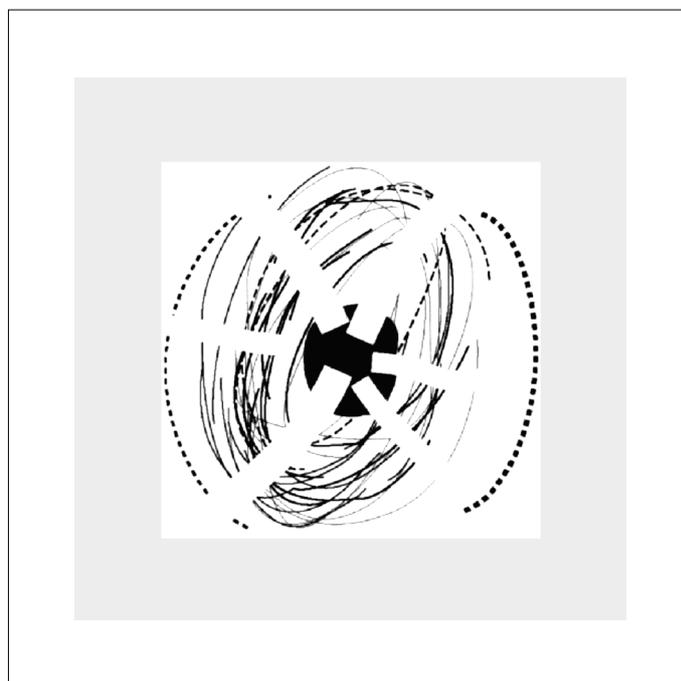


2000-2001



**Latin America
and the Caribbean
in the world economy**



UNITED NATIONS

ECLAC

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Explanatory notes

The following symbols have been used in this Study:

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

A minus (-) indicates a deficit or decrease, unless otherwise indicated.

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

Use of a hyphen between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

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

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

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Abstract



The 2000-2001 edition of *Latin America and the Caribbean in the World Economy* is divided into three sections.

The first section (chapters I, II and III) examines the international situation and international trade activity in Latin America and the Caribbean. It describes the main trends in the international economy and their impact on the economies of the region and looks at the international trade activity of the different countries in 2000 and the first half of 2001. Chapter III discusses some of the structural links of Latin America and the Caribbean with the world economy.

The second section (chapters IV and V) analyses trends in regional integration in Latin America and the Caribbean in 2000-2001 and presents some proposals in connection with macroeconomic policy coordination in the various subregional schemes.

The third and final section (chapters VI and VII) looks at some of the barriers that hinder entry into the United States for exports from the region and the negotiating process which led up to the agreement reached at the Conference in Doha, Qatar, on the agenda for the new round of multilateral trade negotiations of the World Trade Organization (WTO).

Summary

1. The risk associated with swings in the global economy

For the second time in four years, in 2001 the value of Latin American and Caribbean exports dropped quite sharply. This overall result was partly due to a decrease in external sales by Mexico and other oil-exporting countries, owing to a downturn in world prices for both the commodities and the manufactures they export. The progressive decline in United States imports seen since the fourth quarter of 2000 was another factor. The same variables that had been on the rise in 2000, which allowed the region to turn in an excellent trade performance in that year, declined in 2001, thus contributing to its poorer showing. In 2000, the steep increase in both the volume and the value of the region's exports had reflected an across-the-board trend, but had been especially strong in Mexico and Venezuela (see figure 1).

The Latin American and Caribbean region's external position worsened throughout 2001. On the basis of official figures, the National Bureau of Economic Research (NBER) determined that a peak in business activity had occurred in the United States economy in March 2001, thereby marking the end of 10 years of uninterrupted growth that had begun in March 1991 and the start of a recession of unknown duration.¹ The repercussions of the economic slowdown in the United States have been transmitted to the rest of the world through the many channels existing within the globalized economy: through trade, where the demand for imported

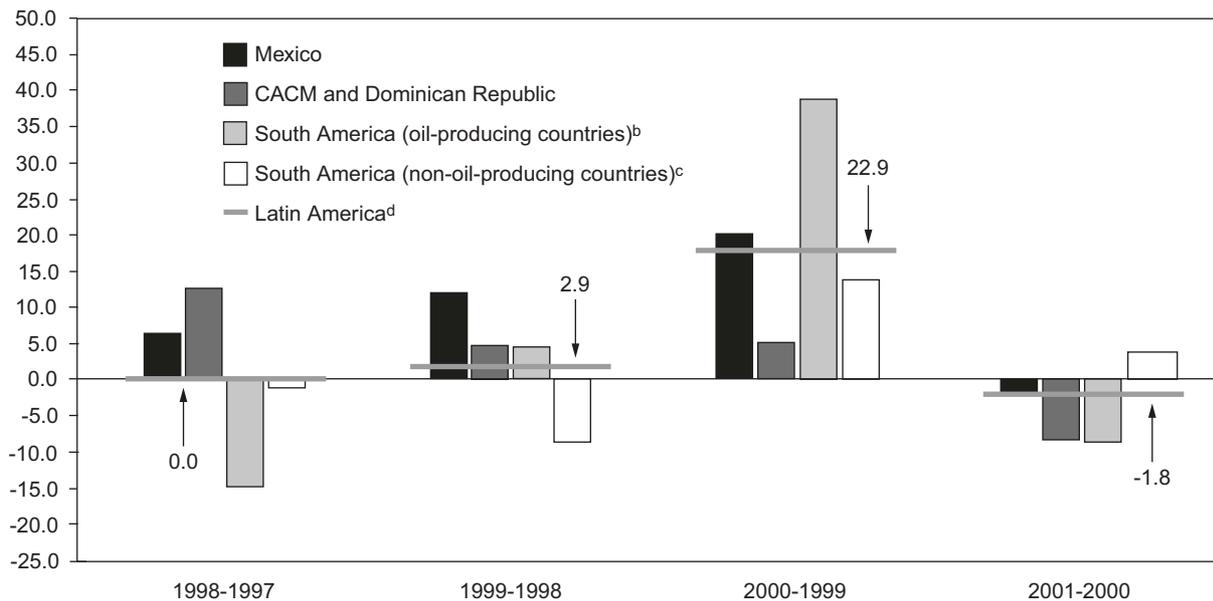
products and services fell, thus reducing not only the volume of transactions but prices as well; through financial markets, where investors began to look for lower-risk instruments; through the composition of foreign direct investment (FDI); and through the operations of subsidiaries of foreign corporations. Needless to say, the relative importance of each of these channels depends on the conditions prevailing in individual countries. It was estimated that world output in 2001 was unlikely to exceed 1% (a rate lower than that of 1991, when the last recession in the United States occurred), while ECLAC estimates indicated that the aggregate growth of the Latin American and Caribbean countries would be no more than 0.5%.

This reversal had a serious impact on the volume of world merchandise trade, which after having reached a 10-year growth peak of 12.5% in 2000, was likely to grow by less than 2% in 2001—the lowest rate since 1982-1983— and by a fairly lacklustre 3% in 2002. World Trade Organization (WTO) estimates indicated that at the end of 2000, world exports of goods and services amounted to US\$ 7.6 trillion (US\$ 6.2 trillion in goods and US\$ 1.4 trillion in services). In 2000, trade in goods and services expanded in every region of the world; in 2001, however, trade in services—especially travel, entertainment and tourism— was expected to suffer a serious setback that would do an as yet unknown

1 National Bureau of Economic Research, "The NBER's Business-Cycle Dating Procedure", Business Cycle Dating Committee, (web address: <http://www.nber.org>).

Figure 1

LATIN AMERICA: GROWTH RATE OF EXPORTS 1998-2001 (JANUARY-SEPTEMBER)^a
(Percentages)



Source: ECLAC, Division of International Trade and Integration, on the basis of information provided by official sources.

^a Calculations based on data for January-September of each year.

^b Includes Colombia, Ecuador and Venezuela.

^c Includes Argentina, Bolivia, Brazil, Paraguay, Peru and Uruguay.

^d Includes 16 countries: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

degree of damage to the economies in the region that depend on earnings from services.

Although the tragic events of 11 September were not the main cause of the sharp downturn in the world economy, they did make it worse. There was already evidence of a slowdown in most of the industrialized countries before those events occurred, and the trend was spreading to more and more of the world's developed nations. The existing situation therefore differs from the recession of the early 1990s, when the United States lapsed into recession at a time when the European and Japanese economies were continuing to grow. In fact, the ensuing economic slump in the European countries and Japan did not begin to occur until the United States had already embarked upon an economic reactivation. Economic analysts were therefore deeply concerned about the possible combined effect of a recession in the United States, a long-standing slowdown in the Japanese economy and halting growth in the European economies.

Hence, one of the striking characteristics of the international economic environment was the absence, given the simultaneous slowdown of the world's major economies, of any one economy that could fulfil the role played by the United States in recent years as a driving force for growth. Furthermore, this decline in growth differed from other post-war recessions in that it was associated with an adjustment in supply via investment, rather than with other components of demand, thus making short-term forecasting even more difficult. In addition, the turbulence of the world political situation heightened international uncertainty and thus increased the likelihood of a widespread and lengthy recession.

At the same time, retreating investment was reflected in cutbacks in spending on information technology and on final and intermediate electronic products. This had a strong impact on the economies of Japan and East Asia, given the importance of these products in their exports. In point of fact, WTO projected a first-ever decline in

world sales of personal computers in 2001 that would bring sales down to below the figures recorded in 2000. What is more, as of the end of June 2001, the value of exports of semiconductors, worldwide, was 30% lower than it had been for the same period in the year 2000 (WTO, 2001a, p. 17).

In the industrialized countries, the transition to a more growth-oriented fiscal policy and the reduction of interest rates, which in the United States have reached a more than 40-year low, along with controlled inflation targets and moderate unemployment, should, according to the more optimistic estimates, lead to a strong reactivation of growth beginning in 2003 (IMF, 2001). Other more cautious analysts doubted the effectiveness of monetary policies in dealing with the economic downturn, however. These experts have based their argument on the asymmetry of such policy tools, which can be very effective during booms, but are less so when the economy shows signs of weakening. Japan's experience

is cited as an example, since, even with deflation and virtually negative interest rates, this country has still not been able to put its economy back on track towards a sustainable growth path.

Thus far at least, the economic slowdown has not led to the implementation of policies running counter to the worldwide trend towards trade liberalization, apart from a few isolated measures adopted at the local level, as in the case of the United States steel industry. On the contrary, at the Fourth WTO Ministerial Conference, held in mid-November 2001 in Doha, Qatar, representatives of the 142 member countries officially launched a new broad-ranging round of trade negotiations aimed at deepening liberalization commitments in a number of sectors and at helping to strike a balance between the rights and obligations of industrialized and developing countries. The Doha meeting also marked China's official entry as a member of WTO, which will surely have implications for the countries of the region.

2. Latin American and Caribbean Trade

Trends in the region's merchandise trade in 2001

The drop in the Latin American and Caribbean countries' total export receipts was mainly a price effect rather than the outcome of a contraction in volume, as declines in export shipments from Costa Rica, Mexico, Uruguay and Venezuela were offset by increases in the volume of exports from all the other countries, especially Brazil. The prices of the region's main export products fell substantially, however, thereby driving down the average unit prices of exports across the board. By the end of November, oil prices had slumped to US\$ 18 per barrel, after having peaked at US\$ 30 in 2000 (see figure 2). In view of the difficulties that arose in maintaining the production cutbacks agreed upon by members of the Organization of Petroleum Exporting Countries (OPEC) during a time of slack world demand, crude oil prices were not expected to rise over the medium term. At the same time, the prices of most other commodities plummeted, with the International Monetary Fund's non-oil commodity price indicator tumbling by 14% over the

last two years. In addition, as noted above, the unprecedented weakening of external demand for electronics hurt exports in the information technology sector. According to IMF data, by the end of the third quarter of 2001, the dollar value of exports of dynamic random access memory (DRAM) had shrunk by 20% compared with the same period of the previous year, reflecting drops in both volume and price (IMF, 2001, p. 31).

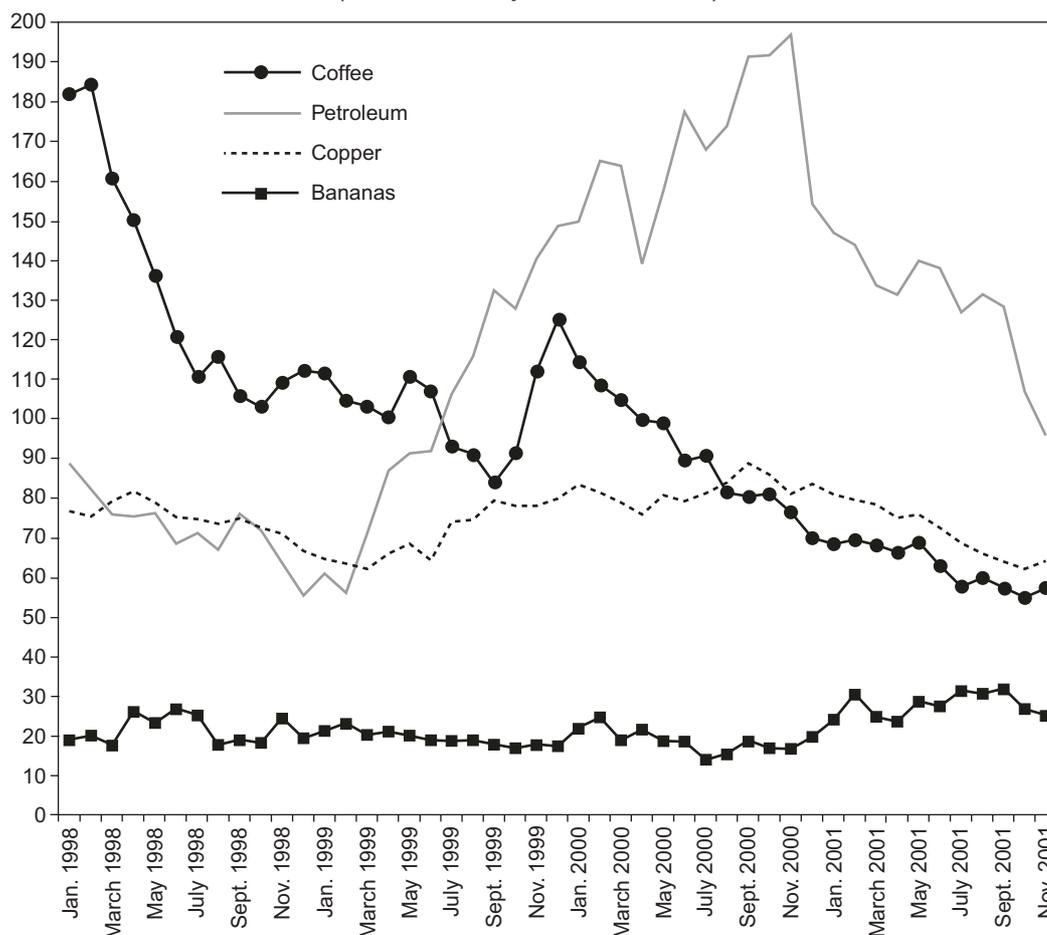
The decrease in international prices was also reflected in a decline in imports, which, along with the slowdown in economic activity, pulled down the value of the region's imports.² Nevertheless, data for the first three quarters of the year suggest that, with the exception of Argentina, Brazil, Colombia and Venezuela, the trade deficit increased in most of the countries.

The contraction of imports in the large South American economies had a negative impact on trade within the Latin American Integration Association (LAIA), especially because of the shrinkage of trade within MERCOSUR. In nominal values, trade among LAIA member countries (i.e., the South American countries and

2 ECLAC estimated the growth of regional GDP at around 0.5% in 2001 (ECLAC, 2001).

Figure 2

**LATIN AMERICA: PRICE TRENDS FOR SELECTED EXPORT PRODUCTS,
JANUARY 1998-NOVEMBER 2001**
(Indices, base year: 1995 = 100)



Source: ECLAC, Division of International Trade and Integration, on the basis of information provided by the International Monetary Fund (IMF).

Mexico)³ was not expected to exceed the preceding year's level, even without another disastrous situation such as that of 1999. It can therefore be argued that 2001 was another difficult year for the regional integration process in Latin America and the Caribbean.

The Latin American and Caribbean countries differ among one another as regards the size and openness of their economies, their levels of development and their patterns of growth. Nonetheless, certain similarities in the problems these countries face, in regard both to the external context and to their domestic macroeconomic

situations, allow some of the statistics to be interpreted in terms of the region as a whole. Over the past few decades, however, differences among the economies of the region as regards the microeconomic components of the development process have become more pronounced, leading to significant disparities in performance. Foreign trade is one of the areas in which the increasing heterogeneity of the region is reflected, and regional averages therefore do not mean very much, given the wide dispersion of the underlying figures. For example, major exporters such as Argentina, Brazil, Mexico and Ven-

3 Cuba became a member of LAIA in 1999.

ezuela have a very different internal resource endowment to draw upon in their efforts to position themselves in the international economy. Given the weight of these economies in regional totals, the inclusion of their indicators skews the regional averages.

Except in the case of Mexico, where the share of total exports represented by manufactures increased significantly throughout the 1990s, and Brazil, which has diversified with some success, the countries of the region still rely on a small number of products for their export earnings. In 2000, excluding Mexico and Brazil, commodities accounted for around 74% of the exports of the Latin American and Caribbean countries. For example, despite the widely known effort made by Chile to diversify production, copper still accounts for over 40% of this country's export receipts. In 2000, oil accounted for nearly 50% of Ecuador's export income, 35% of Colombia's and over 85% of Venezuela's. Coffee accounted for over 33% of export receipts in Honduras, 27% in Nicaragua and 21% in Guatemala.⁴ Coffee and shrimp accounted for 53% of exports from Nicaragua, the country with the lowest level of exports in all Latin America, while nearly 40% of Peru's exports were made up of copper, zinc and gold. Bananas represented 17% of Ecuador's exports and over 10% of Costa Rica's, while oil, shrimp and bananas accounted for over 73% of Ecuador's export earnings (see table 1).

The countries of the region can be divided into four groups based on the composition of their merchandise trade flows in recent years, bearing in mind that the Caribbean economies are virtually service-based economies. The first category corresponds to Mexico, the Central American economies and the Dominican Republic. The United States is the main market for these countries' exports and the main source of their imports. In 2000, Mexico's exports represented 48% of foreign merchandise sales (and imports) in the region, and 90% of those goods went to the United States, while 46% of exports consisted of products that are intensive in imported inputs (i.e., maquila-industry products). In the case of the Central American Common Market (CACM) countries, the United States bought more than 45% of their exports; it should be noted, however, that the countries of the region, to which more than 30% of the subregion's exports were sent, may actually be serving as neighbouring transit ports for shipments going to the United States. The other two categories are composed of the oil-producing and non-oil-producing South American countries. The United States is not as important a destination for

the exports of the non-oil-producing countries, but it is significant as a source of their imports (see figure 1).

The importance of the United States market for the different economies of the region varies a great deal from country to country. In the case of Mexico, exports to the United States represent almost one fourth of gross domestic product (GDP). Given the close linkage between the United States and the very open Central American economies, these countries' exports to the United States are equivalent, on average, to 21% of GDP, while the figure for the Caribbean countries is somewhat lower (around 17%). At a more disaggregated level, Honduras is the country that depends the most on exports to the United States, which represent more than half its GDP. It is followed by Trinidad and Tobago (32%) and by Nicaragua, Costa Rica and the Dominican Republic (between 22% and 25%). In the Andean Community, Ecuador and Venezuela have the strongest links with the United States market, with their exports to that country accounting for 16% of GDP.

Merchandise trade in 2000

In 2000, the growth of the region's trade activity outpaced that of total world trade. Exports of goods, which balance-of-payments statistics place at around US\$ 370 billion, rose by 20.5%, compared with a growth rate of 12% worldwide. Imports, which amounted to nearly US\$ 374 billion, expanded by a little over 17%, compared with a global growth rate of 12.5%. These trends point to a recovery in the region's foreign trade sector, which in 1999 had posted an increase of slightly over 6% in the value of exports and a decrease of 4% in the value of imports. Thus, the region's share in world exports rose from 5.7% to 6.1%. This reactivation of trade in 2000 is consistent with the 4.1% GDP growth rate posted by the Latin American and Caribbean countries as a group, following its stagnation in 1999 (0.4%).

As noted above, however, a substantial share of the growth in the region's exports is accounted for by Mexico and Venezuela, since the increases in export earnings posted by most of the countries were below the regionwide average. By the same token, the growth of imports was largely due to the performance of Mexico and Venezuela, together with the Dominican Republic and Chile. In the Caribbean Community (CARICOM), Trinidad and Tobago, Aruba and Saint Kitts and Nevis posted the largest increases in exports, while Suriname, Dominica and the Bahamas registered declines.

4 These figures do not include maquila operations, which are significant, especially in Honduras.

Figure 1

**LATIN AMERICA: THE SIGNIFICANCE OF SOME COMMODITIES
IN THE EXPORTS OF SELECTED COUNTRIES, 2000**
(As percentages of total exports of goods)

| Product | Share of product in total exports | | | | | |
|------------------------|-----------------------------------|------------|-----------------|------------|---------------|------------|
| | From 5% to 10% | | From 10% to 20% | | 20% and above | |
| | Country | Percentage | Country | Percentage | Country | Percentage |
| Minerals | | | | | | |
| Iron and steel | ... | | Brazil | 12.1% | ... | |
| Copper | ... | | Peru | 13.5% | Chile | 40.3% |
| Zinc | Peru | 7.8% | Bolivia | 11.7% | ... | |
| Tin | Bolivia | 5.2% | ... | | ... | |
| Gold | Bolivia | 6.0% | Peru | 16.7% | ... | |
| Petroleum | | | | | | |
| Petroleum products | Mexico | 9.6% | Argentina | 15.2% | Venezuela | 85.5% |
| | Guatemala | 5.9% | | | Ecuador | 49.3% |
| | Peru | 5.9% | | | Colombia | 34.7% |
| Foodstuffs | | | | | | |
| Meat | Nicaragua | 8.3% | Uruguay | 15.5% | ... | ... |
| | Paraguay | 8.1% | | | | |
| Shrimps | Ecuador | 5.7% | Nicaragua | 18.8% | ... | ... |
| Bananas | Guatemala | 6.6% | Ecuador | 17.0% | ... | ... |
| | Honduras | 6.4% | | | | |
| Wheat | Argentina | 4.6% | ... | ... | ... | ... |
| Rice | Uruguay | 7.2% | ... | ... | ... | ... |
| Sugar | Guatemala | 7.1% | ... | ... | ... | ... |
| Coffee | Colombia | 8.2% | ... | ... | Honduras | 33.5% |
| | Costa Rica | | | | Nicaragua | 27.1% |
| | | | | | Guatemala | 21.3% |
| Food products | | | | | | |
| Fish meal | ... | | Peru | 12.7% | ... | |
| Soya | ... | | | | Paraguay | 32.8% |
| Oilseed cake and flour | Argentina | 8.8% | Bolivia | 10.1% | ... | ... |
| | Paraguay | 8.8% | | | | |
| Vegetable oils | Argentina | 6.0% | ... | ... | ... | ... |
| | Bolivia | 5.2% | | | | |
| Raw materials | | | | | | |
| Cotton | Paraguay | 9.1% | ... | ... | ... | ... |
| Wool | Uruguay | 4.8% | ... | ... | ... | ... |

Source: ECLAC, Division of International Trade and Integration, based on figures from the International Commodity Trade Data Base (COMTRADE).

As a result, between 1999 and 2000 the merchandise trade deficit of Latin America and the Caribbean shrank significantly, falling from nearly US\$ 15 billion to a little over US\$ 4 billion. This decline was almost entirely accounted for by the increase in Venezuela's surplus, however. Other countries whose merchandise trade balances improved were Argentina, Brazil, Colombia, and Trinidad and Tobago. Costa Rica, on the other hand, went from having a surplus to a deficit, as its exports fell and its imports rose slightly. Suriname and Trinidad and Tobago were the only Caribbean countries that did not register a merchandise trade deficit. However, while Trinidad and Tobago's exports rose, Suriname's fell, with its surplus being accounted for by a sharp drop in imports.

Services trade in Latin America and the Caribbean in 2000

In 2000, exports of services from Latin America and the Caribbean amounted to around US\$ 58 billion, having grown by about 12%. This was lower than the growth rate recorded for merchandise exports but was substantially higher than the 6% rate posted for trade in services worldwide. Mexico was the largest exporter of services, as it accounted for 23.5% of the regional total. It was followed by Brazil, with 16% of total exports, which was a significant increase over the results for 1999. Indeed, between 1999 and 2000, the rise in service exports from Latin America and the Caribbean was almost entirely due to the growth of Brazil's and Mexico's external sales. Other major service exporters are Argentina, Chile and the Dominican Republic. Service exports from the Central American Common Market countries have exhibited the swiftest growth of recent years.

According to WTO data, the 14% share of commercial services in the region's exports of goods and services contrasts with the world average of nearly 19%, as well as with the figures for some of the industrialized countries (United States and United Kingdom), which exceed 26%. In addition, unlike the trend in those countries, in Latin America the situation has changed very little since the mid-1980s, which points to the existence of a non-dynamic growth pattern. However, the large share of the region's total exports that is represented by services of all types attests to the important role played by tourism, in contrast to the more industrialized economies, where "other services" carry more weight. These "other services" include financial services, communications, consultancy services, professional services and other business services.

The Caribbean economies are truly service-based

economies, with the earnings from service exports, especially tourism and financial services, accounting for over 44% of the total value of exports of goods and services. Services represent 50% of Jamaica's exports and more than 80% of exports from Barbados and the Bahamas.

Most of the Latin American countries posted a deficit in their services trade. In 2000, the exceptions were Costa Rica, Panama, Paraguay and Uruguay. Meanwhile, Ecuador, Nicaragua and Venezuela had the largest deficits of this sort, measured as a share of GDP. In contrast, the Caribbean countries, except for Haiti and Suriname, posted a surplus on this account.

The current account balance in 2000

In 2000, the trade deficit (goods and services) was significantly lower than in 1999; consequently, the current account deficit fell to less than US\$ 47 billion (compared to US\$ 55.7 billion in 1999). This decline was made possible by the improvement in the merchandise trade balance, since the services account balance held steady. The reduction in the region's deficit is primarily attributable to the reduction of Argentina's deficit, the increase in the surpluses of Colombia and Ecuador and, above all, the sharp upswing in Venezuela's surplus. The balance on trade in goods and services took a turn for the worse in Chile and Costa Rica, while the cumulative deficit rose in the Dominican Republic, El Salvador, Mexico and Paraguay. Mexico's deficit rose from a little over US\$ 7 billion in 1999 to over US\$ 10 billion in 2000, while Brazil's trade deficit remained stable at slightly over US\$ 8 billion.

The balance on the income account did not change significantly, remaining at the quite high level of around US\$ 52.5 billion. Interest, profits and dividend payments, i.e., the returns to foreign capital, showed a negative balance of US\$ 18 billion in Brazil which has remained fairly constant in nominal terms over the last three years, with a slight drop being registered in late 2000. The deficit on this account rose in Chile and Colombia but fell in Costa Rica, Panama and Venezuela. In Mexico, in particular, the deficit in profit, dividend and interest payments rose, but was offset by inbound current transfers (mainly remittances from workers in the United States). This did not, however, prevent a cumulative increase in the current account deficit.

Nevertheless, the share of GDP represented by the regionwide current account balance fell as a result of differing trends in individual countries. The combined current account deficit posted by Argentina, Brazil and Mexico was higher than the deficit registered for the

region as a whole. Both Argentina and Brazil did, however, manage to reduce the size of this deficit when measured as a percentage of their total economic activity, whereas in Mexico it increased slightly. Ecuador and, in particular, Venezuela showed significant improvements and were the only two countries to post current account surpluses for the second year in a row. All the other countries ran deficits in 2000. The countries whose results gave rise to the most serious concerns were Bolivia (-7.2%), Costa Rica (-5.3%), Guatemala (-4.6%) and Nicaragua (-38.3%).

