	0.4
Chile	1.7	2.3	3.3	-1.8	-0.8	-0.9
Andean Community	0.3	2.2	3.6	-0.4	1.1	2.3
Bolivia	-5.8	-6.1	-1.5	-3.4	-4.1	0.1
Colombia	-1.1	-1.5	-1.6	-1.5	-1.9	-1.9
Ecuador	-5.1	-8.4	-4.0	-3.1	-6.3	-2.2
Peru	-2.1	-1.3	-0.5	-2.2	-2.2	-1.9
Venezuela	3.4	9.0	12.2	1.7	6.5	9.4
Mexico	-2.2	-1.9	-1.6	-2.9	-2.3	-1.5
CACM	-11.1	-12.6	-12.5	-5.7	-6.0	-6.2
Costa Rica	-0.6	-3.5	-1.9	-4.6	-5.7	-5.5
El Salvador	-16.1	-15.0	-17.1	-1.4	-2.7	-5.1
Guatemala	-10.5	-13.6	-13.2	-6.1	-5.7	-5.2
Honduras	-16.7	-15.7	-17.7	-4.6	-3.7	-3.8
Nicaragua	-40.4	-41.3	-39.6	-36.6	-34.5	-30.7
Panama	2.0	-0.6	1.6	-1.7	-0.9	-3.9
Caribbean countries	-5.4	-6.2	-4.1	-3.4	-4.2	-1.9

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

^a Estimates based on data in current dollars.

^b Includes the 35 countries listed in tables I.8a and I.8b.

^c Includes 19 countries in the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

^d Preliminary estimates.

Table I.8b
**LATIN AMERICA AND THE CARIBBEAN: GOODS AND SERVICES TRADE BALANCE
 AND CURRENT ACCOUNT BALANCE, 2001-2003**
(Percentages of GDP)^a

Subregions/Countries	Goods and services trade balance			Current account balance		
	2001	2002	2003 ^b	2001	2002	2003 ^b
Caribbean countries	-5.4	-6.2	-4.1	-3.4	-4.2	-1.9
Cuba	-3.0	-1.9	-1.0	-1.9	-1.1	-0.7
Dominican Republic	-7.8	-8.6	-1.8	-3.4	-3.9	3.8
CARICOM	-7.3	-10.2	-9.9	-5.6	-8.5	-7.8
Bahamas	-4.3	-2.8	-3.6	-7.5	-6.5	-6.0
Barbados	-4.2	-7.0	-9.4	-4.1	-7.7	-10.1
Belize	-25.1	-20.6	-19.8	-28.9	-24.5	-23.6
Guyana	-13.7	-10.9	-20.3	-15.6	-12.7	-18.1
Haiti	-29.8	-28.4	-32.2	-3.4	-1.7	-1.9
Jamaica	-16.7	-21.4	-21.4	-10.2	-14.9	-15.2
Suriname	-13.8	-11.0	-26.0	-15.6	-12.8	-17.8
Trinidad and Tobago	13.4	5.2	11.7	7.2	-0.2	5.2
OECS	-12.1	-13.6	-15.9	-14.7	-16.9	-19.8
Anguilla	-28.5	-22.7	-28.5	-32.0	-25.4	-32.8
Antigua and Barbuda	-4.9	-8.3	-11.3	-8.0	-12.7	-16.0
Dominica	-17.5	-13.3	-15.7	-18.3	-16.6	-18.9
Grenada	-17.5	-22.3	-21.9	-21.7	-27.6	-29.3
Montserrat	-80.0	-105.1	-122.1	-18.5	-30.9	-48.8
Saint Kitts and Nevis	-22.8	-26.1	-24.5	-28.3	-32.8	-32.5
Saint Lucia	-3.2	-2.3	-4.6	-7.3	-6.5	-10.1
Saint Vincent and the Grenadines	-11.0	-13.2	-18.3	-12.1	-13.8	-16.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data supplied by ECLAC Subregional Headquarters for the Caribbean.

^a Estimates on the basis of data in current dollars.

^b Preliminary estimates.

Table I.9a
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF THE CURRENT ACCOUNT, 2001-2003
(Millions of dollars)

Subregions/Countries	Goods and services trade balance			Current transfers			Income account balance			Current account balance		
	2001	2002	2003 ^c	2001	2002	2003 ^c	2001	2002	2003 ^c	2001	2002	2003 ^c
Latin America and the Caribbean^a	-25 123	6 339	25 523	26 982	30 126	35 916	-56 804	-53 124	-58 640	-54 945	-16 659	2 799
Latin America (19 countries)^b	-22 953	9 105	27 908	24 938	27 898	33 512	-54 830	-50 869	-56 113	-52 845	-13 866	5 307
MERCOSUR countries	-2 581	23 743	34 745	2 264	3 151	3 678	-27 622	-24 619	-26 296	-27 939	2 275	12 127
Argentina	3 432	15 548	14 746	432	576	620	-7 770	-6 498	-7 425	-3 906	9 627	7 941
Brazil	-5 108	8 105	19 737	1 638	2 390	2 867	-19 743	-18 190	-18 552	-23 213	-7 695	4 051
Paraguay	-457	-83	-81	167	116	115	16	59	25	-275	92	59
Uruguay	-447	172	344	27	69	76	-125	10	-344	-545	251	76
Chile	1 136	1 556	2 249	428	426	438	-2 757	-2 536	-3 280	-1 192	-553	-594
Andean Community	900	6 196	9 998	5 192	5 374	6 216	-7 288	-8 447	-9 803	-1 196	3 123	6 412
Bolivia	-459	-503	-124	396	369	431	-211	-202	-302	-274	-335	5
Colombia	-921	-1 233	-1 430	2 263	2 473	2 773	-2 593	-2 820	-3 019	-1 251	-1 580	-1 677
Ecuador	-920	-1 570	-763	1 639	1 654	1 772	-1 269	-1 262	-1 434	-550	-1 178	-425
Peru	-1 102	-741	-286	1 042	1 043	1 243	-1 123	-1 509	-2 073	-1 184	-1 206	-1 116
Venezuela	4 302	10 242	12 601	-148	-165	-2	-2 092	-2 654	-2 975	2 062	7 423	9 624
Mexico	-13 511	-11 964	-10 070	9 338	10 268	13 728	-13 929	-12 350	-12 808	-18 103	-14 046	-9 150
CACM	-6 567	-7 629	-7 857	4 694	5 464	5 977	-1 531	-1 484	-1 994	-3 404	-3 649	-3 874
Costa Rica	-92	-583	-337	148	169	197	-793	-532	-831	-737	-946	-970
El Salvador	-2 208	-2 099	-2 443	2 284	2 003	2 117	-266	-287	-408	-190	-384	-734
Guatemala	-2 165	-2 853	-2 834	997	1 959	2 136	-84	-298	-411	-1 253	-1 193	-1 109
Honduras	-1 075	-1 034	-1 205	929	957	1 092	-148	-166	-145	-293	-243	-258
Nicaragua	-1 027	-1 059	-1 038	336	377	435	-240	-200	-200	-932	-883	-804
Panama	203	-58	171	226	250	241	-602	-284	-820	-174	-92	-408
Caribbean countries	-4 703	-5 505	-3 711	4 840	5 192	5 639	-3 075	-3 404	-3 640	-2 937	-3 717	-1 713

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

^a Includes the 35 countries listed in tables I.9a y I.9b.

^b Includes 19 countries of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

^c Preliminary estimates.

Table I.9b
CARIBBEAN COUNTRIES: COMPOSITION OF THE CURRENT ACCOUNT, 2001-2003^a
(Millions of dollars)

Subregions/Countries	Goods and services trade balance			Current transfers			Income account balance			Current account balance		
	2001	2002	2003 ^b	2001	2002	2003 ^b	2001	2002	2003 ^b	2001	2002	2003 ^b
Caribbean countries	-4 703	-5 505	-3 711	4 840	5 192	5 639	-3 075	-3 404	-3 640	-2 937	-3 717	-1 713
Cuba	-863	-547	-285	813	820	910	-502	-600	-825	-552	-327	-200
Dominican Republic	-1 677	-1 928	-400	2 028	2 188	2 350	-1 092	-1 135	-1 100	-741	-875	850
CARICOM	-2 163	-3 030	-3 026	2 000	2 184	2 379	-1 481	-1 669	-1 715	-1 644	-2 515	-2 363
Bahamas	-200	-131	-169	42	42	34	-190	-211	-146	-348	-300	-281
Barbados	-94	-156	-216	94	86	95	-93	-102	-111	-93	-172	-232
Belize	-161	-137	-137	48	46	46	-72	-72	-72	-185	-163	-163
Guyana	-114	-92	-173	44	40	45	-59	-55	-26	-129	-107	-154
Haiti	-856	-811	-927	769	776	885	-9	-14	-13	-97	-49	-56
Jamaica	-1 235	-1 599	-1 618	916	1 088	1 095	-438	-606	-623	-757	-1 117	-1 146
Suriname	-114	-92	-225	-59	-55	24	44	40	47	-129	-107	-154
Trinidad and Tobago	956	378	901	33	47	37	-476	-443	-539	513	-18	399
OECS	-345	-390	-462	113	114	118	-188	-206	-232	-420	-482	-576
Anguilla	-32	-26	-33				-4	-3	-5	-36	-29	-38
Antigua and Barbuda	-33	-57	-80	6	6	6	-27	-36	-39	-54	-87	-113
Dominica	-46	-33	-39	17	12	14	-19	-20	-22	-48	-41	-47
Grenada	-71	-89	-88	22	22	24	-39	-43	-54	-88	-110	-118
Montserrat	-26	-34	-40	21	26	24	-1	-2		-6	-10	-16
Saint Kitts and Nevis	-78	-90	-86	18	19	16	-37	-42	-44	-97	-113	-114
Saint Lucia	-22	-16	-33	14	14	13	-42	-43	-52	-50	-45	-72
Saint Vincent and the Grenadines	-37	-45	-63	15	15	21	-19	-17	-16	-41	-47	-58

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

^a Includes all the countries mentioned in the table, except for Aruba and the Netherlands Antilles, for which no information was available.

^b Preliminary estimates.

2. The situation in 2002

Starting in 2001 and intensifying in 2002, the region was able due to foreign exchange problems, the adjustment of imports and the stronger recovery of exports[†] first to reduce the merchandise trade deficit and subsequently to accrue a surplus of the order of US\$ 14.7 billion, concentrated basically in Argentina, Brazil, Venezuela and to some extent, Chile. The reciprocal

adjustment in intraregional trade between Argentina and Brazil meant that in the countries of MERCOSUR as a whole, the accumulated surplus exceeded US\$ 30 billion. In addition, the higher exports from Venezuela, despite the strong contraction in the last quarter of 2002 meant that the country accumulated a positive balance of just over US\$ 13 billion (see table I.10).

Table I.10
**LATIN AMERICA AND THE CARIBBEAN: VARIATION
 IN THE GOODS TRADE BALANCE, 2001-2002^a**
(Millions of current dollars)

Subregions/Countries	Exports			Imports			Trade balance		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Latin America and the Caribbean (37)	372 188	355 560	357 525	376 571	367 142	342 843	-4 384	-11 581	14 682
Latin America (19 countries)^b	358 865	342 712	346 416	355 272	346 442	322 780	3 593	-3 731	23 637
Latin America (without Mexico)	192 410	184 269	185 654	180 815	178 046	154 101	11 596	6 223	31 553
MERCOSUR	86 208	88 793	89 878	85 812	80 143	59 727	397	8 650	30 151
Argentina	26 410	26 543	25 709	23 852	19 158	8 473	2 558	7 385	17 236
Brazil	55 086	58 223	60 362	55 783	55 572	47 219	-697	2 651	13 143
Paraguay	2 329	1 883	1 884	2 866	2 499	2 162	-537	-615	-278
Uruguay	2 384	2 144	1 923	3 311	2 915	1 873	-927	-771	50
Chile	19 210	18 466	18 340	17 091	16 411	15 827	2 119	2 054	2 513
Andean Community	60 486	52 097	53 108	40 573	44 858	40 868	19 914	7 239	12 240
Bolivia	1 246	1 285	1 310	1 610	1 477	1 532	-364	-193	-222
Colombia	13 620	12 772	12 302	11 090	12 269	12 077	2 531	503	225
Ecuador	5 057	4 781	5 192	3 657	5 179	6 196	1 399	-397	-1 004
Peru	7 034	7 007	7 647	7 351	7 273	7 440	-317	-267	207
Venezuela	33 529	26 252	26 656	16 865	18 660	13 622	16 664	7 592	13 034
Mexico^c	166 455	158 443	160 763	174 458	168 396	168 679	-8 003	-9 954	-7 916
CACM	14 602	13 340	13 556	19 792	20 110	21 464	-5 190	-6 771	-7 909
Costa Rica ^b	5 813	4 923	5 259	6 025	5 744	6 523	-211	-821	-1 263
El Salvador ^b	2 963	2 891	3 017	4 703	4 796	4 922	-1 740	-1 905	-1 906
Guatemala	3 082	2 860	2 629	4 742	5 142	5 578	-1 660	-2 282	-2 950
Honduras	2 012	1 943	1 930	2 670	2 807	2 804	-658	-865	-874
Nicaragua	732	723	721	1 653	1 620	1 636	-921	-897	-916
Panama	5 839	5 992	5 315	6 981	6 689	6 352	-1 143	-696	-1 037
Caribbean countries^d	19 388	18 430	16 567	31 864	30 534	29 927	-12 477	-12 104	-13 360

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

^a The figures presented here differ from those appearing in the statistical appendix because they have been compiled using different aggregations and methodologies. Table I.10 was prepared using each country's balance-of-payments statistics.

^b Includes 19 countries of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

^c Includes the maquila sector.

^d Corresponds to the total of countries indicated in table I.11.

In addition, despite the fact that 11 Caribbean countries reduced their merchandise trade deficits, Trinidad and Tobago's smaller surplus and the increase in the deficits of six other countries, including major

economies such as Jamaica and the Dominican Republic, together with Aruba and Barbados, ended up raising the overall deficit of the Caribbean economies (see table I.11).

Table I.11
CARIBBEAN COUNTRIES: VARIATION IN THE GOODS TRADE BALANCE, 2000-2002
(Millions of current dollars)

Subregions/Countries	Exports			Imports			Trade balance		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Caribbean countries	19 388	18 430	16 567	31 864	30 534	29 927	-12 477	-12 104	-13 360
Netherlands Antilles	572	629	517	1 521	1 485	1 532	-949	-856	-1 015
Aruba	2 580	2 441	1 513	2 615	2 363	2 052	-35	78	-539
Cuba	1 677	1 661	1 402	4 877	4 838	4 161	-3 200	-3 178	-2 759
Dominican Republic	5 737	5 276	5 183	9 479	8 779	8 883	-3 742	-3 503	-3 699
CARICOM	8 822	8 423	7 952	13 374	13 068	13 299	-4 551	-4 645	-5 347
Bahamas	805	614	740	2 176	1 765	1 776	-1 371	-1 151	-1 036
Barbados	286	271	251	1 030	952	953	-744	-681	-702
Belize	295	275	310	487	489	500	-192	-214	-190
Guyana	505	490	495	585	584	563	-80	-94	-68
Haiti	328	305	274	1 087	1 055	980	-758	-750	-706
Jamaica	1 563	1 454	1 309	3 004	3 073	3 179	-1 441	-1 618	-1 870
Suriname	399	437	369	246	297	322	153	140	47
Trinidad and Tobago	4 288	4 273	3 894	3 333	3 544	3 701	955	729	193
OECS^a	352	303	309	1 425	1 309	1 325	-1 073	-1 006	-1 016
Anguilla	4	4	4	83	68	61	-79	-65	-57
Antigua and Barbuda	42	43	39	342	321	336	-300	-278	-297
Dominica	55	44	43	130	115	102	-76	-71	-59
Grenada	83	64	44	221	197	191	-138	-133	-147
Montserrat	1	1	1	19	17	25	-18	-16	-24
Saint Kitts and Nevis	52	51	65	173	167	178	-121	-115	-113
Saint Lucia	63	54	74	313	272	276	-249	-218	-202
Saint Vincent and the Grenadines	52	43	40	144	152	157	-93	-109	-117

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Central Bank of the Dominican Republic, the Central Bank of Suriname, the Central Bank of the Eastern Caribbean; The Economist Intelligence Unit (EIU), "Trinidad and Tobago, Guyana and Suriname Country Report", June 2003; "Bahamas, Barbados, Bermuda, British Virgin Islands, Netherlands Antilles, Aruba, Turk and Caicos Islands, Cayman Island Country Report", August 2003; "Cuba Country Report", June 2002; "Dominican Republic, Haiti, Puerto Rico Country Report", June 2003.

^a Includes estimates in the case of Antigua and Barbuda and Saint Lucia.

Trade in services followed the trend of trade in goods, since the traditionally high and unfavourable trade deficits declined considerably. In 2002, Argentina and Brazil saw their deficits in services diminish by 43% and 65% respectively. The reduction in the services deficit in the MERCOSUR countries from US\$ 11.2 billion to approximately US\$ 6.4 billion has been the consequence of the contraction of imports given that Brazilian exports were maintained at the same levels as in 2000 and Argentine exports fell to half the level recorded in that year. However, the Brazilian deficit remained the highest in the region. The countries of the Andean Community, with the exception of Venezuela, saw an increase in their services trade deficit. Chile—despite a small reduction in its services imports—saw its deficit widen owing to a similar reduction in its exports. The highest surplus was accumulated by Costa Rica, while Uruguay's balance contracted to half the 2000 figure (see table I.12).

Meanwhile, the economies of the Caribbean suffered the ill-effects of the events of 11 September

2001 in the United States and saw their traditional services surplus decline from US\$ 8.2 billion to US\$ 7.2 billion (see table I.13).

The combination of high services deficits in Chile and Mexico, together with the decline in services deficits in the countries of the Andean Community and the smaller surplus in the countries of the Caribbean yielded a negative balance for the region of approximately US\$ 9 billion, that is, approximately US\$ 4 billion less than in 2001 (see tables I.12 and I.13).

As a corollary, the current account balances of the MERCOSUR countries individually and as a group, reflected the far-reaching readjustment of their economies, whose result was the generation of a moderate joint surplus. The adjustment of the two main South American economies turned the MERCOSUR current account deficit, which was more than US\$ 28 billion in 2001, into a US\$ 2.3 billion surplus in 2002. The latter was the result of the accumulation of a positive balance of approximately US\$ 9.6 billion by Argentina, and a more modest balance

Table I.12
LATIN AMERICA AND THE CARIBBEAN: SERVICES TRADE BALANCE, 2000-2002^a
(Millions of current dollars)

Subregions/Countries	Exports			Imports			Trade balance		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Latin America and the Caribbean (37)	62 062	60 426	58 082	72 745	73 366	67 080	-10 683	-12 941	-8 998
Latin America (19 countries)^b	49 232	48 016	46 188	66 375	67 237	60 720	-17 143	-19 222	-14 532
Latin America (excluding Mexico)	35 520	35 355	33 496	50 339	51 020	43 980	-14 819	-15 664	-10 484
MERCOSUR	16 052	15 409	13 896	26 933	26 640	20 304	-10 881	-11 231	-6 408
Argentina	4 683	4 407	2 974	8 971	8 360	4 662	-4 288	-3 953	-1 688
Brazil	9 498	9 322	9 606	16 660	17 081	14 644	-7 162	-7 759	-5 038
Paraguay	595	548	541	420	390	345	175	158	196
Uruguay	1 276	1 132	775	882	808	653	394	324	122
Chile	4 078	4 105	3 960	4 726	5 023	4 917	-648	-918	-957
Andean Community	5 879	6 233	5 679	11 866	12 572	11 723	-5 987	-6 339	-6 044
Bolivia	224	236	235	469	503	516	-245	-267	-281
Colombia	2 044	2 180	1 858	3 320	3 604	3 316	-1 276	-1 424	-1 458
Ecuador	849	911	981	1 269	1 434	1 546	-420	-523	-566
Peru	1 580	1 510	1 545	2 373	2 345	2 493	-793	-835	-948
Venezuela	1 182	1 396	1 060	4 435	4 686	3 852	-3 253	-3 290	-2 792
Mexico	13 712	12 660	12 692	16 036	16 218	16 740	-2 323	-3 558	-4 048
CACM	4 117	4 354	4 508	4 039	4 151	4 229	78	203	280
Costa Rica	1 935	1 896	1 864	1 270	1 167	1 184	665	729	680
El Salvador	698	696	782	933	999	976	-235	-303	-194
Guatemala	778	1 045	1 140	826	928	1 044	-48	117	97
Honduras	485	493	527	667	704	687	-182	-210	-160
Nicaragua	221	223	195	343	353	338	-122	-130	-143
Panama	1 994	2 005	2 252	1 141	1 106	1 273	854	899	979
Caribbean countries^c	16 230	15 660	15 095	8 005	7 658	7 895	8 225	8 002	7 200

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

^a Includes all the countries in table II.4b.

^b Includes 19 countries of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

^c Includes the 11 countries indicated in table I.13.

by Paraguay and Uruguay, as well as the reduction of Brazil's current account deficit by 65% (see tables I.8a and I.9a).

Among the Andean Community countries, the current account deficits widened especially in the case of Ecuador but also in Bolivia, Colombia and Peru, notwithstanding the contribution of current transfers—including remittances of workers abroad. For this group of countries, with the exception of Venezuela, transfers added up to a net value of US\$ 5.4 billion, which managed to cover 64% of the factor income account deficit. The rest was absorbed entirely by Venezuela's goods and services trade surplus (US\$ 10.2 billion) (see tables I.8a and I.9a).

For Mexico, Dominican Republic and the CACM countries, the downward trend was maintained, although

in the case of Mexico to levels that still remained very buoyant. Between 2001 and 2002, an increase in the remittances of Mexican workers abroad, which was higher than net factor income outflows, contributed to the decline in the country's current account deficit and to a continuous reduction in the current account balance/GDP ratio, which moved from -2.9% to -2.3% (see tables I.8a and I.9a).

In 2002, the balance of payments of the region again presented a very poor picture; the countries had to draw on reserves of almost US\$ 2.5 billion. The regional balance-of-payments position was compensated with extraordinary financing granted by the International Monetary Fund (IMF), delays in debt servicing payments and a higher private debt on international markets, especially in the case of Mexico and Chile (ECLAC, 2003d, annex).

Table I.13
THE CARIBBEAN: SERVICES TRADE BALANCE, 2000-2002
(Millions of current dollars)

Subregions/Countries	Exports			Imports			Trade balance		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Caribbean countries^a	16 230	15 660	15 095	8 005	7 658	7 895	8 225	8 002	7 200
Netherlands Antilles	1 485	1 562	1 250	686	703	703	799	859	547
Aruba	1 032	1 036	900	654	630	630	378	406	270
Cuba	3 114	2 954	2 836	808	640	625	2 306	2 314	2 211
Dominican Republic	3 228	3 110	3 055	1 373	1 284	1 284	1 854	1 826	1 771
CARICOM^a	7 371	6 998	7 054	4 484	4 401	4 653	2 887	2 597	2 401
Bahamas	2 037	1 890	1 930	1 007	939	1 043	1 030	951	887
Barbados	836	821	798	233	234	252	603	587	546
Belize	160	175	184	125	122	131	35	53	53
Guyana	191	212	217	222	232	242	-31	-20	-24
Haiti	172	140	147	262	245	252	-90	-105	-105
Jamaica	2 026	1 897	1 920	1 442	1 514	1 649	584	383	271
Suriname	91	59	59	206	175	150	-115	-115	-91
Trinidad and Tobago	554	574	599	388	370	362	166	204	237
OECS^a	1 304	1 230	1 201	599	570	574	705	660	627
Anguilla	65	62	60	27	29	29	38	33	31
Antigua and Barbuda	416	403	397	154	154	157	262	249	240
Dominica	90	77	74	53	52	48	37	25	26
Grenada	154	134	138	83	71	79	70	62	58
Montserrat	16	13	11	19	24	21	-3	-11	-10
Saint Kitts and Nevis	98	105	88	75	71	64	23	34	24
Saint Lucia	340	306	299	127	111	114	213	196	186
Saint Vincent and the Grenadines	126	131	134	61	59	62	65	72	72

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

^a Includes estimates for the group of countries for which no recent data were available.

C. Merchandise trade of Latin America and the Caribbean in 2002-2003

1. Movements in merchandise exports and imports

In the 2001-2002 biennium, the export performance of countries of the region was far from the expansion recorded in 2000 (20% and 16% for exports and imports respectively).⁶ On the other hand in 2003, the increase

in export volumes was compounded by the increase in the per unit value of products. In ten countries in the region, in particular Brazil and Argentina, export values expanded by more than 10%, (see table I.14).

⁶ This performance was the result of the international economic crisis which swept through the region through different channels, including (i) weaker international demand; (ii) the weakness of intra-regional trade; (iii) the decline in external financial flows; (iv) the rising cost of external financing, and (v) foreign exchange disequilibria (ECLAC, 2003c, chapter I).

Table I.14
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN GOODS TRADE, 2002-2003
(Millions of dollars and percentage growth)

Subregions/Countries	Exports			Imports			Trade balance	
	2002	2003 ^a	2002-2003	2002	2003 ^a	2002-2003	2002	2003 ^a
Latin America and the Caribbean	346 416	375 009	8.3	322 780	333 262	3.2	23 637	41 747
MERCOSUR	89 878	106 841	18.9	59 727	65 797	10.2	30 151	41 045
Argentina	25 709	29 375	14.3	8 473	13 083	54.4	17 236	16 292
Brazil	60 362	73 084	21.1	47 219	48 260	2.2	13 143	24 825
Paraguay	1 884	2 109	11.9	2 162	2 362	9.2	-278	-254
Uruguay	1 923	2 273	18.2	1 873	2 092	11.7	50	182
Chile	18 340	21 046	14.8	15 827	18 031	13.9	2 513	3 015
Andean Community	53 108	55 997	5.4	40 868	39 874	-2.4	12 240	16 123
Bolivia	1 310	1 573	20.1	1 532	1 396	-8.9	-222	177
Colombia	12 302	13 523	9.9	12 077	13 258	9.8	225	265
Ecuador	5 192	6 197	19.4	6 196	6 268	1.2	-1 004	-71
Peru	7 647	8 954	17.1	7 440	8 244	10.8	207	710
Venezuela	26 656	25 750	-3.4	13 622	10 707	-21.4	13 034	15 043
Mexico	160 763	165 355	2.9	168 679	170 958	1.4	-7 916	-5 603
Central America and the Caribbean	24 328	25 769	5.9	37 679	38 603	2.5	-11 977	-11 533
Costa Rica	5 259	6 132	16.6	6 523	7 245	11.1	-1 263	-1 114
El Salvador	3 017	3 162	4.8	4 922	5 436	10.4	-1 906	-2 274
Guatemala	2 629	2 789	6.1	5 578	5 712	2.4	-2 950	-2 923
Haiti	274	331	20.6	980	1 116	13.8	-706	-785
Honduras	1 930	2 078	7.7	2 804	3 065	9.3	-874	-987
Nicaragua	721	731	1.4	1 636	1 624	-0.8	-916	-893
Panama	5 315	5 051	-5.0	6 352	6 143	-3.3	336	209
Dominican Republic	5 183	5 494	6.0	8 883	8 261	-7.0	-3 699	-2 766

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

^a Preliminary figures with estimates for some countries.

(a) Variation in merchandise exports

Regional exports grew on average by 8.3% in 2003, but this masks a varied performance by the different subregional groupings. Thus, while MERCOSUR, CACM and CARICOM showed sharp increases, the Andean Community's exports were less dynamic. A similar pattern occurs with goods imports with a better performance in the cases of MERCOSUR, CACM and the Caribbean Community (CARICOM) (see table I.15). The sluggish activity in Venezuela within the Andean

Community is thought to have had an impact on the region's import profile (see figure I.6). In the case of Venezuela, in addition to the decline in domestic consumption, the exchange control imposed by the Government accounts for the marked negative variation in imports, much higher than in the rest of the countries of the region. This performance of the Venezuelan economy has had a strong impact on the trade figures of the countries of the Andean Community, which show declines both in exports and in imports (see below and chapter II).

Table I.15
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE TRADE
IN GOODS AND SERVICES, 2001-2003
(Growth rates calculated in current dollars)

Subregions/Countries	Goods trade						Services trade					
	Exports			Imports			Exports			Imports		
	2001	2002	2003 ^a	2001	2002	2003 ^a	2001	2002	2003 ^a	2001	2002	2003 ^a
Latin America and the Caribbean (37)	-4.5	0.6	8.3	-2.5	-6.6	3.1	-2.6	-3.9	6.6	0.9	-8.6	3.3
Latin America and the Caribbean (19)	-4.5	1.1	8.3	-2.5	-6.8	3.2	-2.5	-3.8	7.6	1.3	-9.7	2.8
MERCOSUR	3.0	1.2	18.9	-6.6	-25.5	10.2	-4.0	-9.8	13.2	-1.1	-23.8	8.5
Andean Community	-13.9	1.9	5.4	10.6	-8.9	-2.4	6.0	-8.9	-2.9	6.0	-6.8	-2.4
CACM	-8.6	1.6	9.9	1.6	6.7	7.5	5.8	3.5	5.7	2.8	1.9	4.9
CARICOM	-4.5	-5.6	12.8	-2.3	1.8	4.3	-5.1	0.8	1.6	-1.9	5.7	6.7
Major economies ^b	-4.1	-5.9	13.5	-1.6	1.8	4.5	-4.9	1.5	1.4	-1.4	6.5	6.1
OECS	-13.9	2.0	-3.6	-8.1	1.2	1.9	-5.7	-2.4	2.5	-4.8	0.6	11.2
Other countries not belonging to above groups												
Chile	-3.9	-0.7	14.8	-4.0	-3.6	13.9	0.7	-3.5	21.3	6.3	-2.1	13.3
Cuba	-1.0	-15.6	-14.4	-0.8	-14.0	-6.3	-5.1	-4.0	5.8	-20.8	-2.3	-6.4
Mexico	-4.8	1.5	2.9	-3.5	0.2	1.4	-7.7	0.2	-0.3	1.1	3.2	2.3
Panama	2.6	-11.3	-5.0	-4.2	-5.0	-3.3	0.5	12.3	13.5	-3.1	15.1	1.7
Dominican Republic	-8.0	-1.8	6.0	-7.4	1.2	-7.0	-3.6	-1.8	16.7	-6.5	0.0	-6.6

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

^a Preliminary estimates.

^b Corresponds to the total of the major economies in that grouping: Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago.

The rebound in exports in 2003 in the Caribbean countries was greater than the average of the Latin American economies as a whole, especially in the countries of CARICOM. However, there were falls in these flows in the small islands of the Eastern Caribbean, because of the drop in production of some agricultural products as a result of the destruction of plantations by hurricane Lili in September 2002 (EACB, 2003). In the larger Caribbean economies, the oil and energy sector made a strong recovery in Aruba, Suriname and Trinidad and Tobago, while the Dominican Republic benefited from the increase in the prices of coffee, sugar, tobacco, cocoa and its derivatives, as well as the increase in the export volume of those commodities and manufactures. In the Bahamas, Belize, Barbados and Guyana, sharp reductions were recorded in both the production and export of alumina, sugar and bananas.

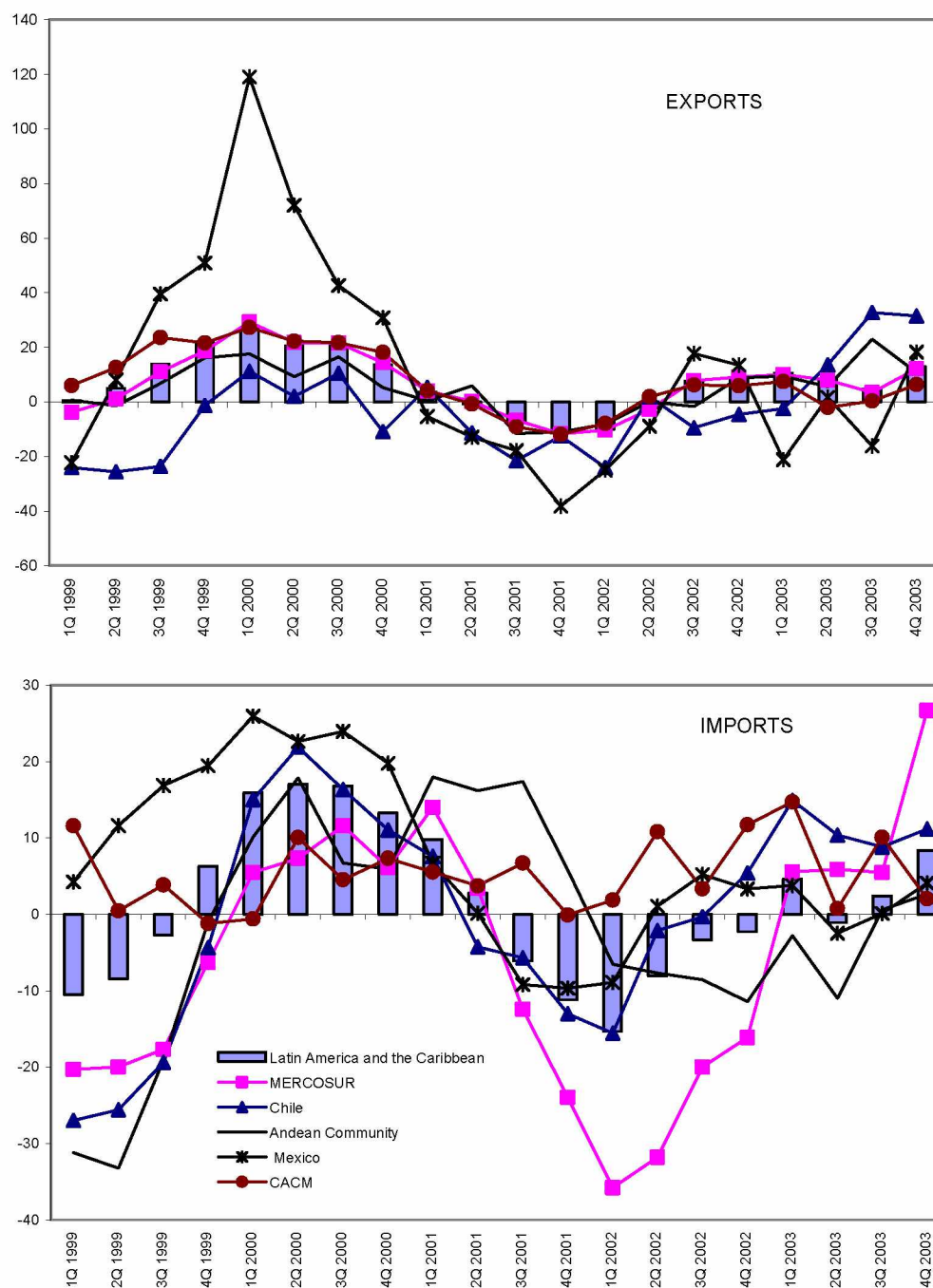
Among the countries not belonging to any grouping, the rapid recovery of exports in Chile and the Dominican Republic contrasted with the lacklustre performance of the external sector in Mexico and Panama, where the

decline was far greater than the regional average (see table I.15).

(b) Variation in merchandise imports

The breakdown of the growth of imports, with products grouped by main economic use, illustrates the repercussions of the adjustment in the imported component on the economic sectors. The figures of table I.16 show that in 2002 the process of adjustment occurred mainly in consumer goods for Argentina, Uruguay, Paraguay, Venezuela, Brazil, Honduras and Nicaragua (by level of reduction). However, it also had an adverse effect especially on imports of capital goods and intermediate inputs, which in the medium term had serious consequences on the modernization of the production sector in the countries that lacked domestic import substitution conditions for the goods in question. In 2003, imports of capital and consumer goods continued to contract, with a relative increase in imports of intermediate goods.

Figure I.6
**LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE QUARTERLY
 GROWTH RATES, 1998-2003**
(Percentages compared with the same period of the preceding year)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data supplied by the countries.

Table I.16
**LATIN AMERICA: VARIATION IN GOODS IMPORTS,
 BY ECONOMIC USE, 2002 AND 2003^a**
(Annual variation rates)

Subregions/Countries	Consumer goods		Intermediate goods		Capital goods		Total imports		Impact on GDP ^b	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a
Latin America (16 countries)	-6.8	-1.0	-4.5	3.0	-14.9	-0.9	-6.9	3.3	1.6	0.0
MERCOSUR	-37.8	7.0	-20.0	4.3	-34.5	4.5	-25.5	10.2	-2.5	0.4
Argentina	-71.1	72.8	-40.8	8.9	-62.8	67.4	-55.8	54.4	-5.1	1.7
Brazil	-17.2	-6.2	-11.6	39.0	-21.7	-10.7	-15.0	2.2	-1.5	0.1
Uruguay	-20.6	11.0	-71.6	23.4	222.6	16.6	-13.5	9.2	-3.6	1.5
Paraguay	-46.5	-15.8	-27.5	-14.2	-50.2	-22.3	-35.7	11.7	-5.0	0.1
Chile	-2.0	8.0	-4.0	14.7	-2.7	3.1	-3.6	13.9	-0.9	1.5
Andean Community	-6.9	-13.9	-3.9	-2.7	-10.6	-3.3	-8.9	-2.4	-1.8	-1.3
Bolivia	-8.7	0.9	7.3	1.8	8.5	-2.1	3.7	-8.9	0.5	-2.9
Colombia	7.8	-8.4	0.4	6.4	-7.7	8.9	-1.6	9.8	-0.6	0.2
Ecuador	27.5	3.9	14.7	11.2	22.5	-11.0	19.6	1.2	4.4	-1.0
Peru	5.0	1.8	4.3	13.8	-3.6	8.5	2.3	10.8	-0.4	0.2
Venezuela	-26.1	-34.1	-18.6	-29.4	-27.4	-18.9	-27.0	-21.4	-5.8	-4.3
Mexico	7.2	1.6	0.3	1.8	-6.7	-3.7	0.2	1.4	-0.8	-0.3
CACM and the Dominican Republic	3.7	-1.6	1.7	9.3	11.6	-2.3	5.5	3.3	1.8	0.4
Costa Rica	9.0	-1.3	11.6	5.5	21.6	16.0	13.5	11.1	4.9	0.5
El Salvador	5.3	16.5	-4.5	12.3	-1.6	6.4	2.6	10.4	-0.2	2.4
Guatemala	0.0	-1.7	-2.7	10.6	29.3	-10.5	8.5	2.4	2.2	-1.1
Honduras	7.6	8.5	-4.3	17.8	2.2	-4.6	-0.1	9.3	-2.8	5.5
Nicaragua	1.1	10.6	-3.2	16.2	8.9	-16.1	1.0	-0.8	-0.6	-3.7
Dominican Republic	2.7	-15.7	-0.8	4.1	1.0	-13.5	1.2	-7.0	-2.3	-4.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the countries for 2002 and the period January to September of each year, 2002 and 2003.

^a Preliminary estimates for the full year.

^b Corresponds to the absolute variation in the coefficient of openness measured by imports in GDP (M/GDP)*100, between the year referred to and the preceding year.

2. Determining factors of the merchandise trade in Latin America in 2002-2003

In 2003, the same factors that had an adverse effect on regional exports in the previous year, now permitted trade flows to expand favourably. Exports benefited from: (i) the rally in international demand and its positive impact on commodity prices; (ii) the recovery of intra-regional forums; (iii) the improvement in external finance conditions; (iv) the increase in financial flows and (v) devaluations.

(a) Increase in international demand and signs of a stronger recovery

As already indicated, although the strength of the recovery of international production is still uncertain, the more favourable growth prospects in the United States, the maintenance of the levels of their imports as well as the relative stability of markets in Latin America

and the Caribbean have had a positive influence on the growth of regional exports.

In 2003, Latin American exports to the United States, the European Union, Japan together with those bound for other countries within the region rallied from the low growth levels recorded in 2002, which externalizes the greater boost of international demand. In the case of exports to developing Asia, there was a significant expansion in 2003 (with volumes proportionately higher than those of exports bound for other destinations), especially in the case of China, which was Brazil's second trading partner after the United States in that year (see table I.17).

As pointed out above, Latin American commodities, especially agricultural and mining products, benefited from the favourable environment except in the case of bananas and leather, which recorded slightly lower increases. Whereas in 2002, growth in exports had been led by the mining sector and oil in most countries in the region, in 2003, there was a stronger boost from agricultural products, livestock, fisheries and mining, with manufactures playing

a secondary role. The higher rises in terms of export volumes and values in the period January to September were obtained by the countries of MERCOSUR, thanks especially to soya, vegetable oils, meals, coffee, wheat, cotton and other agricultural products. The same trend was observed in the case of the countries of the Andean Community. Except for Venezuela, the greatest rises took place in oil- and gas-related mining. The same pattern was reproduced in the case of Mexico and the Dominican Republic, with a greater predominance of copper mining in the case of Chile, where rising prices account for the better performance of mining exports.

For the Central American economies, as for those of MERCOSUR, the improvement in prices for the main exports – coffee, cocoa, bananas and sugar – contributed to an increase in merchandise exports. Thus, for Latin America and the Caribbean as a whole, the recovery in exports of crops, livestock and fishery products account for most of the rally in total exports followed by the mining sector and oil, with exports of manufactures having a lesser impact (see table I.18).

Table I.17
LATIN AMERICA: VARIATION IN EXPORTS OF GOODS IN 2002 AND 2003
(Rates of variation compared with the same period of the preceding year)

Subregions/Countries	United States		European Union		Japan		Developing Asia		Latin America		World	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Latin America (16)	2.6	4.0	10.0	14.9	-3.9	14.3	23.0	30.3	-8.7	13.1	1.1	8.3
MERCOSUR	7.3	8.8	17.2	18.1	4.9	7.2	22.2	37.5	-14.3	17.1	1.5	18.9
Argentina	2.5	6.4	20.8	13.7	1.9	-7.5	12.5	54.7	-15.0	2.2	-3.1	14.3
Brazil	8.5	8.7	16.5	19.8	5.6	10.1	26.5	32.8	-13.9	30.5	3.7	21.1
Paraguay	15.3	18.2	-23.6	3.1	-30.9	-33.7	-4.4	31.1	8.5	25.8	0.0	11.9
Uruguay	-19.4	69.3	14.6	14.2	15.7	-11.4	-2.7	4.3	-25.0	15.5	-10.3	18.2
Chile	11.9	-4.4	-4.9	15.3	-8.5	16.0	29.6	34.5	-15.8	10.6	-0.7	14.8
Andean Community	1.2	9.3	7.0	5.6	0.6	22.1	24.4	7.7	-0.4	13.9	2.0	5.4
Bolivia	3.7	21.6	-31.5	14.9	112.2	216.8	32.9	116.3	1.9	29.3	2.0	20.1
Colombia	-3.3	11.6	7.8	14.4	17.6	2.5	3.7	8.4	-9.5	-10.9	-3.7	9.9
Ecuador	16.6	17.5	19.3	29.5	-19.9	-12.7	5.2	-17.3	-3.3	18.1	8.6	19.4
Peru	13.9	19.7	7.7	14.9	-2.3	4.5	39.1	15.4	-9.0	14.5	9.1	17.1
Venezuela	-0.6	5.7	3.9	-23.3	3.9	109.6	3.9	-12.0	7.1	23.6	1.5	-3.4
Mexico	1.9	2.5	4.1	7.2	-25.3	30.2	25.1	0.7	-4.9	-5.9	1.5	2.9
CACM	6.9	6.1	-0.9	31.3	-16.4	14.3	-2.4	18.4	0.8	16.1	6.9	15.6
Costa Rica	7.1	11.2	5.1	19.1	-20.1	43.0	-7.8	26.1	6.2	-0.1	6.8	16.6
El Salvador	9.8	2.9	-2.4	90.8	8.4	27.4	310.9	15.4	2.3	3.9	4.4	4.8
Guatemala	4.6	6.8	-21.5	25.8	-30.7	14.3	1.0	6.7	-13.2	16.7	-8.1	6.1
Honduras	4.1	2.1	0.0	27.5	0.0	-24.5	0.0	18.1	0.0	29.9	-0.6	7.7
Nicaragua	18.2	12.7	-24.5	1.5	19.9	-16.4	-40.7	28.9	50.2	-14.6	-0.4	1.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the Latin American Integration Association (LAIA) and the International Monetary Fund (IMF), *Direction of Trade Statistics*.

Table I.18
**LATIN AMERICA AND THE CARIBBEAN: VARIATION IN EXPORTS
 BY MAJOR SECTOR, 2002-2003**
(Rates of variation compared to the same period of the preceding year)

Subregions/Countries	Agriculture, forestry, hunting and fishing		Mining and petroleum		Manufactures		Total	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a
MERCOSUR	-1.3	25.9	22.1	12.3	1.4	18.7	2.1	19.4
Argentina	-13.0	26.6	7.4	5.6	1.1	12.4	-1.8	14.9
Brazil	4.5	24.0	29.8	14.9	2.0	21.5	4.3	21.3
Paraguay	-6.7	44.2	...	...	29.4	14.9	3.1	37.2
Uruguay	6.8	24.8	-68.0	65.8	-18.5	4.2	-10.1	14.0
Chile	14.2	-4.3	-5.3	13.7	0.8	10.0	-0.7	9.8
Andean Community	5.2	1.4	1.1	0.8	-2.5	-3.0	0.2	-0.7
Bolivia	-2.8	15.2	8.6	23.0	-7.4	24.4	1.2	21.2
Colombia	3.4	0.3	-3.4	16.3	-5.5	0.1	-3.3	6.3
Ecuador	9.8	14.0	6.7	20.3	5.5	17.6	7.5	17.6
Peru	3.3	-4.0	16.5	23.7	-0.9	14.0	9.1	15.1
Venezuela	9.2	-29.3	-2.2	-14.5	-1.9	-9.5	-1.9	-12.4
Mexico	-0.9	26.7	12.7	30.6	0.6	-1.7	1.5	1.6
CACM and Central America	-5.3	4.5	23.7	1.4	3.2	16.6	1.4	11.8
Costa Rica	0.3	10.2	...	...	6.4	20.8	5.0	18.1
El Salvador	-21.4	n.a.	...	n.a.	6.3	n.a.	4.4	n.a.
Guatemala	-7.5	5.9	47.7	23.1	-11.9	7.5	-7.6	7.8
Honduras	-4.5	-6.6	3.5	-17.5	2.7	15.6	-0.7	1.7
Nicaragua	-9.8	0.3	18.1	-15.4	4.9	-11.3	-1.4	-4.2
Dominican Republic	25.2	6.1	7.6	48.5	-2.7	5.8	-1.8	7.0
Latin America	0.2	16.6	5.3	11.5	0.6	4.5	1.3	6.7

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

^a Period January-September.

(b) Recovery of intra-regional schemes

While the renewed economic activity in the United States and Asia has boosted sales of Mexican and Central American and South American†products in that market, the higher growth in the region has served as a catalyst for trade within integration schemes in 2003, as analysed below. In addition, in the last few years, trade has been flourishing in the region, either between countries of different subregional schemes or between countries that do not belong to any subregional scheme. The rapprochement between subregions and the extension of economic integration to other economic, social and political areas, such as the projected agreement between the Andean Community and MERCOSUR will contribute to the consolidation of intra-regional trade in the expanded regional scheme. The Initiative for Regional Infrastructure Integration in South America (IIRSA) and the Puebla-Panama Plan play a

very important role in this regard (ECLAC, 2003c, chapter VI).

(c) Improvement of conditions for external financing

The improved climate of the international financial markets in terms of both capital flows and financing conditions greatly alleviated the unfavourable external conditions that had affected the balance of payments in 2002. Thus, highly indebted countries such as Argentina, Brazil and Mexico, improved their sovereign risk as did Ecuador and Peru (ECLAC, 2003d). International investors are taking new risks and taking advantage of the low prices of stocks in emerging markets to take positions in public debt bonds. The low interest rates in international markets have led many investors to turn their attention to the region in search of higher profitability. In this way, the profile of the issues improved considerably in terms of maturity date and cost,

as well as in terms of the diversification of debt-holders, which include not just private sector banks, but also other types of financial institutions, such as Pension Fund Managers or private investors (BIS, 2003; Prates, 2003).

(d) Increase in financial flows

Financial flows into the region in 2003 are estimated at around US\$ 40 billion, a figure achieved mainly through the higher issue of sovereign bonds, especially by Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela (ECLAC, 2003d). In addition, some private sector firms, such as Celulosa Arauco of Chile and Coca Cola-FENSA of Mexico, organized interesting packages of bond issues (*Latin Finance*, 2003).

The increase in capital inflows in the form of bond, note and stock issues, as well as a new wave of opening of syndicated loans,⁷ compensated for the stagnation of the foreign direct investment (FDI) inflows into the region, which after having declined to US\$ 45 billion⁸ in 2002, again fell in 2003 to stand at US\$ 36.5 billion (ECLAC, 2004a). This contrasts with the more dynamic FDI flows to developing Asia despite its overall reduction. Thus, for example, in 2002, strong FDI flows poured into China and Malaysia and the estimates of the Chinese authorities for 2003 project entries of the order of US\$ 57 billion (*Eastern Economic Review*, 2003).

(e) Currency devaluations

Currency devaluations contributed to the expansion of exports in some countries of the region. Among the countries whose currencies depreciated significantly against the dollar in 2003 are Jamaica (13%), Dominican Republic (25%), Venezuela (21%) and Mexico (9%). While in Jamaica and the Dominican Republic, the devaluations were the result of the weakness of fiscal accounts, in Venezuela, the devaluation was triggered in February 2003 by the general strike which brought the country to a standstill for two months. Then the exchange rate against the dollar was set, at the same time as exchange controls were introduced. The depreciation of the Mexican peso was in keeping with the need to recover competitiveness in some tradable sectors hard hit by the expansion of Chinese exports to the United States.

In another group of countries, currency appreciation, which began to complicate the performance of the export sector in the first semester of the year, was offset by the weakness of the dollar against the yen and the euro. To some extent, this meant a relief for the exporters of MERCOSUR, Chile and the Andean Community, as well as for the dollarized economies of the region (Ecuador, El Salvador and Panama).

3. Trade within Latin America and the Caribbean

(a) Trade within the region

As mentioned in section A2, trade among developing countries has soared in recent years. In Latin America, the markets of the countries of the region absorb almost 16% of total exports. This average reflects exports from Mexico, which account

for 45% of regional exports, of which 88% are intended for the United States. For the other countries, more than a quarter of their exports are destined for other countries in the region, especially those that are closest, owing to infrastructural problems which the IIRSA and Puebla Panama initiatives seek to resolve (see table I.19).

7 Private financial sector and productive firms have received important sums as syndicated loans. The largest amount for the period June-August 2003 was that received by the Brazilian firm Nova Transportadora (US\$ 690 million) followed by BBVA Bancomer, which received US\$ 600 million (*Latin Finance*, 2003).

8 This value excludes FDI flows to financial centres.

Table I.19
**LATIN AMERICA AND THE CARIBBEAN: COMPOSITION
 OF INTRAREGIONAL TRADE, 1997-2003**
(Millions of dollars and percentages)

Composition	Intraregional exports							Annual variation					
	1997	1998	1999	2000	2001	2002	2003 ^d	1998	1999	2000	2001	2002	2003 ^d
Intra-group trade ^a	28 688	28 735	22 202	26 776	25 191	19 366	21 898	0.2	-22.7	20.6	-5.9	-23.1	13.1
Inter-group trade ^b	21 621	19 044	18 096	26 078	23 253	24 188	28 736	-11.9	-5.0	44.1	-10.8	4.0	18.8
Other non associates ^c	9 619	8 866	8 185	9 697	10 162	9 262	9 404	-7.8	-7.7	18.5	4.8	-8.9	1.5
Intraregional trade	59 929	56 644	48 483	62 551	58 607	52 816	60 038	-5.5	-14.4	29.0	-6.3	-9.9	13.7

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

^a Includes trade within the Andean Community, MERCOSUR, CACM and CARICOM.

^b Gives the total of all trade between groups, that is: Andean Community-MERCOSUR; Andean Community-CACM; Andean Community-CARICOM; MERCOSUR-CACM; MERCOSUR-CARICOM; CACM-CARICOM; CACM-Andean Community; CACM-Caribbean countries; and exports from Mexico and Chile to the rest of the LAIA countries.

^c Takes into account the trade by Chile and Mexico and the rest of the countries of the region which are not members of LAIA, namely Cuba, Panama and the Dominican Republic.

^d Preliminary figures.

Whereas trade within the integration circuits declined in 2002, exports between groups maintained the same level as in 2001, while those originating in non-associate countries strengthened by 6% in 2002, a figure which contrasts with the sharp slowdown in the value of trade within the groups (see table I.20).

In 2003, the proportion of exports traded between groups and those originating in Cuba, the Dominican Republic and those from Chile and Mexico to Central America and the countries of the Caribbean accounted for 63% of total flows within the region. The main trade corridors between groups are the Andean Community-MERCOSUR corridor, which highlights the greater increase in exports from Venezuela to Argentina and Brazil, which buy substantial quantities of oil and gas products. In addition, Mexico, Chile and Colombia have emerged as substitute destinations for Brazilian exports in the face of the adverse conditions of the import sector in Argentina, a country which is normally Brazil's second trading partners after the United States.⁹ Brazil's export basket to different MERCOSUR destinations includes oil and gasolines, cellular telephones, television sets, footwear, soybeans, orange juice and meats (SECEX, 2003a). For its part, Argentina increased its sales of fuels and manufactures of livestock origin to Chile, and its agricultural and fuel products to the rest of the countries of the Latin American Integration Association (LAIA). Chilean exports to Central America and the Caribbean have also increased substantially.

In 2003, exports between groups maintained their upward trend, having produced a greater expansion of exported products from Chile and Mexico to the Central American Common Market (CACM) and to a lesser extent to the countries of the Caribbean. In addition,

Chile is importing more fuel from Argentina and Brazil, while Venezuela is increasing its sales to Central America and the Caribbean. Moreover, Mexico is expanding its imports from the region. The outcome of these various trends within the subregional schemes, on the one hand, and the relatively dynamic behaviour of trade between countries outside of the groups to which they belong, on the other, is an increase in trade within Latin America and the Caribbean for 2003 (see figure I.7).

(b) Trade within integration schemes

In 2003, trade within Latin American and Caribbean groups showed a 13.7% recovery to stand at US\$ 60.0 billion. The strongest recovery of exports within the countries of MERCOSUR and CACM contrasts with the intensification of the adverse situation suffered by countries of the Andean Community since the end of 2002 (see figure I.7 and table I.20), and with the continuous rise in exports between countries of the region, outside of the agreements to which they belong (for a more detailed analysis, see chapter II).

In 2002, Latin American and the Caribbean's overall intraregional trade contracted by as much as 10% following the severe economic slowdown in output of some economies in the region, especially Argentina, Venezuela and Uruguay. In 2003, this trade had still not regained the peak level recorded in 2000, and had in fact accumulated a drop of 4% with respect to that year. The performance of each regional grouping varied as a function of its proximity to the focus points of macroeconomic disequilibria, however. Thus the MERCOSUR countries in general suffered the heaviest slowdowns in 2002, when intraregional trade plunged

⁹ In 2002, Argentina was in fifth place after the Netherlands, Germany, China and Mexico (SECEX, 2003a).

Table I.20
**LATIN AMERICA AND THE CARIBBEAN: TOTAL EXPORTS AND EXPORTS
 BY SUBREGIONAL INTEGRATION SCHEMES, 1998-2003**
(Millions of current dollars and percentages)

Groups/years	1997	1998	1999	2000	2001	2002	2003 ^d
LAIA							
Total exports ^a	255 390	251 345	264 235	328 274	316 298	319 807	346 145
Percentage annual growth	11.4	-1.6	5.1	24.2	-3.6	1.1	8.2
Exports to LAIA	44 688	42 805	34 620	42 816	41 620	35 414	39 880
Percentage annual growth	18.3	-4.2	-19.1	23.7	-2.8	-14.9	12.6
Percentage exports within LAIA (2:1) (%)	17.5	17.0	13.1	13.0	13.2	11.1	11.5
Andean Community							
Total exports	46 609	38 896	44 603	60 709	53 543	52 177	54 716
Percentage annual growth	5.0	-16.5	14.7	36.1	-11.8	-2.6	4.9
Exports to the Andean Community	5 628	5 504	3 940	5 167	5 656	5 278	4 988
Percentage annual growth	18.2	-2.2	-28.4	31.1	9.5	-6.7	-5.5
Percentage exports within the community (2:1) (%)	12.1	14.2	8.8	8.5	10.6	10.1	9.1
MERCOSUR							
Total exports	82 596	80 227	76 305	85 692	89 078	89 500	106 674
Percentage annual growth	11.0	-2.9	-4.9	12.3	4.0	0.5	19.2
Exports to MERCOSUR	20 546	20 322	15 162	17 710	15 298	10 197	12 695
Percentage annual growth	20.3	-1.1	-25.4	16.8	-13.6	-33.3	24.5
Percentage exports within MERCOSUR (2:1) (%)	24.9	25.3	19.9	20.7	17.2	11.4	11.9
Central American Common Market (CACM)							
Total exports	9 275	11 077	11 633	11 512	10 185	10 008	11 146
Percentage annual growth	26.5	19.4	5.0	-1.0	-11.5	-1.7	11.4
Exports to CACM	1 559	1 944	2 010	2 615	2 829	2 809	3 001
Percentage annual growth	12.4	24.6	3.4	30.1	8.2	-0.7	6.8
Percentage exports within CACM (2:1) (%)	16.8	17.5	17.3	22.7	27.8	28.1	26.9
CARICOM							
Total exports	5 861	4 790	5 170	6 358	6 072	5 732	6 466
Percentage annual growth	3.1	-18.3	7.9	23.0	-4.5	-5.6	12.8
Exports to CARICOM	976	1 031	1 096	1 230	1 409	1 081	1 214
Percentage annual growth	11.5	5.7	6.3	12.3	14.5	-23.2	12.3
Percentage exports within CARICOM (2:1) (%)	16.7	21.5	21.2	19.4	23.2	18.9	18.8
Latin America and the Caribbean							
Total exports ^b	283 632	280 065	292 919	359 396	345 484	347 448	376 202
Percentage annual growth	11.7	-1.3	4.6	22.7	-3.9	0.6	8.3
Exports to Latin America and the Caribbean ^c	59 929	56 644	48 483	62 551	58 607	52 816	60 038
Percentage annual growth	22.3	-5.5	-14.4	29.0	-6.3	-9.9	13.7
Intraregional percentage/Total (2:1) (%)	21.1	20.2	16.6	17.4	17.0	15.2	16.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective subregional groupings and the International Monetary Fund (IMF), *Direction of Trade Statistics*, October 2003.

^a Includes maquila exports from Mexico.

^b Includes LAIA, CACM, the set of CARICOM countries, Panama, Cuba and the Dominican Republic.

^c Gives the total intra-group trade (Andean Community, MERCOSUR, CACM, CARICOM and that carried out between Chile and Mexico and LAIA), as well as trade between groups plus the flow of exports from Cuba, Dominican Republic and Panama to the other countries in the region.

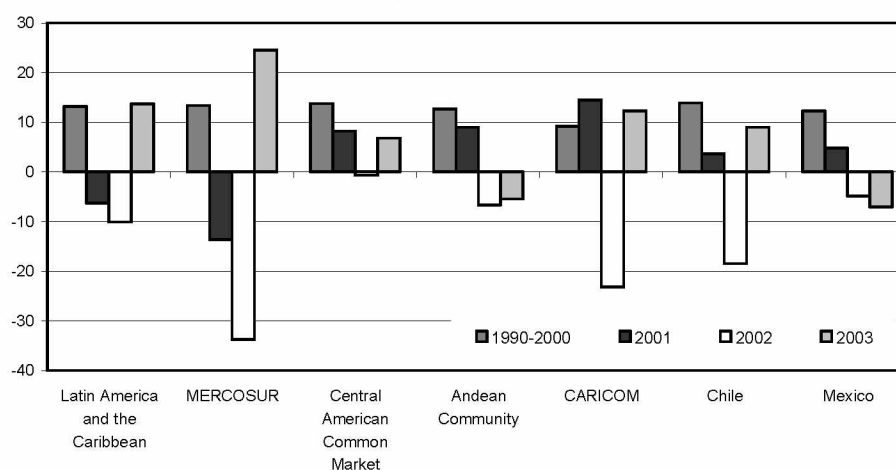
^d Preliminary figures.

by close to 34%, due in particular to the strong impact of the adjustment of imports in Argentina, which accounted for 70% of the downturn in its trading partners' trade.¹⁰ In relative terms, the share of

intraregional trade in the region's total trade rose by 0.8 percentage points to stand at 16% in 2003, a figure still much lower than the highest level reached in 1997. The Andean Community countries saw their intra-zonal trade

10 The Banco de la Nación was obliged keep a tight rein on international payments, which meant postponing payments due on imports and less activity in the sector. In addition, in 2002, Uruguay had to devalue its currency, at the same time as unfavourable weather slashed the production capacity of export crops such as soybeans, cotton and corn.