The position of Latin America and the Caribbean in the international market as measured using CAN software

Since the early 1990s, ECLAC has been developing its Competitive Analysis of Nations (CAN) program, which measures the competitive position of countries on the international market. The CAN software is based on the assumption that the strength of world demand varies from one product to another. A country that specializes in products for which there is rising demand will fare better on the international market than a country that specializes in products for which demand is waning. This computer program does not estimate or utilize elasticities,

but simply uses historical data to record the relative dynamism of demand for different products on different markets and during different periods of time.

In the CAN program, the demand for a product is classified as being relatively dynamic if the value of imports of that product has grown more than the average value of total imports in a given market and time period.

An analysis conducted using the CAN software shows that, as a whole, Latin America's world market share has expanded, even though the share held by most countries of the region has shrunk. This strong aggregate export performance was thus limited to a few countries—Mexico, the Central American nations, Argentina and Colombia—and to specific situations, such as advantages in terms of access to North American and other subregional markets. The quality of export specialization, measured as the extent to which countries gear their export efforts towards dynamic products, is still unsatisfactory in Latin America and showed no signs of improvement during the 1990s, with the exception of Mexico. The Latin American countries have maintained a stable but relatively small share in the regional market, but in this case their export profile has improved, as their export activity is somewhat more focused on dynamic products.

3. Regional integration in Latin America and the Caribbean

Recent trends in intraregional trade

The history of the region over the last 20 years shows that episodes of slow growth or recession caused by external crises have had a negative impact on the integration process, in terms of both the growth of intraregional trade and the improvement of institutions. In general, when they find themselves in an adverse environment the Latin American countries have tended to take steps to restrict imports in an effort to adjust their economies. Such measures have included the implementation of changes in exchange-rate policy or in tariffs applied to third countries without consulting other members of the relevant subregional association; the application of tariffs to imports from other members of the same subregional association; the use of contingency measures, including anti-dumping measures, countervailing duties and safeguards; and the often questionable appli-

cation of plant and animal health regulations and of special technical standards. In addition, bureaucratic and informal practices are sometimes used that hinder commercial transactions once they are already underway. These practices are extremely harmful, since they create uncertainty among economic agents and discourage future trade operations.

In 2000, total exports from the CARICOM countries amounted to a little over US\$ 6 billion, which was an 18% increase over 1999. This upturn was largely attributable to the increased value of fuel exports from Trinidad and Tobago, the subregion's biggest exporter. During the last three years, trade within CARICOM has amounted to around 18% of the member countries' total exports, although this share declined somewhat between 1998 and 2000.

The Andean Community's intraregional exports represented approximately 9% of the member countries' total

exports; this was about the same level as in 1999, but was lower than in earlier years. The decline in the share of intraregional trade was a consequence of the growth of total exports, which was in turn mainly the result of increased exports from Venezuela. On average, intraregional trade grew somewhat more rapidly than extraregional trade; this was chiefly a reflection of the expansion in exports from Colombia, Ecuador and Peru.

Intraregional exports among the Central American Common Market countries were equivalent to 23% of their total exports, which was more than in 1999. The main country of origin for intraregional exports was El Salvador, followed by Guatemala, Costa Rica, Honduras and Nicaragua. Exports from Costa Rica and El Salvador to countries within the Common Market expanded more than their sales to outside countries did. The data indicate that exports within the subregion continued to grow, while shipments to other countries were down. These figures should, however, be viewed with caution, firstly, because the customs services do not distinguish between final destinations and transit ports, and, secondly, because the data do not provide an accurate picture of maquila operations, which, in the case of El Salvador, represent a significant portion of total exports to the United States.

In 2000, the MERCOSUR countries' intraregional exports represented nearly 21% of their total exports. This share was almost the same size as in 1999, but it nonetheless represents a continuation of a downward trend from the 1998 high of 25%. MERCOSUR exports rose by 19% in 2000, recovering from the 24% contraction of 1999. Argentina and Brazil, the largest economies in MERCOSUR, account for around 90% of intraregional exports, while Paraguay and Uruguay account for less than 10%.

Recent trends in regional integration

The process of forming customs unions and free trade zones has come to a standstill and has even suffered some setbacks, as evidenced by the slow progress of current negotiations, the deviation of national tariffs from the common external tariff and the many obstacles placed in the way of imports from member countries. The institutional aspects of this situation include frequent delays or failures to meet agreed targets, and the re-emergence of unilateralism in regard to the definition and application of trade and macroeconomic policies. All of this has had an impact on integration processes in the region.

Nevertheless, apart from their efforts to bolster the four customs unions in which they participate, the countries have stepped up trade negotiations both with other

countries in the region and with their main trading partners in other parts of the world. Despite the difficulties they have encountered and the unilateral solutions that have been applied, the member countries have not lost confidence in their integration programmes and remain convinced of the need to move ahead and deepen these long-term ventures. This commitment is especially important within the context of the concurrent trade negotiations being pursued in WTO, the hemispheric process designed to lead to the formation of the Free Trade Area of the Americas (FTAA), and negotiations at the interregional level with the European Union and the Asia-Pacific Economic Cooperation (APEC) forum. The governments of the region realize that their individual roles will be strengthened if the countries adopt a unified position backed up by a truly integrated market.

Macroeconomic coordination in subregional integration schemes

Since the early 1990s, the idea of complementing the trade-related aspects of regional integration processes through the coordination of macroeconomic policy has been gaining force. This issue, which had previously been discussed only by the experts and politicians directly involved in the analysis and design of integration policy, has now become a matter of public debate. This renewed interest in macroeconomic coordination has been prompted by a combination of various domestic and external factors.

A natural outcome of this new emphasis on trade relations with neighbouring countries is that the macroeconomic environment exerts a strong influence on their sustainability. For example, the effort to expand the FTAA negotiations has led to discussions on the different countries' "degrees of preparation" and their eligibility to participate in that initiative based on the convergence of macroeconomic conditions.

In particular, developments in Europe over the last few years have become relevant to Latin America following the Brazilian devaluation of January 1999, a domestic macroeconomic policy measure that has had serious repercussions on the other members of MERCOSUR. Against this backdrop, the sequencing and rationale of the convergence criteria used by the European Union in its move towards a single monetary zone was followed with great interest, as increasing doubts began to be raised about the principle of "one country, one currency." As the European move opened the way for increased macroeconomic cooperation and for the creation of a coordinated floating rate system (monetary snake), the debate in the Latin American and

Caribbean region came to be focused on the possibility of convergence leading to a common monetary standard that would either be anchored to a foreign currency (the dollar) or geared towards the establishment of a common monetary area.

Given the prevailing conditions at the regional and international levels in recent years, the incorporation of macroeconomic variables into trade integration schemes has come to be an important factor in deepening and ensuring the continuity of subregional agree-

ments. The fact that growth impulses are increasingly being transmitted through financial variables (rather than being confined to commercial conduits as in the past) and the imperfections of the international financial market, at least as far as the more dynamic developing economies are concerned, add to the benefits that can be expected from the coordination of national macroeconomic policies and greater uniformity in the signals received by market operators.

4. Issues relating to trade and trade negotiations

United States barriers to trade with Latin America and the Caribbean

As is well known, United States tariffs do not represent a significant barrier to Latin American exports. In 2000, 75% of United States imports from the region paid no duty (a slight reduction from the 75.5% recorded in 1999). The weighted tariff on United States imports dropped from 1.81% in 1999 to 1.64% in 2000, on average, while duties levied on Latin American products fell to under 0.90%. Within the region, the Central American Common Market countries paid an ad valorem equivalent (AVE) of over 5.7%, while duties averaged around 2% for exports from MERCOSUR countries, 0.83% in the case of CARICOM, and 0.67% on Andean Community exports. In general, the members of the North American Free Trade Agreement (NAFTA)—i.e., Canada and Mexico—paid the lowest duties (0.11%).

In 2000, 65% of United States imports from Central America entered the country duty free, but the AVE on dutiable goods from the Central American Common Market amounted to almost 17%, the highest rate in the entire region. El Salvador, Guatemala, Honduras and Nicaragua all paid an AVE of more than 16%, especially with respect to textiles and wearing apparel. During the same year, over 60% of all imports from South America and over 73% of imports from the Caribbean entered the United States duty free.

Products from the countries of the region often have to compete, both on the domestic market and on other markets, with subsidized goods produced in the United States. The programmes implemented by the United States to support its exports facilitate transactions for

importing countries by offering special incentives, credit, and warehouses for the storage of United States agricultural commodities in other countries.

In addition, the country's complex system of federal, state and local standards and regulations entails considerable transaction costs for exporters throughout the world. Phytosanitary measures are applied to most fruits and vegetables entering the United States market. For example, both grapes and apples must be put through a special cooling process, while yams and various other vegetables must be treated with methyl bromide. Mangoes must be put through a hot-water treatment and bear a certificate attesting that this has been done. All these products must be covered by specific documentation that has been certified by a representative of the United States Animal and Plant Health Inspection Service in the country concerned. Moreover, the United States applies a no-risk policy that prohibits the importation of any meat from countries that have had recent outbreaks of foot-and-mouth disease or rinderpest. Any country wishing to export meat to the United States market must certify that there have been no outbreaks of these diseases and that it has not vaccinated against them for at least a year. In addition, individual exporters must request inspections, at their company's expense, by the veterinary service of the exporting country.

New round of multilateral trade negotiations

At the Fourth WTO Ministerial Conference, held from 9 to 14 November 2001 in Doha, Qatar, the 142 members of WTO adopted a broad work programme and agenda for negotiations to be concluded by Janu-

ary 2005. Many of the items on the agenda stem from the Uruguay Round agreements and relate either to commitments undertaken or to the implementation of those undertakings.

Many of the ongoing improvements and efforts being made to deepen the multilateral system in follow up to the Uruguay Round are inherent in the agreements reached during the Round. To begin with, there are a series of commitments to continue reviewing and negotiating issues relating to specific sectors or aspects covered by the agreements. These tasks are what has become known as the “built-in agenda”. The WTO ministerial conferences thus provide an important forum for reviewing and renewing the commitments undertaken in the framework of the multilateral system. For example, at the Singapore and Geneva conferences, proposals were put forward for deepening certain commitments, and interest was expressed in considering issues that had not previously been covered under the multilateral system. Accordingly, the preparations for the WTO Conference in Seattle were to take into account a number of requests from member countries relating to further refinements in the system and the possibility of launching a new global round of negotiations.

During the preparatory process for the Third WTO Conference (Seattle, 1999) and during the Conference itself, no consensus was reached as to the direction that future negotiations should take, however. There were several reasons for this, including the following: (i) the difficulties the countries had in agreeing upon an agenda for another round of negotiations; (ii) differences of opinion between developed and developing countries with regard to further liberalization and measures for strengthening certain disciplines; (iii) the concerns and proposals of developing countries regarding the implementation of the agreements; (iv) the questions raised about the discussion and decision-making process in the 142-member WTO, which reaches decisions by consensus; and (v) the intensification of the debate on globalization, the identification of WTO and the multilateral system with that process, and its influence on development objectives. The controversy surrounding this last issue has been manifested in the street demonstrations carried out by non-governmental and other organizations.

The Work Programme adopted in Qatar outlines the following objectives: (i) to address implementation-related issues and concerns, either by providing specific negotiating mandates or by requesting the relevant WTO bodies to conduct studies that can serve as a basis for future decisions on certain matters; (ii) to continue negotiations on agriculture, services and intellec-

tual property; (iii) to initiate negotiations on access to industrial product markets, on the environment and on the clarification and refinement of certain rules (including anti-dumping measures, regional integration agreements and the dispute settlement mechanism); (iv) to continue working towards future negotiations—to take place after the Fifth Ministerial Conference—on certain emerging issues, including competition, investment, trade facilitation, transparency in government procurement, environmental concerns and electronic commerce; and (v) to carry forward and strengthen measures relating to a number of matters of concern to developing countries and to initiate work programmes on small economies, on trade, debt and finance, and on trade and the transfer of technology.

In addition to the abovementioned issues, the Ministerial Declaration includes recommendations concerning the organization and administration of the Work Programme; in particular, the deadline for negotiations is set at 1 January 2005, and the Fifth Ministerial Conference is to take stock of the progress made in those negotiations. Negotiations are to be treated as a single undertaking, with the exception of those relating to dispute settlement. The Declaration also provides that agreements reached at an early stage may be implemented on a provisional basis.

The decision regarding issues and concerns relating to the implementation of the Uruguay Round agreements includes a long list of recommendations that are intended to address the concerns of developing countries. These proposals refer to different aspects of the agreements on a wide variety of subjects. The decision also instructs the Committee on Trade and Development to further develop the provisions on special and differential treatment.

With regard to the agreements on intellectual property and public health issues, the Declaration recognizes the effect of intellectual property protection on the prices of pharmaceutical products. Consequently, it stresses the options that governments have under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) to deal with public health problems. To this end, the Declaration clarifies the scope of the Agreement and, in particular, the feasibility of using certain instruments, such as compulsory licensing, the right to determine when a public health crisis constitutes a national emergency, and certain special measures designed to benefit the least developed countries.

In sum, although it is too early to assess the outcome of the Doha Conference, the final documents attest to the fact that the claims and concerns of develop-

ing countries received special consideration. In more general terms, it would appear that greater attention was paid to development than in previous conferences. Finally, the implications of these decisions will become

clearer as negotiations proceed and as more information becomes available on the content of the new commitments and obligations of both developing and industrialized countries.

Part 1



The international economy and international trade: Latin America and the Caribbean in 2000-2001

Chapter I

Growth prospects for the global economy and trade 2001-2002¹

The Latin American and Caribbean region's external environment deteriorated throughout 2001. Sharply reduced growth in the United States was exacerbated by stagnation and probable recession in Japan and slower growth in the European economies. In Latin America and the Caribbean, these trends dealt a severe blow to trade performance, in terms of both volume and prices, and to the countries' access to international financing (see chapter II). Both of these effects have had repercussions on the growth prospects of individual economies. The harsher world environment was exacerbated by domestic problems in a number of countries, which contributed to a decline in growth in 2001 from the rates recorded in 2000. ECLAC growth projections for Latin America and the Caribbean in 2001 were thus lowered to 0.5% —by comparison with July's estimate of 2%— which is 3.5 percentage points less than the growth recorded in 2000. In addition, the low rate of average aggregate growth represents a fall of more than 1% in per capita gross domestic product (GDP).

Initial estimates by the World Trade Organization (WTO) indicate that in 2001 world merchandise trade could grow at a rate of less than 2% —the lowest figure since 1982-1983— after having recorded the highest rate of the decade (12.5%) in 2000 (see table I.1 and figure I.1). In 2000 trade expanded in all regions of the world and, in particular, the volume of merchandise exports from developing countries was higher than the overall average. By the end of 2000 world merchandise and service exports amounted to US\$ 7.6 trillion, of which merchandise accounted for US\$ 6.2 trillion and services,

US\$ 1.4 trillion.²

A number of features of the world economy and world trade call for more detailed examination. The first of these is the performance of the United States economy in 2001, given its effects on the global economy and on the countries of the region, with particular reference to the decline in economic activity in the latter months of the year and the return to an expansionary fiscal policy in a bid to reverse these trends. Next, this chapter examines the ways in which the transfer of the United States slowdown to the developed countries has affected European trends and tipped Japan into recession. Foreign direct investment (FDI) is a key channel of transmission in this regard. Lastly, the analysis focuses on the situation of developing countries. They are the hardest hit by the economic decline, as they suffer the combined consequences of reduced trade flows, depressed prices for their main export products, stock market declines, adverse borrowing conditions and restricted external financing flows.

A particular feature of current international trends is the absence of an engine of growth, as activity has declined simultaneously in all the world's leading economies. The decrease in growth also has a number of features that set it apart from other post-war recessions, as it is related to an investment-driven supply-side adjustment, rather than to other components of demand. This represents an additional difficulty for short-term forecasts. In addition, the turbulent international political situation heightens the uncertainty surrounding current prospects and increases the likelihood of a global recession.

1 This chapter was prepared by the Economic Projections Centre of the Statistics and Economic Projections Division.

2 WTO (2001).

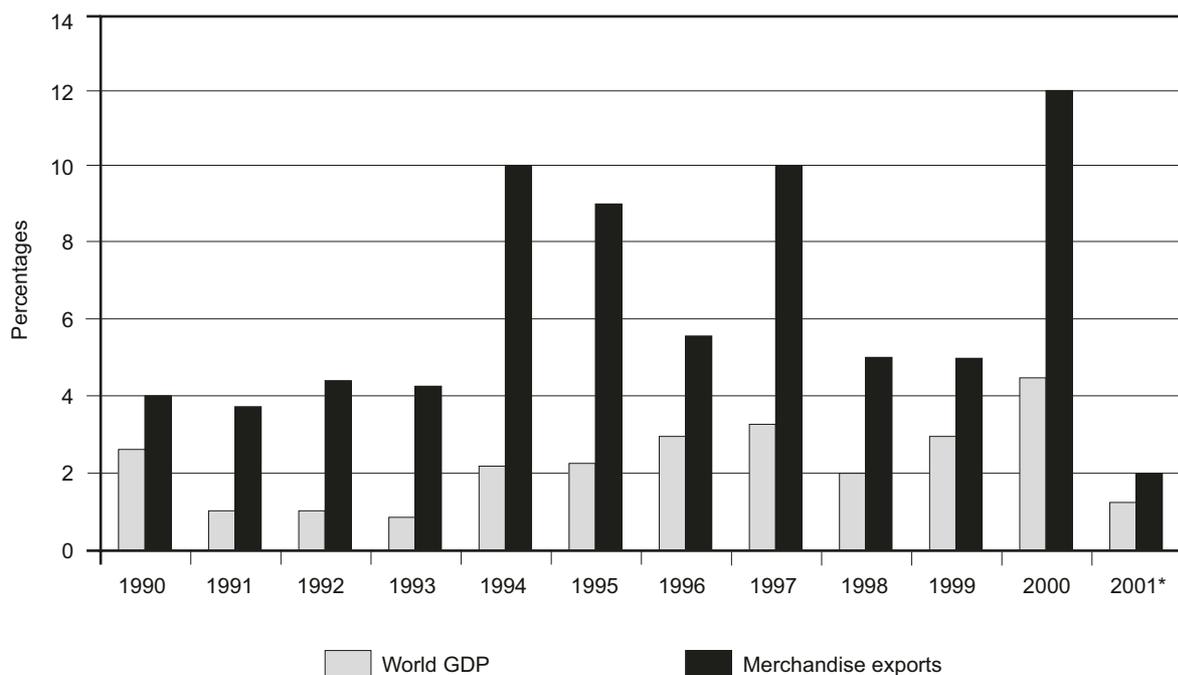
Table I.1
VOLUME OF WORLD TRADE, 1998-2001
(Percentages)

| Institution | Exports | | | | Imports | | | |
|-------------|---------|------|--------|--------|---------|------|--------|--------|
| | 1998 | 1999 | 2000a/ | 2001b/ | 1998 | 1999 | 2000a/ | 2001b/ |
| WTO | 5.0 | 5.0 | 12.0 | ... | 4.5 | 6.0 | 12.0 | ... |
| UNCTAD | 5.0 | 4.8 | 10.6 | ... | 4.3 | 6.0 | 10.8 | ... |
| DESA/UNCTAD | 3.3 | 5.2 | 12.3 | 5.5 | 4.8 | 4.4 | 10.8 | 6.0 |
| IMFc/ | 4.6 | 5.6 | 12.8 | 2.2 | ... | ... | ... | ... |
| World Bank | 4.2 | 5.2 | 13.3 | 1.1 | ... | ... | ... | ... |
| OECDc/ | 5.4 | 5.9 | 13.3 | 0.3 | ... | ... | ... | ... |

Source: Prepared by the ECLAC Integration and International Trade Division on the basis of: World Bank, *Global Economic Prospects and the Developing Countries 2002*, Washington, D.C., October 2001, and *Global Development Finance*, Washington, D.C., April 2001, table 1.1, p. 10; World Trade Organization (WTO) (<http://www.wto.org>); International Monetary Fund (IMF), *World Economic Outlook 2001*, Washington, D.C., September 2001; Organisation for Economic Cooperation and Development (OECD), *Economic Outlook*, Paris, November 2001, p. 2; United Nations Department of Economic and Social Affairs, *World Economic Situation and Social Survey 2001*, New York, table 1.1, p. 4 and A.13, p. 256; United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 2001*, New York, April 2001, tables 2.1 and 2.2, pp. 30-31.

^a Preliminary estimates. ^b Projections. ^c Arithmetic average between export and import growth.

Figure I.1
VOLUME OF WORLD MERCHANDISE TRADE AND GDP,
1990-2001
(Annual growth rates)



* Estimates.

Source: Web site of the World Trade Organization (WTO) (<http://www.wto.org>).

A. The slowdown in the United States economy

1. The main indicators

The most significant development in the international economy in the first three quarters of 2001 was the striking slowdown in the United States economy, not only because of the magnitude of the slide—with growth estimated at barely 1% in 2001, compared to 4.2% in 2000—but also because of its effect on the performance of other developed and developing countries (see table I.2).³

In late 1999 the United States economy had reached unsustainable rates of growth (8% in the final quarter), driven by a high rate of investment and buoyant consumption patterns (see figure I.2). This performance was also partly due to inventory accumulation and, in late 1999, to alarm over the expected “year 2000 bug”; but these extraordinary factors were set within a broader expansionary trend that lasted for most of the 1990s.⁴ This trend was driven by factors such as the revalua-

tion of listed securities—which drove up private consumption—and significant gains in productivity associated with state-of-the-art technology investments, especially in information and communication technologies. The combination of growing demand and more efficient supply paved the way for an unusually long period of output growth and unemployment reduction without inflationary pressures, which led some agents to forecast a new era of indefinite growth known as the “new economy”. But a slowdown began to appear inevitable in the short term owing to a combination of low rates of household saving, a growing trade deficit, the extent of borrowing by United States firms and the levels of stock prices. The challenge of economic policy was therefore how to pilot the slowdown to a “soft landing” in order to avoid a recession.

In 2000, the United States monetary authority raised its base interest rate three times, in a context of high growth, low unemployment and a burgeoning stock

Table I.2
GDP PROJECTIONS: INDUSTRIALIZED COUNTRIES, 1998-2002
(Percentages)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------------------|------------|------------|------------|------------|------------|
| United States | 4.3 | 4.1 | 4.1 | 1.1 | 1.2 |
| Japan | -1.1 | 0.8 | 1.5 | -0.2 | -0.9 |
| Euro area | 2.9 | 2.7 | 3.4 | 1.5 | 1.3 |
| Germany | 2.0 | 1.8 | 3.0 | 0.8 | ... |
| France | 3.5 | 3.0 | 3.2 | 2.1 | ... |
| Italy | 1.8 | 1.6 | 2.9 | 1.2 | ... |
| United Kingdom | 2.6 | 2.3 | 3.1 | 2.1 | ... |
| European Union | 2.9 | 2.7 | 3.4 | 1.6 | 1.4 |
| Industrialized countries | 2.5 | 2.8 | 3.6 | 1.0 | 0.8 |
| World | 2.2 | 3.0 | 3.6 | 1.3 | 1.2 |

Source: Projections based on information from the United Nations Department of Economic and Social Affairs, and estimates prepared by the Economic Projections Centre of the ECLAC Statistics and Economic Projections Division.

3 The United States growth prospects are based on projections by Professor Lawrence Klein in the framework of Project LINK. Projections from other sources have also been used, as indicated in table I.2.

4 The expansion of inventories accounts for 2.4 points of the exceptional growth rate of 8% recorded in the last quarter of 1999, according to data from the Bureau of Economic Analysis (BEA). In January 2001 inventories were reported to have risen to excessively high levels, as the problem of correctly anticipating demand has not yet been resolved. This build-up has occurred despite technological innovations that have enabled firms to adjust production levels more rapidly to changes in sales. See Greenspan (2001).

market. Signs of a slowdown began to emerge in the second half of the year and intensified in the following months, particularly in the external sector and investment, especially in information technology. These worrisome results suggested that the measures taken in 2000 to curb economic activity might have been too harsh and too long, and prompted a radical shift in monetary policy: in the first eight months of 2001 (beginning on 3 January), the United States Federal Reserve cut the base rate seven times, from 6% at the start of the year to 3% at the end of August. Three further cuts reduced the rate to 1.75% by early December, as an additional stimulus in view of reduced activity and confidence after the 11 September attacks. These rates were the lowest in four decades.

Figures from the United States Department of Commerce show that output growth slowed drastically: by 2.6% in the first quarter, 1.2% in the second and 0.6% in the third with respect to the same quarters of 2000. The annualized growth rate for the third quarter with respect to the second appeared to reflect a decline in activity of 1.1%. Among the components of final demand, corporate investment had been trending downward since the third quarter of 2000, residential investment also decreased and inventories shrank (see figure I.2).

Starting in the last quarter of 2000, a contraction in exports and imports exacerbated the situation, in a trend that intensified in the first three quarters of 2001. Exports grew by a meagre 1.5% in the first half of 2001, compared to 9% in the same period of the preceding year, while import growth fell from 13% to just 2.7% between the same two periods. The downshift in imports was thus not enough to reduce the trade gap, which reached US\$ 34 billion per month in 2001, compared to an average of US\$ 22 billion in 1998 (in constant dollars). Private consumption slowed only slightly and thus accounted for the little momentum retained by the economy; with respect to the previous year this variable grew by 3.5% in the first quarter of 2001 and by 3.2% in the second and third quarters. Thus far, private

consumption has apparently not been significantly hurt by the corrections in stock prices—which were sharp in technology stocks but more moderate in traditional ones—though it is impossible to rule out such an eventuality in a country where more than 50% of households own shares.

Future consumption trends will be a key determinant of economic conditions, especially in the wake of the events of 11 September 2001. The restoration of consumer confidence could be decisive in staving off the threat of recession facing the United States economy.⁵ Within the wider picture, however, the signals relating to consumption are contradictory. The relatively positive trend in consumption was associated partly with lower oil prices and partly with the new administration's economic policy, in particular its implementation of a programme of tax cuts and continual interest rate reductions, which have lowered the cost of debt servicing.⁶ There was also a slight upturn in residential construction in the course of the year, which may be due partly to households' reduced propensity to invest in stock. The trend is also attributable in part to lower interest rates, which have prompted the refinancing of mortgages and therefore increased disposable income (see figure I.2).⁷ Lastly, the drastic and larger-than-expected reduction in inventories in the first quarter appeared to indicate that a turning point had come.

There is one factor, however, that may be draining strength from consumption: for the first time in years, firms have recorded net job losses, and the unemployment rate increased from 3.9% in the third quarter of 2000 to 4.9% at the end of the third quarter of 2001, and to 5.7% in late November. This rate is admittedly not particularly high, but the sector that shed the most workers is manufacturing, which has now slid into full-blown recession; more recent data indicate that these trends have spread to the service sector as well. This situation may reflect growing fears of recession, with a consequent downward adjustment in many projections before these figures were released.⁸

The price of the dollar is an important variable for

5 Krugman (2001).

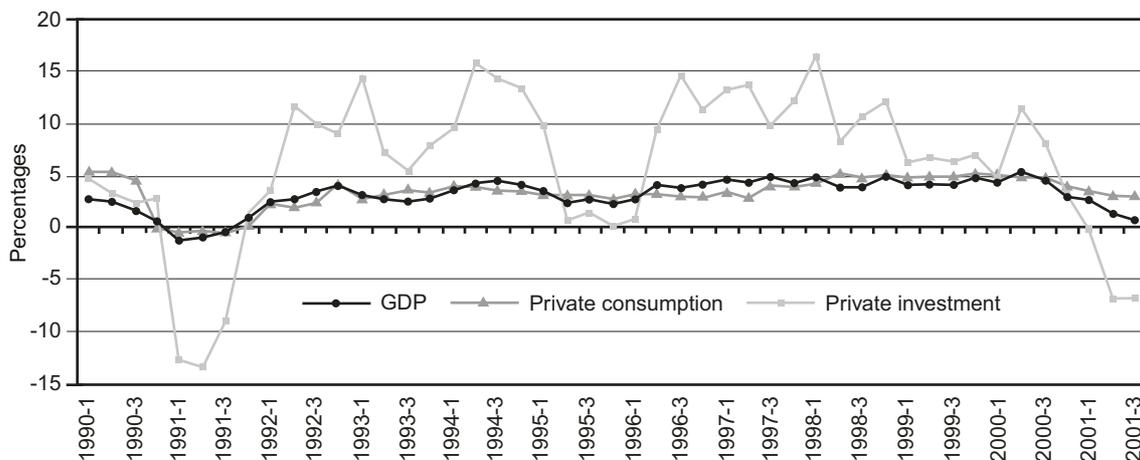
6 Consumption, which grew much faster than output in the second quarter, was fuelled by three factors: US\$ 40 billion in tax rebates in July, US\$ 50 billion in savings on interest payments and US\$ 20 billion in savings as a result of reduced oil prices. Meanwhile, profits continued to decline, but at a relatively lower rate of 2%, compared with 8% in the first quarter (*Los Angeles Times*, 30 August 2001).