Figure I.7
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL AND INTRAZONAL TRADE,
1990-2000, 2001, 2002 AND 2003
(Growth rates)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official data from the respective countries.

fall by 6.5% in 2002, mainly owing to the political instability affecting Venezuela. The slowdown in intraregional trade throughout the region was also attributable to the fall in exports from Chile and Mexico to the rest of the LAIA countries¹¹ (see figure I.7 and table I.20). In 2003, the trend in Chile was reversed while in Mexico and the Andean Community, the situation remained stable.

In MERCOSUR, renewed confidence in the economic upturn on the part of Argentine importers helped boost exports from Brazil and the rest of

MERCOSUR, at the same time as the declining trend in Argentine exports began to be reversed. Manufactured goods are expected to benefit the most from the economic recovery especially capital goods and intermediate inputs imported from Brazil. The main recovery was concentrated in the last quarters of 2003, with a higher acceleration of sales in Brazil, Paraguay and Uruguay and, to a lesser extent, Argentina. In December 2003, the growth of intraregional exports was 24.5% (see table I.21 and figure I.8).

Table I.21
SOUTHERN COMMON MARKET (MERCOSUR): QUARTERLY INTRA-GROUP TRADE, 2001-2003
(Millions of dollars and growth rates)

Country	Export to the subregion on f.o.b. basis										Growth ^b			
	2001		2002				2003 ^a				2003 ^a			
	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q
Argentina	1 947	1 698	1 506	1 524	1 316	1 378	1 464	1 264	1 356	1 503	-2.8	-17.0	3.1	9.1
Brazil	1 536	1 249	681	802	882	947	984	1 305	1 579	1 803	44.5	62.7	79.1	90.4
Uruguay	140	124	101	176	154	122	148	236	220	159	47.1	33.8	42.4	30.8
Paraguay	187	194	150	166	137	157	125	168	175	207	-16.6	1.2	27.0	31.9
MERCOSUR	3 810	3 264	2 437	2 667	2 489	2 604	2 721	2 972	3 330	3 673	11.6	11.4	33.8	41.1

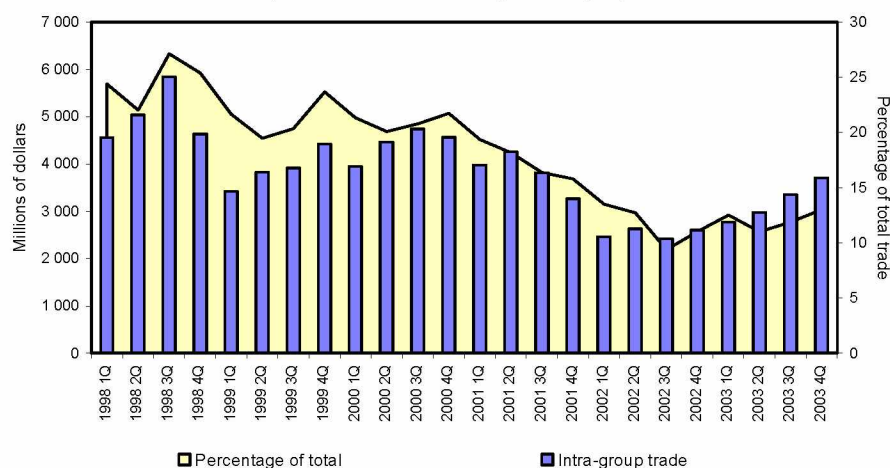
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information supplied by the Latin American Integration Association (LAIA), Fundação Centro de Estudos do Comércio Exterior (FUNCEX) and MERCOSUR.

^a Preliminary figures.

^b Growth rate compared with the same period of the preceding year.

11 Chilean exports to the LAIA member countries in 2002 dropped by 19% while those from Mexico declined by 9%.

Figure I.8
MERCOSUR: INTRA-GROUP TRADE BY QUARTER, 1998-2003
(Millions of dollars and percentages)



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

The panorama for the countries of the Andean Community is different, owing to the economic and political problems that face them all. In particular, the performance of the Venezuelan economy affected trade of the countries of the Community, which show decreases both in exports and in imports. In the first three quarters of 2003, exports within the group plummeted to less than 13% with sharper drops in reciprocal trade between Colombia and Venezuela. Growth in intraregional trade during 2003 declined by 9.3% despite the recovery in exports from Bolivia and Ecuador, which were not sufficient to offset the lower sales from Venezuela (see table I.22 and figure I.9).

Trade within CACM recovered rapidly thanks mainly to the boost from exports from Costa Rica, El Salvador and Honduras and imports into Guatemala, which translated into a growth in trade within CACM of the order of 6.8% for the year 2003 (see table I.23 and figure I.10).

In 2002, the countries of CARICOM experienced a sharp slowdown of 23% owing to the contraction in trade in Trinidad and Tobago and the reduction in imports in Jamaica and Guyana (see table I.24 and figure I.11).¹² In 2003, reciprocal trade between the major trading partners in that grouping was said to be recovering considerably with a rise projected in intra-regional trade of just over 12%.

Table I.22
ANDEAN COMMUNITY: QUARTERLY INTRA-GROUP TRADE, 2001-2003
(Millions of dollars and growth rates)

Country	Exports towards the subregion on f.o.b. basis										Growth ^b			
	2001		2002				2003 ^a				2003 ^a			
	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q
Bolivia	102	103	84	110	104	89	72	104	140	108	-14.4	-5.5	34.3	22.1
Colombia	809	718	575	622	610	510	388	422	510	565	-32.5	-32.2	-16.3	11.0
Ecuador	185	147	192	196	243	203	301	249	237	248	56.8	26.6	-2.4	21.9
Peru	128	136	117	121	128	131	106	122	139	170	-9.3	1.6	8.0	29.9
Venezuela	343	287	288	323	356	275	192	284	314	315	-33.3	-12.2	-11.8	14.6
Total Andean Community	1 567	1 391	1 257	1 372	1 442	1 208	1 060	1 181	1 341	1 407	-15.6	-13.9	-7.0	16.5

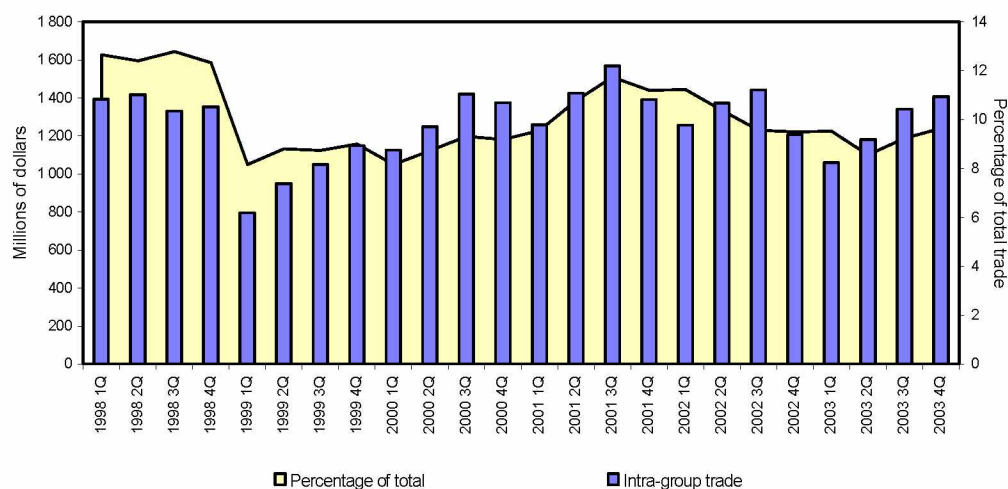
Source: Economic Commission for Latin America and the Caribbean (CEPAL), on the basis of information from the Andean Community [on line] (<http://www.comunidadandina.org>).

^a Preliminary figures.

^b Growth rate compared with the same period of the preceding year.

12 An important component, which cushioned the fall in trade within CARICOM, was the increase in trade in Trinidad and Tobago in the last months of 2002 following the rise in oil prices and the sudden deceleration in oil activity in Venezuela.

Figure I.9
ANDEAN COMMUNITY: QUARTERLY INTRA-GROUP TRADE, 1998-2003
(Millions of dollars and percentages)



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

Table I.23
**CENTRAL AMERICAN COMMON MARKET (CACM): QUARTERLY
 INTRA-GROUP TRADE, 2001-2003**
(Millions of dollars and growth rates)

Country	Exports towards the subregion on f.o.b. basis										Growth ^b			
	2001		2002				2003 ^a				2003 ^a			
	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q
Costa Rica	172	166	161	173	173	179	183	186	193	203	13.6	7.3	12.1	13.4
El Salvador	183	178	171	186	187	194	187	179	185	195	9.8	-4.2	-1.0	0.5
Guatemala	262	360	256	231	249	272	253	282	266	288	-1.1	21.8	6.9	6.2
Honduras	52	58	51	60	64	66	61	62	64	72	20.2	4.7	-0.4	8.8
Nicaragua	45	41	49	50	48	49	53	52	57	61	9.4	3.6	16.7	23.7
CACM^c	713	803	688	701	721	760	738	761	765	820	7.4	8.6	6.1	7.8

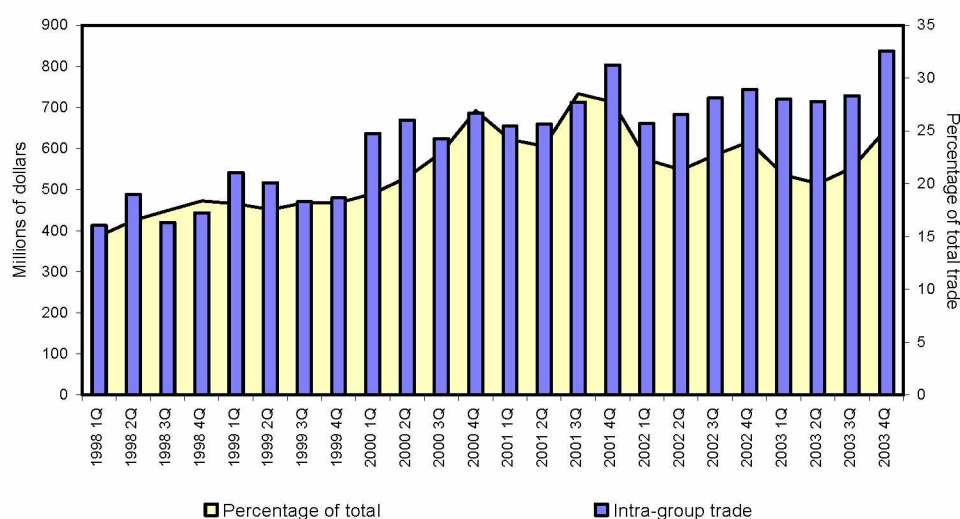
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Secretariat for Central American Economic Integration (SIECA).

^a Preliminary figures.

^b Growth rate compared with the same period of the preceding year.

^c The figures do not include the maquila sector.

Figure I.10
**CENTRAL AMERICAN COMMON MARKET (CACM): QUARTERLY
 INTRA-GROUP TRADE, 1998-2003**
 (Millions of dollars and percentages)



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

Table I.24
CARIBBEAN COMMUNITY (CARICOM): QUARTERLY INTRA-GROUP TRADE, 2001-2003
 (Millions of dollars and growth rates)

Country	Export to the subregion on f.o.b. basis								Growth ^b					
	2001				2002				2003 ^a		2002		2003	
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q
Barbados	27	29	25	27	26	24	26	29	30	29	5.3	5.2	14.1	22.0
Guyana	18	19	18	20	20	20	19	21	22	23	7.9	1.6	11.2	14.5
Jamaica	14	15	13	14	15	16	14	15	18	18	7.8	7.8	16.8	16.0
Trinidad and Tobago	262	261	250	254	172	171	164	166	167	198	-34.4	-34.4	-2.9	15.8
CARICOM (4)^c	321	324	306	315	233	231	224	231	236	268	-26.9	-26.8	1.5	16.4

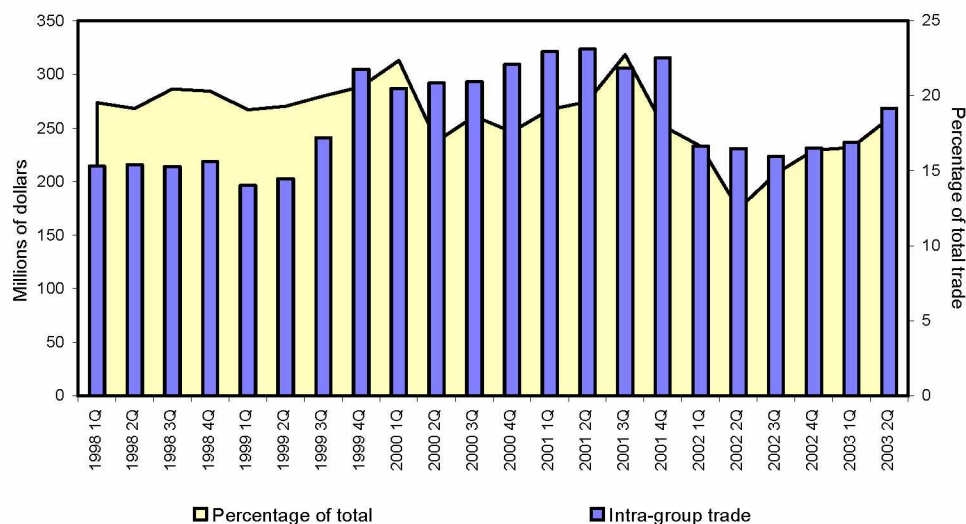
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information obtained from the International Monetary Fund (IMF), *Direction of Trade Statistics* and Bank of Jamaica, *Statistical Digest*, 2003.

^a Preliminary figures.

^b Growth rate compared with the same period of the preceding year.

^c In addition to trade among the four members, exports towards the rest of the CARICOM countries are included. The fact that the rest of the countries are not fully added in means that the series of this table differs from the annual totals presented in table I.20, which include the official data for all the countries of this grouping.

Figure I.11
CARIBBEAN COMMUNITY (CARICOM): INTRA-GROUP TRADE BY QUARTERS
(Millions of dollars and percentages)



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

D. Trade in services in Latin America and the Caribbean in 2002 and 2003

According to preliminary figures for 2003, both exports and imports of services will improve moving from -3.9% and -8.6% to 6.6% and 3.3% respectively. The countries of South America will benefit the most thanks to the recovery in tourism. Table I.25 presents goods and services statistics for the first half of the year. It shows how the main recovery is occurring in exports of services from the MERCOSUR countries, Costa Rica and the Dominican Republic. Another element to highlight is the fact that the services trade balance up to the first half of the year had been reduced substantially, contributing to the accumulation of the surplus in the trade balance of goods and services. In addition, the major increases in the trade in services follow major increases in trade in goods, especially in the cases of Argentina, Brazil, Chile, Bolivia, Peru, Costa Rica and Dominican Republic (see table I.25). In the countries of the Caribbean, the recovery of exports was more moderate than in the rest of the region (see table I.15), except the spectacular growth in the travel sector in the Dominican Republic. The main improvement occurs in connection with the best time in tourism and

travel, which reversed the major losses in income in the 2001-2002 biennium. Nevertheless, overall, between 2001 and 2003, regional services exports remained at a level comparable to 2000, at a time when world trade in services grew at an annual rate of 6%, despite localized increases in exports under some headings (see chapter IV). As a result, the proportion of exports of services in the regional total of goods and services is equivalent to almost 14% (see table I.27).

As regards imports, the trend of the trade in goods still continues, since a 4% reduction was accumulated between 2001 and 2003, owing to the more sluggish domestic demand for services, especially transport and travel in the MERCOSUR countries, with the exception of Brazil, the Andean Community and the Caribbean countries. It should be pointed out, however, that in 2003, the demand for transport recovered to the extent that the flows of the trade in goods recovered (see table I.26).

In 2002, the trade in services represented less than 14% of the region's exports in goods and services, or 6 percentage points less on average than the proportion

Table I.25
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE TRADE IN GOODS AND SERVICES, 2002-2003
(Millions of dollars and percentage growth)

Subregions/countries	Trade in goods						Trade in services						Growth rates 2003 ^a			
	Exports		Imports		Trade balance		Exports		Imports		Trade balance		Exports		Imports	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	Goods	Services	Goods	Services
Latin America and the Caribbean^b	357 525	387 301	339 259	349 910	18 266	37 390	58 082	61 921	67 080	69 275	-8 998	-7 354	8.3	6.6	3.1	3.3
MERCOSUR	89 878	106 841	59 727	65 797	30 151	41 045	13 896	15 731	20 304	22 031	-6 408	-6 300	18.9	13.2	10.2	8.5
Argentina	25 709	29 375	8 473	13 083	17 236	16 292	2 974	3 855	4 662	5 402	-1 688	-1 546	14.3	29.6	54.4	15.9
Brazil	60 362	73 084	47 219	48 260	13 143	24 825	9 606	10 543	14 644	15 631	-5 038	-5 088	21.1	9.8	2.2	6.7
Paraguay	1 884	2 109	2 162	2 362	- 278	- 254	541	555	345	382	196	172	11.9	2.5	9.2	10.8
Uruguay	1 923	2 273	1 873	2 092	50	182	775	778	653	616	122	162	18.2	0.4	11.7	-5.6
Chile	18 340	21 046	15 827	18 031	2 513	3 015	3 960	4 805	4 917	5 571	- 957	- 767	14.8	21.3	13.9	13.3
Andean Community	53 108	55 997	40 868	39 874	12 240	16 123	5 679	5 516	11 723	11 446	-6 044	-5 930	5.4	-2.9	-2.4	-2.4
Bolivia	1 310	1 573	1 532	1 396	- 222	177	235	290	516	592	- 281	- 302	20.1	23.5	-8.9	14.8
Colombia	12 302	13 523	12 077	13 258	225	265	1 858	1 792	3 316	3 292	-1 458	-1 499	9.9	-3.5	9.8	-0.7
Ecuador	5 192	6 197	6 196	6 268	-1 004	- 71	981	898	1 546	1 590	- 566	- 691	19.4	-8.4	1.2	2.8
Peru	7 647	8 954	7 440	8 244	207	710	1 545	1 585	2 493	2 581	- 948	- 995	17.1	2.6	10.8	3.5
Venezuela	26 656	25 750	13 622	10 707	13 034	15 043	1 060	950	3 852	3 392	-2 792	-2 442	-3.4	-10.4	-21.4	-11.9
Mexico	160 763	165 355	168 679	170 958	-7 916	-5 603	12 692	12 658	16 740	17 125	-4 048	-4 467	2.9	-0.3	1.4	2.3
CACM	13 556	14 892	21 464	23 083	-7 909	-8 190	4 508	4 767	4 229	4 434	280	333	9.9	5.7	7.5	4.9
Costa Rica	5 259	6 132	6 523	7 245	-1 263	-1 114	1 864	2 041	1 184	1 264	680	777	16.6	9.5	11.1	6.8
El Salvador	3 017	3 162	4 922	5 436	-1 906	-2 274	782	824	976	994	- 194	- 169	4.8	5.4	10.4	1.8
Guatemala	2 629	2 789	5 578	5 712	-2 950	-2 923	1 140	1 173	1 044	1 085	97	89	6.1	2.9	2.4	3.9
Honduras	1 930	2 078	2 804	3 065	- 874	- 987	527	523	687	741	- 160	- 218	7.7	-0.7	9.3	7.8
Nicaragua	721	731	1 636	1 624	- 916	- 893	195	206	338	351	- 143	- 145	1.4	5.4	-0.8	3.8
Caribbean countries	16 567	18 117	26 343	26 025	-9 776	-7 908	15 095	15 887	7 895	7 374	7 200	8 513	9.4	5.2	-1.2	-6.6
Dominican Republic	5 183	5 494	8 883	8 261	-3 699	-2 766	3 055	3 566	3 055	3 566	1 284	1 199	6.0	16.7	-7.0	16.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data taken from the balance of payments of each country.

^a Preliminary figures.

^b Corresponds to the total for the 37 countries in tables I.10, I.11 y I.13.

Table I.26
LATIN AMERICA AND THE CARIBBEAN: GROWTH IN TRADE IN SERVICES
DISAGGREGATED INTO MAIN SUB-HEADINGS
(Percentages)

Subregions/Countries	Exports of trade services						Imports of trade services					
	Transport		Travel		Other services		Transport		Travel		Other services	
	2002	2003 ^b	2002	2003 ^b	2002	2003 ^b	2002	2003 ^b	2002	2003 ^b	2002	2003 ^b
Latin America and the Caribbean (27)^a	-1.9	...	-9.6	...	-5.1	...	-12.6	...	-12.0	...	-7.8	...
Latin America (18 countries)	-1.7	11.4	-4.2	4.7	-4.6	10.0	-11.7	0.3	-11.7	-4.0	-6.4	1.7
MERCOSUR countries	-2.8	20.1	-21.9	26.7	-4.3	3.5	-29.0	4.7	-33.0	2.6	-15.1	13.2
Argentina	-17.5	22.9	-41.9	37.2	-19.4	20.3	-54.8	15.8	-40.2	10.7	-41.5	24.5
Brazil	11.8	20.6	15.4	24.1	-2.4	2.1	-17.3	0.9	-25.1	-5.6	-9.2	12.6
Paraguay	-20.4	14.3	-10.0	15.7	4.4	-1.3	-16.9	16.7	-10.0	36.0	-1.4	-15.4
Uruguay	-22.8	11.0	-42.5	-1.7	-11.3	-11.8	-29.2	9.2	-29.5	-4.9	13.0	-23.8
Chile	-2.0	20.1	-0.4	17.4	-6.8	24.8	-0.1	13.7	15.9	5.9	-7.2	15.0
Andean Community	-1.0	1.1	-12.4	-7.3	-10.0	1.4	-9.7	-0.5	-5.4	-6.0	-4.1	-1.8
Bolivia	-10.6	30.6	8.0	18.8	0.4	23.1	3.2	14.5	-11.0	23.5	9.8	11.0
Colombia	-4.8	17.7	-20.5	-15.5	-11.7	-3.4	-14.2	3.8	-7.6	-4.5	0.7	-2.8
Ecuador	13.8	-15.9	4.0	-9.1	6.0	6.4	16.7	1.2	7.0	-2.6	-0.9	8.4
Peru	11.0	3.8	1.7	3.8	-1.4	-0.1	3.2	3.7	4.0	1.6	11.3	4.6
Venezuela	-12.6	-15.2	-28.6	-12.5	-28.6	-0.9	-21.6	-10.1	-11.5	-15.9	-17.4	-11.1
Mexico	-10.9	7.5	5.4	-6.3	-9.6	16.4	-5.2	10.1	6.3	-0.5	13.7	-5.4
CACM	3.4	-2.1	4.2	6.1	2.5	9.6	6.1	4.0	1.4	2.1	-3.5	8.4
Costa Rica	0.3	10.7	-1.1	8.7	-4.3	11.0	8.2	12.4	-5.3	6.2	0.4	0.5
El Salvador	10.8	7.7	21.9	-7.9	5.4	16.6	7.7	16.6	-2.2	-16.4	-11.7	-5.5
Guatemala	-7.5	4.9	9.4	3.5	13.1	1.7	10.1	3.3	18.4	7.8	11.7	1.1
Honduras	2.4	-81.6	13.6	15.8	-2.0	16.0	-1.1	-20.5	2.4	6.0	-7.9	70.8
Nicaragua	-2.2	10.8	-16.4	-0.2	-8.6	14.0	2.2	7.1	-8.7	3.2	-11.1	-1.4
Panama	7.2	7.1	8.6	7.0	32.1	35.8	3.5	0.3	1.0	6.9	43.4	1.5
Caribbean countries (10)	-4.1	...	-23.5	...	-10.3	...	-18.6	...	-13.8	...	-25.9	...
Antigua and Barbuda	-1.3	...	-1.1	...	-1.8	...	3.7	...	0.0	...	2.9	...
Dominican Republic	5.1	0.0	-2.2	15.0	1.4	40.6	-1.9	-4.9	1.5	0.0	4.4	-19.8
Belize	52.7	...	8.3	...	-15.6	...	2.9	...	4.4	...	13.7	...
Barbados	...	...	-2.6	...	-4.6	...	3.0	...	5.1	...	...	...
Dominica	-3.1	...	-4.6	...	-0.1	...	-8.2	...	-2.3	...	-6.7	...
Grenada	11.1	...	6.5	...	-5.5	...	-0.6	...	1.0	...	24.4	...
Jamaica	5.2	...	-1.9	...	8.7	...	1.3	...	25.4	...	10.6	...
Saint Lucia	-27.2	...	-0.9	...	-0.8	...	2.4	...	1.0	...	4.1	...
Saint Vincent and the Grenadines	2.3	...	1.4	...	2.7	...	3.7	...	4.2	...	6.4	...
Trinidad and Tobago	-2.3	...	13.4	...	1.7	...	-68.3	...	49.9	...	-54.1	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information taken from the balance of payments current account of each country.

^a Includes only information for the 27 countries incorporated in the table.

^b Preliminary estimates.

of services in world trade –approximately 20% (WTO, 2003b). In general, the average conceals highly diverse specific situations. The lowest rates are recorded by Venezuela (3.3%), Mexico (7.5%), Suriname (9.6%), Argentina (10.9%), Trinidad and Tobago (10.9%), Colombia (12.2%) and Brazil (12.7%), while the highest rates are recorded by Saint Kitts and Nevis (89%), Antigua and Barbuda (87%), Barbados (78%), the Bahamas (74%), Netherlands Antilles (71%), Cuba (67%) and Dominica (66%) (see table I.27).

It should be noted that between 1990 and 2002, there was a sharp reduction in the share of imported

services in total imports of goods and services, from 24% to 16%, due mainly to the expansion in the trade in goods from Mexico and the reduction in imports into Argentina. For Mexico, the rate of services imports slumped by almost 20% to stand at less than 9% and for Argentina, they declined from 46% to 29%. However, for many countries in South America, imports of services remained very high. In Bolivia, Brazil, Chile, Peru and Venezuela, services were equivalent to more than 24% of total imports of goods and services (see tables I.27 and I.28).

Table I.27
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SERVICES IN TOTAL TRADE, 1985-2002
 (Percentages of trade in goods and services)

Subregions/Countries	Exports				Imports			
	1985	1990	1995	2002	1985	1990	1995	2002
Latin America and the Caribbean	15.1	17.5	16.1	13.9	24.7	23.8	19.3	16.1
MERCOSUR countries	10.8	13.3	13.8	12.6	26.5	29.6	22.8	25.5
Argentina	16.4	16.5	15.0	10.9	38.3	45.6	27.7	29.1
Brazil	7.5	10.7	11.7	12.7	22.3	26.7	21.5	25.3
Paraguay	24.7	26.5	12.2	18.0	21.5	21.9	13.7	11.2
Uruguay	32.1	21.6	38.8	25.8	33.5	23.7	24.0	22.8
Chile	15.4	18.1	17.2	18.2	27.0	22.7	20.0	24.2
Andean Community	10.3	11.9	11.8	9.4	26.0	27.3	22.4	21.8
Bolivia	13.4	14.9	16.0	14.8	34.7	28.6	22.2	26.0
Colombia	19.0	18.4	13.8	12.2	28.0	25.5	18.0	18.8
Ecuador	12.0	16.5	14.2	15.4	28.3	31.9	20.8	19.5
Peru	18.6	19.4	16.8	15.7	33.8	28.5	19.6	23.8
Venezuela	5.2	6.3	8.1	3.3	21.4	26.8	28.6	24.6
Mexico	15.2	16.6	10.9	7.5	23.1	19.9	11.8	8.8
CACM	16.4	24.6	20.6	24.5	18.8	21.0	17.7	16.0
Costa Rica	22.6	31.0	21.8	25.3	22.0	23.4	19.3	15.9
El Salvador	24.8	33.8	19.2	20.0	24.5	19.4	14.1	15.8
Guatemala	8.7	20.4	23.0	29.4	14.3	21.2	18.5	14.1
Honduras	11.4	13.3	15.8	21.8	18.0	19.5	17.9	19.2
Nicaragua	11.4	15.3	19.4	22.4	14.0	18.1	19.9	17.3
Panama	35.6	24.6	20.0	33.4	20.4	16.4	14.0	16.8
Caribbean countries	32.3	36.3	46.7	45.6	25.1	21.5	27.1	19.7
Netherlands Antilles	39.6	39.4	88.9	71.0	24.6	31.8	35.5	24.7
Aruba	...	72.6	32.4	32.4	...	18.8	12.2	5.7
Cuba	...	8.9	48.8	66.7	...	7.5	19.2	13.1
Dominican Republic	44.2	59.9	34.0	40.0	17.6	19.7	15.7	11.3
CARICOM	29.6	45.6	48.0	42.7	21.8	26.7	27.2	22.7
Bahamas	29.1	84.1	87.2	73.7	11.1	34.7	35.6	37.9
Barbados	54.9	74.9	77.9	77.7	20.3	28.5	34.4	20.6
Belize	...	51.2	44.7	40.4	...	22.2	26.7	20.8
Guyana	22.0	...	21.2	37.2	31.1	...	24.3	42.1
Haiti	33.9	16.4	40.5	32.3	38.1	14.0	17.8	9.5
Jamaica	51.7	46.3	47.1	56.2	27.2	29.2	29.8	31.3
Suriname	11.6	4.3	20.0	9.6	20.4	20.4	35.6	14.3
Trinidad and Tobago	11.0	14.4	12.2	10.9	32.2	30.2	12.4	6.6
OECS	59.0	65.2	76.1	72.2	19.7	23.3	29.2	12.2
Antigua and Barbuda	88.3	94.0	92.1	87.1	18.4	29.6	32.9	5.8
Dominica	25.4	35.7	55.1	66.0	16.4	20.0	26.7	33.4
Grenada	60.5	68.5	79.3	57.1	23.1	23.4	23.5	11.9
Saint Kitts and Nevis	53.3	64.3	80.4	88.8	17.1	24.1	29.8	13.0
Saint Vincent and the Grenadines	24.2	35.9	63.5	47.4	18.3	18.5	28.3	0.5
Saint Lucia	53.7	53.7	70.7	63.2	22.6	23.1	28.5	12.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information taken from the balance of payments of each country (see tables II.5a, II.5b, II.6a y II.6b).

As cautioned in the 2001-2002 edition of *Latin America and the Caribbean in the World Economy*, it is important to analyse the composition of exports and imports of services, owing to the different characteristics of the categories of the IMF *Balance of Payments Manual*, the main source of comparative statistical services information (ECLAC, 2003c, p. 88). In 2002, the most representative items for the region in terms of exports are “travel” and “other services”. The category “other services” encompasses exports and imports of services such as: communications services; construction services; insurance services; financial services; computer

and information services; royalties and licence fees; other business services; personal, cultural and recreational services; and government services (ECLAC, 2003c, box I.2) (see tables I.29 and I.30).

A detailed review shows that around 1/3 of the trade in services corresponds to the category “others”, with a greater weight in the countries of MERCOSUR and Chile. At the level of the subsectors, trade corresponding to business services concentrates 48% and 32% of exports and imports respectively, followed in importance by insurance, finance, communications and computer services (see tables I.29 and I.30).

Table I.28
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF THE TRADE
IN COMMERCIAL SERVICES, 1990 AND 2002
(Millions of dollars and percentages)

Subregions/Countries	Exports					Imports				
	Value		Transport	Travel	Other	Value		Transport	Travel	Other
	1990	2002				1990	2002			
World	783 200	1 578 000	22.9	32.5	44.6	1 367 200	1 546 000	28.5	30.2	41.3
Latin America and the Caribbean	30 664	57 929	17.6	52.4	30.0	36 877	66 508	35.1	26.6	38.3
MERCOSUR countries	7 171	13 896	18.9	28.4	52.8	11 494	20 304	24.7	24.5	50.8
Argentina	2 446	2 974	23.6	51.6	24.8	3 120	4 662	20.4	49.9	29.7
Brazil	3 762	9 606	16.6	20.8	62.6	7 523	14 644	24.8	16.4	58.9
Paraguay	498	541	12.7	10.9	76.4	458	345	51.5	18.8	29.7
Uruguay	466	775	33.6	45.3	21.1	393	653	39.5	27.2	33.3
Chile	1 849	3 960	41.0	21.5	37.5	2 077	4 917	35.1	13.7	51.2
Andean Community	4 266	5 679	27.6	48.1	24.3	6 563	11 729	39.6	26.5	33.9
Bolivia	146	235	25.5	34.8	39.7	311	516	56.6	14.3	29.1
Colombia	1 600	1 858	29.0	51.8	19.2	1 750	3 322	36.5	32.3	31.2
Ecuador	538	981	34.5	45.6	19.9	804	1 546	42.1	23.5	34.4
Peru	799	1 545	18.5	51.9	29.7	1 164	2 493	37.8	24.7	37.5
Venezuela	1 183	1 060	32.6	41.4	25.9	2 534	3 852	40.2	25.5	34.3
Mexico	8 094	12 692	9.0	69.8	21.2	10 323	16 740	38.2	36.2	25.6
CACM	1 455	4 508	16.9	53.8	29.3	1 596	4 229	45.9	23.7	30.4
Costa Rica	609	1 864	13.1	62.3	24.6	550	1 184	38.8	29.1	32.1
El Salvador	329	782	39.9	31.4	28.7	315	976	42.7	19.6	37.7
Guatemala	320	1 140	8.1	53.9	38.1	384	1 044	49.1	25.6	25.3
Honduras	137	527	17.0	55.2	27.7	220	687	55.4	19.0	25.6
Nicaragua	60	195	11.4	58.0	30.7	127	338	50.5	20.5	28.9
Panama^a	1 092	2 252	54.0	23.4	22.5	689	1 273	48.6	14.0	37.4
Caribbean countries	6 737	14 942	8.4	73.6	18.0	4 135	7 317	40.7	23.4	35.9
Netherlands Antilles Neerlandesas	1 161	1 250	14.2	33.3	52.5	518	703	29.1	30.8	40.1
Aruba	...	900	...	86.0 ^c	14.0 ^d	...	630	45.6	17.8	36.6
Cuba	...	2 836	6.0	75.0	19.0	...	625	45.6	23.5	30.9
Dominican Republic	1 097	3 055	2.3	89.6	8.1	440	1 284	58.3	23.0	18.7
CARICOM	4 479	6 902	12.1	71.7	16.2	2 442	4 075	36.2	23.1	40.7
Bahamas ^a	1 500	1 930	2.7	89.7	7.6	573	1 043	17.6	29.6	52.8
Barbados	654	184	9.8	70.7	19.5	250	131	28.8	32.5	38.6
Belize	115	798	0.0	87.2	12.8	60	252	54.7	42.1	3.2
Guyana ^b	106	217	24.8	50.8	24.4	140	238	40.0	12.3	47.7
Haiti ^a	52	147	2.0	62.9	35.1	72	252	85.7	9.6	4.7
Jamaica	1 027	1 920	19.2	63.0	17.8	697	1 649	37.3	15.7	47.1
Suriname ^a	37	59	40.8	17.4	41.8	171	150	41.2	10.6	48.2
Trinidad and Tobago	329	599	33.8	38.0	28.1	479	362	32.5	48.4	19.2
OECS	659	1 049	10.7	70.9	18.4	316	477	38.3	19.4	42.3
Antigua and Barbuda	312	398	18.8	67.6	13.6	105	158	35.4	20.3	44.3
Dominica	33	74	8.0	59.4	32.6	30	48	41.1	18.6	40.3
Grenada	64	138	6.6	64.6	28.8	33	79	38.6	9.7	51.7
Saint Kitts and Nevis ^a	54	6	9.7	60.2	30.1	35	16	40.7	11.8	47.5
Saint Vincent and the Grenadines	45	134	7.3	60.8	31.9	32	62	43.0	16.6	40.4
Saint Lucia	151	299	4.1	85.6	10.2	81	114	38.0	28.0	34.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information taken from the balance of payments of each country (see tables I.12 and I.13). The structure for the regional total and the set of countries of the Caribbean includes estimates for those countries with partial or incomplete information (see notes a, b, c and d).

^a The structure corresponds to information for 2000.

^b The structure corresponds to information for 1995.

^c The information relating to tourism inflows/outflows in the total exports/imports of services (year 1999) was used as a proxy to obtain this percentage.

^d The total includes transport.

Table I.29
LATIN AMERICA: BREAKDOWN OF OTHER SERVICES, 2001
(Percentages of total)

	Communi- cation		Construction		Insurance		Financial		Computer		Franchise		Business		Personal		Government		Total other		Percentage of total	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Latin America	15.0	6.3	0.2	0.5	13.8	29.0	4.1	7.2	1.6	2.7	2.6	11.7	47.9	32.0	3.1	4.9	11.7	5.6	100.0	100.0	30.0	37.9
MERCOSUR	5.9	6.4	0.2	0.5	3.0	15.2	5.0	8.2	2.8	4.3	4.3	16.5	67.1	38.7	1.1	6.9	10.4	3.4	100.0	100.0	52.6	50.5
Argentina	20.4	8.6	...	...	...	12.8	0.5	8.0	19.8	7.9	2.7	20.1	34.2	22.7	3.7	9.9	18.7	9.8	100.0	100.0	23.8	27.8
Brazil	3.9	6.1	0.3	0.6	2.9	15.2	5.1	8.2	0.5	3.9	1.8	16.3	74.8	41.0	0.9	6.5	9.8	2.3	100.0	100.0	62.6	58.9
Paraguay	2.7	0.2	...	...	5.2	56.1	1.5	4.1	0.1	1.1	48.2	2.5	37.4	2.7	...	...	5.0	33.3	100.0	100.0	76.3	28.4
Uruguay	9.4	13.8	...	...	9.4	21.6	19.1	7.1	6.6	6.4	...	5.6	46.9	12.2	...	9.6	8.4	23.7	100.0	100.0	21.1	33.3
Chile	16.8	15.5	...	...	11.8	10.9	...	...	...	...	...	3.6	64.2	57.5	...	...	7.2	12.4	100.0	100.0	39.1	52.4
Andean Community	31.4	9.7	...	...	11.7	18.9	4.1	7.5	0.5	1.3	0.4	5.2	16.0	41.4	3.6	3.7	32.3	12.3	100.0	100.0	22.5	31.0
Bolivia	33.5	11.5	...	...	38.9	51.1	4.3	2.5	0.4	3.5	1.5	4.2	4.5	11.3	1.0	1.7	15.9	14.2	100.0	100.0	39.7	29.1
Colombia	48.9	12.2	...	...	...	24.3	12.2	15.8	1.5	3.9	0.5	7.2	15.1	27.6	5.7	2.7	16.1	6.3	100.0	100.0	19.2	31.2
Ecuador	52.3	3.6	...	...	0.4	12.2	...	2.3	...	...	...	9.7	0.0	51.6	13.1	13.2	34.3	7.4	100.0	100.0	19.9	34.4
Peru	20.3	8.0	...	...	27.6	22.1	...	2.0	...	...	0.3	5.8	24.8	46.4	...	...	26.9	15.8	100.0	100.0	26.5	35.1
Venezuela	2.9	11.9	...	...	1.3	9.5	...	7.2	...	...	...	...	19.7	50.2	...	2.6	76.1	18.6	100.0	100.0	20.8	27.1
Mexico	26.1	3.5	...	...	44.8	69.1	...	5.9	...	...	1.3	4.5	12.3	7.7	10.5	2.1	5.0	7.2	100.0	100.0	21.2	25.6
CACM	29.5	8.1	0.7	4.7	10.9	21.2	2.7	3.2	1.6	1.7	0.2	5.4	33.9	46.2	0.0	0.7	20.6	8.8	100.0	100.0	29.9	31.6
Costa Rica	35.6	17.3	...	...	...	13.4	3.5	0.5	4.5	1.1	0.5	10.1	47.1	54.2	...	...	8.8	3.3	100.0	100.0	26.0	34.9
El Salvador	39.7	6.5	3.3	2.8	32.6	35.3	6.0	9.3	...	3.7	0.6	6.3	7.9	29.4	...	...	9.9	6.9	100.0	100.0	28.7	37.7
Guatemala	0.1	0.4	...	2.2	9.0	27.0	2.4	2.0	1.7	1.9	...	...	51.2	48.6	...	...	35.5	17.9	100.0	100.0	38.3	26.7
Honduras	55.2	8.4	...	22.6	11.5	9.4	...	...	...	...	...	5.6	3.9	43.0	...	4.2	29.5	6.8	100.0	100.0	27.7	25.6
Nicaragua	17.3	2.8	...	...	1.7	9.5	...	...	...	...	...	...	56.7	73.6	...	...	24.3	14.1	100.0	100.0	30.7	28.1
Panama	11.9	5.3	...	...	10.0	21.1	34.7	16.6	...	...	...	8.6	36.4	35.4	...	...	7.1	13.0	100.0	100.0	22.5	37.4
Dominican Republic	47.0	21.2	...	...	...	36.8	...	3.7	...	...	...	12.6	24.2	11.5	...	...	28.7	14.2	100.0	100.0	8.1	18.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information taken from the balance of payments of each country and presented using the methodology set out in the Fifth Balance of Payments Manual of the International Monetary Fund (IMF).

Table I.30
LATIN AMERICA: BREAKDOWN OF OTHER SERVICES, 2001
(Millions of dollars)

	Communications			Construction			Insurance			Financial			Computer		
	X	M	X-M	X	M	X-M	X	M	X-M	X	M	X-M	X	M	X-M
Latin America	2 211	2 379	-168	24	174	-150	2 032	10 965	-8 933	600	2 728	-2 128	239	1 031	-792
MERCOSUR	456	1 426	-970	17	120	-103	233	3 404	-3 170	390	1 827	-1 437	217	969	-752
Argentina	172	198	-26	...	...	...	0	297	-297	4	186	-182	167	183	-17
Brazil	241	1 202	-961	17	120	-103	180	3 015	-2 835	316	1 624	-1 308	28	772	-744
Paraguay	12	0	11	...	...	...	22	51	-30	6	4	2	0	1	-1
Uruguay	31	26	5	...	...	...	31	41	-9	64	13	50	22	12	10
Chile	204	190	14	...	...	...	143	134	9	...	...	...	0	0	0
Andean Community	428	321	107	...	...	...	160	623	-463	56	249	-193	7	43	-36
Bolivia	35	14	22	...	...	...	41	62	-21	5	3	2	0	4	-4
Colombia	205	120	85	...	...	...	...	239	-239	51	155	-104	6	39	-32
Ecuador	96	19	77	...	...	...	1	65	-65	...	12	-12	...	...	...
Peru	84	63	22	...	...	...	115	173	-58	...	16	-16	...	...	...
Venezuela	7	105	-98	...	...	...	3	84	-81	...	63	-63	...	...	...
Mexico	787	331	456	...	...	...	1 351	6 488	-5 137	...	557	-557	0	0	0
CACM	293	92	200	7	54	-47	108	242	-134	27	36	-9	15	20	-4
Costa Rica	92	53	40	...	...	...	...	41	-41	9	2	7	12	3	8
El Salvador	81	21	60	7	9	-2	67	114	-47	12	30	-17	...	12	-12
Guatemala	0	1	-1	...	5	...	19	60	-41	5	5	1	4	4	-1
Honduras	94	15	79	...	40	...	20	17	3	...	...	...	...	...	...
Nicaragua	25	3	22	...	...	...	3	11	-8	...	...	...	...	...	...
Panama	44	19	25	...	...	...	37	74	-38	128	59	69	...	...	...
Dominican Republic	139	50	89	...	...	...	0	87	-87	0	9	-9	...	...	...
	Franchise			Business			Personal			Government					
	X	M	X-M	X	M	X-M	X	M	X-M	X	M	X-M	X	M	X-M
Latin America	385	4 429	-4 045	7 050	12 109	-5 059	455	1 871	-1 417	1 721	2 130	-409			
MERCOSUR	337	3 702	-3 365	5 212	8 666	-3 453	89	1 543	-1 454	811	752	59			
Argentina	23	466	-444	288	526	-239	31	230	-199	158	228	-70			
Brazil	112	3 223	-3 111	4 612	8 114	-3 502	58	1 295	-1 237	604	449	155			
Paraguay	203	2	200	157	3	155	...	...	...	21	31	-10			
Uruguay	...	11	-11	156	23	133	0	18	-18	28	45	-17			
Chile	0	44	-44	779	704	75	0	0	0	88	152	-64			
Andean Community	5	172	-167	218	1 367	-1 149	49	123	-74	440	406	34			
Bolivia	2	5	-4	5	14	-9	1	2	-1	17	17	0			
Colombia	2	70	-68	63	271	-208	24	27	-3	67	62	6			
Ecuador	...	52	-52	0	277	-277	24	71	-47	63	39	24			
Peru	1	45	-44	103	363	-260	...	...	...	112	124	-12			
Venezuela	...	...	...	47	442	-395	...	23	-23	181	164	17			
Mexico	40	419	-379	370	721	-351	317	198	119	152	674	-522			
CACM	2	61	-59	336	526	-190	0	8	-8	204	100	104			
Costa Rica	1	31	-30	122	165	-43	...	...	...	23	10	13			
El Salvador	1	20	-19	16	95	-78	...	...	...	20	22	-2			
Guatemala	...	...	...	109	108	1	...	...	...	76	40	36			
Honduras	...	10	-10	7	76	-70	...	8	-8	50	12	38			
Nicaragua	...	...	...	82	82	0	...	...	...	35	16	20			
Panama	...	31	-31	134	125	9	...	...	...	26	46	-20			
Dominican Republic	...	30	-30	72	27	45	...	...	...	85	34	52			

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information taken from the balance of payments of each country presented using the methodology of the Fifth Balance of Payments Manual of the International Monetary Fund (IMF).

Chapter II

Regional integration in Latin America and the Caribbean, 2002-2003



Introduction

As mentioned in chapter I, the growth of GDP in Latin America and the Caribbean was weak during 2003, and constituted mainly a recovery of the ground lost in 2002. The resulting adjustments have had negative effects on the integration process and have led to some non-compliance with fundamental commitments in the four integration schemes. Independently of progress made, the slack performance of the countries' productive sectors continues to cause serious problems. It is no coincidence that the last few years have been witness to intensive efforts to redefine and implement the integration process with a view to making more efficient use of the potential of a regional economic community.

Despite advances in tariff reduction and harmonization through the use of common external tariffs, the integration process is encountering difficulties in terms of cooperation efforts to make progress in other areas of economic, social and political integration. The cooperative approach is weakened by individual strategies to improve the international position of economies, while the integration schemes are forced to tackle distribution problems caused by countries' heterogeneous levels of

development. On the one hand, each country's attempts to increase its productive complementarities with third countries weakens the process of cooperation since it deprives the common effort of the resources needed to deepen integration. On the other hand, reinforcing trade and investment relations between Latin American and Caribbean countries that are not directly linked to each other through regional integration progresses contributes to trade diversification in the region (see chapter I).¹

1 In various documents, the Secretary-General of the Latin American Integration Association (LAIA) has suggested the adoption of measures to enhance the regional free trade area based on the network of agreements in force among countries and integration schemes, such as

There is also a consensus that the integration model based mainly on tariff reductions has become stale, and that there is also a need to consider a degree of coordination of macroeconomic variables, deal with the restrictions imposed by limited physical integration and demonstrate to the population that they can influence and are influenced by the construction of a regional community. The adoption of effective mechanisms for macroeconomic coordination must include countercyclical measures that enable subregional schemes to support member countries in the face of regional and international crises (ECLAC, 2002c). Similarly, the improvement of physical integration, and broad initiatives such as the Initiative for Regional Infrastructure Integration in South America (IIRSA) and the Puebla-Panama Plan (PPP),

have emerged as viable strategies for economic integration (ECLAC, 2003b).² Lastly, the inclusion of effective social clauses and major advances in the institutional development of integration schemes are the main distinguishing factors between far-reaching integration schemes and free trade areas.

This chapter reviews the main developments of the past 18 months within the four subregional integration schemes: Southern Common Market (MERCOSUR), Andean Community, Central American Common Market (CACM) and the Caribbean Community (CARICOM). This includes an examination of trends in intraregional trade, progress in market access and trade facilitation and policy issues on aspects of macroeconomic coordination, institution building and the external relations of each integration scheme.

A. Southern Common Market³

1. Introduction

The macroeconomic shocks experienced by MERCOSUR countries had negative effects on the integration process. This prompted considerable efforts to renew community ties, especially the significant trade between Argentina and Brazil, and to offset the negative effects on smaller economies.⁴ GDP fell considerably in 2002, only to recover in similarly dramatic form in 2003 (ECLAC, 2003d and Economist

Intelligence Unit (EIU), 2003a).⁵ The devastating effects of macroeconomic shocks on economic integration gave rise to high-level discussions on the present and future situation of MERCOSUR.⁶ Economic recovery, combined with the fact that the new Heads of State in Brazil and Argentina clearly prioritize the South American integration process, is conducive to the deepening of MERCOSUR

those between the Andean Community and MERCOSUR, or between MERCOSUR and Mexico (LAIA, 2002b). See Resolution 55(XII) on measures to strengthen the role of LAIA as the main institutional framework for regional integration, adopted at the twelfth meeting of the LAIA Council of Ministers, 22 February 2003, Montevideo.

2 At the end of September 2003, a subregional seminar was held on regional and physical integration in the Andean Community and South America to analyse the IIRSA and the Puebla-Panama Plan (PPP) as a contribution to the agenda of the third European Union-Latin America and Caribbean Summit, held in May 2004.

3 The documents on which this section is based can be found on the web site of the Administrative Secretariat of MERCOSUR (www.mercosur.org).

4 See the report of the Pro Tempore presidency of Brazil, Brasília, 5 December 2002 (MERCOSUR/XXIII CMC/Di N° 05/02). The report states that the work of MERCOSUR during 2002 was focused on efforts to relaunch trade, which had been seriously affected by the crisis, and, with the problems solved, on achieving a situation conducive to negotiations on integration per se. The report also mentioned progress made in social, educational, cultural, security and migratory matters.

5 See the *Economic Survey of Latin America and the Caribbean, 2002-2003*, ECLAC, September 2003, and various editions of the Country Forecasts and Country Reports of the Economist Intelligence Unit (EIU), 2003, www.ieu.com.

6 See the report of the Pro Tempore presidency of Brazil, Brasília, 5 December 2002 (MERCOSUR/XXIII CMC/Di N° 05/02).

integration. This is the purpose of the Brazilian proposal entitled “Target 2006”, presented by the President of Brazil at the twenty-fourth meeting of the Common Market Council (CMC) held in mid-June 2003 (see summary in box II.1),⁷ as well as the Argentine proposal to create a MERCOSUR monetary institute,⁸ and the Paraguayan proposal on the treatment of asymmetries among member states.⁹

The various proposals were discussed at the fourth extraordinary meeting of the Common Market Council (CMC) on 6 October 2003, which also adopted a working paper on CMC mandates with a view to approving the programme of work for 2004-2006 at the twenty-fifth ordinary meeting of CMC. The need for systematic consideration of differential treatment to alleviate asymmetries was also emphasized.

Box II.1
SUMMARY OF THE PROPOSAL “TARGET 2006”

Political, social and cultural programme

- Increasing participation of civil society
- MERCOSUR Parliament, which could be elected by direct voting by 2006
- Boosting cultural cooperation
- Setting up a social institute
- Enhancing “MERCOSUR Ciudadano” (citizen information)

Customs Union Programme

- Dealing with development asymmetries
- Common External Tariff (perforations eliminated by 2006)
- Special common regimes (negotiated until 2006)
- Free trade zones
- Common external negotiations

- Common measures of trade protection, including safeguards for extra-zone trade (regimes negotiated until 2004 and adopted in 2006)
- Definition of instruments for the gradual elimination of antidumping measures and countervailing measures for intra-group trade (negotiated until 2004, entry into force by 2006)
- Common policy on protection of competition (entry into force by 2006)
- Productive integration with promotion of competitiveness forums; definition of financing instruments; training programmes; and mutual recognition of conformity assessment systems

- Discipline on incentives (negotiated until 2004, entry into force in 2006)
- Macroeconomic coordination
- Reinforcement of institutions

Bases for a Common Market

- Liberalization of services
- Regional capital market
- Promoting regional investment
- Bases for a common currency
- Government procurement (agreement scheduled for conclusion in 2003)
- Movement of labour force and promotion of workers' rights

Programme on new integration

- Education for MERCOSUR
- Cooperation programmes in science and technology
- Advanced productive integration
- Physical integration

Source: MERCOSUR Administrative Secretariat, MERCOSUR/XXIV CMC/DI N° 01/03.

2. Market access and trade facilitation measures

(a) Intra-subregional trade

In 2003, intraregional trade increased to levels comparable with previous periods, following the sharp drop experienced in 2002 (-33%) (ECLAC, 2003c). This confirmed the pro-cyclical relationship between the integration process and significant variations in GDP (see table II.1 and figure II.1). The proportion of GDP represented by intra-group exports rose slightly in 2003 (remaining comparatively lower in Argentina and

Brazil), although it was below the historical highs reached at the end of the 1990s.

The most significant upturn was in exports from all members to Argentina, whose imports from the rest of its trading partners recovered from the downturn in 2002 and expanded by about 90% (Argentine National Institute of Statistics and Censuses (INDEC), 2003; Brazil Group, 2003). Brazil and Paraguay recorded the largest rises in exports to Argentina, while Uruguayan exports grew at a lower rate (see table II.2).

⁷ Some of “Target 2006” is included in Decision 10/03 adopted by the CMC at that meeting.

⁸ The monetary institute would mainly be a forum for the study, research and discussion of monetary issues and the design of concrete monetary integration policies in the light of progress in other areas of integration (COMISEC, Sectoral Commission, Novedades MERCOSUR N° 1).

⁹ The treatment of asymmetries covers tariff and para-tariff measures; border development; external negotiations; infrastructure; and training of the workforce.

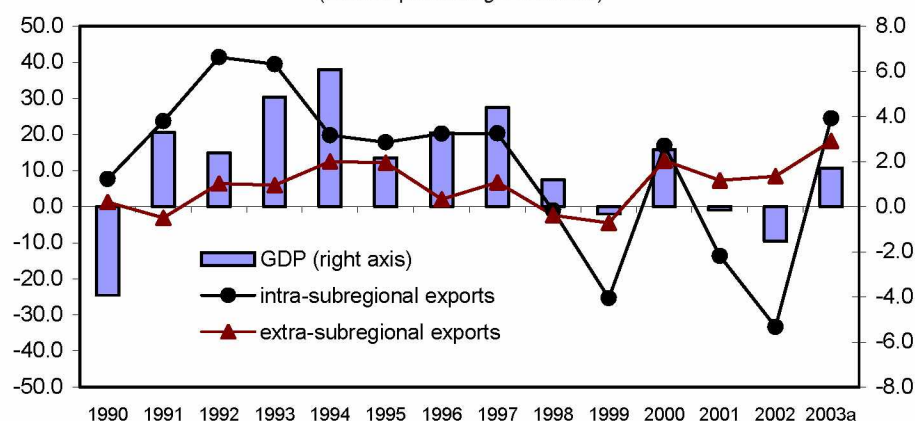
Table II.1
SOUTHERN COMMON MARKET: SHARE OF INTRA-SUBREGIONAL TRADE, 1990-2003
(Percentages of total trade)

Country	1990	1995	2000	2001	2002	2003 ^a
Argentina	14.8	32.1	31.8	28.5	22.3	19.0
Brazil	4.2	13.2	14.0	10.9	5.5	7.8
Paraguay	27.4	12.5	23.8	27.5	29.3	36.2
Uruguay	35.1	46.2	42.9	39.1	31.7	29.6
MERCOSUR	8.8	20.6	20.5	17.2	11.3	11.9

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

^a Preliminary figures.

Figure II.1
MERCOSUR: GDP AND INTRA-SUBREGIONAL AND EXTRA-SUBREGIONAL EXPORTS, 1990-2003
(Annual percentage variation)



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

^a Preliminary figures.

Table II.2
MERCOSUR: TRENDS IN THE NETWORK OF INTRA-SUBREGIONAL TRADE, 2002-2003
(Rates of variation compared with the same period of the previous year)

Origin \ Destination	Argentina		Brazil		Paraguay		Uruguay		MERCOSUR	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a
Argentina			-23.3	-4.5	-31.2	25.2	-29.3	-0.9	-24.5	-2.4
Brazil	-53.2	94.7			-22.6	27.0	-35.7	-2.1	-47.9	71.3
Paraguay	-43.3	94.0	27.1	24.1			-8.3	55.8	6.6	37.9
Uruguay	-64.3	34.8	-1.2	9.4	-25.3	-24.4			-27.4	10.7
MERCOSUR	-53.7	91.9	-20.0	-1.6	-26.1	23.0	-29.5	7.0	-33.3	24.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the Brazilian Secretariat of Foreign Trade (SECEX), the Argentine National Institute of Statistics and Censuses (INDEC), the Department of Economic Studies of the Banco del Paraguay and the Uruguayan Central Bank.

^a January-December.

In terms of sectors and products, the recovery in Argentine imports was concentrated on capital goods and intermediate inputs, especially from Brazil, a trading partner with whom Argentina has a high level of productive complementarity.¹⁰ The main products exported from Brazil to Argentina include electrical transformers, mechanical diggers, engines, harvesters, agricultural spray guns, crane trucks, milling machines, refrigerators, tyres and construction and mining machines (INDEC, 2003, 2004; SECEX, 2003b). Despite the upswing in trade from Brazil to Argentina, exports from Argentina to Brazil are still in a slump. The peculiarity of this trend is that manufactures of agricultural and industrial origin are even more depressed –especially meat; fish and seafood; vegetable fats and oils; and vehicles and spare parts, with this last category representing a relatively large proportion of total exports (25%) (INDEC, 2004; SECEX, 2004).¹¹

Despite the heavier slowdown in Argentine trade, trade between Argentina and Brazil still came to represent a higher proportion of MERCOSUR trade during 2003 (and accounted for a total of 72% of intra-subregional trade in the period 2002-2003). As a corollary to this, the share of trade moving between Brazil and Uruguay, Paraguay and Brazil, and Argentina and Uruguay declined (see table II.3).¹² The exports from the smaller countries depend heavily for their market share of intra-subregional trade on the level of domestic demand in the larger countries, given that 70% and 90%, respectively, of Paraguay's and Uruguay's exports to Latin America and the Caribbean go to their larger MERCOSUR partners.

(b) Market access measures

Despite progress in automotive trade, disputes over chicken and pork had to be taken to the Dispute Settlement Body (DSB) of WTO. In mid-2002, Argentina took advantage of the restructuring of the exchange rate to lift the restraints it had been imposing (Institute for the Integration of Latin America and the Caribbean (INTAL), 2003a). The fact that exports of Argentine wheat were subject to various tax and tariff measures and the effects of variations in the exchange rate gave rise to continuous complaints and prompted Brazil and Uruguay to make changes to the common external tariff. This and other cases of export restrictions reveal as much about shortcomings in the rules governing internal trade as about significant productivity differences in some sectors and a lack of production specialization, all of which will be examined in this section.

The deep crises suffered by the two larger economies (Argentina and Brazil) seriously affected the smaller two (Paraguay and Uruguay) and generated consequent reactions. Uruguay introduced a rate of 3% on all imports, as a service charge of the Banco de la República, and also demanded funding for accepting Argentine exports. Along similar lines, Uruguay implemented specific import duties in 2002 and the ensuing complaints lodged by Argentina remain to be resolved in the context of the Common Market Group (CMG). These situations have led to disputes being submitted to the group's arbitration mechanisms.¹³ Paraguay established an import levy in 2001, on the basis of what it refers to as the "shortcomings and inadequacy" of the Group's macroeconomic coordination.¹⁴

Table II.3
MERCOSUR: MARKET SHARES OF INTRA-SUBREGIONAL TRADE, 2003
(Millions of dollars and percentages of total)

	Millions of dollars					Percentages of total				
	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR
Argentina		4 621	428	538	5 587		36.4	3.4	4.2	44.0
Brazil	4 561		707	404	5 672	35.9		5.6	3.2	44.7
Paraguay	67	438		257	762	0.5	3.5		2.0	6.0
Uruguay	152	475	47		674	1.2	3.7	0.4	0.0	5.3
MERCOSUR	4 780	5 534	1 182	1 199	12 695	37.7	43.6	9.3	9.4	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the Brazilian Secretariat of Foreign Trade (SECEX), Argentine National Institute of Statistics and Censuses (INDEC), Department of Economic Studies of the Central Bank of Paraguay and the Uruguayan Central Bank.

10 The upturn in imports of capital goods in Argentina is generally a reflection of the rehabilitation of sectors including ones with more accelerated internal growth such as agriculture and services such as transport and construction (INDEC, 2003; Production Research Centre (CEP), 2003).

11 Manufactures of industrial origin include chemicals, plastics, rubber, leather, paper and paperboard, footwear, common metals, machines and equipment, transport equipment, car parts, motorized vehicles.

12 In 1990, bilateral trade between Argentina and Brazil only represented 52% of total intra-group trade.

13 Uruguay's complaint against the Argentine industrial regime is being examined by the MERCOSUR arbitration tribunal (INTAL, 2003a).

14 Special temporary measure for imports (ECLAC, 2002c).

In October 2002 the Central Bank of Brazil responded by raising the limit of operations with a 360-day term to 200,000 dollars and 300,000 dollars for operations with terms between 180 and 360 days. In addition, the Central Bank established new rules for the use of the reciprocal payment and credit agreement (CPCR) in trade with Argentina.¹⁵ The Bank also included operations with longer terms, in accordance with the payment regime, in which the Central Bank only pays the exporter what it receives from the importer. In May 2003, the Brazilian Government and the National Bank for Economic and Social Development (BNDES) created a US\$ 1 billion fund to grant credits to Argentine importers of Brazilian products and committed to provide up to US\$ 3 billion to finance imports from Latin American countries.¹⁶

(c) Physical integration and trade facilitation

Particular importance has been attached to initiatives targeted at extending and improving infrastructure, both in the negotiations with the Andean Community and those held in the context of Peru's association agreement with MERCOSUR.¹⁷ These initiatives include projects worth several billion dollars partly financed by BNDES and the Inter-American Development Bank (IDB).

BNDES also approved a credit line of US\$ 600 million to finance investment in Bolivian infrastructure.

(d) Other aspects: services, government procurement and trade protection

Despite the fact that only Argentina has ratified the Montevideo Protocol on Trade in Services, three rounds of negotiations have been held with a view to liberalizing trade in services during 2007. The CMC decided that the fourth round of negotiations should be held before November 2003.¹⁸ The ad hoc group on government procurement must also complete its work by that date. Still pending is a solution to the geographical and institutional coverage of the government procurement instrument; the existence of regional preferences; the inclusion of concessions; and treatment of public or mixed enterprises (INTAL, 2003a).¹⁹

To date, intra-group trade protection has been governed by national provisions. In Decision 22/02, the CMC adopted new disciplines for procedures and rules on investigation, anti-dumping and subsidies for foreign trade that were based on WTO rules. Decision 10/03 instructed the Common Market Group to submit a proposal for the harmonization of intra-group trade protection by November 2004.

3. Regulatory aspects and the Customs Union

(a) The common external tariff (CET)

The high-level group tasked with reviewing the common external tariff has been postponing the presentation of its findings.²⁰ The result is the continuation of special treatment, such as the temporary rate of 1.5% that Argentina applies to capital goods, which was extended to December 2003 in decision 02/03. In other provisions, the decision awarded the same extension to 100 tariff positions; extended the rate of

0% on the import of capital goods in favour of Argentina to June 2003; extended to the end of 2003 permission for Paraguay to impose rates of 0% to 6% on the import of capital goods from third countries; and granted Uruguay a similar extension for goods included in Decree N° 004/003.²¹

Access for merchandise from the special customs area of Tierra del Fuego and the free trade zone of Colonia were recently regulated, although the formulation of common rules was postponed until the

15 See INTAL monthly newsletter N° 82, May 2003, Buenos Aires.

16 In April, BNDES had approved a credit line of US\$ 1 billion for Venezuelan importers.

17 As part of IIRSA.

18 Administrative Secretariat of MERCOSUR, Decision 10/03 of the Council's twenty-fourth ordinary meeting, June 2003. A similar conclusion was reached by the fourth extraordinary meeting of the CMC, 6 October 2003.

19 Decision 01/03 of the Council's twenty-fourth ordinary meeting (Asunción, 17/06/03).

20 Decision 10/03 of the Council's twenty-fourth ordinary meeting (Asunción, 17/06/03), extended the deadline to 30 November 2004.

21 Decision 02/03 of the Council's twenty-fourth ordinary meeting (Asunción, 17/06/03).

end of November 2004.²² The Council's twenty-fourth ordinary meeting issued instructions for the unification of health, migration and customs entry forms.

(b) Macroeconomic coordination and investment

At its meeting in December 2002, the Macroeconomic Monitoring Group reaffirmed commitments to fiscal discipline and the targets of the Florianópolis Declaration. The inflation target was fixed at 5% from 2006, and the public debt/GDP ratio must drop to 40% by 2010. The meeting also agreed to set up an *ex ante* monitoring system for each country's convergence trajectory.

In May 2003, Argentina proposed a single currency band between the real and the peso, and the creation of a new currency to be used in trade and tourism operations based on an enhanced version of the reciprocal payment and credit agreement (CPCR). Other initiatives included the creation of a compensation mechanism to protect national producers in the event of exchange disparities and the establishment of the Institute for Monetary Cooperation to study macroeconomic convergence and

other monetary, financial and exchange-rate matters and (INTAL, 2003a).²³

Although the meeting to promote intraregional investment and Argentina's proposal to study the creation or strengthening of institutions to finance investment have not yet borne fruit (INTAL, 2002a and 2003a), the Financial Fund for the Development of the River Plate Basin (FONPLATA) and BNDES acceded to the Andean Development Corporation (CAF) in December 2002. Other initiatives include the organization of sectoral productivity forums;²⁴ a series of studies on the promotion of subregional production chains and their complementarity (Kosacoff, 2002; Figueroa and Villalpando, 2003; Porta, 2003);²⁵ and private-sector negotiations on textiles, leather, white goods, poultry and pig breeding. In September 2003, the Brazilian Government announced its intention to authorize BNDES, in conjunction with the Andean Development Corporation and the countries of South America, to devise a number of infrastructure projects that are fundamental to integration. These are estimated to cost between US\$ 4.5 and 5 billion and some of them have been considered among the projects of IIRSA.

4. Disputes and incorporating MERCOSUR rules into national legislation

The signing of the Olivos Protocol on Dispute Settlement in MERCOSUR in 2002 was an important achievement for the Group.²⁶ The number of disputes has tended to rise as a result of economic difficulties. The Common Market Council decided to set up a MERCOSUR Centre for Promoting the Rule of Law on the same premises as the Permanent Court of Review.

At the end of 2002, the Pro Tempore Presidency stated that shortcomings in terms of incorporating

MERCOSUR rules into national legislation had become one of the group's main institutional problems (Decision 20/02 of the Council's twenty-third ordinary meeting). Decision 07/03 of the Council's twenty-fourth ordinary meeting tasked the Common Market Group (CMG) with presenting a study for the direct incorporation into the legal system of MERCOSUR rules that do not require legislative treatment.

22 Decision 01/03 of the Council's twenty-fourth ordinary meeting (Asunción, 17/06/03).

23 The foreign ministers of Argentina and Brazil signed a Memorandum of Understanding that included an "anti-cyclical" clause urging both countries to rapidly devise permanent ways of mitigating the effects of macroeconomic shocks on mutual trade (ReINET bulletin N° 159, 22 August 2003, quoting the newspaper *La Nación*, Argentina). Report of the Pro Tempore presidency of Brazil, Brasília, 5 December 2002 (MERCOSUR/XXIII CMC/Di N° 05/02).

24 Set up by decision 23/02 of the twenty-third extraordinary meeting of the Common Market Group, 6 December 2002, as a programme for competitiveness forums of production chains in MERCOSUR.

25 There is a growing opinion that one of the main shortcomings of MERCOSUR resides in the lack of development of industrial production chains (or joint vertical production) based on the competitive advantages of each country to export products with the brand "made in MERCOSUR" to regional and international markets. This was emphasized by the President of the Association of Brazilian enterprises for integration in MERCOSUR (ADEBIM) (ReINET bulletin N° 159, 22 August 2003, quoting the newspaper *Gazeta Mercantil*, Brazil).

26 ECLAC commented on the Olivos Protocol in *Latin America and the Caribbean in the world economy, 2001-2002* (ECLAC, 2003b).

5. Institutional aspects

At its twenty-third meeting, the Council decided to establish a Technical Advisory Sector within the MERCOSUR Administrative Secretariat, which has since become the MERCOSUR Secretariat. In October 2003, the MERCOSUR Committee of Permanent Representatives was set up and the former President of Argentina, Eduardo Duhalde, was appointed Chairman.²⁷

The Heads of State of Colombia, Ecuador, Guyana, Peru, Venezuela and Suriname were invited to the Council's twenty-third ordinary meeting. The President of Venezuela was invited to the Council's twenty-fourth ordinary meeting. The competitiveness forum for production chains held two meetings in the second half of 2002 and three during the first six months of 2003.

6. MERCOSUR external relations

The mediocre results of the Doha Round of WTO negotiations mean that more emphasis is placed on the group's external relations²⁸, including those with:

- *Andean Community*. On 6 December 2002, MERCOSUR signed a framework agreement with the Andean Community (economic complementarity agreement (ECA) No. 0054) with the objective of creating, by the end of 2003, a free trade area through the convergence of their members' trade liberalization programmes (the Agreement extends those agreements signed in the context of LAIA to the end of 2003).²⁹ At the Council's twenty-fourth ordinary meeting it was decided to conclude negotiations for the free trade agreement between the two groups during 2003 (INTAL, 2003a). On 25 August 2003, MERCOSUR and Peru signed a free trade agreement that was intended to come into force on 1 November. Brazil and Peru reached agreement on major investments in road infrastructure, multimodal transport, energy and communications. In December 2003, negotiations concluded on an economic complementarity agreement with Colombia, Ecuador and Venezuela. This agreement is in addition to those MERCOSUR concluded with Bolivia in 1996 and Peru in 2003, and forms the basis for a South American trade bloc comprising the Andean Community and

MERCOSUR countries. In some cases, however, decisions remain pending on how to implement the tariff reduction process –which could last up to 15 years– and on definitive lists of products.

- *United States*. Although there were no significant advances in negotiations, activities continued in the working groups on trade in agricultural, electronic and industrial goods and, to a lesser degree, in the group on investment.
- *European Union (EU)*. Agreements were reached on mutual support for the democratic system, cooperation in combating drug trafficking and terrorism and on trade facilitation, customs, agriculture and sanitary and phytosanitary measures. Development asymmetries and the need for special treatment for MERCOSUR were both recognized. The MERCOSUR-EU negotiation committees and groups met several times during 2002 and 2003. Both parties hope to complete negotiations in 2004. The ministerial meeting held in Brussels on 12 November 2003 therefore agreed on an ambitious programme of work including five meetings of the biregional negotiations committee and two ministerial meetings, the second of which would be held in October 2004. On 1 October 2003, the Iberoamerican foreign ministers met in Lisbon to examine the report of former Brazilian President

27 See Administrative Secretariat, Decisions 11/03 and 14/03 of the Council's fourth extraordinary meeting, 6 October 2003.

28 On 6 September, Marco Aurelio García, main adviser to the President of Brazil, was quoted as saying to the *Clarín* newspaper in Buenos Aires that it was important to observe the attitude of developed countries at the WTO meeting in Cancún, especially their willingness to reduce protectionism. Were developed countries to maintain their established positions, this would encourage integration between the Andean Community and MERCOSUR (ReINET bulletin N° 172), 8 September 2003.

29 The twenty-third meeting of CMC, held in December 2002, adopted Decision 31/02, which ratified the signature of this instrument.

Cardoso, Chairman of the working group tasked with analysing the summit system. The thirteenth Iberoamerican Summit approved the creation of a permanent secretariat to follow up guidelines issued as part of the Summit process.

- *Bolivia and Chile.* In September 2002, Chile and Argentina concluded an agreement to liberalize trade in the automotive sector. In the second half of 2003, MERCOSUR was scheduled to hold meetings with the administrative commissions of the economic complementarity agreements with Bolivia and Chile (ECA No. 35 and 36).
- *Mexico.* On 27 September 2002, an economic complementarity agreement (ECA No. 55) was concluded with the aim of laying the foundations for free trade between MERCOSUR countries and

Mexico in the automotive sector and promoting integration and production complementarity.³⁰ In the context of ECA No. 55, Mexico initiated negotiations with Argentina and Uruguay in November and December 2002, respectively, on the conclusion of free trade agreements. On 3 July 2003, Brazil and Mexico concluded ECA N° 53, which is intended to promote and regulate mutual trade and encourage investment. A similar agreement was concluded with Uruguay on 10 September.

- *Other countries.* Contacts and negotiations continued with a series of countries and groups including South Africa, the Caribbean Community (CARICOM), China, the Central American Common Market (CACM), Republic of Korea, India, Arab Maghreb Union and the Russian Federation.

B. Andean Community³¹

1. Intraregional trade

In 2003, intra-subregional trade among the countries of the Andean Community continued its downward trend and posted negative growth for the second consecutive year. This poor performance had the effect of perpetuating difficulties within the process and compounding the need, already apparent in 2001 and 2002, for major changes in different aspects of regional integration, including the political, cultural and economic dimensions, physical integration, border development, sustainable development and institutions. These were the conclusions of the fourteenth meeting of the Andean Presidential Council, held in Quirama in 2003, which represents an important guide for the integration process (see box II.2).

Similarly to the situation in MERCOSUR, trade among the Andean Community countries tends to be pro-cyclical and highly volatile in the long term (see figure II.2). In 2003, the proportion of GDP represented by intra-subregional trade dropped by almost 1% to 8.9%, with Bolivia and Colombia sustaining even greater

losses (see table II.4). Trade performance in 2002 and 2003 was in strong contrast with the expansion of intra-subregional trade in the 1990s, particularly in those years when trade expanded more rapidly than GDP. A drop in intra-group exports poses a threat to the productive structure of some domestic sectors, especially those that are highly dependent on the subregional market (automotive, chemical and engineering sectors, textile industry, agribusiness and a few primary products such as bananas, beans and lemons). Some of the Andean enterprises that had improved their competitiveness in the extended market might lose their positions as a result. In this regard, Colombian investors and businessmen could be hardest hit as a result of their greater presence in Venezuela, Peru and Ecuador.

The most dramatic consequences of the downturn have been experienced by Bolivia, Colombia, Peru and Venezuela, the only buoyant performers being Ecuadorian exports, which grew during 2002 and 2003.³² Comparatively speaking, reduced export activity has had

30 See the newspaper *Diario MERCOSUR*, Sectoral Commission, October 2002, Montevideo.

31 The documents on which this section is based can be found on the web page of the General Secretariat of the Andean community (www.comunidadandina.org). In 2003, ECLAC published an analysis of the Andean integration process (Maldonado, 2003).

32 It is worthy of note that much of Ecuador's increased participation in intraregional trade in 2003 was due to the positive effect of oil prices remaining high in the first and last quarter of the year.

Box II.2
SUMMARY OF QUIRAMA DECLARATION

The aim of this general programme is to enhance integration by launching a second generation of policies. It establishes the following lines of strategic action and guidelines:

Political dimension

- Construction of a governance agenda
- Preparation of Andean Common Security Policy guidelines
- Start up of the Andean Plan for the Prevention, Combating and Eradication of Trafficking in Small, Light Weapons
- Adoption of a Programme to Disseminate and Implement the Andean Charter for the Promotion and Protection of Human Rights
- Implementation of the Operational Plan for the Combating Illegal Drugs and Related Offences
- Preparation of guidelines for an Andean Plan to Combat Corruption
- Adoption of an Andean Plan to Combat Corruption
- Preparation of guidelines for a Subregional Food Security Policy and action plans against poverty and exclusion
- Organization of the first Andean Community-MERCOSUR and Chile Political Dialogue and Cooperation Meeting, concluding the free trade agreement by the end of 2003, continuing negotiations for a Political Dialogue and Cooperation Agreement with the European Union and continuing negotiations with other countries and groups of countries.

Social and cultural dimension

- Formulation of the Integrated Social Development Plan
- Establishment of regulations for decisions on labour migration, social security and safety and health at work. Also the adoption of the necessary legal provisions to recognize professional licenses, degrees and accreditations
- Procurement of social participation in the integration process and protection of consumer and indigenous rights
- Preparation of policy guidelines to improve the quality, cover and relevance of education
- Promotion of the establishment of an Andean commission on investment in health.

Economic dimension

- Fostering a process of reflection on the Free Trade Area of the Americas (FTAA) and the Andean Community's international positioning
- Analysis of the causes and proposal of solutions for non-compliance with Community regulatory provisions
- Assessment of the integration process for each country
- Formulation of a common agricultural policy

- Formulation of programmes for the liberalization of Subregional trade in services and implementation of actions for linking customs.

Border integration and development

- Establishment of a comprehensive plan for border integration and development
- Support for implementation of South American Regional Infrastructure Integration Initiative (IIRSA)
- Promotion of border integration zones.

Sustainable development

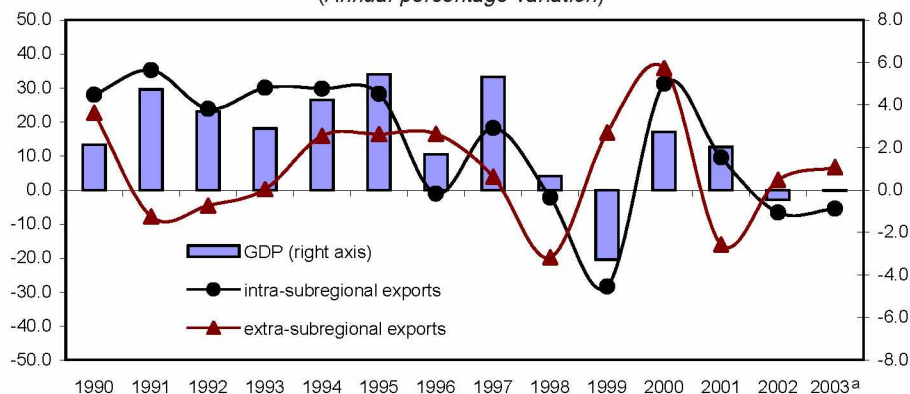
- Design and implementation of programmes on the environment, energy development and disaster prevention and assistance
- Design an Andean Plan to follow up the World Summit on Sustainable Development held in Johannesburg and that Summit's Plan of Implementation.

Institutions

- Supporting and strengthening the Andean Integration System
- Preparing proposals for extrajudicial conflict settlement
- Acceleration of the direct election of an Andean Parliament.

Source: Andean Community, *Quirama Declaration* [on line], General Secretariat, 28 June 2003 (<http://www.comunidadandina.org/ingles/document/Quirama.htm>).

Figure II.2
ANDEAN COMMUNITY: GROSS DOMESTIC PRODUCT AND INTRA-SUBREGIONAL AND EXTRA-SUBREGIONAL EXPORTS, 1990-2003
(Annual percentage variation)



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

^a Preliminary figures.

Table II.4
ANDEAN COMMUNITY: SHARE OF INTRA-SUBREGIONAL TRADE
(Percentages of total trade)

Country	1990	1995	2000	2001	2002	2003 ^a
Bolivia	7.2	20.9	24.9	28.6	29.6	27.0
Colombia	5.3	18.3	15.9	21.5	18.8	13.9
Ecuador	6.9	8.0	13.1	15.9	16.1	16.7
Peru	6.4	7.2	6.3	7.5	6.5	6.0
Venezuela	2.8	9.9	4.7	4.8	4.7	4.3
Andean Community	4.2	12.4	8.5	10.9	9.9	8.9

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

^a Preliminary figures.

much more damaging effects on Colombia and Venezuela. Reciprocal trade between the two countries in the period January-July was down by around 58%, from US\$ 1.14 billion in 2002 to US\$ 660 million in 2003. The reduced flow of exports is a result of a dramatic drop in demand in the Venezuelan market, difficulties created by import restrictions and the exchange control decreed by the government. Trade within the Andean Community picked up during the second half of the year, although it did not recoup the historic level of US\$ 5.7 billion recorded in 2001 prior to the crisis of the last biennium.³³ The Venezuelan crisis affected all of the subregion's countries indiscriminately, with declines of between 10% and 38% in 2003, including Ecuadorian exports (see table II.6). Despite the current slump, trade between Colombia and Venezuela still represents a considerable 25.5% of intra-group trade (see table II.6).³⁴

The most significant changes are the increase in trade between Colombia and Ecuador and between Ecuador and Peru. Trade between the two pairs considerably increased their market share and they are now the second and third most important sets of partners in the group. In 2003, Colombian-Ecuadorian and

Ecuadorian-Peruvian trade represented 23% and 16%, respectively, of mutual trade at the intra-subregional level, followed by trade between Colombia and Peru. The emergence of these three sets of partners and Venezuela's lagging market share are consistent with larger growth in Colombian exports to Ecuador and Peru in 2002 and 2003, increased sales of Peruvian products in Colombia and Ecuador and increased Ecuadorian sales to Peru (see table II.6).³⁵ The fastest-growing trade sector is exports from Colombia, which represent just over 37% of intra-group trade.

In terms of products, trade between the group's main trading partners is typified by a productive complementarity of low-, intermediate- and high-technology manufactures. Trade between Colombia and Ecuador, for instance, is characterized by a large flow of industrial commodities.³⁶ In 2003, bilateral trade between Colombia and Ecuador was hurt by the Venezuelan crisis. In the period January-July 2003, Colombian automotive exports to Ecuador dipped by 56%, and exports from Ecuador to Colombia were also down (Proexport, 2003).³⁷ In aggregate terms, sales from Colombia to Ecuador slipped by 4% in 2003. Trade

33 According to information from the Colombian National Administrative Department of Statistics and the Andean Community, bilateral trade between Colombia and Venezuela only represented US\$ 1.3 billion in 2003, i.e. only slightly less than the 1993 level (US\$ 1.6 billion) and far less than the historic figure of US\$ 2.7 billion recorded in 2001.

34 In 2003, trade between Colombia and Venezuela lost much of its market share, which had constituted 36% of subregional trade in 2002 and between 44% and 60% in 1990 and 1995.

35 In 2002, Ecuador and Peru were the two main destinations for Colombian exports within the Andean Community. Although table II.6 indicates that the level of sales of Colombian products to Ecuador was 4% lower in 2003 than in 2002, it also shows that Ecuador nonetheless became Colombia's second trading partner after the United States (Colombian National Administrative Department of Statistics, 2004).

36 The main industrial commodities involved in this flow are iron and steel, chemicals and products of the paper industry, which account for close to 30% of the two countries' reciprocal trade. Perhaps the industry that deserves most attention is the automotive industry, which grew by around 28% in 2002. In addition to industrial commodities, light manufactures such as garments, textiles, publications, plastic goods, soap, cosmetics and leather and footwear are significant in the trade between Colombia and Ecuador. These showed major potential in the period 1990-1998, but in 1999 suffered the effects of the slowdown in world trade, in common with other sectors.

37 The main products that Ecuador exports to Colombia are: tourism vehicles, canned products, tuna and sardines, beans, bananas and other agricultural products such as mangoes, lemons, passion fruit and other fresh fruits (*El Comercio* newspaper, 2003).

Table II.5
ANDEAN COMMUNITY: TRENDS IN THE NETWORK OF INTRA-SUBREGIONAL TRADE, 2002-2003
(Rates of variation with respect to the same period of the preceding year)

Origin \ Destination	Bolivia		Colombia		Ecuador		Peru		Venezuela		Andean Community	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a
Bolivia			-27.0	22.5	-69.4	225.4	7.0	22.4	75.6	-10.1	5.7	9.6
Colombia	-10.3	-6.0			16.5	-4.0	25.2	10.3	-35.1	-38.4	-15.5	-18.6
Ecuador	-17.1	3.7	25.2	-4.3			29.9	56.2	-58.1	-17.9	9.8	24.0
Peru	-7.8	13.3	1.7	19.4	8.3	10.5			-21.2	-13.9	-4.9	8.1
Venezuela	59.5	24.7	1.9	-24.0	29.0	6.0	-33.0	13.2			-1.8	-11.3
Andean Community	-7.9	8.0	2.8	-9.7	17.2	0.4	7.1	29.8	-30.7	-32.3	-6.7	-5.5

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

^a January-December.

Table II.6
ANDEAN COMMUNITY: MARKET SHARES OF INTRA-SUBREGIONAL TRADE, 2003
(Millions of dollars and percentages of total)

2003 ^a	Millions of dollars						Percentages of total					
	Bolivia	Colombia	Ecuador	Peru	Venezuela	Andean Community	Bolivia	Colombia	Ecuador	Peru	Venezuela	Andean Community
Bolivia		170	10	89	156	425		3.4	0.2	1.8	3.1	8.5
Colombia	35		778	383	690	1 886	0.7		15.6	7.7	13.8	37.8
Ecuador	5	345		631	53	1 035	0.1	6.9		12.7	1.1	20.8
Peru	103	184	151		100	537	2.1	3.7	3.0		2.0	10.8
Venezuela ^a	4	582	288	228		1 105	0.1	11.7	5.8	4.6		22.1
Andean Community	148	1 281	1 227	1 330	999	4 988	3.0	25.7	24.6	26.7	20.0	100.0

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

^a Preliminary figures.

between Colombia and Venezuela also has a large component of productive complementarity. Industrial products represent around 88% of the trade between the two countries, especially intermediate-technology manufactures (engineering, chemical, automotive sectors and spare parts industries), which are the most dynamic sectors in the expansion of trade between the two countries. These are followed by the food, textile and pharmaceutical industry.

Trade from Ecuador and Venezuela to Peru, and, to a lesser extent, from Colombia to Peru, is dominated by exports of crude petroleum, diesel, lubricant oils, iron and steel. Other products exported by Colombia and Ecuador to Peru are bituminous coal, beet and cane sugar and gas cookers. Peru supplies the refined copper, unalloyed zinc and fish flour imported by Colombia and the clothing, textiles, household appliances and foodstuffs imported by Ecuador. The main exports from Peru to Venezuela are textile products followed by cylinders, vials, unalloyed zinc, and refined copper wire (Peruvian customs, 2002).

Bolivia's trade with Colombia, Peru, Venezuela and, to a lesser extent, with Ecuador, is dominated by agricultural products or agricultural manufactures such as soybean oil-cakes, soybean flour, chestnuts, concentrated cream, powdered milk and beet and cane sugars (Peruvian customs, 2002; *Razón Digital* newspaper, 2003). Comparatively speaking, Bolivia's market share of intra-group trade is lower than the rest of its trading partners, and represents 9% of total intra-group exports and 3% of imports.

Venezuela's complex macroeconomic situation during 2002 and 2003 casts doubt over future development of intraregional trade in the Andean Community, particularly since empirical evidence suggests that intra-subregional trade is more volatile and pro-cyclical in this group. Furthermore, variations in the effective exchange rate –the main measure of competitiveness between group members– reveal dangerous asymmetries that also point to an uncertain future in the medium term.

2. Market access, physical integration and trade facilitation

(a) Free trade zone

In 2005, Peru will become a full member of the Andean Community's four-country free trade zone. In January 2004, Peru liberalized 54.47% of its trade, leaving a little over 45% of its imports pending, especially from Ecuador (79%) and Venezuela (63%) (Andean Community, 2004).³⁸ The free trade zone has tended to function well although, as is common, there has been some non-compliance and infringement of the rules. The resulting disputes are dealt with in the context of the due legal process established in the framework of the Andean Community.³⁹

For instance, to protect itself from the loss of competitiveness caused by devaluation in Colombia and Venezuela, Ecuador imposed safeguards on certain subregional products such as flat ceramics, 47 agricultural subitems, oilseeds and brake pads (Proexport, 2003).

It was in response to this that the Andean Presidents adopted guidelines in Quirama instructing the competent bodies to assess the process for each member country, analyse causes of non-compliance and devise a programme of work to move forward with the process of liberalizing subregional trade in services (see box II.2). Similarly, activities aimed at enhancing community rules governing market access have continued. One such initiative is the three-year Competition Project aimed at improving and harmonizing the legislative, administrative and legal framework of the five countries in terms of competition law; supporting institutions responsible for monitoring and applying the law; and promoting a culture of competition.⁴⁰

(b) Physical integration and trade facilitation

The Andean Community has been making sustained efforts to encourage the adoption of community rules to develop, facilitate and liberalize different forms of transport. The tenth meeting of the Council of Ministers of Transport and Public Works, held on 30 April 2003, agreed to review the current situation by carrying out a diagnostic analysis. The aim is to produce a programme of action that takes into account security in the provision of land transport services and, in the medium term, the harmonization of national standards; monitoring and joint public and private surveillance at borders; and increased horizontal coordination and cooperation between transport bodies. In connection with air and maritime transport, the meeting considered air security and the capacity and potential of Andean coastal shipping to stimulate intra-subregional trade and competitiveness.

Following multiple preparatory activities, the ministers for energy met at an open-ended session of the Commission on 19 December 2002, where they adopted Decision 536 establishing a general framework for the subregional connection of electrical systems and intra-community trade in electricity.⁴¹ The Decision lays down the basic legal guidelines for such activities, with a view to making up temporary or permanent electricity shortages among member countries.⁴² The Decision also stipulates the general principles for intra-subregional interconnection contracts based on the national treatment rule and calls for the harmonization of domestic regulations governing international electricity transactions with a view to promoting free trade (*L'Extrategy*, 2003b). The first meeting of the Ministers of Energy and Mining of the Andean Community was subsequently held on 19 June 2003.⁴³

38 Since July 2002, the Andean Council of Ministers for Foreign Affairs and the Commission of the Andean Community have issued 44 Decisions, many of which deal with administrative matters related to integration. There are five decisions related to trade: the creation of the Andean Committee of export promotion authorities; the elaboration, adoption and application of technical regulations; competition; and two on the trade in goods and services.

39 Since July 2002, the General Secretariat has issued 122 resolutions, approximately 33% of which concerned problems related to the free trade zone, and 41% of which were related to agricultural development (although much of these dealt with management of the Andean system of price bands (ASPB)).

40 See Andean Community, press release, 3 March 2003, Lima.

41 This first meeting served to analyse the following previously studied items: first, the agreements adopted for electricity and gas interconnections; second, the Andean position in hydrocarbons trade and energy security; third, energy services and energy clusters, intensive value-added in Andean development and international negotiations. Lastly, the Council of Ministers for Energy, Electricity, Hydrocarbons and Mines was established and its plan of action approved (General Secretariat, Final Minutes of the First Meeting of Minister of Energy and Mines of the Andean Community).

42 The Meeting created the Andean Committee of Regulatory Bodies and Regulators of Electricity Services.

43 Major economic benefits have already derived from trade in electricity between Colombia and Ecuador: savings of around US\$ 5 million were made in the first week of operation of the electrical connection between the two countries, which will ultimately enable reductions in rates to final users (General Secretariat, press release, 14 March 2003).

In the area of telecommunications, in March 2001 the Andean Committee of Telecommunications Authorities (CAATEL) approved the 2001-2006 Strategic Plan for the Development of Andean Telecommunications. Andesat S.A. is an Andean multinational enterprise (AME) authorized by Decision 480 to develop the indirect operation of the Simón Bolívar Andean Satellite System. This included creating Bolivarsat S.A., a consortium under the strategic leadership of the French firm Alcatel Spacecom. Andesat comprises 44 Bolivian, Colombian, Ecuadorian, Peruvian, and Venezuelan firms that will conduct activities and investments using their own funds. It is proposed to put the Simón Bolívar satellite into orbit and have it operational in 2004.⁴⁴

Activities related to physical infrastructure were have been pursued in the context of IIRSA. The fourth and fifth meetings of the Executive Steering Committee (ESC) of IIRSA in July and December 2003 assessed progress and achievements in each of the main areas and sectoral processes and specified the main future challenges, i.e. implementing a new operative scheme based on an overall work strategy in the regional sphere and boosting work on the main issues. Discussions on sectoral integration processes highlighted countries' political will to deepen permanent regulatory and formative convergence. The meeting also underscored the importance of public-private associations as a mechanism for developing infrastructure in the region.

3. Regulatory aspects and the Andean Customs Union

(a) The common external tariff (CET)

In June 2002, the Ministers of Foreign Affairs and of Foreign Trade of the Andean Community agreed on guidelines for a genuine common external tariff. In a meeting held on 11 March 2003, the Ministers instructed Andean negotiators to reach rapid agreement on this important matter.⁴⁵ In October 2002, the meeting of Ministers of Foreign Affairs, Economy and Finance, External Trade and Agriculture agreed on a new CET (Annex I of Decision 535) covering 62% of all tariff items and set criteria for negotiating the remaining 38% (ECLAC, 2003d). In April 2003, the Commission of the Andean Community completed the adjustments to the instrument, resulting in 100% cover for four countries and 62% of items for Peru.⁴⁶ The entry into force of Decision 535 planned for 1 January 2004 was delayed until 1 March 2004, and then further postponed until 10 May 2005, when it should finally take effect.⁴⁷ During the second half of June 2003, Ecuador regularized its situation by re-establishing the tariff levels of Decision

370, eliminating the 0% rate it had been applying to certain raw materials and capital goods.⁴⁸

The Quirama Declaration urges the Commission to further these advances through the interconnection of customs systems in order to avoid smuggling and tax evasion. It also calls for the rapid definition of a common agricultural policy and the implementation of actions for connecting customs based on the Integrated Andean Tariff, the Sole Customs Declaration and the harmonization of special customs systems.

The Commission adopted three Decisions: two authorizing Colombia and Venezuela to defer application of the CET to many iron and steel products until 2 October 2003 and one authorizing Colombia, Ecuador and Venezuela to partially modify the CET for uncarded cotton until the end of 2003. In its role as body of first instance, the General Secretariat adopted 13 Resolutions on the CET and many concerning the Andean system of price bands (ASPB). The Andean Court of Justice has made intense efforts to ensure compliance with Andean regulations. Since mid-2002, the Court has passed more than 170

44 See General Secretariat, <http://www.comunidadandina.org/ingles/services/teleco.htm>.

45 In regard to the basic norms of the CET, the General Secretariat was instructed to forward to the negotiating group a series of technical analyses on tariff deferrals, goods not produced in the subregion and trade preferences with third countries; the negotiating group was also to be presented with a proposal on special tariff systems and various studies on the Andean system of price bands (ASPB) (General Secretariat press release, 18 June 2002).

46 In fact, Peru is applying Decision 370 of November 1994 that established the CET.

47 See Decision 577 of the Andean Community.

48 See General Secretariat press release, 23 July 2003.

sentences on nullity proceedings, non-compliance actions and prejudicial interpretations regarding the CET, the free trade zone and other issues related to the integration process. In this context, it is worth bearing in mind the recommendation contained in the Quirama Declaration on expanding the scope of extrajudicial dispute settlement methods.

(b) Coordination of macroeconomic policies

Despite the economic difficulties faced by the countries of the Andean Community, efforts to contain inflation continued, with the convergence target of achieving single-digit inflation from the end of 2003. Four member countries reached that target at various times during the second half of the 1990s, and were expected to maintain it during 2003; Venezuela came close to the target in 2001, but inflation more than tripled in 2002 and was still more than double the target in 2003 (26%).

The second convergence target is a public sector deficit of not more than 3% of GDP, although 4% was authorized for 2002 to 2004.⁴⁹ The third target requires

the stock of public debt (external and internal) not to exceed 50% of GDP. Colombia and Venezuela have been comfortably within that range since the mid-1990s; Bolivia and Peru have been approaching the target since 1997 and 1998; and the figure for Ecuador was virtually double the target in 2000, and 80% in 2003.⁵⁰

On 14 April 2003, the Commission adopted Decision 543 approving the format for the convergence action programmes which are to be presented by countries at the end of each year and used as reference by the permanent technical working group for the annual reports it submits to the Andean Advisory Council of Treasury or Finance Ministers, Heads of Central Banks and Economic Planning Officers. The report for 2003 was due in June of that year. At its meeting on 26 June, the Council agreed to boost harmonization of macroeconomic policies with a view to achieving the targets by 2005 and to reinforce the monitoring mechanism. By 2005, the Council also expects to have created conditions conducive to an Andean financial market that supports savings and investment. The Council also resolved to bolster the harmonization of indirect taxes in the interests of greater legal certainty for economic agents.

4. The political and social aspects of integration

As the Andean integration process matures, growing importance has been attached to the political and social aspects of integration, in terms of viability and response to citizens' aspirations. At several meetings of the Council of Ministers of Foreign Affairs, significant agreements have been reached on these issues. The tenth meeting of the Council, for instance, called on members to analyse the political dimension of integration, prioritize the social agenda, develop mechanisms for regional cohesion combating against poverty and address migration and social participation in the integration process (concepts reiterated in the Quirama Declaration).⁵¹

As a result of these concerns, the Commission and the Council of Foreign Ministers have agreed on 17 Decisions since July 2002, including guidelines for the

integrated social development plan, social security and health instruments, labour migration and various matters linked to health, border health, health at work, consular and migratory affairs, education, defence of consumer rights, indigenous peoples, electoral matters, natural disasters, the fight against terrorism and drugs and the dissemination of information on integration.

The meeting of the Presidents of Ecuador and Peru in Sipán contributed to the creation of the Andean zone of peace and provided an opportunity to assess and reinforce joint projects as part the binational development plan for the border region between the two countries, including initiatives on transport infrastructure, strengthening binational border facilities and education.⁵² In July 2003, the sixth ordinary meeting of the Advisory Council of Ministers of Labour agreed to

49 See General Secretariat, Macroeconomic Policy Harmonization, <http://www.comunidadandina.org/ingles/politics/policies.htm>.

50 The percentages correspond to the ratio between the gross external debt and GDP (ECLAC, 2003b).

51 Tenth Andean Council of Foreign Ministers on the New Strategic Orientation of the Subregional Integration Process, 11 March 2003.

52 In February 2003, the General Secretariat announced that it was preparing a draft Decision to be submitted to the High-Level Group on Border Integration and Development with a view to establishing a community rule to promote investment in such projects (General Secretariat press release, 21 February 2003, Lima).

formulate an Andean Work Administration Instrument summarizing institutions' main objectives in terms of integration.

The Andean Business and Labour Advisory Councils met several times, both individually and jointly. In May 2003, Bolivia joined the ranks of Ecuador and Peru by ratifying the Treaty establishing the Andean Parliament and its Additional Protocol instituting Direct Elections. The many forums that channel social participation in the integration process were also very active, and will now include one for mayors and governors of the subregion.

Decision 523 of the Council of Ministers for Foreign Affairs reaffirmed the Andean countries' intention to ensure the conditions necessary to achieve sustainable development, through conservation and sustainable use of natural resources and the environment.⁵³ The Decision defines a regional biodiversity strategy for the tropical Andean countries and instructs the Andean Committee of Environmental Authorities to draw up a Plan of Action and a Portfolio of Projects. Activities will include studies on subregional biodiversity; creating, maintaining and increasing the Portfolio; and generating integration proposals in this area.

5. The Andean Community's external relations

There has been significant activity in terms of international relations, with some clear results for the region:

- *MERCOSUR*. Negotiations of a free trade area for South America (ECA N° 54)⁵⁴ and of the Free Trade Area of the Americas (FTAA) also have the effect of enhancing the mechanisms of MERCOSUR and the Andean Community, particularly in the case of the CET.⁵⁵ In this sense, guideline 19 of the Quirama Declaration requests that the Commission coordinate a working plan, with the support of the Secretariat, aimed at concluding a free trade agreement between the Andean Community and MERCOSUR.⁵⁶ Several meetings have been held with a view to concluding the agreement: in June 2003, the Foreign Ministers of MERCOSUR and the Andean Community set up a working group comprising the Presidents and Secretaries of each scheme, with a view to preparing a plan and

timetable for achieving that objective.⁵⁷ The two Secretaries were also tasked with identifying sensitive negotiation issues. The meeting of Ministers of Foreign Affairs and trade held on 31 October studied the results of the third Vice-Ministerial technical meeting held on 24 October. In this context, Venezuela and Argentina concluded a series of bilateral trade agreements on 26 October. In December 2003, Colombia, Ecuador and Venezuela completed negotiations for an economic complementarity agreement with MERCOSUR. This agreement confirms the commitment to a South American trade bloc, given that such agreements have existed with Bolivia since 1996 and with Peru since November 2003.

- *Peru-MERCOSUR*. In the context of ECA N° 54 and the meeting between the Presidents of Brazil and Peru on 25 August, MERCOSUR and Peru concluded a free trade agreement.

53 On 7 July 2002, the Council of Ministers for Foreign Affairs approved Decision 523 on the basis of the eleventh, twelfth and thirteenth meetings of the Andean Presidential Council; Decision 391 (adopted in 1996) establishing a common regime for access to genetic resources; and Decision 435 (1998) creating the Andean Committee of Environmental Authorities (CAAAM).

54 Economic Complementarity Agreement 54 defines its objectives and cover, economic and trade complementarity, administration of the agreement and other provisions.

55 Nevertheless, the Peruvian Under-Secretary for Foreign Trade recently cast doubt over his country's commitment to the CET by suggesting a revision of Decision 535 (approving the CET) on the basis that this instrument is not necessary for Peru to be a member of the Andean Community (*L'Extrategy*, 2003). The same Under-Secretary highlighted Peru's interest in negotiations on FTAA. An Ecuadorian columnist (Herrera, 2003) countered this by underlining the importance for Ecuador of negotiating the FTAA with all of South America and by expressing disagreement with the Ecuadorian Minister for Foreign Trade over her consultation with United States authorities concerning a possible understanding between the United States and the Andean Community, without carrying out appropriate consultations with other member countries of the group.

56 The twenty-fourth MERCOSUR Presidential Summit, which was held on 18 June and attended by the President of Venezuela, ratified the conclusions of the two groups' negotiations from the above-mentioned meeting.

57 The Presidents of Brazil and Venezuela met on 25 April 2003. The Foreign Ministers met on 4 August.

- *European Union (EU)*. In September 2002, the Foreign Ministers of the European Union were presented with an aide-mémoire detailing the Andean position and aspirations concerning the main issues of the biregional relationship including the fight against terrorism, drugs, migration, corruption, sustainable development, the environment, biological and cultural diversity and protection of democracy.⁵⁸ On 12 March 2003, the tenth meeting of the Council of Ministers for Foreign Affairs approved Decision 540 on the design of a work plan for formulating a programme to disseminate Andean integration in EU countries, and Decision 542 tasking the Council of Ministers for Foreign Affairs to negotiate with the EU through the countries' missions in Brussels and with the support of the General Secretariat. At the tenth Institutionalized Ministerial Meeting between the Andean Community and the EU, held on 27 March 2003, both parties reviewed progress to date and announced that negotiations for a political dialogue and cooperation agreement would begin in May. That round of negotiations concluded on 8 May, with agreement reached on 90% of the text of the agreement, especially in terms of cooperation and trade. Further meetings were held in October and November 2003, and the negotiations concluded with the signing of the political dialogue and cooperation agreement on 15 December in Rome. This laid the foundations for initiating negotiations on an association agreement including the creation of a free trade area between the Andean Community and the European Union, from 2004.
- *United States*. On 6 August 2002, the Andean Trade Preferences Act (ATPA) was updated and broadened to become the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which extended preferences until the end of 2006, except for Venezuela.⁵⁹ In the context of the open regionalism of the Andean Community, representatives of the Secretary-General have mentioned the possibility of a framework free trade agreement.⁶⁰ On 18 November 2003, a United States Trade Representative announced that country's intention to conclude a free trade agreement with four Andean countries. The Secretary-General of the Andean Community said he hoped the negotiations would take place in a context of coordination and collaboration (Andean Community, 18 November 2003). The negotiations between the United States, Colombia, Peru and Ecuador are expected to begin on 18 May, and talks with Bolivia are expected to start at a later date. According to the new Secretary-General of the Andean Community, no decision has yet been taken on whether negotiations will be held en bloc or bilaterally (newspaper *El Nacional*, Caracas, 3 March 2004), although countries are already coordinating their positions.
- *Other countries*. On the basis of the Agreement to establish a Political Consultation and Cooperation Mechanism, concluded in March 2000, several activities have been carried out to forge closer links between the Andean Community and the People's Republic of China. The first meeting of the Political Consultation and Cooperation Mechanism was held in October 2002. The parties agreed to institutionalize biannual consultations between Under-Secretaries for Foreign Affairs, with the first meeting scheduled for the second half of 2004. In June 2003, an Agreement to establish a Political Consultation and Cooperation Mechanism was concluded between the Andean Community and India. The Andean Council of Ministers for Foreign Affairs and the Foreign Secretary of India will deal with the political aspects, while the cooperation aspect will be handled by the Andean Committee of Heads of International Cooperation Agencies and the Indian Ministry for Foreign Affairs. Other contacts were also made with a view to strengthening economic ties between the Andean Community and CACM and Caribbean countries, Canada, Japan and the Russian Federation.

58 General Secretariat, aide-mémoire, Priorities in the Andean Community's Relationship with the European Union, 14 September 2002.

59 Web site of the General Secretariat, common foreign policy/relations with the United States.

60 General Secretariat press release, Secretary General proposes Andean Community-United States framework agreement, 8 November 2002, Lima.

C. Central American Common Market (CACM)⁶¹

1. Introduction

In 2003, efforts to deepen Central American integration continued. Particular progress was made in activities included in the plan of action adopted on 24 March 2002.⁶² By June 2002, Costa Rica confirmed that it would be part of the CET, thereby enabling the subregion to consolidate a Customs Union, albeit an imperfect one (see below), from 1 January 2003.

The amendment of article 35 of the Tegucigalpa Protocol, agreed by countries in February 2002, entered into force in January 2003 when it was ratified by three

countries. It was subsequently ratified by Honduras and Nicaragua, which resulted in full application of the trade dispute resolution mechanism. It was on this basis that the Council of Ministers for Economic Integration (COMIECO) approved the relevant legal instruments: mechanism, model rules of procedure and code of conduct (Secretariat for Central American Economic Integration (SIECA), 2003a and 2003b) by adopting Resolution 106 on 17 February 2003 and Resolution 111 on 27 May 2003 (COMIECO XXVI and XXVII).⁶³

2. Market access and trade facilitation measures

(a) Intra-subregional trade

In response to weak stimuli from the international economy, growth of GDP in Central America was 2.3% in 2002 and 3.3% in 2003, thereby resulting in falling per capita GDP for the third consecutive year (ECLAC, 2004b). After modest growth in 2002, total Central American exports rallied to achieve growth of 11.4%. Export growth was strongest in Costa Rica and Honduras and, to a lesser extent, El Salvador, Guatemala and Nicaragua. This rise in exports is due to certain products that are in increasing demand in destination markets, although much of the expansion is also because of other products for which demand is not necessarily on the increase. Comparatively speaking, exports to the subregion have a higher proportion of such products (ECLAC, 2003d).

Exports within the group increased by 7%, i.e. by less than the 11% increase in total exports. Unlike the

previous year, in 2003 intra-subregional trade ceased to play the important countercyclical role it had adopted previously. This was reflected in a reduced growth rate for intra-subregional exports (less than 60% of the average level of growth during the period 1997-2001). This explains a decrease in the proportion of total trade represented by intra-subregional exports, which dropped from 28.9% in 2001 to 26.9% in 2003 (see figure II.3 and table II.7). Nevertheless, the flow patterns of intraregional trade within CACM are more stable and less pro-cyclical in the long term than the South American and Caribbean integration schemes (see figure II.3).

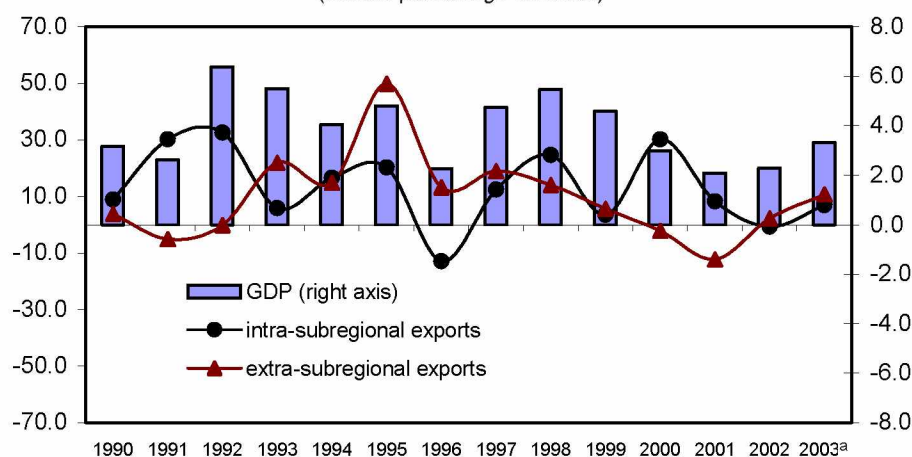
In 2003, all trade partnerships improved considerably except for exports from Honduras to El Salvador, El Salvador to Nicaragua, and from Guatemala to Honduras, which posted lower levels than in 2002 (see tables II.8 and II.9).

61 The documents on which this section is based can be found on the web page of the Secretariat for Central American Economic Integration (www.sieca.org.gt).

62 In August 2003, the CACM Council of Ministers resolved to prioritize uncompleted tasks to match target timetables with the real possibilities of countries (information from the newspaper *La Prensa Gráfica*, 8 August 2003, San Salvador).

63 As established by the Central American Presidents, between February and May 2002, the participation in the Council of Heads of Central Banks was legally approved (SIECA, information bulletin No. 167 of 3 September 2002).

Figure II.3
CENTRAL AMERICAN COMMON MARKET: GDP AND INTRA-SUBREGIONAL
AND EXTRAREGIONAL EXPORTS, 1990-2003
(Annual percentage variation)



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

^a Preliminary figures.

Table II.7
CENTRAL AMERICAN COMMON MARKET: SHARE OF INTRA-SUBREGIONAL^a TRADE, 1990-2003
(Percentages of total trade)

Countries	1990	1995	2000	2001	2002	2003 ^b
Costa Rica	9.2	10.1	10.1	13.9	13.9	13.7
El Salvador	30.1	41.6	55.8	68.2	59.8	60.6
Guatemala	24.8	26.3	25.2	30.5	39.2	38.8
Honduras	3.2	14.8	20.9	25.5	25.0	24.7
Nicaragua	14.5	17.9	22.6	25.7	42.5	38.9
CACM^c	16.0	21.4	22.6	28.9	28.1	26.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the Secretariat for Central American Economic Integration (SIECA) and the International Monetary Fund (IMF), *Direction of Trade Statistics*.

^a Does not include maquila or EPZ exports.

^b Preliminary figures.

^c Central American Common Market.

Furthermore, the bulk of intra-subregional trade is made up of manufactures. Of the 20 main products of intra-subregional trade, 17 are manufactures—medication, agroindustrial products (palm oil, bread and dairy products), iron sheets, organic surface-active products, plastics, paper pulp, soap, cosmetics, wire, aluminium and alloys, boxes, file folders and packages, glass inners and flasks—that represent about 40% of total intra-subregional trade. Although many CACM exports have a high import content of between 40% and 44% of total exports, and between 70% and 84% of maquila and free trade zone exports, they nonetheless make a relevant contribution to regional industrialization (Kuwayama and Durán, 2003). The agricultural sector does, however, make a significant contribution to intra-subregional trade that varies from a third of total exports to the region in

the case of Costa Rica and El Salvador, to 46% in Honduras, 53.7% in Guatemala and 70.3% in Nicaragua (ECLAC, 2003a).

The pattern of intra-subregional trade, in which reciprocal trade figures show fairly similar products, is an indication of the level of closeness and productive complementarity of CACM economies (ECLAC, 2003b). Furthermore, despite the absence of systematic information on intra-subregional investments, many significant reciprocal investments have been made in Central America in recent years, including those made by: the Guatemalan Telephone Company, a Honduran-Guatemalan consortium, the Poma Group of El Salvador in Guatemala, Nicaragua and other Central American countries and the significant expansion of the Salvadoran Taca Group, which increased its fleet of Airbus aircraft.

Table II.8
**CENTRAL AMERICAN COMMON MARKET: TRENDS IN THE NETWORK
 OF INTRA-SUBREGIONAL TRADE, 2002-2003**
(Rates of variation with respect to the same period of the preceding year)

Origin \ Destination	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		CACM	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a
Costa Rica			-9.8	21.4	8.5	5.3	19.6	-5.4	-1.8	34.4	3.8	13.2
El Salvador	12.7	1.6			6.4	7.9	-4.4	8.0	-6.4	-10.5	2.3	3.8
Guatemala	-23.8	20.2	-15.4	3.5			-19.9	-1.1	-12.3	6.1	-17.5	4.9
Honduras	329.3	52.3	7.6	11.6	-5.6	26.7			64.9	168.5	14.0	30.0
Nicaragua	85.1	-26.0	44.5	-2.8	45.3	-20.3	54.2	-25.5			55.3	-15.8
CACM^b	7.8	5.2	-5.4	7.2	7.3	7.4	-3.3	-1.9	-4.7	19.5	-0.6	6.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the Secretariat for Central American Economic Integration (SIECA) and official information from countries.

^a Preliminary figures for the full year.

^b Central American Common Market.

Table II.9
**CENTRAL AMERICAN COMMON MARKET: MARKET SHARES
 OF INTRA-SUBREGIONAL TRADE, 2003**
(Millions of dollars and percentages of total)

2003	Millions of dollars						Percentage of total					
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	CACM	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	CACM
Costa Rica		169	246	142	221	777		5.6	8.2	4.7	7.4	25.9
El Salvador	105		371	190	101	767	3.5		12.4	6.3	3.4	25.6
Guatemala	143	418		234	121	916	4.8	13.9		7.8	4.0	30.5
Honduras	34	155	80		44	313	1.1	5.2	2.7		1.5	10.4
Nicaragua	50	106	26	44		227	1.7	3.5	0.9	1.5		7.6
CACM^a	332	848	724	610	487	3001	11.1	28.2	24.1	20.3	16.2	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from each country. The information from Honduras and Nicaragua is based on preliminary estimates.

^a Central American Common Market.

(b) Market access and trade facilitation

There remain two restrictions to free trade common to all five member countries (unroasted coffee and cane sugar), but bilateral restrictions have now fallen in number to 21 (including wheat flour, roasted coffee and ethyl alcohol), from the 30 registered one year previously. Nicaragua's announcement that it would soon eliminate the 35% tariff on wheat flour imports from Honduras (the "sovereignty tax", which has been in force since 1999) was also welcomed. Trade rules have been greatly enhanced by the approval of

the Central American trade dispute settlement mechanism.⁶⁴

According to the permanent register kept by SIECA, the number of obstacles to free trade decreased during 2003. The number of complaints dropped from 29 in August 2002 to 22 in January and February 2003 and 17 in March. The main complainant is still El Salvador, and the most frequent respondent was Honduras (Maldonado, 2003). Table II.10 shows 17 disputes in September 2003, after only about 13 in August.⁶⁵ The countries in the group are also subject to the Central American Treaty on Investment and Trade in Services.

⁶⁴ Failure to comply with an arbitration award triggers sanctions consisting of the suspension of trade benefits for amounts similar to the other party's losses. There are also Central American regulations on the origin of goods; safeguards; unfair trade practices; international customs transit procedures for the carriage of goods by land, with declaration form and instructions; standardization, metrology and authorization procedures; and sanitary and phytosanitary measures and procedures, although harmonization is still pending in the case of this last instrument.

⁶⁵ There are sometimes two or more complainant or respondent countries, hence SIECA counts only 16 complaints in September.

Table II.10
MEASURES RESTRICTING FREE TRADE IN THE CENTRAL AMERICAN COMMON MARKET (CACM)

Complainant country	Respondent country					
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	CACM
Costa Rica			1	1	2	4
El Salvador			3	4	1	8
Guatemala		3		1		4
Honduras						
Nicaragua				1		1
CACM	0	3	4	7	3	17

Source: Secretariat for Central American Economic Integration (SIECA), "Medidas contrarias al libre comercio intrarregional", *Extraordinary bulletin*, No. 80, 10 September 2003.

With the support of SIECA, customs authorities have continued their efforts to modernize and simplify border procedures and enhance transit control mechanisms. At the end of 2003, border posts between Central American countries were removed (SIECA, 2003a).⁶⁶ The Central American Uniform Customs Code (CAUCA) and its regulations have applied to three countries since August 2003, and are currently entering into force in Costa Rica and Honduras. The single manual for customs procedures for integrated, juxtaposed and peripheral customs is already in use between El Salvador and Guatemala, while the other countries continue to carry out bilateral customs procedures.

On 18 September 2003, the fourteenth meeting of the Directors-General of Customs approved the draft Central

American Law for Penalizing Smuggling and Customs Fraud. All of the above is leading to the formation of the Customs Union, although common authorities, online communication between administrations and the total removal of border posts are still pending. Integrated, juxtaposed and peripheral customs will be in operation until the process is completed.⁶⁷ Customs valuation is governed by the 1994 GATT Agreement, except for El Salvador and Guatemala, which do not yet use it.

At its twenty-second meeting, held in July 2002, the Council of Ministers for Economic Integration (COMIECO) gave instructions for the negotiation of a Central American agreement on public-sector procurement to establish rules concerning transparent and non-discriminatory national treatment.

3. The Common External Tariff (CET) and other regulatory aspects

(a) The Common External Tariff (CET)

There are still exceptions to CET for textiles, clothing, footwear, tyres and agricultural products with tariffs set during the Uruguay Round. Also, Nicaragua applies only a 5% (instead of 10%) tariff to intermediate goods produced in Central America

and different tariffs to various agricultural goods, partly protected by the Fairness in Taxation Act (SIECA, 2003c). To date, 79% of the CET has been harmonized and, according the decision taken by the Presidents of the subregion at their meeting on 18 September 2003, the remaining 21% should drop to 8% in the first half of 2004.

⁶⁶ Other actions aimed at facilitating trade, which are at various stages of advancement, include recognition of registers and harmonization of specifications for foodstuffs, beverages, medication and similar products, agricultural inputs and hydrocarbons. Progress was also made in terms of standardization (technical regulations).

⁶⁷ In May 2003, there were three integrated customs, three juxtaposed, six peripheral and one trinational (SIECA, 2003d).

(b) Coordination of macroeconomic policies

The difficult economic situation of Central America during 2002 and 2003 has limited progress in achieving the macroeconomic targets adopted, which consequently had to be amended by the Central American Monetary Council in November 2002. Current targets include the harmonization of seven indicators based on specific criteria (see table II.11). Between 2002 and 2003, authorities' efforts have generated better results in almost all countries, although they are still far from sufficient. The Central American Monetary Council monitors the progress of these variables and, for the purposes of evaluation, calculates each country's compliance with the various macroeconomic indicators mentioned in table II.11, which also details the individual progress of countries.

The Presidential Summit held on 27 September 2002 adopted a resolution in support of: transformation and modernization of the Central American Bank for

Economic Integration (CABEI); the need to formulate a plan of action to enhance its operation; improving governance of the bank and securing more partners from outside the region. In October 2002, the forty-second Annual Meeting of the Assembly of Governors was given over to implementing that resolution. In June 2003, the Assembly of Governors appointed a new president of CABEI.⁶⁸ The bank's standing in international financial markets has improved. At the end of August 2003, Moody's Investors Services awarded grade Baa1 to its short-term debt and P-2 to its long-term debt, and judged it the second best Latin American institution in terms of risk.⁶⁹ At the most recent extraordinary summit of the Central American Integration System (SICA), the governors instructed CABEI to contribute US\$ 1.25 million in non-refundable resources to support the lobbying strategies of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, which have all concluded trade negotiations with the United States (INTAL, 2004).

Table II.11
MACROECONOMIC CONVERGENCE TARGETS IN CENTRAL AMERICA

Indicator	Convergence criterion	Level of compliance (100% = maximum compliance)		
		Countries	2002	2003
Growth rate of real GDP	4.0			
Average interest rate on deposits (ti)	$0\% \leq TI \leq 5\%$			
Real effective exchange rate with the United States	95-105	Costa Rica	25	38
Net international reserves/money supply ratio	≥ 100	El Salvador	75	88
Public sector deficit/GDP ratio	$\leq 2.5\%$	Guatemala	50	50
Total public debt/GDP ratio	$\leq 50.0\%$	Honduras	25	38
Balance-of-payments current account deficit/GDP ratio	$\leq 3.5\%$	Nicaragua	25	13

Source: Executive Secretariat of the Central American Monetary Council.

4. External relations of CACM

- *United States.* Central American economies consider the special schemes that link them to the United States to be of vital importance. These relationships were strengthened by the creation of

the United States-Central American Regional Trade and Investment Council in 1998 and the opening of negotiations for a free trade agreement in January 2003.⁷⁰ Negotiators have met several times and

68 For the first time, the President was selected by means of a competitive process which attracted some 150 candidates (CABEI, *News*, 1 September 2003, Tegucigalpa).

69 In June 2003, Euromoney recognized CABEI as the best Latin American financial borrower.

70 It is widely believed that the problems encountered in the recent WTO meeting in Cancún will result in a consolidation of these negotiations. In response to the resolution adopted by the Central American Presidents at their summit on 26 September 2002, CABEI has given each country a non-refundable contribution of US\$ 500,000 to support the negotiation process (CABEI, *News*, 26 February 2003). The Business Coalition for United States-Central America Trade, which groups over 100 large United States enterprises, is lobbying hard for the free trade agreement in the United States Congress and other levels of government.

agreement has been reached on a wide range of issues. In December, the United States concluded its negotiations with Honduras, El Salvador, Guatemala and Nicaragua, while Costa Rica closed negotiations with the United States in January 2004. At the Presidential Summit held in July 2003, the Federation of Private Businesses of Central America and Panama stated the importance of linking these negotiations to the Central American integration process so that it may be reinforced by such discussions.⁷¹

- *European Union (EU)*. Trade between Central America and the European Union is based on the tariff preferences contained in the special regime that EU extends to Central America and the Andean Community alike. The regime provides for cumulative origin treatment, which is governed by CACM and the Andean Community through their Permanent Joint Committee on Origin. Political relations and cooperation are based on the Political Dialogue and Cooperation Agreement that has given rise to many Presidential Summits. At the meeting between Central American Presidents and the President of Spain on 9 July 2003, the Spanish Head of State pledged his support vis-à-vis EU for efforts to start negotiations on an association agreement, to include a free trade agreement.⁷² This Association Agreement was concluded in Rome on 15 December.