7 Positive signals were recorded in manufacturing as well. The National Association of Purchasing Management's production index rose, with a significant increase in July that placed it above 50 for the first time in eight months, which is taken to be a sign of expansion. New orders were also up, after stagnating for more than a year (National Association of Purchasing Management (NAPM), "Overview of the Manufacturing NAPM Report on Business" (www.napm.org)).

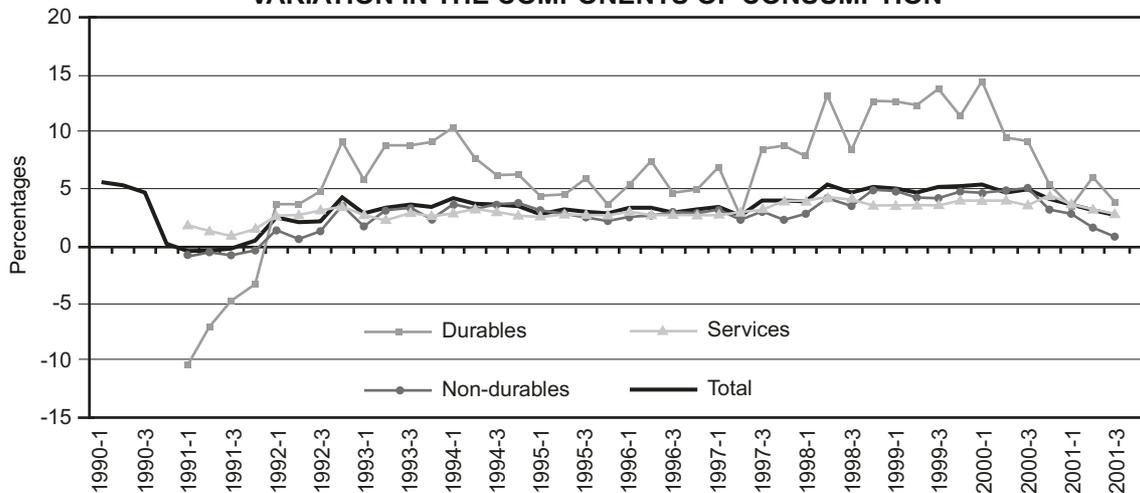
8 Industrial output has been falling since March 2001, which represents a drop of 5% so far this year.

Figure I.2

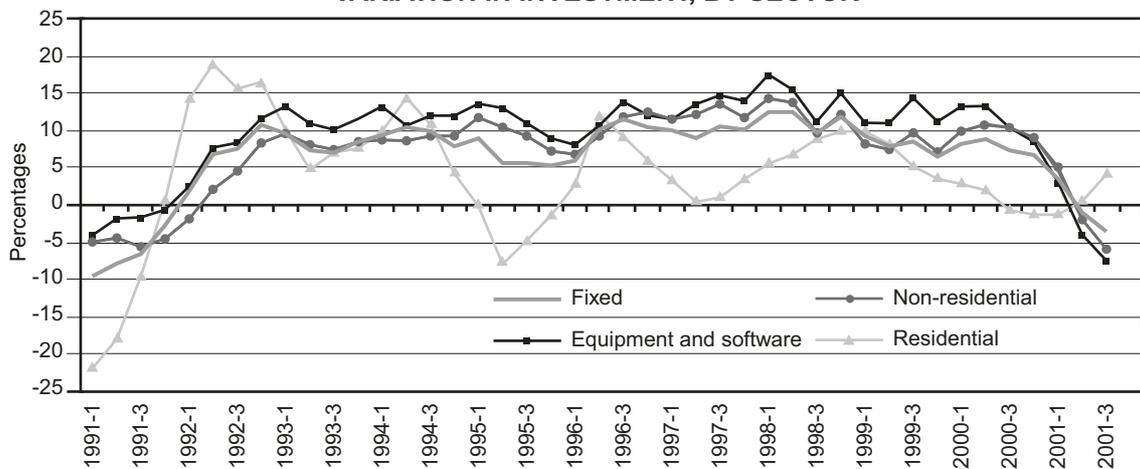
UNITED STATES: REAL QUARTERLY VARIATION IN GDP, CONSUMPTION AND INVESTMENT



VARIATION IN THE COMPONENTS OF CONSUMPTION



VARIATION IN INVESTMENT, BY SECTOR



Source: Bureau of Economic Analysis, United States Department of Commerce (www.bea.gov); Bank of Japan (www.boj.or.jp); EUROSTAT (www.europa.eu.int).

economic conditions. Its current price is high —especially by comparison with the euro—⁹ given the current-account deficit (4.5% of GDP), the present economic slowdown and the decrease in interest rates. There appears to be a consensus that the dollar will be devalued in the near future, but also widespread caution about anticipating when such a step will be taken.

The factors that are sustaining the currency include capital flows, mainly from Europe, which continue to be directed at the acquisition of assets linked to the “old economy” and to infrastructure.¹⁰ Another explanation for some of these flows may be the conversion into United States dollars of balances held in European currencies —especially deutschmarks— that will no longer be legal tender at the year’s end; some of the owners of these balances apparently prefer not to exchange them for euros, which would oblige them to account to European authorities for their origins. If the dollar were to lose strength the United States economic authorities would be faced with the dilemma of either sustaining the potentially inflationary effects of a devaluation or trying to mitigate it by means of further interest rate hikes, which would risk prolonging the slowdown and turning it into a recession.

Reduced investment in state-of-the-art technology, which could affect future productivity —a key factor in the rapid growth of the United States economy since 1995— is another factor that could prolong the current economic conditions in the United States. In addition, the sharp decline in the price of “technology” shares could increase investment costs in the sector, which would make it more difficult to recoup investments.

Apart from these difficulties, both households and firms have borrowed heavily. A recent article states that household debt has doubled in the last 10 years, to stand at US\$ 1.6 trillion, while many firms’ debts keep them poised on the verge of bankruptcy. For example, the debt of the firm Gateway increased to 77% of its net worth, compared with 13% in 1995. The article adds that default rates on corporate bonds have reached lev-

els similar to those seen in 1990, at the onset of the last recession; even before 11 September default rates on high-yield bonds had reached 9.6%, above the 8.7% peak of 1990. In addition, the number of debt downgrades has exceeded the number of upgrades, and of the US\$ 74 billion in debt defaults in 2001, US\$ 31 billion corresponded to telecommunications firms. Reductions in interest rates do not help firms that have entered default, as the capital markets are either closed to them or ask very high rates.¹¹

An official press release indicated recently that special mention and classified loans represented 9.4% of total commitments in 2001, up from 5.1% the previous year, though this is well below the peak of 16% recorded in 1991. In particular, manufacturing firms have experienced credit problems, especially in the textiles, metals, and machinery and equipment subsectors.¹²

2. Constraints on the effectiveness of monetary policy

Despite the steps taken to adjust monetary policy, the United States economy continued to slide throughout 2001 amidst growing doubts about its ability to control economic conditions in order to prevent the slowdown from becoming a full-blown recession. These doubts have extended to the effectiveness of the monetary policy instruments themselves. It has been questioned whether the monetary transmission mechanism has weakened in a economy that has an almost zero saving rate and increasing indebtedness, linked to a rising stock market. A number of analysts have argued that monetary policy alone is insufficient to rescue a depressed economy. Monetary policy may be highly effective in boom periods, but becomes ineffectual when the economy begins to slump. In other words, monetary policy operates in an asymmetric manner.¹³

Lawrence Klein provides a highly illustrative description of this paradox: monetary policy is effective

9 In fact, since July the euro has appreciated against the dollar, increasing in value by 5% with respect to its lowest level, which was recorded in October 2000, according to data from the European Central Bank (2001).

10 Foreign direct investment in the United States reached a record figure of US\$ 295 billion in 1999, followed by US\$ 281 billion in 2000, of which over 80% came from Europe. During the first quarter of 2001 these investments continued to increase and grew by about 16% with respect to the first quarter of 2000. Of these flows, 44% came from Germany (data from the Bureau of Economic Analysis, www.bea.gov).

11 New York Times, (<http://www.newyorktimes.com>), 7 October 2001.

12 Classified loans have well-defined weaknesses, including default in some cases, while special mention loans exhibit potential weaknesses, which may result in further deterioration if left uncorrected. For further information, see Joint Press Release, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency, 5 October 2001.

13 Seidman (2001). This article reviews the most prominent research on fiscal policy and argues in favour of re-establishing the fiscal stimulus, as its role in reactivating the economy has long been virtually abandoned in United States policy.

in slowing an expansion, like pulling on a string to slow a body in motion; but trying to revive an economy by means of lax monetary policy is like pushing a string to make something go faster. Klein accepts, however, that interest rate cuts have had a stabilizing effect on stock markets, which is also important for recovery, but he argues that greater stimulus is needed and emphasizes the need for Keynesian policies.¹⁴

In view of Japan's unsuccessful efforts to lift its economy out of stagnation, a number of analysts sustain that monetary policy must be complemented with other measures, especially in a context of very low interest rates where there is very little room for future reductions. Japan's situation, with deflation and near-zero interest rates, has caused analysts to speak of a new liquidity trap and points to the need for major fiscal stimuli.¹⁵ The economic situation of the United States is beginning to resemble conditions in Japan, with very low rates of interest and inflation, although its economy is growing at a faster rate.

Although monetary policy is increasingly expansionary, there is a certain consensus on the need for fiscal stimulus given mounting evidence that the downshift may be much more dramatic than expected. These

conditions again generated an intensive debate between Republicans and Democrats over which measures would be most effective. In 2000 the fiscal surplus was US\$ 236 billion and the figure was projected to rise to US\$ 304 billion before the government gained approval for its 10-year tax reduction plan representing total cumulative cuts of US\$ 1.35 trillion.

The government's plan included a mid-year tax rebate, in the hope that growth would accelerate in the third and fourth quarters of 2001, when the effects of interest rate reductions made during the year should have begun to kick in. Despite this combination of stimuli, however, the growth rate did not increase in the third quarter, as most analysts had predicted. Nevertheless, there is no clear trend towards recession either. Instead, the different economic indicators are giving mixed signals.

Before the events of 11 September estimated growth for 2001 was around 1.7%. Since then this projection has deteriorated, however. With the loss of growth in the third quarter and the stagnation of output in the final quarter, the annual growth rate is estimated at about 1%. Even if a recovery begins in 2002, it is likely to be weaker than expected.¹⁶

B. Effects on the rest of the world

1. European Union and Japan

The sharp downturn in the United States economy has spread to the rest of the world, by means of both trade and the financial markets, and the operations of subsidiaries of foreign firms. In particular, stock markets reflect steep declines in corporate profits since mid-2000. In the week after 11 September several economic indicators plummeted, but later recovered somewhat, as did most stock markets. World growth forecasts were lowered. As shown in table I.2, world GDP expansion

will be less than 1.3% in 2001, which represents a downward revision with respect to the forecast early in the year and a lower rate than in 1991, the year of the last recession in the United States. There will be a modest increase in growth in 2002, to just over 1.2%. This trend will have a significant effect on the volume of world trade, which could grow by nearly 5% in 2002 after virtually stagnating in 2001.

The World Bank slightly reduced its projections for 2001 after 11 September: the projected growth of the industrialized countries decreased from 1.1% to 0.9%

14 *Challenge* (2001). In this interview, Klein argues that a net annual injection of some US\$ 150 billion is needed to reactivate the economy.

15 Paul Krugman and Adam Posen, among others, have made proposals along these lines. For a summary of these see ECLAC (1999).

16 In mid-August, the weekly projections made by the University of Pennsylvania in the framework of Project LINK indicated a GDP growth rate of 1.78% for 2001. In early September, before the events of 11 September, this estimate was placed at 1.70%. According to the Federal Bank of Philadelphia, a group of 33 analysts lowered third-quarter projections that they had made three months earlier from 2.0% to 1.2%, but increased their fourth-quarter forecasts from 2.6% to 2.8% (see www.un.org/analysis/link and www.federalreserve.gov). This also coincides with White House growth projections for 2001, although these project a higher rate (3.2%) for 2002.

in 2001, and the rate for developing countries was revised downward from 2.9% to 2.8%. A recovery is expected in 2002, albeit a less vigorous one than projected before the events of September: the industrialized countries are likely to grow by between 1% and 1.5% (previous estimates placed the figure at 2.2%) and the developing countries, between 3.5% and 3.8% (compared to a projected rate of 4.3% before the attacks).¹⁷ The projections issued by the International Monetary Fund (IMF) are a little more optimistic. IMF estimates that global GDP will grow by 1.4% in 2001 and by 1.2% in 2002,¹⁸ while the volume of world trade will expand by 1.0% and 2.2%, respectively. The Fund warns, however, that the outlook for growth is very uncertain and that the negative trends may yet become deeper and more prolonged.

Although the events of 11 September do not account for the significant slowdown at the world level, they may certainly exacerbate it. Even before these events, pre-existing trends were common to most of the industrialized countries and were spreading to an increasing number of them. This distinguishes the current situation from the recession of the early 1990s, when the United States slipped into recession first and the economic downswing came later in Europe and Japan, when the United States was beginning to recover (see figure I.3).

The downshift in the United States has also generated uncertainty in Europe, particularly since the second quarter of 2001. This was reflected in the decreased growth rates of both exports and imports, and of gross capital formation, between the first and second quarters. Output has shown negative growth in agriculture (in relation to the preceding quarter) since the last quarter of 2000, and in industry and construction since the second quarter of 2001. GDP growth in the European Union is thus experiencing a gradual downturn: it decreased from an average rate of 3.7% in the first half of 2000 to 3.1% in the second, and to just

2.0% in the first half of 2001, in relation to the same period of the previous year (see figures I.3 and I.4).¹⁹

The European economy is driven primarily by domestic consumption, which has seen a smaller downshift and has replaced investment and external trade as the main engine of growth. In 2000, household consumption was affected by price rises (petroleum and food) but remained relatively buoyant thanks to job creation, higher real wages and tax cuts. In fact, several European countries have taken advantage of the fiscal surplus recorded by the region in 2000 to implement policies of fiscal stimulus.²⁰ Monetary policy was fairly tight, and there was some criticism of the latest interest rate rise in October 2000. The lack of a policy of more active support for growth may appear to be overly cautious given the large fiscal surpluses recorded in 2000, the succession of interest rate cuts in the United States and the decline in economic activity; in fact it may even have prevented more vigorous growth in Europe.²¹ Indeed, in response to signs of a downswing, the European Central Bank (ECB) recently cut the interest rate.

The growth rate of trade in the European Union fell substantially in the first half of 2001, by comparison with the same period of 2000. According to ECB data, the growth rate of exports and imports fell by more than half and more than two thirds, respectively, at current values. Trade expansion was exceptional in 2000, however, and despite these decreases trade is still expanding at a relatively high rate.²²

The fact that intraregional trade accounts for a large percentage of the European Union's total trade means that the impact of the downshift in the United States will be less severe. It will still have a considerable effect, however, given that external trade is not the only means by which repercussions may be felt. Germany's economy, for example, has been affected not so much by trade as by the country's direct investment in the United States,²³ in which it is the main foreign investor.

17 World Bank (2001).

18 The growth rates quoted are based on market exchange rates. Based on purchasing power parity, the rates would be 2.6% in 2001 and 3.5% in 2002.

19 On the basis of information from EUROSTAT.

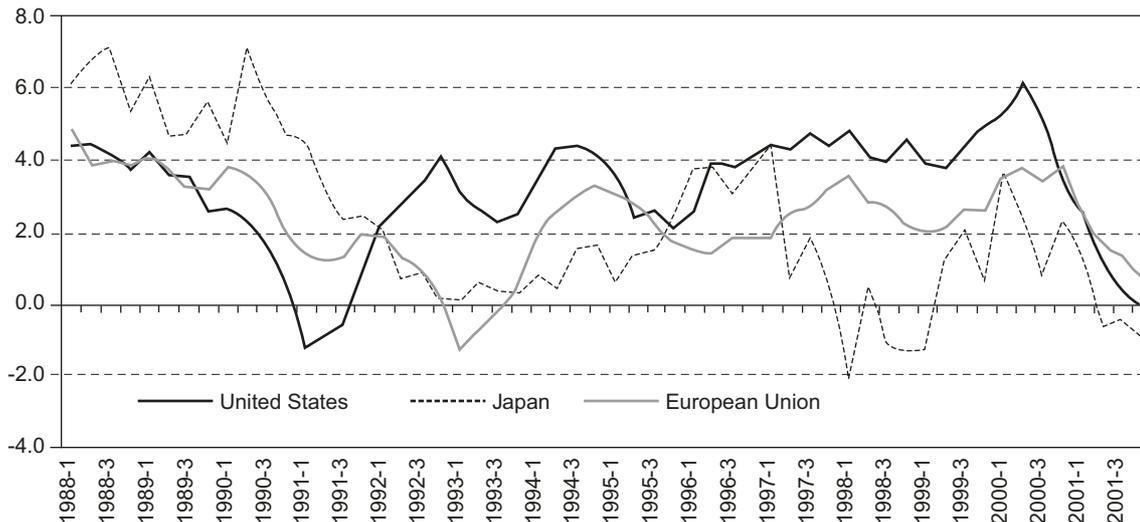
20 The surplus was 1.2% of the region's GDP, although it must be borne in mind that this figure includes non-recurrent income from the sale of public assets, particularly in Germany and the United Kingdom.

21 In the euro area the fiscal surplus was 0.3% of GDP and the public debt burden decreased to 70% of GDP, while for the European Union the rates were 5% and 64%, respectively. Excluding sales of Universal Mobile Telecommunication System (UMTS) licences, however, the euro area recorded a deficit of 0.8% of GDP and the European Union, a deficit of 0.1% (EUROSTAT, 2001).

22 ECB (2001).

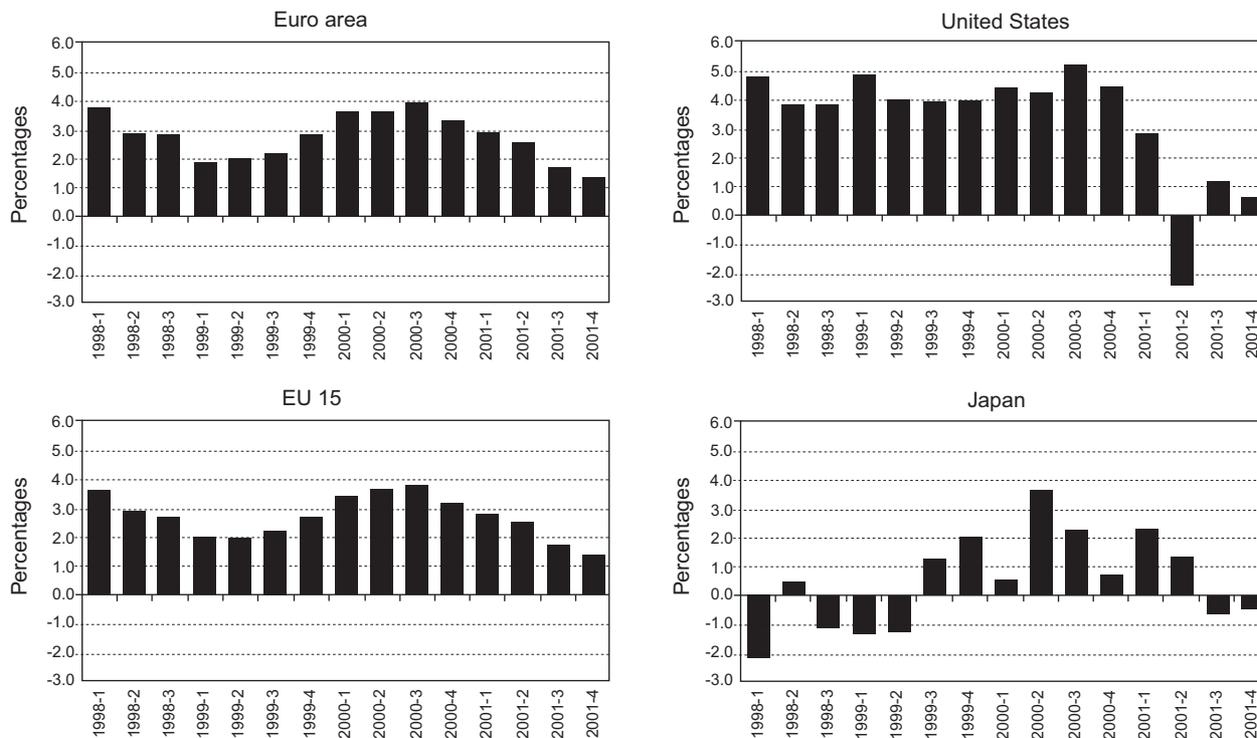
23 In the first half of 2001, 56% of German exports went to other European Union countries and 73% went to European countries including non-European Union members, while just 10.6% went to the United States. Interestingly, German exports (including those to the United States) continued to grow rapidly in the first half of 2001—at 11.4%—by comparison with the same period of 2000.

Figure I.3
QUARTERLY GDP GROWTH^a
1988-2001



^a With respect to the same quarter of the preceding year.

Figure I.4
QUARTERLY GDP GROWTH, 1999-2001 AND 2002
(Percentages)



Source: Figures I.3 and I.4: Bureau of Economic Analysis, United States Department of Commerce (www.bea.gov); Bank of Japan (www.boj.or.jp); EUROSTAT (www.europa.eu.int).

In fact, sales by United States subsidiaries of German firms declined. This was reflected in investment-linked factor income in the current account, which was negative in the first quarter and accumulated a deficit of 4.4 billion euros by mid-2001.²⁴ Contagion from the United States is also transmitted through stock market investments. In addition, German industrial output has fallen, especially in capital goods, while the recession continued to affect construction, which has been declining since 1995. Germany's growth forecast for 2001 is less than 1%, but an upswing is expected in 2002 (see table I.2).

The downshift in the German economy has spread to other European countries, particularly France. Contrary to expectations early in the year, in France investment has weakened and industrial output has slowed. The economy has also been affected by higher food prices due to climatic and health factors, though the price of petroleum denominated in francs has remained stable. Domestic consumption has not yet deteriorated, and wage growth, slower inflation and high rates of saving may hold up, thanks to tax cuts.²⁵ France's economy is projected to grow at a slightly higher rate than the average for the euro area, between 2.0% and 2.4% (see table I.2).

The United Kingdom is expected to be among the countries to experience the biggest downturns in 2001, given its close links with the United States and problems with outbreaks of foot-and-mouth disease. Manufacturing appears to be on the brink of recession, as the sector slowed substantially in the first half of 2001, and the service sector is following suit. Household spending, however, has remained stable, largely owing to housing expenditure and an expansionary monetary policy. Inflation has been kept below target for the last two years, which has made it possible to cut interest rates in response to the widespread slowdown.²⁶ The United Kingdom thus hopes to sustain a comparatively high growth rate of over 2% in 2001 (see table I.2).

In conclusion, the European Union experienced a less severe slowdown than the United States and grew at a faster rate for the first time in over a decade. The Union is likely to grow at a rate of about 1.6% in 2001 and 1.4% in 2002. This represents a significant reduction with respect to the growth of 3.4% recorded in 2000, which was the highest rate of the decade (see table I.2).

Both exports and imports are likely to grow much more slowly in 2001 than in 2000, and net exports will account for a smaller proportion of growth (in fact, net exports have dwindled to zero). The advance indicator for the euro area, which was published recently by the French Observatory of Economic Conditions (OFCE), anticipates a rate of 0.7% in the third and fourth quarters, which would bring the annual growth rate to 1.5%. This source projected growth of 2.6% and 2.0% in the first two quarters, which was a slight overestimate with respect to the rates actually recorded (2.4% and 1.7%, according to figures published recently by EUROSTAT). The projected trends reflect the worsening business environment in trade and industry and, especially, the behaviour of industrial output, which, after making a zero contribution, will turn in negative growth—with no upswing projected for the coming quarters—while construction will continue to show positive growth.²⁷

The main effect of the economic slowdown in the United States, however, is a decline in demand for finished and intermediate electronic goods. The Asian countries are the hardest hit in this regard. Japan's GDP has contracted since the second quarter of 2001 as a result of a decrease in exports and in industrial output (see figures I.3 and I.4). The largest slumps were seen in exports to Asia's newly industrializing economies (NIEs), which account for 40% of Japanese exports; sales to these countries fell by 2.4% in the last quarter of 2000, 1.8% in the first quarter of 2001 and 4.9% in the second. The next largest decline was in exports to the United States, which account for 30% of total Japanese exports. These were down by over 6% in both the first and the second quarters of 2001. In the second quarter of 2001 exports to the European Union recorded the largest decrease, but these account for only 16% of the total.

Also as a consequence of recession, Japan's unemployment rose—to 4.9% in the second quarter—and wages declined, resulting in a decrease in private consumption. The number of firms filing for bankruptcy continued to increase, though these cases usually involved relatively small volumes of liabilities. Non-residential and new housing construction have followed an unrelenting downward trend since early 2000. Gross capital formation, which expanded strongly in 2000, fell back in 2001, particularly in manufacturing. No significant progress has been made towards placing the

24 Bundesbank (2001).

25 OFCE (2001).

26 Merrill Lynch (2001).

27 "L'indicateur avancé, zone euro", 12 October 2001 (www.ofce.sciences-po.fr).

banking system on a sounder footing. The situation is exacerbated by loans that are floundering or have fallen into arrears—which were estimated at 64 trillion yen in September 2000—²⁸ and by the fall in asset prices, as stock markets sank to their lowest level of the decade. As the Bank of Japan indicates in its report of August 2001, it appears inevitable that economic activity will continue to adjust (dragged down by the drop in exports) and that the substantial fall in output will cause domestic demand to slide further, leading to steeper declines in economic activity (Bank of Japan, 2001).

As a result, growth is expected to decrease markedly in Japan. The most recent projections indicate a drop of around -0.2% from rates that were already low (0.8% in 1999 and 1.7% in 2000). This decline reflects, particularly, the contraction of information technology-related industries. In 2001 net exports will therefore make a negative contribution to Japan's growth. Relatively high unemployment and trends in household income will continue to help keep private consumption and investment in housing weak.

In sum, the Japanese economy does not appear to have recovered from the recession that began in 1988, and its growth over the decade was far lower than in earlier periods: an average of 1.4% between 1991 and 2000, compared with 4.1% in the 1980s. The various fiscal stimulus packages have been piecemeal and have proved insufficient to act as a sustained driver of activity. Because of deflation, monetary policy measures—consisting of cuts in interest rates, which have fallen almost to zero—have failed to kick-start consumption, while high rates of unemployment have, on the contrary, encouraged preventive saving. No solution has yet been found to the problem of large volumes of loans that are in arrears or non-recoverable, and government debt has grown to a level that leaves little room for manoeuvre. In short, the Japanese economy is not expected to regain momentum in the short term, and in the near future it is unlikely to grow at rates similar to those recorded in the 1970s and 1980s.

2. Developing countries

In general, the downshift in the United States economy has affected the developing countries through

worsening prices for their export products, for which the United States is a major market (see table I.3). These goods include commodities, mainly inputs for industry, minerals and petroleum, for which the United States accounts for between 10% and 25% of world imports. These commodities, which are important for Latin American exporters, include pulses, dried fruit and nuts, coffee, cacao, alcoholic beverages, wood, pulp, minerals and base metals, crude petroleum and petroleum products. Although demand for these products, especially the foodstuffs, is generally fairly inelastic, a lower demand for manufacturing inputs—the sector that is leading the downswing in the United States—could not only affect volumes of trade but also exert downward pressure on prices.