- *Mexico*. All CACM countries have concluded free trade agreements with Mexico. Ties between Mexico and CACM have become increasingly significant as a result of the Puebla-Panama Plan.⁷³
- *Canada*. Costa Rica has already concluded a free-trade agreement with Canada (ECLAC, 2002c) and the other four countries are currently negotiating their own agreements. The seventh round of negotiations was held at the end of May.
- *Dominican Republic*. CACM countries concluded a free-trade agreement on the basis of the framework agreement adopted in 1997. Significantly, the Dominican Republic has been included in the negotiations for a free-trade agreement between Central America and the United States.
- *Taiwan Province of China*. Central America has concluded many cooperation agreements with the Taiwan Province of China, the most important of which is the economic complementarity agreement.
- *Other countries*. As part of the framework programme with the Caribbean Community (CARICOM), Costa Rica is negotiating a free-trade agreement with Caribbean countries. Since 1998, there has been a framework agreement on trade and investment between CACM countries and MERCOSUR, and a similar one with Chile, on the basis of which Costa Rica and El Salvador have signed similar instruments (ECLAC, 2003d).

71 See the report on the customs union in the newspaper *Prensa Libre*, 18 July 2003, Guatemala.

72 See SIECA, extraordinary bulletin No. 74, 10 July 2003.

73 The Puebla-Panama Plan involves the following eight countries: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama, i.e. Mesoamerica. It consists of eight initiatives, each with its own programmes and projects (Maldonado, 2003). The scope and complexity of the tasks involved have prompted an in-depth discussion concerning the best ways to implement them. A study presented to the University of East Anglia School of Development Studies adopted a critical perspective on the Puebla-Panama Plan (Di Meco, 2003). In July 2003, a high-level strategic analysis workshop proposed a strategic agenda based on the following key issues: (i) strengthening of the management capacity of the governing bodies of the Puebla-Panama Plan; (ii) human development; and (iii) production integration, trade and competitiveness.

D. Caribbean Community (CARICOM)⁷⁴

1. Introduction

The Caribbean economies are still feeling the negative effects that the tragic events of September 2001 have had on tourism from the United States. Economic growth, which was a meagre 1.7% in 2002, is estimated to be only 3.3% in 2003 (ECLAC, 2003c). The individual problems of member countries hampered the integration process, which had already been the subject of criticisms and major attempts at improvement (ECLAC, 2003d). Of particular importance was the formulation of an Agreement on the Caribbean Single Market and Economy (CSME), although little progress was made towards full approval of its content and application. In mid-February 2003, the fourteenth extraordinary meeting of the Conference of CARICOM Heads of Government (CHG) was given over to analysing the situation of the Caribbean Community and formulating

the actions required for adequate governance of Caribbean regional integration.⁷⁵

On the occasion of the thirtieth anniversary of CARICOM, the twenty-fourth Conference of Heads of Government (CHG) adopted the Rose Hall Declaration on "Regional Governance and Integrated Development" in June 2003. The Declaration defines priorities for the economic and social development of the subregion, as well as its external relations, including the need to maintain and strengthen alliances with developing countries.⁷⁶ The Declaration reaffirmed the objectives of integration and stated that achieving them would require actions in the political and legal spheres leading to decisions (of the Conference or other institutions) that should automatically come into effect with force of law in the subregion.⁷⁷

2. Intra-subregional trade

During 2003, total exports from CARICOM countries were up almost 12.8% on the previous year, whereas the level of intra-subregional exports remained practically the same.

This resulted in a lower ratio between the two types of trade flow, as shown in table II.12. Extraregional trade grew at a similar rate to intra-subregional trade (see figure II.4).

⁷⁴ The documents on which this section is based can be found on the web page of the CARICOM secretariat (CCS) (www.caricom.org).

⁷⁵ Many of the positions taken by Heads of Government were critical in nature. For instance, the Prime Minister of Trinidad and Tobago, quoting various studies, pointed out that good intentions had not become reality and important decisions had not been implemented. He said that most people in the Caribbean Community were concerned about the slow progress of the integration efforts (CCS, Prime Minister Patrick Manning, Opening Remarks, XIV Inter-Sessional Meeting of the CHG, 14 February 2003, Trinidad and Tobago). Participants had access to two key documents from the University of the West Indies, Barbados (Tewarie and Rampersad, 2003).

⁷⁶ This will imply revising the Treaty of Chaguaramas, national laws and the Statute of the Caribbean Court of Justice (CCJ), which should take account of the constitutional provisions of member countries.

⁷⁷ The decisions contained in the Declaration include one to set up a permanent CARICOM commission or other executive mechanism that would be accountable to the Conference and other relevant institutions in terms of: proposing and implementing decisions; adopting the principle of automatic resource transfers for the financing of Community institutions; reforming the CARICOM Secretariat; strengthening the role of the Assembly of Caribbean Community Parliamentarians; recognizing that, within this framework, it is both legitimate and feasible for a group or groups of CARICOM Member States to forge close links among themselves as they collectively consider appropriate. The meeting also examined the progress towards a regional energy policy, the regional strategy to develop the information and communication technology (ICT) subsector, the Multilateral Air Services Agreement and security and the fight against crime in the subregion. The Expert Group of Heads of Government, assisted by a technical group, was entrusted with the task of preparing these proposals for presentation to a Special Meeting of the Conference towards the end of 2003.

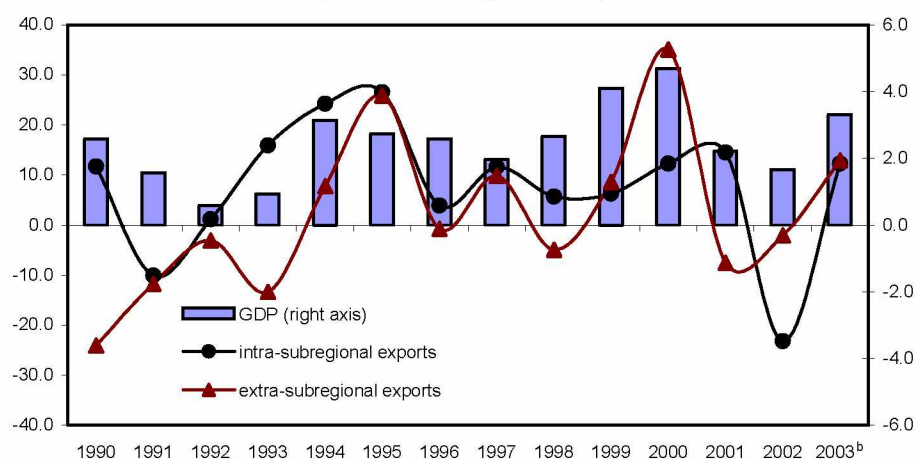
Table II.12
CARIBBEAN COMMUNITY: SHARE OF INTRA-SUBREGIONAL TRADE
(Percentages of total trade)

Countries	1990	1995	2000	2003 ^a
CARICOM	12.3	15.1	21.2	17.5
Barbados	30.7	37.4	43.2	41.6
Belize	8.0	3.8	4.8	5.2
Guyana	...	6.1	12.4	18.1
Jamaica	6.3	4.1	3.3	5.2
Suriname	...	...	10.7	17.6
Trinidad and Tobago	...	...	23.3	16.0
OECS	...	...	19.8	31.3
Antigua and Barbuda	64.8	...	8.4	25.2
Dominica	25.3	42.3	56.8	50.4
Grenada	28.1	25.8	14.5	28.9
Montserrat	33.8	5.7	...	...
Saint Kitts and Nevis	10.6	10.9	6.9	5.2
Saint Lucia	17.1	16.0	25.4	23.4
Saint Vincent and the Grenadines	...	...	42.5	62.0

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

^a Preliminary estimates.

Figure II.4
CARICOM:^a GDP AND INTRA-SUBREGIONAL AND EXTRA-SUBREGIONAL EXPORTS, 1990-2003
(Annual percentage variation)



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

^a Caribbean Community.

^b Preliminary estimates.

Since the mid-1990s, the share of intra-subregional exports in total exports has fluctuated between 15% and 16%. These figures reflect the fact that trade integration within CARICOM has not progressed in the last 10 years, following a rise in intra-subregional exports during the first half of the 1990s. Significantly, intra-subregional trade represents a third of the total trade of the small countries of the Organization of Eastern Caribbean States (OECS), and this proportion is even higher in the case of Dominica and Saint Vincent and the Grenadines (see table II.12).

During the first half of 2003, intra-CARICOM exports, measured by export flows from the subregion's four largest economies (Barbados, Guyana, Jamaica and Trinidad and Tobago), were up by 11.2% in relation to the same period of 2002. The exception was Trinidad and Tobago, which recorded the highest growth in relative and absolute terms, mainly due to the recovery of its oil and cement exports (see table II.13). This represented a recovery from the 4.5% drop observed in 2002 (see table II.13).

Table II.13
CARICOM: TRENDS IN THE NETWORK OF INTRA-SUBREGIONAL TRADE, 2002-2003
(Rates of variation with respect to the same period of the preceding year)

Origin \ Destination	Barbados		Guyana		Jamaica		Suriname		Trinidad and Tobago		CARICOM	
	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2002	2003 ^a	2001	2002 ^a
Barbados			32.8	20.0	-13.6	6.3	12.8	30.4	0.7	21.0	1.2	17.3
Guyana	3.2	22.6			-9.0	-37.9	6.9	12.5	8.5	-34.8	-2.8	-23.8
Jamaica	9.0	19.9	-28.3	14.1			-15.7	82.9	-20.0	-6.6	-13.6	4.8
Suriname	21.6	11.9	9.7	14.7	11.4	-36.6			-6.0	14.3	2.4	6.1
Trinidad and Tobago	-6.9	17.6	8.6	-8.8	-7.7	22.9	-1.7	-1.6			-5.1	15.2
CARICOM	-4.7	17.6	8.7	-4.6	-7.7	15.6	-0.5	2.6	-5.7	3.4	-4.5	11.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF), *Direction of Trade Statistics* and the Central Bank of Jamaica.

^a January-June.

Table II.14
CARICOM: MARKET SHARES OF INTRA-SUBREGIONAL TRADE, 2003
(Millions of dollars and percentages of total)

2003 (January-June)	Millions of dollars						Percentages of total					
	Barbados	Guyana	Jamaica	Suriname	Trinidad and Tobago	CARICOM	Barbados	Guyana	Jamaica	Suriname	Trinidad and Tobago	CARICOM
Barbados		3.0	8.6	3.0	17.3	32		0.7	2.0	0.7	4.1	7.5
Guyana	6.5		9.0	1.8	5.8	23	1.5		2.1	0.4	1.4	5.4
Jamaica	4.8	1.5		0.6	8.0	15	1.1	0.4		0.1	1.9	3.5
Suriname	6.6	3.9	2.9		18.4	32	1.5	0.9	0.7		4.3	7.5
Trinidad and Tobago	84.3	33.1	181.5	25.3		324	19.8	7.8	42.6	5.9		76.1
CARICOM	102.2	41.5	202.0	30.7	50.0	426	24.0	9.7	47.4	7.2	11.6	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF), *Direction of Trade Statistics* and the Central Bank of Jamaica.

Tables II.14 and II.15 offer a more detailed analysis of the level of interconnectedness within the subregion, which is mainly based on trade to and from Trinidad and Tobago, since this represents between 70% and 80% of intra-subregional exports and between 11% and 15% of total CARICOM imports. Information available for 2000 shows the main trade partnerships based on bilateral trade between Trinidad and Tobago and Jamaica (26.7%); Trinidad and Tobago and Barbados (18.2%); Trinidad and Tobago and Suriname (11.2%); and Trinidad and Tobago and members of the Organization of Eastern Caribbean States (OECS) (16%) (see table II.15).

A large part of the intraregional export mix within CARICOM is accounted for by mineral fuels and lubricants, particularly petroleum products, which represented 40% in the period 1996-2000, followed by food, beverages and tobacco (16%), and manufactured goods (15%). The main importers of oil, hydrocarbons,

oils, fuels and minerals are OECS countries. Exports of mineral fuels and lubricants have expanded considerably in the past few years, and represented 53% of intraregional flows in 2000 (CCS, 2002), with Trinidad and Tobago by far the largest supplier. The main manufacturing exports are paper and paperboard, non-alcoholic carbonated beverages, miscellaneous processed foods, detergents and soaps, cement and iron and steel. The subregional market is particularly important for the exports of Barbados, Dominica, Grenada and Saint Vincent and the Grenadines (CCS, 2002).

Despite the fact that 80% of trade (exports and imports) is carried out among the larger countries, and that the least developed countries (i.e. OECS Member States) accounted for only 20%, there is enough complementarity among the latter group to make the mutual manufacturing trade of its members significant, especially in Dominica, Grenada, Saint

Table II.15
CARICOM: TRENDS IN THE NETWORK OF INTRA-SUBREGIONAL TRADE, 2000
(Millions of dollars and percentages)

	Millions of dollars														
	Barbados	Belize	Guyana	Jamaica	Suriname	Trinidad and Tobago	OECS	Antigua and Barbuda	Dominica	Grenada	Montserrat	Saint Kitts and Nevis	Saint Lucia	Saint Vincent and the Grenadines	CARICOM
2000															
Barbados		3	7	19	3	36	49	7	5	7	0	6	14	9	118
Belize	1		0	5	0	3	0	0	0	0	0	0	0	0	9
Guyana	9	0		33	0	15	12	0	2	2	0	0	4	4	69
Jamaica	8	4	3		1	21	12	3	2	2	0	2	3	1	49
Suriname	5	0	0	7		41	0	0	0	0	0	0	0	0	53
Trinidad and Tobago	208	6	98	338	110		203	18	20	49	1	23	57	36	964
OECS^a	14	0	4	15	1	11	39	11	6	3	1	7	9	2	84
Antigua and Barbuda	0	0	0	0	0	1	3		1	0	0	1	1	0	3
Dominica	2	0	3	13	0	3	9	4		0	0	2	2	1	31
Grenada	2	0	0	1	0	1	8	2	2		0	2	3	1	12
Montserrat	0	0	0	0	0	0	0	0	0	0		0	0	0	0
Saint Kitts and Nevis	0	0	0	0	0	1	2	0	0	0	0		1	0	3
Saint Lucia	5	0	0	0	0	1	5	2	1	1	0	0		0	11
Saint Vincent and the Grenadines	4	0	0	1	0	5	12	3	2	1	0	2	4	0	23
CARICOM^b	105	11	34	89	0	83	193	33	25	30	8	20	50	28	515
2000															
	Percentage of total														
Barbados		0.2	0.5	1.4	0.3	2.7	3.7	0.5	0.4	0.5	0.0	0.5	1.1	0.7	8.8
Belize	0.1		0.0	0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Guyana	0.7	0.0		2.5	0.0	1.1	0.9	0.0	0.1	0.2	0.0	0.0	0.3	0.3	5.1
Jamaica	0.6	0.3	0.2		0.1	1.6	0.9	0.2	0.1	0.1	0.0	0.1	0.2	0.1	3.6
Suriname	0.3	0.0	0.0	0.5		3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9
Trinidad and Tobago	15.5	0.5	7.3	25.1	8.2		15.1	1.4	1.5	3.6	0.1	1.7	4.2	2.7	71.7
OECS	1.0	0.0	0.3	1.1	0.0	0.8	2.9	0.8	0.4	0.2	0.1	0.5	0.7	0.1	6.2
Antigua and Barbuda	0.0	0.0	0.0	0.0	0.0	0.0	0.2		0.1	0.0	0.0	0.1	0.0	0.0	0.3
Dominica	0.2	0.0	0.2	1.0	0.0	0.2	0.7	0.3		0.0	0.0	0.2	0.1	0.0	2.3
Grenada	0.1	0.0	0.0	0.0	0.0	0.1	0.6	0.1	0.1		0.0	0.1	0.2	0.0	0.9
Montserrat	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Saint Kitts and Nevis	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0		0.0	0.0	0.2
Saint Lucia	0.4	0.0	0.0	0.0	0.0	0.1	0.4	0.2	0.1	0.1	0.0	0.2	0.3	0.0	0.9
Saint Vincent and the Grenadines	0.3	0.0	0.0	0.1	0.0	0.4	0.9	0.2	0.1	0.1	0.0	0.2	0.3	0.0	1.7
CARICOM	18.1	1.0	8.4	31.0	8.5	9.5	23.5	2.9	2.6	4.7	0.2	2.8	6.5	3.8	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the CARICOM Secretariat (CCS), CARICOM's *Intraregional Trade*, Georgetown, 2002.

^a Organization of Eastern Caribbean States.

^b Caribbean Community.

Lucia and Saint Kitts and Nevis (see table II.16). For instance, exports from Dominica to the rest of the subregion in 2000 were dominated by chemical products (88.4%), foodstuffs (59.1%) and manufactured goods (25.6%).⁷⁸ Exports from Saint Kitts and Nevis, Montserrat and Saint Lucia in 2000

were dominated by beverages and tobacco, which represented 61.2% and 68%, respectively, of those two countries' intra-subregional exports. In the case of Saint Vincent and the Grenadines, exports of foodstuffs and live animals represented 73% of total exports to the rest of the subregion (CCS, 2000).

⁷⁸ Exports to the rest of the subregion accounted for around 87.4% in 1990 and 82.7% in 1995.

Table II.16
**ORGANIZATION OF EASTERN CARIBBEAN STATES (OECS): TRENDS IN THE NETWORK
 OF INTRA-SUBREGIONAL TRADE, 2000**
(Millions of dollars and percentages)

	Millions of dollars								Percentage of total							
	Antigua and Barbuda	Dominica	Grenada	Montserrat	Saint Kitts and Nevis	Saint Lucia	Saint Vincent and the Grenadines	OECS	Antigua and Barbuda	Dominica	Grenada	Montserrat	Saint Kitts and Nevis	Saint Lucia	Saint Vincent and the Grenadines	OECS
2000																
Antigua and Barbuda		0.7	0.2	0.1	1.0	0.5	0.3	2.8		1.8	0.6	0.3	2.4	1.4	0.6	7.1
Dominica	4.0		0.4	0.3	2.0	1.5	0.6	8.8	10.0		0.9	0.8	5.2	3.9	1.5	22.3
Grenada	1.7	1.9		0.0	1.5	2.6	0.5	8.3	4.4	4.8		0.1	3.9	6.6	1.4	21.1
Montserrat	0.1	0.0	0.0		0.1	0.0	0.0	0.1	0.2	0.0	0.0		0.2	0.0	0.0	0.4
Saint Kitts and Nevis	0.2	0.5	0.0	0.2		0.7	0.1	1.6	0.4	1.2	0.0	0.4		1.7	0.2	3.9
Saint Lucia	1.9	1.2	1.3	0.2	0.4		0.4	5.4	4.9	3.0	3.2	0.5	1.1		1.1	13.6
Saint Vincent and the Grenadines	2.8	1.8	1.4	0.2	2.3	3.9		12.4	7.0	4.5	3.6	0.5	5.9	10.0		31.5
OECS	10.6	6.0	3.3	1.0	7.3	9.3	1.9	39.5	26.9	15.2	8.4	2.5	18.6	23.6	4.7	100.0

Source: Institute for the Integration of Latin America and the Caribbean (INTAL), CARICOM, Report No. 1, Buenos Aires, 2002 and Secretariat of the Caribbean Community (CCS), report on the state of intraregional integration, 2003.

3. Market access and the common external tariff (CET)

In addition to the consequences of the international economic situation, intra-CARICOM trade is also affected by lack of compliance with commitments on the part of various member countries, some of which have not included the agreements regarding the formation of the customs union in their national legislations. Non-compliance is a problem in a considerable proportion of member countries, as shown in table II.17. Most restrictions on free trade will have to be eliminated in 2005. Ongoing tasks include those relating to the liberalization of services and those linked to the movement of persons and capital.

Although the rules on policies concerning competition, subsidies and antidumping measures are less of a problem than rules of origin, they are not yet a part of the national legislation of member countries (except Jamaica). However, Protocol VIII of the CSME

stipulates that such rules must be included in national legislations within 18 to 24 months, depending on the item (INTAL, 2002).

Only a few countries had completed the final phase for full application of the CET (Belize, Grenada, Saint Lucia, Guyana, Jamaica, Trinidad and Tobago and Saint Vincent and the Grenadines). The other countries are still in the early stages owing to fiscal difficulties (Antigua and Barbuda, Suriname, and Saint Kitts and Nevis), except Dominica, which has not yet decided whether to participate. Furthermore, there are many exceptions to the tariffs. The average tariff was between 9.7% and 11.2%, which was still higher than the CET, especially for certain goods such as agricultural products. Much remains to be done before the CET can be considered harmonized, moreover its implementation is dependent on prior fiscal reform (INTAL, 2002a).

Table II.17
MEASURES RESTRICTING FREE TRADE IN THE CARIBBEAN COMMUNITY

Measures	Infringers
Import licences	Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago
Quotas	Antigua and Barbuda, Montserrat, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago
Price control	Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines
Import duties	Dominica, Grenada, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago

Source: Institute for the Integration of Latin America and the Caribbean (INTAL), CARICOM, Report No. 1, Buenos Aires, 2002 and Secretariat of the Caribbean Community (CCS), report on the state of intraregional integration, 2003.

Work towards setting up the Caribbean Court of Justice has been stepped up since the Agreement establishing the Court entered into force on 23 July 2002, once Barbados, Saint Lucia and Guyana had deposited their instruments of ratification.⁷⁹ This lays the foundations for replacing the Privy Council in London as the court of final appeal, one of the last remaining colonial ties. The process of accession to the Agreement is still incomplete. The following instruments were signed on 4 July 2003: Protocol on the Privileges and Immunities of the Caribbean Court of Justice and the Regional Judicial and Legal Services Commission; Protocol to the Agreement Establishing the Caribbean Court of Justice; The Agreement Establishing the

Caribbean Court of Justice Trust Fund and Vesting Deed of the Caribbean Court of Justice Trust Fund.⁸⁰ On 21 August 2003, eight of the 10 members were appointed to the Regional Judicial and Legal Services Commission, the body responsible for appointing judges to the Court. There have, however, been allegations questioning the validity of the new body, especially from Trinidad and Tobago. In any event, activities linked to the Caribbean Court of Justice continue, including the plan to standardize the teaching of civil law and common law in higher education.

Table II.18 provides a summary of the level of compliance with fundamental integration commitments among CARICOM countries.

Table II.18
CARICOM: STATE OF INTRA-SUBREGIONAL INTEGRATION

Subjects	Number of countries yet to take action
Revised Treaty ratified and instrument deposited	12
Strengthening regulations and institutional support	8
CARICOM Regional Organisation for Standards and Quality (CROSQ)	3
Creation of national competition authorities	11
Free movement of goods (domestic taxes and charges, import licences for community goods, unharmonized customs)	15
Free movement of services	Not yet applicable
Free movement of persons	8
Free movement of capital	Not yet applicable
Intrarregional Agreement on double taxation	2
Integration of capital markets	5
Common foreign policy	3
Harmonization of laws	Not yet applicable

Source: Secretariat of the Caribbean Community (CCS), report on the state of intraregional integration, 2003.

Note: Refers to all stages of actions to be taken, except inclusion in national legislation.

⁷⁹ The twenty-fourth Conference of Heads of Government insisted on the need to finalize all preparatory arrangements for the Caribbean Court of Justice by 15 November 2003.

⁸⁰ CARICOM Secretariat (CCS), various press releases from July and August 2003.

4. Aspects of economic policy coordination

The Committee of Central Bank Governors is responsible for monitoring member countries' macroeconomic convergence indicators and eligibility criteria for monetary union. The levels of convergence for the various indicators, calculated by the Caribbean Centre for Monetary Studies (CCMS), were relatively acceptable during the 1980s, except those for growth, inflation and indebtedness. The indicators have subsequently deteriorated in line with economic shocks.⁸¹

The Council for Finance and Planning (COFAP) is responsible for coordinating actions in terms of

movement of capital, exchange rate policies, balance of payments and policies directed at less developed member countries, and for setting up a development fund. At its sixth meeting on 17 September, the Council stated the need to step up efforts in these and other aspects of economic policy coordination. The Treaty of Chaguaramas and the CARICOM Single Market and Economy (CSME) provide for special and differentiated treatment for less developed and highly indebted countries, although this is far from being implemented. Furthermore, this treatment is undermined as it is excluded from some of the negotiations (INTAL, 2002b).

5. Social aspects

CARICOM has adopted a series of significant social initiatives (CCS, 2003): on 1 June 2003, the sixth special meeting of the Council for Human and Social Development (COHSOD) responded to the growing emigration of professionals (especially teachers) by deciding to consider the problem in the formulation of a regional strategy for human and social development; the Caribbean Congress of Labour (CCL) and the Caribbean Association of Industry and Commerce (CAIC), which are involved in various integration

bodies, have been tasked with formulating a proposal aimed at institutionalizing a three-way regional social dialogue between governments, workers, and businessmen and other social stakeholders; the twenty-fourth Conference of Heads of Government called for finalization of work to establish the Regional Stabilization Fund, the Regional Economic Transformation Programme and treatment regarding the movement of professionals and other aspects linked to such movements.⁸²

6. External relations of CARICOM

CARICOM countries have conducted free trade negotiations with Colombia, Cuba, Dominican Republic, Mexico, the Group of Three, MERCOSUR and Chile, the European Union (as part of a group of African and Caribbean countries), the Andean Community, CACM (Costa Rica), Canada, United States, Spain, India, Japan, Russian Federation and the FTAA (INTAL, 2002a).

The twenty-fourth Conference of Heads of Government was attended by the Presidents of Chile and South Africa, the Secretaries of the Andean Community and the Organization of American States (OAS), the Directors-General of the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) and a representative of the

81 These include growth rate of GDP, inflation, fiscal balance, interest rate, wages, unemployment rate and the performance of the tourism sector. The eligibility criteria are: maintaining the value of three months of import cover, a stable exchange rate within a 1.5% exchange band and a debt service/export of goods and factor services ratio of no more than 15% (INTAL, 2002b).

82 CCS, *Press Release* No. 49/2003 of 28 March.

Heads of State of French overseas departments. In addition to the Council for Foreign and Community Relations, the increasing negotiation commitments have made it necessary to create the Regional Negotiating Machinery (RNM), the main objective of which is to coordinate the CARICOM position in the various

negotiating forums (FTAA, WTO and bilateral negotiations).⁸³ CARICOM countries also endeavour to have their lower level of development taken into account in their negotiations with third countries; this is explicitly expressed in agreements concluded with Cuba and the Dominican Republic.

83 CARICOM member countries have succeeded in adopting common stances in the face of difficult problems such as the questions on the European Union's sugar regime raised by Australia and Brazil in the WTO, or the United States threat of punitive action against six countries in the context of the former's demand for bilateral agreements on the provisions of the Rome Statute establishing the International Criminal Court.

Chapter III

Policy for the promotion and development of merchandise exports in Mexico, Central America and the Caribbean



Introduction

In the mid-1980s, the governments of Latin America and the Caribbean began to adopt a development model whose engine was intended to be the external sector, within a context of trade and capital market liberalization. This failed to achieve the anticipated effects on growth or to generate productive investment and quality jobs, however, regardless of the differing characteristics of individual countries. ECLAC documents have attributed the mediocre results of export-led growth to the region's macroeconomic policy, due to its exclusive concentration on controlling inflation and balancing fiscal accounts, to the detriment of growth and employment goals. As a consequence, the behaviour of real variables in the countries' economies was determined by the vagaries of the external situation, made even more volatile by the procyclical bias of macroeconomic policy. In this climate of uncertainty, private agents were cautious about making long-term investments, which led to low growth in productive activity and high unemployment rates. Rapid growth in import-intensive exports in the last decade, in addition to the region's traditionally larger income elasticity of imports compared to exports, has meant that expansion in the Latin American and Caribbean economies and exports has consistently led to higher trade deficits (ECLAC, 2003d, chapter III).

This shows that governments are aware of the importance of fostering export growth with a view to achieving more balanced integration of their economies into the global economy. Almost all the Latin American and Caribbean countries have formulated and implemented programmes to promote and develop exports, with varying degrees of success. However, after almost four decades of efforts to promote and finance exports through entities expressly devoted to this endeavour, there is still no consensus as to the effectiveness of the strategies used. Latin American and Caribbean countries have been characterized by institutional change, and the export promotion and development area is no exception. Lack of institutional continuity in this area poses a twofold risk: that the services provided to exporters will be discontinued and that the development of statistical time series to serve as a basis for objectively evaluating the technical, financial and human efforts deployed in each case will be interrupted, making it harder to measure the impact of the export strategy and progress towards goals.

When policies do not undergo a cost/benefit analysis, they tend to be perceived as inefficient or irrelevant. Given the widespread need for budgetary belt-tightening in the region, countries have tended to cut funding for export

promotion and financing programmes when, on the contrary, export development activities should be properly supported, according to clear and explicit priorities that give preference to the firms most in need of such help.

This chapter sets out the results of national studies to describe, categorize, analyse and evaluate Latin American and Caribbean export promotion and development strategies in the last decade, with a view to channelling future efforts in the region. This edition of *Latin America and the Caribbean in the World Economy* focuses on the experience of Mexico, Central America and the Caribbean, while the next edition will summarize studies on South America. The chapter is divided into five sections, including the introduction. The next section discusses the objectives, scope and limitations of export promotion and development policies, based on all the studies. Section three describes the domestic and external constraints faced by Mexico, Central America and some Caribbean countries, which contributed to reducing the effectiveness of export promotion and development policies. Section four describes the promotion and development programmes and institutional framework chosen in Mexico, Central America and some Caribbean countries. The fifth and last section presents some final considerations.

A. Objectives, scope and limitations of policies to promote and develop exports

The broad objective of public policies to expand and diversify exports is to reduce the economy's anti-export bias and the transaction costs that must be borne by exporters, which distort the relative profitability of foreign- versus domestic-market-oriented production. Clearly, this profitability depends on various prices that change over time. Under the import substitution model, for example, production costs and profit margins depended to a large extent on the protection regime (tariff and non-tariff barriers), which pushed up the cost of the inputs used throughout the production chain. By eliminating competitive pressure from imports, protection resulted in wider profit margins, making import substitution sectors and sectors catering

exclusively to the domestic market extremely lucrative. This meant that more efficient firms producing goods in which the country had a comparative advantage had a disincentive to export.

In Latin America and the Caribbean, institutions to promote and develop exports have another important role, which is to remove obstacles to exports. This involves improving infrastructure, streamlining bureaucratic procedures, providing suitable financing conditions, adjusting the tax burden, expanding market access, increasing information availability and encouraging practices that enhance productivity and quality. Trade openness has drastically reduced the degree of nominal and effective protection, although

exchange rate appreciation has affected the relative prices of tradable goods in most of the region's countries, creating another type of anti-export bias. Any export promotion policy must be based on three pillars: policies to reduce the export sector's vulnerability to currency volatility or misalignment, an appropriate protection structure for producers and consumers, and a system of non-distorting incentives. It should be borne in mind that the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Duties prohibits the use of fiscal or financial incentives that are specific to certain production sectors or branches of activity.

Unquestionably, the sectoral composition of external sales reflects a country's degree of development, resource endowment, average productivity and technological advancement. In other words, at any given time, the

volume and composition of a country's exports are limited by its production and technology structure. The structure of comparative advantages and the removal of distortions and flaws in the domestic market define which products a country can export today, while its policies on technology, investment and education determine what it will be able to export in the medium and long term (Motta-Veiga and Iglesias, 2003). When countries fail to invest in technology training, human resources development and infrastructure, their policies to promote and develop exports will probably not be viable, since underdevelopment in these areas makes it necessary to compensate firms for the high systemic costs of producing each unit of the good or service to be exported. In the long run, such exports are not sustainable once the subsidies are reduced or removed.

1. Institutional framework of an export policy

The specific aims of policies to promote and develop exports include: increasing merchandise exports in general; promoting exports of higher value-added products, or in other words, more highly processed goods; and promoting service exports (see chapter IV). Another aim of export development is to diversify target markets and to broaden the spatial export base to include the entire region, in addition to developing border regions. A more advanced objective is to strengthen the links in the export sector's production chain, as well as to boost the competitiveness of the component segments. This may also include promoting regional and international investment in export goods and service sectors (including tourism services) and support for them (Uribe Mosquera, 2003).

An institutional support structure is needed to implement promotion and development instruments. The existence of institutions specializing in the promotion of exports and production depends on a number of factors, including a country's degree of maturity in developing its export strategy and its own level of institutional development. A country's institutional environment consists of the regulatory framework, the advisory and supervisory authorities, the decision-making body and process, the entity responsible for

promotion and steering decision-making (export promotion organization), the entity responsible for financing (export financing organization) and the joint implementation body. Fundamental aspects of analysis are the degree of stability of the regulatory framework and of promotion and financing institutions, as well as the level of support for their activities from public and private sector institutions, together with the respective degree of inter-institutional consultation.

The export promotion organization's financial environment is key to an effective policy to promote and develop exports. Funds may come from the national budget or the private sector, earmarked economic rents or quasi-fiscal revenues, self-sustaining assets, external cooperation, access to international credit or contributions from beneficiary export companies or their customers abroad. Financing is channelled to pre- and post-shipment lines of credit, productive investment, suppliers' credit, transport subsidies, financial assistance for buyers' missions, and so on. Fundamental aspects of analysis are the stability/sustainability of the export promotion organization's funding and the synergy between the funding received from firms or their customers and other instruments to promote and develop exports.

2. Criteria for classifying export promotion and export development instruments

To evaluate the relative effectiveness of instruments used in export promotion and export development programmes, they can be classified according to their specific objectives. Initially three groups of instruments can be distinguished, which must remain consistent with the macroeconomic environment, especially with trade and exchange rate systems: (i) export promotion instruments; (ii) export development instruments, and (iii) activities to improve market access (trade diplomacy). Export promotion instruments cover a specific supply of export goods and their aim is to improve information to exporting firms about potential markets, as well as to enhance links between exporting firms and importers (to reduce existing information imbalances) and thereby diversify target export markets. They include access to business and transport information; market intelligence; setting up project banks using information and communication technologies; and identifying new export goods, new markets and niche markets.

In addition to instruments that impact on transaction costs, there are others that impact on the competitiveness of goods and services as defined by trademarks, product design, quality certification of productive processes, partnerships (formation of strategic alliances), the adaptation and tailoring of products to gear them to more demanding markets, the development of a “country trademark”, fostering an export culture among business managers, and so on. Not only do these instruments impact on the non-price competitiveness of firms, they are also cross-cutting, in that they can influence the behaviour of firms, products and markets generally. They also include coherent measures concerning not only customs procedures and trade facilitation, but also sanitary and phytosanitary controls; environmental, technical and quality certification; improving means and channels of communication; “de-bureaucratization”; enhancing physical, tax and legal security; government procurement transparency, and so on. In addition, they are fully compatible with international trade rules.

In turn, since export development instruments include incentives for increasing the volume of exports and diversifying their composition, they impact on firms’ investment decisions by reducing risks and transaction costs. These instruments comprise a competitiveness strategy based on national and regional cooperation, consultation and management training, which may be spatial in nature (clusters), or sectoral (production chain and competitiveness agreements), or regional/international, by means of technology-linked investment, knowledge leverage and alliance formation.

However, special regimes are still used extensively in Latin America and the Caribbean, including free trade zones, duty drawback, temporary admission for inward processing, exemption/reimbursement of indirect taxes, special conditions of origin and performance requirements. A fundamental aspect of analysis is the degree of consistency between such regimes and the disciplines adopted in current multilateral, regional and bilateral agreements. As already stated, changes in trade policy, particularly the progressive decline in effective tariffs in the region’s economies, has gradually eroded the anticipated impact of traditional instruments on the price competitiveness of exports.

In addition to such regimes are efforts to disseminate the mass use of information and communication technology (ITC). Efforts to increase public computer literacy, the development of digital signatures and the encryption of commercial documents (electronic invoice) in order to increase payment system security, may also be viewed as instruments to promote and develop exports. The development of new financial products to foster innovation also appears to be useful. The implementation of mechanisms for venture capital financing could plug a gap that is preventing the application of new ideas and the search for new niches with export potential. Normally this type of venture experiences a tight financial situation in the early years, which cannot be alleviated without suitable financial products.

3. **Considerations for evaluating instruments to promote and develop exports¹**

Generally speaking, experience in the region indicates that it is extremely difficult to assess the impact of policies to promote and develop exports –and yet more difficult to quantify it. Costa Rica and El Salvador maintain monitoring systems designed more to verify that the needs of firms are being catered to than to evaluate results with respect to countries' external sector variables. Where attempts are made to carry out such an evaluation, they often consist of a private or corporate cost/benefit analysis to relate investment in promotion and related activities (commercial and technical training, market intelligence, subsidy implicit in export financing, and so on) with the accompanying evolution in the value, volume and diversification of exports. Alternatively, econometric estimates are used to express exports in relation to a number of basic independent variables (real rate of exchange, external demand, relevant international prices, and so on). This often succeeds in "explaining" many export variations in relation to changes in those variables, sometimes leading to the "naïve" conclusion that the activities of export promotion and financing organizations make only a marginal contribution.

However, both types of analysis display a problem of aggregation. In particular, they tend to overlook the major differences between commodities and higher value-added products, as well as between large enterprises (which are often relatively self-sufficient in penetrating the international market) and small and medium-sized enterprises (SMEs), which are much more

in need of institutional aid. Both types of analysis also fail to take into account the dispersal of effort and resources associated with the multiplicity of objectives assigned to export promotion and export financing organizations alike, with the similarly wide range of export promotion and development instruments, and sometimes, too, with duplication of tasks by the different institutions involved. This makes it all the more difficult to define and estimate a causal relationship between export promotion and development instruments and the above institutions. It is also important to establish whether the problems arise at the programme's design or implementation stages.

Nor does the cost/benefit type of analysis properly factorize exogenous variables, such as international prices and the behaviour of the principal target markets for the respective exports (which the economic-estimate type of analysis does take into account, as it does also domestic macroeconomic management). However, on the assumption that export promotion and export financing organizations tend to focus their activities more on higher value-added exports, as well as on service exports (including tourism services) than on exports as a whole –thereby excluding commodities– the apparent impact of these organizations on total export value is bound to underestimate any impact they might be having on their respective target universe. Clearly, the narrower the effective coverage of the target universe and the less disaggregated the statistical data, the larger the underestimation.

B. Domestic and external constraints on export growth and diversification

ECLAC documents have reiterated the importance of a number of conditions in enabling economies to successfully change their production patterns to foster growth. First, relative prices must be conducive to the production of export goods and the equilibrium of the

external sector. This means a real exchange rate that depreciates in line with gradually decreasing import protection; incentives and reimbursements for exporters, and safeguard mechanisms against unfair competition from foreign suppliers. Second, there must be a

1 This section is based on Uribe Mosquera, 2003.

macroeconomic environment favourable to investment and technological innovation. One of the requirements is for a level of economic activity close to the production frontier and for “reasonable” real interest rates compatible with the profitability of the capital employed. Third, there must be sufficient factors of production to meet the demand of producers of export goods and efficient import substitutes. Many of these factors originate in markets that are currently imperfect, incomplete or non-existent. This calls for an active and effective public support policy to ensure that openness leads to self-sustaining growth, which involves creating or improving the markets and institutions needed to continually enhance productivity (ECLAC, 1990; 1995b).

These conditions were, and continue to be, absent from the region’s recent economic evolution. The key

instrument of trade reform has been more or less rapid and indiscriminate import liberalization. In general, firms whose production had been geared to the domestic market were exposed to international competition in the midst of an influx of foreign capital attracted to State privatization programmes and of a currency revaluation which, although it could have helped to stabilize domestic prices, actually stripped local products of their competitiveness, discouraged the allocation of resources to export production and helped to cause a trade imbalance. What is more, better-prepared firms that had survived the adjustment process did not receive help in the form of access to technology, long-term finance at reasonable interest rates, proper infrastructure and expanding external markets.

1. Mexico²

Between 1990 and 2002, Mexican exports rose from US\$ 48 billion to US\$ 171 billion as the dependence of the United States market on Mexican external sales grew from 79% to nearly 90%. The same happened with Mexican imports, 80% of which come from the United States, which is also the principal source of direct foreign investment. With an external sector (combined exports and imports) representing more than 52% of its GDP, Mexico’s economy is dependent on developments in the international economy, especially the United States. Throughout the last decade, economic growth has been very patchy and, since 2001, GDP growth has fluctuated between -0.4% and 2.4%, which has been reflected in a decline in per capita income. Recent economic policy has been characterized by careful public finance management and monetary

caution, against the background of a floating exchange rate, an appreciating currency, and an inflation rate of close to 5% in the last three years. Government funding for the private sector has declined significantly since 1995, which has heavily affected housing construction and corporate financing, forcing firms to resort to credit with suppliers, commercial banks and companies in their own group.

Since 1998, Mexico’s trade deficit in goods and services has fluctuated between 1.3% and 1.9% of GDP, which contrasts with the surpluses of 1995-1996, and the deficit of almost 5% in 1994. The revenue from family remittances from abroad, which equal virtually the entire revenue from oil exports and the revenue from direct foreign investment, have been crucial to balancing Mexico’s current account.

2. Central American countries

In the Central American countries, import liberalization and the associated tariff reductions led to a drop in a major source of tax revenue. In 1994, revenues from import duties accounted for 15% of total revenues for Costa Rica and El Salvador, rising to more than 20% for the other three countries (ECLAC, 1998). In Guatemala

and Honduras, the value of taxes on foreign trade fell as a proportion of total tax revenues, from 21% in 1995 to around 11% in 2001, while in Costa Rica, El Salvador and Nicaragua, taxes on foreign trade represented between 6.5% and 8.5% of total tax receipts. In the main, Costa Rica and El Salvador have generated

2 The information on Mexico and Central America is based on Alonso, 2003a.

compensatory revenues principally by levying indirect taxes on domestic consumption, which impact on the cost structure of local production and export competitiveness.³ El Salvador's tax structure is based on value-added tax (VAT), which contributes more than half of total revenues, and on corporate income tax, which contributes a little less than one third of total revenues. In practice, these countries have to cope with severe public financing problems, which limit the design and realistic implementation of active policies for changing production patterns and promoting exports.⁴

The Central American countries differ in the ratio between exports and total economic activities. Guatemala is one of the countries in the region with the least trade openness, with merchandise exports in the order of 13% of GDP. In contrast, the merchandise exports of Costa Rica, El Salvador, Honduras and Nicaragua represent between 22% and 32% of GDP. Furthermore, Guatemala has combined exports and imports of around 40% of GDP, whereas El Salvador has 55%, Honduras 78%, Nicaragua 91% and Costa Rica 80%.⁵

In the last decade, El Salvador and Guatemala grew at high average rates, whilst Costa Rica, Honduras and Nicaragua experienced more patchy growth. However, since 2001 the five economies have stagnated, with average growth of around 2%, which fails to offset population growth. Costa Rica's economic growth, measured in GDP terms, does not appear to reflect the major structural changes that have occurred in the external sector in recent decades. This becomes even more apparent if one excludes the export sector covered by the free trade zone and inward processing regimes, which has still not been linked properly with the local

economy in order to boost the creation of jobs and added value.

Similarly, the external sector of the five Central American economies shares certain common features: (i) all the countries target their foreign trade almost exclusively at the United States and Central America; (ii) albeit to differing degrees, export diversification led to a shift from primary products to cross-border maquila operations, mainly in the textile and clothing sector; (iii) export diversification has not led to changes in the productive structure, due to the concentration on low value-added operations; (iv) all the economies exhibit a large, chronic trade deficit, which is not reflected in the current account deficit because it is partially offset by remittances from Central American workers abroad, as well as by revenues from tourism, donations and short-term capital; and (v) Central American States are small, measured in terms of government expenditure, which ranges from 10% to 12% of GDP in El Salvador and Guatemala.⁶ In particular, the small size of the Guatemalan State seriously affects its institutional capacity to meet the needs of its population and corporate sector, thereby constraining its ability to deepen the successes achieved through trade liberalization. Honduras (20%) and Nicaragua (28%) show higher expenditures, whilst the national accounts statistics indicate approximately 15% for Costa Rica.⁷

Moreover, the Central American banking system has not been capable of generating enough financing for productive activity. El Salvador's economy has been relatively successful in maintaining low inflation levels and the lowest interest rates in the region. However, in recent years this has not been reflected in investment growth, and the adoption of dollarization in 2001 has increased intermediation costs. Honduras has one of the

3 Honduras recently carried out a tax reform to reduce its heavy dependency on indirect taxes, which account for three-quarters of tax revenues, and thus promote a more equitable tax system.

4 In Nicaragua, the tax burden has been declining in recent years as a result of an economic slowdown, more exemptions, fewer selective taxes, the transport subsidy and the impact of the tax concession process, which has reduced the size of foreign trade taxes as a percentage of GDP in recent years.

5 The indicators increase significantly when trade in services is included.

6 Workers' remittances represent more than 14% of El Salvador's GDP. In the case of Honduras, family remittances received from abroad, especially from the United States, which represented some 11% of GDP in 2002, have made it possible to reduce the foreign trade deficit, together with the contribution from long-term and short-term capital. Furthermore, the tourism sector, which represented some 9% of external revenues in 1980, had grown to 19% by 2002. In Nicaragua, the trade deficit, which reached 52% of GDP in 1999 and is still in the order of 40%, is the highest in the region. In spite of this, Nicaragua has succeeded in controlling, and even reducing, the rate of devaluation, thanks to its abundant foreign remittances, which amounted to 13% of GDP in 2001, and to the availability of donations, which last year represented 5% of GDP but are now showing signs of declining. When El Salvador applied dollarization in 2001, significant quasi-fiscal financial costs were generated for buying foreign currency in the market, which created new pressures on the fiscal deficit.

7 In the case of Costa Rica, State participation is much greater than the national accounts might at first indicate, since the State plays a dominant role in electricity generation, has a monopoly on importing oil, telecommunications and insurance, and is an important player in sectors such as health, education and commercial banking. The reorganized national accounts suggest a State representing almost one fifth of GDP (18.6%) in 2001.

largest interest rate spreads in the region. Credit has been concentrated on financing consumption, to the detriment of productive activity. In Nicaragua, the fiscal gap of the last three years has been close to 11% and this has led to the adoption of a much tighter monetary policy, which has managed to keep both domestic inflation and the devaluation rate fairly well under control.⁸ In an effort to control liquidity and prevent the collapse of the other economic policies, minimum reserve requirements were increased, the cost of credit was raised, interest rate spreads were widened, and credit for higher-risk

activities was restricted. The results was that credit was channelled into consumption, to the detriment of agriculture and industry. In Costa Rica, the incomplete transformation of the financial sector has led to very large interest rate spreads and high rates compared with those in the international market. Furthermore, in Guatemala, a floating exchange rate policy with occasional Central Bank intervention has not prevented the quetzal from being overvalued. The overvalued exchange rate also acts as an obstacle to the competitiveness of Honduran exports.

3. CARICOM countries

Most of the countries of the Caribbean Community (CARICOM) are small economies by any standard. Due to their inherent characteristics, their overall performance is highly correlated with that of the external sector.⁹ Merchandise and service exports are an important source of job creation, foreign exchange earnings and economic growth.¹⁰ The relative size of an economy has major implications for export performance and defines the context for export promotion and development policies.¹¹ In general, the small size of Caribbean domestic markets, added to insufficient natural and human resources, justifies partnerships between CARICOM countries to enable joint production to benefit from economies of scale and complementarity in tradable activities. Individually, each small economy is confined to producing a narrow range of products. However, there has been a major effort to diversify services.¹² Efforts to develop services as a key export activity have been accompanied by a change in the

contribution of services to GDP, which rose from 35% to 68% between 1970 and 1990. Moreover, with the exclusion of oil, intraregional trade has fluctuated between 5% and 8% of CARICOM members' overall trade figures.

Furthermore, the CARICOM countries are situated in areas prone to natural disasters, have high transport costs and their total tax revenues depend to a large extent on import and export performance. In many cases, tariffs are easier to collect than other income or consumption taxes. For this reason, even though some countries have attempted to apply reforms aimed at reducing the effect of tariffs on the tax budget, such reforms have not always been successful, and in many Caribbean economies, more than 50% of tax income derives from trade tariffs. The problem is made even more complex by heavy public sector involvement in promoting production and export activities through infrastructure projects and fiscal incentives (ECLAC, 1998).

8 Like Honduras, Nicaragua is in need of monetary and fiscal discipline to enable it to formalize an agreement with the International Monetary Fund as a vital first step in establishing the prerequisites for access to international cooperation funds and to entitle it to benefit from the Heavily Indebted Poor Countries initiative. This would write off some of its foreign debt and relieve fiscal policy by reducing interest payments, even though social spending needs to be increased significantly.

9 CARICOM has 15 member states (see chapter II).

10 Small economies such as Singapore, Taiwan province of China, Hong Kong (Special Administrative Region of China) and Luxembourg have fostered efficient links with the global economy.

11 Smallness is generally defined in terms of population and the dividing line fluctuates between 1.5 million and 10 million, although some authors use a combination of population, GDP and surface area (Briguglio, 1995; Atkins, Mazzi and Easter, 2001; Armstrong and Read, 2000 and 2003; Davenport, 2001; WTO, 2002i).

12 One of the main objectives voiced by CARICOM governments is to diversify exports. As an example, see Saint Vincent and the Grenadines, *Medium Term Economic Strategy, 2002-2004*. Government of Saint Vincent and the Grenadines, p. 5. Another recent example is the Grenadian authorities' efforts to diversify organic farming (NERA, 2003).

C. Characteristics of export promotion and development policies in Mexico, Central America and the Caribbean

1. Mexico¹³

Institutional framework for promoting exports

In Mexico, export promotion began in 1937 with the creation of the National Foreign Trade Bank (BANCOMEXT), a State development bank for promoting non-oil exports. Since its inception, BANCOMEXT has devoted itself to financing productive export and import activities, as well as organizing producers and creating a series of independent institutions, the objectives and functions of which are to promote export production and marketing.¹⁴

At present, the Ministry of Economy, formerly the Ministry of Commerce and Industrial Development (SECOFI), is the entity responsible for defining foreign trade policy, as well as regulating and promoting domestic trade. One of the Ministry of Economy's most important tasks has been to negotiate and sign free trade agreements. Mexico has free trade agreements with more than 32 countries, in addition to 18 reciprocal protection-of-investment treaties, which have been the central plank of Mexico's policy of integration into international markets since it joined the General Agreement on Tariffs and Trade (GATT) in 1986, after a process of unilateral liberalization.

In the mid-1980s, a framework law was promulgated on BANCOMEXT to concentrate in a single institution all the different programmes that had been established in previous decades to promote exports, thereby avoiding duplication of effort and endeavouring to enhance their effectiveness. In addition, it was decided that BANCOMEXT should act as a banking institution for developing foreign trade, coordinating Federal Government financial and guarantee support and serving

as both a first- and second-tier bank. Furthermore, BANCOMEXT provides a large number of non-financial services, including: international promotion services; participation in international trade fairs and exhibitions abroad; buyers' missions; individual visits; missions of foreign investors visiting Mexico; assisting exporters via the "Mexico Exports" programme, directed at small and medium-sized enterprises (SMEs), which provides integrated services on the basis of a diagnosis of their international competitiveness and an analysis of a product's export potential; assisting suppliers via the Mexico Exports programme; training; and Exportanet, an on-line advisory system to capture customers abroad, to mention but a few.¹⁵

Mexico is the only country in the region where export promotion has been strongly linked with financing, by placing export promotion in the hands of a State development bank, without making it contingent upon the bank's financing activities. BANCOMEXT competes in the market with private banks to provide financing to export firms.¹⁶ Indeed, in recent years the loans it offers to Mexican firms have lost competitiveness compared to foreign banks with subsidiaries in Mexico.

The competitive pressure to which BANCOMEXT is currently subject and the losses that the bank has incurred in recent years have prompted some to question the advisability of continuing to finance export promotion activities. There has also been criticism of the effectiveness of BANCOMEXT in promoting exports. Both of these factors have forced BANCOMEXT to sell services to raise funding for export promotion. However, it recovers no more than 20% of the cost of the non-financial services it provides.¹⁷

13 The information on Mexico and Central America is based on Alonso, 2003a.

14 See on this and other points "Exposición de Motivos de la Iniciativa de Ley Orgánica del Banco Nacional de Comercio Exterior", *Diario Oficial de la Federación*, Mexico City, January 1986.

15 BANCOMEXT Annual Report, 2002.

16 However, BANCOMEXT does finance activities that commercial banks do not finance, especially in the small and medium-sized enterprises sector and in other sectors where commercial banks have no involvement. More than 90% of the BANCOMEXT portfolio is in projects where no private banks are involved.

17 While the costs of providing promotion services are around US\$ 40 million per year, revenues from the sale of services totalled only US\$ 8 million in 2002 (BANCOMEXT, 2002).

The Ministry of Economy also carries out export promotion activities by means of a business information system, as well as organizing trade missions and other promotion activities, closely linked with the free trade agreements that Mexico has signed. There is also a presidential directive for the creation of an Undersecretary's Office for the Promotion of Exports and Investment.¹⁸ The Ministry of Economy is also responsible for administering the various export promotion regimes. The Mexican Government has set out a Foreign Trade and Investment Promotion Programme (PCEPI) for the 2001-2006 period.

The activities of the Ministry of Economy also include a comprehensive programme for promoting and developing small and medium-sized enterprises (SMEs), in coordination with other public and private entities, together with the one-stop procedures bureau (*Ventanilla Única de Trámites*), which includes the electronic processing of foreign trade formalities, as well as a programme to foster competitiveness.

The programme to foster competitiveness consists of making operational the Economic Policy for Competitiveness.¹⁹ To boost and consolidate the competitiveness of its domestic industry, Mexico's Federal Government set up the Presidential Council for Competitiveness, whose members are representatives of the Government, the private sector and the "social sector" (which includes various groups representing labour, local government, small-scale farming, professional groups, etc.). The Council studies the concrete strategies and activities which firms consider as priorities for improving the competitiveness of Mexico's production sectors, presenting them to the Quality Growth Office set up by the Federal Government. The Council has defined two types of strategy for improving competitiveness: sectoral strategies and structural (or cross-cutting) strategies.

Incentive schemes for export promotion

Various incentive programmes for domestic and foreign firms were developed to boost Mexico's non-

petroleum exports.²⁰ In 1985, legislation was promulgated to govern the Temporary Import Programme for the Production of Export Items (PITEX).²¹ PITEX enabled producers of goods destined for export to temporarily import without paying the general import duty, the value-added tax or countervailing duties. PITEX is designed for firms that directly or indirectly export goods and services, with the aim of promoting the development of local suppliers to export firms.

The Federal Government has fostered the development of Mexico's maquila industry since it came into existence more than 35 years ago.²² The most recent legislation on the firms operating under the maquila regime was promulgated in 1998.²³ Such firms receive basically the same advantages as PITEX firms, except that the maquila regime relates exclusively to exports. Trading companies also receive preferential treatment. Referred to as Foreign Trade Companies (ECEX), trading companies are allowed to buy goods VAT-free from domestic suppliers under definitive exportation treatment.²⁴

Another programme for promoting exports is the Heavily Exporting Firms programme (ALTEX), whose objective is to support the operations of heavy exporters via administrative and fiscal facilities. The beneficiaries are producers of non-petroleum goods whose direct exports are demonstrably worth US\$ 2 million annually, or represent 40% of their total sales; firms producing non-petroleum goods that can show indirect annual exports equivalent to 50% of their total sales; and Foreign Trade Companies validly registered with the Ministry of Economy. Such companies receive the following benefits: refund of VAT credit balances; free access to the Business Information System administered by the Ministry of Economy; exemption from the requirement for a second inspection of export goods at the customs office of exit, when the goods have already been cleared by an internal customs office; and permission to appoint a customs representative for a number of customs offices and a variety of products.²⁵

18 Unlike BANCOMEXT, the Ministry of Economy does not charge for the promotion services it provides.

19 Ministry of the Economy, Economic Policy for Competitiveness. See www.economia.gob.mx.

20 In the past there were Certificates of Fiscal Promotion (CEPROFI), granting tax credits on the FOB value of exports. There was also a law on free trade zones which was repealed in 1990.

21 Executive decree of March 1985. This decree was amended in May 1990, May 1995, November 1998, in October 2000 and in December 2001, to adapt it to changing circumstances.

22 A maquiladora is an industrial enterprise dedicated to the processing, manufacture or repair of goods destined wholly for export. This is the definition of maquila used in this document. See on this point: "Generalidades de la industria de la maquila", www.economia.gob.mx.

23 Decree on the Promotion and Operation of the Maquiladora Industry, published in Mexico's Official Journal (*Diario Oficial de la Federación*) in June 1998. A number of reforms were introduced in November 1998, October and December 2000 and May 2003.

24 Decree on the establishment of Foreign Trade Companies of April 1997.

25 To enjoy these advantages, users of the ALTEX programme must provide to the relevant departments of the Federal Public Administration, a copy of the ALTEX Certificate issued by the Ministry of Economy and, where required, confirmation of its validity.

There is also a register of national export suppliers (PRONEX) for firms operating under the PITEEX, maquila and ECEX regimes, which extends definitive exportation treatment to the sale by national suppliers of domestic or definitely imported goods, for the purposes of VAT exemptions.²⁶ Such companies must register as PRONEX firms, in addition to an application from PITEEX, maquila or ECEX firms that will be receiving goods and services from PRONEX firms.

A drawback regime also exists, whereby exporters are reimbursed for the value of any duties charged on the importation and subsequent exportation of the imported inputs incorporated into the exported product; goods that are returned abroad in the same state as they were imported; and goods imported for repair or alteration. However, the duty drawback regime has been little used, given the existence of the PITEEX programme and administrative difficulties involved with government tax rebates.

The relative importance of the above regimes, especially the PITEEX and maquila regimes, has changed with the recent entry into force of a number of provisions, including the North American Free Trade Agreement (NAFTA). NAFTA establishes that eight years after it comes into force (that is, from 2001), temporary import mechanisms in member countries must be modified to avoid distorting NAFTA tariff preferences, equalizing the tariff treatment which Mexico extends to non-North American inputs and machinery used for the production of goods destined for the three countries of the North American market.

By virtue of the above, the PITEEX and maquila programmes, as originally conceived, no longer apply to trade between NAFTA member countries. In their stead, the Mexican Government established the Sectoral Promotion Programs (PROSEC), which allow firms to

import goods at a preferential ad valorem tariff, for use in making specific products, regardless of whether the goods to be produced are destined for export or for the domestic market.²⁷ The benefits of the programmes apply only to imported goods from the sector involved. This means that in producing a good it is not permitted to import goods which come under another sector. Beneficiaries of PROSEC programmes that comply with the obligations of the Decree may apply to be included in further sectors and receive authorization to manufacture the goods related to those sectors.

As a result of the withdrawal of the incentives in the PITEEX and maquila regimes, since 1998 the Trust for the Development of the North of the State of Nuevo Leon (FIDENOR) has been negotiating the promulgation of a law on free trade zones. This legislation was submitted to the Mexican Congress in December 2002 and is in the process of being approved. The proposed Law on Strategic Economic Zones is designed to allow virtually any type of business to set up and operate in established strategic zones, benefiting from tax incentives, chiefly VAT exemptions.²⁸

Since the incentives for firms in strategic economic zones are not contingent upon export production, but instead relate to importation onto Mexico's domestic customs territory, subject to payment of the respective duties, and since the development of strategic economic zones will be restricted to Mexico's relatively less developed areas for at least the first five years, the Law on Strategic Economic Zones does not appear to contravene international trade rules or NAFTA provisions. With this legislation, Mexico aims to re-establish its former legal framework on free trade zones and to put itself on an equal footing with the Central American countries as regards investment incentives.²⁹

26 The legal basis for this provision can be found in the general rule on foreign trade "Regla de Carácter General en Materia de Comercio Exterior", section 5.2, para. 2002 of the VAT legislation.

27 Decree establishing the various sectoral promotion programs, published in December 2000, and its reforms of March, May, August and December 2001. Basically, it consists of a reduction in import duties for companies making an definitive importation into the country.

28 For the first five years after the law comes into existence, the strategic economic zones may be developed only in Mexico's northern and southern border zones and in new and existing ports on the coasts of the Pacific, Atlantic, Caribbean and Sea of Cortez. After this period, firms may set up in any part of Mexico.

29 A reform of the customs law permitting the establishment of strategic bonded areas has been introduced, with exemptions for the importation of machinery and raw materials. The reformed law is acting as a pilot project pending approval of the Law on Strategic Economic Zones.

2. Central American countries

Institutional framework for promoting exports

In spite of the differing historical, geographical and cultural characteristics of the five Central American countries, there are strong similarities in the way structural reforms have been implemented and integrated into the global economy. Costa Rica was the first country in the region to undertake far-reaching structural reform to transform its economy, as a consequence of the foreign debt crisis of the early 1980s. However, in the other Central American countries, market opening and deregulation occurred in the early 1990s. Nicaragua acceded to GATT in the 1950s, and the other four Central American countries did so during the Uruguay Round.

In the 1960s, only a few years after the process of economic integration began in Central America, the governments of the region created governmental institutions to carry out programmes for promoting “non-traditional” exports to markets outside Central America.³⁰ The objective was to gradually shift domestic-market oriented production to international markets, showing that regional economic integration was an instrument that served to achieve better integration into the world economy in the long term, with a more diversified foreign trade structure. Guatemala created the National Export Promotion Centre (GUATEXPRO), Nicaragua the ‘Exportemos’ programme, and Costa Rica the Centre for Export and Investment Promotion (CENPRO). These institutions were attached to the ministries of economy, which were responsible for economic integration in Central America. All the Central American countries also created foreign trade bureaux, which were responsible for foreign trade policy. In El Salvador and Honduras, these bureaux were also responsible for export promotion.

Using this institutional framework, the Secretariat for Central American Economic Integration (SIECA) developed the Central American Export Programme (PROMECA), whose purpose was to promote exports from Central American countries to foreign markets. However, it was not until the widespread economic crisis in all countries of the region in 1980 that it became clear that efforts were needed to increase and diversify exports. The Central American governments received technical

and financial assistance from the United States Agency for International Development (USAID) with a view to creating a new institutional framework for promoting exports and investment. These institutions acted as private entities.

The Central American countries applied, and continue to apply, a number of different export incentive regimes, such as free trade zones, temporary admission (also known as the *maquila* regime) and direct subsidies for firms exporting outside the region, which include exemptions from income tax and from duties on imported inputs and equipment.

Export incentives are basically customs regimes that endeavour to offset other distortions in the economy that affect the international competitiveness of firms. However, in Central American countries such regimes have been supplemented by fiscal incentives or subsidies for creating jobs and countering distortions in the economy which, in addition to import duties, undermine the international competitiveness of firms. Such distortions include utility costs, social security charges, currency surpluses, inadequate port, airport and telecommunications infrastructure, administrative procedures in State agencies and transport costs. Another reason for establishing additional incentives has been competition to attract direct foreign investment to the Central American and Caribbean countries.

(a) Costa Rica

Institutional efforts to promote Costa Rican exports began in 1968, with the creation of the Centre for Export and Investment Promotion (CENPRO). However, it was not until 1984 that the economic crisis prompted the creation of the Export and Investment Programme of the Presidency of the Republic and Ministry of Exports (MINEX), financed by USAID to boost exports and export investment. In 1996 this programme became the Ministry of Foreign Trade (COMEX), which defines Costa Rica’s foreign trade policy and conducts international trade negotiations. In addition, USAID created the Costa Rican Investment Board (CINDE) as a private entity responsible for promoting export investment via the Export and Investment Programme

30 For a detailed analysis of the institutional framework and export incentives in place in Central America in 1980 (De la Ossa and Alonso, 1990).

(PIE). The Policy Training Programme (PROCAP) and the Private Agriculture and Agribusiness Council (CAAP) were also created, the latter to promote agricultural production. CENPRO continues to exist in parallel, as an entity responsible for promoting exports and administering special export incentive regimes.³¹

In 1986, the Foreign Trade Commission (VUCE) was created as part of CENPRO, but in the years that followed it was consolidated when it a number of other public entities delegated to it the tasks of processing documentation on Costa Rican exports and imports and developing the system for the electronic processing of export documentation, which greatly simplifies export formalities.³² In addition, when the Export Contract was promulgated in 1984, the National Investment Council (CNI) was created as a mixed entity, with members from both the public and private sectors. The CNI is responsible for defining foreign trade policy and approving export contracts and CENPRO acts as its technical secretariat.³³

Furthermore, the law on free trade zones had created the Free Trade Zone Corporation, which was the institution responsible for administering the free trade zone regime and State-owned free trade zones. This organizational structure was maintained until 1996, when CENPRO and the Free Trade Zone Corporation were merged into a new institution called the Foreign Trade Corporation of Costa Rica (PROCOMER).³⁴

The decision to create PROCOMER sprang from the conviction that Costa Rica should have a permanent State institution for promoting exports, with the right characteristics to guarantee efficient export promotion. These characteristics are: administrative flexibility, since its resource management is not subject to the legislation governing other State institutions, even though the Office of the Comptroller General of the Republic carries out post audits; hiring of personnel under the same

conditions as in the private sector, which enables PROCOMER to recruit staff at private sector salaries; and self-financing by charging a levy from firms operating under the free trade zone regime³⁵ and a statutory US\$ 3 for customs declarations on imports and exports.³⁶

The PROCOMER annual budget is currently around US\$ 6 million, which has enabled it not only to finance its activities, but also to set up offices abroad.³⁷ To date, PROCOMER has independent trade offices in Canada, Chile, the United States, Mexico, Puerto Rico, the Dominican Republic and Trinidad and Tobago. PROCOMER has approximately 90 employees.

The creation of PROCOMER signalled the end of the National Investment Council, and coordination between the public and private sectors was institutionalized by means of the PROCOMER Board of Directors, whose members include the Minister of Foreign Trade (who chairs the board), three representatives from the Executive Branch, appointed by the Council of Government, four representatives of the chambers of industries, commerce, agriculture and exporters, in addition to one representative of small exporters, appointed by the Costa Rican Union of Chambers and Associations of Private Enterprise (UCCAEP). The composition of the Board of Directors therefore guarantees the existence of a forum for consultation, coordination and communication between the public and private sectors in the fields of foreign trade policy in general and export promotion policy in particular.³⁸

The creation of PROCOMER as a permanent, properly financed institution drew together many disparate activities that were formerly carried out by separate institutions,³⁹ without pursuing sectoral interests and whilst continuing to be an essentially technical institution.

31 CINDE continues to concentrate solely on activities to attract investment, but its scope of activities is much more limited than before because in 1995 the institution stopped receiving funding from USAID.

32 The Automated System of Free Trade Zone Customs Declarations (SADAZF) was designed to process import and export documentation for the free trade zone regime and is considered to be one of the best documentation processing systems in the hemisphere.

33 CNI members were the Treasury Minister, the Minister of Foreign Trade, the Minister of Economy, and representatives of the Chamber of Commerce, Chamber of Industries, Chamber of Agriculture and the Costa Rican Chamber of Exporters (CADEXCO).

34 Law No. 7,638 of November 1996 on the Creation of the Ministry of Foreign Trade and of the Foreign Trade Corporation of Costa Rica.

35 Twenty-five cents per square metre of industrial building, for firms in industrial parks under the free trade zone regime, and 50 cents per square metre of industrial building for firms not in industrial parks.

36 The said charges were established as the institution's sources of finance.

37 This financing scheme has also been used to finance activities to defend Costa Rica's trade interests abroad, by means of international trade negotiations. Indeed it is useful in meeting the Ministry of Foreign Trade's growing need for funding to conduct negotiations on free trade treaties.

38 Interestingly, most of the members of the Board of Directors, which is responsible for appointing the General Manager, are from the private sector.

39 Even so, some chambers have export promotion programmes, such as the EUROCENTRO programme of the Chamber of Industries, and other export promotion programmes by the Costa Rican Chamber of Exporters (CADEXCO).

Since its creation, PROCOMER has sought to ensure that its programmes evolve to match user needs ever more closely. To do so, it has progressed from its original concept of providing general services, such as: business information services; production and dissemination of country, market and product profiles; arranging participation in international trade fairs; organization of trade missions abroad, sectoral export promotion programmes and training courses. Although it continues to provide such services, in addition it offers supplementary services that it has identified as meeting the specific needs of firms.⁴⁰

In the process, PROCOMER has developed a business intelligence methodology consisting of providing services in three phases: (i) identification of the access conditions for certain markets for a product from a specific firm (transport logistics, distribution channels, customs duties, technical rules, and so on); (ii) identification of the export potential of the products (origin and total amount of imports, destination and total amount of exports, market size and segment, market trends, number of firms involved, characteristics of firms involved in the market, analysis of the sector's competitiveness, etc.); and (iii) product pre-sale activities, via its trade offices abroad (contact with potential importers, products or brands, opinions on products, degree of competitiveness, prices, critical success factors and penetration strategies). In addition PROCOMER schedules individual business appointments and arranges participation in trade missions abroad, participation in foreign buyers' missions held in Costa Rica, and participation in trade congresses dealing with subjects of interest to firms in each sector.⁴¹

Furthermore, PROCOMER administers the export incentive regimes, the VUCE, with its electronic documentation processing system, and the Automated System of Free Trade Zone Customs Declarations (SADAZF). SADAZF was designed to further speed up the customs operations of firms in free trade zones.

For evaluation purposes, PROCOMER has developed a methodology with indicators of the efficiency, quality and effectiveness of the services provided to exporters. Export promoters, organized by

sector, have to get together a portfolio of customers to which they intend to offer export services, based either on the export potential identified by the offices abroad or on requests from exporters for export services. For example, there are quantitative targets for the number of market surveys a promoter has to arrange per year. Depending on the product on offer (market access studies, potential market studies for the product, promotion of export goods, or trade promotion services), after the product has been supplied, the exporter is asked to complete a form with a series of questions to gauge customer satisfaction with the service received. In addition, after carrying out any activity (participation in international trade fairs, participation in trade missions, training programmes, etc.) there is an assessment of customer satisfaction with the product received. The indicators for efficiency, quality and effectiveness are drawn up on the basis of pre-defined targets.

(b) El Salvador

In 1974, El Salvador created the National Foreign Trade Council when it promulgated the Export Promotion Law, although only public sector representatives participated in the Council. This legislation also created the Salvadoran Foreign Trade Institute (ISCE), an entity responsible for implementing the foreign trade policy defined by the National Foreign Trade Council. In 1986, the Ministry of Foreign Trade (MICE) was created by the new Export Promotion Law, and the legislation creating the National Foreign Trade Council and the ISCE was repealed.⁴² In addition, the National Export and Investment Development Commission (CODEXI) was created, made up of a number of Government ministers and private sector representatives. In 1989, the legislation creating MICE was repealed and export promotion responsibilities were transferred to the Ministry of Economy, leading to the creation of the Directorate for Investment and Export Promotion and the Fiscal Incentives Department, together with a Free Trade Zones Directorate.

In 1990, a mixed public/private sector group drew up a national export strategy, with the technical assistance of USAID, proposing specific export

40 PROCOMER does not charge for its general services, although it does charge for the more specific services it provides to firms or groups of firms.

41 Yet another export promotion instrument is the exhibition of products in showcases at the International Airport, which are changed every three months. Pymexporta Centre, an integrated system of programmes and services for small and medium sized businesses, has been in operation for a number of years.

42 The MICE was created in 1980 by decree of the Revolutionary Governing Junta and, in practice, had already assumed the responsibilities of the ISCE and other institutions such as the National Sugar Institute (INAZUCAR) and the National Coffee Institute (INCAFE). For a detailed description of the institutional framework, see Arriagada (1992).

development measures. One of these measures was to formally create, by means of an Executive Decree, a National Commission for Investment and Export Promotion (CONAEXI). The Commission functioned satisfactorily in the years that followed, but at present no mechanism exists for coordination with the private sector. In 1983, USAID supported the creation of the Salvadoran Foundation for Economic and Social Development (FUSADES), to serve as a highly credible think tank and research centre. FUSADES also ran specific programmes for promoting agricultural production, as well as for promoting exports and investment via the Investment Promotion Programme (PRIDEX). PRIDEX contributed significantly to attracting foreign investment to El Salvador under the free trade zone regime. After 1997, USAID substantially reduced its aid to FUSADES.

Another point worth mentioning is that, in 1973, El Salvador's private sector created an Export Commission within the Salvadoran Manufacturers' Association (ASI). In 1985, this Commission became a chamber of entrepreneurs called the Exporters' Corporation of El Salvador (COEXPORT). In the 1990s, COEXPORT and FUSADES played a leading export promotion role in El Salvador. COEXPORT helped to arrange El Salvador's participation in trade fairs and missions, developed databases with business information for the general public and has been the country's most active informal export promotion organization.

Another private organization active in the field of export promotion is the Chamber of Commerce and Industry, via its Information Service on Foreign Markets (SIME) and the Programme of Support and Training for the Internationalization of Salvadoran Enterprises (AFIS). This programme is being renewed with cooperation aid from Spain. In the first AFIS phase, companies have to carry out a self-diagnosis, which leads to the implementation of an export plan in the second phase. Fifty firms from various sectors are already enrolled for the new edition of the programme, 25 of which will be selected to enter the second phase. Cooperation aid pays 80% and firms pay 20% of the cost of the technical assistance they receive.

From 1997 onwards, in particular after 1999, there was a resurgence of Government interest and the Government started boosting export promotion activities, this time to promote competitiveness. In 1996, the Ministry of Foreign Affairs became responsible for export promotion, arranging the participation of

Salvadoran firms in international trade fairs and providing a market prospection service abroad via its network of commercial attachés, although this is now experiencing budgetary problems.⁴³ Furthermore, the Ministry took over the task of FUSADES in attracting investment, and later this task was delegated to the PROESA programme, a public/private organization chaired by the Vice-President of the Republic. PROESA took over the tasks of promoting and attracting investment to El Salvador and its members are from both the public and private sectors.⁴⁴ Ongoing initiatives involve activities for developing production and adapting products for export; developing partnership arrangements among potential exporters; promotion (information, market surveys); export financing; strengthening small and medium-sized enterprises, and more. In combination, all these activities are designed to provide a comprehensive service to export firms and potential export firms.

The Ministry of Economy itself was responsible for promoting competitive production and exports in order to strengthen small and medium sized businesses. In 1996, the National Competitiveness Programme (PNCES) was created, with the financial support of the World Bank. Another element of the export promotion programme is competition intelligence. This is an organizational unit responsible for analysing specialized information to support decision-making and the design of public and private sector strategies to make exports more competitive. There is also the Export Promotion Fund (FOEX), a pilot project with a matching grants programme, aimed at small and medium-sized enterprises, both individually and in partnership. FOEX funds up to 50% of projects in the field of export market prospection, entry and consolidation, up to a maximum of US\$ 15,000 for individual firms and US\$ 20,000 for partnerships. The fund received initial financing of US\$ 500,000 in the first year, this year (the second) it has US\$ 400,000, and hopes to receive US\$ 700,000 from USAID next year.

In addition to PNCES activities in the export promotion field, CENTROPYME, a private non-profit foundation created by the Government in 1998 with European Union aid, acts as a sales and marketing department for SMEs in both the local and international markets. CENTROPYME has close links with the Government through the Multisectoral Investment Bank (BMI), an entity which commissions CENTROPYME to carry out marketing programmes for SMEs, this being

43 It is acknowledged that many commercial attachés lack technical training.

44 Executive decree No. 3 of February 2000.

its main source of financing (70%). It derives the rest of its financing from the commission paid by firms for successful business deals.⁴⁵ In order to improve the supply of products that SMEs wish to market with its assistance, CENTROPYME has set up agreements and negotiates the required technical or financial assistance with these institutions.⁴⁶ There are also plans to create an export promotion agency that would pool or coordinate all the current efforts of the various institutions to promote exports.⁴⁷

Lastly, El Salvador has a one-stop export bureau, called the Center for Export Procedures (CENTREX). CENTREX was created in 1987 by the Export Promotion Law. Since September 1989, CENTREX has been administered by the Central Reserve Bank. CENTREX operates the Electronic System for Foreign Trade (SICEX), which uses the Internet to link exporters, State institutions and foreign trade organizations with CENTREX in order to carry out export formalities. SICEX is considered to be the most flexible and functional system for export document processing in Central America.

(c) Guatemala

Guatemala's National Council for Export Promotion (CONAPEX) was created in 1986 to propose foreign trade policy, and the National Export Coordination Commission (CONACOEX) was created to implement it.⁴⁸ Both organizations are still up and running. Both include members from the public and private sectors and decisions are taken by consensus. Thanks to these cooperation organizations the legislation on export incentives was promulgated, the Centralized System for Exports (VUPE) was created and the Air Freight Warehouse Committee (COMBEX) was set up to properly organize the handling of imported and exported air freight. Also thanks to these organizations, a one-stop investment office (*Ventanilla Única de Inversiones*) was created for coordinating the public and private sectors.

The Union of Exporters of Non-Traditional Products, attached to the Chamber of Industry, was created in 1982 to implement export promotion policies, as the private sector's response to the closure of the national export promotion centre, GUATEXPRO, the same year. Later the Union became independent, with the financial support of USAID, and was renamed the Association of Producers of Non-Traditional Exports (AGEXPRONT). Its Technical Services Division was set up to cater to the needs of export firms. It does this through its Market Documentation and Information Center (CEDIME) and School of Foreign Trade which, with the involvement of export entrepreneurs as teachers, offers diplomas, courses, seminars, workshops, demonstration days and so on to teach participants the skills and expertise they need to assimilate the general export context, international marketing techniques, specific export procedures, negotiation techniques and other aspects. In addition, the Technical Services Division carries out a trade promotion programme to promote and coordinate activities to assist exporters by providing information on export prices, products and markets and arranging the participation of Guatemalan entrepreneurs in international trade fairs and trade missions abroad, as well as other promotion events in Guatemala.

The Division of Decentralized Services is responsible for two important activities delegated by the Guatemalan Government to AGEXPRONT. They are to run the Electronic Export Authorization Service (SEADDEX), which is part of Guatemala's Centralized Export System (VUPE), and to administer the special customs regimes.⁴⁹ Although Government officials implement them, the Government has delegated their administration to AGEXPRONT to guarantee their smooth operation and ensure that the export process is facilitated rather than hindered. AGEXPRONT provides the physical premises and the respective electronic systems have been set up with international cooperation aid, AGEXPRONT being committed to guaranteeing their maintenance and updating by charging exporters for services.

⁴⁵ The CENTROPYME annual budget is US\$ 230,000.

⁴⁶ In July of this year, a joint Government/USAID project was launched to promote exports from micro, small and medium sized businesses. The project, called EXPRO EL SALVADOR, aims to help El Salvador's micro, small and medium sized business to increase their exports to the United States and other markets (Nathan Associates, Inc., 2003).

⁴⁷ In 2000, the Salvadorian Government announced a national policy for micro and small businesses. It is CONAPYME, the National Policy for Micro and Small Businesses, October 2000. For a detailed description of policies for promoting productive sectors in Central America, see Alonso (2003b).

⁴⁸ Government Accord No. 367 of June 1986. The accord was amended in 1990 to include in the Council the Ministry of Transport and one more private sector representative.

⁴⁹ The VUPE was created in 1986 by Government Accord No. 790-86, centralizing all the public institutions concerned with export formalities into a single entity. In 1998, the Government issued a new Government Accord (No. 575-98), delegating the administrative management of VUPE to AGEXPRONT, and creating the Electronic Export Authorization Service.

Moreover, the Division implements an Integrated Agricultural and Environmental Protection Programme jointly with the Ministry of Agriculture, Livestock and Food, to ensure that agricultural products comply with the sanitary and phytosanitary regulations of the importing country. At the same time it promotes the application of agricultural and manufacturing practices that make rational use of natural resources to safeguard the environment. In addition, it promotes an Agricultural Research and Development Programme to support exporters and producers in carrying out agricultural research with immediate applications in order to improve the quality of agricultural exports.

Further programmes being carried out jointly with other public and private institutions include participation in the Council of International Transport Users of Guatemala (CUTRIGUA) and the Commercial Attaché Programme for Investment and Tourism (PACIT). The aim of CUTRIGUA is to defend the interests of five Guatemalan production sectors (manufacturing, trade, sugar, coffee and exporters) in dealings with international transport enterprises, advising the sectors on negotiating better transport conditions. The aim of the PACIT programme is to use the network of commercial attachés to promote Guatemalan products abroad. AGEXPRONT and other private entities, such as the Chamber of Industry, help to select the commercial attachés from the Guatemalan Foreign Office and to identify key countries and cities for promoting Guatemalan exports (Miami, Los Angeles, New York, Washington, D.C., Mexico, D.F., Tapachula, Germany, Canada and the Dominican Republic). The Programme started in 1999 and the coordinator of the commercial attachés in these foreign cities is based at AGEXPRONT and partially financed by AGEXPRONT. Even though the Programme is currently being carried out with support from the Inter-American Development Bank (IDB), the intention is that it should become consolidated and operate permanently.

An interesting aspect of AGEXPRONT is the way in which its institutional continuance has been guaranteed. Based on a philosophy of providing services to export firms, where export firms define the services they require from AGEXPRONT, the firms participating in the various programmes undertake to pay the costs for the services they receive. The services provided to exporters must meet their needs, and the fact that exporters are willing to pay for AGEXPRONT services shows that they value them.

Sixty percent of the AGEXPRONT annual budget of approximately US\$ 5 million is contributed by export

firms, whilst 40% comes from selling services and from international cooperation aid. In addition, AGEXPRONT has capital from past donations that is not generally used to fund the organization's operating costs.

AGEXPRONT has become a well-established institution that is acknowledged to represent the interests of exporters, which promotes, manages and facilitates Guatemalan exports. It has filled an institutional void in export promotion and provides a very interesting example of a private export promotion organization.⁵⁰ AGEXPRONT has around 200 employees and has been able to maintain a technical and apolitical stance whilst aiding the export sector, which has earned it recognition and support from both exporters and the Government. To evaluate its management, AGEXPRONT uses a "balanced scorecard" methodology for measuring different indicators every month.

(d) Honduras

In the 1980s, Honduras had an Export Promotion and Investment Bureau and a National Council for Export and Investment Promotion (CONAFEXI). In 1984 it created, with support from USAID, the Foundation for Investment and Development of Exports (FIDE), the initial mandate of which was to take over the task of promoting exports of manufactured goods. This reduced the importance of the Ministry of Economy's Export Promotion Bureau and of CONAFEXI. Apart from FIDE, USAID helped to create the Honduran Foundation for Agricultural Research (FHIA) and the Federation of Agro-industrial Producers and Exporters (FEPROEXAAH), also known as FPX, an entity responsible for promoting non-traditional agricultural exports. The law on the Temporary Import Regime (RIT) was also promulgated in the 1980s.

After two years of efforts to promote exports, the results did not prove satisfactory, especially in the manufacturing sector, mainly because agricultural and industrial products were not of export quality. Another problem was that production volumes could not keep up with demand in international markets. FIDE regeared its activities towards promoting export investment, particularly to attract foreign investment with strong job-creation potential. In the years that followed there were no major efforts to promote exports.

FIDE promoted the promulgation of legislation on industrial processing zones and free trade zones, and arranged visits with entrepreneurs and Honduran public officials to other countries in the region to examine

50 There is also an Export Promotion Bureau in the Ministry of Economy. However, due to its small budget, it plays only a limited role in export promotion.

infrastructure programmes and developments for attracting investment to free trade zones. In addition, FIDE developed a comprehensive strategy for developing northern Honduras, taking advantage of the proximity of Puerto Cortés and the international airport at San Pedro Sula to expand the textile maquila industry.⁵¹ In recent years, FIDE has resumed its activities in the field of export promotion, filling an institutional vacuum. It is also in response to pressure from companies and the Government, despite the fact that since 1993 FIDE has received no funding and has had to draw on its capital reserves.

In addition to the Business Information Centre (CIC), firms can be included in the Honduran Exporters Register (REXHON), which supplies information on Honduran exporters. Firms that join the register must pay an annual fee to appear on the FIDE web site and in the printed Exporters' Directory. This entitles them to receive regular information on trade opportunities and FIDE information and promotional publications, in addition to benefiting from promotion and marketing programmes. They are also invited to participate in assistance programmes and events or seminars. FIDE has also set up a network of Business Information and Development Centres (CIDES) and operates EUROCENTRO, with European Union support, to promote trade with firms from across the Atlantic. In recent years, FIDE implemented the Programme to support the Productive Sector and Small Business (ASPPE), with support from the IDB Multilateral Investment Fund (FOMIN). ASPPE aims to promote the competitiveness of small and medium sized businesses, and does not exclude activities to promote exports, such as identifying export markets and devising international marketing plans.⁵²

In line with the current trend in all Central American countries and Mexico, Honduras has also been working on the creation of a National Competitiveness Programme (PNC), with the support of the World Bank, IDB and Canadian and Japanese cooperation agencies. In 2002 it created the National Competitiveness Commission (CNC), coordinated by the Vice-Presidency of the Republic, of which FIDE was appointed the Technical Secretariat.⁵³ Given the scarcity of export promotion activities in Honduras, and prompted by the

conviction that competitiveness must be developed in order to promote exports, the PNC has raised high expectations, since its aims are precisely to overcome the main weaknesses standing in the way of Honduras's productive development and exports.

In addition, the Centre for Export Procedures (CENTREX) had already been created in 1987 at the Ministry of Trade and Industry (SIC) in order to centralize the processing of export formalities in a single organization, together with all the respective authorizations (certificates of origin, phytosanitary certificates, animal health certificates, etc.).⁵⁴ CENTREX is manned by public officials from the Customs Administration, the Ministry of Agriculture, the Ministry of Health, the Ministry of Finance, the Central Bank and the Ministry of Trade and Industry. In addition, CENTREX provides advice on the tariff classification of export products and on the details of preferential access schemes. However, it does not have the financial resources to undertake the electronic processing of export documentation.

(e) Nicaragua

It was not until the start of the last decade that the Export Promotion Bureau was created at the Ministry of Economy and Development (MEDE) and new legislation was put forward on export promotion and free trade zones in Nicaragua. The law on export promotion created the National Export Promotion Commission (CNPE), a mixed public/private entity governing the system to manage and administer the export promotion regime. The CNPE is responsible for administering export incentives and boosting coordination among institutions and with the private sector in order to develop and implement the export promotion policy.⁵⁵ In 1994, the Government created the Centre for Export Procedures (CENTREX) and attached it to the CNPE, redefining the responsibilities of CNPE and confining them more clearly to administering the Temporary Admission for Inward Processing Regime, which was promulgated in 2001.⁵⁶

In addition, when the Law on Free Trade Zones was promulgated, it created the Free Trade Zone Corporation,

51 The average annual wage of workers in the maquila industry exceeds US\$ 2,500, compared with the country's average annual per capita income of only around US\$ 600.

52 The ASPPE programme came to an end in August this year.

53 Executive decree No. PCM-004-2002 of April 2002.

54 Decree law 180-87 of December 1987.

55 Decree law 37-91 of August 1991.

56 Decree No. 30-94 of June 1994. Unlike its counterparts in most other Central American countries, CENTREX lacks resources for development, especially computing resources to enable it to provide services for the electronic processing of export documentation. Law No. 386 of April 2001.

whose mandate is to administer State-owned free trade zones.⁵⁷ It also created the National Commission for Free Trade Zones to govern Nicaragua's free trade zone regime, to which interested companies must apply to join the regime. The Law on the Promotion of Foreign Investment was also promulgated, giving foreign investors the same legal rights and means for exercising those rights as Nicaraguan investors. Foreign investors are also free to buy and sell foreign currency under the same conditions as Nicaraguan investors, and need only register their investment with the Ministry of Development, Trade and Industry (MIFIC).⁵⁸

In 1992, MEDE and the Superior Council for Private Enterprise (COSEP) created the Export and Investment Centre (CEI), which was intended to become the country's key agency for promoting exports and investment. The general objective of the CEI was to help to increase investment and joint investment, as well as to broaden, diversify and consolidate the export base and export markets by providing services such as market intelligence, market surveys, answering enquiries, assisting with export management, formalities and logistics, networking producers with potential buyers and holding training seminars. In 1996, the CEI acquired corporate status when it became a private non-profit organization.⁵⁹ In 2000, the project was extended with financing from the same international organizations that financed it previously. This was an exit strategy by those organizations to guarantee the operation of a so-called basic CEI while the Government gradually took over financing the CEI, with supplementary private-sector revenue from donations and selling CEI services.⁶⁰ Although the Government still supports the CEI politically, it was unable to meet its commitment of co-financing the institution. Furthermore, it was not possible to obtain the amount of private sector funding required to guarantee institutional continuity.

CEI never had much impact on the implementation of export promotion policies, due to its scant resources. At present the Centre is facing an uncertain future. First, the project for financial aid from international

organizations ended in March 2003, meaning that the CEI no longer has international cooperation funding. Second, the Government is assessing whether the CEI should continue to promote Nicaraguan exports and investment, or whether another project should be instituted involving the creation of a new organization.

Responsibility for investment promotion has been transferred from CEI to the ProNicaragua organization, which heads the investment promotion programme administered by the Presidency of the Republic. Furthermore, an entire export promotion component is being envisaged within the IDB Project on Strengthening Foreign Trade Management, which is being implemented in Nicaragua. The conceptual and operational framework for Nicaragua's future export promotion activities is in the process of being defined.

Incentive schemes for export promotion

(a) Costa Rica

Costa Rica's export promotion policy started with the promulgation of the Export Promotion Law in 1972, which also created the temporary import regime, authorizing the introduction of certain goods into the country for a period of no more than 12 months, to allow them to be incorporated into export goods produced, manufactured, or assembled in Costa Rica.⁶¹ The law was reformed in 1976, and in 1981 the Law on Export Processing Zones and Industrial Parks was promulgated.⁶² In 1990, the Law was repealed and replaced by the Law on the Free Trade Zone Regime of Costa Rica.⁶³ The new Law enables a private firm to develop and operate industrial parks under the free trade zone regime in any part of the country, to enable processing companies and export services to be set up in industrial parks, including international marketing outside the Central American market. Under certain circumstances, the new legislation also allows firms outside an industrial park to join the free trade zone regime.

57 The Corporation administers only the Las Mercedes Free Trade Zone, close to the international airport, Nicaragua's largest free trade zone.

58 Law No. 344 of March 2002.

59 Initially CEI received technical and financial aid in part from USAID, and later mainly from donations from the United Nations Development Programme (UNDP) and the Swedish International Development Agency (SIDA). It also earned revenues from selling services.

60 At present CEI has a staff of 15, of whom nine are professionals and five are support staff. The budget assigned to CEI was rather small –US\$ 2.3 million for the three years of the project, with international organizations contributing around 50% and the Government and private sector the remainder.

61 Law No. 5,162 of December 1972. In the case of machinery, the maximum permitted period is 10 years.

62 Laws No. 5,909 of June 1976 and No. 6,695 of December 1981.

63 Law No. 7,210 of December 1990.

The Law on the Free Trade Zone Regime has been amended several times in recent years. A major amendment was made in 1998 wherein, if a firm reinvests 25% of its original investment within its first four years of operation, it receives an income tax exemption of 75% after the eighth year of enjoying the benefits. As from the twelfth year of operation it will receive a 50% income tax exemption for four years.⁶⁴ Another major amendment was made regarding the minimum amount of investment for firms established under the regime of free trade zones outside industrial parks. For such firms, the minimum amount of investment was increased from US\$ 150,000 to US\$ 2 million.⁶⁵ Another amendment was to abolish income tax exemptions for new companies developing industrial parks.⁶⁶

The promulgation of the Caribbean Basin Initiative (CBI) in early 1984 and the urgent need to create export promotion mechanisms led to the introduction of new export incentives as part of the Law on the Financial Balance of the Public Sector.⁶⁷ This new legislation created the Export Contract, a mechanism designed to guarantee tax incentives to firms in exchange for export commitments. The Export Contract also guaranteed that these incentives would not be altered by any future legislation that might change the rules of the game agreed under this legislation.⁶⁸ In addition, the new legislation created the Temporary Admission Regime, which allowed goods destined for export to enter the domestic customs territory, entirely duty free, after being subjected to processes of repair, reconstruction, mounting, assembly, incorporation into more technologically and functionally complex assemblies, or for use in equipment for transport or other purposes, including samples, models, patterns and similar articles for demonstrative research purposes or for exhibition at trade fairs, equipment and spare parts for production, and so on.⁶⁹

The incentives included in the Export Contract and temporary admission regimes have been changed repeatedly in recent years, basically in response to growing criticism of the fiscal cost of such incentives to the State, especially the income tax and tax credit certificate incentives.⁷⁰

The income tax exemption for firms under the Export Contract regime was abolished in 1992. However, it was abolished for new export contracts only, allowing firms with a contract predating the promulgation of the new law to remain exempt, in compliance with the commitment made in the Export Contract.⁷¹ In 1999, all the legislation on the Export Contract and the associated incentives to firms expired, meaning that firms that had come under the Export Contract would no longer benefit from any sort of fiscal incentives. However, firms were permitted to opt into the Inward Processing Regime or the Duty Drawback Regime, created by the General Customs Law.⁷² These two regimes basically grant the same incentives as the Temporary Admission Regime described above, with the exception of income tax exemptions.

However, once the Export Contract expired, firms started to join the regime of free trade zones outside an industrial park, since the application requirements specified only an investment of US\$ 150,000 and there was nothing in the law to stop a firm applying to join the free trade zone regime after benefiting from Export Contract incentives. This meant that many firms did in fact join the free trade zone regime after enjoying the benefits of the Export Contract. The trend for firms to change regimes diminished when the requirements for investment outside industrial parks were modified in 1998, raising the minimum investment to US\$ 2 million, as mentioned above.⁷³

64 Law No. 7,830 of October 1998.

65 This amendment was made to remedy the fact that firms that previously came under the export contract regime were opting to apply for the free trade zone regime when the export contract expired, which extended the period during which they enjoyed income tax exemption.

66 Law on Exemptions 7,293 of April 1992.

67 Chapter III of Law No. 6,995 of February 1984.

68 Despite the fact that the original aim was to grant the incentives on the basis of firms' export commitments, in practice they were granted unconditionally, based on export volumes.

69 Under the regime, raw materials are permitted to remain in Costa Rica for six months, extendible to one year, while machinery and equipment are allowed to remain longer.

70 Income Tax Law No. 7,092 of April 1988 and Law on Exemptions No. 7,293 of March 1992.

71 Law on Exemptions No. 7,293 of March 1992.

72 Law No. 7,557 of November 1995.

73 Currently the Government is under pressure from firms in free trade zones to maintain the incentive of income tax exemption at least until 2007, when it is due to be dismantled in accordance with existing international agreements. Since this is not legally permitted, firms tend to change their registered name and invest the minimum required but since they are still the same firms, they continue to benefit from the incentive.

(b) El Salvador

The first law to deal specifically with export promotion in El Salvador was the Export Promotion Law of 1970.⁷⁴ The Law provided for a series of fiscal incentives (import tax and income tax exemptions) to be granted to production and marketing firms exporting non-traditional products outside Central America.⁷⁵ A second Export Promotion Law was promulgated in 1974.⁷⁶ An Export Recovery Law was promulgated in 1996, completely repealing the 1986 legislation. It underwent a number of amendments over the decade, the latest of which was in 1997.⁷⁷

In addition to the Export Recovery Law, El Salvador's first law on free trade zones was promulgated in 1990.⁷⁸ It aimed to create the possibility for domestic and foreign firms producing export-related goods and services to set up in industrial parks under an exception regime. In addition, it aimed to allow such firms setting up in bonded areas outside an industrial park to obtain the same benefits.⁷⁹ A new law on free trade zones was promulgated in 1998, called the Law on Industrial and Marketing Free Trade Zones, to update the existing legislation.⁸⁰

(c) Guatemala

Two export incentive regimes are in force in Guatemala, both created in 1989. They are the Law on Free Trade Zones and the Export Promotion and Maquila Law, which created four different regimes for the export of non-traditional products: (i) temporary admission; (ii) duty drawback; (iii) duty-free inventory restocking, and (iv) export.⁸¹

The temporary admission regime "... allows the admission onto the domestic customs territory, free from customs duties, import taxes and value-added tax (VAT), of goods destined for export or re-export within one year

of being processed or assembled."⁸² Firms that come under the Temporary Admission Regime are categorized as either *maquiladoras* or export companies. *Maquiladoras* are firms whose production contains at least 51% of foreign goods destined for re-export outside Central America. Export companies are firms whose production contains less than 51% of foreign goods destined for export outside Central America.

The duty drawback regime "...once export or re-export has taken place, allows the reimbursement of customs duties, import taxes and value-added tax (VAT) paid as a deposit on imported goods, products contained in them or products consumed while processing them," with no restriction on the value-added generated.⁸³

The duty-free inventory restocking regime "... allows imports to be made, free from customs duties and import taxes, for a value equivalent to the customs duties and import taxes paid by indirect exporters. This duty exemption is used to restock raw materials, semi-finished goods, intermediate goods, materials, containers, packaging and labels associated directly with their production process."⁸⁴ This regime is designed to promote the incorporation of domestic goods into products that export firms export outright.

The total added component export regime applies to "...firms that use only national or nationalized goods in the process of manufacturing or assembling export products."⁸⁵

The Law on Free Trade Zones provides incentives for firms established on physically circumscribed areas, overseen by the customs authority, which produce or market goods or provide services related to international trade.⁸⁶ The Law's incentives also apply to public or private enterprises that invest, organize, develop or administer free trade zones.⁸⁷

74 Legislative Decree 148 of December 1970.

75 For a detailed description of the legislation on export incentives up to 1990, see Arriagada (1992).

76 Legislative Decree 81 of September 1974.

77 Legislative Decree 460 of March 1990.

78 Law on the Regime of Free Trade Zones and Bonded Areas, Legislative Decree 461 of March 1990.

79 The bonded areas mentioned in the law are areas of the national territory subject to special customs treatment, consisting of waivers of taxes and duties on imported goods to be re-exported after undergoing processing, manufacture or repair, but which receive the same tax incentives as firms under the free trade zone regime.

80 Legislative Decree 405 of September 1998. In addition, the law provides for Inward Processing Warehouses, formerly called bonded warehouses, which were created for firms which, for technical reasons, are unable to set up in a free trade zone. Inward processing warehouses enjoy the same benefits as free trade zones.

81 Legislative decrees 65-89 of November 1989 and 29-89 of June 1989, *Diario de Centroamérica*, Guatemala, 19 June 1989.

82 Article 5 of Legislative Decree 29-89.

83 Article 5 of Legislative Decree 29-89.

84 Article 5 of Legislative Decree 29-89.

85 Article 5 of Legislative Decree 29-89.

86 Firms are authorized to sell a maximum of 20% of their production on the national territory, with such sales being considered as imports onto the national territory subject to the full range of import taxes in force in Guatemala, as if they were imports from outside Central America.

87 Enterprises that administer free trade zones are those that apply for admission to the free trade zone regime for firms wishing to set up in the free trade zone.

(d) Honduras

Honduras made its first move to promote exports in 1976, when it promulgated the Law establishing the Puerto Cortés Free Trade Zone (ZOLI).⁸⁸ This legislation was designed to create jobs in a depressed area of the country, although its objectives also included exports. In the years that followed, the tax incentives granted to ZOLI were gradually extended to other areas of the country, where individual firms could opt to join the regime. In 1998, with the promulgation of the Law on Promoting Production and Competitiveness and Supporting Human Development, the ZOLI law was extended to cover free trade zones nationwide, allowing firms to set up anywhere in Honduras that was outside an industrial park.⁸⁹

In 1984, the Temporary Import Regime (RIT) was promulgated to create an additional mechanism for attracting investment, fostering employment and boosting exports to markets outside Central America.⁹⁰ RIT was amended in 1986, improving its implementation and abolishing export taxes.⁹¹ It was further amended in 1994, abolishing income tax exemptions, and also in 1996, allowing firms to sell goods imported duty-free into the country subject to only a 1% tax on the CIF value of the imports.⁹² The latest amendment was in 1997, to allow firms to sell to the Central American market.⁹³

Firms that export 100% of their production are entitled to import, free of any import tax or surcharge, raw materials, intermediate goods and capital goods directly related to the productive process, under the following regimes: subcontracting (where firms subcontract to other firms); complementation (where firms supply inputs to export firms); and transfer (where firms sell inputs or intermediate goods or end products to other firms under the same regime).

In 1987, the Law establishing Industrial Export Processing Zones (ZIP) was promulgated to foster the

development of industrial parks and wholly exporting firms that set up business in industrial parks under a specific regime for changing production patterns, in exchange for various tax incentives.⁹⁴ The Export Promotion Law was also promulgated in 1987, creating the Export Promotion Certificate (CEFEX) for exports of non-traditional products to markets outside Central America.⁹⁵ The Certificate was granted for up to a maximum of 15% on the FOB value of exports, in line with the value-added to the country, under a classification system defined by the Export Promotion Commission (COFEX). COFEX was created by the same law, with members drawn from both the public and private sectors. In addition, the Export Promotion Law laid down export duty exemptions. The Law was repealed a few years after it was promulgated.⁹⁶ Following the 1998 amendment to the Law establishing the Puerto Cortés Free Trade Zone, granting income tax exemptions for an indefinite period, the other export promotion regimes have declined in importance.

(e) Nicaragua

In 1990, Nicaragua resumed its export promotion policy, albeit within a context of focusing priorities on bringing peace to the country and reducing the high inflation rate. Indeed, whereas total exports from Nicaragua peaked in 1978 at US\$ 646 million, they declined substantially until 1992, when they totalled only US\$ 223.1 million, rising again after 1993.⁹⁷ Nicaragua's export promotion policy began with the promulgation of the Export Promotion Law and the Law on Industrial Free Zones for Export, both in the second half of 1991.⁹⁸

The aim of the Export Promotion Law is to promote exports of traditional and non-traditional products to markets outside Central America, granting exemptions from import taxes and duties, in line with the percentage of production destined for markets outside Central America.⁹⁹

88 Legislative Decree 356 of June 1976.

89 Legislative Decree 131-98 of April 1998.

90 Legislative Decree 37 of December 1984.

91 Legislative Decree 190-86 of October 1986.

92 Legislative decrees 135-94 and 175-96.

93 Legislative Decree 39-97.

94 Legislative Decree 37-87 of April 1987.

95 Legislative Decree 61-87 of 1987. Non-traditional exports include all exports of goods other than bananas, coffee, meat, cotton, sugar, tobacco and wood, which are considered to be traditional export products.

96 The Export Promotion Law was repealed by Decree 18-90 in 1990.

97 Both Guatemala and El Salvador benefited from the Caribbean Basin Initiative as soon as it was promulgated in 1984, whereas Nicaragua did not benefit from the Initiative in the 1980s and, moreover, suffered a trade and economic embargo by the United States.

98 Decree laws 37-91 of August 1991 and 46-91 of November 1991. This Law repealed that of 1976.

99 Export taxes were abolished prior to the promulgation of this Law.

In addition, a partial income tax exemption was introduced for a period of six years for non-traditional exports, amounting to 80% in 1992 and 1993, and dropping an annual five percentage points each subsequent year to 60% in 1997. Furthermore, the law provided for a Tax Incentive Certificate (CBT) to be granted, equivalent to 15% of the FOB value of exports until 1994, dropping to 10% in 1995 and 1996, and finally to 5% in 1997, when all these incentives expired.

The aim of the Law on Industrial Processing Free Zones is to promote domestic and foreign investment and export of goods and services under a separate tax and customs regime, within a physically circumscribed zone established anywhere in the country. The Law allows for industrial zones to be developed and administered by private or State-run companies.

When the Export Promotion Law expired in 1997, Nicaraguan companies not under the free trade zone regime were at a disadvantage compared with export firms in neighbouring countries, even though import tax exemptions and exemptions from the general sales tax (IGV) were still in force. It was not until 2001 that a new export promotion law was promulgated, entitled Law on Temporary Admission for Inward Processing and Export Facilitation. The objective of the new Law is to permit the entry of goods onto the domestic customs territory and their purchase locally, either totally exempt from taxes or duties or by subsequently refunding the taxes or duties, where such goods undergo processing, manufacture, repair or other procedures.¹⁰⁰

3. Caribbean countries¹⁰¹

Institutional framework for promoting exports

In the Caribbean economies, the State plays a leading role in defining export promotion and development policies. The expenditure of Caribbean governments is almost double that of other small economies, reaching around 30% of GDP. The public sector is also the largest employer, generating nearly 30% of total jobs. The governments also define economic policy, since the monetary authorities are under their jurisdiction. In other words, the governments are the main actors and architects of export promotion and development policies, owing to the historical evolution of the CARICOM economies and the underdeveloped state of legislation, export promotion and development institutions and the Caribbean private sector. The liberalization movement and ideology of the last decade has not substantially affected the importance of government activities in the Caribbean economies, principally in the service sector. In this sense, the institutional structure of the CARICOM economies differs distinctly from those of Latin America.

However, the importance of the government in the economic life of Caribbean countries contrasts with the underdevelopment of existing regulations and institutions. The lack of competition laws, which enhance the transparency of government procurement, has

weakened the response capacity and initiative of private agents. Also, as already stated, the small size of Caribbean economies is a constraint on the expansion and diversification of private sector activities.

Incentive schemes for export promotion

To a large extent Caribbean export promotion policies have been shaped by the specific features of small economies. Export promotion objectives focus first on guaranteeing access for goods and services exported to Caribbean markets and outside CARICOM, and secondly on promoting export activities capable of attracting direct foreign investment and foreign exchange earnings. Export promotion instruments are steered by governments and include fiscal incentives, public investment, regulations, financial assistance and trade diplomacy. However, at the intraregional level, the principal promotion instrument is the Common External Tariff (CET). The CARICOM economies are still endeavouring to capture new niche markets, and have lost market share in the United States and Europe, in spite of preferential access conditions. By contrast, the intraregional market has expanded significantly, under a protection regime that includes tariffs, non-tariff barriers and rules of origin.

Fiscal incentives are mostly intended to develop non-traditional exports, including manufacturing and

100 Law No. 382 of February 2001.

101 This section is based on Perez, 2003.

services sector exports. The principal legislation dates back to the Fiscal Incentives Act and the Hotel Aids or Ordinance Act of 1970. A range of tariff and duty exemptions are also granted under the Conditional Duty Exemptions of the Common External Tariff, while others are extended by governments on a case by case basis. In some cases (such as that of Dominica and Saint Kitts and Nevis), these exemptions are complemented with the extension of residential rights to attract direct foreign investment.

Countries of the Organization of Eastern Caribbean States (OECS)

In the case of Antigua and Barbuda, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines, fiscal legislation grants tax exemptions according to definite criteria, including local content and the export orientation of production. Fiscal incentives also allow the duty-free importation of machinery, spare parts and raw and packaging materials.

Dominica has also approved the Aid to Development Enterprises Act, which grants customs duty exemptions for raw materials and inputs, materials, tools, plant, machinery and building materials which are used in the production of manufactures; the construction, erection and alteration of factories; fitting out hotels and product packaging, amongst other production and manufacturing activities. The Hotels Aid Act and Income Tax Act No. 37 of 1982 gave approved hotel and resort developments a tax holiday of up to 20 years. Companies that are registered under the International Business Companies Act are exempt from the payment of taxes, duties and fiscal charges for a period of 20 years from their date of incorporation (WTO, 2001a). In general, approved projects are granted tax exemptions at source on dividends, interest payments and other relevant types of external payments in Antigua and Barbuda and Dominica.¹⁰² For Grenada, the Hotels Aid Act grants a 10-year exemption from profit tax to hotels, apartments and guest houses. It also provides exemptions from customs duties on articles of hotel equipment, service vehicles, materials for construction and repair, renovation and extensions to hotel properties.

Between 1996 and 2000, firms in the tourism sector accounted for 53% of all firms receiving fiscal incentives, followed by the manufacturing sector with 45% (see table III.1).

Grenada, Saint Lucia and Saint Vincent and the Grenadines have broadened tax concessions still further.

Table III.1
**DOMINICA: DISTRIBUTION OF FISCAL INCENTIVES
BY ECONOMIC SECTOR, 1996-2000**

Beneficiary	Percentage of the total
Manufacturing sector	45
Tourism sector	53
Other services	22

Source: World Trade Organization (WTO), "Trade Policy Review - Dominica - Report by the Secretariat" (WT/TPR/S/85/DMA), Geneva, 7 May 2001.

Grenada has provided tax relief on the export profits made on external sales of approved manufactured products. The authorities also permit firms that do not qualify for the benefits of the Fiscal Incentives Act, and whose production has a local value of at least 40%, to obtain import duty concessions as provided in the List of Conditional Duty Exemptions of the CARICOM Common External Tariff. Saint Lucia has developed a similar set of provisions. In 1999-2000 the Saint Lucian authorities announced further stimulus by exempting manufacturers from the payment of customs service charges and the introduction in the next fiscal year of a consumption tax rebate. Lastly, in Saint Lucia, primary producing agricultural enterprises are exempt from income tax.

(a) Guyana

As in the case of the Member States of the Organization of Eastern Caribbean States (OECS), Guyana uses a broad range of fiscal incentives to develop its export potential. Fiscal incentives in Guyana are focused on investment and capital, which is an indirect way of promoting exports. The incentives can be general, special or targeted at selected sectors of the economy. The general incentives include exemption from customs duty and consumption tax on equipment, machinery and raw materials. They also include the unlimited carry over of losses from previous years and accelerated depreciation of plants and equipment, as well as full and unrestricted repatriation of capital.

The special incentives are export subsidies, and consist of exempting from tax a percentage of profits from the export of non-traditional products outside CARICOM. This percentage is linked to export performance, as shown in table III.2.

In addition, Guyanese legislation provides incentives to the productive sectors. The agricultural sector benefits from exemptions from customs duty and

¹⁰² In Dominica, the Hotels Aid Act was promulgated in 1984. In Saint Lucia, the Tourism Incentives Act was promulgated in 1996.

Table III.2
**SPECIAL INCENTIVES FOR FIRMS EXPORTING
 NON-TRADITIONAL PRODUCTS, 2003**

Export sales as a percentage of total sales	Percentage of profits excluded from income tax
>10%	0%
10%-20%	25%
21%-30%	35%
31%-40%	45%
41%-50%	55%
51%-60%	65%
>60%	75%

Source: Guyana Office for Investment, *Go-Invest* [on line], Georgetown (<http://www.goinvest.gov.gy/>), 2003.

consumption tax on equipment, packaging material for fruit and vegetable exports, importation of agro-chemicals and agro-processing equipment. Tax rebates are also granted for non-traditional exports and the improvement of land for agricultural purposes.

The manufacturing sector receives exemptions from customs duty and consumption tax, for packaging equipment and materials, vehicles imported for use in manufacturing, and plant equipment and raw materials. Manufacturers can also discount capital expenditure from tax. The forestry sector receives similar incentives to those extended to the manufacturing sector, and exemptions from customs duty and consumption tax on milling equipment, logging, land development equipment and woodworking equipment, and outboard engines.

The mining sector is provided with exemptions from customs duties and consumption tax on all equipment, processing material and spare parts used in mining, outboard engines, and the importation of vehicles for the production process. It also benefits from a preferential consumption tax of 10% on aviation fuel. According to legislation, tax incentives will be maintained for a period of 15 years. In addition, royalties paid on bauxite are lower than the rates for precious metals and minerals. Special additional concessions are extended to medium- and small-scale mining (lower royalties, lower rates for income taxes and exemptions from customs duty and consumption tax for vehicles and machinery). Petroleum exports enjoy similar fiscal incentives.

The tourism sector enjoys customs duty exemptions and consumption tax concessions for basic furnishings, plant equipment and building materials. These concessions are granted once every five years and are limited to 50% of the value of the investment.

The fisheries sector receives the general incentives and is exempted from customs duty and consumption

tax on trawlers and fishing vessels, equipment, freezers and other refrigeration equipment. The housing sector also benefits from the general incentives and tax concessions on the construction of new houses. It is exempt from customs duty and consumption tax on selected building materials.

The information and communications technology sector benefits from the general incentives, a tax holiday of 10 years, and an exemption from the consumption tax and customs duty on building materials for construction. It also receives assistance to secure grants to train personnel in information technology. Finally, the textile sector is also entitled to the package of general incentives plus a tax holiday for up to five years, exemption from customs duty and consumption tax on raw materials for the manufacture of garments and textiles, training assistance where necessary and an exemption from consumption tax in the sale of selected products manufactured in Guyana (including curtains, towels, table cloths and rugs).

(b) Barbados

A third example of broad application of fiscal incentives is Barbados. The Government of Barbados offers fiscal incentives to the manufacturing and services sectors. Manufacturing firms which produce an “approved product” or belong to the category of “approved firms” can receive special incentives that are detailed in the 1974 Fiscal Incentives Act.

Tax holidays are given to firms according to the percentage of local value-added in their manufactured product. When the local value exceeds 50%, approved firms receive a tax holiday equivalent to 15 years. When the local value-added represents between 25% and 50% of the total, the tax holiday is 13 years. When it accounts for between 10% and 25%, the holiday is 11 years. After the expiration of the tax holiday, firms can receive tax rebates contingent upon their export potential. Firms can also carry forward their losses. Highly capital intensive firms with an investment of at least US\$ 25 million enjoy a 10-year tax holiday. Lastly, manufacturing firms exporting outside the CARICOM region enjoy the same benefits as an International Business Company (see table III.3).

The financial services sector is coordinated by the Central Bank. A number of incentives are in place for international business, including lower corporate tax rates and tax exemptions. In addition, the legislation states that 35% of the remuneration of qualified personnel of international business institutions can be paid free of income tax and in any foreign currency.

Table III.3
BARBADOS: TAX INCENTIVES IN THE FINANCIAL SECTOR, 2002

	Tax-exempt insurance companies	International business company	Offshore banks	Societies with restricted liabilities
Tax rate	0	2.5%-1%	2.5%-1%	2.5%-1%
Withholding tax				
Dividends	No	No	No	No
Interest	No	No	No	No
Royalties	Yes	No	No	No
License required	Yes	Yes	Yes	Yes
Exemption from exchange controls	Yes	Yes	Yes	Yes
Exemption from import duties	No	Yes	Yes	Yes
Requirement to file financial statements with regulatory agency	Yes	Yes	Yes	No
Financial statements open to public scrutiny	No	No	No	No
Exemptions from taxes and duties on sale of securities and assets	Yes	Yes	Yes	No

Source: Esteban Pérez, *Export Promotion Policies in CARICOM Caribbean Economies* (LC/CAR/G.757), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), November, 2003.

Note: The corporation income tax is 40%.
The personal income tax ranges from 10% to 40%.
The withholding tax ranges from 12.5% to 40%.
The value-added tax is 15%.
The hotel accommodation tax is 7.5%.

The fiscal and tax incentives in the case of tourism were originally extended through the Hotel Aids Act of 1967, which was replaced by the Tourism Development Act of 2002. The underlying principle of the tourism act is that firms in the tourism sector must be supported throughout their life cycle and not only at the start stage. The most important features of the Tourism Development Act are as follows: (i) a hotel is defined as any building containing not less than 10 bedrooms, which is valued at US\$ 87,000; (ii) hotels are allowed a 150% write-off against income tax on interest payments associated with the refurbishment of an existing establishment, the construction a new hotel with conference facilities having at least 250 rooms, and the consolidation of hotels coming under group administration; (iii) hotel owners are given 15 years to write off capital expenditures against income accruing to the business for hotel properties worth more than US\$ 1 million. An additional year is allowed up to a maximum of 20 years for every US\$ 10 million above US\$ 100 million; (iv) tax-free payments of dividends to the owners of a tourism product; (v) 150% tax write-off on expenditure on tourism research, enhancing tourism capacity, organization of trade fairs, development of linkages with other sectors, development of community tourism

programmes and development of computer software to measure the performance of the tourism industry. Similar tax concessions are available to restaurants, villas, attractions, sports and recreational facilities.¹⁰³

Public investment

In all CARICOM countries, export promotion efforts and instruments are complemented by public expenditure in the guise of the public sector investment programme. The public investment programme is an outline of the major projects the Government plans to undertake over the medium term. It is geared to building the required infrastructure for exports, including buildings, airport facilities and transport and other communications. It also seeks to reduce transport costs. An example of the latter is provided by the Shipping Incentives Act of Barbados and its amendments, which grants and extends concessions to shipping companies and vessels (Barbados, 2002).

Public sector investment programmes are financed mostly from official foreign aid and loans. In some cases they fill the gap left by a private sector that is too small and finds it unprofitable to undertake major infrastructure projects. An illustrative example is that of

103 Jamaica is another example, since its manufacturing exports (textile and apparel) have benefited from a number of incentives. The Export Industry Encouragement Act grants income tax exemptions and tariff concessions for ten years. The Modernization of Industry act grants relief to manufacturing companies from the General Consumption Tax on capital goods and equipment.

Antigua and Barbuda. The country's Medium Term Economic Strategy (2000-2004) states that the Government has always played a critical role in the development of the tourism industry, in particular by facilitation of foreign investment, marketing and infrastructure development. The Government's role in the development of the industry includes the construction of hotel rooms to ensure international air service from the larger air carriers; the expansion and maintenance of the country's one international airport; and the

provision of all infrastructure services necessary to support the industry. Given the small size of the economy it is expected that this role will continue in the medium to long term.

Table III.4 shows the distribution of public sector investment programmes by economic sector and subsector in Saint Vincent and the Grenadines for the period 2002-2004. More than half of the total is earmarked for economic infrastructure, chiefly energy and transport and communications, while about a third is for social services.

Table III.4
SECTORAL DISTRIBUTION OF PUBLIC SECTOR INVESTMENT PROGRAMMES, 2002-2004
(In percentages)

Sector	2002	2003	2004
Economic infrastructure	51.53	58.97	53.05
Agriculture	14.31	13.29	16.64
Energy	35.29	42.64	18.73
Transport and communications	32.28	32.77	49.32
Tourism	1.94	1.70	3.80
Other economic sectors	16.19	9.59	11.51
Social services	33.10	25.52	26.00
Education	43.71	35.01	35.09
Health	11.00	11.70	18.87
Commercial services	45.29	53.29	46.05
Public administration	9.74	9.44	7.61

Source: Government of Saint Vincent and the Grenadines, *Medium Term Economic Strategy 2002-2004*.

However, government spending can be a weak instrument due mainly to implementation and monitoring problems. The rate of implementation of public sector investment programmes is around 25% in many of the Caribbean countries under study. In addition, public expenditures are often used as an adjustment leverage to keep expenditure under control and guarantee compliance with targeted macroeconomic criteria, thereby depriving public sector investment programmes of their developmental role (Jamaica, Ministry of Finance and Planning, 2003).

Export financing schemes

As is the case with most export promotion instruments, financing schemes are government-led. Examples are provided in the cases of Barbados and Jamaica. In the former case, the Central Bank of Barbados administers programmes for export financing, insurance and export guarantee. It also provides insurance against payment default by foreign importers and against commercial and political risks.

The manufacturing sector also benefits from the assistance provided by the Barbados Investment and Development Corporation, which facilitates non-sugar

exports. These include rum, electronic components, building materials, food products, insecticides, plastic bags and plastic bottles, paper products, cement, paints, pharmaceuticals, boat sails, intra-ocular lenses, handicraft, metal cans, agricultural produce, cut flowers, and baby chicks. The major export markets are CARICOM, the United States, the United Kingdom, and the European Union.

Besides providing export facilitation services, which include export market research, market identification, and marketing support, the Barbados Investment and Development Corporation offers an Export Grant Incentives Scheme. The scheme is directed at firms, which have the potential to export and have an export development or marketing plan. It is a reimbursable grant scheme and supports a variety of export activities at different stages of their development, ranging from marketing studies to sales missions. The scheme offers two refund categories. The first one provides export assistance equivalent to 50% of the direct costs of each approved export promotion activity. The second is addressed to exporters involved in Corporation-sponsored projects for exporting to non-CARICOM countries, first time exporters and small businesses. It provides grants of up to a maximum of 75% of the direct costs of each corresponding approved activity.

Table III.5
**BARBADOS: NUMBER OF BENEFICIARIES OF THE EXPORT GRANT INCENTIVES SCHEME
 AND AVERAGE VALUE OF GRANTS RECEIVED, 1998-2003**

Year	Number of companies benefiting from the export grant incentives scheme	Estimated value of grants received per company per year in US dollars
1998	37	3 330
1999	30	3 832
2000	29	3 385
2001	32	3 466
2002	39	3 382
2003	9	5 471

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data provided by the Barbados Investment and Development Corporation (BDIC).

Table III.6
**NATIONAL EXPORT-IMPORT BANK OF JAMAICA: PROGRAMMES AND ACTIVITIES
 RELATED TO EXPORT PROMOTION, 2003**

Title of the programme	Description of the programme
Export credit insurance	Covers foreign receivables against the risk of non-payment by foreign buyers.
Foreign currency lines of credit for short term trade credit	Covers imports of raw materials, equipment, capital goods, spare parts by firms involved in manufacturing, distribution, agriculture or service provision.
Cuban line of credit	Aimed at facilitating the entry of Jamaican products into Cuba.
Export factoring programme	Assists in the development and diversification of non-traditional exports.
Export credit facility	Provides working capital support in domestic currency to exporters of non-traditional products.
Bankers' export credit facility	Loans are granted for a maximum of 120 days on a revolving basis. Provides shipment finance in domestic currency to exporters of non-traditional goods.
Pre-shipment facility	Loans are granted for a maximum of 120 days, on a revolving basis. Includes prepaid shipment financing in domestic currency to exporters of non-traditional products.
Export loan	Loans are granted for a maximum of 90 working days to purchase local raw material for export. Provides loans of up to two million Jamaican dollars on a short or medium term basis and on concessionary terms of financing.
CoPack Facility [loan scheme targeted at agro-processors]	The facility has a capital of 20 million Jamaican dollars, operates on a revolving basis and consists of working capital loans that allow access to one short-term low cost pre-shipment financing.
Ornamental fish farming loan programme	Grants funding to farmers (existing and new entrants) in the export trade of ornamental fish and to farmers providing vital linkages to exporters.
Modernization fund for exports	Provides loans of up to 25 million Jamaican dollars to exporting firms or foreign exchange earners.
Small business facility	Provides working capital finance at a preferred rate of interest small and medium sized businesses (less than 50 employees), with total net assets not exceeding five million Jamaican dollars and total sales for the previous financial year not exceeding 25 million Jamaican dollars.

Source: Official data from the Ministry of Commerce, Science and Technology, Kingston.

The Barbados Investment and Development Corporation operates with 290 companies. Only 23% of the total have shown a real export potential. The export assistance provided by the Corporation is far from being significant enough to shape and facilitate the export success of the member companies (see table III.5).