The United States is also a major market for a number of subsectors within traditional manufactured and semi-manufactured products, representing at least 20% of world demand. This category includes chemicals, rubber, wood, textiles, iron and steel products, most minerals and metals, and household appliances and metal tools. More elaborate manufactures include data processing machinery, office accessories and—among the more traditional—clothing, footwear, luggage and toys, many of which are associated with the *maquila* industry (see table I.3).²⁹

In addition, the prices of agricultural and mineral commodities have continued to trend downward, with very few exceptions. As shown in table I.4, prices for commodities such as rice, soya, soya oil, coffee, cotton, wool, copper, tin, nickel, gold and silver, which play a key role in the exports of Latin American and Caribbean countries, were lower than in 2000. Crude petroleum prices have also slipped appreciably since the end of the third quarter of 2000 (see table I.4 and figure I.5).

The growth prospects of many Asian countries are seriously constrained by their high degree of trade liberalization, the large proportion of their exports that are linked to the information technology industry and the fact that these exports account for a considerable percentage of their GDP. In addition, the current economic conditions have caused a sharp drop in Japanese direct investment in these countries. While Japanese FDI in the region has declined by 35% in the last decade, and FDI flows to NIEs have halved, investment in China has doubled.³⁰

28 Figure from the Financial Service Agency, quoted in Kanemi Ban, "Country Report: Japan". Project LINK, April 2001 (www.schass.utoronto.ca/LINK).

29 See ECLAC (2001b) for further details.

30 *New York Times* (2001). This investment was initially fuelled by the appreciation of the yen; Japan supported increased output in these countries

Table I.3
PROPORTION OF MERCHANDISE MARKETS ACCOUNTED FOR BY THE UNITED STATES^a
(Percentages)

| Commodities^b | | Manufactures^b | |
|-----------------------------------|------|---|------|
| Food and tobacco | | Industrial inputs | |
| Meat | 9.0 | Alcohol | 13.4 |
| Wheat | 1.9 | Organic mineral compounds | 24.8 |
| Rice | 3.7 | Oxides | 17.3 |
| Maize | 3.3 | Pigments | 11.8 |
| Cereals and flours | 14.1 | Pharmaceutical products | 14.4 |
| Fresh or frozen vegetables | 16.3 | Fertilizers | 11.2 |
| Dried fruit and nuts | 16.5 | Polymers | 11.0 |
| Sugar | 10.0 | Pesticides | 10.4 |
| Coffee | 25.2 | Leather (611) | 9.4 |
| Cacao | 21.0 | Leather manufactures (612) | 13.5 |
| Alcoholic beverages | 24.6 | Rubber products | 21.9 |
| Manufactured tobacco | 3.8 | Laminated wood | 21.7 |
| Oil-seeds and oleaginous fruits | 3.1 | Paper | 18.6 |
| Agricultural raw materials | | Textile fibres | 7.9 |
| Simply worked wood | 32.2 | Cotton products | 20.4 |
| Pulp and waste paper | 16.1 | Refractory products | 14.9 |
| Cotton | 2.0 | Glass | 18.2 |
| Minerals | | Semiprecious stones | 22.6 |
| Silver | 29.4 | Iron pellets | 22.1 |
| Copper | 13.2 | Primary forms of iron and steel | 22.9 |
| Nickel | 20.2 | Flat-rolled iron or steel (673) | 19.0 |
| Aluminium | 17.9 | Flat-rolled iron or steel (674) | 12.9 |
| Lead | 15.7 | Iron tubes | 16.3 |
| Zinc | 21.8 | Capital goods and final consumer goods | |
| Tin | 21.1 | Metal tools | 22.9 |
| Iron ore | 6.9 | Metal-based household equipment | 28.2 |
| Base metal ores | 17.4 | Data processing machinery | 29.8 |
| Energy | | Office equipment | 26.5 |
| Coal | 5.0 | Travel goods | 26.5 |
| Crude petroleum | 25.7 | Men's clothing | 29.7 |
| Petroleum products | 16.4 | Women's clothing | 32.3 |
| Natural gas | 13.8 | Non-elastic clothing | 31.5 |
| | | Footwear | 31.0 |
| | | Toys | 36.0 |

Source: ECLAC, Economic Projections Centre, *Perspectiva de América Latina en el nuevo contexto internacional*, June 2001, on the basis of information from the United Nations Conference on Trade and Development (UNCTAD), *International Trade Statistics Yearbook*, 1998.

^a By share of world imports, 1998.

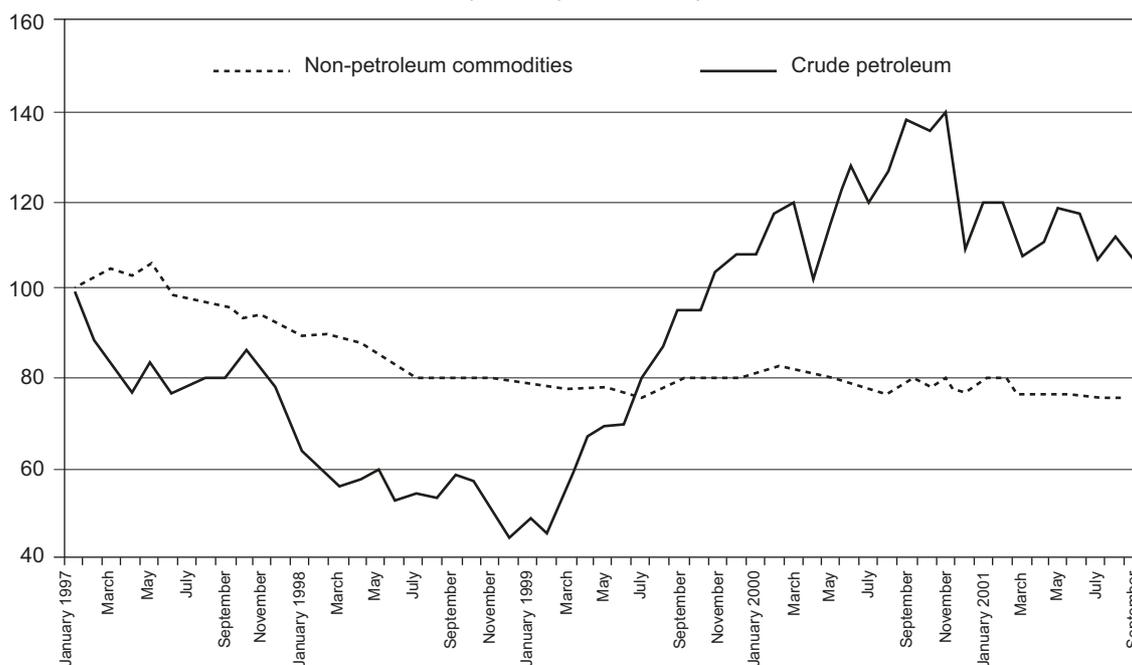
^b On the basis of the Standard International Trade Classification (SITC) at the three-digit level.

The rapid recovery of crisis-hit economies, especially in 1999-2000, was largely a response to high demand in the United States for consumer goods and intermediate products linked to the computer and telecommunications industries. In turn, declining United States demand accounts for the large downward revision of growth projections in the countries of East and South-East Asia. It was already apparent that growth was likely to slow in these countries after their recovery from the declines of 1997-1998 and that several of them would be burdened with bank portfolios that are not readily convertible. This slowdown—which was already becoming evident in the second half of 2000—

will be much more severe than expected, not only because of lower growth in the United States and Japan, but also because of the significance, for the majority of these countries, of intraregional trade (between 30% and 50% of total exports), which will be hurt by the downshift in activity.

The way in which the Asian countries are affected by international economic conditions varies depending on their degree of trade liberalization, their trade specialization (in particular, the portion accounted for by electronic products), the significance of the United States as an export market and the extent to which domestic demand is able to absorb external shocks. Ma-

Figure I.5
PRICE INDEXES,
JANUARY 1997-SEPTEMBER 2001
(January 1997=100)



Source: Prepared by the ECLAC Integration and International Trade Division on the basis of information from the International Monetary Fund (IMF), *International Financial Statistics*, Washington, D.C., November 2001.

as a way of offsetting the loss of competitiveness of its own exports. Such support was provided by means of bank credits and—especially—direct investment. From 1995 on, as the dollar appreciated, and from 1997 as crisis broke out in Thailand, Japan reduced the flow of credit and investment to Asian NIEs. At the same time, the country's own exports became more competitive; to a certain extent, this jeopardized the trade prospects of the other countries of the region.

Table I.4
MAIN COMMODITY PRICES, 1995-2001
(Index numbers (1995=100), dollars and percentages)

| Commodity / Year | Unit | 1995 | 1997 | 1998 | 1999 | 2000 | 2001 ^a | Latest price (September 2001) in dollars |
|--------------------------------------|-------------|-------|-------|-------|-------|-------|-------------------|--|
| Agricultural commodities | | | | | | | | |
| Rice | Tons | 100.0 | 93.8 | 95.0 | 77.3 | 63.4 | 53.4 | 173.00 |
| Sugar | Pounds | 100.0 | 85.7 | 67.7 | 47.4 | 61.7 | 69.2 | 0.08 |
| Bananas | Pounds | 100.0 | 112.1 | 108.5 | 98.0 | 95.5 | 139.7 | 0.32 |
| Meat | Pounds | 100.0 | 97.3 | 90.5 | 96.1 | 101.5 | 107.3 | 1.01 |
| Shrimp | Pounds | 100.0 | 101.7 | 113.6 | 111.9 | 116.9 | 120.3 | 0.06 |
| Wheat | Tons | 100.0 | 90.0 | 72.1 | 64.3 | 66.6 | 73.3 | 127.10 |
| Maize | Tons | 100.0 | 93.4 | 80.8 | 76.4 | 75.7 | 79.4 | 109.20 |
| Soya | Tons | 100.0 | 113.9 | 93.6 | 77.9 | 81.8 | 76.4 | 213.00 |
| Soya oil | Tons | 100.0 | 90.4 | 100.2 | 68.3 | 54.1 | 53.9 | 387.00 |
| Soya flour | Tons | 100.0 | 137.9 | 89.9 | 77.9 | 95.0 | 95.0 | 203.00 |
| Colombian coffee | Pounds | 100.0 | 125.6 | 90.2 | 73.6 | 64.8 | 47.8 | 0.71 |
| Brazilian coffee | Pounds | 100.0 | 93.2 | 68.0 | 49.6 | 44.6 | 30.9 | 0.44 |
| Cacao | Pounds | 100.0 | 112.9 | 117.2 | 79.5 | 62.0 | 73.1 | 0.47 |
| Cotton | Pounds | 100.0 | 75.0 | 62.5 | 50.8 | 56.7 | 49.9 | 0.41 |
| Cow hide | Kilogrammes | 100.0 | 61.2 | 104.2 | 75.4 | 131.1 | 192.2 | 2.30 |
| Fish meal | Tons | 100.0 | 122.4 | 133.7 | 79.2 | 83.4 | 93.7 | 507.00 |
| Wool | Pounds | 100.0 | 158.1 | 108.9 | 101.1 | 95.0 | 78.2 | 1.24 |
| Wood pulp | Tons | 100.0 | 55.3 | 50.9 | 48.5 | 77.4 | 61.7 | 396.00 ^b |
| Tobacco | Tons | 100.0 | 133.6 | 126.2 | 117.3 | 113.1 | 113.7 | 3034.00 |
| Minerals | | | | | | | | |
| Aluminium | Pounds | 100.0 | 88.6 | 75.2 | 75.5 | 85.8 | 83.3 | 0.61 |
| Copper | Pounds | 100.0 | 77.6 | 56.3 | 53.6 | 61.8 | 56.4 | 0.65 |
| Tin | Pounds | 100.0 | 90.9 | 89.1 | 86.9 | 87.5 | 77.0 | 1.68 |
| Iron | Pounds | 100.0 | 107.0 | 110.0 | 100.0 | 102.6 | 107.0 | 0.29 |
| Nickel | Pounds | 100.0 | 84.2 | 56.3 | 73.1 | 105.0 | 77.7 | 2.28 |
| Lead | Pounds | 100.0 | 99.0 | 83.9 | 79.7 | 72.0 | 75.5 | 0.21 |
| Zinc | Pounds | 100.0 | 127.6 | 99.4 | 104.3 | 109.4 | 91.5 | 0.36 |
| Gold | Ounces | 100.0 | 86.2 | 76.6 | 72.6 | 72.6 | 69.4 | 2.83 |
| Silver | Ounces | 100.0 | 94.2 | 106.5 | 101.1 | 96.3 | 85.1 | 4.39 |
| Petroleum | Barrels | 100.0 | 113.6 | 77.5 | 107.1 | 166.9 | 156.2 | 25.10 |
| Compound indexes | | | | | | | | |
| Agricultural commodities ... | | 100.0 | 102.8 | 93.4 | 77.4 | 81.1 | 84.7 | ... |
| Mineral commodities ^c ... | | 100.0 | 95.0 | 83.7 | 83.0 | 88.1 | 80.3 | ... |
| Mineral commodities ^d ... | | 100.0 | 96.9 | 83.1 | 85.4 | 96.0 | 87.9 | ... |

Source: Prepared by the ECLAC Integration and International Trade Division on the basis of information from the United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*, Geneva, October 2001; World Bank, *Global Commodity Markets*, August-September 2001; World Bank, *Commodity Prices Data Pinksheet*, October 2001 (www.worldbank.org/prospects/pinksheets/pink1001.pdf); and Organization of Petroleum Exporting Countries (OPEC), *OPEC Bulletin*, October 2001.

^a Index calculated on the basis of average value for January-September 2001.

^b Information up to June 2001.

^c Arithmetic average excluding petroleum.

^d Arithmetic average including petroleum.

Malaysia and Singapore are two of the most vulnerable countries: the value of their exports exceeds their GDP, electronic goods account for over 50% of their exports and close to 20% of their total exports go to the United States.

Both countries' total exports began to contract sharply in the second quarter of 2001, and their projected rates of GDP growth for 2001 are nil (Malaysia) and negative (Singapore), in contrast to their 2000 rates of 8.3% and 9.9%, respectively. Hong Kong, which has an even higher trade liberalization ratio than these two countries, nevertheless saw its growth less affected. In Thailand, the Philippines, Taiwan Province of China and the Republic of Korea, exports account (in descending order) for between 58% and 46% of GDP, with a large proportion of industrial outputs.³¹ As a result of declining exports, a significant economic slowdown is expected in the Republic of Korea and Taiwan Province of China, and a less acute downshift in the Philippines and Thailand (see table I.5).

In some countries that have large domestic markets, private consumption is sustaining activity and lim-

iting the decline in growth. This is likely to account for the better performance achieved by China, the Philippines, India, Indonesia and Thailand (see table I.3).³² Despite a decline in activity, these countries are not facing a crisis of the magnitude seen in 1997, as they have had no currency and banking crisis, even though some analysts argue that there is still a risk of destabilization through exchange rates (CDC IXIS, 2001a and 2001b).

After achieving growth of 8.3% in 2000 thanks to high petroleum prices and the devaluation of the rouble, which made it possible to substitute industrial imports, the Russian Federation's growth rate will slow to around 5% because of lower oil prices and more sluggish external demand, especially on the part of the European countries. The Russian Federation also has yet to deal with the problem of severe capital flight (approximately 10% of GDP every year). This indication of poor confidence is reflected in the fact that investment is expanding at an insufficient rate (Gavrilenkov, 2001). The other economies in transition will be affected only slightly, as their momentum in 2000 was largely based

Table I.5

**DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION:
GDP GROWTH AND OUTLOOK FOR 2001-2002**

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--------------------------------|------------|------------|------------|------------|------------|
| Developing countries | 1.6 | 3.5 | 5.7 | 2.3 | 3.6 |
| Economies in transition | 2.3 | 2.0 | 3.8 | 4.3 | 3.7 |
| Russian Federation | -4.9 | 5.4 | 8.3 | 5.5 | 4.5 |
| China | 7.8 | 7.1 | 8.0 | 7.3 | 7.5 |
| Asia excluding China | -2.3 | 5.9 | 6.9 | 1.7 | 4.0 |
| India | 5.8 | 6.8 | 6.0 | 5.4 | 5.3 |
| Korea | -6.7 | 10.9 | 8.8 | 2.2 | 2.8 |
| Philippines | -6 | 3.4 | 4.0 | 2.5 | -1.0 |
| Indonesia | -13.1 | .8 | 4.8 | 3.2 | 0.2 |
| Malaysia | -7.4 | 6.1 | 8.3 | 0.3 | 2.0 |
| Taiwan Province of China | 5.6 | 4.7 | 3.8 | -2.7 | 0.9 |
| Thailand | -10.8 | 4.2 | 4.4 | 1.2 | 2.7 |
| Singapore | 0.1 | 5.9 | 9.9 | -1.4 | 1.6 |
| Africa | 3.3 | 2.5 | 2.8 | 3.8 | 4.4 |
| Latin America | 2.3 | 0.2 | 4.1 | 0.5 | 1.1 |
| Western Asia | 4.1 | 0.8 | 5.7 | 1.9 | 4.0 |

Source: Prepared by the ECLAC Economic Projections Centre on the basis of information from the United Nations Department of Economic and Social Affairs; *The Economist*, 20 October 2001.

31 Seltz (2001).

32 Ministère de l'économie, des finances et de l'industrie: *Note de Conjoncture Internationale*, June 2001, France and CDC IXIS (2001a).

on demand and FDI flows from Western Europe and demand from the Russian Federation, while domestic demand was subdued. Their outlook therefore hinges largely on the implementation of policies to kick-start domestic demand, as well as capital flows to finance current-account deficits (see table I.5).

The Middle Eastern countries include petroleum importers such as Israel and Turkey, which recorded high rates of growth in 2000 that will not be sustained in 2001. Turkey is even projected to record a downturn of as much as -7% in output because of the financial crisis and the tight fiscal and monetary policies agreed upon with IMF. Petroleum exporting countries, however, will be affected by lower prices and by cuts in production quotas implemented by the Organization of Petroleum Exporting Countries (OPEC). Their growth

will therefore decrease from 6% in 2000 to around 3% in 2001, but will see a slight upturn in 2002. The African countries together will turn in growth rates similar to the 2000 figures, of close to 4% for the region, perhaps rising above this level in 2002.

In summary, in 2001 the world economy will have grown by between 1.0% and 1.5%, which is more than two percentage points lower than expected at the beginning of the year. A modest upturn is expected in 2002, but this will not match the growth rates seen in 2000. World GDP will thus be in the range of 2% to 3% in 2002. International trade will also see a slight upswing, but will not recover the momentum of the preceding year. Considering that the expansion in the volume of trade declined from 12% in 2000 to virtual stagnation in 2001, growth in 2002 should be around 5%.

C. A world recession?

The concern that has arisen over the economic consequences of the events of 11 September is due less to possible direct economic effects than to the fact that they occurred at a time of weakness in the United States economy. At this point, only Japan is in recession, but unease is growing over the possibility of a recession in the United States, which would worsen the problems generated by the current downturn. This possibility has given rise to an intensive debate, which has revealed an unusual degree of uncertainty and conceptual differences between analysts. This section will discuss some of the main elements of the debate.

Many of the increasingly frequent forecasts of recession are based on comparisons with indicators that correspond to previous recessions. It has been observed, for example, that the United States economy is in the downward phase of a cycle that has been very similar in duration and intensity to the previous cycle, which ended in 1991 when GDP fell by an average of 1% for three consecutive quarters (see figure I.2).

The current downshift in the United States has been compared to the situation in Japan, and even to the great depression of 1929.³³ There are similarities between recent trends in the United States economy and trends

in Japan in the 1980s. Japan grew rapidly in those years, as its economy quickly absorbed state-of-the-art technology and its stock market expanded at spectacular rates. The Nikkei tripled in value between 1985 and 1989, as did the S&P 500 between 1995 and 2000, but the Japanese situation was aggravated by a wave of real estate speculation; this phenomenon is absent in the United States today. It is argued that the long recession of the 1990s in Japan should serve as a warning, as the country's efforts to stimulate economic activity primarily by means of interest rate cuts have proved fruitless. Attempts to induce increased spending have also encountered resistance, partly because of increased unemployment (the rate has doubled with respect to previous decades) in an economy in which filing for bankruptcy has traditionally not been an easily accessible option for firms and banks, however bad their financial situation. Fiscal policy has been used—albeit intermittently—but has been unsuccessful in achieving sustained growth. Large spending cuts, together with bank failures, were one of the main features of the depression of the 1930s.

Something similar could happen with expenditure if both consumers and investors in the United States

stopped spending as a reaction to uncertainty. The possibility of a long period of stagnation in the world economy cannot be ruled out, in view of stock market slumps and sluggishness in the Japanese economy, coupled with the psychological impact of the 11 September attacks. As noted earlier, the few signs of recovery in the stock markets and in construction and a more positive attitude on the part of consumers could melt away rapidly if investment remains stagnant. Many analysts believe, however, that a combination of monetary and fiscal policy and a responsible political reaction could generate much more favourable conditions, in which an economic upturn would be delayed by only two quarters with respect to the trend that had been expected before the attacks on the United States, although the growth rates would be lower than those seen in recent years.

Before 11 September, most projections indicated that the United States economy would grow by 1.7% in 2001, which would represent a “soft landing” after a long period of expansion. According to another view that was published mid-year, this “consensus” forecast for 2001 appeared over-optimistic when seen from the perspective of cycle dynamics (Statistics Norway, 2000). It was emphasized that the economic cycle, measured as a percentage deviation from the trend, had reached its height in the second quarter of 2000. In addition, this cycle differs from earlier ones in that its expansion is linked to the growth of investment and the development of technology, which was facilitated by the end of the cold war. The reduction in expenditure that previously had gone towards developing a state-of-the-art defence industry meant that human, technological and financial resources could be allocated to civilian uses, in what became known as the “peace dividend”. The expansion that began in the early 1990s was thus in the manner of a supply shock for United States firms, unlike the demand-based expansionary periods of traditional cyclical patterns. The increase in productivity observed during the cycle helped to increase profits and slow the rate of inflation, which in turn powered the rapid growth of stock markets and the growing FDI flows to finance this investment boom.

This analysis serves as a basis for assessing the current role of monetary and interest rate policy. In the current cycle, interest rate policy has closely followed stock market trends, while traditional cycles are marked by the interaction between monetary policy on the one hand, and residential construction and demand for du-

table goods, on the other. Investment, by contrast, is more closely related to changes in aggregate demand and output and is less sensitive to interest rate variations.

Output is not the only factor to have dropped from its peak value. Investment, too, is falling rapidly, especially in the machinery and equipment sector. It should therefore be asked whether investment is plummeting because of a reversion of the demand effect, in keeping with the normal cycle, or because the decade of growing supply-shock-driven investment is finally over. This type of cycle is unusual and there is consequently no practical method of evaluation, which makes it difficult to weigh the consequences. If the world is indeed in a process of technological revolution or a “new economy”, investment could pick up again, provided that there are no other impediments, such as in financing.

Other analysts³⁴ argue that the recent improvements in output are not attributable to a new economy, which would ensure rapid growth, but to the major investment push in the United States, which increased flows from 12% of GDP in 1992 to 18% in 1999, and to over 19% in 2000 (see figure I.2). The possibility of maintaining high growth rates therefore depends on sustained large volumes of investment. Given that rates of domestic saving are low, despite fiscal surpluses, this translates into a dependency on external capital flows. Output for the production sector as a whole increased at an average rate of 1.6% from 1990 to 1995, and later 2.6%, but in the second half of 2000 this rate began to slow, dropping to 2.2% by the end of the second quarter of 2001. At this point it is very difficult to establish whether this reflects a new decline in structural productivity or the general weakness of the economy, which would allow for the possibility of future improvements in output once the investment adjustment is complete.

Some commentators sustain that although this is the most synchronized recession or slowdown since 1930—second-quarter growth in 2001 was 0.1% in the United States, zero in the European Union and -1.2% in Japan—some leeway remains for monetary and fiscal policy. This is because, thanks to low inflation and a considerable fiscal surplus, the recession is unlikely to be very deep. Others affirm that monetary policy has not worked in the traditional manner, in other words by inducing lower long-term interest rates, higher stock prices and a weakening of the United States dollar. It has also been argued that the main cause of a possible recession would be the drop in investment observed

34 Brender and Pisani (1999).

since the second quarter of 2000. Over the last five years very substantial investment generated a situation marked by excess capacity, accumulation of inventories and overindebtedness. This type of recession, which was common before the Second World War, tends to be deeper and more lasting because it takes longer to eliminate financial burdens and excess capacity.³⁵

Given these prospects, it is important to consider not only the reduced leeway of monetary policy and the smaller amount of resources available to implement more expansionary fiscal measures, but also the extent to which banks are capable of withstanding possible bankruptcies as firms close or stock prices deteriorate further. Whether the United States can return in the long term to the growth rates of the 1990s depends on the

availability of investment funding, which hinges in turn on a significant increase in productivity. At present, neither of these two factors is assured. Lastly, the question must be raised of the possible effects of the war against terrorism which, at the end of a decade of benefits afforded by the peace dividend, is pushing the world economy towards an era of military and security spending, in what Lawrence Klein has referred to as military Keynesianism. Such a situation might bring about higher levels of activity, but at a restricted pace and with little contribution to the improvement of living standards through productivity enhancement.³⁶ In other words, more than ever, the outlook is fraught with uncertainty, and the possibility of a world recession is by no means negligible.

35 *The Economist* (2001).

36 Klein (2001).

Chapter II

Trade in Latin America and the Caribbean in 2000-2001

A. Introduction

Preliminary data indicate that the countries of Latin America and the Caribbean saw their export earnings decline in 2001, despite an increase of 2.4% in the volume of exports. Prices fell by an average of almost 6% across the board—including both commodities, particularly petroleum, and manufactures—which translated into a decrease of almost 4% in the total value of exports (measured in constant 1995 dollars). This was the second contraction in a decade, the previous one having occurred in 1998, and was the most severe since 1986. These figures reflect the impact of a downturn in external demand, triggered by outright recession in the United States and by slower growth in the other industrialized countries and the main developing economies. The decrease in international prices also affected the value of imports. This, in combination with a downshift in economic activity, translated into a decline in the value of goods imported for the region as a whole.¹ Despite this, the trade deficit widened in some countries; in the first three quarters of the year, trade balances fell in Colombia and Venezuela and rose significantly in Argentina and Brazil (see tables II.1a, II.1b and II.2).

Trade within the Latin American Integration Association (LAIA) was hurt by the downswing in the imports of the large South American economies, which was mainly due to the decline in intra-MERCOSUR trade. Trade between the LAIA member countries is unlikely

to post any nominal growth in relation to 2000, although the results do not appear to be as disastrous as the 1999 figures (see table II.16).

The downswing in the region's trade comes after strong expansion in 2000, which was driven by a rise in the price of petroleum and still-vigorous external demand. In 2000 Latin American exports increased by over 20%, outperforming those of any other region in the world, according to data from the World Trade Organization (WTO). The strength of Latin American and Caribbean exports was set against a background of exceptional expansion of trade flows, which rose by 12% in terms of both volume and value (see table II.3).