The National Export-Import Bank of Jamaica is a Government development bank providing loans at an

average of 12% or six percentage points below the market rate and many other schemes to finance exports and other programmes (see table III.6). The Export Credit Facility, Apparel Sector Financing, and loan facilities granted through the Jamaica Manufacturers' Association and the Jamaica Exporters' Association provide additional channels to finance the development of manufacturing exports.

D. Final considerations

An assessment of the institutional framework for promoting exports in Mexico, the countries of Central America and CARICOM and an analysis of the domestic and external constraints on export promotion show that export promotion activities play an important role but are not in themselves enough to increase exports. The small economies of the Caribbean have lost market share outside CARICOM. In the absence of a suitable macroeconomic environment, certain aspects of systemic competitiveness are essential, such as physical and technological infrastructure, financial intermediation, human resources development, trade facilitation and non-price aspects of competitiveness (rules, international standards, quality). Furthermore, the recent diversification of Mexican, Central American and Caribbean exports has been determined more by the decisions of foreign firms and preferential access to the United States market than by traditional export promotion and development instruments. This means that export promotion activities must be seen as part of the institutional structure of business services, whose existence facilitates, but does not determine, the decision of firms to export.

The institutional framework for export promotion was designed to steer production from the domestic market back to exports. However, as mentioned above, since their economies were opened up, exports from Mexico, Central America and some Caribbean countries have come not from a pre-existing supply of export products, but from a new supply generated by foreign investment and preferences in the target markets. In turn, this new specialization, which is based on international production-sharing arrangements, has been criticized as having too few linkages with the rest of the economy and no sunk costs. This situation gives firms a great deal of mobility, while giving the host countries little bargaining power in relation to these firms (Kuwayama and Durán, 2003).

Although some institutions have impact assessment systems, the effectiveness of export promotion activities is very hard to gauge. Export performance hinges on the national and international economic environment; as a result, export development policies, however well designed and appropriate, may not lead to an increase

in external sales. In times of global economic slowdown, indicators such as export growth or growth in the number of export firms may decline even though sound export promotion policies are in place. Similarly, in boom periods, exports and the number of export firms may increase without export promotion being the trigger.

Analysis of the institutional framework for promoting exports

The export promotion activities implemented by the different institutions have changed significantly, progressing from such activities as business information, arranging participation in trade fairs and missions and basic export training courses, to a broader export promotion concept that includes preparing firms and their products to compete in both local and international markets, identifying and taking steps to overcome the competitive weaknesses of firms and products, especially in small and medium-sized enterprises, which are starting to receive special attention in all countries.

However, export promotion institutions have adopted such activities in the absence of horizontal policies or even sectoral policies for promoting export production and competitiveness throughout the different chains of production. It was not until very recently that programmes started to be implemented to enhance competitiveness generally, regardless of the export target market (because so few domestic firms were involved in exports, especially small and medium-sized enterprises), and so derive more benefits for national economies. In some cases, competitiveness programmes come under the ministry of economic affairs (El Salvador, Mexico, Nicaragua); in other cases they come under existing export promotion organizations (Honduras); while others (Costa Rica and Guatemala) have no formal competitiveness programmes, even though export promotion and other institutions do implement various activities for enhancing competitiveness (AGEXPRONT and PROCOMER).

As a result of economic liberalization, competitiveness has become important for production targeted at both the local and international markets. This poses major institutional challenges in catering

for the competitive needs of exporting firms and non-exporting firms alike, within the context of policies to promote the competitive development of production sectors.

Implementing a new institutional framework to promote competitiveness, which includes enhancing the production and development of a genuine supply of exportable goods, will inevitably change the sort of activities that export promotion institutions have been implementing in recent years. Export promotion institutions will need to specialize strictly in export promotion, performing the conventional activities of providing information on prices, products and markets, as well as arranging participation in international promotional events. They must maintain and improve their capacity to offer specialized services geared specifically to the needs of firms for accessing new markets.

Given current budgetary constraints in all the countries of the region, the best way to resolve the problem of financing promotion institutions is the collection of revenues to finance export promotion activities by setting statutory amounts linked with foreign trade procedure. This respects individual country's decisions on whether to have such promotion activities carried out by public or private entities, whilst providing mechanisms to assess the private sector's level of satisfaction with the services received. All firms engaged in foreign trade have to provide funding to promotion entities, since this mechanism guarantees the provision of services to small and medium-sized businesses and incorporates them into the countries' foreign trade system, creating a significant redistributive effect and reducing the burden on public finance.

In Costa Rica and Mexico, the task of export promotion has been assigned to State entities, whilst in El Salvador the idea that State entities should be responsible for export promotion is gaining ground. In order to ensure smoother relations with the private sector, export promotion institutions operate under different regulations as regards their administrative management and staff recruitment than other public sector institutions. By contrast, in the Caribbean, the State continues to be chiefly responsible for export promotion and development, with no clear regulatory framework. At the other extreme, in Guatemala, Honduras and Nicaragua, export promotion is carried out by private sector institutions.

There are both advantages and drawbacks in having State institutions conduct export promotion activities. One advantage is that inter-agency and governmental coordination can be established for export financing and facilitation. Another advantage is that promotion

institutions are able to defend the interests of export firms within the government itself. Promotion institutions become allies of export firms, by dealing with them and supporting them in their export efforts. What is more, they are better able than other government entities to understand and interpret the obstacles that export firms face and how those obstacles can be overcome. A further advantage is ease of coordination between foreign trade policy and export promotion policy, including market access negotiations. The export promotion institution is in a position to provide opportune information to the institution responsible for international trade negotiations and to warn it of any problems that exporters face in certain markets, as well as to inform it of opportunities for the export sector that could be considered in negotiation strategies.

The greatest drawback faced by State export promotion entities is the risk of politicization and vulnerability to policy swings in relation to staff appointments and ideas on how the institution should be run, as well as budget funding where institutions have no independent budget. Unless export promotion institutions have funding that is independent from annual budget setting processes, such as an earmarked tax or charge on foreign trade firms, they run the risk of underfunding. This effectively removes one of the advantages of having a public institution handle export promotion and development, which is to provide public services free of charge, since, in order to be self-financing, the institution must make firms pay for its services. Again, the active involvement of the private sector and an assessment of the services of export promotion institutions based on customer satisfaction rates, become important factors for raising the management quality of export promotion institutions and for maintaining an acceptable cost/benefit ratio.

In Mexico, BANCOMEXT is a State development bank with administrative flexibility, which enables it to hire suitable staff for promotion activities. Also, since it is a development bank, export promotion can be supplemented with the respective financing from export production activities. BANCOMEXT is the only export promotion institution in the region able to offer export firms, on the one hand, financial products to facilitate their access to pre- and post-export financing mechanisms and, on the other, credit insurance and other products. In Mexico the State does not allocate funding for export promotion activities, however, with the result that promotion costs have to be paid out of BANCOMEXT profits, which affects the bank's profitability.

In Costa Rica, PROCOMER is a public service institution operating as a private company. The law establishing it exempts PROCOMER from a series of

administrative controls and procedures that are usually applicable to public service institutions, making PROCOMER easier to administer. Furthermore, labour relations are governed by the Labour Code, which gives the institution operational flexibility and enables it to hire suitable staff at market salary rates. The State does not allocate funding for running PROCOMER, since its funding is guaranteed by revenue from customs declarations and free trade zones.¹⁰⁴ However, while most of the members of the Board of Directors are from the private sector, in practice it is the Executive Branch that appoints and dismisses the General Manager, which introduces politics into the institution's operation.

In El Salvador, the Ministry of Economy has embarked on a wide range of institutional initiatives to promote exports. However, the great majority of export promotion activities in El Salvador are still in their infancy, are not institutionalized and have no permanent funding, with the result that their continued existence is not guaranteed. The project to create a State export promotion entity which would draw together or coordinate all the existing initiatives, and to endow it with the respective funding, has not yet come to fruition.

Guatemala is the only case in the region where private entities successfully carry out export promotion activities. Whereas in the other countries the private sector has been either unwilling or unable to contribute funding to develop export promotion activities, in Guatemala the private sector not only finances them, it also defines which activities are to be developed. In fact, the Association of Producers of Non-Traditional Exports (AGEXPRONT) has taken over some typically government-run activities, such as administering special development regimes or the Centralized System for Exports (VUPE). Guatemala's experience shows that the private sector has the capacity to finance export promotion activities, and that it is important for firms themselves to define which activities they need most.¹⁰⁵

In Honduras, the Government has not taken a strong role in export promotion, but neither has the private corporate sector, nor would it appear feasible for it to

finance these activities. As described earlier, FIDE (Foundation for Investment and Development of Exports), which initially promoted exports, shifted its approach towards attracting foreign investment, and in recent years has resumed export promotion activities. However, FIDE has received no foreign funding since 1993 and has had to take on these promotion tasks with inadequate resources. In the case of Nicaragua, the Government appears to be interested in engaging in the process, but apparently has no financing capability. Neither does the private sector appear willing or able to finance it.

Analysis of export incentives

The countries of the region have all used similar export incentives. All the Central American countries have provided export subsidies by giving export firms exemptions from income tax and from import duties contingent upon export production, although exports to the regional market are excluded from these incentives. Since 1985, Mexico's incentives have consisted mainly of import tax exemptions, although its incentive systems have virtually disappeared, primarily due to NAFTA requirements.¹⁰⁶ Globalization and regional integration have tended to reduce the economic and policy flexibility enjoyed by the CARICOM countries. The tariff reduction resulting from these processes force the countries to expand their tax base, thereby limiting their ability to offer tax incentives and, in general, to implement a discriminatory economic policy.

In the context of the Doha Round ministerial meeting, a procedure was established for extending the transition period provided for in the Agreement on Subsidies and Countervailing Measures (article 27, paragraph 4). Under this procedure, export subsidies, which are prohibited because they are contingent upon export production, must be gradually phased out starting in 2008 and must be completely eliminated by the end of 2009. In the case of the Central American countries, such subsidies consist of income tax exemptions for export firms.¹⁰⁷

104 Indirectly it is the private sector that finances PROCOMER activities, even though this financing is laid down in law and operates as a specifically earmarked tax.

105 In Costa Rica the private sector can be said to finance export promotion activities. However, in practice these activities are funded via a specifically earmarked tax. What is more, most of the firms in free trade zones do not require export promotion services, but instead receive only administration services.

106 Nevertheless, the planned promulgation of a new Law on Strategic Economic Zones again aims to provide similar incentives to those offered in Central America for export investment. The new proposed legislation for creating strategic economic zones would appear to be compatible with international trade rules, because the incentives are not contingent upon export production and because, for the next five years at least, they are limited to relatively less developed zones. In any case, the incentives provided for in the law would be granted "without prejudice to the provisions of any International Treaties involving Mexico". Article 12 of the Bill on Strategic Economic Zones.

107 According to the Subsidies and Countervailing Measures part of WTO agreements, the ban on subsidies shall not apply to less developed countries, although in the Central American region only Haiti is classified as such.

A compelling argument for changing the types of export incentives offered is that even though export firms are the most successful and fastest-growing sector of the economy, they do not contribute to fiscal income. Currently, income tax exemptions apply to two different categories of export firms: (i) foreign firms that operate on a cost-centre basis and do not generate profits, for which the income tax exemption is irrelevant, as the tax is paid in the country of origin, where the profits are generated; and (ii) foreign firms that do generate profits but do not pay income tax in the host country, paying it instead in the country of origin under the global income concept. In view of these circumstances, a sensible solution would be to negotiate double taxation treaties providing for the payment of income tax in the country in which the profits are generated, with a corresponding reduction in the income tax payable in the firms' countries of origin. There are also domestic firms that do not pay income tax because they operate under special regimes, and these are the ones that really reap the full benefit of the exemption. As countries cannot extend income tax exemptions to all firms, they should set their income tax rates at internationally competitive levels.

Moreover, in order to boost the production of goods for export, incentives should be designed to promote domestic production regardless of the target market¹⁰⁸ and of whether the products are traditional or non-traditional. This would not only bring them into line, but would also help to make more national products available for export directly and automatically, without

demanding that they meet special requirements, and indirectly by creating a network of suppliers for the export sector production. It would also be a way to overcome one of the main obstacles that have prevented existing incentive schemes from having a "knock-on" effect on the country's other productive activities and, in the case of the Central American countries, would even strengthen regional trade. When incentives are granted solely for export production¹⁰⁹ –that is, when imported inputs are exempted from tariffs and other specific taxes– it is very hard for domestic firms to become suppliers for export firms. Local companies have to pay taxes and other charges on imported inputs, and although some countries offer rebates on such taxes, the procedures tend to be so complicated that foreign firms prefer to import their inputs. It is often easier and cheaper for companies operating under special regimes to import inputs from abroad than to purchase them locally.

The adoption of incentive schemes not contingent upon target markets and compatible with international trade rules would also encourage the establishment of joint export promotion programmes, especially in the Central American countries. The enhancement of competitiveness, which is considered the prime objective of policies to boost production sectors, requires the construction of a new institutional framework in the countries of the Central American subregion and Mexico. This institutional framework should coordinate simultaneous actions to promote production and place exports on international markets.

108 In the Central American countries, export incentives are directed at exports to countries outside the Central American market, independently of subregional integration agreements.

109 In Central America, incentives are provided only for exports to countries outside the region.

Chapter IV

Policies to promote service exports in Latin America and the Caribbean



Introduction

Trade in goods –defined as a transaction that links a product produced in territory A with a consumer who lives in territory B– provides the baseline for discussion on export promotion. Trade in services also refers to transactions between residents of different countries, although the modalities of supply are more varied. For instance, individuals can temporarily leave their country of origin to effect a service transaction in another country, be it to acquire services (international tourists) or to offer services (a singer who performs temporarily outside his/her own country). Trade in services that can be converted to digital format or recorded on physical media is identical to trade in goods; e.g., transactions conducted through electronic or other more traditional means of communication. The World Trade Organization's General Agreement on Trade in Services (GATS) acknowledges as well the possibility of trade among residents within a given country, where the service provider is a foreign-owned company; this occurs when delivery of the services requires a permanent, physical proximity (commercial presence) to the consumer. Thus, the four modes of international service delivery defined under GATS are: cross-border trade (mode 1); consumption abroad (mode 2); commercial presence (mode 3); and temporary movement of the service provider (mode 4).

Services are not only multi-modal but also multi-functional. This is an outgrowth of the critical role of services as a cornerstone of economic and social life (transport, financial services, distribution, education, healthcare, communication), as a vehicle for the exchange of goods and services, and as services in their own right (professional services). At the current economic juncture, value added is created along production chains precisely in service activities; this includes services provided within goods-producing firms and services sold on the market by independent companies (ECLAC, 2001b). The production of data and knowledge used in producing goods and services is concentrated in services linked to the design of products and processes, information technology, research and development, and consulting and management services, to name just a few. Accordingly, Latin America and the Caribbean will be able to improve its international position only through public policy actions that enable the countries to move forward in the production and trade of services, especially those that are knowledge-intensive.

Many countries of the region already have specific policies in place for individual sectors (e.g., tourism, audiovisual services, computer programs, and consulting and engineering services), although they lack an

integrated policy to promote the export of services. Promotion and development are assigned to specific ministries: tourism is promoted by the tourism ministry, audiovisual services by the ministry of culture, and computer programs by the ministry of science and technology. Generally speaking, however, these mandates are not linked to the government agency responsible for promoting goods exports.

This chapter draws on regional experiences to propose some generic tools for promoting service exports. It identifies differences between the promotion of goods and services and, given the recent shifts in global flows of trade, production and employment, puts forward the main arguments for basing efforts in this direction on customized tools and institutions. It is suggested that anti-export biases need to be eliminated, and possibilities are explored for reducing transaction costs by means of greater transparency, liberalization and legal security in the sector. A number of guidelines are then presented for promotion activities at the national level, together with others for the regional level. A group of logistical support measures is also reviewed. Lastly, some Latin American experiences in the promotion of exports of non-traditional services (audiovisual services, computer programs and outsourcing) are set out.

A. Some arguments for promoting service exports

During the 1990s, world trade in goods and in services performed in a similar manner, posting annual average growth of 5.8%. Between 1991 and 2002, world exports of services rose from just over US\$ 826 billion to over US\$ 1.5 trillion, while goods exports grew from over US\$ 3.5 billion to US\$ 6.424 trillion. Accordingly, the ratio of global service exports to goods exports remained constant at around 23% (WTO, 2003).

These figures understate the performance of trade in services, however, which is strongly influenced by data on travel and transport inasmuch as these two headings account for roughly 60% of the figure compiled by the International Monetary Fund (IMF). The methodology used by IMF to compile its balance-of-payment statistics suffers from a number of serious deficiencies that are documented in the literature.¹ For

instance, it is impossible to disaggregate and identify the various services that are included in the recorded value of goods exports (training, storage, business services, maintenance, financing, insurance, and others). There are also shortcomings in the calculation of the item *Other business services*, which leaves out a significant number of transactions. Lastly, there are no reliable data on sales of services through multinational branch offices and subsidiaries, bearing in mind the well-known problems involved in obtaining statistical data on intra-firm trade (OECD, 1999).

As indicated earlier, the quality and diversification of the national productive apparatus is increasingly dependent on the availability and quality of services. This “dematerialization” of value added is mirrored in the fact that over 70% of economic activity in the industrialized countries, and roughly 67% of regional GDP in Latin

1 See United Nations-European Commission-IMF-OECD-UNCTAD-WTO, 2002.

America, is attributable to services, which also generate the bulk of new jobs.² Some of the smaller Caribbean economies are in fact true service economies, based essentially on hotels, restaurants and financial services.³ Foreign direct investment is flowing increasingly towards the services sector, and technological advances are helping to create new services as well as to adapt and upgrade traditional services. It is worth recalling, however, that corporate conglomerates are still responsible for over 50% of global service flows.⁴

The gradual dismantling of artificial and natural obstacles to the full integration of Latin American and Caribbean countries into the world economy, coupled with the large-scale incorporation of information and communication technologies into productive and commercial activity, have triggered a restructuring of productive activity on the basis of new relationships that spring up between geographically distant sites (Ventura et al., 2003). As a result, large companies are now able to design, manufacture, market, distribute and provide after-sales service more efficiently for both goods and services. In such a scenario, services are the key link in a new brand of specialization and division of labour within large international production chains. The more dynamic economies are those that have been best able to lock into these globalized circuits, which today account for the bulk of world production and trade, although the impact of such integration on domestic growth and development of the economies is not yet fully understood.⁵

In addition to the important role of services, or perhaps because of that role, a reason for promoting service exports from Latin America and the Caribbean is that the region has a strong deficit in trade in services. The main exporters of services are also major importers, as described below (see section D).

This scenario poses daunting challenges to the countries of the region in terms of devising and

harnessing innovative tools to foster the development of service activities and promote their export. The objectives of services export promotion parallel those for promoting goods exports; i.e., to increase the number of exporting companies and boost export value, diversify target markets, and enhance the quality and value added of exportable supply. However, the development and promotion of services entails a further unique, and complex, aspect. Most service transactions involve the sale of an intangible that cannot be stored or digitalized, and they generally require contact that is more or less direct and simultaneous between the service provider and the consumer, as shown by the various modes of international service transactions.

This multi-modality means that strategies to mainstream services into the global economy require countries to address and reconcile aspects as varied as foreign investment policy, migration policy, competition policy, dispute-settlement mechanisms, policy on education, technological development and the protection of intellectual property rights, technical standards and criteria for accreditation of service providers, as well as a number of issues closely tied to the sphere of domestic regulation. All these interrelationships touch upon sensitive areas, such as culture, security and national sovereignty, and could even go so far as to challenge the legitimacy of national public policy objectives.⁶ At the same time, since services are also exported indirectly by way of their inclusion in the value chain of goods and services exports, actions to promote their production and to encourage goods producers to substitute imports should also be part of a service export strategy.⁷ In other words, a sound promotion strategy should link tools and institutions in medium- and long-term scenarios with a view to creating competitive advantages, as well as using existing ones (Prieto, 1991). It is therefore difficult to separate policy actions that promote production from those that promote exports.

2 Under the expanded definition of services, which includes construction. In the classification of national accounts, services include: electricity, gas, water and sanitation services; construction; trade services, restaurants and hotels; transport, storage and communications; financial establishments, insurance, real estate and business services; and community, social and personal services.

3 Other Caribbean economies are based on natural resources (Guyana, Jamaica, Suriname, and Trinidad and Tobago (ECLAC, 2002b)).

4 In the United States, firms with fewer than 500 employees accounted for over 50% of jobs in the services sectors, but large firms are the exporters of services (<http://www.unzco.com/basicguide/c8.html>).

5 See Ventura-Dias, 2003; Ventura-Dias and Durán, 2001 and the related bibliography.

6 Overcoming many of these obstacles will depend on a concerted effort to harmonize and guarantee reciprocal acknowledgement of accreditation, licences and technical standards. The most difficult issue has to do precisely with the "necessity test", which legitimizes the public policy objectives of such regulations and avoids the creation of unnecessary obstacles to international trade.

7 For example, although Brazil's exports of computer programs may not be significant *per se*, many exported products –from cellular telephones to the aircraft manufactured by the Brazilian Aeronautics Corporation (EMBRAER)– are sold packaged with Brazilian computer programs. "Tesouro escondido", *Exame*, 25 June 2003.

In this regard, the debate on selectivity versus neutrality in production-development and export-promotion instruments is especially valid for services.⁸ The most dynamic services operate in a highly competitive setting in which things quickly become obsolete. The life expectancy and competitiveness of services vie constantly with the emergence of other actors in an ever more open and more globalized market. It is unlikely that the State will be able to identify *a priori* and pursue activities that can be winners long enough to amortize the resources invested in promoting them.⁹ The existence of a transparent and open market is what makes it possible to select and wager on services deemed to be winners, always bearing in mind, however, the need to cultivate an enabling environment for dynamic segments—especially those based on knowledge and information technologies—to grow and diversify towards services with greater value added (Kagami and Tsuji, 2003).

Unlike investment in goods production, the development of service activities needs a suitable urban setting. The commercial value attached to specific

components of the quality of urban life can be determining factors in decisions on where to locate domestic and international service firms, which in turn generate demand for other types of services. Safety, information and communications infrastructure, quality of schools, entertainment and cultural life are but a few of the factors that influence decisions on where to set up a given service activity. These considerations, coupled with such other aspects as the local business climate, availability of qualified professionals and the country's economic and legal stability, are determinants of agglomeration economies that attract knowledge-intensive services. This realization has led authorities of several cities on the continent to promote and market their cities as quality products and brand names worthy of market positioning.¹⁰ Many transnational firms have responded to this call and moved their regional headquarters to such cities as São Paulo, Monterrey and Santiago. This has led to growth in other activities, including convention centres, hotels, restaurants, transport, professional services, and a wide variety of other services required by these business offices.¹¹

B. Tailoring of instruments and institutions to promote trade in services

The process of trade liberalization that most of the countries of the region have embarked upon has helped to diminish the anti-export biases associated with the previous years of strong protection.¹² Access to imported inputs and equipment at lower cost has placed the region's business sector in a better competitive position. This notwithstanding, a significant number of domestic obstacles remain that translate into higher costs and less

competitive prices, essentially in the area of administrative procedures required for foreign trade in services transactions. For the most part, these are the result of poor adaptations of practices used for trade in goods, and they often entail costs that ultimately exclude small business operators. In some instances, the situation is compounded by the levying of different taxes on domestic and foreign-purchased services, creating a bias in favour

8 For instance, while ECLAC (1995) affirms that trade policy should, as a rule, be highly selective, the same document acknowledges the serious limitations of the State in the area of information and management. The proposal for comprehensive trade reform later qualifies the general rule, indicating that it is better to support broad categories of activities without trying to identify "winners".

9 One success story here would be EMBRAER, which was developed by taking advantage of the State's purchasing power. The creation, expansion and consolidation of EMBRAER in proximity to the Aeronautics Technology Institute and the National Space Research Institute made it possible to mobilize and integrate an array of service providers with high value added into the production process at the technology pole of São José dos Campos.

10 Santiago (Chile) invested US\$ 4 million to promote its brand image on international markets, the highest amount recorded for a medium-sized city (Abarca, 2003).

11 Santiago expects to host 96 international conventions through 2010, thanks to the work of the Tourism Promotion Board's Chile Convention and Incentive Bureau, an effort launched by private industry and the Government of Chile (*El Mercurio*, Editorials Section [Pedro M. Fahrenkrog, President, Hoteleros de Chile A.G.], 11 October 2003). Just one of these events (World Congress of Gynecology and Obstetrics, FIGO 2003) assembled 7,000 people and brought nearly US\$ 60 million into the country. "Santiago tendrá un 95% de ocupación hotelera", *El Mercurio*, Finance and Business Section, 8 October 2003.

12 Trade policy has traditionally focused on managing five basic instruments: tariffs, import quotas, non-tariff barriers, subsidies and national-content requirements. The multilateral trade system has been progressively reducing the importance and scope of these variables.

of imported services. Also, some tax rules encourage the internalization of services by goods-producing firms –i.e., self-supply of services– rather than the outsourcing or purchasing of services from independent firms.

At least three factors are crucial in a policy to promote service exports:

- (i) Explicit inclusion of services in the design and implementation of microeconomic policies to promote a country's production and exports. Aside from a few traditional services (e.g., tourism, transport, telecommunications, construction and engineering), economic policies tend to focus their attention on companies that produce and export goods (mining, fisheries, agriculture and industry).
- (ii) Strengthening of telecommunications and technological infrastructure, coupled with long-term investments to build human resources capacity over time. Costa Rica is a prime example of a country that has fostered the development of its service industry through long-term investments in education and infrastructure.
- (iii) Updating of the rules and standards specific to each service sector, strengthening prudential standards and rules that encourage competition on domestic markets.

Generally speaking, the main institutional problems faced by non-traditional service firms can be traced to a basic lack of knowledge of their unique features. In most countries of the region, service exporters must grapple with ambiguity and imprecisions in exchange requirements, procedures for the entry of foreign exchange and customs procedures. The central bank – or other foreign trade oversight authority– and the customs service are the two institutions whose mechanisms and criteria are often ill-suited to international service transactions. Admittedly, the intangible nature and the difficulties in assessing the value of such transactions pose a challenge to those responsible for formalizing them, making them eligible for tax benefits, or authorizing the repatriation or remission of foreign exchange. One of the unintended outgrowths of these difficulties is an increase in

unrecorded services. In other words, the bulk of transactions that cannot fulfil the requirements of oversight institutions remain in the informal sector.

The first step towards updating the criteria on classification and gathering of data on international service transactions is to address the four modes of service delivery, i.e., cross-border movement of services without movement of persons (mode 1), temporary movement of individuals to another country to consume services (mode 2), establishment of a commercial presence in the country in which the provider wishes to deliver services (mode 3), and temporary movement of individuals to another country to provide services (mode 4).¹³ These criteria should also include, as a minimum, the 10 major service categories identified in the extended classification included in the Balance of Payments Manual of the International Monetary Fund (Fifth Revision), and allow not only for the proper recording of transactions but also information on their origin and destination.¹⁴ The methodology proposed by the IMF, it should be noted, has not yet been implemented in some Latin American countries.¹⁵

Financial institutions –public and private alike– have also failed to respond to the needs of service exporters. Service firms tend to be mainly small or medium-sized businesses, with limited physical and financial assets that could be used as collateral; in many instances, the real assets are intangible, such as human resources, prestige and organizational capital.¹⁶ The financial products on offer are unsuited to the needs of these firms. In the view of Chile's Ministry of Economic Affairs, the general lack of familiarity with the service industry on the part of institutions involved in the export process (e.g., private and public financial entities) is one of the biggest hurdles service exporters face in order to gain access to export support mechanisms. Subjecting services to procedures designed for goods has an adverse impact on the valuation of service firms, thus undermining the formal processes set in place to attain that objective (Chile, Ministry of Economic Affairs and Energy, 2001).

13 For further details on service classification criteria and related issues, see Mattos, 2001.

14 The extended classification includes: transport, travel, communications services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services, and personal, cultural and recreational services. Each of these categories is broken down into several subcategories, which allow for a much greater level of detail in the breakdown of service transactions (IMF, 1993).

15 Guatemala, Haiti, Honduras and Mexico are still in transition from the Fourth to the Fifth Revision. Brazil and Chile have adopted the Fifth Revision but are not following all the recommendations made in the manual.

16 See, for example, the Australian Productivity Commission's analysis of information-technology firms, which in many countries suffer from high bankruptcy rates owing to investor difficulties and costs in assessing risks of businesses whose assets are intangible (intellectual capital) (Australia, Productivity Commission, 1995).

C. Strengthening the region's export capacity

The overarching concern should be how best to mainstream service exporters into the formal economy, drawing on the four modes of service delivery as the basis for defining support instruments. At the same time, the instability of public resources available for promoting exports makes it advisable to monitor constantly the quality and effectiveness of any measures taken.¹⁷ Sustainable export development requires a well thought out strategy. This means taking account of both demand (better market access and lower transaction costs, inter alia) and supply, so as to boost the technological content of services and reduce the dispersion of productivity across sectors and across businesses in the same sector.¹⁸

Institutional strengthening in such areas as electronic signatures and e-invoicing, document encryption, computer literacy and better access to information and communication technologies is crucial in order to take full advantage of e-commerce and other ways of reducing transaction costs and resolving information asymmetries.

Lastly, special mention needs to be made of regional action to expand service exports. The natural target

market for the region's service exporters is, for the most part, the region itself, as the case of most Latin American service exporters confirms. This is a result not only of geographic proximity but also of cultural affinity, both of which are determining factors in the acceptance of services from other countries. A number of actions could be undertaken at the regional level to facilitate trade in services, including the following priority areas:

- exchange of experiences: through meetings and contacts among government officials responsible for implementing development policies;
- cooperation in the field of trade intelligence and development of a regional image; dissemination throughout the region of the main sources of trade intelligence available, thus averting duplication of effort in market studies and other areas; and
- government action to promote and expand, at the regional level, agreements on reciprocal recognition of licences, accreditation and technical standards; double taxation and double payment of social security contributions; investment protection and promotion; and the temporary circulation of businesspeople (e.g., regional business visa).

1. Easier access to external markets: trade agreements, transparency, legal certainty and liberalization

Dismantling barriers to trade in services requires concerted action by governments, principally with regard to cross-border movements of service providers. To this end, a number of countries in the region signed economic integration agreements during the 1990s.

These were mainly free trade agreements, although some looked more ambitiously to the possibility of a common market arrangement and included disciplines on services.¹⁹ Some agreements, such as the North American Free Trade Agreement (NAFTA), are considered to be

17 The criteria proposed for evaluating the performance and effectiveness of support actions are: (i) efficiency: promotion costs must reflect the impact of foreign exchange earned by service exports; (ii) quality control and feedback; (iii) impact of support actions on the exporter's business plan and objectives; and (iv) relevance.

18 In 1998, the Brazilian Government launched a special programme for service exports as a tool to manage its service-export promotion policy and facilitate coordination of public and private action in the service sector. Nineteen sectors with export potential were identified, along with 15 thematic areas that were intended to address issues identified in advance and which shared the special features of service exports. No information is available on the programme's outcomes (see *Programa Especial de Exportações* under *Programas e Ações* on the website of the Ministry for Development, Industry and Foreign Trade (<http://www.mdic.gov.br>) (Portuguese only)).

19 The Trade Unit of the Organization of American States identified a total of 14 agreements containing subregional or bilateral provisions on services between countries of the Western Hemisphere up to 1999; three more were added by 2002 (OAS, 1999). These agreements have been examined and evaluated comparatively in the light of WTO parameters and standards (Prieto, 2000). Some 169 sector agreements have also been signed in the region, mostly for air and maritime transport.

“third generation” in that they contain clauses offering greater protection for the rights of private investors and service provider companies. These agreements typically establish broad commitments and lists of exceptions that exclude specific services, as well as conditions governing the liberalization sought under the agreement.²⁰ For instance, chapter 16 of NAFTA addresses the cross-border movement among the three

signatory countries of businesspeople, professionals and specialized employees of subsidiaries of transnational corporations. Under certain conditions (e.g., possession of an advanced degree or presentation of appropriate documentation), citizens of a NAFTA signatory country may remain in another signatory country to work during a specified period (e.g., to conduct market research, negotiate contracts or take orders).²¹

2. Tax relief

The countries of the region have long used tax benefits to promote goods exports. In many instances, these measures seek to “complete” domestic factor markets by promoting job training, access to and adaptation of technologies, infrastructure and new long-term financial products. All these measures enhance systemic competitiveness and strengthen export production linkages with the rest of the country’s activities, especially non-tradable goods and import substitutes (Ffrench-Davis, 2003). They can also be used to promote the export of services. This is of particular interest considering that these benefits are prohibited under the Agreement on Subsidies and Countervailing Measures for trade in goods or can be brought before the WTO Dispute Settlement Body. The situation of subsidies for services is less clear, inasmuch as the GATS has yet to define disciplines in this area.²² For the time being, the only objectionable item is the discriminatory subsidies applied to sectors or subsectors where the countries have assumed specific commitments.²³

The principal arrangements currently in place that could be extended to services are as follows:

- (i) Simplified drawback: this instrument, designed for small and medium-sized businesses, is little used in Latin America, and the countries that do use it (e.g., Chile) had to dismantle it in 2003 in order to conform to WTO disciplines on goods.²⁴
- (ii) Reimbursement of value-added tax (VAT) or other indirect taxes.
- (iii) Export-processing zones and special warehouses for exports: these could be adapted for service firms that rely on imported inputs, such as computer firms, call centres, record production firms and printers/publishers.²⁵ Provided with high-quality services and infrastructure, they could serve as development poles for the export of services with high technological content and added value.²⁶
- (iv) Deferred payment or exemption from import duties on capital goods.²⁷

Tax relief in the form of tax allowances or tax credits is important to the development of services. The former allow larger deductions against specific items of taxable revenue, while the latter are calculated as a specific percentage of identified expenditures incurred by the

20 For an econometric evaluation of the impact of third-generation agreements, see Adams et al., (2003) and Matoo and Fink, (2002).

21 See the website of the Canada’s Department of Foreign Affairs and International Trade (www.dfait-maeci.gc.ca/nafta-alena/cross-en.asp).

22 Article XV is confined to recognizing that, in certain circumstances, subsidies may have distortive effects on trade in services, and it mandates members to enter into negotiations with a view to developing the necessary multilateral disciplines to avoid such trade-distortive effects. However, the timeframes for complying with this part of the “built-in agenda” have been extended on several occasions. Currently, the idea is to have some sort of outcome by the year 2005, which is when the Doha Round is due to conclude.

23 Even in this last case, it is possible to maintain such discriminatory subsidies, provided they have been stipulated in the conditions and limitations on obligations deriving from Article XVII of GATS (national treatment) in the respective column of national lists of specific commitments.

24 In Chile, exporters of printing and publishing services have benefited from this type of arrangement in the past.

25 For an evaluation of the operation of export processing zones in Latin America, see ECLAC (1995) and Granados (2003).

26 Duty-free zones for exports and other forms of production support are being increasingly opposed by WTO rules on subsidies (Granados, 2003).

27 In Chile, deferred payment on exports of manufactured goods is to be eliminated in 2003, since it contravenes WTO rules on goods.

firm and are deducted from the income tax to be paid. These measures favour the incorporation of certain services (as inputs) into the research and development (R&D) phase or into the productive process. They can be used not only to promote R&D that generates technological capacity and market penetration but also in the dissemination of technical standards and training of human resources –activities that carry strong externalities (Tussie and Lengyel, 1998).²⁸

Under a tax allowance arrangement, specific R&D expenditures result in higher income-tax deductions than would normally be allowed against the taxable revenue.

This incentive can be used horizontally or sectorally.²⁹ For example, Australia has a 150% tax concession for R&D expenditures on computer hardware, software and related service industries. This is felt to have brought a net benefit to the Australian economy, despite some shortcomings; e.g., the credit is not available to companies that do not report taxable profits, a not uncommon situation among information-technology firms, which typically incur losses during their initial years. In such cases, it has been proposed to replace the tax concession with a tax-exempt grant (Australia, Productivity Commission, 1995).

3. Financing mechanisms

A considerable number of exportable services require financing in order to conduct business abroad, e.g., construction and engineering services, which often must present financial guarantees to perform work in another country, including the transfer of equipment, personnel and working capital. This financing usually comes from the commercial banking system or from government agencies that offer very concessional terms.³⁰ Small and medium-sized service firms, in particular, may have to resort to collateral financing by government agencies in order to gain access to the private commercial financial system.

As mentioned earlier, the intangible nature of many services, their heavy reliance on assets that are both intangible and difficult to value (e.g., entrepreneur prestige and knowledge), and the short life cycle that is typical of many service firms often preclude their access to traditional financial products in the local banking system. In contrast, the more advanced countries have made notable progress in developing new forms of financing that are better suited to the needs and features of service firms.

Some of the arrangements traditionally used for trade in goods could be adopted to promote trade in services, such as:

- (i) Financing for purchases in external markets of national services: government agencies provide access to domestic credit lines for foreign companies that require services of national origin.³¹ Some Latin American countries, for instance, have programmes to finance the sale of engineering services. In Chile, the Productive Development Corporation (CORFO), in association with the Andean Development Corporation, administers financing to promote the export of Chilean engineering and consulting services.³² In Brazil, the National Bank for Social and Economic Development (BNDES) and Banco do Brasil's Export Financing Programme (PROEX) provide financing for the export of goods and services (see chapter III).³³
- (ii) Financing of investments abroad: many service firms can only go international by establishing a commercial presence in the target country. Arrangements exist that grant credit for setting up offices, warehouses and business centres, among others.

28 This type of instrument is not used much in Latin America and the Caribbean (OECD, 2002). In Brazil, a similar type of support was implemented to promote investment in the audiovisual industry, as will be discussed further on.

29 In Chile, the National Training and Employment Service, under the aegis of the Ministry of Labour and Social Welfare, grants businesses in a specific income-tax category a tax discount or reduction to recover investments in staff training.

30 WTO prohibits financing from public funds and subsidized interest rates for trade in goods.

31 WTO does not oppose this type of financing for trade in goods, provided the financial conditions are the same as on the international market.

32 This arrangement could easily be extended to other business services, such as news services, advertising, environmental services, training and R&D, and equipment maintenance and repair.

33 PROEX financing is available for services such as studies, project preparation, consulting services, turn-key projects, computer programs and audiovisual products, including the sale of rights to reproduce and market Brazilian-produced works outside the country.

- (iii) Export insurance: very little is available in the way of private insurance for service exports. In the few countries of the region where this instrument is used with some form of government support –Argentina, Brazil and Mexico– it is generally limited to trade in goods.
- (iv) Development of new financial products: special mention should be made of venture capital arrangements, where access to capital is pegged to

innovative ways of sharing the risks associated with the financed activity.³⁴ The financier “partners” with the service provider in such a way that the cost for using the capital is based on the financier’s participation in the equity and expected profits of the firm. This arrangement, still very underdeveloped in the region, is perceived as an imperative for small and medium-sized service firms to gain access to the financial system.

4. Logistical support

Increasingly, the private sector is overlapping with and complementing government action in this sphere. In some countries, export promotion agencies are developing into independent bodies with high private-sector participation and the services they provide are financed by the users themselves. This trend can be seen as a guarantee that the services offered will respond to exporters’ needs and that their cost is justified in terms of the expected benefits. In the smaller Caribbean countries, however, the public sector continues to be the principal export promotion agent for goods and services.

(a) Establishment of service exporter federations

For a country to promote its trade interests, its public and private sectors need to work together and engage in ongoing dialogue. Such two-way feedback helps to identify hurdles and also ways to address trade issues entailed in accessing external markets. Despite the varied interests and features of service firms, the effectiveness that can be achieved by a service firm association, along the lines of the business associations that exist in the manufacturing and farming sectors, could be crucial in the framing of policies to benefit members. Although associations exist in some service subsectors, a

federation of service associations and entrepreneurs would offer a stronger platform for addressing the common challenges facing the sector as a whole (International Trade Centre, 1998). These institutions act as entrepreneurship mentors, given that most business operators lack awareness of how to undertake foreign trade operations.³⁵

Such federations –or coalitions, as they are known– already exist in some Latin American countries; e.g., Unión Argentina de Entidades de Servicios (Argentina) and Coalición de Exportadores de Servicios (Chile).

(b) Dissemination of government support measures for trade information and intelligence

Business operators often limit themselves to domestic markets out of sheer lack of knowledge of the international market. It is interesting to note that one of the first items offered to new service-firm operators in developed countries is a step-by-step guide on how to export their services. These guides describe each step the operator must take in order to access external markets, and some provide assistance in formulating an export strategy and answers to the most common problems encountered by service exporters.³⁶

34 The development of this type of financial product is felt to have been one of the determining factors of Silicon Valley’s success in becoming a world centre of information and communications technology, although it took 40 years for it to become a hub of intellectual activity.

35 The United States Coalition of Service Industries (USCSI) was a pioneer in these efforts and played a key role in the United States taking the leadership in including services in the agenda of the Uruguay Round, which led to the General Agreement on Trade in Services (GATS). Similar coalitions exist in other countries: British Invisibles, Hong Kong Coalition of Service Industries, Irish Coalition of Service Industries, South Asian Service Industries Forum, Swedish Coalition of Service Industries, etc.

36 See the website of Export Development Canada (www.edc.ca); Industry Canada’s subsite entitled “Take a world view... Export your services” (strategis.ic.gc.ca); the website of the Australian Trade Commission (www.austrade.gov.au), beginning with an “Export capability tool” which examines various factors and aspects that help assure the success of new exporters; and “Exporting of services”, geared towards small and medium-sized businesses in the United States (www.unzco.com/basicguide/c8.html).

The website of the Colombian agency Proexport, for instance, provides basic information and specifics on exporting services.³⁷

Coordinated action by the public and private sectors can broaden the access of service firms to the information they need. Most export promotion agencies have networks of offices abroad and inside the country. This gives them privileged access to trade intelligence that is vital for conducting business abroad and allows them to track exportable supply in the various regions of the country. The private sector, on the other hand, with its networks of international trade-association contacts, can tap public and private databases on the Internet to create trade intelligence networks that promote export firms and the services they offer.³⁸ They can also provide free access to a broad range of trade information, e.g., market access conditions, key legislation on the movement of persons, taxation, accreditation, pricing, specifications for services in greatest demand, export contacts and calendars of international fairs.³⁹

(c) Organization of and participation in international fairs and matchmaker events

There has been a growing trend at trade fairs to promote exchanges among firms offering different kinds of services. Electronic media and business-to-business networks help in the task of tracking down information by sector and by country. Direct contact with potential clients allows service providers to share information on company background, explain work procedures and arrangements, indicate the quality of services offered, give an overview of client portfolios, and present documentation on successful past contracts. Such events are also an excellent vehicle for

forging strategic partnerships with firms in other countries and sharing trade intelligence on market features, the specifics of demand for services in those markets, and key cultural considerations for successfully launching services in new markets.

Chambers of commerce in a number of countries organize trade missions for their members at low cost, with financing from programmes set up by the export promotion agencies.

(d) Broader use of quality certifications

Certification that attests to the quality of services and their compliance with international standards is a useful way to allay external consumers' lack of confidence in new agents. Many operators are hesitant to use such certifications, partly for cost reasons but also because they are unsure of their ability to maintain certification requirements over time and are fearful of the repercussions of the possible loss of certification. Experience with small-scale goods exporters shows that participation by trade associations in publicizing the importance of quality management systems encourages operators to observe quality standards that gradually modify management techniques, cost rationalization and quality control measures to bring them in line with the international standards in place in more demanding markets (International Trade Centre, 2001; 1998).

National standards authorities have information on the standards that apply to each specific service sector.⁴⁰ Currently, most certifying firms are private concerns that must be accredited or recognized by the government in order for their certification to be valid in Europe, the United States or Japan.⁴¹

37 According to Proexport, many Colombians export services without realizing it; others export knowingly but do not report their exports; and yet others report figures well below the real ones. "Cómo exportar servicios", Proexport-Colombia (www.proexport.com.co). In Brazil, the Ministry of Development, Industry and Foreign Trade has prepared a paper containing basic information but it is not available through the exporter's portal but through the page on export barriers (<http://www.mdic.gov.br/comext/deint/Barreiras/CartilhaServicos.PDF>).

38 One example is the Ibero-American Association of Chambers of Commerce (www.aico.org).

39 A useful source is the TradePort website (www.tradeport.org), which offers trade intelligence, guidelines and business databases. It also has calendars of business events, glossaries and reference guides.

40 The World Standards Services Network (WSSN) is a network of websites of standards organizations from around the world. Through the websites of its members, WSSN provides information on international, regional and national activities and services in standardization and related spheres (<http://www.wssn.org>) (International Trade Centre, 2001).

41 The situation of certification is very heterogeneous across the region, given the diverse productive and business conditions of the countries. Brazil, for instance, has some 8,000 certifying firms in a wide range of areas, while Argentina has 4,000. Chile, one of the countries whose foreign trade has a high impact on GDP, has only an estimated 350 certifying firms, although government projections indicate that number will reach 1,000 in the year 2005. In Chile, most of these firms deal with products (mainly in the forestry, agriculture and fisheries sectors), with only very few focusing on procedures in the environmental and labour areas ("Con permiso para crecer", Agricultural Supplement, No. 1,394, *El Mercurio*, Santiago, Chile).

5. Other forms of trade support and facilitation

Trade in services is also fostered through a number of other instruments, such as understandings and written agreements between countries. Table IV.1 summarizes some of the

main objectives and features of bilateral agreements in this sphere.

Table IV.1
BILATERAL AGREEMENTS THAT FACILITATE INTERNATIONAL SERVICE TRANSACTIONS

Issue	Objectives and features of the agreement
Double taxation	Prevent two States from levying similar taxes on the same economic instance. An international agreement is signed stipulating the adjustments to be made to the internal legislation of the parties. Various models exist. OECD has developed one of the most commonly used versions (OECD, 2003b), which seeks to avert double taxation of income and assets; it includes definitions, scope of application and other provisions.
Double payment of social security or pension contributions	Allow individuals to record their payments in both countries, making it possible to obtain parallel pensions in either country. Some of the guarantees provided are: the right to request in the country of residence benefits acquired in the other country; the right to receive economic benefits outside the granting State, without requirement of residency or reduction in the benefit; the right to accumulation of insurance coverage; and exemption from the obligation to make payments in the country of origin during time spent residing in the other country.
Investment promotion and protection	Grant additional protection to foreign investment flows into and out of signatory countries on the basis of specific stipulated principles, establishing minimum standards to be observed in case of expropriation. This group of agreements ensures the free transfer of capital, profits and interest generated by foreign investments and all other transfers of funds associated with such investments. Provisions are included for dispute settlement between investors and the State of the other party; the investor must decide in which jurisdiction to submit the dispute (country of origin or host country), and the selection of jurisdiction is definitive. These agreements also give investors access to non-commercial risk insurance offered by multilateral agencies such as the Multilateral Investment Guarantee Agency and the Overseas Private Investment Corporation.
International mobility: business persons and service providers	This issue has been taken up under GATS, ^a but headway has been limited (Abugattas, 2003). Of special interest is the implementation of an APEC ^b business travel card by the Asia-Pacific Economic Cooperation (APEC) (see the APEC website at http://www.apecsec.org.sg).
Reciprocal recognition of degrees, accreditation and technical standards	These agreements are encouraged by most international treaties on services. Article VI (Domestic Regulation) and Article VII (Recognition) of GATS contain provisions in this area. The multilateral work is pending the conclusion of work by the Working Party on Domestic Regulation (Article VI.4 of GATS). Thus far, greater transparency has been achieved only with respect to existing agreements among members, with general principles set down for extending them to third-party countries. Little headway has been made in the adoption of common criteria for reciprocal recognition, aside from a non-binding guideline on recognition in accounting and auditing.

Source: Francisco Prieto, "Fomento y diversificación de las exportaciones de servicios", *Comercio internacional series*, No. 38 (LC/L.2041-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 2004. United Nations publication, Sales No. S.03.II.G.201.

^a General Agreement on Trade in Services.

^b Asia-Pacific Economic Cooperation.

D. Some service export experiences from Latin America

Latin America and the Caribbean account for a relatively modest share of world trade in services. The region's 4% share in 2001 was below its nearly 6% share of world trade in goods. The main export economies are Mexico and Brazil, which represent approximately 37% of the regional total. As mentioned earlier, the region is a net importer of services, mainly under the heading "Other services".

In 2001, 13 of Latin America's 150 leading exporters were service exporters,⁴² mainly in construction, transport, trading, telecommunications, communications, airlines, trade and utilities. Five were Brazilian, five Mexican, two Colombian and

one Argentinean. The top service exporter, PMI of Mexico (trading sector), recorded exports on the order of US\$ 12.611 billion, down 22.6% from 2000 (US\$ 16.3 billion). This firm ranked third among the principal exporters in all headings, immediately behind *Petróleos de Venezuela, S.A. (PDVSA)* and *Petróleos Mexicanos (PEMEX)*. Four of the six firms for which information is available have the United States as their principal market, while others are very diversified throughout Asia, the European Union and Latin America. Eleven of the firms included in the classification are national; i.e., either State-owned or privately held by nationals.

Table IV.2
TOP 13 SERVICE EXPORTERS AND THEIR RANKING AMONG THE
150 LEADING EXPORTERS OF LATIN AMERICA

Ranking		Firm	Country	Sector	Exports (US\$ millions)		Variation 01/00%	Ownership ^a
2001	2000				2001	2000		
3	3	PMI Comercio Intenacional	Mexico	Trading	12 611.7	16 300.0	-22.6	S
19	30	Grupo Cintra	Mexico	Transport	1 334.6	1 348.2	-1.0	P
50	-	Carulla Vivero	Colombia	Trade	565.5	n/a	-	P
56	126	Coimbra	Brazil	Trade	539.9	339.0	54.5	P*
82	127	Avianca	Colombia	Airlines	380.2	336.9	12.9	P
88	105	ICA	Mexico	Construction	353.3	406.2	-13.0	P
103	78	Glencore	Argentina	Trade	300.0	573.0	-47.6	P*
104	194	TAM	Brazil	Airlines	299.6	163.7	83.1	P
105	106	Grupo Televisa	Mexico	Media	295.8	395.8	-25.3	P
110	217	Coimex	Brazil	Trading	277.1	137.1	102.2	P
114	82	Telmex	Mexico	Telecommunications	262.4	535.1	-51.0	P
141	-	Cosan	Brazil	Utilities	206.6	n/a	-	P
145	-	Recofarma	Brazil	Trade	198.3	n/a	-	P

Source: *América Economía*, 9-22 August 2002.

^a S: State; P: Private - national; P*: Private - foreign.

n/a = not available.

According to IMF statistics compiled by WTO, all the countries of Latin America and the Caribbean (with the sole exception of Brazil) have their exports concentrated in the headings of transport, travel, communications and insurance. The few countries with surplus trade in services include most of the Caribbean countries plus Costa Rica, Panama, Paraguay and Uruguay. Of these, only Costa Rica, Panama and Uruguay derive less than 50% of their exports from the tourism sector; the rest obtain a very high percentage of

foreign exchange from these activities. Mexico alone was among the 30 top service exporters in the world in 2002, ranking 28th and representing 0.8% of the total (US\$ 12.6 billion). Mexico and Brazil were among the 30 leading service importers in 2002, with Mexico in position 23 (US\$ 16.4 billion) and Brazil in position 29 (US\$ 13.6 billion). As mentioned earlier, the region's major service exporters, Brazil and Mexico, are also major importers, although Brazil runs the largest negative balances (see also chapter I).⁴³

⁴² According to *Business Week Global 1000*, over one half of the major global corporations are service firms. *Business Week*, 14 July 2003.

⁴³ The Brazilian construction sector is noted for running a continuous surplus. The sector comprises engineering projects, industrial projects and other on-request assembly processes (Valls Pereira, 2002).

The relatively limited diversification of the region's service exports contrasts sharply with its heavy reliance on imported services of very varied kinds. Most of the countries report significant imports under the headings of transport, travel, communications, insurance, construction, financial,

computer and information services, royalties and licence fees, other business services, and even personal, cultural and recreational services.

The following sections discuss some specific regional experiences with audiovisual services, computer programs and international outsourcing.

1. The audiovisual sector and cultural industries: the need for government support

Under the WTO classification, audiovisual services are a subcategory of communication services. They include the production and distribution of motion pictures and video tapes, projection of motion pictures, radio and television services, sound and image transmissions, sound recording and others (which could include multimedia products).⁴⁴ Given the important place of audiovisual services in a country's social and cultural life, government regulations and support programmes play a pivotal role in this sector.⁴⁵ Regulatory frameworks promote domestic industry through various measures and institutions, but also restrict foreign investment and content (WTO, 1998b).⁴⁶

(a) Government support for the film industry

Most countries in the region lend support of one kind or another to their domestic film industries, using such means as credit on favorable terms or interest rates, direct subsidies for production and/or promotion and training, tax breaks, screen quotas and even direct

participation by the State as a production partner.⁴⁷ However, only 2% of the intake in Latin America comes from the showing of movies produced in the region. The fact is that Latin American cinema has yet to become a true industry. Zuleta, Jaramillo and Reina (2000) note the absence of a productive chain in the sector and draw attention to the strong position of international distributors. More often than not, film directors have assumed the role of producer, financier and distributor –and, by extension, all the investment risk as well. Recent studies have shown that Latin American cinema lacks a commercial structure capable of placing its cinematographic products on international markets, even within the region.⁴⁸ The region's producers have very little bargaining power on international markets owing to the absence of distributors who can represent the rights of Latin American producers in a unified fashion.⁴⁹

In Argentina, the National Board for Cinema and Audiovisual Arts (INCAA) administers the Motion Picture Development Fund, which provides financial support for the various links of the cinematographic

44 See WTO, 1991 in Mattos, 2001.

45 The Dominican Republic, El Salvador, Mexico, Nicaragua and Panama have assumed liberalization commitments in audiovisual services, but only Mexico, Nicaragua and Panama have assumed the obligation to liberalize the production and distribution of motion pictures and video tapes and the projection of motion pictures. The United States was the only country that assumed commitments in all the subsectors; the United States, Japan and New Zealand were the only industrialized countries that included audiovisual services in their lists of commitments (WTO, 1998b).

46 Several countries (e.g., Argentina, Brazil, Chile, Colombia, Ecuador, Peru and Venezuela) had set legal quotas for programmes of national origin on television networks. In October 2003, Brazil's National Cinema Board (Ancine) was superseded by the National Cinema and Audiovisual Board (Ancinav), reporting to the Ministry of Culture; the new board is to propose integrated guidelines for public policy in the audiovisual sector as a whole (cinema, television, independent production and multimedia products) with a view to increasing the national content of audiovisual products.

47 Australia assists its film industry through tax credits and direct subsidies from the federal and state governments. An evaluation of these programmes has yielded mixed results, since support is often provided to firms whose films were never shown in public or had inflated budgets (Gonski, 1997).

48 Buquet and Mota, 1998, cited in Zuleta, Jaramillo and Reina (2000).

49 The Conference of Ibero-American Cinematographic Authorities (CACI) was founded to represent member countries at international gatherings and formulate regional proposals. At the initiative of CACI, the IBERMEDIA programme was set up as a development fund to finance cinematographic activity, distribution of films in the regional market and training of human resources for the audiovisual industry (<http://www.ibermedia.com>). One outcome of these Ibero-American initiatives has been the creation of the Ibero-American Federation of Film and Audiovisual Producers (Buquet and Mota, 1998), cited in Zuleta, Jaramillo and Reina (2000).

chain. INCAA makes funding available on favourable conditions, both for production and for international marketing. It also makes financing available to film laboratories and projection firms. In Venezuela, the National Autonomous Centre for Venezuelan Cinematography (CNAC) provides backing for the entire set of links in the cinematographic chain. Chile's Support Programme for Feature-Length Motion Pictures, established in 1999, promotes film-related projects through cofinancing for pre-production, filming, post-production, distribution and marketing of feature-length films for the domestic and international markets. The programme includes specific support for international promotion and marketing. Chile has gone from producing one film a year to an average of 16, and the national content of Chilean television now stands at 75%. Chile also has one of the region's largest technological platforms for post-production.⁵⁰

In Brazil, the Audiovisual Industry Act (Law 8,685) of July 1993 created a mechanism to foster private investment in the audiovisual sector by granting income-tax deductions for investments made in the production of independent cinematographic works through the capital market. The remittance of profits and royalties from the showing of foreign audiovisual works was levied at 25%; up to 70% of this amount can be ploughed back into the coproduction of works in Brazil. In 1996, investments totaling US\$ 40 million were promoted through this instrument. As a result, openings of Brazilian feature-length movies rose from 6 in 1995 to 40 in 1997, although revenue did not increase proportionally: from US\$ 6.7 million to US\$ 16.9 million (Zuleta, Jaramillo and Reina, 2000).

In Mexico, the Mexican Cinematography Board (IMCINE) is the national agency under the National Council on Culture and the Arts (CONACULTA) responsible for promoting and coordinating cinematographic production in the three basic areas of the industry: production, distribution/exhibition and promotion/advertising, both nationally and internationally.⁵¹ IMCINE coordinates two funds to

foster development of Mexico's film industry: the Investment and Promotion Fund for Mexican Cinema, under the Education Ministry, and the Cinematographic Production Fund.⁵² Although IMCINE does not directly target broader exportation of Mexican cinema, its activities and instruments ultimately have that effect. The effectiveness of film support policies still needs to be established in order to gauge their impact on Mexican film exports.

Based on the scarce data available, it would appear that the success of the efforts described above has been relatively modest in terms of volume of business generated at the global level. In fact, only two Mexican feature-length films made the world list of the 2,250 films with highest box-office takes between 1900 and 2003. According to a specialized database, *Como agua para chocolate* [Like Water for Chocolate] (1992) and *Amores perros* [Life's a Bitch] (2001) are on the list, ranked respectively in positions 1,735 and 1,870.⁵³ For the former, the only available information is on box-office revenue in the United States market (US\$ 21.7 million), while the latter took in US\$ 5.4 million in the United States market and US\$ 19.6 million worldwide. The Brazilian film *Estação Central* [Central Station] (1998) managed to reach 2,025 in the ranking, with global revenue of US\$ 17.2 million, of which US\$ 5.6 million was generated in the United States market.

To place these figures in perspective, the biggest box-office success of all history was *Titanic* (United States, 1997), with global revenue of approximately US\$ 1.835 billion, of which over US\$ 600 million was generated in the United States market.⁵⁴

(b) Entrepreneurial experience in the television industry: the case of TV Globo

In most Latin American countries, television has established itself mainly as a private industry with a rather weak presence of public television. The more powerful groups in the larger markets—such as Mexico (Televisa, TV Azteca and González) and Venezuela

50 Joint programme of the Productive Development Corporation (CORFO), the Arts and Culture Fund, the Ministry of Education, and ProChile.

51 National Council on Culture and the Arts (CONACULTA) (www.conaculta.gob.mx).

52 Mention should also be made of the National Film Commission (CONAFILM), created in 1995 by CONACULTA, IMCINE and Estudios Churubusco Azteca. With support from the Tourism Ministry, the Federal Government, the state governments, and public and private organizations and institutions, CONAFILM and the network of state film commissions work to promote the production of television films, programmes and commercials in Mexico; they also provide assistance to companies and producers interested in carrying out projects in the country (<http://www.conafilm.org.mx>).

53 See the webpage of World Wide Box Office (<http://www.worldwideboxoffice.com>).

54 In 1996, the United States had approximately 30,000 movie theatres, while in all of the European Union there were fewer than 21,000. In that same year, the number of visits to a movie theatre per person per year was 5.6 in the United States, 1.9 in Europe and 0.6 in Latin America (Safir, 1997, cited in Zuleta, Jaramillo and Reina, 2000). Brazil, with a population of nearly 80% that of the United States, has only 1,000 theatres ("O cinema descobre o Brasil", *Jornal do Brasil*, October 2003).

(Grupo Cisneros)– have expanded their operations into small and medium-sized markets through the partial or total acquisition of channels in Chile, Ecuador, El Salvador, Peru and elsewhere.

The technological advances of the past few years have led to a “media convergence” that has spawned a new kind of business: communications, media and entertainment (CME) firms.⁵⁵ TV Globo is a classic success story of international expansion based on building a CME conglomerate along the lines of mega-operators such as AOL/Time Warner. The latter, created by a merger in 1999, owns HBO, Turner CNN and Warner Brothers, making it the largest CME firm in the world with invoicing of US\$ 39 billion. The Globo group is Latin America’s largest CME firm, with roughly US\$ 3 billion in invoicing in 2001. The group comprises Jornal o Globo, Rádio Globo, Rio Gráfica Editora, TV Globo, the new pay television firms of Net Brasil and Sky, and the Internet company of Globo.com, all of which are linked to Globopar, the group’s financial arm.⁵⁶ The Cisneros and Televisa groups also control significant segments of the region’s audiovisual services industry, including cable and satellite television.