The steady decline in purchases by the United States began to be felt in the region in the final quarter of 2000, and the effects escalated in the course of 2001. The impact on exports and economic activity will vary between countries depending on the composition of their trade and the degree of exposure of their economies. As mentioned in chapter I, the economies of East and South-East Asia have been harder hit than those of Latin America and the Caribbean. Whereas United States imports decreased by 10% overall in the first three quarters of 2001, purchases from the Asian countries declined by between 13% and 15% with respect to the same period in 2000, while imports from Latin America and the Caribbean declined by an average of just 2.5%. Between

1 ECLAC estimates regional GDP growth to have been close to 0.5% in 2001 (ECLAC, 2001a).

Table II.1a
LATIN AMERICA AND THE CARIBBEAN:
INDICES OF VALUE, VOLUME AND UNIT VALUE OF EXPORTS, 1999-2001
(Growth rates)

| Subregion/Country | 1999 | | | 2000 | | | 2001 ^a | | |
|--|------------|-------------|------------|-------------|------------|-------------|-------------------|-------------|-------------|
| | Volume | Unit value | Value | Volume | Unit value | Value | Volume | Unit | Value value |
| Southern Common Market (MERCOSUR) | | | | | | | | | |
| Argentina | -3.1 | -9.0 | -11.8 | 2.5 | 10.5 | 13.4 | 5.4 | -3.0 | 2.2 |
| Brazil | 6.6 | -12.0 | -6.1 | 12.7 | 1.8 | 14.8 | 9.1 | -2.8 | 6.0 |
| Paraguay | -18.6 | -7.5 | -24.6 | -14.8 | -1.1 | -15.8 | 6.5 | -2.0 | 4.3 |
| Uruguay | -8.0 | -12.1 | -19.0 | 7.0 | -2.8 | 4.0 | -3.6 | -2.0 | -5.5 |
| Chile | 8.7 | -3.2 | 5.4 | 5.6 | 10.1 | 16.2 | 8.9 | -10.0 | -2.0 |
| Andean Community | | | | | | | | | |
| Bolivia | -1.3 | -3.5 | -4.8 | 12.5 | 4.0 | 17.0 | 5.4 | -7.0 | -2.0 |
| Colombia | 2.6 | 2.8 | 5.4 | -0.1 | 14.0 | 13.9 | 2.9 | -8.0 | -5.3 |
| Ecuador | 3.9 | 3.5 | 7.4 | -5.6 | 20.0 | 13.3 | 7.3 | -9.9 | -3.3 |
| Peru | 17.9 | -10.0 | 6.2 | 12.3 | 2.0 | 14.5 | 8.0 | -6.0 | 1.5 |
| Venezuela | -10.2 | 31.9 | 18.5 | 7.9 | 47.0 | 58.7 | -4.4 | -15.0 | -18.7 |
| Mexico | 14.5 | 1.5 | 16.1 | 16.2 | 5.0 | 22.0 | -0.6 | -4.0 | -4.6 |
| Central America and the Caribbean | | | | | | | | | |
| Costa Rica | 24.4 | -4.0 | 19.3 | -7.4 | -5.0 | -12.0 | -8.8 | -5.0 | -13.3 |
| El Salvador | 11.1 | -7.2 | 3.0 | 18.1 | -1.0 | 16.9 | 4.6 | -5.4 | -1.0 |
| Guatemala | 6.2 | -8.0 | -2.3 | 9.2 | 1.0 | 10.3 | 6.1 | -7.0 | -1.4 |
| Honduras | -6.1 | -8.0 | -13.6 | 16.3 | -1.0 | 15.2 | 7.9 | -7.0 | 0.3 |
| Nicaragua | 6.0 | -9.0 | -3.5 | 11.8 | 2.0 | 14.1 | 1.2 | -8.0 | -6.9 |
| Panama | -17.2 | 1.0 | -16.4 | 11.1 | -1.0 | 10.0 | 4.5 | -3.0 | 1.4 |
| Dominican Republic | 4.4 | -1.2 | 3.1 | 10.9 | 0.7 | 11.7 | 1.1 | -4.0 | -3.0 |
| Latin America and the Caribbean | 7.0 | -1.1 | 5.9 | 11.0 | 8.1 | 20.0 | 2.4 | -5.9 | -3.7 |

Source: ECLAC, International Trade and Integration Division, on the basis of information provided by the ECLAC Statistics and Economic Projections Division.

^a Estimates based on preliminary data.

January and September 2001, although a number of the region's countries continued to increase their exports to the United States, all of them except Chile did so at a slower rate than in 2000. The countries worst affected by the decline in United States imports were the Andean countries, Costa Rica, El Salvador, Jamaica and Uruguay (see table II.4).

In consequence, and also as a result of the close integration of some of the region's economies with that of

the United States, declining shipments will translate into a contraction of economic activity. This is the case of Mexico, Trinidad and Tobago, some of the Central American countries and the Dominican Republic (see box II.1).

This chapter examines the external trade performance of the countries of Latin America and the Caribbean in 2000 and the first half of 2001. First, it reviews the overall performance of the trade balance in goods and ser-

Table II.1b
LATIN AMERICA AND THE CARIBBEAN:
INDICES OF VALUE, VOLUME AND UNIT VALUE OF IMPORTS, 1999-2001
(Growth rates)

| Subregion/Country | 1999 | | | 2000 | | | 2001 ^a | | |
|--|-------------|-------------|-------------|-------------|------------|-------------|-------------------|-------------|-------------|
| | Volume | Unit value | Value | Volume | Unit value | Value | Volume | Unit | Value value |
| Southern Common Market (MERCOSUR) | | | | | | | | | |
| Argentina | -15.0 | -4.0 | -18.4 | -1.0 | 0.0 | -1.0 | -14.4 | -2.0 | -16.1 |
| Brazil | -12.5 | -2.5 | -14.7 | 7.8 | 5.0 | 13.2 | 4.1 | -2.5 | 1.5 |
| Paraguay | -20.9 | -2.5 | -22.8 | -9.4 | 3.0 | -6.7 | -2.9 | -3.0 | -5.8 |
| Uruguay | -7.4 | -4.5 | -11.6 | -2.8 | 7.0 | 4.0 | -3.3 | -3.5 | -6.6 |
| Chile | -16.6 | -3.5 | -19.6 | 9.0 | 10.0 | 19.9 | 0.6 | -3.5 | -3.0 |
| Andean Community | | | | | | | | | |
| Bolivia | -9.4 | -3.4 | -12.5 | 2.6 | 2.0 | 4.6 | -6.3 | -2.2 | -5.9 |
| Colombia | -23.4 | -4.0 | -26.5 | 6.8 | 1.0 | 8.1 | 14.0 | -2.0 | 11.9 |
| Ecuador | -41.9 | -3.0 | -43.6 | 27.2 | 3.0 | 24.5 | 68.1 | -2.0 | 45.0 |
| Peru | -15.7 | -3.1 | -18.1 | 3.8 | 5.1 | 9.0 | 3.1 | -4.0 | -1.0 |
| Venezuela | -11.1 | -1.5 | -12.6 | 17.2 | 0.0 | 17.2 | 8.2 | -2.0 | 10.0 |
| Mexico | 13.7 | -0.4 | 13.3 | 22.9 | 0.0 | 22.9 | -1.5 | -2.0 | -3.5 |
| Central America and the Caribbean | | | | | | | | | |
| Costa Rica | 4.1 | -3.0 | 1.0 | -1.5 | 2.0 | 0.5 | 2.2 | -4.0 | -1.0 |
| El Salvador | 5.5 | -2.0 | 3.4 | 16.2 | 4.0 | 20.9 | 10.2 | -3.4 | 6.0 |
| Guatemala | -1.2 | -0.5 | -1.7 | 3.2 | 4.0 | 7.3 | 4.7 | -3.6 | 0.9 |
| Honduras | 7.4 | -1.5 | 5.9 | 2.3 | 5.0 | 7.5 | 9.2 | -3.4 | 5.5 |
| Nicaragua | 21.8 | -2.0 | 19.5 | -11.7 | 7.0 | -3.8 | -0.5 | -4.0 | -2.8 |
| Panama | -12.0 | -1.5 | -13.2 | -0.1 | 5.1 | 5.0 | -0.7 | -3.5 | -4.1 |
| Dominican Republic | 8.0 | -2.0 | 5.9 | 14.8 | 2.7 | 17.9 | -6.6 | -3.0 | -7.0 |
| Latin America and the Caribbean | -2.1 | -1.5 | -3.6 | 13.9 | 2.1 | 16.1 | 0.4 | -2.3 | -1.8 |

Source: ECLAC, International Trade and Integration Division, on the basis of information provided by the ECLAC Statistics and Economic Projections Division.

^a Estimates based on preliminary data.

vices and the current account position. Then it analyses the structure of exports and imports by product and by market of origin and destination. The following section examines trade performance from the perspective of regional integration schemes. Lastly, the chapter concludes with an overview of trade in 2001 and the outlook for 2002, based on preliminary figures.

Because two different sources were employed for analysing the conditions and structure of trade, there are

a number of value discrepancies. For economic conditions, the data issued by the International Monetary Fund (IMF) were used, while for the study of trade structure the figures were taken from the Commodity Trade Statistics Database of the United Nations Statistics Division and the ECLAC Foreign Trade Data Bank for Latin America and the Caribbean (COMTRADE/BADECEL), which consist of consolidated series based on tapes provided by the customs offices of each country.

Table II.2

LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TRADE, 2000-2001 (JANUARY-SEPTEMBER)
(Millions of dollars and percentage growth rates)

| Subregion/Country | Exports (Cumulative January-September) | | | Imports (Cumulative January-September) | | | Trade balance | |
|--|---|-------------------|-------------|---|-------------------|-------------|---------------|-------------------|
| | 2000 | 2001 ^a | 2000-2001 | 2000 | 2001 ^a | 2000-2001 | 2000 | 2001 ^a |
| Latin America and the Caribbean | 259,616 | 254,855 | -1.8 | 254,419 | 254,500 | 0.0 | 5,196 | 355 |
| Southern Common Market (MERCOSUR) | 64,788 | 68,445 | 5.6 | 64,293 | 64,167 | -0.2 | 495 | 4,277 |
| Argentina | 19,789 | 20,503 | 3.6 | 18,780 | 16,536 | -11.9 | 1,009 | 3,967 |
| Brazil | 41,399 | 44,374 | 7.2 | 40,723 | 43,124 | 5.9 | 676 | 1,250 |
| Paraguay | 1,859 | 2,000 | 7.6 | 2,237 | 2,200 | -1.7 | - 378 | - 200 |
| Uruguay | 1,741 | 1,568 | -10.0 | 2,553 | 2,307 | -9.6 | - 812 | - 740 |
| Chile | 13,628 | 13,440 | -1.4 | 12,578 | 12,376 | -1.6 | 1,050 | 1,065 |
| Andean Community | 44,239 | 40,160 | -9.2 | 28,979 | 31,501 | 8.7 | 15,260 | 8,659 |
| Bolivia | 1,113 | 979 | -12.1 | 1,141 | 1,080 | -5.4 | - 28 | - 101 |
| Colombia | 9,719 | 9,335 | -3.9 | 7,907 | 8,660 | 9.5 | 1,812 | 675 |
| Ecuador | 3,772 | 3,498 | -7.3 | 2,751 | 3,504 | 27.4 | 1,021 | - 6 |
| Peru | 5,179 | 5,293 | 2.2 | 5,403 | 5,453 | 0.9 | - 224 | - 160 |
| Venezuela | 24,455 | 21,055 | -13.9 | 11,776 | 12,804 | 8.7 | 12,679 | 8,251 |
| Mexico | 122,210 | 119,507 | -2.2 | 126,574 | 125,208 | -1.1 | -4,365 | -5,701 |
| Central America and the Caribbean | 14,751 | 13,303 | -9.8 | 21,996 | 21,249 | -3.4 | -7,245 | -7,946 |
| Costa Rica | 4,601 | 3,817 | -17.0 | 4,797 | 4,897 | 2.1 | - 196 | -1,079 |
| El Salvador | 2,233 | 2,203 | -1.4 | 2,715 | 2,542 | -6.3 | - 482 | - 339 |
| Guatemala | 2,116 | 1,808 | -14.6 | 3,740 | 4,050 | 8.3 | -1,624 | -2,242 |
| Honduras | 1,032 | 974 | -5.6 | 2,349 | 2,000 | -14.9 | -1,317 | -1,026 |
| Nicaragua | 512 | 501 | -2.2 | 1,360 | 1,260 | -7.4 | - 848 | - 759 |
| Dominican Republic | 4,256 | 4,000 | -6.0 | 7,035 | 6,500 | -7.6 | -2,779 | -2,500 |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures.

^a Preliminary figures.

Table II.3

WORLD TRADE: VOLUME AND VALUE, 1999-2000
(Percentages)

| Region | Exports | | | | Imports | | | |
|----------------------------|---------|------|-------|------|---------|------|-------|------|
| | Volume | | Value | | Volume | | Value | |
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| World | 5.0 | 12.0 | 4.0 | 12.5 | 6.0 | 12.0 | 4.5 | 12.5 |
| United States and Canada | 6.0 | 10.0 | 4.2 | 13.0 | 11.5 | 11.5 | 11.2 | 17.8 |
| Latin America | 7.0 | 9.5 | 6.4 | 20.8 | -1.5 | 11.0 | -3.2 | 16.0 |
| Western Europe | 4.5 | 10.5 | 0.3 | 2.4 | 5.5 | 10.0 | 1.6 | 4.4 |
| European Union (15) | 5.0 | 10.5 | 0.1 | 1.9 | 6.0 | 9.5 | 2.2 | 4.0 |
| Central and Eastern Europe | -2.0 | 17.0 | -4.0 | -0.2 | -9.0 | 15.5 | -11.8 | 13.9 |
| Asia | 7.0 | 16.0 | -6.1 | 7.5 | 9.0 | 15.5 | 10.3 | 23.5 |
| Japan | 2.0 | 9.5 | -7.8 | 8.1 | 9.5 | 11.0 | 11.0 | 21.9 |
| Asia (5) ^a | 9.0 | 16.5 | 10.2 | 18.5 | 11.0 | 16.5 | 15.1 | 27.9 |
| Developing countries | 7.1 | 11.9 | ... | ... | 5.6 | 15.7 | ... | ... |

Source: ECLAC, International Trade and Integration Division, on the basis of information provided by the World Trade Organization (WTO), *Annual report*, 2001; *International Trade Statistics*, Geneva, 2001; and information obtained from the WTO web page (<http://www.wto.org>).

^a Includes Indonesia, Malaysia, Philippines, Republic of Korea and Thailand.

Table II.4
UNITED STATES IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN
(SEPTEMBER 2000-SEPTEMBER 2001)
(Monthly rates of variation and cumulative rates January-September)

| Subregion/Country | 2000 | | | | | | | | | | | | 2001 | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|--|--|--|--|--|--|--|--|--|
| | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May. | Jun. | Jul. | Aug. | Sep. | 2000 | Jan.-Sep. 2001 | | | | | | | | | |
| Latin America and the Caribbean | -0.8 | 3.4 | -5.1 | -11.1 | 6.9 | -8.6 | 15.0 | -11.0 | 5.6 | 0.3 | -5.1 | 6.9 | -8.0 | 27.1 | -2.5 | | | | | | | | | |
| Southern Common Market (MERCOSUR) | -14.3 | -4.4 | -5.7 | 6.2 | 14.3 | -19.0 | 19.2 | -15.5 | 16.4 | -7.8 | 2.1 | 12.7 | -1.8 | 26.5 | 2.3 | | | | | | | | | |
| Argentina | 3.5 | 15.3 | -22.2 | 2.9 | 8.1 | -28.1 | 67.3 | -33.7 | 21.1 | -10.5 | -4.3 | 6.4 | 18.1 | 20.9 | 1.2 | | | | | | | | | |
| Brazil | -17.9 | -9.2 | -0.9 | 7.8 | 16.0 | -17.6 | 10.9 | -11.0 | 16.4 | -7.1 | 3.2 | 13.8 | -4.8 | 27.3 | 3.3 | | | | | | | | | |
| Uruguay | -2.5 | -0.9 | 0.3 | -21.0 | 4.8 | 13.9 | -1.4 | 7.9 | -23.5 | -14.2 | 20.2 | 11.7 | -36.1 | 70.3 | -27.7 | | | | | | | | | |
| Paraguay | -25.8 | 41.8 | 5.3 | -24.9 | -14.7 | -41.7 | 1.6 | 18.9 | -26.5 | 38.4 | -3.6 | 98.2 | 9.4 | -20.5 | -21.2 | | | | | | | | | |
| Chile | -0.3 | 14.7 | 9.6 | -5.9 | 65.4 | -35.3 | 32.0 | -4.4 | -26.3 | -16.8 | 18.9 | -11.7 | 8.8 | 11.7 | 14.6 | | | | | | | | | |
| Andean Community | 2.0 | 5.0 | -0.3 | -6.2 | 7.5 | -21.4 | 3.5 | 2.9 | -4.3 | 1.7 | -3.8 | 1.5 | -16.0 | 46.2 | -10.0 | | | | | | | | | |
| Bolivia | -0.7 | 10.4 | -25.8 | 25.4 | -0.9 | -0.3 | -29.5 | 51.1 | -46.2 | 58.6 | 4.9 | 42.6 | -34.4 | 5.1 | -15.9 | | | | | | | | | |
| Colombia | 4.9 | -20.8 | 23.5 | -9.9 | 12.0 | -22.4 | -4.5 | 2.0 | 7.7 | -5.9 | -0.2 | 7.8 | -1.9 | 20.5 | -14.9 | | | | | | | | | |
| Ecuador | -10.9 | 36.3 | -20.6 | 0.8 | 14.4 | -27.5 | -9.9 | 29.5 | 11.5 | -24.8 | 6.1 | -1.1 | -14.0 | 14.0 | 2.4 | | | | | | | | | |
| Peru | 23.0 | -11.8 | -1.9 | 0.2 | 5.2 | -21.9 | 17.4 | -5.0 | -20.2 | 32.1 | -12.1 | 30.0 | -13.1 | 6.3 | -8.5 | | | | | | | | | |
| Venezuela | 0.6 | 13.7 | -3.7 | -6.6 | 5.4 | -20.3 | 7.0 | 1.0 | -8.3 | 5.7 | -5.2 | -3.8 | -22.0 | 74.4 | -9.5 | | | | | | | | | |
| Mexico | 1.0 | 2.8 | -6.2 | -15.2 | 6.2 | -4.0 | 16.7 | -12.9 | 8.3 | 1.4 | -8.0 | 9.0 | -7.4 | 26.0 | -1.8 | | | | | | | | | |
| Central American Common Market (CACM) | -8.3 | 6.2 | -4.5 | -2.9 | -11.4 | 10.5 | 17.0 | -17.5 | 12.5 | -0.9 | 1.8 | -2.4 | -9.5 | 9.3 | -5.5 | | | | | | | | | |
| Costa Rica | 2.3 | -2.5 | -3.9 | -0.2 | -21.3 | 11.3 | 12.9 | -11.4 | 14.3 | 2.4 | -9.7 | 1.0 | -1.1 | -6.2 | -20.8 | | | | | | | | | |
| El Salvador | -12.2 | 16.6 | -15.8 | -2.3 | -18.9 | 21.6 | 22.8 | -23.4 | 9.9 | 5.0 | 6.3 | -3.7 | -0.8 | 21.7 | -3.0 | | | | | | | | | |
| Guatemala | -11.0 | -0.3 | -9.8 | 8.3 | 9.4 | -9.6 | 24.0 | -18.1 | 9.2 | 0.1 | 4.4 | -2.0 | -23.1 | 19.3 | 1.1 | | | | | | | | | |
| Honduras | -14.0 | 15.7 | 3.5 | -10.8 | -18.9 | 29.1 | 12.4 | -17.0 | 12.7 | -6.7 | 7.1 | -7.2 | -9.3 | 14.2 | 3.2 | | | | | | | | | |
| Nicaragua | -7.4 | 5.7 | 13.0 | -16.5 | 18.0 | -4.3 | 14.9 | -25.9 | 26.7 | -7.4 | 10.2 | 9.3 | -14.8 | 21.9 | 6.9 | | | | | | | | | |
| Panama | -38.8 | 78.5 | -6.6 | -28.6 | 22.6 | -40.3 | 16.0 | 20.4 | 58.9 | -22.3 | 2.7 | -21.7 | -26.8 | -22.7 | -0.7 | | | | | | | | | |
| Caribbean countries | 2.3 | 11.6 | -6.6 | -7.3 | 1.8 | -7.8 | 9.3 | -7.1 | -11.4 | 4.5 | 3.2 | 3.1 | -9.4 | 26.7 | 0.1 | | | | | | | | | |
| Bahamas | 88.1 | -34.2 | 21.6 | 51.6 | -40.5 | 3.7 | -39.7 | 106.8 | -56.9 | 83.1 | -46.6 | 164.1 | -33.4 | 25.1 | 13.4 | | | | | | | | | |
| Barbados | -3.0 | 33.9 | 27.9 | -49.5 | 36.2 | 18.1 | -8.7 | -12.0 | 17.5 | -28.6 | 5.6 | -17.2 | -3.2 | -42.3 | 0.8 | | | | | | | | | |
| Belize | -15.2 | 33.4 | -18.1 | -31.0 | -23.4 | 243.8 | -18.9 | -40.8 | 57.4 | -45.2 | 188.2 | -49.0 | -54.6 | 27.9 | 16.0 | | | | | | | | | |
| Guyana | -15.7 | 52.7 | -48.3 | 43.5 | -1.5 | -16.7 | 5.7 | 24.3 | -19.3 | 16.3 | -26.9 | 51.8 | -45.5 | 12.9 | -3.0 | | | | | | | | | |
| Haiti | -5.9 | -5.9 | -0.1 | 6.4 | -31.4 | 21.9 | 14.2 | -5.9 | 5.6 | 1.7 | -8.5 | 3.2 | -17.6 | -2.7 | -9.5 | | | | | | | | | |
| Jamaica | -5.1 | 11.2 | -3.0 | -7.0 | -39.1 | 29.3 | -1.0 | 23.5 | -29.4 | 48.7 | -19.5 | -4.0 | 17.5 | 0.4 | -32.0 | | | | | | | | | |
| Dominican Republic | -2.7 | -1.2 | -3.4 | -19.0 | -20.3 | 27.7 | 19.6 | -14.7 | 13.1 | -4.6 | 3.6 | 5.3 | -9.8 | 2.7 | -4.3 | | | | | | | | | |
| Suriname | 24.5 | -40.4 | -28.5 | 28.0 | 128.8 | -55.7 | 56.1 | -31.6 | 43.5 | -33.5 | 69.4 | -52.7 | 107.2 | 40.1 | 0.5 | | | | | | | | | |
| Trinidad and Tobago | 0.9 | 12.6 | -4.4 | -1.9 | 25.5 | -12.4 | 1.3 | -12.2 | 2.5 | -3.3 | -0.8 | -3.2 | -15.9 | 75.9 | 27.9 | | | | | | | | | |
| Others | 11.4 | 49.1 | -13.1 | -2.8 | 23.6 | -39.9 | 10.6 | 1.1 | -61.6 | 52.6 | 20.1 | 2.5 | 1.2 | 92.0 | -8.6 | | | | | | | | | |

Source: ECLAC, International Trade and Integration Division, on the basis of data from the United States International Trade Commission (<http://www.usitc.gov>).

Box II.1

THE IMPACT OF THE UNITED STATES RECESSION ON LATIN AMERICAN AND CARIBBEAN TRADE

As the countries of the region have liberalized their economies and pursued export-based growth strategies, they have developed closer trade links with the rest of the world. The growing interdependence of the economies has brought heightened exposure to shifts in the international economy, which are transmitted by trade, with its dual effect on demand for the products of these economies and on international prices. In fact, some of the region's economies have only recently begun to bounce back after the impact on international trade of the financial crisis of 1998, largely on the back of increased imports to the United States. It is to be expected, therefore, that the downswing in United States purchases as a result of the country's official entry into recession in March 2001 will have a considerable impact—which is already being felt—on the countries of Latin America and the Caribbean.

The key factors involved in estimating the direct impact of the United States downturn on the region's economies are the significance of the United States market for each country and the degree of exposure of the respective economy, in other words the incidence of exports in overall economic activity. An indirect impact will also be generated, however, by the knock-on effects of the recession on other export markets that are significant for the region, as well as by repercussions on the international prices of commodities and manufactures.

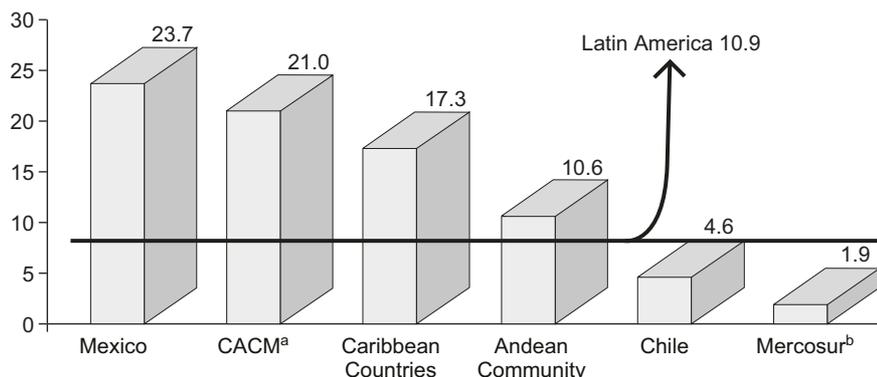
In fact, the significance of the United States as an export market varies markedly from one country to another. For Mexico, exports to the United States represent almost a quarter of GDP. The CACM countries also have strong trade links with the United States: their exports to the United States market are equivalent to an average of 21% of their GDP. The figure is lower for the Caribbean countries, at around 17% of GDP. By contrast, the average incidence of exports to the United States is less significant for the economies of the Andean Community and MERCOSUR (see figure 1).

At a more disaggregated level, Honduras depends the most heavily on exports to the United States, whose purchases contribute over half of its GDP, followed by Trinidad and Tobago (32%), Nicaragua, Costa Rica and Dominican Republic (between 22% and 25%). Within the Andean Community, Ecuador and Venezuela have the closest links with the United States market, to which they export 16% of GDP.

It is pertinent to recall that the United States slowdown will affect not only the external trade of the countries of the region, but also inward flows of financing, owing precisely to poorer growth expectations, among other factors. The contraction of the United States economy will thus be transmitted to the region through two channels: trade and financing.

Figure 1

LATIN AMERICAN AND THE CARIBBEAN COUNTRIES AND GROUPS OF COUNTRIES: PROPORTION OF GDP ACCOUNTED FOR BY EXPORTS TO THE UNITED STATES, 2000 (Percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the United States Department of Commerce (imports) and official information.

^a Central American Common Market. ^b Southern Common Market.

B. Trade in goods and services in Latin America and the Caribbean in 2000

1. Merchandise trade by volume and value

As mentioned above, in 2000 the region's trade grew faster than the world trade average. Merchandise exports, which according to balance-of-payments information represented about US\$ 370 billion, increased by 20.5%, by comparison with a 12% increase in world trade. Imports, which were worth approximately US\$ 374 billion, grew by just over 17%, as against the world rate of 12.5%. These trends reflected an upturn in the region's external trade after an increase of just over 6% in the value of exports and a decrease of 4% in the value of imports in 1999 (see figure II.1 and table II.3). The region's share of world exports thus increased from 5.7% to 6.1%. This upswing in trade was consistent with the overall GDP growth of 4.1% which the Latin American and Caribbean region recorded in 2000, after having stagnated at 0.4% in 1999 (ECLAC, 2001b).

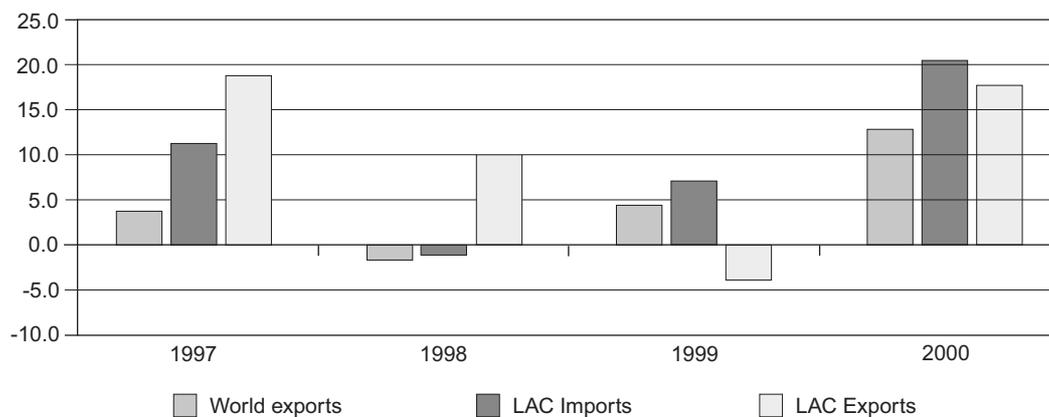
The significant growth in the region's export earnings in 2000 reflected an expansion of close to 11% in the volume of shipments, combined with an 8% increase

in their unit value. Import growth was also a result of increases in both volume and value, which represented an upswing after the sharp decline of 1999. The only countries to see the value of their exports fall were Paraguay and Costa Rica (by 13% and 11%, respectively). Colombia and Ecuador posted a slight reduction in export volumes, which was offset by the effect of petroleum price increases. This, in turn, greatly benefited Venezuela, the region's largest exporter of crude petroleum (see tables II.1a and II.1b).

Given the region's growing heterogeneity and wide indicator dispersion, however, average values can actually mask more than they reveal. In fact, the price increase did not benefit all the countries. Petroleum exporters –Colombia, Ecuador, Mexico, Trinidad and Tobago and Venezuela– recorded an increase of 25.7% in exports, while non-petroleum-exporting countries saw their exports grow by 12.8%, which was similar to the average figure for world trade. Between 1990 and 2000, the exports of the petroleum producers grew by 12.4%, compared with 6.5% for the rest of the region, though

Figure II.1

LATIN AMERICA AND THE CARIBBEAN (LAC): VALUE OF REGIONAL TRADE IN RELATION TO WORLD TRADE, 1997-2000 (Annual growth rates)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the web page of the World Trade Organization (WTO) (<http://www.wto.org>).

the subgroup average is skewed considerably by the inclusion of Mexico. In particular, the Central American countries, the Dominican Republic, Paraguay and Uruguay saw export prices fall (see table II.1a).

Unquestionably, in 2000 regional export growth was largely attributable to an increase in shipments from Mexico and Venezuela, given that the majority of the countries saw their export earnings increase at a much lower rate than the regional figure (see table II.1a). Likewise, import expansion is partly attributable to the performance of Mexico and Venezuela, together with Chile and the Dominican Republic (see tables II.1b and II.5a). Among the CARICOM countries, Trinidad and Tobago posted the highest export growth rate, together with Aruba and Saint Kitts and Nevis (39%, 64% and 27%, respectively), while exports declined in Suriname, Dominica and the Bahamas (see table II.5b).

Between 1999 and 2000 the merchandise trade deficit in Latin America and the Caribbean thus decreased significantly –from almost US\$ 15 billion to just over US\$ 4 billion– although this reduction resulted almost entirely from the increase in Venezuela’s surplus (see table II.5a). Argentina, Colombia, Brazil and Trinidad and Tobago also posted improvements in their merchandise trade balance. By contrast, Costa Rica slipped from surplus into deficit as exports declined and imports increased slightly. Suriname achieved a surplus and was the only Caribbean country other than Trinidad and Tobago not to record a deficit in its merchandise trade. While Trinidad and Tobago’s exports increased significantly, however, Suriname’s external sales declined by 7% and the country’s surplus was in fact due to a drop in imports of almost 58%.

MERCOSUR recorded a small surplus in 2000. The Andean Community posted a substantial positive balance, thanks to the income of the petroleum exporters, while Mexico’s merchandise trade deficit was similar to its 1998 level, at about US\$ 8 billion. The Central American Common Market (CACM) recorded a total deficit of US\$ 5 billion. The Caribbean countries posted a merchandise trade deficit of over US\$ 13 billion, with a relatively large increase in the Dominican Republic. There was a significant difference between the trade balances of Mexico and the Dominican Republic in terms of the magnitude of their exports: Dominican

merchandise exports were equivalent to less than 60% of the value of the country’s imports, while Mexico’s exports corresponded to 95% of imports (see tables II.5a and II.5b).

Mexico and Brazil continued to lead the region’s merchandise exporters, although the ratio between the exports of the two countries was 3:1, given that Mexico accounted for 45% of the value of exports in 2000 and Brazil, 15%.² These two large exporters were followed by Venezuela and Argentina, which accounted for 9% and 7% of total regional exports, respectively. MERCOSUR thus accounted for about a quarter of the region’s exports, while the Andean Community represented nearly 16%; Chile, 5%; and CACM, just under 4%. The Caribbean countries accounted for about 5%, of which almost a third was attributable to the Dominican Republic.

2. Trade in services

In 2000, service exports from Latin America were equivalent to about US\$ 48 billion, which represented an increase of close to 12.5%. This rate was lower than the figure for merchandise exports, but higher than the growth rate of 6% posted in global services trade (see table II.6a). Mexico was the leading service exporter, accounting for 23.5% of the regional total. Brazil followed, with 16% of total exports, which represented a large increase over the 1999 figure.³ In fact, between 1999 and 2000 the increase in service exports from Latin America and the Caribbean resulted almost entirely from the expansion of Brazilian and Mexican exports.

Argentina, Chile and the Dominican Republic are also major service exporters, representing 8%, 7% and 5.5%, respectively. The CACM countries have recorded the fastest growth in service exports in recent years, and now account for 7% of the region’s services trade (see tables II.6a and II.6b).

The share of services (14%) in total merchandise and service exports has varied little since the mid-1980s. This is a much smaller percentage than the share of services in the total exports of the industrialized countries, and reflects little growth. On average, commercial services represent about 19% of total world merchandise and service exports, and 26% in the case of the United States

2 Mexico ranks 13th among the world’s largest exporters, with 2.6% of the world total, while Brazil ranks 28th with 0.9%. The 15 leading exporters accounted for 69% of the world’s total exports in 2000 (data from the web page of the World Trade Organization).

3 Mexico ranks 27th among world service exporters, and accounts for 0.9% of total exports. Brazil, in 33rd place, accounts for 0.6% of the total (WTO).

Table II.5a
LATIN AMERICA AND THE CARIBBEAN:
BALANCE OF TRADE IN GOODS, 1998-2000^a
(Millions of current dollars)

| Subregion/Country | Exports | | | Imports | | | Trade balance | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Latin America (37 countries) | 290,438 | 307,929 | 369,822 | 333,869 | 322,745 | 374,120 | -43,431 | -14,817 | -4,298 |
| Latin America^b (19 countries) | 281,467 | 298,369 | 357,946 | 315,632 | 303,987 | 353,594 | -34,165 | -5,618 | 4,353 |
| Latin America (not including Mexico) | 172,979 | 171,225 | 203,398 | 208,496 | 180,770 | 199,647 | -35,518 | -9,545 | 3,751 |
| Southern Common Market (MERCOSUR) | 83,952 | 76,305 | 86,015 | 94,844 | 79,603 | 85,692 | -10,892 | -3,298 | 323 |
| Argentina | 26,434 | 23,315 | 26,298 | 29,558 | 24,103 | 23,756 | -3,124 | - 788 | 2,542 |
| Brazil | 51,140 | 48,012 | 55,086 | 57,743 | 49,272 | 55,783 | -6,603 | -1,260 | - 697 |
| Paraguay | 3,549 | 2,673 | 2,251 | 3,942 | 3,042 | 2,837 | - 393 | - 368 | - 586 |
| Uruguay | 2,829 | 2,305 | 2,380 | 3,601 | 3,186 | 3,316 | - 772 | - 882 | - 936 |
| Chile | 14,830 | 15,616 | 18,158 | 17,346 | 13,951 | 16,722 | -2,517 | 1,664 | 1,436 |
| Andean Community | 40,060 | 44,603 | 60,709 | 44,215 | 34,522 | 39,349 | -4,155 | 10,081 | 21,360 |
| Bolivia | 1,104 | 1,051 | 1,203 | 1,759 | 1,539 | 1,653 | - 655 | - 488 | - 450 |
| Colombia | 11,454 | 12,072 | 13,620 | 13,930 | 10,255 | 11,077 | -2,476 | 1,817 | 2,543 |
| Ecuador | 4,203 | 4,451 | 4,846 | 5,198 | 2,786 | 3,212 | - 995 | 1,665 | 1,634 |
| Peru | 5,735 | 6,114 | 7,002 | 8,222 | 6,729 | 7,334 | -2,487 | - 615 | - 332 |
| Venezuela | 17,564 | 20,915 | 34,038 | 15,105 | 13,213 | 16,073 | 2,459 | 7,702 | 17,965 |
| Mexico^c | 117,460 | 136,703 | 166,424 | 125,373 | 141,975 | 174,473 | -7,913 | -5,271 | -8,049 |
| Central American Common Market (CACM) | 13,536 | 14,290 | 14,679 | 17,723 | 18,241 | 19,583 | -4,187 | -3,951 | -4,904 |
| Costa Rica ^c | 5,538 | 6,619 | 5,887 | 5,937 | 5,992 | 6,081 | - 399 | 627 | - 194 |
| El Salvador ^c | 2,460 | 2,500 | 2,977 | 3,763 | 3,859 | 4,685 | -1,303 | -1,359 | -1,708 |
| Guatemala | 2,848 | 2,781 | 3,068 | 4,256 | 4,181 | 4,485 | -1,408 | -1,400 | -1,417 |
| Honduras | 2,048 | 1,770 | 2,039 | 2,371 | 2,510 | 2,698 | - 323 | - 740 | - 659 |
| Nicaragua | 642 | 620 | 708 | 1,397 | 1,699 | 1,634 | - 755 | -1,079 | - 927 |
| Panama | 6,350 | 5,300 | 5,905 | 7,711 | 6,715 | 7,040 | -1,361 | -1,415 | -1,134 |
| Caribbean countries^d | 14,252 | 15,112 | 17,932 | 26,657 | 27,739 | 31,261 | -12,406 | -12,627 | -13,329 |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures provided by the International Monetary Fund (IMF) and national agencies.

^a The figures presented here differ from those given in the tables on the composition of exports by product and markets contained in the statistical appendix, because they were compiled using different aggregations and methodologies. Table II.5a was prepared using each country's balance-of-payments statistics, whereas the figures in the statistical appendix are based on data from national customs offices.

^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 *maquila* production.

^d Corresponds to the total for the countries listed in table II.5b.

Table II.5b
CARIBBEAN COUNTRIES:
BALANCE OF TRADE IN GOODS, 1998-2000
(Millions of dollars)

| Subregion/Country | Exports | | | Imports | | | Trade balance | | |
|--|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|---------------------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Caribbean countries | 14,252 | 15,112 | 17,932 | 26,657 | 27,739 | 31,261 | -12,406 | -12,627 | -13,329 |
| Aruba | 1,165 | 1,413 | 2,322 | 1,518 | 2,005 | 2,530 | - 353 | - 592 | - 208 |
| Cuba | 1,540 | 1,466 | 1,635 | 4,230 | 4,344 | 4,952 | -2,690 | -2,878 | -3,317 |
| Dominican Republic | 4,981 | 5,204 | 5,730 | 7,597 | 8,041 | 9,732 | -2,617 | -2,837 | -4,002 |
| Netherlands Antilles | 303 | 263 | 276 | 1,342 | 1,327 | 1,486 | -1,039 | -1,064 | -1,210 |
| Caribbean Community (CARICOM) | 6,263 | 6,767 | 7,970 | 11,970 | 12,022 | 12,562 | -5,707 | -5,255 | -4,592 |
| Bahamas | 363 | 380 | 377 | 1,737 | 1,808 | 1,729 | -1,374 | -1,428 | -1,352 |
| Belize | 171 | 196 | 229 | 261 | 330 | 387 | - 90 | - 134 | - 158 |
| Barbados | 257 | 262 | 216 | 901 | 954 | 914 | - 644 | - 692 | - 698 |
| Guyana | 547 | 525 | 540 | 601 | 550 | 620 | - 54 | - 25 | - 80 |
| Haiti | 299 | 349 | 327 | 822 | 940 | 1 003 | - 523 | - 591 | - 676 |
| Jamaica | 1,613 | 1,490 | 1,637 | 2,744 | 2,628 | 2,975 | -1,131 | -1,138 | -1,338 |
| Suriname | 433 | 430 | 399 | 501 | 584 | 246 | - 68 | - 155 | 153 |
| Trinidad and Tobago | 2,258 | 2,816 | 3,900 | 2,999 | 2,752 | 3,200 | - 741 | 64 | 700 |
| Organisation of Eastern Caribbean States (OECS) | 321 | 319 | 346a/ | 1,404 | 1,477 | 1,488a/ | -1,083 | -1,157 | -1,142^a |
| Anguilla | 3 | 4 | ... | 63 | 81 | 81 | - 60 | - 77 | ... |
| Antigua and Barbuda | 37 | 36 | 40 | 344 | 389 | 375 | - 307 | - 353 | - 335 |
| Dominica | 61 | 63 | 61 | 140 | 122 | 126 | - 79 | - 59 | - 65 |
| Grenada | 46 | 54 | 62 | 183 | 202 | 218 | - 137 | - 148 | - 155 |
| Montserrat | 1 | 4 | ... | 30 | 32 | ... | - 29 | - 29 | ... |
| Saint Kitts and Nevis | 49 | 42 | 53 | 137 | 160 | 152 | - 89 | - 118 | - 98 |
| Saint Vincent and the Grenadines | 54 | 51 | 54 | 171 | 178 | 186 | - 116 | - 128 | - 132 |
| Saint Lucia | 70 | 67 | 68 | 335 | 312 | 319 | - 266 | - 245 | - 251 |

Source: ECLAC, International Trade and Integration Division, on the basis of: Central Bank of the Dominican Republic (<http://www.bancentral.gov.do>); Central Bank of Suriname; Eastern Caribbean Central Bank (<http://www.eccb-centralbank.org>); and country reports: "Trinidad and Tobago, Guyana and Suriname Country Report", The Economist Intelligence Unit, September 2001; "Jamaica, Belize, Organisation of Eastern Caribbean States (OECS)", The Economist Intelligence Unit, April 2001; "Bahamas, Barbados, Bermuda, British Virgin Islands, Netherlands Antilles, Aruba, Turks and Caicos Islands, Cayman Islands Country Reports", The Economist Intelligence Unit, March 2001; "Cuba Country Report", The Economist Intelligence Unit, May 2001; and "Dominican Republic, Haiti, Puerto Rico Country Report", The Economist Intelligence Unit, April 2001.

^a Includes estimates for Anguilla and Montserrat.

Table II.6a
LATIN AMERICA AND THE CARIBBEAN:
BALANCE OF TRADE IN SERVICES, 1998-2000
(Millions of dollars)

| Subregion/Country | Exports | | | Imports | | | Trade balance | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Latin America (28 countries)^a | 52,774 | 52,304 | 58,410 | 68,456 | 63,186 | 70,852 | -15,682 | -10,882 | -12,442 |
| Latin America (19 countries)^b | 43,809 | 42,977 | 48,357 | 64,033 | 58,554 | 66,103 | -20,224 | -15,577 | -17,747 |
| Latin America (not including Mexico) | 41,251 | 40,612 | 44,698 | 56,029 | 49,695 | 54,817 | -14,777 | -9,083 | -10,119 |
| Southern Common Market (MERCOSUR) | 14,475 | 13,433 | 15,744 | 28,560 | 23,984 | 27,112 | -14,084 | -10,551 | -11,367 |
| Argentina | 4,646 | 4,431 | 4,530 | 9,106 | 8,527 | 8,837 | -4,460 | -4,096 | -4,308 |
| Brazil | 7,897 | 7,194 | 9,384 | 18,008 | 14,171 | 16,958 | -10,111 | -6,977 | -7,574 |
| Paraguay | 626 | 569 | 531 | 576 | 492 | 484 | 50 | 77 | 46 |
| Uruguay | 1,307 | 1,240 | 1,300 | 870 | 795 | 832 | 437 | 445 | 468 |
| Chile | 4,119 | 3,790 | 3,929 | 4,234 | 4,105 | 4 487 | - 115 | - 315 | - 558 |
| Andean Community | 6,192 | 5,737 | 5,928 | 12,831 | 10,728 | 11,787 | -6,639 | -4,990 | -5 859 |
| Bolivia | 251 | 259 | 241 | 441 | 450 | 438 | - 189 | - 190 | - 197 |
| Colombia | 1,928 | 1,841 | 1,988 | 3,392 | 3,097 | 3,224 | -1,464 | -1,256 | -1,236 |
| Ecuador | 804 | 812 | 947 | 1,511 | 1,287 | 1,370 | - 707 | - 475 | - 423 |
| Peru | 1,748 | 1,522 | 1,551 | 2,341 | 2,122 | 2,244 | - 593 | - 600 | - 693 |
| Venezuela | 1,461 | 1,303 | 1,201 | 5,146 | 3,772 | 4,510 | -3,685 | -2,469 | -3,309 |
| Mexico | 11,523 | 11,692 | 13,712 | 12,428 | 13,491 | 16,036 | -905 | -1,799 | -2,323 |
| Central American Common Market (CACM) | 3,091 | 3,590 | 3,871 | 3,316 | 3,667 | 3,987 | - 225 | - 77 | - 116 |
| Costa Rica | 1,343 | 1,571 | 1,764 | 1,110 | 1,194 | 1,281 | 234 | 377 | 484 |
| El Salvador | 558 | 635 | 689 | 679 | 791 | 901 | - 121 | - 157 | - 212 |
| Guatemala | 619 | 654 | 715 | 774 | 803 | 838 | - 155 | - 149 | - 123 |
| Honduras | 382 | 512 | 468 | 486 | 543 | 622 | - 104 | - 32 | - 153 |
| Nicaragua | 188 | 219 | 235 | 268 | 335 | 346 | - 79 | - 116 | - 112 |
| Panama | 1,728 | 1,715 | 1,766 | 1,146 | 1,099 | 1,047 | 582 | 615 | 719 |
| Caribbean countries^c | 11,646 | 12,346 | 13,460 | 5,942 | 6,112 | 6,397 | 5,704 | 6,234 | 7,063 |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures provided by the International Monetary Fund (IMF) and the ECLAC Statistics and Economic Projections Division.

^a Includes all the countries listed in tables II.6a and II.6b.

^b Includes: 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 listed in table II.6b.

Table II.6b
CARIBBEAN COUNTRIES:
BALANCE OF TRADE IN SERVICES, 1998-2000
(Millions of dollars)

| Subregion/Country | Exports | | | Imports | | | Trade balance | | |
|--|---------------|---------------------------|---------------------------|--------------|--------------------------|--------------------------|---------------|--------------------------|--------------------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Caribbean countries | 11,646 | 12,346^a | 13,460^a | 5,942 | 6,112^a | 6,397^a | 5,704 | 6,234^a | 7,063^a |
| Aruba | 892 | 988 | 1,032 | 553 | 685 | 654 | 339 | 303 | 378 |
| Cuba | 2,738 | ... | ... | 618 | ... | ... | 2,120 | ... | ... |
| Dominican Republic | 2,502 | 2,850 | 3,245 | 1,320 | 1,248 | 1,392 | 1,182 | 1,602 | 1,852 |
| Caribbean Community (CARICOM)^b | 5,514 | 6,028^a | 6,683^a | 3,452 | 3,479^a | 3,651^a | 2,063 | 2,549^a | 3,033^a |
| Bahamas | 1,581 | 1,811 | 2,023 | 958 | 954 | 975 | 623 | 857 | 1,047 |
| Belize | 140 | 162 | 172 | 99 | 108 | 120 | 41 | 53 | 53 |
| Barbados | 1,024 | 1,025 | ... | 432 | 454 | ... | 591 | 571 | ... |
| Dominica | 76 | ... | ... | 50 | ... | ... | 26 | ... | ... |
| Haiti | 180 | 170 | 162 | 200 | 233 | 255 | - 20 | - 64 | - 94 |
| Jamaica | 1,770 | 1,866 | 1,975 | 1,260 | 1,301 | 1,317 | 510 | 565 | 658 |
| Suriname | 72 | 79 | 91 | 197 | 151 | 216 | - 125 | - 72 | - 125 |
| Trinidad and Tobago | 672 | ... | ... | 255 | ... | ... | 416 | ... | ... |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures provided by the International Monetary Fund (IMF), the ECLAC Statistics and Economic Projections Division and the World Trade Organization (WTO).

and the United Kingdom, according to data from WTO.⁴ In the region, however, the large share of services in aggregate exports reflects the importance of income from tourism, unlike the exports of more industrialized economies, which consist primarily of so-called other services, including financial services, communications, consultancy, professional services and other business services.

The economies of the Caribbean are genuine service economies, in which income from service exports – mainly tourism and financial services – contributes over 44% of the total value of merchandise and service exports. Services represent half of total exports from Jamaica and over 80% of those from Barbados and the Bahamas (see table II.7b).

Out of the remaining countries, Uruguay posted the highest share of services in total exports (35%). Trends in Uruguayan service exports have been rather irregular,

however, as in 1995 they accounted for almost 39% of the total. Service exports from the CACM countries accounted for 21% of their total earnings, but also displayed an uneven pattern, except in the cases of Honduras and Nicaragua, where they were more consistent. By contrast, in the Andean Community, services accounted for less than 9% of exports, partly because Venezuela posted the region's lowest rate (3.4%) in 2000 (see table II.7a).

In 2000, service imports by Latin America and the Caribbean amounted to approximately US\$ 71 billion, which was 12% higher than the previous year, when a sharp contraction (close to 8%) was recorded. Brazil and Mexico were the region's largest service importers, absorbing 24% and 23% of the total, respectively,⁵ and accounted for a significant share of the increase in service imports by Latin America and the Caribbean in 2000. Argentina, Chile and Venezuela followed in terms of the

4 The relative share of services in aggregate merchandise and service exports depends on the magnitude of merchandise shipments. Germany and Japan are large service exporters, but also major merchandise exporters. In 2000, Germany was the world's fourth largest exporter of commercial services and second largest merchandise exporter, though its service exports were equivalent to less than 13% of total merchandise and service exports. Japan ranked third among merchandise exporters and fifth among service exporters in the same year, but its service exports, too, accounted for no more than 13% of the total value of exports (WTO web page, at <http://www.wto.org>).

5 Mexico ranks 24th among the largest service importers, while Brazil occupies 26th place. Mexico accounts for 1.2% of world imports of commercial services, and Brazil, 1.1% (WTO).

Table II.7a
**LATIN AMERICA AND THE CARIBBEAN: SHARE OF SERVICES
 IN TRADE IN GOODS AND SERVICES, 1990-2000**
(Percentages of the total)

| Subregion/Country | Exports | | | | Imports | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1990 | 1995 | 1999 | 2000 | 1990 | 1995 | 1999 | 2000 |
| Latin America and the Caribbean (including Mexico) | 16.9 | 15.4 | 14.6 | 13.7 | 23.3 | 18.9 | 16.5 | 16.0 |
| Latin America and the Caribbean (not including Mexico) | 17.0 | 17.4 | 19.3 | 18.1 | 25.1 | 21.7 | 21.9 | 21.8 |
| Southern Common Market (MERCOSUR) | 13.3 | 13.9 | 15.0 | 15.5 | 29.6 | 22.8 | 23.2 | 24.0 |
| Argentina | 16.5 | 15.4 | 16.0 | 14.7 | 45.6 | 27.6 | 26.1 | 27.1 |
| Brazil | 10.7 | 11.7 | 13.0 | 14.6 | 26.7 | 21.5 | 22.3 | 23.3 |
| Paraguay | 26.5 | 12.2 | 17.5 | 19.1 | 21.9 | 13.7 | 13.9 | 14.6 |
| Uruguay | 21.6 | 38.8 | 35.0 | 35.3 | 23.7 | 24.0 | 20.0 | 20.1 |
| Chile | 18.1 | 17.2 | 19.5 | 17.8 | 22.7 | 20.0 | 22.7 | 21.2 |
| Andean Community | 11.9 | 12.0 | 11.4 | 8.9 | 26.9 | 22.6 | 23.7 | 23.0 |
| Bolivia | 14.9 | 16.0 | 19.8 | 16.7 | 28.6 | 22.2 | 22.6 | 21.0 |
| Colombia | 18.4 | 13.9 | 13.2 | 12.7 | 25.5 | 18.0 | 23.2 | 22.5 |
| Ecuador | 16.5 | 16.1 | 15.4 | 16.3 | 27.5 | 23.1 | 31.6 | 29.9 |
| Peru | 19.4 | 16.8 | 19.9 | 18.1 | 28.5 | 19.6 | 24.0 | 23.4 |
| Venezuela | 6.3 | 8.1 | 5.9 | 3.4 | 26.8 | 28.7 | 22.2 | 21.9 |
| Mexico | 16.6 | 10.9 | 7.9 | 7.6 | 19.9 | 11.8 | 8.7 | 8.4 |
| Central American Common Market (CACM) | 24.7 | 20.6 | 20.1 | 20.9 | 21.0 | 17.7 | 16.7 | 16.9 |
| Costa Rica | 31.0 | 21.8 | 19.2 | 23.1 | 23.4 | 19.3 | 16.6 | 17.4 |
| El Salvador | 33.8 | 19.2 | 20.2 | 18.8 | 19.4 | 14.1 | 17.0 | 16.1 |
| Guatemala | 20.9 | 23.0 | 19.0 | 18.9 | 21.2 | 18.5 | 16.1 | 15.7 |
| Honduras | 13.3 | 15.8 | 22.4 | 18.7 | 19.5 | 17.9 | 17.8 | 18.7 |
| Nicaragua | 15.3 | 19.4 | 26.1 | 24.9 | 18.1 | 19.9 | 16.5 | 17.5 |
| Panama | 24.6 | 20.0 | 24.4 | 23.0 | 16.4 | 14.0 | 14.1 | 12.9 |
| Caribbean countries | 34.0 | 41.5 | 46.7 | 44.4 | 18.2 | 21.0 | 20.0 | 18.7 |

Source: ECLAC, International Trade and Integration Division, on the basis of information provided by the International Monetary Fund (IMF).

magnitude of imports of commercial services in the region (see table II.5a).

A country-by-country analysis of the share of service imports in total merchandise and service imports shows that the rate for the region as a whole, excluding Mexico, is high (close to 22%) in relation to the average for exports. This analysis also reveals three distinct strata in Latin America: first, the countries of MERCOSUR and the Andean Community, for which services represent between a quarter and a fifth of total imports. These

are followed by the CACM countries, in which the rates range from 17% to 19%. Lastly, Mexico's service imports account for just over 8% of total imports, which is consistent with the decrease observed since the mid-1990s as a function of the increased momentum of merchandise trade (see tables II.7a and II.7b).

Most of the Latin American countries posted a deficit in services trade in 2000. The exceptions to this pattern were Panama, Costa Rica, Uruguay and Paraguay, which recorded service surpluses of 7.2%, 3.1%, 2.3% and 0.6%

Table II.7b
CARIBBEAN COUNTRIES:
SHARE OF SERVICES IN TRADE IN GOODS AND SERVICES, 1990-2000
(Percentages of the total)

| Subregion/Country | Exports | | | | Imports | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1990 | 1995 | 1999 | 2000 | 1990 | 1995 | 1999 | 2000 |
| Caribbean countries | 34.0 | 41.5 | 46.7 | 44.4 | 18.2 | 21.0 | 20.0 | 18.7 |
| Aruba | 72.6 | 32.4 | 41.1 | 30.8 | 18.8 | 12.2 | 25.5 | 20.5 |
| Cuba | 8.9 | 48.8 | 62.9 | 60.5 | 7.5 | 19.2 | 13.9 | 12.4 |
| Dominican Republic | 59.9 | 34.0 | 33.4 | 36.2 | 19.7 | 15.7 | 13.4 | 12.5 |
| Netherlands Antilles | 39.4 | 88.9 | ... | ... | 31.8 | 35.5 | ... | ... |
| Caribbean Community (CARICOM) | 43.3 | 52.8 | ... | ... | 27.4 | 27.5 | ... | ... |
| Bahamas | 84.1 | 87.2 | 82.7 | 84.3 | 34.7 | 35.6 | 34.5 | 36.1 |
| Belize | 51.2 | 48.7 | 45.1 | 43.0 | 22.2 | 26.7 | 24.7 | 23.7 |
| Barbados | 74.9 | 78.8 | 79.6 | 82.6 | 28.5 | 34.4 | 32.3 | 33.0 |
| Guyana | ... | 21.2 | ... | ... | ... | 24.3 | ... | ... |
| Haiti | 16.4 | 40.5 | 32.7 | 33.1 | 14.0 | 17.8 | 19.9 | 20.3 |
| Jamaica | 46.3 | 43.6 | 55.6 | 54.7 | 29.2 | 28.4 | 33.1 | 30.7 |
| Suriname | 4.3 | 20.0 | 15.6 | 18.6 | 20.4 | 35.6 | 20.5 | 46.7 |
| Trinidad and Tobago | 14.4 | 12.2 | 22.9 | 22.9 | 30.2 | 12.4 | 7.8 | 7.9 |
| Organisation of Eastern Caribbean States (OECS) | 50.8 | 78.6 | ... | ... | 28.7 | 32.5 | ... | ... |
| Antigua and Barbuda | 94.1 | 92.1 | ... | ... | 29.8 | 32.3 | ... | ... |
| Dominica | 35.7 | 51.9 | 55.5 | 55.6 | 20.0 | 25.5 | 26.5 | 26.3 |
| Grenada | 68.5 | 79.3 | ... | ... | 23.4 | 23.5 | ... | ... |
| Saint Kitts and Nevis | 64.7 | ... | ... | ... | 24.1 | ... | ... | ... |
| Saint Vincent and the Grenadines | 36.0 | 66.7 | ... | ... | 18.6 | 22.7 | ... | ... |
| Saint Lucia | 53.7 | 70.7 | ... | ... | 23.1 | 28.7 | ... | ... |

Source: ECLAC, International Trade and Integration Division, on the basis of information provided by the International Monetary Fund (IMF).

of GDP, respectively. Nicaragua, Ecuador and Venezuela recorded the largest deficits in services trade, which amounted to 4.7%, 3.1% and 2.7% of GDP, respectively.