TV Globo began its foray into the international sphere in the 1970s with the marketing of soap operas,

mainly in Latin America and Portugal. Penetrating the Latin American market entailed dubbing voice tracks in Spanish, but also meant competing with other operators such as Televisa (the Mexican producer and exporter of soap operas to the region) and Venevisión (Venezuela).⁵⁷ Between 1999 and 2002, TV Globo’s international programming sales rose from 13,987 hours to roughly 23,800 hours, equivalent to a 70% increase in just three years. Soap operas account for 70% of that revenue, with the rest coming from series, mini-series and variety shows. A second thrust towards internationalization has been to sell programming on TV Globo Internacional, which broadcasts to 34 countries and has over 180,000 subscribers. Programming is entirely in Portuguese and the main market is Japan, followed by the United States. The third avenue of internationalization involves removing cultural barriers from products designed for the Brazilian market by producing soap operas and miniseries written originally in Spanish using foreign casts, in order to make them more competitive internationally. This last line of action may ultimately include the creation of a news agency aimed at marketing sensationalist-type news products, archive material and documentaries.

2. Information technology and related services

Information technology (IT) and related services are subdivided into five groups under the WTO classification: consultancy services related to the installation of computer hardware; software implementation services; data processing services; database services; and other (which would include Internet-related services). The heading *Other* covers consulting, education and training services, hardware maintenance, software maintenance, and consulting services for integration and network administration, among others. Software is actually a

hybrid product: it is marketed as a good, subject to the circulation and transfer of proprietary rights, although purchasers are only granted a licence with limited rights. At the same time, it is technically a service when it is sold packaged with hardware customized to meet the needs of given user.⁵⁸

The world market for IT and communications is regulated by GATS and the Information Technology Agreement, a multilateral convention whose signature is not mandatory for WTO members.⁵⁹

55 This section is based on Salazar and Lopes, 2003.

56 Most of the Globo group’s revenue comes from network broadcasting.

57 These two firms have an exclusivity agreement with Univisión, the largest Spanish-language channel in the United States, which ensures them 18 hours of daily programming.

58 See the website of the Colombian Federation of Software Industries and Related Information Technologies (<http://www.fedesoft.org>).

59 The Information Technology Agreement (ITA), which was introduced by the United States at the WTO Ministerial Conference in Singapore in 1996, is aimed at full and generalized liberalization (under most favoured nation arrangements) of trade in IT and communications products. In Latin America and the Caribbean, only Costa Rica, El Salvador and Panama are signatories of the Plurilateral Trade Agreement of the WTO. Interestingly, Mexico has not signed the ITA but it acceded partially through the NAFTA framework. Chile is in a similar situation as Mexico by virtue of its agreements with Canada and the United States.

To compete on international software markets, firms must observe high quality standards in processes as well as for products. The capability maturity model for software (CMM) is a model for enhancing processes. It was designed as a means to assess the maturity of an organization's IT processes and identify key practices that should be adopted in order to enhance the maturity of those processes. CMM has five levels.⁶⁰ Level 5 is the top level and addresses the core processes that both the organization and projects must comply with in order to ensure continuous and measurable improvement in IT processes.⁶¹

Several Latin American countries have instituted programmes to support and promote their IT sectors, with varying degrees of success; in others such as Uruguay, progress in the sector has been achieved on the basis of business activity.⁶²

(a) Brazil: the rise of customized software

Brazil accounts for roughly one half of Latin America's IT market, estimated at approximately US\$ 30 billion; it is followed by Mexico and Argentina. In 2003, domestic sales of software and related services represented an estimated 1.8% of GDP. In 2001, Brazil exported over US\$ 120 million in computer programs of various types.⁶³ Although this amount is small in comparison with the US\$ 10 billion that India exports each year and with Brazil's imports of over US\$ 1 billion in this sector, this recent expansion is noteworthy and underscores the importance of having a long-term policy for the sector.⁶⁴

In 1992, the National Council for the Development of Science and Technology, an agency of the Ministry of Science and Technology, launched the Programme to

Promote the Excellence of Brazilian Software (SOFTEX) in an effort to spur growth in the domestic IT industry. It was not until 2002, however, that the programme was considered a priority in terms of the incentives granted under Law 10.176/2001.⁶⁵ The SOFTEX programme links universities, research centres and businesses, and has nearly 1,000 participating entities and 200 companies that act as seedbeds of technological innovation (MCT, 2002). It is coordinated by a civil society organization classified as being in the public interest. Aware of the difficulties in penetrating new export markets, SOFTEX organizes trade missions to promote Brazilian products⁶⁶ and offers a course through its website on how to export software, thus assisting sector operators in exporting their products and services.⁶⁷

The over 5,400 computer firms active in Brazil are working in data security, banking and industrial automation, business management and e-procurement. The software that makes it to market is of two types: general applications and customized programs for meeting specific client needs. Valls Pereira (2002) estimated that the latter represented nearly 63% of Brazil's software exports between 1999 and 2001. While 90% of the exports of general application programs went to the United States market, customized software was exported mainly to the countries of MERCOSUR, North America and the European Union.

(b) Costa Rica: public-private partnerships

The software sector in Costa Rica has enjoyed a broad role as well as strong growth within the country's economy. The availability of trained human resources weighed heavily in Intel's decision to invest there.

60 See the website www.sei.cmu.edu/cmm.

61 India has the most companies (more than the United States) with CMM level 5 certification, one of the most important ones for IT firms. This –coupled with the 220,000 IT engineers and computer scientists who graduate each year from Indian universities– help to explain the country's success in the international IT market.

62 Mexico spends the equivalent of 0.10% of its GDP on computer programs. The Government is looking to bring this level up to the world average of 0.61%. The country's Software Industry Development Programme falls within the framework of the sector competitiveness programmes and the 2001-2006 National Development Plan. The goal is to achieve annual software production of US\$ 5 billion and make Mexico the region's leader in the support and development of IT-based services. Uruguay estimates its 2002 software exports at around US\$ 85 million (see Uruguay en Red-Prensa, interview with the president of the Uruguayan Information Technology Board, Enrique Tucci, in *El Espectador*, 2 September 2003).

63 Since several foreign companies with offices in Brazil conduct intra-firm transactions, their exports may be recorded against the main office or parent firm. In 2002, sales by Brazil's 200 largest IT firms came to over US\$ 41 billion (*Exame-Info*, August 2003).

64 The Brazilian experience of promoting its IT industry through tariff protection and administrative measures was often cited in the 1980s as an example of costly and erroneous selection of "winners", although it did generate, as a side effect, software development capacity ("É hora de agir", *Exame*, 25 June 2003).

65 Executive Order No. 386 of the Ministry of Science and Technology.

66 "Softwares do Brasil para o mundo", *Jornal da Tarde*, IT supplement, 7 August 2003, pp. 1D and 5D.

67 The course includes an outline of the stages of the software export process, model documents, exercises, a glossary of the most common technical terms used in international trade, a module on exporting software to Germany, the United States, China and Argentina, etc. See also the SOFTEX website (<http://www.softex.br>).

Subsequently, the company also decided to set up a centre for software development and support for the design of semiconductor components in Costa Rica.⁶⁸

Costa Rica's Software Producers Board (Caprosoft) has launched a three-pronged support programme for the software sector: strengthen human resources (education), strengthen firms' quality management systems, and strengthen its own institutional capacity. The training project has received financing from the Foreign Trade Promotion Agency⁶⁹ and the Inter-American Development Bank, as well as support from the National Centre for Advanced Technology Foundation.

In 2000, Costa Rican software exports totaled over US\$ 50 million, outstripping the country's sugar exports.⁷⁰ Initially, these exports went to neighbouring countries (Central American Common Market), but later expanded to other countries in Latin America, Europe and Asia. Roughly 50% of the over 130 software development firms are active in the international market.

(c) Colombia: credit lines for technological innovation

In 2000, Colombia established a national registry of exporters of goods and services, extending to service

exporters some of the benefits in place for goods exporters, provided contracts are registered with the Ministry of Trade, Industry and Tourism. Proexport, the country's export promotion agency, has approved a support programme for special projects and plans to export services that is built around the specificities of this macrosector.⁷¹ The benefits include exemption from value-added and withholding taxes on services used exclusively abroad by firms that do not do business or engage in activity in Colombia, provided the foreign exchange in question is channeled through the exchange market.⁷²

In addition, the Colombian Government is working to adjust domestic legislation to legally recognize the four trade modes of WTO. With regard to software, the new tax reform exempts the production of new computer programs from income tax. In November 2001, the National Foreign Trade Council approved a policy to promote IT exports, and this has set the course for the strategy to internationalize the sector.⁷³

In 2000 and 2001, Colombia's software exports averaged just over US\$ 21 million per annum, accounting for approximately 20% of service exports (not including travel, transport and freight). Most of these exports went to countries of the Andean Community and NAFTA.

68 See <http://www.american.edu/initeb>.

69 See the agency's website (www.procomer.com).

70 See WTO, 2001b. In that communication, Costa Rica identified the following obstacles to its service exports: discriminatory tax treatment, excessive taxation of the transfer and/or repatriation of capital, and restrictive or excessive requirements on the temporary entry/exit of technical staff.

71 The public and private sectors have signed the following agreements on competitiveness: San Andrés tourism, Cartagena tourism, Santa Marta tourism; engineering and consulting services; software and related services; international air cargo transport; specialized healthcare services; engineering and consulting services; logistical services; and ground transportation. Sectors with high export potential were also identified: software and related services; engineering, consulting services and construction; education; and specialized healthcare services.

72 The agency reported the following results: 24 IT firms reported exports of US\$ 800,000 in 2001 and US\$ 150,000 in the first quarter of 2002, mainly to the Spanish market. In the engineering area, contracts exceeded US\$ 130 million, mainly in the markets of Central America (including Panama). Healthcare institutions reported revenue from non-resident patients on the order of US\$ 2.3 million.

73 Other financial options exist for selectively supporting the development of services in the Colombian economy. The National Productivity and Competitiveness Programme and Proexport-Colombia offer two financing products: a rediscounted credit line with incentives for technological innovation and the community and a line of cofinancing for technological innovation projects.

3. Offshore business services

A number of non-core business activities or functions, such as periodic or routine administrative tasks, technical assistance, logistical support, consumer support and after-sales service, can be provided remotely. Two formats are commonly used: outsourcing (i.e., subcontracting to outside providers) and insourcing (providing the service internally within the organization).⁷⁴ This category has gradually expanded from routine, periodic or clearly complementary activities to include specialized tasks that require high levels of training on the part of the service provider. Even so, they continue to be outsourced to companies in developing countries through a shared service centres model (insourcing) or outsourced to service providers in developed countries.

Several countries in the region, including Chile, have potential to provide offshore business services to foreign companies.⁷⁵ The offshore business service centres currently in operation in Chile are basically of

the insourcing type, and the challenge now is to encourage them to begin offering outsourceable services and more complex business activities that bring greater added value to the service provided. Call centres represent one of the areas with especially large potential. Such centres first appeared in Chile in the mid-1990s, as a new service culture was emerging alongside economic opening and deregulation of the telecommunications sector. Outsourcing of this type of services has expanded to a significant number of sectors linked to internal demand, but only recently have new centres been opened with an eye to global opportunities. Currently, the national supply of outsourced call centres consists of 36 firms, of which 94% are located in the Metropolitan Region.⁷⁶

Call centres in Chile handle over 170 million calls annually, of which approximately 65% are inbound calls (i.e., calls made to the company) and the rest are outbound (i.e., calls originating within the company).

⁷⁴ The financial industry is today an intensive outsourcer, as are the publishing industry, the media and, especially, IT services, call centres and contact centres. Hollywood movies are now filmed in Australia or New Zealand and edited in Canada. Credit card applications are evaluated in India, and many architectural projects for Manhattan are actually designed in offices in Prague or Budapest.

⁷⁵ In Chile, CORFO has established incentives to bring investment in cutting-edge technology into the country (Iglesias and Stevenson, 2003).

⁷⁶ The bulk of this supply comes from small firms of fewer than 30 positions (42%), followed by firms of 31 to 50 positions (25%), and then firms with 101 to 250 positions (19%). In other words, medium-sized firms (those between 51 and 100 positions) play a very small role.

Chapter V

From Doha to Cancún: the development dimension in world trade organization negotiations



Introduction

The new round of multilateral trade negotiations that kicked off in Doha at the end of 2001 raised strong expectations that a genuine development round was about to commence. During the two years of preparatory work, however, and at the subsequent Fifth WTO Ministerial Meeting in Cancún –which ended inconclusively on 14 September 2003– the developing countries' demands and proposals with respect to the tasks agreed upon at Doha received only scant attention. At Doha, the Ministers had pledged to direct their efforts at extending the benefits of the greater opportunities and progress in well-being generated by the multilateral system of trade to all WTO members, through greater market access, balanced rules and properly directed and sustainably funded technical assistance and capacity-building programmes. The Doha negotiating agenda was designed to help achieve these goals by affording priority to issues of interest to developing countries. Among these issues were the need to address outstanding implementation issues, guarantee compliance with provisions on special and differential treatment and correct and avoid restrictions and distortions in world agricultural markets. The developing countries were also keen to see the reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers to their exports; and to define the application and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), in order to benefit public health and foster access to existing drugs, research and the development of new drugs.

The failure to arrive at a consensus text in Cancún shows how difficult it is to turn rhetorical intentions into concrete actions that can effectively succeed in placing the development dimension at the heart of the multilateral trade system. The weakening of the multilateral framework leaves developing countries with the alternatives of bilateral or plurilateral liberalization agreements. The geometry of these agreements varies, but some contain significant asymmetries in bargaining power and power relations that put developing countries at even more of a disadvantage. A system of trade based on clear-cut, universal rules can serve the needs of development only if those rules are extended to all countries irrespective of their economic and political influence.

This chapter seeks to furnish a structured view of how the multilateral trade system has dealt with a

number of development-related matters and to assess the current state of the debate. The chapter is divided into five sections, including the introduction. The second section reflects upon the components of the development dimension in the context of a multilateral trade system that has expanded its sphere of action to what are known as “trade-related issues”. Section B examines the way special and differential treatment has evolved, as well as changes in the multilateral system of trade over time. Section C contains an analysis of the positive agenda proposed by the developing countries in the WTO. There follows a review of the preparatory work for the Cancún conference and of the international community’s failure to generate a constructive response on that occasion. Lastly, a number of considerations are set forth on the governance of the multilateral system.

A. The development dimension within the constraints of the multilateral trade system

Within the framework of WTO, the development dimension encompasses at least two interrelated spheres: on the one hand, the key factors in a beneficial integration of developing countries into a hierarchical world economy with asymmetric risks and opportunities and, on the other, the features the system of multilateral principles and rules must have in order to ensure that liberalization and trade openness contribute to growth and development. Both these ideas have been taken into account in the formulation of special and differential

treatment for the implementation of disciplines in the multilateral system. The voluntary and non-binding nature of many provisions has detracted from the effectiveness of the concept, however. In addition, the undertaking to revise the contents of special and differential treatment has expanded as the multilateral trade system has extended its sphere of action from the tariff instruments of trade policy to other domestic policy instruments, as is reflected in most of what are known as the Singapore issues.

1. The need for consistency beyond the bounds of WTO

The current debate has revealed the limitations of the multilateral trade system with respect to the concerns of the developing countries, principally in relation to three sets of issues: (i) countries’ financial and institutional capacity to meet the obligations contained in the

Uruguay Round agreements; (ii) the links between trade, trade liberalization and individual countries’ financial, monetary and technological policies; and (iii) the implications of the multilateral trade system disciplines for social issues such as poverty, employment, food

security, rural development, environmental protection, public health, culture, etc. (UNCTAD, 2003b). In global terms, it is a matter of finding mechanisms—including special and differential treatment, where appropriate—for addressing the problems of economic and social development (UNCTAD, 1999a). Since the Uruguay Round the tendency has been to shift from special and differential treatment towards building the capacity to comply with standards.

The foremost concern is the matter of “coherence”, which first arose during the work of the General Agreement on Tariffs and Trade (GATT). Countries started to analyse the need for consistency in the

monetary, financial and trade spheres in order to maintain international governance in a pro-development agenda, be it in the context of the different areas of negotiation and disciplines, the different multilateral institutions involved or the national, regional and multilateral processes and strategies. In other words, a consistently pro-development approach is needed to provide developing countries with the means to lock into the benefits of trade liberalization (Tórtora, 2003). In this respect, the debate is nourished by discussions on the preservation and expansion of policy space and by the current WTO work on trade, debt and finances, and technology transfer.

2. Other unfinished business within WTO from the development perspective

For many developing countries, the fulfilment of commitments made in WTO agreements calls for broad and costly reforms that constitute a veritable institutional restructuring (Finger and Schuler, 1999). These demands on countries’ scarce human and financial resources are compounded by the vacuums in the Uruguay Round regulations, the weakness of some of its recommendations and compliance with the letter rather than the spirit of those agreements on certain issues of interest to the developing countries which, as will be discussed later, come under the heading of special and differential treatment.

Concerns over the development dimension therefore transcend the framework of special and differential treatment in the multilateral trade system to encompass the architecture and structure of agreements conducive to growth and development. The view taken by the developing countries is that the results of the Uruguay Round, on the contrary, were unbalanced in that the rights and obligations favoured the more industrialized countries.

In response to the concerns of the developing countries, three working groups were established in Doha to analyse: (i) the issues identified with a view to better integration of small and vulnerable economies in

the multilateral trade system; (ii) the linkages between trade, debt and finances; and (iii) the relationship between trade and technology transfer. These issues should be afforded the same priority as the formulation of new disciplines in areas that interest the developed countries, such as the link between trade and investment, the interaction between trade and competition policies, transparency in public-sector procurement and trade facilitation (in other words the Singapore issues).¹

Looking at the relationship between trade, debt and finance means exploring the linkages between trade liberalization and growth, trade—commodities and export diversification— and financial markets, WTO standards and financial stability, and increased consistency between trade reforms and market access. In turn, addressing the problems of technology transfer between technology-exporting and -importing countries involves examining the constraints on developing countries’ access to knowledge and how this prevents the fulfilment of certain commitments on protection and intellectual property. These elements demonstrate the interdependence that exists among the multilateral system, key aspects of trade from the perspective of developing countries and the functionality of those aspects in terms of development objectives.

¹ They are termed “Singapore issues” because they are associated with the programme of work that resulted from the 1996 Ministerial Conference held there.

B. The development dimension and special and differential treatment in the multilateral trade system

Special and differential treatment has a history of its own which merges with the development of the concept and practice of economic and social development. As Kenneth Dam has pointed out, the juxtaposition of the interests of the industrialized and developing countries changed GATT from the passive administrator of a multilateral legal instrument into an institution actively engaged in promoting developing country exports (Dam, 1970). Between 1947 and 1948, during the work leading to the creation of the World Trade Organization, the developing countries propounded the need for recognition of the heterogeneity of the countries that comprised the trade system. The cornerstone of the multilateral trade system is, however, liberalization without discrimination. In other words, standards must be uniformly applied by all the contracting parties.

According to the edicts of trade theory, growth and development were supposed to be a direct and automatic consequence of non-discriminatory trade liberalization. GATT was therefore expected to foster development and growth by promoting freer and non-discriminatory trade.

However, as well as the need for affirmative action to compensate for the relative lag of the developing countries, research on the relationship between developing and developed countries suggested that the trade policies of the industrialized countries were in fact one of the main obstacles to their own development. For different reasons, including the industrialized countries' protection of markets of interest to developing countries, trade has not become an engine of growth for the developed economies (see chapter 8 in ECLAC, 2001b).²

1. The development question: from the Haberler Report to Part IV of GATT

GATT 1947 did not recognize that developing countries warranted special treatment despite the fact that chapter III of the Havana Charter dealt with economic development and reconstruction. Strenuous efforts by developing countries led to the admission by legal experts that, like at the domestic level, applying the principle of equal conditions to profoundly uneven economic and social situations actually deepened the inequalities. For a period, economic international law became understood as a compensatory law designed to protect weaker States against stronger ones, by affording more rights to the former and imposing more obligations upon the latter. From the Havana Charter GATT inherited article XVIII (Government assistance to economic

development and reconstruction), which had been article XIII in the Charter. Between 1954 and 1956, this article was revised and new provisions were incorporated, in particular those contained in article XXVIII on Modification of Schedules. This article afforded the developing countries greater freedom to impose quantitative measures and other restrictions in order to protect their nascent industries and combat balance-of-payments disequilibria.³

A decade after GATT came into effect, a panel of experts concluded in 1958 that the barriers imposed by the industrialized countries on imports from developing countries were the main cause of the developing countries' trade difficulties.⁴ Committee III of GATT

2 For a discussion on asymmetries and special and differential treatment in the multilateral system, as well as their relationship with concepts of economic development and the resulting strategies, see ECLAC, 2001b; ECLAC Subregional Headquarters in Mexico, 2001a; Michalopoulos, 2000; Corrales-Leal, 2003; and Whalley, 1999. See also UNCTAD, 1985b and WTO, 1999.

3 Until the Kennedy Round (1964-1967), only 25 developing countries participated in GATT, of which more than one third were Latin American.

4 The panel members were Gottfried Haberler, James Meade, Jan Tinbergen and Roberto Campos.

was created on the basis of the Haberler Report to identify the trade measures that restricted exports from less developed countries and to initiate a programme for trade expansion through the reduction of those barriers. No significant reductions in barriers ensued, however.⁵ In 1963, five years into Committee III's activities, and with no apparent progress, the developing countries managed to secure under GATT a resolution calling for a programme of action, which consisted of freezing all new tariffs and non-tariff barriers, eliminating all taxes on tropical commodities, eliminating taxes on goods produced in developing countries and adopting a calendar for the reduction and elimination of tariffs on semi-processed and processed products. In general, these countries were asking for nothing more than the implementation of the General Agreement in a pure form and greater consistency between the large countries' trade policies and their trade liberalization discourse

(Dam, 1970). When the Uruguay Round began three decades later, however, most of the barriers identified by Committee III were still in place in the industrialized countries.

The United Nations Conference on Trade and Development (UNCTAD) was held in 1964 and gave rise to the organization of the same name. Part IV of GATT (Article XXXVI to XXXVIII), entitled Trade and Development, was approved in November of that year, during the Kennedy Round, and went on to form the legal framework for the activities of the Committee on Trade and Development.⁶ These activities were confined to a purely symbolic sphere, however. Later, in 1968, the same countries established the Generalized System of Preferences (GSP) under the auspices of UNCTAD. GSP was established on a voluntary basis by the industrialized countries and the preferences were not consolidated under GATT (Michalopoulos, 2000).

2. Special and differential treatment in GATT between the Tokyo and Uruguay Rounds

The Generalized System of Preferences (GSP) was authorized under GATT in 1971, though it had operated under UNCTAD since 1968.⁷ Subsequently, during the negotiations of the Tokyo Round (1973-1979), the developing countries secured the approval of the enabling clause (Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries), which afforded a more solid legal basis to differential and more favourable treatment by industrialized countries.⁸ However, the commitments remained outside the GATT consolidation system. Since the commitments were voluntary, the developed countries could withdraw

concessions unilaterally and at will, with no right to trade reprisals.⁹ The regimes established by these countries within the framework of GSP were included under GATT by means of an exemption from the most-favoured nation treatment (waiver to article I).

In more general terms, the concept of special and differential treatment was adopted during the Tokyo Round and is being incorporated into various agreements arising from it, although many of these accords have remained plurilateral in nature. At the end of the Round, a programme of work was established to examine the protection measures affecting imports from developing countries.

5 Articles XXXVI to XXXVIII of GATT.

6 Srinivasan and Park (1996) remark that some elements of this programme of action still figured on the negotiating agenda of the developing countries twenty years later, at the 1982 GATT ministerial meeting.

7 Tariff preferences had been recommended since UNCTAD I, in 1964.

8 The Enabling Clause implicitly contained the concept of graduation, as it was considered that the developing countries would become more fully integrated into the system as their economies strengthened (UNCTAD, 1985). Certain plurilateral agreements of the Tokyo Round also contain this principle (WTO, 1999).

9 The Enabling Clause, which is entitled "Decision on Differential and More Favourable Treatment and Fuller Participation of Developing Countries" constituted the legal basis for the Generalized System of Preferences (GSP) and for the Global System of Trade Preferences (GSTP).

3. Evaluation of special and differential treatment under GATT

A key element of the discussion has been the non-reciprocity of certain commitments. Intended to afford more flexibility to developing countries, non-reciprocity was incorporated into Part IV of GATT to help them to move forward in their processes of development supported by trade rules. Initially, the concessions allowed the developing countries to maintain tariff protection or trade restriction measures for balance-of-payments purposes (Article XVIII). Subsequently, preferential treatment, through GSP, took the form of concessions granted by the industrialized countries to allow developing country exports preferential access to their markets.

Nevertheless, measures that distorted trade in products of interest to the developing countries, especially agricultural products and textiles, persisted and even increased. GSP entailed uncertain conditions for market access and excluded some sectors that were important for the developing countries. In addition, the

level of preferences was eroded by tariff reductions agreed upon in successive rounds of trade negotiations, while newly created rules of origin were costly to administer. Moreover, the usefulness of measures granted to developing countries to aid development was coming under review, since these countries continued to depend on a small range of commodities and their terms of trade were trending persistently downwards (Michalopoulos, 2000).

The developing countries have achieved greater integration into the international economy by means of liberalization policies, especially since the 1980s. Their share of world exports and of trade in manufactures has also expanded. In addition, the reforms implemented in the developing countries, especially in Latin America, encouraged their involvement in the multilateral system.¹⁰ All these changes occurred in parallel with the Uruguay Round, the eighth Round of GATT negotiations that began in 1986.

4. The results of the Uruguay Round with regard to special and differential treatment

The Uruguay Round represented a shift in direction with respect to the prevailing principles, since it established medium-term reciprocity for all the participating countries, with the least developed countries (LDCs) the sole exceptions. The developing countries played a more prominent role in these negotiations, took on broad commitments in all the agreements reached at the Round and have been actively involved in the implementation and negotiation subsequent to these agreements. With regard to special and differential treatment, however, there has been a shift from preferential market access and protection of rights towards facilitation of compliance with WTO obligations, in order to lower the costs of transition. This shift is significant because the

general approach of WTO corresponds to a system based on rules, and these rules have increasingly encroached upon countries' domestic policies.¹¹ At the same time, the rules are governed by a more effective mechanism, which ensures compliance through the WTO dispute settlement system.

For many, the development dimension in the Uruguay Round was confined to the belated incorporation into the multilateral rules of two sectors of interest to developing countries, namely agriculture and textiles. Since it established reciprocity for the long term, the shift with regard to special and differential treatment triggered by the Uruguay Round was accompanied by a more clear-cut distinction between

10 Until the end of the Tokyo Round in 1979, only eight Latin American countries (Argentina, Brazil, Chile, Cuba, Peru, Nicaragua, Dominican Republic and Uruguay); four countries of the English-speaking Caribbean (Barbados, Guyana, Jamaica, and Trinidad and Tobago) together with Suriname and Haiti were contracting parties of GATT. With the exception of Argentina, which acceded to GATT in 1967, the other six Spanish-speaking countries joined GATT between 1948 and 1951.

11 The rules cover issues such as subsidies and countervailing measures, contingent measures, measures relating to investment and intellectual property, customs valuation and standards. The liberalization of services is largely related to the development of rules and regulations.

industrialized countries, developing countries and least developed countries.¹² The permanent or longer term exceptions for the fulfilment of commitments were reserved for the least developed. Moreover, the Generalized System of Preferences (GSP) was not consolidated.

According to the typology used by WTO, there are six types of provisions for special and differential treatment:¹³ (i) increased trade opportunities to be provided by members to developing countries, especially through market access; (ii) recognition and protection of the interests of the developing countries; (iii) flexibility in commitments, measures and the use of policy instruments;¹⁴ (iv) periods of transition incorporated in various Uruguay Round agreements, which provide temporary exemptions from full implementation by developing countries, particularly in agreements on rules; (v) technical assistance, especially regarding those agreements whose implementation demands greater capacity; and (vi) special provisions for LDCs, in addition to the treatment provided for developing countries.

These commitments are to be found in almost all the Uruguay Round agreements, though they vary in nature from one agreement to another, as shown in table V.I. WTO identifies two types of commitments in these

instruments. First, those that usually provide positive measures in favour of the developing countries, many of which are not obligatory and, second, those that provide greater flexibility and which the developing countries may use if they wish. The first type of measure is more common than the second (WTO, 2001a).

The post-Uruguay Round shift in special and differential treatment towards compliance with WTO obligations and capacity-building in developing countries represented a change in emphasis from demand-side to supply-side factors (from market access to policy instruments and considerations for productive development). To some extent, the provisions on capacity-building in developing countries have transformed special and differential treatment from an instrument of development to one of adjustment (Tórtora, 2003). The objective is the gradual but effective integration of the developing countries into the international system. This effort includes a particular emphasis on technical assistance and longer transition periods. There is no well-defined concept of how the development dimension should be approached in order to secure better conditions for development through linkages with the international economy, however (see ECLAC, 2001b).

12 In WTO, there is no definition of developing countries, their status is acquired by self-selection. Of the almost 140 members of WTO at the end of 2000, more than 100 were in this category, including around 30 least developed countries. WTO uses the designation devised by the United Nations to identify the least developed countries. Currently, there are 49 countries on the United Nations list, 30 of which have become members of WTO, including only one country in the region (Haiti).

13 An exhaustive review of these is to be found in WTO (1999) and an evaluation of their application in WTO (2001a).

14 The WTO report (1999) pointed out that this category included 43 of the 97 special and differential treatment provisions recorded. This modality considers the exemptions or lower levels of commitments which the developing countries can claim. In the case of the General Agreement on Trade in Services (GATS), flexibility is worked into the general structure of the agreement.

Table V.1
**PROVISIONS FOR SPECIAL AND DIFFERENTIAL TREATMENT
 IN THE URUGUAY ROUND AGREEMENTS ^a**

ISSUE- AGREEMENT (No. GATT article)	Increase in trade opportunities ^b	Safeguard interests of developing countries	Flexibility of commitments	Periods of transition ^c		Total by agreement ^d
				Developing countries	Industrialized countries	
GATT	**	**	X			30
Agriculture ^e	X	X	**	10	6	19
Antidumping (Article VI)		X	X			1
Sanitary and phytosanitary measures		X		2 years		5
Technical barriers to trade (TBT)		**	X			16
Safeguards (Article XIX)		X				2
Subsidies and countervailing measures		X	**	** 5 and 8 exempt LDCs		16
Textiles and apparel	X					6
Customs valuation (Article VII)				5		8
Investment measures (TRIMs)				5 LDCs: 7	2	4
Trade in services (GATS)	X		X			15
Intellectual property (TRIPS)		X		5 LDCs: 11	1	6
Dispute settlement		**	X			11
Total ^f	14	50	33	19		155 ^g

Source: World Trade Organization (WTO), "High Level Symposium on Trade and Development", Geneva, 17 and 18 March 1999; "Implementation of special and differential treatment provisions in WTO agreements and decisions" (Wt/Comtd/W/77/Rev.1), 21 September, 2001.

^a The provisions on technical assistance included in many of the agreements are not shown here. The (X) indicates that there are provisions and the double asterisk (**) indicates a significant number of special and differential treatment provisions in the category and agreement shown.

^b Particularly via market access.

^c Number of years.

^d Number of special and differential treatment provisions in each agreement, including technical assistance and aid to LDCs (WTO, 2001a).

^e Includes the Decision on the effects of agricultural reform in the least developed countries and net food-importing developing countries.

^f Number of provisions for each type of special and differential treatment (WTO, 2001a).

^g Includes 14 technical assistance provisions and 24 assistance to LDCs provisions, which are not specified in this table (WTO, 2001a).

GATS = General Agreement on Trade in Services.

TRIPS = Trade-Related Aspects of Intellectual Property Rights.

C. A positive agenda for developing countries in WTO: from Geneva to Doha/Cancún¹⁵

As has been mentioned, developing countries' demands on the multilateral system go beyond the specific features of special and differential treatment. In this regard, they have raised broader concerns over the conception and

asymmetry of the agreements and biases in compliance, which generated the programme of work agreed upon in Doha. The expectations that progress would be made in subsequent work remained unfulfilled, however.

1. Problems of implementation and the effects of the Agreements

Ever since WTO was created, concerns have been voiced over the effects of the Uruguay Round agreements on the performance of the developing countries. Such considerations include problems and challenges arising from growing "neo-protectionism" in the developed countries and the asymmetries generated by the agreements themselves. "Neo-protectionism" refers to the use of contingent measures and technical standards in such a way as to exacerbate the uncertainties and conditionalities of GSP. Asymmetries are to be found in such areas as the following:

- the bias in favour of the industrialized countries in the liberalization of sectors that are advantageous to them, such as information technology products, intellectual property and services;¹⁶
- agreements that promote practices and policies more common in industrialized countries and which therefore require policy adjustments or narrow policy space for developing countries. This is the case of agreements on industrial subsidies and TRIPs;
- the costs derived from greater requirements for human and institutional capacities and from the redesign of adjustment policies and mechanisms, which can be much greater than the benefits derived from the agreements;¹⁷ and
- developments in agreements established after the Uruguay Round, which have favoured the interests

of the industrialized countries, such as in the area of services (telecommunications, financial services), and in the Agreement on Information Technologies (AIT). This is in contrast to the limited progress in mode four liberalization under GATS (movement of persons) which was of interest to the developing countries.

A large portion of the implementation work that the developing countries have been actively calling for at the recent WTO ministerial conferences, in both Seattle and Doha, involves overcoming the obstacles described above, in order to correct imbalances in the Uruguay Round agreements.¹⁸ Many of these demands concerned the agreements on rules – basically subsidies – rather than questions of market access. Advances in these areas also became a condition for achieving an agreement on a negotiating agenda that was broader than "the built-in agenda" of the Uruguay Round. More specifically, developing country concerns required provisions that would complete, clarify, operationalize, accelerate and evaluate or improve the provisions and contents of the various agreements. In addition, there were calls for the treatment of developing countries to be monitored and improved, while ensuring that technical assistance is available to help these countries meet their commitments.

15 See Silva (2001) for further background on this debate, especially from Seattle to Doha.

16 The structure of the General Agreement on Trade in Services (GATS) escapes this analysis in some degree, since it provides the flexibility to assume commitments on national treatment.

17 The costs and requirements involved in implementing agreements on such issues as TRIPs, Customs Valuation and sanitary and phytosanitary measures are examined in Finger and Schuler (1999).

18 More than 50% of the proposals at the Seattle Conference came from the developing countries. This was also the expiry date for many of the transition periods for these countries to make the legislative, regulatory and institutional changes needed to meet their obligations.

2. Towards a full review of special and differential treatment

In the circumstances described, an evaluation of the effectiveness of the provisions on special and differential treatment shows that the objectives have been only partially achieved. The constraints and failings are caused by a number of factors: (i) the weakness of the recommendations; (ii) inadequate technical assistance; (iii) limitations on the forms of implementation of agreements of interest to the developing countries, such as textiles and agriculture; and (iii) inadequacy of transition periods –the most commonly used available instrument– for the institutional changes developing countries must set in motion.¹⁹ Consequently, work in this field arising from the Doha Declaration was geared towards examining the provisions for special and differential treatment in order to strengthen those provisions and make them more precise, effective and operational, as set out in paragraph 44 of the Declaration (see section D) (WTO, 2001b).

In other words, the special and differential treatment provisions in the multilateral system are ineffective in helping the developing countries to benefit from integration into the international trading system. In recent years, proposals have been made to incorporate the development dimension into trade negotiations. These have included ranking or differentiation of developing countries, a sectoral or thematic focus and policy space.

A ranking of developing countries was clearly established at the Uruguay Round with the distinction of LDCs which, as described in the preceding chapter, were permitted to act on a non-reciprocal basis.²⁰ In WTO (as in GATT), developing countries are those that define themselves as such, whereas LDCs are identified by the United Nations as countries whose per capita income is less than US\$ 1,000. The group of countries with per capita income of over US\$ 1,000 (all the Latin American and Caribbean countries with the exception

of Haiti) have very dissimilar levels of development, however. For this reason, there have been proposals for a more sectoral or regional approach that recognizes the specificity of domestic conditions as well as the need to define eligibility using criteria that include non-economic variables. Some authors have suggested that the inter-sectoral heterogeneity within an economy should be used as a basis for examination, as opposed to a ranking based on global national criteria, since supply constraints, level of competitiveness and institutional capacity can be better evaluated at a sectoral level (Corrales-Leal, 2003; Tórtora, 2003).

The proposal on development policy space cites the need for a proactive effort to deal with problems and identifies policy instruments which are governed by multilateral rules, for example, subsidies or other incentives, import restrictions, preferences in government procurement and active mechanisms for strengthening the domestic market. On the supply side, special and differential treatment should give developing countries scope for stimulating the competitiveness of their businesses and locking into the benefits of liberalization. The Uruguay Round limited manoeuvring room for making discriminatory policies and thus the autonomy of governments to channel subsidies to specific businesses and sectors.

Lastly, other proposals have referred to the rules in their totality, citing the difficulty of isolating special and differential treatment from other development-related aspects within the multilateral system.²¹ In this regard, some kind of mechanism is needed to evaluate future agreements in terms of their contribution to development goals or their repercussions on implementation costs. The non-automaticity of the single undertaking implementation in developing countries also warrants review.

19 An evaluation of the shifts in direction of the special and differential treatment and their results are contained in UNCTAD (1999a); Whalley (1999); Laird (2000); Michalopoulos (2000); ECLAC (2001a and 2001b); WTO (2001a) and Tórtora (2003).

20 Strictly speaking, the different agreements contain other specific categories of countries such as: countries that are net importers of food (agriculture), small suppliers (textiles and apparel), transition economies, special category of countries (annex VII to the Agreement on Subsidies and Countervailing Measures).

21 The recommendations submitted by a group of developing countries –including Cuba, Honduras and the Dominican Republic– at the Fourth Ministerial Conference may be viewed in this light (WTO, 2001e).

D. From the Doha Development Agenda to the absence of agreements in Cancún

1. The Doha Development Agenda

The declarations and decisions that resulted from the Fourth WTO Ministerial Conference, which was held in Doha from 10 to 14 November 2001, reflected the magnitude of the concerns raised over special and differential treatment, as well as the need for new ways of effectively bringing the development dimension into the multilateral system. The Ministerial Conference opened up a broad negotiating agenda, which has been denominated the “Doha Development Agenda”, giving rise to a new round with wider-reaching contents than the built-in agenda that followed the Uruguay Round (WTO, 2001c).²² At the same time, the ministers agreed to a special decision to address the “issues and concerns [...] regarding the implementation of some WTO Agreements and Decisions”.²³

Other tasks deriving from the decision on implementation referred to the improvement and operationalization of special and differential treatment, mainly by extending transition periods or simplifying administrative procedures.²⁴ The issues addressed included, for example, the simplification of rules of origin and the raising of textile import quotas, the expansion of non-recurrent subsidies and the reduction in the number of antidumping measures imposed by developed on developing countries.

The linkages between different implementation issues are also apparent in the proposal made by a group

of developing countries at the Fourth Ministerial Conference, regarding a framework agreement on special and differential treatment: “Many of the implementation proposals submitted by developing countries, in the backdrop of uneven growth and development in the years following the establishment of WTO, can be viewed as an initial endeavour for the extension and elaboration of an enhanced, effective and binding special and differential treatment regime” (WTO, 2001e).

Lastly, other decisions taken at the fourth Ministerial Conference that were of interest to the developing countries referred to more specific areas, affording them increased flexibility for policy-making in certain areas. These decisions encompassed: (i) intellectual property and public health; (ii) the extension of the transition period for certain countries with respect to the prohibition of export subsidies; (iii) the authorization of the Cotonou Agreement, which is a non-reciprocal preferential accord between members of the African, Caribbean and Pacific (ACP) group of states and the European Community; and a further decision that may be included here is (iv) the resolution set out in the Ministerial Declaration to negotiate improvements to the dispute settlement system, regarding which a number of proposals specifically considered the position of the developing countries.

22 The negotiating agenda included eight sets of issues: (i) questions relating to implementation; (ii) agriculture; (iii) services; (iv) market access for non-agricultural products; (v) trade-related intellectual property rights; (vi) WTO rules (including disciplines on antidumping, subsidies and countervailing duties, and regional agreements); (vii) the Dispute Settlement Understanding; and (viii) trade and the environment. The Cancún meeting evaluated the progress of several working groups and was supposed to arrive at a decision on whether to negotiate the Singapore issues (WTO, 2001c). See also Silva (2001) and ECLAC (2003j).

23 This decision covered 11 Uruguay Round agreements and included particular provisions on special and differential treatment, with almost 40 of the 100 issues that the developing countries had raised in their proposals. With regard to special and differential treatment, the decision proposed to include the following tasks, which were mandated to the Committee on Trade and Development: to assess the conversion of voluntary special and differential treatment measures into mandatory provisions; to examine additional ways in which special and differential treatment provisions could be made more effective; and to consider how special and differential treatment may be incorporated into the architecture of WTO rules. See paragraph 44 of the Ministerial Declaration and paragraph 12 of the Decision on Implementation.

24 Aspects of implementation are also essential for improving the dispute settlement system.

2. Preparatory work in Geneva

Up to mid-2003, real progress in the work arising from the Doha agenda had been very limited. The dates by which development agenda issues were to be carried forward had been postponed and discrepancies had arisen among the countries over how to resolve many of the implementation tasks set.²⁵ No specific progress had been made with the discussions on special and differential treatment up to the start of the Cancún Ministerial Conference, with results also thin on the ground in other areas of interest to developing countries, such as the negotiations on agriculture and improvements to the Dispute Settlement Body. Just two weeks before the start of the Conference, an agreement had been reached on intellectual property and public health, regarding how to deal with the constraints faced by countries with smaller productive capacity.²⁶ But many developing countries remained dissatisfied even with this area.

The Trade and Development Committee (TDC) directed the post-Doha work on special and differential treatment. The debates have been organized around the following issues: (i) systemic and cross-cutting issues;²⁷ (ii) proposals on specific Uruguay Round agreements (which numbered almost 90 in mid-2003);²⁸ (iii) technical and financial assistance and training; and (iv) the incorporation of special and differential treatment into the architecture of WTO rules (WTO, 2002c; 2003j). The divergences in country positions, which tend to take place along North-South lines, arise over differences in interpretations of the mandate and the potential need to place the negotiations in a wider context in order to maintain a balance between rights and obligations. The institutional sphere within WTO in which such discussions should be held and the order in which the work should be carried out are also the subject of debate. For the developed countries the priority was cross-cutting

issues, while the developing countries' interpretation of the mandate was that specific agreements should take priority.

Something similar occurred with regard to implementation, as major differences arose between the scope of the Doha mandate and the implications of renegotiation. By the same token, there has been debate over how and where the work on the different issues should take place.²⁹ The tasks had been distributed among the Trade Negotiations Committee (TNC) and its subsidiary bodies, according to the agreements on which proposals had been made. Concrete results have been very limited, however—with around five decisions from among 40 possible actions. Some of the deadlines were postponed until March 2004 and it proved impossible, for example, to arrive at an agreement on the special consideration that industrialized countries would show to developing countries in the enforcement of antidumping legislation. There has also been constant concern over the costs associated with the implementation of a growing body of agreements. Just before the Cancún Conference a group of developing countries made a new proposal to prioritize the implementation issues within each of the respective negotiating groups, create a negotiation group specifically for cross-cutting issues and leave the deadline for these decisions at March 2004.

Discussion is also warranted on a number of aspects regarding the working groups set up at Doha to deal with issues of interest to developing countries, namely, small economies; trade, debt and finance; and technology transfer. First, the work on the particular difficulties that small economies face within world trade did not progress very far, even though a large number of Latin American countries were involved in the document used as a basis for the discussions.

25 An account of the process up to Cancún can be found in ICTSD-IISD (2003), WTO (2003b), WTO (2003j), UNCTAD (2003b).

26 This was a decision reached by the TRIPs Council on an issue that the Doha Declaration had left outstanding. It will enable countries to import cheaper generic medicines made under compulsory licensing if they are unable to manufacture the medicines themselves. The decision takes the form of an interim waiver which will last until the TRIPs agreement is amended, and contains certain provisions that make specific reference to developing countries (WTO, 2003a and 2003b).

27 These included: principles and criteria for special and differential treatment, the Enabling Clause, the proposal on an oversight mechanism, transition periods, differentiation and ranking, among others.

28 In April 2003 the Chair of the General Council had organized 88 proposals on special and differential treatment into three categories: those "early harvest" proposals on which there was most consensus and a greater likelihood of reaching agreement at the Conference, those which required further study and were forwarded to subsidiary bodies and, lastly, those proposals on which divergence was widest (WTO, 2003m). The first category formed the basis of the proposals considered in the successive drafts for the fifth Conference.

29 See ECLAC (2003c), table VII.3.

Work has been most intensive in the area of trade, debt and finance, since the respective group has addressed problems relating to financial crises and instability, problems of indebtedness, the role of liberalization and the flow of foreign exchange into developing country economies, the relationship between these economies and domestic reform, market access, commodities and deteriorating terms of trade, among others (WTO, 2003f). The group made significant progress in identifying key links between trade issues and other matters dealt with in the multilateral system, and thus addressed the need for consistency both within WTO and in its relations with other institutions.³⁰ The right of developing countries to pursue development policies and solve their adjustment problems has also been discussed.

Lastly, with respect to the relationship between trade and technology transfer, efforts have been directed at identifying mechanisms that can strengthen transfer from developed to developing countries and the role that WTO may play in this regard (WTO, 2003g). To this effect, the group has looked in particular at the links between technology transfer and foreign direct investment (FDI), intellectual property and multinational corporations, market access mechanisms that may inhibit transfer and the difficulties developing countries face in complying with multilateral rules when they lack the necessary

technology. Although the debate has been interesting, the group has not reached a consensus on the recommendations and is likely to continue the discussions. One important input has been receivers' and providers' experience of technology transfer, and progress has been made in reviewing the WTO provisions and other measures that can stimulate these flows. The group's work has also capitalized on the efforts of other bodies both within and outside WTO, which have afforded a broader perspective to its considerations. Within WTO trade and technology transfer has also been addressed in the context of the work on special and differential treatment, especially in terms of implementing the technology transfer provisions set out in newer and more technically difficult accords, such as agreements on intellectual property,³¹ services or technical standards.

The Ministerial Declaration adopted at Doha envisaged that these groups would report on their progress to the Cancún Conference; they were not expected to arrive at major decisions. Despite the advances set out above, however, the groups' work prior to Cancún came up against differences, mainly between the industrialized and developing countries, with respect to the focus and scope of the recommendations they were expected to produce. This prevented them from moving closer to the more operational proposals invoked by the developing countries.

3. The Cancún Conference

The lack of agreements on development-related and other matters –agriculture and the Singapore issues– was reflected in the successive draft declarations produced during the preparations for the Conference and at the event itself (see box V.1). The work at the Conference was organized into five groups, coordinated by facilitators, covering agriculture, market access for industrial products, development issues, the Singapore issues and other matters (which included services, environmental issues and aspects of intellectual property). A group on the cotton proposal was added later. The Conference Chairperson (Mexican Minister for Foreign Affairs, Luiz Ernesto Derbez) was able to draw up a draft declaration on 13

September, following intensive consultations with the facilitators and heads of delegation, but this failed to gain the consensus of the delegations.

The group mandated to discuss development issues at the Conference covered a broad range of subjects: special and differential treatment, implementation concerns, technical assistance, less advantaged countries, the three areas of interest for the developing countries that had formed the subjects of the working groups in operation since Doha (small economies, links between trade, debt and finance, and between trade and technology transfer), concerns over commodity prices and the proposal on cotton subsidies.³²

30 Rather than proposals put forward by countries, this discussion has drawn mainly on presentations made by international agencies, including United Nations regional commissions.

31 The operationalization of transfer to less advantaged countries was also part of the work relating to implementation. A decision was arrived at in this regard, in fulfilment of the respective mandate (WTO, 2003a).

32 Cotton came to be treated as a subject apart, facilitated by the WTO Director General in person.

Box V.1

THE FIFTH WTO MINISTERIAL CONFERENCE IN CANCÚN

Objectives

The tasks that resulted from Doha were to take stock of: (i) negotiations on items on the built-in agenda—especially in agriculture—and other issues begun at Doha (such as market access for non-agricultural goods, rules and dispute settlement); (ii) the development of the Singapore issues and the possible initiation of negotiations; and (iii) analysis and recommendations of the negotiating groups, including those created at Doha to work on issues of interest to developing countries.

Landmarks in 2003

The consensus needed to draw up a draft Ministerial Declaration was not achieved. The drafts that were distributed were drawn up first by the Chairperson of the WTO General Council, Ambassador Carlos Pérez del Castillo, then by the Chairperson of the Cancún Conference, Minister Luis Ernesto Derbez.

Draft I, 18 July (WTO, 2003n), contained 25 paragraphs covering 23 issues in skeleton form. These included the issues contained in the Doha Programme of Work (see WTO, 2001b), except for matters relating to the

organization of this programme, plus provisions on members' access to WTO.

Draft II, 24 August (WTO, 2003o) with 28 paragraphs covering 26 issues. It contained the following additional questions with respect to draft I: the sectoral initiative on cotton, commodity issues and coherence. In addition, seven annexes dealt with the following subjects: (A) modalities in agriculture; (B) market access for non-agricultural products; (C) special and differential treatment, with recommendations on 24 potentially early harvest issues; and the possible terms of negotiations on the Singapore issues, namely (D) relationship between trade and investment; (E) interaction between trade and competition policy; (F) transparency in government procurement; and (G) trade facilitation. This second draft was complemented with a covering letter from the officials steering the process—the Director General of WTO and the Chairperson of the General Council—detailing the different visions on the subjects covered in the draft.

Draft III, at Cancún, 13 September (WTO, 2003p). This contained 30

paragraphs on 28 issues. With respect to draft II, it added access issues and an additional reference to TRIPs^a (including their link to the Biodiversity Convention). This version had only five annexes, since changes were made with respect to the previous draft on the following issues: first, in the contents of modalities and in the number of subjects dealt with under special and differential treatment (which increased from 24 to 27); second, it included annexes on only two of the Singapore issues (annexes F and G of the previous draft), with the investment issue left for clarification before negotiations could begin, and competition policy to continue to be examined in the framework of the WTO ad-hoc group.

Outcome

The Ministerial Declaration issued on 14 September, containing only six paragraphs, reflected the lack of agreement among the members and called for a meeting of senior officials no later than 15 December 2003 to continue the discussions. The definition of the Sixth Session of the Ministerial Conference was also left outstanding.

Source: Prepared by the author on the basis of World Trade Organization (WTO) documents.

^a Trade-Related Aspects of Intellectual Property Rights.

Specifically on the subject of special and differential treatment, the Cancún draft included more issues with a likelihood of being resolved at the Conference (denominated “early harvest”) than the previous draft, but even so a number of developing countries—including Cuba—took the view that those issues were of little economic significance to them. Efforts were therefore made to improve these measures and the possibility also arose of setting a new deadline of March 2004 for those issues. Some aspects of special and differential treatment were also touched on in other groups such as those dealing with agriculture and market access for non-agricultural goods.

With respect to implementation, the possibility of creating an ad-hoc task force gained acceptance. Many of the discussions, however, were monopolized by the extension of geographical indicators. Towards the end of the Conference, the developing countries felt that their concerns were not being reflected in the development

issues, including special and differential treatment and implementation, in such a way as to correct the systemic disequilibria that they perceived in the WTO agreements. In addition, these subjects had occupied little time during the discussions since priority had been given to the debate on agriculture.

The lack of results on all these issues, combined with the disagreements on agriculture—though progress began to be made towards the end of the Conference—and the demands inherent in the Singapore issues prompted the developing countries (led by India) to withhold support for the draft declaration circulated by Chairperson Derbez.³³ WTO and qualified observers have cited this as one of the causes of the lack of results at Cancún, aggravated by procedural issues in the organization of the discussions. Also widely believed to have been a culprit, however, was the interdependence of the results of the different issues under debate.

33 The communication from Kenya in response to the Cancún draft reflects much of this perspective (WTO, 2003k).

As described in the previous section, during the preparatory process for the Cancún Conference there were already signs that results were likely to be scant. Given the lack of results, the final declaration of only six paragraphs in length requests the convening of a meeting of senior officials in Geneva no later than 15 December 2003, which was too short a period in which to expect great strides to be made. The failure to arrive at decisions at Cancún made it unlikely that the Doha

Round would be concluded on target in 2005 and, though the meeting of senior officials on 15 and 16 December made some progress, it did not reach agreements capable of getting the round back on track.³⁴ In any event, in the course of the work associated with the Conference, new deadlines had already been defined or proposed for concluding some of the unfinished business, such as the issue of dispute settlement (May 2004) and special and differential treatment (March 2004).

4. The negotiating agendas of developed and developing countries³⁵

From the Uruguay Round up to the Doha Ministerial Meeting, the interest groups that formed were comprised of countries of different levels of development, creating coalitions whose geometry varied depending on the negotiating process, but whose North-South lines had become blurred.³⁶ Things were rather different at Cancún, however, as groups of developing countries joined forces to strengthen their campaign in respect of the uncompleted development tasks set at Doha. These groups of developing countries were initially organized in the framework of the agricultural negotiations leading up to Cancún.

Questions about the Conference's failure to produce results abounded post-Cancún. Some explanations refer to the phenomenon described in the previous section. This is in addition to shifts in the composition of the multilateral system, whose members are increasingly developing countries, and in the structure of trade relations. Trade flows also occur between these countries, with the bulk of China representing a very significant and dynamic market (see chapter VI). In order to nourish the debate in this regard, a number of aspects of the agenda and involvement of developed and developing countries are set out below, highlighting specific references to Latin American developing countries.

The stance of the industrialized countries

A number of positions taken by the developed countries –although the main exponents, the United States, the European Union, Canada and Japan, differ in their stances– have been in opposition to the positions of the developing countries. First, the developed countries, in general, and the European Union, in particular, have lobbied for the inclusion of new items on the WTO negotiating agenda, such as the environment and the Singapore issues.³⁷ Similarly, though differing in emphases, the United States, the European Union and Japan have been unwilling to commit to a more deep-reaching platform on agriculture, and have put forward issues such as the multifunctionality of agriculture to justify the maintenance of certain subsidies and emphasized technical standards or the environment, thus imposing tougher requirements on developing country exports. Differences in perspective have also arisen with respect to the issues of interest to the developing countries addressed in the working groups formed at Doha. While the developed countries have been in favour of exchanging experiences, they have questioned the value of the exercise and shown more interest in a conceptual approach to such matters.

34 In his closing remarks, the Chairman of the General Council indicated that there was “a willingness to restart the work of the negotiating groups” but “more time is needed in order to deal with the unfinished business”.

35 The overall visions of most of the WTO members at Cancún can be found in the WTO documents: WT/MIN(03)/ST, which are available at the sub-site of the Fifth WTO Ministerial Conference. The position of the United States, which is not available on that site, can be found on the web site of the Office of the United States Trade Representative (USTR) in the section on the Conference. In addition, Silva (2001) gives a systematized account of the members' positions during the preparations for Doha.

36 The best known example is the Cairns Group, which was formed by agricultural product-exporting countries of varying levels of development during the negotiations of the Uruguay Round to lobby for the liberalization of the sector.

37 The European Union has been supported by Japan in this effort.

The developed countries' agendas also have a tendency to use bilateral or regional preferential agreements to push forward issues which are not governed by multilateral rules, or which exceed their scope (denominated "WTO-plus commitments"). This is the case of rules on intellectual property, competition policy, environmental issues and electronic commerce. Such agreements also tend to be based on reciprocity, despite differing levels of development among the parties. The developed countries are likely to rely increasingly on this approach, given their frustration at Cancún. This is true of the United States in particular, which is prioritizing other levels of negotiation such as bilateral agreements and FTAA. Even Japan, which was the only exception to this trend, has entered into negotiations on trade agreements.

Lastly, with respect to special and differential treatment, the proposals of the developed countries have targeted market-access issues, rather than reinforcing supply-side factors, and given priority to the exports of LDCs.³⁸ This reinforces the categorization that came out of the Uruguay Round, as mentioned earlier. This approach is also manifested in the developed countries' interest in differentiating and ranking the developing countries, and in their calls for greater liberalization of the markets of countries with an intermediate level of development –by narrowing the gap between applied and bound tariffs, for example. The developed countries' preference for a shift from special and differential treatment towards provisions on compliance with rules is also reflected in the emphasis placed on capacity-building and technical assistance. And, as mentioned earlier, they have taken clearly different stances on issues of interest to the developing countries, particularly with regard to special and differential treatment. In this respect, there is no single developed country stance, but they do tend to differ from the developing countries in their overall positions, even though they have responded favourably to some specific requests from developing countries.

Participation, demands and proposals of developing countries

The developing countries represent around 80% of the 147 countries belonging to WTO today.³⁹ The discussions and negotiations of recent years have been dominated by two major categories of countries within the developing nations. These are the African and LDC

countries, in regard to special and differential treatment, and the large, more proactive countries, such as Brazil, Egypt and India, which were joined by China at the last Ministerial Conference. These are heterogeneous groupings of countries, which have aligned themselves along North-South lines on some issues (for example, the Cairns group, friends of antidumping, etc.) although divisions persist over newer and more rules-based questions, such as the Singapore issues. The Latin American and Caribbean countries have assumed leading roles and/or a majority weight in some of the organized groupings, especially since Seattle.

In general, the developing countries have taken a reactionary or defensive position in response to the proposals of the developed countries, but have attempted to take more proactive role in the negotiations –a positive agenda, as UNCTAD terms it. Their efforts in this direction include, as has been mentioned, the identification of policy spaces, proposals to broaden such spaces and opposition to rules that narrow them. They have also put forward ideas for greater coherence in international policies, recommendations for institutional development within WTO and for the implementation of agreements and decisions to improve the functioning of the system.

A number of groups emerged during the period before the Cancún Conference, in the weeks immediately before and during the event itself. Among these, a group led by Brazil and known as G-20 or G-22 became particularly prominent (see box V.2). Such groups played a key role in the discussions at the Conference, initially in the sphere of the negotiations on agriculture.

The negotiating agenda of the Latin American and Caribbean countries

In the 1990s the Latin American and Caribbean countries deployed a major effort to negotiate from a perspective of "open regionalism" in a number of spheres. Initially, this meant focusing on consolidating trade links with regional partners, often by deepening integration within the longstanding regional blocks. Then all the countries, with the exception of Cuba, became involved in the negotiations to form the Free Trade Area of the Americas (FTAA) and most –either individually or within their regional groupings– now participate in preferential or reciprocal agreements or negotiations with the United States and the European Union. Only

38 This trend has been in evidence since Seattle.

39 Nepal and Cambodia recently joined the system, the first LDCs to do so since WTO came into being. This confirms the universality of the organization.

Box V.2
GROUPS OF DEVELOPING COUNTRIES AT CANCÚN

The G-22, also known as “G-20+” was originally formed by 17 developing countries in response to the European Union-United States proposal on agriculture (13 August 2003), which they found lacking in terms of agricultural liberalization. This group then became the G-20 which, coordinated by Brazil, put forward a proposal document (20 August 2003), before becoming the G-21 at the beginning of the Conference. Its proposals called for the elimination of certain subsidies (blue box and later export subsidies), the establishment of criteria and deadlines for an end to other subsidies (green and amber box), aid programmes incorporated into special and differential treatment, and well-defined possibilities for smaller tariff reduction for developing countries (especially with regard to particular products). The countries involved came to represent more than 60% of the world’s farmers. At the request of the group, its text was included along with the other proposals and General Council

Chairperson’s draft of the official Conference document.

G-33, which was formed one day before the Conference, consisted originally of 23 developing countries representing an alliance in favour of strategic products and a special safeguard mechanism. These are two specific measures within special and differential treatment for the agricultural sector, which were included in a document drawn up by Chairperson Harbison of the Committee on Agriculture and presented on 18 March 2003. In this proposal, strategic products were to bear smaller tariff reductions than other agricultural products, given their particular importance from the point of view of food security, rural development and the guarantee of subsistence. The United States rejected this proposal. The special safeguard mechanism was intended to protect farmers in developing countries from sudden surges in imports.

Similarly, the African Union, the African, Caribbean and Pacific (ACP)

group of countries and the LDCs joined in a “Grand Alliance” on the second day of the Conference. This group –like G33– called for a balanced framework for agriculture based on the three pillars of the agreement, with special and differential treatment in strategic products, a special safeguard mechanism and the maintenance of preferences. This proposal was welcomed by the G-22 countries. The negotiating priorities of the Grand Alliance were: agriculture, market access for non-agricultural goods, special and differential treatment and the cotton proposal. The countries were opposed to the initiation of negotiations on the Singapore issues. On 20 August, within the African group, a subgroup formed by the world’s poorest countries (Benin, Mali, Chad and Burkina Faso) launched a proposal to eliminate cotton subsidies, with the support of a number of NGOs and backed by a large body of research. These subsidies are used in the United States and the European Union and also, albeit with a lower impact on international prices, in China and other developing countries.

Source: World Trade Organization (WTO), briefing notes from the Fifth Ministerial Conference, Cancún, 10-14 September, 2003; International Center for Trade and Sustainable Development (ICTSD/CINPE); “Puentes”, *Diario de Cancún*, 10-15 September, 2003.

two countries –Mexico and Chile, which also maintain a broad range of bilateral agreements with a number of partners– have also opened negotiations and reached agreements with Asian countries. As has been mentioned, many of the agreements include rules for which no multilateral framework exists.

At the multilateral level, the countries of the region have been involved in different interest groups at the most recent ministerial conferences (see table V.2). In general, they have been particularly keen to continue with reform in agriculture, since a large number of Latin American countries participate in the Cairns Group. But they have also put forward more proactive proposals –a positive agenda– in such areas as: widening of policy spaces, improvement of rules (such as antidumping) and, clearly, intellectual property and public health. Their coordination with other developing countries during the preparation and running of the Doha Conference was very significant. Even within the region they have taken part in different groups to coordinate positions on liberalization strategy, specialization and export

markets, in accordance with their size and geographical location. This also means that they differ in their reluctance or enthusiasm with respect to new issues that broaden the agenda, such as the environment or the Singapore issues.

The Latin American and Caribbean countries participating in the working groups created at Doha sought a number of different objectives. With respect to the link between trade, debt and finance, they had put forward proposals that considered the impact on their economies of commodity dependence and the importance of market access for helping them deal with debt, problems of exchange instability and the need for coherence in international policies, among other subjects.⁴⁰ With regard to technology transfer they have attempted to define working objectives in keeping with the Doha mandate, explored agreements in the framework of WTO that can provide for such a process, and made extensive recommendations. Brazil, meanwhile, has shared its experience in these matters and has criticized the TRIPS agreement on its technology transfer provisions.⁴¹

40 The proposals put forward by these countries can be found in the documents WTO: WT/WGTDF/W/10, 20 and 18. WTO, 2002d; 2002e and 2003q.

41 See WTO documents: WT/WGTTT/2 and 3, and W/2 and 6 (WTO, 2002f, 2002g, 2002h, 2003r).

Table V.2
LATIN AMERICAN AND CARIBBEAN COUNTRIES IN INTEREST GROUPS IN THE MULTILATERAL SYSTEM^a
(Formed in different processes)

Period formed	Created or in existence during preparations for Doha, 2001			Formed around Cancún, 2003		
Group	G-7	Cairns	Common interest	G-22	AU/ACP/LDCs	G-33
Composition	7 countries	17 countries	12 developing countries	22 developing countries	Poorest countries	33 developing countries
Interest	Implementation proposals	Liberalization of agricultural sector	Developing countries and special and differential treatment	Equitable liberalization of agricultural sector	–Balanced framework for agriculture – Opposed to Singapore issues	Framework for SPs ^c and SSMs ^d in negotiations on agriculture
Argentina	V	V		V		
Bolivia		V		V		
Brazil		V		V		
Chile		V		V		
Colombia		V		V		
Costa Rica		V		V		
Cuba			V*, **	V		
Ecuador				V		
El Salvador				V		
Haiti					V	
Guatemala		V		V		
Honduras			V			V
Mexico				V		
Nicaragua						V
Panama						V
Paraguay		V		V		
Peru				V		
Dominican Republic			V			V
Uruguay	V*	V				
Venezuela				V		
Caribbean countries (of ACP)					V	

Source: Prepared by the author on the basis of public information.

V = country participating in the group shown; */ country speaking for the group shown; **/ country speaking for a group of developing countries (G-77 plus China).

^a Approximate reference of composition. ^b AU = African Union; ACP = African, Caribbean and Pacific States; LDCs = least development countries.

^c Strategic products. ^d Special Safeguard Mechanism.

As the Cancún Conference drew near, as the table shows, practically all the Latin American and Caribbean countries were represented in one of the three groups of developing nations. They represent the majority and play a leading role –especially Brazil and Argentina– in the G-22, and this is likely to continue into the next period. After the Cancún Conference, almost all the countries negotiating a free trade agreement with the United States withdrew from the group.

The communications submitted by the region's governments at Cancún referred in the main to

agriculture and to the importance of special and differential treatment to address their economic and social development needs. A number of countries wanted to strengthen special and differential treatment and make it binding. Institutional aspects of WTO were also recurrent themes.⁴² They took very different stances with respect to the Singapore issues, however. CARICOM put forward an integrated vision for the subregion, stressing the lack of progress in the Doha agenda with regard to the vulnerability of its small economies.

42 For reference, see Venezuela and CARICOM (WTO documents: WT/MIN(03)/ST/48 and 6). WTO, 2003s and 2003t.

E. Reflections on the governance of the multilateral system

Problems with the discussions, negotiations and the decision-making process in WTO are the subject of growing debate, as witnessed by a number of communications at the last Conference. The lack of results at Cancún is the latest in a series of difficulties that have arisen with working procedures and decision-making in the multilateral trade system. This is a reflection of the new, more complex situation the organization must deal with as the number of countries and subjects under discussion widen. WTO faces challenges with regard to transparency, working procedures and their effects on the participation of its 147 members, the role of the Secretariat and the decision-making process, and the dispute settlement system, among others (see UNCTAD, 2003b; Evenett, 2003).

With respect to transparency, reservations have been expressed about how ministerial conferences are conducted, and proposals have been made to improve them. In particular, a group of developing countries—including Cuba, Honduras and the Dominican Republic—made a number of recommendations with respect to agenda-setting, the role of the plenary commission, the appointment of facilitators and consultation procedure, among others (WTO, 2002c). Some of these recommendations were welcomed at the most recent conference. The way the negotiations are organized has also worked against the interests of the developing countries, by dividing up their concerns among different negotiating groups, as happened with the implementation issues and special and differential treatment after Doha.

There can be no doubt that the number of members and the need for consensus are among the main concerns with respect to decision making, and the role of the Secretariat is also a matter of discussion and questioning. For example, CARICOM cites the need for increased involvement of technical experts from developing countries in the WTO Secretariat. The dispute settlement system also presents problems for developing countries in dealing with cases in which they are interested or

involved.⁴³ In this regard, too, the Secretariat has drawn criticism.⁴⁴

The developing countries lack resources to attend the many instances of discussion or negotiation, which cover a constantly expanding range of increasingly complex subjects. This means that they encounter difficulties in dealing with the multiple demands for their attention to the regular work, in addition to the preparatory activities, formal and informal meetings, and the green room practice which convenes specific delegations (Khor, 2003).⁴⁵ While some of their recommendations were implemented at Cancún, this type of problem with the system and the need for reform have fuelled criticisms even from developed countries, and indeed the European Union, given the lack of results at the most recent conference.

In general terms, the situation has drawn attention to the governance of the multilateral system and calls for new approaches in order to deal with differences and existing imbalances (Ortiz, 2002; Tórtora, 2003).

Both the governments and WTO have prepared strategies to boost the credibility of the system, including more extensive dissemination of information, discussions with local actors, coordination with NGOs, and so forth. This, in turn, ties in with domestic governance, which certainly affects the countries' ability to prepare development strategies and defend the proposals that will help them carry those strategies forward in the negotiations at the multiple levels at which they are involved.

As ECLAC has pointed out, multilateral, subregional and national institutions in a number of areas can complement each other to carry forward development tasks (ECLAC, 2002b). Having acknowledged the interdependence of the negotiations at these different levels, societies and governments must strive to ensure that the principle of beneficial complementarity is inherent in their processes of institutional development.

43 For example, developing countries have a smaller capacity for trade retaliation, given their smaller size. Also, no special provisions exist for assisting those economies during dispute settlement, or helping them to deal with the high costs involved (ECLAC, 2003j, chapter 8).

44 The Doha Conference set in motion a process to improve the procedures of the dispute settling mechanism, which is the main binding element in the multilateral agreements. The deadline of this process has not been met thus far.

45 In 2000, only 65 developing countries kept missions at WTO and 24 lacked a permanent presence in Geneva (Khor, 2003).

Chapter VI

The effect of China's accession to the World Trade Organization on economic relations with Latin America and the Caribbean

Introduction

Most studies show that the accession, on 22 December 2001, of the People's Republic of China to the WTO is likely to have a significant impact on trade. China stands to make significant gains in market access to some of the world's most dynamic economies, at the expense of exports from other developing nations, especially low-income countries in south Asia and the American hemisphere. Estimates show, however, that the impact is moderate.¹

At the time of China's accession to WTO, its main trading partner was the United States, which accounted for 20% of its exports; Japan was second, with 16%. The recently industrialized economies of Asia (Taiwan province of China, Hong Kong (Special Administrative Region of China), Singapore and Republic of Korea) accounted for 26.5% of its exports, and the European Union followed, with 16%. This composition clearly reflected the thrust of China's export policy. In 1994, the recently industrialized economies accounted for nearly 34% of China's exports; they were followed by Japan (18%), the United States (17%) and the European Union (12%). In 2001, the main source of China's imports was also

the group of recently industrialized Asian economies (27.6%), which were followed by Japan (18%), the European Union (15%), the United States (11%) and the four major economies of the Association of South-East Asian Nations (ASEAN) (7%). This structure was very similar to that of 1994.

Over the last couple of years, the share of intra-Asian trade in the international economy has increased, consolidating the new patterns of export specialization. During the 2002-2003 biennium, trade in goods between China and Japan totalled over US\$ 120 billion, prolonging the explosive growth that had continued for five years in a row. Even more significant is the fact that for the first time, China surpassed the United States as

1 See Bhalla and Qiu (2002); Naughton (2001); EAU (1997); Yang (2000); Fernández (2000); Ianchovichina and Walmsley (2003).

the main market of origin for Japanese imports; during that period, 21.3% of Japan's imports came from China, while China's exports to the United States exceeded United States imports from Japan. China has thus consolidated its position as a major player in trade, given its strong commercial relations with Japan, the recently industrialized Asian economies, and ASEAN. Projections of investments by major Japanese companies show that the integration of production in northern Asia is likely to intensify, over both the short and the long term, stimulated by growing intra-industrial and intracompany trade in the ICT-intensive industries.

This chapter deals with the implications for trade in Latin America and the Caribbean of China's accession to WTO. The chapter consists of six sections, including the

Introduction. The following section describes the structure of Chinese exports and imports, focusing on those that are of special interest to the region. Section C describes the concessions made by China with regard to its trade in goods and services with different members of WTO and the general implications this has for the growth of China's trade and investments. This is followed by an analysis of negotiations between China and the Latin American countries, and the impact the growth of Chinese imports and exports has had on Latin America's trade. The next-to-last section identifies the challenges posed by integration between China and its south-east Asian trading partners. The final section describes the affinities between China and Brazil, as well as the partnerships that have been shaped in WTO around issues of common interest.

A. A profile of China's competitive advantages

China is the fourth largest economy in terms of international trade. In 2003, it accounted for 5.9% and 2.5% of world exports of goods and commercial services, in that order (WTO, 2004). Some analysts believe that the growth of production associated with China's entry into WTO will occur mostly in textiles and clothing, to the detriment of agriculture and the automotive sector (Deutsche Bank, 2001). China's exports of capital- and technology-intensive products specialize in labour-intensive assembly operations. It appears that the main reason behind the competitiveness of the Chinese economy is the abundance of cheap labour; it is estimated that there are 712 million workers in the Chinese labour market, and that 499 million of them work in rural farming areas in the interior of the country.

There is evidence, however, that China is gaining market shares in capital- and technology-intensive goods and that it is losing ground when it comes to labour-intensive goods, including most of its main textile exports. Thus, the considerable growth of Sino-Japanese trade, mentioned above, has been stimulated, on the one hand, by the expansion of Japanese exports of capital goods and manufactured production inputs such as semiconductors, electronic parts, metalworking machinery and automatic cranes, as well as of traditional exports of iron and steel products. On the other hand, the growth of Chinese exports to Japan is headed up by

machinery, which for the first time is in first place, displacing traditional textile products. Exports of office, communications and telephone equipment also increased significantly, bringing to light new patterns of export specialization within the industry and China's move towards the production of more high-tech manufactured products.

The structure of China's imports shows a preponderance of intermediate goods and spare parts. With the exception of "other machinery" and oil (27% of China's imports), the seven leading imports are intermediate goods. The data also show that over the last few years, China has increased its production capacity in these categories, to the detriment of assembly operations.

As will be noted later on, a less well-known aspect of China's import profile, and one that is very important to Latin America and the Caribbean, is the fairly important role of the east Asian economies in supplying products for the forestry and agri-food industries. Thus, the Republic of Korea is expected to benefit from an increase in shipments of wood and of paper products, in addition to the more predictable items, such as textiles, petrochemicals and non-ferrous metals. Singapore should benefit from a boom in exports of processed foods, as well as electronic and petrochemical products (Deutsche Bank, 2001).

China's accession to WTO has also enhanced the competitiveness of its agriculture and forestry sectors. This is happening against the backdrop of a steady increase in agricultural exports even before China's accession; such exports had peaked at US\$ 14 billion in the mid-1990s. The trend is clearly towards a growing surplus on China's agricultural trade balance.

The products that are most important to Latin America and the Caribbean are bulk agricultural products, including cereals, oil-seeds and oleaginous fruits, vegetable oils and sugar. China is also a net importer of inedible animal products. Uruguay, in particular, is an exporter of by-products from cattle farming. China's

exports of fishery and vegetable products have also grown considerably, with vegetables taking the lead among agricultural exports (Feng, 2001). Nevertheless, China does not seem to be competing in these categories with Latin America and the Caribbean; rather, the foreign trade profiles of China and the region seem to complement each other, in keeping with a traditional Ricardian approach.

It should be noted that the sectors of agriculture that show a trade deficit tend to fluctuate more on a year-to-year basis. According to the experts, this is a sign of administrative intervention in the distribution of bulk agricultural products, especially in monopolistic state systems (Feng, 2001).

B. China's commitments upon acceding to WTO

1. China's commitments in regard to market access

Trade in goods

China promised to reduce its nominal (weighted) average tariff of 11.1% at the end of 2001 to around 6.9% over the first five years after its accession to WTO; it also undertook to abolish many of its non-tariff barriers (mainly restrictive quotas) by around 2006.² However, the positive impact of tariff reduction will be more limited, since the tariffs in force in China at the end of 2001 were much lower than the nominal tariffs. The changes brought about by accession to WTO tended instead to be directed at correcting distortions in relative prices. The Government was already offering a number of concessions and tariff exemptions for imports made by companies engaged in processing exports, high-tech companies, strategic industries and a large share of government purchases. Bearing in mind these considerations, the actual reduction only amounted to between 3.6% and 2.3%.

Assessments of China's implementation of the commitments it made in order to accede to WTO indicate that tariff reductions have been adequately applied since 1 January 2003. In some categories, in fact, China has reduced tariffs beyond the agreed levels.

According to China's official assessment of its compliance with the agreements, since 1 January 2001, China has reduced import tariffs for more than 5,000 products. The overall average level of tariffs has fallen from 15.3% to 12%; for some high-tech products, they have been reduced to zero. In addition, quotas and licenses for certain products were eliminated. China has made corrections in 2,300 regulatory documents; 830 have been revoked, and 325 revised. The country has opened up more sectors to foreign investment, strengthened copyright protection, dealt with trade disputes according to WTO rules, and provided intensive training for corporate personnel (www.china.org.cn).³

2 In manufactures, China undertook to abolish non-tariff barriers and to reduce tariffs from the 2001 level of 13.3% to 6.8% by the end of the period of implementation.

3 Ministry of Foreign Trade and Cooperation; Xinhua news agency, 9 September 2003.

As far as natural resources are concerned, tariff protection is low in the forestry and fishery sectors (3.1%) and high in “planted fibre” (67.7%), tobacco and beverages (44.8%), processed foods (31.1%), grains and oil-seeds (26.2%) (Bhalla and Qiu, 2002).

In the agriculture sector, China had reached an agreement with the United States in order to gain access to WTO. This agreement, which was signed on 17 November 1999 in Beijing and was ratified by the United States Congress on 19 September 2000, opened the way for greater access to the Chinese market. The Chinese authorities also agreed to eliminate farm subsidies. In particular, private companies will have access to the quota system for bulk farm products (wheat, maize, cotton, barley and other grains). At the same time, agricultural companies will be able to make imports into China and distribute their products without going through State enterprises. In this sector, the commitment to eliminate tariffs is important, given that the average tariff on agricultural products was 17% in 2000 (Oviedo, 2003).⁴

Chinese imports of agricultural goods are expected to increase, although as noted earlier, that growth will not be as high as originally projected, since many farm products will be continue to be protected during the implementation period (Huang and Rozelle, World Bank, 2002; quoted by Ianchovichina and Walmsley). This is shown by the figures on sectoral tariff barriers (Bhalla and Qiu, 2002). Given the variance in tariff levels, however, there have been significant reductions in foods and beverages, as well as in primary resources. Post-WTO reductions will be seen in increased imports of foods and beverages in general, and of vegetable and animal oils, high-grade wine and coffee in particular. Moreover, the relaxation of restrictive quotas for bulk agricultural products (such as maize and barley) will also allow for more low-cost imports and better-quality raw materials for the Chinese food and beverage industry. Australia, Canada, the United States and New Zealand will substantially increase their exports of agricultural products to China. In the case of raw materials such as steel and aluminium, import tariffs will decline.

At the time of its accession to WTO, China’s non-tariff barriers were much more important than tariff barriers, especially with regard to import quotas, licensing and phytosanitary regulations. At present, it is estimated that non-tariff barriers are equivalent to an average tariff of 8.3%. The commitments made by China

should translate into a reduction of such barriers to a tariff equivalency of 2.4% by 2006.

During the first year of implementation, the most controversial non-tariff issues were Tariff Rate Quotas (TRQs), China’s policy on genetically modified organisms and end-use certification for certain products covered by the Information Technology Agreement (ITA). Bilateral contacts have facilitated some efforts at agreement in these areas, but a number of controversial points are still pending.

According to the United States Trade Representative, complex procedures for granting import licences have created obstacles for United States companies. Also, problems with the implementation of tariff quotas relating to agriculture may lead to the first case being brought against China in the context of the WTO Dispute Settlement Body. A number of serious barriers still stand in the way of foreign companies’ investing in agricultural biotechnology in China.

Trade in services

In services, China undertook to gradually relax the legislation on property and geographic restrictions to foreign investment in banking, securities, telecommunications, professional services and distribution and logistics (Deutsche Bank, 2001).⁵ In this regard, compliance with commitments in regard to distribution and maritime and air transport is especially important for Latin America and the Caribbean, considering the potentially positive impact it would have for improving the scale and quality of trade (Matoo, 2002). China agreed to allow foreign companies to obtain full marketing rights (beyond the right to import inputs) for almost all products over a three-year period. Foreign capital involved in joint ventures with minority shareholder participation were to obtain full marketing rights by 11 December 2002.

Assessments of implementation of the agreements on the part of the United States stress the private sector’s concern about effective authorization to foreign companies to increase their activities, so as to ensure compliance on the issues of distribution and marketing rights. Marketing and distribution rights in China seem to be in a state of flux. Some new regulations have been issued, but companies are still not sure how full distribution and marketing rights will be implemented by 22 December 2004. Of special concern is the fact

4 The methodology applied by the United States for non-market economies in antidumping cases relating to imports from China will remain in force for 15 years after the date of China’s accession to WTO (Gitli and Arce, 2001).

5 In terms of mathematical averages of tariffs, the reduction would be equivalent to a drop from 15.3% to 9% in 2006.

that Chinese authorities may impose restrictions on those rights according to product areas.⁶

A key issue that is still pending is that of how imported products can be distributed in China. As things stand, companies that operate with foreign investment are only allowed to distribute the products they manufacture in China and may only offer post-sale services for those products. China holds that only companies with specific

distribution licences may distribute products from third companies or imported products from a related company, regardless of whether or not that company has marketing rights. There are indications that the Chinese authorities may be considering authorizing companies with foreign investment to import and distribute products within specific industries, but not on an industry-wide basis (US-China Business Council, 2003).

2. The knock-on effect of China's growth

One of the main benefits of China's accession to WTO is the increased and enhanced access to its market that has been possible as its economic growth rate has picked up.⁷ This effect will increase as the allocation of production resources is improved, thanks to increased specialization based on comparative advantages, more rapid and more efficient accumulation of physical capital, and more accelerated growth of productivity through technology transfers via the expansion of capital and of imported intermediate goods. Deutsche Bank (2001) estimates, based on China's final commitments to WTO, show that the effect will be an increase of 0.11 point in the annual growth of China's GDP during the period 2002-2006. Preliminary studies showed an increase of 0.45 of a percentage point, although these studies were based on potential commitments before agreement had been reached on the access protocols.

The growth of Chinese demand has been a key factor in the recovery of international commodity prices in 2003. With purchases of over three million metric tons per year of copper, China has surpassed the United States as the primary consumer of copper in the world (*Diario Financiero*, 2003). According to the data for June, China's consumption increased by 20.7% this year.

China competes with developing countries in regard to exports in labour-intensive market segments; this competition is based on price differences. As regards manufactures in general, China is more competitive in terms of wages and labour costs per production unit than Mexico, where wages are equivalent to 7.8 times those

of Chinese workers, or Bolivia (3.7 times) and Chile (12.5 times). In the clothing industry, Costa Rica's cost in hourly wages is equivalent to 12.2 times that of China, Guatemala's is 3 times, and Mexico's is 3.5 times (Shafaeddin, 2002). Moreover, thanks to the adoption of foreign technology by way of direct investment, productivity in the textile, clothing and footwear industries is estimated to vary from 30% to 62% in collective enterprises and from 20% to 59% in state enterprises (Ianchovichina and Walmsley, 2003).

China also has competitive potential in labour-intensive agricultural products, strengthened by the lifting of restrictions on foreign investment in agriculture and agroindustry (especially in food processing). Foreign investment is still weakened, however, by restrictions on the purchase of land, a business climate of uncertainty, and environmental policy, which is apparently limited, however, to east Asia, especially south-east Asia (EAU, 1997).

It appears, from the estimates that have been made to date, that for a significant number of developing countries, especially the non-Asian ones, the negative effect of increased competition in large markets (especially the United States and Europe) and its implications for domestic production may outweigh the benefits to be gained from the increase in exports to China and the overall growth of demand that would be brought about by the further expansion of the world economy. This is particularly true in the cases of the Dominican Republic, the Caribbean, and Costa Rica in

6 The new provisional regulations published by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in February 2003 do not restrict distribution rights, but they are seen as a potential violation of China's commitments, since marketing rights were to be granted by means of notification and were not supposed to be subject to additional requirements relating to investment or approval.

7 Analysts stress the importance of legal and institutional reforms associated with China's entry into WTO, which should improve legal certainty and transparency and foster a climate of competition. There has been criticism to the effect that the commitment to transparency has not been evenly implemented in all cases. It has also been noted that the Chinese delegation did not meet expectations for cooperation and transparency during the first stage of the transitional review mechanism (US-China Business Council, 2003).

Central America, especially in regard to textiles, footwear and medical instruments (Gitli and Arce 2001). Net losses have been more significant in the cases of India, Philippines, Thailand, Indonesia, Malaysia and Viet Nam

in Asia, as well as Latin America as a whole (Deutsche Bank, 2001) (Shafaeddin, 2002 and Ianchovichina and Walmsley, 2003). The impact on the main South American countries has not yet been established.

C. The impact of China's accession to WTO on trade in Latin America and the Caribbean

1. Negotiations between China and the Latin American and Caribbean countries

In 1994, the Latin American and Caribbean countries began bilateral negotiations with China, following the stricter and more complex modalities established by WTO. This was after China had signed the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, known as the Marrakech Agreement, and before the first meeting of the Working Party on the Accession of China, held in the framework of WTO in March 1996. Despite the misgivings of the Central American and Caribbean countries about the impact of Chinese competition on the textile, clothing and footwear sectors, the negotiations for China's accession to WTO were difficult, to varying degrees, only in the cases of Mexico and Argentina. Chile, on the opposite side of the world, was the first country in the continent to sign an accession agreement with China, although most of the Latin American countries granted China Most-favoured-nation (MFN) treatment. The last Latin American countries to sign agreements with China were Bolivia, Venezuela, Costa Rica, Ecuador, Guatemala and México.

Chile signed the accession agreement in November 1999. The agreement included a tariff-consolidation list of 115 products, mainly in the agriculture, fishery and maritime, forestry and wood products, copper mining and fertilizer sectors, and it provided for initial negotiations on 25 products (Gutiérrez, 2002). Negotiations between Argentina and China, which began in 1994, also focused on priority lists of goods, with no requirements being made regarding services. The talks were limited to agricultural products with a high degree of customs protection, difficulty of access in terms of sanitary and phytosanitary regulations, and domestic

subsidies. The agreement was finally signed in March 2000. China granted Argentina concessions on a total of 68 items, mostly agricultural products, plus a number of fishery and petroleum products and rubber and mineral manufactures. China also granted tariff quotas for wheat, maize, soya bean oil and wool. The agreement also included provisions relating to sanitary and phytosanitary measures applied to exports of beef, mutton and lamb. Subsequently, both authorities signed agreements on these matters, as well as on dairy products and poultry, along with other agreements relating to sanitary conditions for pork and risk analysis in the case of apples, pears and citrus fruits (Oviedo, 2003).

In a visit to Brazil in 1993, Li Rihuan coined the phrase "strategic partnership" to define the potentialities of the relationship between the largest developing country in the American hemisphere and the largest developing economy in the world. Brazil supported China's access to WTO because it felt that China could help bring about fairer rules for international trade and preferential access for developing countries to the Chinese market (Altemani, 2002). Later, in August 2002, a sanitary equivalency agreement was signed which opened up opportunities for beef and poultry exports.

Negotiations with Mexico, the last country to conclude them, went on until September 2001, just days before the final meeting of the Working Party on the Accession of China (González, 2002). These negotiations were especially complex because of the misgivings of the Mexican authorities about the commercial impact on the maquila industry of competition from Chinese products and what Mexicans perceived as China's aggressive policy for attracting

foreign investment. Bilateral negotiations between China and Mexico were only cleared up when President Fox made an official trip on the occasion of the summit meeting of leaders of Asia-Pacific Economic Cooperation (APEC). The Mexican authorities finally came around to the view that an agreement with China would be a good thing and that Mexico could not remain completely isolated in the context of WTO. This was in spite of the fact that a significant part of the business sector did not want to accept any agreement with China that did not include a commitment by China to waive, over a period of at least 10 years, the right to resort to the WTO dispute settlement mechanism should Mexico wish to impose countervailing duties in cases of alleged unfair trade. The Mexican entrepreneurs wanted 20 years; in the end, the agreement provided for a moratorium up

to 2008. Mexico has imposed countervailing duties of up to 800% and 1,000% for certain Chinese exports that dominate the domestic market, particularly in textiles, toys and simple tools. According to Mexican analysts, the Government –the Office of the President and the Secretariats of Economic Affairs and Foreign Relations– clearly understand the inevitable commercial and economic interdependence between Mexico and China, and they realize that China is their strongest competitor for the main market, i.e., the United States. Likewise, business and political leaders realize that Mexico needs to find formulas for strengthening economic ties with China, albeit without a free trade agreement for the time being. For these sectors, there is no doubt that it is in their best interests for China to be committed to observing the rules of multilateral trade.

2. Overall assessment of the impact on Latin America and the Caribbean

The area in which China's accession to WTO will have the greatest impact on Latin America is that of traditional trade, which relies on the comparative advantages inherent in the relative availability of production resources. The net static effect on the region is the outcome of increased trade with China as a result, firstly, of improved market access and, secondly, of economic growth, minus the effects associated with having to compete with Chinese products, in both domestic and third markets. The competitiveness of Chinese products, as determined by the profile of imports of Chinese products in Latin America and the Caribbean, will be reflected in the substitution of local production of textiles, clothing and footwear, as well as plastics and rubber manufactures.

Except in the case of Mexico, the share of manufactured goods, especially light industry products, in Latin American exports is not as high as in most Asian nations. However, Latin American exports go mainly to the United States, which is also China's main market. Contrary to the situation with south-east Asia, where complementary effects –increased intra-industrial trade, cross investments, strategic partnerships– are significant, the prospects for the Latin America and Caribbean countries are fewer and more limited, as they are confined to intra-industrial trade in certain links in the chain of production in the automotive, electronics and information technology sectors. Latin America and the

Caribbean also do not benefit directly from the growth and liberalization of the infrastructure sector, including ports and airports, except perhaps for a small group of Brazilian and Argentine companies. This is also the case with tourism and professional services, where physical distance is accentuated by cultural distance.

As a backdrop for an analysis of the impact of China's access to WTO, it should be noted that estimates had indicated that by 2005, the accession of China and the elimination of restrictive quotas would increase its share in the United States market for products in the clothing industry by three percentage points. The increase in China's market share was expected to bring about a reduction of approximately four percentage points in the market share of "all others", including Mexico, Central America and the Caribbean Basin countries (Gitli and Arce, 2001). Moreover, private sources had estimated that China's exports would surpass those of suppliers from east Asia, south-east Asia and Latin America in previously restricted markets, especially in clothing and textiles. Thus, the projections showed that China's share of United States imports of textiles and clothing would increase by around 14% between 2002 and 2006. During this same period, as a result of its entry into WTO, Chinese clothing exports were expected to increase by US\$ 55 million, and exports of those products to the European market were also expected to increase.

Similarly, in trade in final goods, China competes with Mexico and Brazil in the market for machinery and equipment, especially the United States market, which is also the main market for those countries.

Thus, the panorama is varied throughout the region. In some cases, such as those of Argentina, Brazil, Chile and Peru, the positive impact of reforms in access to the Chinese market and the acceleration of the economic growth rate would work together to outweigh the potentially adverse effect of competition from Chinese imports with national and third-market industries, although this effect has been considerable in labour-intensive sectors and a significant number of small and medium-sized businesses. In other instances, such as those of Mexico, Central America and the Caribbean, the opposite would be the case, particularly since they would lose part of their share of United States market. As may be seen from analyses conducted before China's accession to WTO, four sectors in Central America and the Caribbean were most affected by this increased competition, namely, clothing, footwear, machinery and electric appliances and parts, and optical, photographic and musical instruments and appliances (Gitli and Arce, 2001).

With China's entry into WTO, by 2005 the elimination of current quotas in the context of the Agreement on Textiles and Clothing would enable it to considerably increase its share in the world market; this would have a significant effect on other regional suppliers of those goods. China's access to WTO will lead to the abolition of quotas for Chinese textiles and clothing exports to the European Union and the United States in 2005. Thus, China will become a formidable competitor, especially in the clothing sector. Indeed, United States Government estimates indicate that with the elimination of quotas, China could increase its share in the world market by more than six percentage points in 2005; this would help it maintain its position as the leading supplier of clothing products, eventually stabilizing that share at around 37% (Gitli and Arce, 2001, p. 97). However, China will be subject to additional safeguard quotas for textiles up to 2007, although such quotas can only be applied one year at a time, contrary to existing quotas which are imposed for an indefinite period (Ianchovichina and Walmsley, 2003).

The improvement of conditions for China to gain access for its products to the United States market meant reducing the preferential advantages enjoyed by Mexico under the North American Free Trade Agreement

(NAFTA), and by the Caribbean, under the Caribbean Basin Initiative (CBI) (entry under special shared production terms). This has changed the environment in which a complex production chain has been developed between Mexico, the Caribbean and the United States in the textiles, clothing and footwear industry (Gitli and Arce 2001; Fernández, 2000).

Preliminary figures for 2002 and 2003 do in fact show the impact of Chinese competition in third markets in the cases of Mexico, Central America and the Caribbean. It has been especially intense in the textiles, clothing and footwear industries, especially the Mexican maquila industry, and somewhat less so in home appliances and tools (*Financial Times*, 2003). Unofficial estimates indicate that 85% of Mexican shoe manufacturers have moved to China. The situation with textiles and technology assembly plants is similar. In particular, large corporations like Sony, NEC, VTech, On Semiconductor and makers of Kodak X-ray film have moved their factories. Just IBM and Microsoft moved projects worth around US\$ 1 billion to Asia.⁸ In 2002, thanks to the growth of exports of textiles and electronics at low cost, China displaced Japan as the third largest exporter to the United States for a group of products representing 42% of Mexico's maquila production. According to a recent report by Merrill Lynch, twelve of the 20 main exports from Mexico to the United States are threatened by competition from China; it is feared that China will displace Mexico as the second largest supplier to the United States (*Wall Street Journal*, 2003). According to studies conducted by the National Council of the Mexican Maquila Industry, the advantage that Mexico needs to exploit now is that of the shorter time frames in the supply chain. It is estimated that 300,000 jobs have been lost in the sector over the last three years; this represents an estimated loss of US\$ 1 billion per year (*Wall Street Journal*, 2003).

Relying on the fact that China has agreed to the maintenance of countervailing quotas for some 1,300 products over a period of nearly six years, Mexico is complying with its commitments to gradually eliminate tariffs on Chinese products. According to Chinese authorities' estimates of the potential, Mexico could eventually attract Chinese investments in textiles for US\$ 200 million.

During the first four months of 2003, China has been displacing Japan as the second largest market of origin for Mexican imports, surpassing exports from Central

⁸ It is estimated that in Mexico, these moves have caused 300,000 workers to lose their jobs since 2000 because of the difficulty of competing with China, where hourly wages, including benefits and taxes, amount to US\$ 0.27, which is four times lower than Mexican wages. National Council of the Mexican Maquila Industry (*Wall Street Journal*, 2003).

America and the Latin American Integration Association (ALADI) together. Mexico's trade deficit with China has also risen sharply. In 2002, Mexico experienced deficits in 94 branches of production, totalling US\$ 5.832 billion, and had surpluses in only five categories, totalling US\$ 3 million. The deficit rose by 55.4% in 2002. The largest deficit was in the category of electrical apparatus and supplies (US\$ 2.224 billion). Deficits were substantial in machinery, tools and mechanical apparatus,

according to figures published by the Secretariat of Economic Affairs. It is estimated that inputs for the maquila industry account for 51% of all imports of Chinese products (*Reforma*, 2003). This balance is corroborated by a report of the Mexico Committee of the Pacific Economic Cooperation Conference (PECC), which notes that this year more than 100 Mexican products, from brooms to auto parts, will be displaced by Chinese competition on the United States market.

3. The boom in exports from Latin America to China

In 2002, Mexico's exports to China, which totalled around US\$ 456 million, included an interesting mix of industrial inputs for the electronics sector and a relatively diversified structure, with the top 20 products accounting for 84.76% of all exports. Mexico also exports food and beverages, including Corona beer (*América Economía*, 2003), and tools (LAIA, 2003).

In general, the growth of the Chinese economy and its industrial reforms have had a strong knock-on effect on the mining and forestry industries by generating increased demand for inputs from those sectors. It appears that this effect has been outweighed the effect of reducing tariff barriers, given that in practice, tariffs had already been substantially reduced prior to China's accession to WTO. The products that have most benefited from the export boom brought about by the growth of the Chinese economy are iron, copper ores, aluminium, liquid natural gas and energy resources in general. This is attested to by the initial figures on trade between China and Argentina, Brazil, Chile and Peru, in 2002 and the first half of 2003 (*Financial Times*, 2003).

In 2003, Brazil's exports to China showed strong growth in products ranging from commodities such as soya beans, chickens and iron ore, to industrial manufactures such as small cars and patrol planes. China's demand for iron is expected to grow by 28 million tons. Brazil's exporters of soya beans more than doubled their shipments to China over the last three years, and this year they expect to sell 5 million tons. Expectations are also high for exports of paper, cellulose, orange juice, sugar and coffee. In 2003, China became the second largest market for Brazilian exports, surpassing Japan. The ten main exports grew by 80%, totalling over US\$ 3 billion; especially noteworthy were crushed soya beans (60%), flat-rolled products of iron (420%), parts for motor vehicles (279%), crude soya

bean oil (118.4%) and internal combustion motors and pumps (946%) (Brazil, 2003).

Brazil is the country that has made the greatest effort to strengthen its economic relations with China, going beyond traditional trading patterns. In November 2001, the establishment of a joint venture between Vale do Rio Doce and Baogang Metallurgic was announced. In September 2002, a joint programme was set up by Brazilian Aircraft Corporation (EMBRAER) and Chinese Air Company (AVIC2). According to Brazilian and Chinese analysts (Chengxu, 2001), China's access to WTO should create new opportunities for the further growth of trade and complementary cooperation between the two countries. There are definitely signs of a qualitative improvement in Brazil's economic relations with China since China's accession to WTO. As far as intra-industrial trade is concerned, in the automotive sector, a five-year contract for US\$ 5.5 billion was announced, under which Volkswagen Brazil will supply components for the assembly in China of the Gol model. In regard to investments, during the current year, EMBRAER will finalize its plans to invest in the setting up of a regional jet factory in the Chinese province of Harbin. This will be the first foreign investment to be made by the Brazilian aeronautical company, and it will be inaugurated by President Luiz Ignacio da Silva. In the mining sector, the largest company in the world, Brazil's Vale do Rio Doce, has announced that it will enter into a strategic partnership with Shanghai Bao Steel Group Corporation, the largest in China. This same Brazilian corporation is also negotiating with Chinese investors the construction of steel billet plants in northern Brazil.

Chile and Peru have also seen strong evidence of the knock-on effect of China's economic growth in Chinese demand for copper ore, which has grown by over 12%, twice as much as expected. International

commodity prices seem to be rising, stimulated by the explosive increase in Chinese demand (*Diario Estrategia*, Chile). Chile has significantly increased its exports, especially of copper by-products, during the first half of this year, both to China (52%) and to Hong Kong (Special Administrative Region of China) (68%) (Direcon, 2003).

In the case of Chile, fruit exports to China fell by 42% during the last season owing to sanitary problems, according to the National Federation of Fruit Growers, which estimates the losses at US\$ 5 million. Chile was just about to sign a new agreement to sell prunes and citrus fruits to China. In 2000, China allowed imports of table grapes, apples and kiwi fruit. In 2003, the fruit fly paralyzed exports, which are only allowed to enter via Hong Kong (Special Administrative Region of

China). Negotiations are underway to make shipments through Shanghai (*La Tercera*, 2003).

Foreign trade statistics for the first eight months of this year show that Argentina experienced a spectacular growth in its exports to China –131% compared to the same period in the previous year– amply surpassing overall growth of exports to other destinations. In general, during this period, east Asia and India became the main export markets, along with MERCOSUR and the European Union (INDEC, 2003).

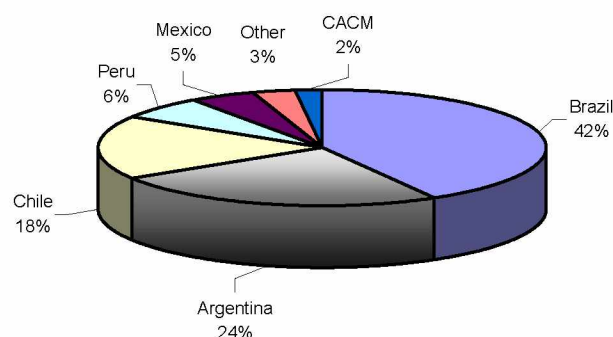
Between January and December 2003, compared with the same period in 2002, China was one of the primary export markets for almost every country in Latin America, especially the South American countries, whose sales to China grew by around 80% (see table VI.1 and figure VI.1), more than sales to Japan.

Table VI.1
LATIN AMERICA (16 COUNTRIES): MAIN DESTINATIONS OF EXPORTS TO ASIA, 2002-2003
(Millions of dollars and growth rates)

Country/Destination	Asia (including Japan)			Japan			China		
	2002	2003	2003/2002	2002	2003	2003/2002	2002	2003	2003/2002
Latin America (16)	25 090	31 673	26.2	6 351	7 351	15.3	6 317	10 870	72.1
MERCOSUR	12 001	16 382	36.5	2 491	2 671	7.2	3 723	7 318	96.5
Argentina	3 179	4 686	47.4	371	343	-7.5	1 092	2 659	143.4
Brazil	8 566	11 422	33.3	2 098	2 311	10.1	2 520	4 533	79.9
Paraguay	52	63	21.0	8	5	-33.7	8	9	12.4
Uruguay	204	211	3.2	14	12	-11.4	104	118	13.6
Chile	5 158	6 624	28.4	1 955	2 297	16.0	1 224	1 941	58.5
Andean Community	4 950	5 425	9.6	1 282	1 604	25.1	738	906	22.7
Bolivia	28	67	137.1	6	19	216.8	8	10	24.1
Colombia	344	361	5.1	194	199	2.5	28	66	136.1
Ecuador	411	345	-16.2	98	86	-12.7	15	15	1.3
Peru	1 535	1 731	12.8	374	391	4.5	597	675	13.1
Venezuela	332	468	41.1	145	304	109.6	91	140	54.0
Mexico	2 300	2 452	6.6	465	606	30.2	456	509	11.7
CACM	680	790	16.1	157	173	9.7	175	196	12.0
Costa Rica	315	403	27.8	32	46	43.0	168	185	10.5
El Salvador	41	49	18.7	11	14	27.4	3	5	57.4
Guatemala	263	285	8.6	67	76	14.3	3	3	35.9
Honduras	53	46	-14.7	41	31	-24.5	1	2	39.7
Nicaragua	8	7	-7.0	6	5	-16.4	0	0	34.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Latin American Integration Association (ALADI) and the International Monetary Fund (IMF), *Direction of Trade Statistics*, for Paraguay, Bolivia and Central American Common Market countries, 2003.

Figure VI.1
LATIN AMERICA: DISTRIBUTION OF EXPORTS TO CHINA, 2003
(Percentages of total)



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

D. Regionalism in East Asia and its potential impact on Latin America and the Caribbean

All the economies of east Asia have adopted active policies on bilateral or subregional trade agreements, although to date, other than the Association of South-East Asian Nations (ASEAN), the only free trade agreement (FTA) that has actually been signed is the one between Japan and Singapore. This is the only FTA to be added to the three trans-Pacific treaties negotiated since the WTO Ministerial Conference in Seattle, namely: Chile-Korea, Singapore-New Zealand, Singapore-United States. Over the next two years, however, a free trade area is likely to be established between China and ASEAN; negotiations between these two parties have advanced much more than the talks between Japan and Korea with the same economic bloc. In November 2001, the heads of government of China and the members of ASEAN decided to create a new framework for economic cooperation, based on a free trade area to be established within ten years. A few months later, during an official trip through the region, Junichiro Koizumi, Prime Minister of Japan, proposed to the members of ASEAN the creation of a Comprehensive Economic Partnership. Even though the planned FTA may not become a reality for quite some time, Latin America will find its opportunities limited over the short term, since a preferential tariff reduction

for imports of fruits and other agricultural commodities from ASEAN member countries will soon go into effect.

The creation of a free trade area would change the scene in east Asia. Held together by its linkages with the Chinese economy, the region would be an economic bloc on the international scene, thus consolidating the integration process that began in the 1980s and is now stimulated by intraregional investment and the growth of intra-industrial trade. A preferential trade regime, accompanied by increased standardization of rules relating to trade disciplines, investment, services, technical and phytosanitary standards, trade facilitation and mobility and other issues, would give a decisive impetus to the deepening of regional integration and consolidate the remarkable growth experienced by the Asian economies in recent years. The region's trade has surpassed US\$ 60 billion dollars, having grown by over 250% since 1996; the ASEAN countries' main exports are machinery and electronic equipment, mineral and agricultural products and prepared foods, plastics, and textiles and clothing. Even more important is the fact that the Chinese market opened the way for these countries to overcome their recession to the point that their imports totalled US\$ 33.8 billion in 2000, more than triple the amount imported in 1996.

China's share in the foreign trade of the south-east Asian bloc rose from 2.1% in 1994 to 3.9% in 2000 (Ávila, 2002). A future free trade area integrating Japan and China with ASEAN would greatly stimulate intraregional trade. Preliminary estimates indicate that ASEAN exports to China would grow by 48%, while exports from China would increase by 52%. Above all, this would have a significant impact on the economic geography of Asia and the Pacific. A free trade area made up of ASEAN and China would account for a combined product of at least US\$ 1.6 trillion and if Japan were to be included, of US\$ 5.5 trillion, making east Asia an integrated pole vis à vis North America and Europe.

This potential scenario has significant implications for Latin America and the Caribbean, owing to its impact on international flows of direct investment and the substantial diversion of trade that would take place in those categories in which exports to China face serious competition from the east Asian economies.

Table VI.2 shows the top 30 products that China imported from Latin America and the Caribbean (37 countries) in 2001. The first column shows the ranking of products by order of priority; the second column shows the four-digit classification according to the Standard International Trade Classification (SITC) Revision 2; and the third column lists the products. Next, the table shows the total CIF value of Chinese imports from Latin America both in terms of overall trade (on the first line) and of individual products, as well as total imports of the same product from all the world. The next three columns show the specific product's share of total Chinese imports from Latin America and the Caribbean, the same share in cumulative terms, and finally, the share of imports of that product from Latin America as a percentage of total Chinese imports from all the world. The following columns show the five main countries supplying that product and their share in total Chinese imports of the product (2001). The last column indicates the share of those five suppliers in total imports of the product in question.

In 2001, the Asian economies were serious competitors for a large basket of products representing

US\$ 4.328 billion worth of exports from Latin America and the Caribbean. These products included 20 of the 30 main exports from Latin America and the Caribbean to China, including products from the mining (copper and iron), petrochemicals, electronics, automotive, forestry and agriculture sectors (see table VI.2). Asian exports of these products to China totalled US\$ 832 million, which is equivalent to 19% of Latin American and Caribbean exports. Japan is the main competitor for 17 products in the electronics industry and mining manufactures. It is followed by Taiwan province of China, in petrochemical and electronic manufactures, and then Korea, with a varied basket of products. Among the main Latin American countries affected by this situation are Brazil, with nine products, including sugar and tobacco with Thailand; motors with Japan; and cellulose with Indonesia. Chile and Peru also compete with China in sales of five products each (refined copper and metal salts, among others).

Latin American and Caribbean countries have been especially affected by the agreements that China has signed with its border countries –Kazakhstan, Russia and Mongolia– to promote the development of its interior regions. In the specific case of copper, imports from those neighbouring countries benefited from tariff reductions and a value added tax equivalent to 50% of the cost of completing customs clearance. This has affected sales of copper concentrates and refined copper, considering that China imported nearly US\$ 20 million worth of such products from Mongolia in 2001, as well as its steel imports from Kazakhstan. As a result of discussions conducted outside WTO, in the context of bilateral trade meetings, China agreed to revoke preferential tax treatment policies for 20 products it trades with border countries. This represents a significant step towards equal treatment for products imported through normal trade, although China has not abolished preferential treatment for all the products it trades with neighbouring countries. Thus, for example, preferential treatment for integrated circuit products manufactured in China continues to discriminate against imported integrated circuits.

Table VI.2
CHINA: 30 MAIN IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN, 2001
(In millions of dollars)

Main products SITC Rev.2 and description (1)	Latin America and the Caribbean				World value (6)	Country of origin of imports and percentage of total											
	value (2)	% (3)	% (4)	% (5)		Country of origin (7)	% (7)	Country of origin (7)	% (7)	Country of origin (7)	% (7)	Country of origin (7)	% (7)	Country of origin (7)	% (7)	Country of origin (7)	% (8)
Total	6 651	100.0		2.7	243 553	Japan	17.6	Taiwan Prov. of China	11.2	United States	10.8	Republic of Korea	9.6	Germany	5.7	55	
1) 2222 Soya beans	1 605	24.1	24.1	57.1	2 810	United States	42.6	Argentina	35.1	Brazil	22.1	Canada	0.2	Russian Fed.	0.1	100	
2) 2815 Iron ore and concentrates, not agglomerated	585	8.8	32.9	27.1	2 159	Australia	43.5	Brazil	25.0	India	17.5	South Africa	10.9	Peru	1.6	99	
3) 6821 Copper and copper alloys, crude	580	8.7	41.6	36.8	1 576	Chile	35.5	Japan	20.4	Kazakhstan	7.4	Philippines	6.5	Russian Fed.	6.0	76	
4) 2517 Chemical wood pulp, soda or sulphate	384	5.8	47.4	22.6	1 699	Indonesia	24.1	Russian Fed.	19.4	Canada	17.5	Chile	14.1	Brazil	8.5	84	
5) 2871 Copper ores and concentrates; copper mattes; cement copper	373	5.6	53.0	41.6	898	Chile	34.6	Australia	20.6	Mongolia	19.6	Canada	7.7	Peru	6.3	89	
6) 0814 Flours and meals of meat, of fish or of crustaceans or molluscs, unfit for human consumption; greaves	353	5.3	58.4	69.4	509	Peru	57.6	United States	15.2	Chile	11.2	Russian Fed.	9.1	New Zealand	3.8	97	
7) 7599 Parts, n.e.s., and accessories for machines falling within subgroup 7512 or group 752	295	4.4	62.8	4.4	6 716	Not specified	21.0	Japan	15.0	Taiwan Prov. of China	12.9	Thailand	9.9	United States	9.2	68	
8) 2816 Iron ore agglomerates (sinters, pellets, briquettes, etc.)	244	3.7	66.5	71.0	344	Brazil	59.6	India	23.3	Peru	8.2	Mexico	3.2	Canada	1.7	96	
9) 6114 Other bovine leather (including buffalo) and equine leather (other than leather of subgroup 6118)	151	2.3	68.7	8.9	1 699	Republic of Korea	27.4	Taiwan Prov. of China	26.0	Italy	12.1	Not specified	4.2	United States	4.0	74	
10) 0611 Sugar in solid form, unrefined	115	1.7	70.5	44.4	258	Cuba	35.2	Thailand	31.9	Australia	19.9	Brazil	9.2	South Africa	3.7	100	
11) 1212 Tobacco	108	1.6	72.1	53.7	201	Brazil	53.7	Zimbabwe	44.2	Not specified	1.7	Thailand	0.3	Italy	0.1	100	
12) 7849 Other parts and accessories, n.e.s., of the motor vehicles of groups 722, 781, 782 and 783	98	1.5	73.6	3.9	2 514	Germany	45.5	Japan	31.1	Canada	4.4	Brazil	3.7	United States	3.1	88	
13) 6512 Yarn of wool or animal hair (including wool tops)	97	1.5	75.0	20.4	478	Not specified	22.8	Australia	20.1	Uruguay	12.7	Italy	10.7	Taiwan Prov. of China	8.5	75	
14) 6782 Seamless tubes and pipes; blanks for tubes and pipes, of iron (other than cast iron) or steel (excluding high pressure hydro-electric conduits)	58	0.9	75.9	12.4	465	Japan	54.0	Germany	13.4	Argentina	8.5	Mexico	3.9	Austria	3.1	83	
15) 2483 Wood of non-coniferous species, sawn, planed, tongued, grooved, etc.	54	0.8	76.7	5.9	904	Indonesia	35.5	United States	11.2	Malaysia	10.8	Thailand	6.7	Germany	5.7	70	
16) 7764 Electronic microcircuits	53	0.8	77.5	0.3	16 591	Japan	23.5	Taiwan Prov. of China	18.3	Malaysia	10.1	United States	9.1	Republic of Korea	8.3	69	
17) 2789 Minerals, crude, n.e.s.	50	0.7	78.2	48.4	102	Venezuela	46.4	Italy	7.0	Turkey	6.1	Myanmar	5.9	United States	5.8	71	
18) 2882 Other non-ferrous base metal waste and scrap, n.e.s.	46	0.7	78.9	3.1	1 499	United States	26.1	Japan	15.8	Hong Kong	14.8	Germany	6.6	Kazakhstan	4.8	68	
19) 2875 Zinc ores and concentrates	45	0.7	79.6	31.7	140	Australia	26.3	Peru	20.3	United States	10.7	Mexico	9.2	Canada	8.3	75	
20) 2731 Building or monumental stone, not further worked than roughly trimmed or merely cut by sawing	38	0.6	80.2	9.2	417	India	22.8	Egypt	13.3	Brazil	9.2	Italy	8.6	Spain	8.5	62	
21) 7923 Aeroplanes and other aircraft, mechanically propelled (other than helicopters), of an unladen weight exceeding 2,000 kg but not more than 15,000 kilograms	38	0.6	80.7	3.1	1 203	Russian Fed.	69.7	Germany	13.7	Canada	6.8	United States	6.6	Brazil	3.1	100	
22) 3345 Lubricating petroleum oils and oils obtained from bituminous minerals, other heavy petroleum oils and heavy oils obtained from bituminous minerals (other than crude), and heavy preparations, n.e.s.	37	0.5	81.3	2.1	1 777	Republic of Korea	38.8	Russian Fed.	11.5	Singapore	11.2	Japan	9.5	United States	3.4	74	
23) 3330 Petroleum oils and oils obtained from bituminous minerals, crude	36	0.5	81.8	0.3	11 661	Islamic Republic of Iran	17.7	Saudi Arabia	14.0	Oman	13.7	Sudan	8.0	Vietnam	6.2	60	
24) 5232 Metal salts and peroxysalts, of inorganic acids (other than those that fall within subgroup 5231)	35	0.5	82.4	25.0	142	Chile	24.7	United States	20.8	Japan	14.4	Republic of Korea	13.0	Taiwan Prov. of China	7.5	80	
25) 7762 Other electronic valves and tubes (including television camera tubes)	33	0.5	82.9	1.9	1 738	Republic of Korea	45.1	Taiwan Prov. of China	24.4	Japan	10.9	Malaysia	4.1	Not specified	3.8	88	
26) 7139 Parts, n.e.s., for the internal combustion piston engines of subgroups 7132, 7133 y 7138	33	0.5	83.4	5.4	606	Japan	41.6	Germany	20.1	United States	7.9	Italy	3.4	Taiwan Prov. of China	3.3	76	
27) 0573 Bananas (including plantains), fresh or dried	33	0.5	83.8	33.2	98	Philippines	64.1	Ecuador	25.1	Colombia	7.0	Vietnam	2.5	Costa Rica	1.2	100	
28) 6746 Sheets and plates, rolled but not further worked, of a thickness of less than 3 mm, of iron or steel	31	0.5	84.3	1.2	2 630	Taiwan Prov. of China	24.8	Japan	22.7	Republic of Korea	20.5	Russian Fed.	7.9	Kazakhstan	6.9	83	
29) 5834 Polyvinyl chloride	31	0.5	84.8	1.6	1 881	Taiwan Prov. of China	29.0	Japan	20.6	Korea	11.4	United States	8.9	Russian Fed.	6.7	77	
30) 7649 Parts, n.e.s., and accessories suitable for use solely or principally with the apparatus of division 76	30	0.4	85.2	0.4	7 986	Japan	20.2	United States	12.5	Not specified	11.0	Republic of Korea	8.6	Finland	6.3	59	

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

Note: Column (1) shows the top 30 products imported from Latin America and the Caribbean by China in 2001, ranked by value in descending order. Column (2) shows the value of imports of those products. Column (3) shows the share of the product in total imports from Latin America and the Caribbean. Column (4) indicates the cumulative share of those products in total imports from Latin America and the Caribbean. Column (6) shows the share of the product imported from Latin America and the Caribbean in total imports of the product from all the world. Column (7) shows the top five suppliers of the product in the world and their share in total imports from the world. Finally, column (8) shows the share of those five countries in the total value of China's imports from the world.

The Chinese press (*People's Daily*) recently announced that China and MERCOSUR would begin negotiations on an FTA in mid-October. It should be noted, however, that these will be preliminary talks in anticipation of relatively protracted negotiations on a partial-scope trade agreement similar to the one being initiated by Brazil and India. Negotiations on a future free trade agreement covering a significant proportion of bilateral trade and not discriminating between economic sectors would represent a difficult exercise in collective diplomacy on the part of MERCOSUR; light industry manufactures would be a particularly sensitive issue. An alternative would be to negotiate a limited list of items for tariff reductions, along with a parallel agreement on other key issues such as procedures relating to rules and technical standards, phytosanitary procedures, taxation, and investment, as well as important cooperation projects in the fields of aeronautics and space technology, in the case of Brazil.

On the question of the international insertion strategy being considered in the capitals of the Latin American and Caribbean countries, some clear differences are coming to light against the backdrop of China's accession to WTO and its own international insertion strategy. At one end of the spectrum, Chile has opted for open regionalism built on a network of agreements with its main trading partners, the strategic objective being to lay the foundation for increasing exports of goods and services based on natural resources and developing its potential as a business platform in South America. At the other end is Brazil, which seems to be heading towards isolating itself from the process of establishing a Free Trade Area of the Americas (FTAA), while trying to enhance its economic insertion in the South American subregion, beginning with MERCOSUR, as long as Argentina is able to consolidate its budding recovery. Brazil is also considering forming

strategic partnerships such as those it has outlined in its contacts with China and India, not only with regard to bilateral trade agreements but also multilateral negotiations. Central America and the Caribbean, for their part, are trying to deepen their ties with the United States so as to maintain the prospects for growth of their light industry and deepen their integration into the relevant chains of production and marketing.

As far as Chinese investments in Latin America and the Caribbean are concerned, Argentina does not seem to be considering any projects with China for the period 2001-2002, according to statistics compiled by Fundación Invertir (www.invertir.com), which only mention Japan and Korea. Chile also has no plans for investments from China between 2001 and 2002 (Comité de Inversiones Extranjeras (CIE, 2003)). In South America, the few Chinese investments that have been made are concentrated in Venezuela (energy resources) and Peru (mining). In 1992, in the context of Peru's privatization programme, China Shougang Trade International & Engineering Corporation bought Hierro Perú, the largest iron mine in the country. China initially invested US\$ 120 million and promised to invest another US\$ 150 million. Although Chinese investment has risen to US\$ 140 million, it is way below the amount promised (Berrios, 2002). The Chinese authorities have repeatedly expressed their interest in investing in the copper mining industry in Chile, but that has not yet happened because the Chinese are reluctant to take on the risks involved in prospecting and setting up extraction operations. Executives of large firms in the machine tool and metalworking, equipment and electronics industries have made frequent visits to the country, but no arrangements have been concluded yet. It seems more likely that some investments will be made in Brazil to take advantage of state incentives, the high degree of development of support industries and the size of the domestic market.

E. The new affinities

The new affinities and potential complementarities between the Latin American and Caribbean region and China lie in their common positions on serious issues on the agenda being negotiated in the multilateral economic system, especially the Doha Round of WTO. At the Fifth Ministerial Meeting of WTO, held in Cancun from 10 to 14 September 2003, there was strong agreement with the positions of Brazil and 11 other Latin American countries concerning the agricultural agenda and the Singapore issues. Brazil acted as leader and spokesman for a coalition of developing countries, known as G-20+, which felt that the joint proposal of the European Union and the United States seriously limited the scope of the Doha mandate and compromised the negotiations as a whole. These countries submitted an alternative proposal for negotiations on agriculture that envisaged an ambitious plan for the elimination of subsidies and a formula for market access that entailed differentiating between developed and developing countries. The establishment of this group and its continued existence, despite the desertion of several of the 12 Latin American countries that originally belonged to it, is seen in Brasilia and Beijing as a victory for the developing countries (Carta de Ginebra, 2003; Hakim, 2003; Lu Fuyuan, 2003) (see chapter V).

The case of Brazil is practically the only one in which China became, throughout the 1990s, not only one of the main destinations for exports and source of supply for imports, but also an actor with a common approach to many of the key aspects under discussion in international trade organizations and regional free trade initiatives, especially the Free Trade Area of the Americas (FTAA). In both China and Brazil, large segments of the population fear the establishment of regional protectionist arrangements that would restrict the external insertion of stakeholders (Altemani, 2002; Ricúpero, 2003). As noted earlier, during the 1990s, the increase in trade between the two countries occurred in the context of good political relations. In 2003, Brazil's exports to China had already surpassed those of Japan and were higher than those of ASEAN. Imports were only surpassed by Japan and the Republic of Korea. According to Laffer (quoted in Altemani, 2002, p. 12), Brazil and China are important poles of influence in the developing world and deserve to play an active role in the consideration of the major issues affecting all of mankind. The participation of all major stakeholders is

crucial to the building of a new order and a new global architecture as this century begins.

This relationship is reminiscent of an affinity vis à vis the developed countries that goes back to the 1970s, when there was agreement at international political forums, and voting patterns were similar. Since 1988, the two countries have attempted to organize bilateral initiatives in science and technology through a partnership agreement aimed at producing two satellites to conduct research on the Earth's natural resources (The China Brazil Earth Resources Satellites Project (CBERS)). This project was expanded in 1995, when two more satellites were added. The first satellite was launched in 1999, but the second launch, in September 2003, failed. This dimension of cooperation in science and technology was emphasized during the administration of Itamar Franco. At present, the administration of Lula da Silva is seeking to extend the scope of cooperation to include biotechnology, information technology and new materials development, as well as to promote the fight against AIDS through the production and marketing of traditional and generic medicines and the search for new medications. At the academic level, Brazil leads Latin America in cultural exchanges with China; there were 124 Brazilian students in China in 2000, compared with 62 from Mexico, 28 from Peru, 23 from Colombia, 20 from Cuba, 16 from Chile, 14 each from Venezuela and Bolivia, and 9 from Argentina (Official data from People's Republic of China, cited by Oviedo, 2000). It used to be said that Brazil's foreign policy gave priority to relations with Japan in the economic sphere and with China in the political sphere. Today, China is proving to be the main actor in east Asia when it comes to trade, investment and cooperation in connection with research and development.

Latin America and the Caribbean as a whole benefit from the adoption by China of WTO trade disciplines and from the fact that they are able to take their complaints regarding practices that infringe their rights to the WTO Dispute Settlement Body. In those areas in which no multilateral regulations exist or where they are incomplete, as in the case of agricultural subsidies and antidumping practices, the region and China share an interest in reforming the rules and eliminating those that are too restrictive or arbitrary. As has been demonstrated in recent WTO studies, China can indeed be a helpful ally.

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