By contrast, all the Caribbean countries except Haiti and Suriname recorded a surplus on the services balance. In 2000 service imports were about US\$ 6 billion, while exports were approximately US\$ 13 billion. Exports thus grew by 9% and imports by 4.7% with respect to 1999. The Dominican Republic led this group of countries in terms of service exports, followed by Cuba and the Bahamas, and was also the main importer together with Jamaica. The service surplus was equivalent to almost a tenth of GDP in the Dominican Republic, Jamaica, Trinidad and Tobago and Dominica, and approximately a quarter in Barbados and the Bahamas.

3. The current account

In 2000 the merchandise and services trade deficit was significantly smaller than it had been the previous year, which accounts for the fact that the current-account deficit narrowed from US\$ 55.7 billion in 1999 to less than US\$ 47 billion in 2000. In turn, the merchandise and services trade deficit narrowed as a consequence of the performance of the merchandise trade balance, given that the balance on the services account did not vary substantially. The reduction in the region's deficit was chiefly attributable to the decrease in Argentina's deficit, the increase in the surplus recorded by Colombia and Ecuador and, above all, the strong expansion of Venezuela's surplus.

Chile and Costa Rica saw their merchandise and services balances deteriorate, while the cumulative deficit widened in El Salvador, Mexico, Paraguay and the Dominican Republic. Mexico's deficit increased from just over US\$ 7 billion to over US\$ 10 billion between 1999 and 2000, while Brazil's trade balance remained stable at a little over US\$ 8 billion (see table II.8).

In general, the balance on the income account did not vary significantly, remaining high at almost US\$ 52.5 billion. Brazil's payments of interest, profits and dividends—in other words, remuneration of foreign capital—generated a negative balance of US\$ 18 billion. This figure has been relatively constant in nominal terms over the last three years, though it dropped slightly at the end of 2000. The deficit on the income account increased in Chile and Colombia, but narrowed in Costa Rica, Venezuela and Panama. Mexico in particular saw an increased deficit as a result of interest, profit and dividend payments. Although flows deriving from current transfers, mainly remittances from workers in the United States,⁶ have offset this, they have not prevented the deficit on the current account from widening.

The proportion of GDP accounted for by the current-account balance decreased in the region as a whole, however, as a result of trends that varied from one country to another. The current-account deficits of Argentina, Brazil and Mexico alone were higher than that of the rest of the region combined, although in both Argentina and Brazil the ratio of current-account balance to GDP decreased while in Mexico it increased slightly. Considerable improvements were seen, by contrast, in Ecuador and especially Venezuela, which were also the only two countries to record positive current-account balances for the second year running, while all the others recorded negative balances in 2000. Those whose rates gave most cause for concern were Bolivia (-7.2%), Costa Rica (-5.3%), Guatemala (-4.6%) and Nicaragua (-38.3%). Nicaragua's deficit-to-GDP ratio decreased substantially, falling to its 1998 level. Even so, it was still an unusually high figure by the region's standards (see table II.9 and figure II.2).

4. Composition of exports by product

In 2000, according to the trade data recorded by customs offices, Latin American and Caribbean merchandise exports were equivalent to almost US\$ 343 billion, which was nearly 10% less than receipts by the institutions that administer the countries' external accounts. The trends reflected by the two data series are similar, however: between 1999 and 2000 there was an increase of almost 20%, which was driven largely by exports from Mexico and the main petroleum exporters, such as Venezuela (see tables II.10 and II.11). When the WTO categories are used to classify the region's exports, significant increases are observed in office machines and telecommunications equipment—mainly electronic goods—and in other machinery and transport equipment, which expanded by 25% and 34%, respectively. Almost all these goods went to the United States, as shown in tables II.10 and II.11. As figure II.3 suggests, exports to the United States and Mexico (possibly as a transit country for Central American exports to the United States) contain a high proportion of manufactures.⁷

Trade in office machines and telecommunications equipment was boosted partly by strong world demand for these products and partly by investments by transnational corporations with export processing (*maquila*) interests in the region. Manufactures linked to transport and, more generally, capital goods have also displayed strong growth in world trade. However, the region still accounts for less than 5% of global exports in these two categories, despite their importance in world trade. The share of the machinery and transport equipment segment in world exports increased from 43% in 1999 to 45% in 2000, while the proportion of the region's exports accounted for by these products remained unchanged at 35.5% (see table II.12a).

Other regional exports to record an expansion were iron and steel (16%)—which followed trends in global markets and represented an upswing after the contraction seen the previous year—non-ferrous metals (18%),

6 Current transfers amounted to over US\$ 19 billion, of which the largest recipients were: Mexico (US\$ 6.7 billion); Dominican Republic (US\$ 1.9 billion); El Salvador (US\$ 1.8 billion); Brazil (US\$ 1.5 billion) and Ecuador (US\$ 1.36 billion), according to IMF data.

7 As has been indicated, part of the statistical information used for the rest of the chapter is based on COMTRADE, while the data used in the foregoing sections are calculated on the basis of balance-of-payments information. The statistics are therefore not always compatible. This edition of *Latin America and the Caribbean in the world economy* uses the WTO classification in order to facilitate comparison with WTO figures, especially those for other regions of the world. The statistical appendix (CD-ROM) maintains the classification used in previous editions.

Table II.8
LATIN AMERICA AND THE CARIBBEAN:
CURRENT ACCOUNT, 1998-2000^a
(Millions of dollars)

| Subregion/Country | Goods and services balance | | | Balance on income account | | | Current account balance | | |
|--|----------------------------|----------------|----------------|---------------------------|----------------|----------------|-------------------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Latin America^b | -54,322 | -21,712 | -13,551 | -50,224 | -52,373 | -52,497 | -87,965 | -55,695 | -46,732 |
| Southern Common Market (MERCOSUR) | | | | | | | | | |
| Argentina | -7,576 | -4,866 | -1,766 | -7,429 | -7,852 | -7,775 | -14,708 | -12,444 | -9,361 |
| Brazil | -16,714 | -8,238 | -8,271 | -18,188 | -18,848 | -17,886 | -33,444 | -25,397 | -24,636 |
| Paraguay | -343 | -291 | -539 | 6 | 30 | 48 | -160 | -86 | -315 |
| Uruguay | -336 | -451 | -468 | -199 | -174 | -216 | -475 | -551 | -618 |
| Chile | -2,632 | 1,350 | 878 | -1,975 | -1,881 | -2,404 | -4,144 | -78 | -988 |
| Andean Community | | | | | | | | | |
| Bolivia | -845 | -678 | -647 | -162 | -201 | -259 | -677 | -556 | -595 |
| Colombia | -3,914 | 519 | 1,307 | -1,717 | -1,418 | -2,429 | -5,186 | -20 | -132 |
| Ecuador | -1,702 | 1,190 | 1,211 | -1,243 | -1,336 | -1,188 | -2,169 | 955 | 1,383 |
| Peru | -3,059 | -1,216 | -1,026 | -1,488 | -1,545 | -1,595 | -3,634 | -1,817 | -1,645 |
| Venezuela | -1,214 | 5,137 | 14,656 | -1,931 | -1,518 | -1,163 | -3,253 | 3,689 | 13,350 |
| Mexico | -8,818 | -7,382 | -10,372 | -13,284 | -13,256 | -14,018 | -16,090 | -14,325 | -17,690 |
| Central American Common Market (CACM) | | | | | | | | | |
| Costa Rica | -166 | 1,004 | 289 | -467 | -1,822 | -1,218 | -519 | -716 | -833 |
| El Salvador | -1,424 | -1,516 | -1,920 | -155 | -283 | -304 | -79 | -242 | -411 |
| Guatemala | -1,563 | -1,549 | -1,540 | -140 | -181 | -183 | -997 | -1,015 | -884 |
| Honduras | -426 | -772 | -812 | -209 | -165 | -144 | -148 | -200 | -204 |
| Nicaragua | -834 | -1,195 | -1,038 | -185 | -197 | -200 | -820 | -1,092 | -919 |
| Panama | -780 | -800 | -572 | -555 | -741 | -521 | -1,176 | -1,376 | -927 |
| Dominican Republic | -1,435 | -1,302 | -2,150 | -890 | -975 | -1,030 | -338 | -429 | -1,269 |
| Haiti | -542 | -655 | -770 | -12 | -13 | -9 | 53 | 6 | -39 |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures provided by the International Monetary Fund (IMF) and the ECLAC Statistics and Economic Projections Division.

^a Does not show the balance of current transfers, which is also part of the current account, as this component is not examined in this section. For a full presentation of the current account, see *Economic Survey 2000-2001*, pp. 93-97.

^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.

chemicals (17%), electrical machinery and apparatus (20%), automotive products (18.5%) and other consumer goods (19%). By contrast, also in line with global trends, exports of agricultural products stagnated at 0.5%.

The countries of the region specialize in commodity exports, which account for about 40% of shipments, but represent only 18% of world exports.⁸ Together the re-

gion thus exports 4.5% of total world trade in manufactures, which is lower than its share of total exports (6.1%). Nonetheless, a comparison of the structure of exports between 1995 and 2000 shows that commodities decreased from 50% to 41% of total exports, while manufactures expanded from 49% to 58%. Since 1996-1997, over half of the region's exports have been manufactures,

⁸ Unlike the classification used in the statistical appendix to this publication and its previous editions, the WTO categories classify products by their physical rather than productive features. No distinction is drawn, for example, between agriculture and agribusiness.

Table II.9

**LATIN AMERICA AND THE CARIBBEAN: BALANCE OF TRADE IN GOODS AND SERVICES
AND CURRENT ACCOUNT BALANCE, 1998-2000**
(Percentages of GDP)^a

| Subregion/Country | Balance of trade in goods and services | | | Current account balance | | |
|--|--|--------------|--------------|-------------------------|--------------|-------------|
| | 1998 | 1999 | 2000 | 1998 | 1999 | 2000 |
| Latin America^b | -2.8 | -1.2 | -0.7 | -4.5 | -3.2 | -2.4 |
| Southern Common Market (MERCOSUR) | | | | | | |
| Argentina | -2.5 | -1.7 | -0.6 | -4.9 | -4.4 | -3.3 |
| Brazil | -2.1 | -1.6 | -1.4 | -4.2 | -4.8 | -4.1 |
| Paraguay | -4.0 | -3.8 | -7.2 | -1.9 | -1.1 | -4.2 |
| Uruguay | -1.5 | -2.2 | -2.3 | -2.1 | -2.6 | -3.1 |
| Chile | -3.6 | 2.0 | 1.2 | -5.7 | -0.1 | -1.4 |
| Andean Community | | | | | | |
| Bolivia | -10.0 | -8.2 | -7.8 | -8.0 | -6.7 | -7.2 |
| Colombia | -4.0 | 0.6 | 1.6 | -5.2 | 0.0 | -0.2 |
| Ecuador | -8.6 | 8.7 | 8.9 | -11.0 | 7.0 | 10.2 |
| Peru | -5.4 | -2.3 | -1.9 | -6.4 | -3.5 | -3.0 |
| Venezuela | -1.3 | 5.0 | 12.2 | -3.4 | 3.6 | 11.1 |
| Mexico | -2.1 | -1.5 | -1.8 | -3.8 | -3.0 | -3.1 |
| Central American Common Market (CACM) | | | | | | |
| Costa Rica | -1.2 | 6.4 | 1.8 | -3.7 | -4.6 | -5.3 |
| El Salvador | -11.9 | -12.2 | -14.9 | -0.7 | -2.0 | -3.2 |
| Guatemala | -8.1 | -8.5 | -8.1 | -5.1 | -5.5 | -4.6 |
| Honduras | -8.1 | -14.2 | -13.7 | -2.8 | -3.7 | -3.4 |
| Nicaragua | -40.3 | -54.0 | -43.3 | -39.6 | -49.4 | -38.3 |
| Panama | -8.3 | -8.4 | -5.7 | -12.6 | -14.4 | -9.3 |
| Dominican Republic | -9.1 | -7.5 | -10.8 | -2.1 | -2.5 | -6.4 |
| Haiti | -15.4 | -16.4 | -19.6 | 1.5 | 0.2 | -1.0 |

Source: ECLAC, International Trade and Integration Division, on the basis of official figures provided by the ECLAC Statistics and Economic Projections Division.

^a Estimates on the basis of figures expressed in current dollars.

^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.

although it is well established that this average is skewed by the composition of Mexican exports (see table II.12a).

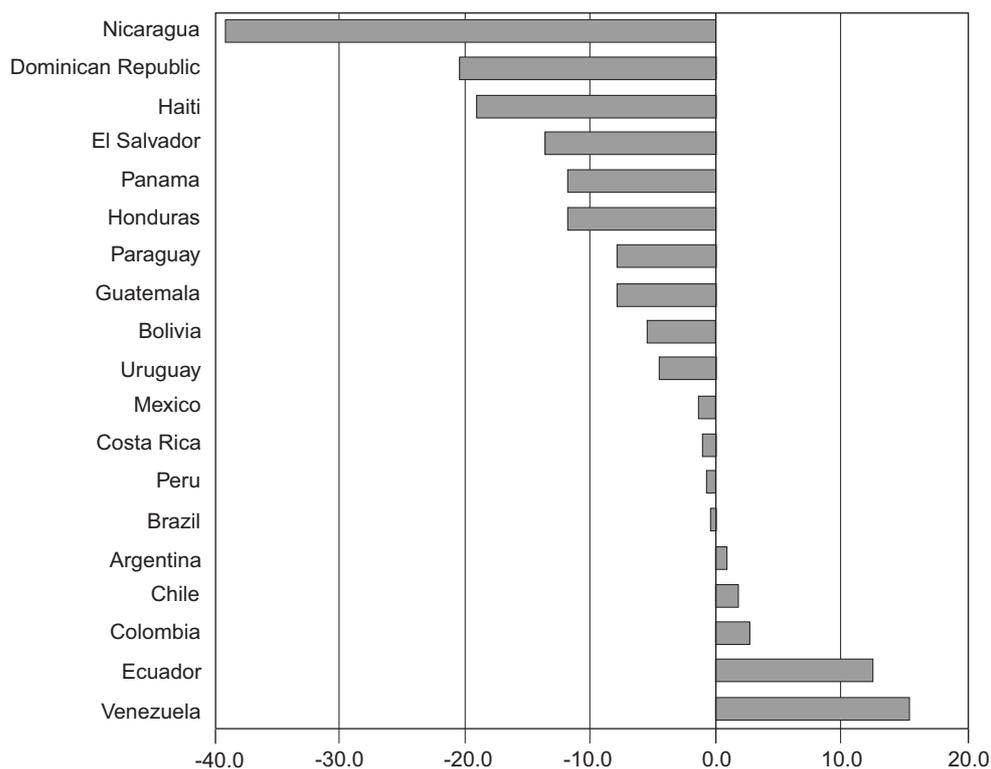
In fact, an analysis of exports from Latin America and the Caribbean, excluding Brazil and Mexico, reveals a heavy specialization in commodities—equivalent to 74% of this group of countries' total exports in 2000—especially food products and fuels. Food products have faced declining demand in world markets, even in a context of trade growth. The counterpart of this pattern of specialization is that less than a quarter of these countries' exports are manufactures, which have seen strong

expansion in world trade.

By contrast, Brazil and Mexico export a much higher proportion of manufactures (57.5% and 83%, respectively). This has a considerable impact on the region's overall figures (see table II.12b). For example, almost 35% of the region's exports consist of machinery and transport equipment. This figure drops to 13% if Mexico is excluded, however, and to 6% if Brazil is also omitted. In other words, these two countries produce about 80% of the region's machinery and transport equipment exports.

Between 1999 and 2000 the share of manufactures

Figure II.2
**LATIN AMERICA AND THE CARIBBEAN:
 BALANCE OF TRADE IN GOODS AS A PROPORTION OF GDP, 2000**
(Percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of official information from the countries on their balance of payments and national accounts.

in Mexico's exports decreased by almost two percentage points because of the increase in the value of fuel shipments from 7% to almost 10% of the total. By contrast, Brazil's exports of manufactures increased from 53% to over 57% of the total in the same period, although agricultural products still represent 28% of the value of exports. In 2000, products classified as machinery and transport equipment made up 28% of Brazil's total exports and 59% of Mexico's exports. There are clear differences, however, between the two countries in terms of destination markets, as Brazil's markets are more diversified (see table II.12b).

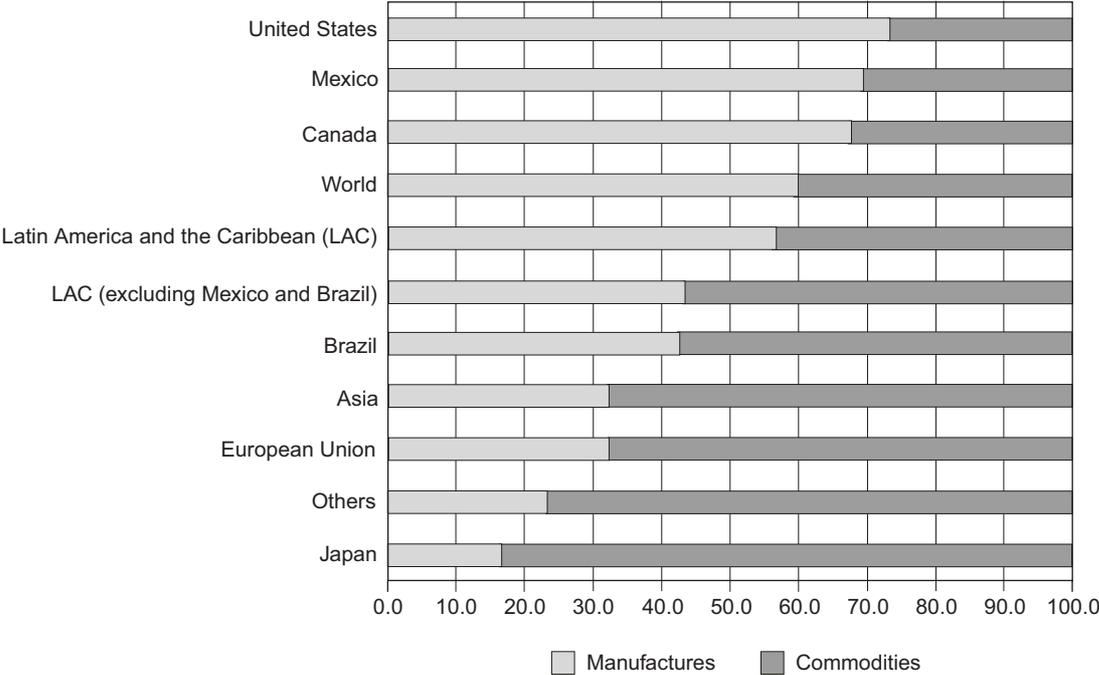
5. Composition of imports by product

In 2000, Latin American and Caribbean imports amounted to nearly US\$ 362 billion, according to cus-

toms office sources. This figure reflects a growth rate similar to that of exports, in a context of resurgent demand in the region (see tables II.13 and II.14). In fact, as has been mentioned, this upswing in imports came after the contraction recorded in 1999, and was more marked in certain countries such as Mexico and Venezuela (see table II.5a).

Imports and exports display a degree of symmetry, although clearly, most Latin American and Caribbean imports consist of manufactures. The fastest-growing imports are the same as the most dynamic exports: fuels and office machines and telecommunications equipment (53% and 31%, respectively), the latter reflecting the importance of the *maquila* industry (see tables II.13 and II.14). Imports of automotive products, office machines and telecommunications equipment grew at faster rates than those seen in world trade. By contrast, imports of most other categories of machinery and transport equipment increased

Figure II.3
**LATIN AMERICA AND THE CARIBBEAN:
 COMPOSITION OF EXPORTS BY DESTINATION, 2000**
(Annual rates of variation)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

at slower rates. In addition, an upturn was seen in imports of iron and steel and of textiles (see table II.15).

It is striking that only 10% of the manufactures imported by Latin America and the Caribbean come from the region itself, while intraregional imports account for 15% of the total. It therefore appears that, although regional markets are important for trade in manufactures, unexplored opportunities remain.

As shown in tables II.15 and II.12a, the structure of the region’s imports by product is quite similar to that of world imports.⁹ In 2000, manufactures represented around 80% of the region’s imports, and commodities, slightly less than 20%. This similarity between regional and world imports persists at a more disaggregated level: the products that make up the “machinery and transport equipment” segment account for equivalent proportions

of Latin American and world imports. Chemicals constitute an exception to this trend, as they account for a larger share of Latin American and Caribbean imports than global ones.

6. Composition of exports and imports by markets of origin and destination

Information on the magnitude of Latin American and Caribbean external trade with different regions of the world is useful for evaluating the potential benefits of establishing trade agreements with specific regions, for example. This information can also be used to analyse trends in regional trade in response to external disturbances and to estimate the degree of vulnerability of the

9 Table II.12a shows the composition of world exports, which is taken to be the same as that of world imports.

Table II. 10
LATIN AMERICA AND THE CARIBBEAN:
MERCHANDISE EXPORTS BY DESTINATION AND CATEGORY, 1999
(Millions of dollars)

| Sector/Destination country | Latin America (LA) ^a | Brazil | Mexico | Rest of LA ^b | Canada | United States | European Union | Japan | Asia | Others | World |
|--|---------------------------------|--------------|--------------|-------------------------|--------------|----------------|----------------|--------------|--------------|---------------|----------------|
| Commodities | 18,721 | 4,994 | 1,167 | 12,560 | 1,747 | 43,637 | 24,829 | 5,884 | 6,175 | 12,641 | 113,633 |
| Agricultural products | 9,990 | 2,841 | 532 | 6,617 | 640 | 16,185 | 17,220 | 3,059 | 3,678 | 7,670 | 58,441 |
| Food products | 9,050 | 2,560 | 455 | 6,034 | 594 | 13,771 | 15,485 | 2,508 | 2,900 | 7,306 | 51,615 |
| Raw materials | 940 | 281 | 77 | 582 | 45 | 2,414 | 1,735 | 551 | 778 | 364 | 6,827 |
| Extractive industry products | 8,731 | 2,154 | 634 | 5,943 | 1,107 | 27,452 | 7,608 | 2,825 | 2,496 | 4,972 | 55,192 |
| Mining and minerals | 830 | 291 | 147 | 393 | 262 | 992 | 2,297 | 1,599 | 1,206 | 969 | 8,156 |
| Fuels | 6,607 | 1,569 | 110 | 4,928 | 825 | 23,684 | 2,245 | 284 | 286 | 3,722 | 37,654 |
| Non-ferrous metals | 1,293 | 294 | 378 | 622 | 20 | 2,776 | 3,066 | 941 | 1,004 | 281 | 9,382 |
| Manufactures | 26,063 | 3,825 | 1,786 | 20,452 | 2,598 | 119,966 | 11,272 | 995 | 3,416 | 2,950 | 167,259 |
| Iron and steel | 1,487 | 95 | 224 | 1,168 | 177 | 2,880 | 1,045 | 228 | 709 | 297 | 6,823 |
| Chemicals | 6,717 | 942 | 248 | 5,527 | 134 | 4,211 | 1,554 | 228 | 410 | 562 | 13,817 |
| Other semi-manufactures | 4,445 | 347 | 195 | 3,902 | 163 | 8,430 | 1,562 | 93 | 677 | 476 | 15,846 |
| Machinery and transport equipment | 9,076 | 1,965 | 912 | 6,199 | 1,853 | 80,888 | 5,710 | 339 | 1,346 | 1,201 | 100,413 |
| Power-generating machinery | 108 | 13 | 7 | 89 | 46 | 2,459 | 109 | 3 | 28 | 52 | 2,805 |
| Other non-electrical machinery | 1,829 | 236 | 144 | 1,449 | 116 | 5,805 | 620 | 38 | 123 | 222 | 8,753 |
| Office machines and telecommunications equipment | 1,098 | 61 | 109 | 928 | 407 | 26,309 | 1,200 | 257 | 1,025 | 268 | 30,565 |
| Electrical machinery and apparatus | 1,081 | 78 | 49 | 954 | 109 | 18,232 | 256 | 7 | 74 | 88 | 19,847 |
| Automotive products | 4,483 | 1,488 | 551 | 2,444 | 1,111 | 23,723 | 2,638 | 19 | 68 | 289 | 32,330 |
| Other machinery and transport equipment | 478 | 90 | 53 | 336 | 64 | 4,361 | 886 | 15 | 28 | 282 | 6,114 |
| Textiles | 1,363 | 209 | 65 | 1,088 | 98 | 2,269 | 230 | 50 | 98 | 64 | 4,171 |
| Clothing | 648 | 37 | 24 | 587 | 49 | 8,497 | 185 | 9 | 28 | 216 | 9,632 |
| Other consumer goods | 2,328 | 230 | 117 | 1,981 | 123 | 12,790 | 987 | 46 | 148 | 134 | 16,557 |
| Other products | 87 | 5 | 3 | 79 | 11 | 930 | 841 | 10 | 11 | 2,080 | 3,970 |
| Total for all sectors | 44,870 | 8,824 | 2,956 | 33,090 | 4,355 | 164,533 | 36,942 | 6,889 | 9,602 | 17,671 | 284,863 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

^a Total includes 25 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Belize, Barbados, Dominica, Grenada, Saint Lucia, Suriname and Trinidad and Tobago.

^b Does not include Brazil and Mexico.

Table II.11
**LATIN AMERICA AND THE CARIBBEAN:
 MERCHANDISE EXPORTS BY DESTINATION AND CATEGORY, 2000**
(Millions of dollars)

| Sector/Destination country | Latin America (LA) ^a | Brazil | Mexico | Rest of LA ^b | Canada | United States | European Union | Japan | Asia | Others | World |
|--|---------------------------------|---------------|--------------|-------------------------|--------------|----------------|----------------|--------------|---------------|---------------|----------------|
| Commodities | 24,070 | 6,457 | 1,248 | 16,364 | 1,801 | 57,979 | 25,330 | 6,060 | 7,516 | 14,002 | 136,759 |
| Agricultural products | 10,135 | 2,913 | 572 | 6,650 | 672 | 15,870 | 15,478 | 2,809 | 4,038 | 7,031 | 56,036 |
| Food products | 9,265 | 2,730 | 499 | 6,037 | 702 | 13,373 | 13,426 | 2,248 | 3,268 | 6,797 | 49,079 |
| Raw materials | 1,051 | 265 | 136 | 650 | 45 | 2,684 | 2,218 | 644 | 942 | 317 | 7,921 |
| Extractive industry products | 13,928 | 3,620 | 681 | 9,627 | 1,086 | 41,950 | 9,344 | 3,211 | 3,227 | 6,883 | 79,629 |
| Mining and minerals | 869 | 267 | 98 | 504 | 275 | 961 | 2,295 | 1,736 | 1,364 | 1,253 | 8,753 |
| Fuels | 11,578 | 2,937 | 76 | 8,566 | 795 | 37,926 | 3,806 | 358 | 550 | 5,119 | 60,134 |
| Non-ferrous metals | 1,583 | 343 | 488 | 752 | 17 | 2,553 | 2,984 | 1,033 | 1,248 | 477 | 9,900 |
| Manufactures | 30,075 | 4,561 | 2,619 | 22,896 | 3,479 | 143,002 | 11,810 | 1,186 | 3,518 | 4,069 | 197,139 |
| Iron and steel | 1,776 | 120 | 282 | 1,375 | 258 | 3,188 | 1,301 | 205 | 745 | 420 | 7,894 |
| Chemicals | 7,541 | 1,145 | 283 | 6,113 | 120 | 4,868 | 1,928 | 232 | 546 | 677 | 15,914 |
| Other semi-manufactures | 4,913 | 440 | 254 | 4,219 | 168 | 9,628 | 1,694 | 94 | 714 | 527 | 17,738 |
| Machinery and transport equipment | 11,097 | 2,336 | 1,540 | 7,222 | 2,653 | 98,442 | 5,568 | 543 | 1,208 | 2,024 | 121,535 |
| Power-generating machinery | 150 | 23 | 8 | 119 | 61 | 2,733 | 113 | 17 | 31 | 63 | 3,170 |
| Other non-electrical machinery | 1,918 | 265 | 186 | 1,467 | 190 | 6,670 | 674 | 57 | 163 | 315 | 9,987 |
| Office machines and telecommunications equipment | 1,597 | 79 | 80 | 1,439 | 452 | 34,161 | 1,336 | 235 | 770 | 242 | 38,803 |
| Electrical machinery and apparatus | 1,331 | 124 | 86 | 1,122 | 154 | 21,915 | 326 | 48 | 90 | 109 | 23,975 |
| Automotive products | 5,746 | 1,762 | 1,122 | 2,862 | 1,712 | 28,594 | 2,132 | 20 | 86 | 766 | 39,685 |
| Other machinery and transport equipment | 565 | 90 | 69 | 406 | 98 | 5,291 | 1,540 | 175 | 78 | 539 | 8,285 |
| Textiles | 2,027 | 261 | 119 | 1,647 | 117 | 3,160 | 354 | 59 | 181 | 112 | 6,011 |
| Clothing | 1,160 | 39 | 104 | 1,018 | 101 | 9,993 | 1,035 | 148 | 371 | 308 | 13,117 |
| Other consumer goods | 3,075 | 418 | 255 | 2,403 | 204 | 16,241 | 1,496 | 237 | 399 | 329 | 21,988 |
| Other products | 1,002 | 185 | 181 | 636 | 157 | 2,438 | 1,910 | 332 | 641 | 2,011 | 8,491 |
| Total for all sectors | 55,396 | 11,210 | 4,035 | 40,151 | 5,409 | 203,597 | 38,794 | 7,457 | 11,350 | 20,613 | 342,615 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

^a Total includes 25 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Belize, Barbados, Dominica, Grenada, Saint Lucia, Suriname and Trinidad and Tobago.

^b Does not include Brazil and Mexico.

region's economies. The following analysis includes separate figures for Brazil and Mexico in a number of cases, for the same reasons as those set out above: as well as being the region's largest economies and main exporters, these two countries also display export patterns that differ from those of most of the other countries of the region.

Main destinations of Latin American and Caribbean exports

In 2000, almost 60% of the region's exports went to the United States, followed by the region itself, with 16%, of which a fifth went to Brazil. When Mexico is excluded from the group of exporters, the share of total exports going to the United States drops to 32%, while the share destined for Latin America and the Caribbean increases to 29%. In these two analyses—with and without Mexico—the proportion of exports going to the European Union increases from 10% to 17%, and those going to Asia, from 5% to 10% (see table II.12a and figure II.4).

As shown by figures II.5a and II.5b, the United States absorbs more than 45% of Latin American exports, except those from MERCOSUR and Chile, and in 2000 accounted for almost 90% of Mexican shipments.

In addition, the Latin American and Caribbean export markets with the greatest demand for manufactured goods (measured by the share of these products in total exports to each market) are the United States, Canada and, within Latin America, Mexico, with shares of 70%, 64% and 65%, respectively. By contrast, a large percentage of exports to Japan, other Asian countries and the European Union—81%, 66% and 65%, respectively—are commodities (see figure II.3). The figures for the United States are an overestimate, however, as they include exports of the total value of *maquila* goods, which account

for a large share of the exports shipped to this market by Mexico, El Salvador, Costa Rica, Jamaica and other Central American and Caribbean countries.

The pattern of Latin American and Caribbean exports excluding Mexico reveals a quite different picture. The main destination for total goods exported by these countries in 2000 continued to be the United States, albeit with only 32%, while Latin America accounted for 29%, including Brazil with 6% and Mexico with 2.3%. The European Union followed with 19%, then the Asian countries with 9.4%.

Main regions of origin of imports

In 2000, just over half of the region's imports came from the United States (51%). Intra-regional imports—those from Latin American and Caribbean countries—ranked second with 15%, of which about a quarter came from Brazil and a tenth from Mexico. The European Union followed with almost 14%; then a group of 11 Asian countries with 8%; and Japan, which was not included in this group, with 4.2% (see table II.14). If Mexico is excluded, just 27% came from the United States and 30% from the countries of the region (see figure II.6).

An analysis of the composition of the region's imports shows that over three quarters are manufactures. In addition, the Latin American and Caribbean countries have two clearly differentiated sources in terms of trade direction and products: first, imports from the countries of the region, excluding Mexico and Brazil, which consist mainly of commodities (54%); and second, imports from virtually all other regions of the world, and also from Brazil and Mexico, of which manufactures constitute a large share, accounting for over 70% in the vast majority of cases (see tables II.13 and II.14).

Table II.12a
**LATIN AMERICA AND THE CARIBBEAN:
 TREND AND COMPOSITION OF REGIONAL EXPORTS AND SHARE IN WORLD EXPORTS,
 BY CATEGORY, 1999 AND 2000**
(Millions of dollars and percentages)

| Sector/Destination country | Latin America and the Caribbean | | | | Latin America and the Caribbean (not including Brazil and Mexico) | | | | Latin America and the Caribbean | | | | World exports | | | |
|--|---------------------------------|----------------|-------------|-------------|--|----------------|-------------|-------------|---------------------------------------|-------------|----------------------------|--------------|---------------|-------------|--|--|
| | Percentage of the total | | Growth | | Percentage of the total | | Growth | | Percentage of world exports | | Percentage of the total | | Growth | | | |
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | | |
| Commodities | 39.9 | 40.7 | 4.1 | 22.8 | 72.1 | 74.4 | 4.5 | 24.4 | 11.7 | 13.8 | 19.2 | 17.9 | ... | 4.6 | | |
| Agricultural products | 20.5 | 17.1 | -8.1 | 0.5 | 34.1 | 28.2 | -10.6 | -0.5 | 12.0 | 12.3 | 9.6 | 8.4 | -3.0 | -1.8 | | |
| Food products | 18.1 | 14.9 | -9.4 | -1.3 | 30.3 | 24.7 | -11.8 | -1.9 | 13.2 | 13.5 | 7.8 | 6.7 | -4.0 | -3.9 | | |
| Raw materials | 2.4 | 2.3 | 3.1 | 13.9 | 3.8 | 3.5 | 0.3 | 10.6 | 7.3 | 7.7 | 1.9 | 1.8 | -1.0 | 7.2 | | |
| Extractive industry products | 19.4 | 23.6 | 21.3 | 46.4 | 38.0 | 46.3 | 23.2 | 46.7 | 11.5 | 15.1 | 9.6 | 9.4 | 12.0 | 11.0 | | |
| Mining and minerals | 2.9 | 2.8 | -6.0 | 16.7 | 3.9 | 4.0 | -2.9 | 21.7 | 17.2 | 20.2 | 0.9 | 0.8 | -5.0 | -0.7 | | |
| Fuels | 13.2 | 17.6 | 37.1 | 59.9 | 27.4 | 35.7 | 36.6 | 57.1 | 10.9 | 15.6 | 6.8 | 6.8 | 19.0 | 11.9 | | |
| Non-ferrous metals | 3.3 | 3.2 | 0.1 | 18.0 | 6.7 | 6.6 | -1.1 | 18.7 | 10.5 | 10.9 | 1.8 | 1.8 | -1.0 | 13.5 | | |
| Manufactures | 58.7 | 58.0 | 8.4 | 18.8 | 25.6 | 23.3 | -4.1 | 9.6 | 4.3 | 4.5 | 77.3 | 78.7 | 4.0 | 14.4 | | |
| Iron and steel | 2.4 | 2.3 | -16.1 | 15.8 | 2.0 | 2.1 | -7.4 | 25.0 | 6.3 | 6.3 | 2.2 | 2.2 | -11.0 | 15.1 | | |
| Chemicals | 4.9 | 4.7 | -1.2 | 17.1 | 6.2 | 6.0 | -2.6 | 15.2 | 2.9 | 2.9 | 9.5 | 9.9 | 4.0 | 17.3 | | |
| Other semi-manufactures | 5.6 | 5.2 | 3.3 | 13.1 | 4.7 | 4.3 | -1.5 | 9.8 | 4.2 | 4.4 | 7.5 | 7.1 | 3.0 | 7.5 | | |
| Machinery and transport equipment | 35.2 | 35.5 | 13.3 | 21.1 | 7.7 | 6.4 | -3.3 | -0.3 | 4.6 | 4.8 | 43.2 | 45.1 | 5.0 | 17.2 | | |
| Power-generating machinery | 1.0 | 0.9 | 12.1 | 12.9 | 0.1 | 0.1 | 21.0 | 0.5 | 3.5 | 3.4 | 1.6 | 1.7 | ... | 18.0 | | |
| Other non-electrical machinery | 3.1 | 2.9 | 4.9 | 13.0 | 1.0 | 0.8 | -0.9 | -1.1 | 2.3 | 2.2 | 7.7 | 8.1 | ... | 17.4 | | |
| Office machines and telecommunications equipment | 10.7 | 11.2 | 27.3 | 25.3 | 2.7 | 1.5 | 118.5 | -31.5 | 4.2 | 4.5 | 14.4 | 15.2 | 10.0 | 18.6 | | |
| Electrical machinery and apparatus | 7.0 | 6.9 | 15.9 | 19.7 | 0.7 | 0.8 | -17.4 | 26.3 | 7.9 | 8.0 | 5.0 | 5.3 | ... | 18.5 | | |
| Automotive products | 11.3 | 11.2 | 3.7 | 18.5 | 2.4 | 2.5 | -42.4 | 23.4 | 6.3 | 6.4 | 10.2 | 10.6 | 5.0 | 16.4 | | |
| Other machinery and transport equipment | 2.1 | 2.4 | 11.6 | 34.1 | 0.7 | 0.6 | 34.2 | 13.3 | 2.8 | 3.4 | 4.3 | 4.3 | 1.0 | 12.4 | | |
| Textiles | 1.5 | 1.3 | 0.1 | 10.4 | 1.0 | 0.9 | -15.9 | 8.2 | 3.1 | 3.4 | 2.7 | 2.4 | -2.0 | -0.5 | | |
| Clothing | 3.4 | 3.1 | 13.4 | 11.7 | 1.7 | 1.5 | -1.4 | 9.4 | 6.0 | 6.8 | 3.2 | 2.8 | 1.0 | -1.3 | | |
| Other consumer goods | 5.8 | 5.7 | 6.8 | 18.9 | 2.3 | 2.2 | -8.3 | 14.0 | 3.6 | 3.8 | 9.1 | 9.2 | 4.0 | 13.8 | | |
| Other products | 1.4 | 1.3 | 11.0 | 11.4 | 2.3 | 2.2 | 1.8 | 17.7 | 2.2 | 2.5 | 3.5 | 3.2 | ... | 1.2 | | |
| Total for all sectors | 284,863 | 342,615 | 6.7 | 20.3 | 100,598 | 121,140 | 2.1 | 20.4 | 5.7 | 6.1 | 100.0 | 100.0 | 3.0 | 12.3 | | |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE)

Table II.12b
BRAZIL AND MEXICO:
TREND AND COMPOSITION OF EXPORTS, BY SECTOR, 1999-2000
(Millions of dollars and percentages)

| Sector/Destination country | Brazil | | | | Mexico | | | |
|--|-------------------------|---------------|-------------|-------------|-------------------------|----------------|-------------|--------------|
| | Percentage of the total | | Growth | | Percentage of the total | | Growth | |
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| Commodities | 44.3 | 39.7 | -5.6 | 3.3 | 14.6 | 16.5 | 15.3 | 37.8 |
| Agricultural products | 33.3 | 28.0 | -6.4 | -3.2 | 6.0 | 5.5 | -0.5 | 11.7 |
| Food products | 28.7 | 23.2 | -8.9 | -7.1 | 5.4 | 4.9 | 0.4 | 12.1 |
| Raw materials | 4.6 | 4.8 | 13.5 | 21.6 | 0.6 | 0.6 | -7.4 | 8.4 |
| Extractive industry products | 11.0 | 11.8 | -3.4 | 22.9 | 8.6 | 11.0 | 29.7 | 56.0 |
| Mining and minerals | 7.0 | 6.9 | -11.9 | 12.8 | 0.6 | 0.5 | 8.1 | 8.6 |
| Fuels | 0.8 | 1.6 | 14.5 | 125.1 | 7.1 | 9.7 | 39.4 | 65.0 |
| Non-ferrous metals | 3.1 | 3.2 | 17.5 | 18.2 | 0.9 | 0.8 | -10.2 | 13.8 |
| Manufactures | 53.1 | 57.5 | -7.3 | 24.6 | 85.1 | 83.4 | 16.1 | 19.5 |
| Iron and steel | 6.5 | 6.6 | -15.4 | 17.3 | 1.2 | 1.0 | -25.6 | 2.2 |
| Chemicals | 6.3 | 6.4 | -5.5 | 18.1 | 3.3 | 3.2 | 4.0 | 19.0 |
| Other semi-manufactures | 9.1 | 8.6 | 0.2 | 9.5 | 5.0 | 4.8 | 9.1 | 17.8 |
| Machinery and transport equipment | 23.7 | 28.1 | -9.6 | 36.4 | 59.7 | 59.2 | 19.5 | 21.0 |
| Power-generating machinery | 0.7 | 0.7 | -21.4 | 26.5 | 1.7 | 1.6 | 18.5 | 11.7 |
| Other non-electrical machinery | 5.0 | 4.8 | -15.5 | 9.3 | 3.9 | 3.7 | 19.4 | 17.4 |
| Office machines and telecommunications equipment | 2.8 | 4.3 | 25.9 | 76.7 | 19.4 | 20.5 | 22.2 | 28.5 |
| Electrical machinery and apparatus | 1.5 | 1.6 | -0.1 | 28.5 | 13.5 | 13.2 | 18.6 | 19.1 |
| Automotive products | 8.1 | 8.5 | -25.8 | 21.1 | 19.1 | 18.4 | 19.6 | 17.7 |
| Other machinery and transport equipment | 5.7 | 8.2 | 16.2 | 65.3 | 2.0 | 1.7 | 3.0 | 7.4 |
| Textiles | 1.7 | 1.6 | -7.8 | 9.5 | 1.7 | 1.5 | 13.4 | 11.7 |
| Clothing | 0.4 | 0.5 | -6.2 | 62.7 | 5.7 | 5.2 | 17.7 | 11.0 |
| Other consumer goods | 5.5 | 5.6 | 1.2 | 16.9 | 8.5 | 8.4 | 12.0 | 20.3 |
| Other products | 2.6 | 2.7 | 14.5 | 23.5 | 0.3 | 0.1 | 86.6 | -57.4 |
| Total for all sectors | 48,011 | 52,283 | -6.1 | 15.1 | 136,263 | 166,192 | 16.1 | 22.0 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

Table II. 13
**LATIN AMERICA AND THE CARIBBEAN:
 MERCHANDISE IMPORTS BY ORIGIN AND CATEGORY, 1999**
(Millions of dollars)

| Sector/Destination country | Latin America (LA) ^a | Brazil | Mexico | Rest of LA ^b | Canada | United States | European Union | Japan | Asia | Others | World |
|--|---------------------------------|---------------|--------------|-------------------------|--------------|----------------|----------------|---------------|---------------|---------------|----------------|
| Commodities | 19,137 | 1,691 | 608 | 16,839 | 1,663 | 17,579 | 3,688 | 131 | 1,938 | 5,764 | 49,902 |
| Agricultural products | 9,992 | 1,133 | 386 | 8,472 | 1,306 | 11,614 | 2,555 | 51 | 1,183 | 949 | 27,649 |
| Food products | 8,954 | 941 | 319 | 7,694 | 1,210 | 9,081 | 2,153 | 11 | 824 | 624 | 22,856 |
| Raw materials | 1,038 | 193 | 68 | 777 | 96 | 2,533 | 402 | 40 | 360 | 325 | 4,794 |
| Extractive industry products | 9,146 | 557 | 221 | 8,367 | 357 | 5,965 | 1,133 | 81 | 755 | 4,815 | 22,252 |
| Mining and minerals | 858 | 301 | 24 | 532 | 94 | 599 | 114 | 3 | 79 | 190 | 1,937 |
| Fuels | 6,927 | 99 | 131 | 6,697 | 206 | 3,481 | 588 | 34 | 588 | 4,403 | 16,227 |
| Non-ferrous metals | 1,362 | 157 | 67 | 1,137 | 57 | 1,885 | 431 | 44 | 88 | 222 | 4,088 |
| Manufactures | 26,774 | 9,015 | 4,117 | 13,642 | 4,396 | 130,239 | 45,076 | 12,148 | 18,729 | 8,262 | 245,625 |
| Iron and steel | 1,666 | 649 | 173 | 843 | 139 | 1,972 | 1,346 | 533 | 310 | 636 | 6,602 |
| Chemicals | 7,082 | 1,469 | 1,442 | 4,172 | 581 | 17,180 | 9,319 | 763 | 1,406 | 3,225 | 39,555 |
| Other semi-manufactures | 4,379 | 1,457 | 468 | 2,454 | 760 | 15,141 | 4,106 | 749 | 1,366 | 547 | 27,048 |
| Machinery and transport equipment | 9,459 | 4,277 | 1,516 | 3,667 | 2,561 | 73,901 | 25,502 | 9,107 | 10,551 | 2,622 | 133,704 |
| Power-generating machinery | 128 | 64 | 21 | 44 | 101 | 3,113 | 1,265 | 362 | 152 | 240 | 5,361 |
| Other non-electrical machinery | 1,753 | 926 | 175 | 653 | 620 | 15,213 | 10,908 | 1,976 | 1,210 | 1,046 | 32,726 |
| Office machines and telecommunications equipment | 1,559 | 611 | 687 | 261 | 583 | 23,240 | 3,304 | 2,244 | 5,798 | 529 | 37,257 |
| Electrical machinery and apparatus | 1,104 | 414 | 248 | 441 | 251 | 15,290 | 3,089 | 1,056 | 2,169 | 393 | 23,352 |
| Automotive products | 4,546 | 2,089 | 363 | 2,094 | 791 | 13,079 | 4,871 | 3,010 | 901 | 215 | 27,412 |
| Other machinery and transport equipment | 369 | 172 | 22 | 175 | 214 | 3,966 | 2,066 | 460 | 323 | 200 | 7,596 |
| Textiles | 1,226 | 404 | 136 | 686 | 89 | 4,586 | 656 | 66 | 1,320 | 350 | 8,293 |
| Clothing | 611 | 86 | 31 | 495 | 19 | 3,675 | 330 | 5 | 768 | 246 | 5,656 |
| Other consumer goods | 2,351 | 674 | 351 | 1,325 | 247 | 13,785 | 3,816 | 926 | 3,007 | 636 | 24,767 |
| Other products | 169 | 40 | 8 | 122 | 57 | 2,689 | 470 | 549 | 1,406 | 299 | 5,639 |
| Total for all sectors | 46,081 | 10,745 | 4,733 | 30,603 | 6,117 | 150,508 | 49,234 | 12,829 | 22,073 | 14,325 | 301,166 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

^a Total includes 25 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Belize, Barbados, Dominica, Grenada, Saint Lucia, Suriname and Trinidad and Tobago.

^b Does not include Brazil and Mexico.

Table II. 14
**LATIN AMERICA AND THE CARIBBEAN:
 GOODS IMPORTS BY ORIGIN AND CATEGORY, 2000**
(Millions of dollars)

| Sector/Destination country | Latin America (LA) ^a | Brazil | Mexico | Rest of LA ^b | Canada | United States | European Union | Japan | Asia | Others | World |
|--|---------------------------------|---------------|--------------|-------------------------|--------------|----------------|----------------|---------------|---------------|---------------|----------------|
| Commodities | 22,892 | 1,995 | 706 | 20,192 | 1,877 | 20,824 | 3,875 | 179 | 2,238 | 8,464 | 60,349 |
| Agricultural products | 9,877 | 1,228 | 371 | 8,278 | 1,402 | 11,941 | 2,486 | 53 | 1,196 | 934 | 27,889 |
| Food products | 8,767 | 1,022 | 278 | 7,466 | 1,281 | 8,872 | 2,035 | 11 | 743 | 594 | 22,303 |
| Raw materials | 2,020 | 203 | 108 | 1,708 | 121 | 3,185 | 456 | 42 | 453 | 514 | 6,790 |
| Extractive industry products | 12,367 | 747 | 293 | 11,327 | 389 | 8,158 | 1,288 | 124 | 973 | 7,499 | 30,798 |
| Mining and minerals | 1,139 | 408 | 45 | 686 | 129 | 857 | 222 | 49 | 132 | 310 | 2,838 |
| Fuels | 10,409 | 213 | 332 | 9,864 | 173 | 5,876 | 934 | 79 | 842 | 7,085 | 25,398 |
| Non-ferrous metals | 2,247 | 269 | 142 | 1,836 | 122 | 2,370 | 680 | 101 | 204 | 402 | 6,127 |
| Manufactures | 29,043 | 10,653 | 4,065 | 14,325 | 5,420 | 158,713 | 43,584 | 13,845 | 24,491 | 9,649 | 284,746 |
| Iron and steel | 2,037 | 727 | 261 | 1,050 | 172 | 3,130 | 1,432 | 787 | 524 | 1,066 | 9,148 |
| Chemicals | 7,376 | 1,663 | 1,476 | 4,237 | 674 | 19,898 | 9,526 | 884 | 1,800 | 3,855 | 44,013 |
| Other semi-manufactures | 4,533 | 1,608 | 404 | 2,521 | 871 | 19,152 | 4,320 | 1,072 | 1,791 | 612 | 32,352 |
| Machinery and transport equipment | 11,177 | 5,490 | 1,633 | 4,054 | 3,305 | 91,302 | 23,927 | 10,648 | 14,457 | 3,077 | 157,892 |
| Power-generating machinery | 143 | 66 | 27 | 50 | 123 | 3,181 | 1,067 | 437 | 231 | 237 | 5,419 |
| Other non-electrical machinery | 1,760 | 931 | 170 | 659 | 589 | 16,461 | 9,358 | 2,002 | 1,666 | 985 | 32,821 |
| Office machines and telecommunications equipment | 2,148 | 1,059 | 773 | 316 | 965 | 29,325 | 4,054 | 2,736 | 8,057 | 781 | 48,065 |
| Electrical machinery and apparatus | 1,488 | 530 | 316 | 642 | 295 | 19,886 | 2,833 | 1,409 | 3,169 | 515 | 29,595 |
| Automotive products | 5,471 | 2,673 | 333 | 2,465 | 1,203 | 18,580 | 4,995 | 3,104 | 1,104 | 565 | 35,023 |
| Other machinery and transport equipment | 946 | 396 | 214 | 336 | 203 | 6,094 | 2,486 | 1,214 | 779 | 461 | 12,181 |
| Textiles | 3,701 | 794 | 622 | 2,286 | 231 | 9,082 | 2,216 | 941 | 2,601 | 1,163 | 19,936 |
| Clothing | 1,535 | 154 | 83 | 1,298 | 120 | 4,441 | 669 | 8 | 1,156 | 288 | 8,217 |
| Other consumer goods | 3,396 | 771 | 335 | 2,290 | 297 | 18,079 | 3,681 | 1,072 | 3,571 | 802 | 30,897 |
| Other products | 1,992 | 77 | 82 | 1,833 | 198 | 3,294 | 724 | 496 | 1,984 | 509 | 9,197 |
| Total for all sectors | 55,528 | 13,053 | 5,290 | 37,185 | 7,519 | 185,430 | 49,449 | 15,377 | 29,472 | 19,356 | 362,131 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

^a Total includes 25 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Belize, Barbados, Dominica, Grenada, Saint Lucia, Suriname and Trinidad and Tobago.

^b Does not include Brazil and Mexico.

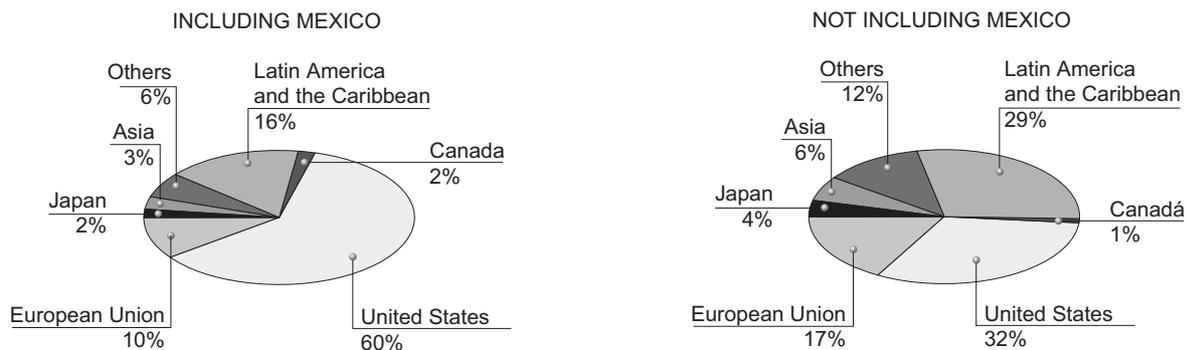
Table II.15
LATIN AMERICA AND THE CARIBBEAN:
TREND AND COMPOSITION OF REGIONAL IMPORTS BY CATEGORY,
1999 AND 2000
(Millions of dollars and percentages)

| Sector/Destination country | Latin America and the Caribbean | | | | Latin America and the Caribbean (not including Brazil and Mexico) | | | |
|--|---------------------------------|----------------|-------------|-------------|--|----------------|--------------|--------------|
| | Percentage of the total | | Growth | | Percentage of the total | | Growth | |
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| Commodities | 16.6 | 17.1 | -6.0 | 24.3 | 20.4 | 22.6 | -7.3 | 15.6 |
| Agricultural products | 9.2 | 8.2 | -12.4 | 7.9 | 12.0 | 11.7 | -12.8 | 1.3 |
| Food products | 7.6 | 6.7 | -12.3 | 6.0 | 10.5 | 10.0 | -12.6 | -0.3 |
| Raw materials | 1.6 | 1.5 | -12.7 | 17.0 | 1.5 | 1.7 | -14.6 | 11.9 |
| Extractive industry products | 7.4 | 8.9 | 3.3 | 44.7 | 8.4 | 10.9 | 2.1 | 36.0 |
| Mining and minerals | 0.6 | 0.7 | -9.9 | 27.7 | 0.5 | 0.6 | -28.0 | 9.6 |
| Fuels | 5.4 | 6.9 | 8.3 | 53.1 | 6.9 | 9.3 | 10.8 | 40.7 |
| Non-ferrous metals | 1.4 | 1.3 | -7.2 | 19.4 | 0.9 | 1.1 | -23.4 | 16.9 |
| Manufactures | 81.6 | 81.3 | -3.6 | 19.9 | 78.2 | 77.0 | -18.1 | 3.0 |
| Iron and steel | 2.2 | 2.2 | -26.8 | 23.2 | 2.8 | 2.8 | -35.8 | 5.1 |
| Chemicals | 13.1 | 12.4 | -0.4 | 13.4 | 15.7 | 16.1 | -6.8 | 7.1 |
| Other semi-manufactures | 9.0 | 9.2 | -0.1 | 22.6 | 9.2 | 9.1 | -10.9 | 3.2 |
| Machinery and transport equipment | 44.4 | 44.5 | -4.8 | 20.6 | 38.2 | 36.4 | -23.7 | -0.2 |
| Power-generating machinery | 1.8 | 1.5 | -1.8 | 1.7 | 1.7 | 1.4 | -20.5 | -15.2 |
| Other non-electrical machinery | 10.9 | 9.4 | -10.2 | 3.7 | 11.0 | 9.6 | -23.9 | -8.9 |
| Office machines and telecommunications equipment | 12.4 | 13.5 | 7.6 | 31.2 | 9.4 | 9.9 | -12.4 | 10.6 |
| Electrical machinery and apparatus | 7.8 | 8.0 | 1.7 | 24.3 | 4.3 | 4.3 | -21.4 | 5.7 |
| Automotive products | 9.1 | 10.0 | -17.9 | 32.5 | 8.8 | 8.7 | -38.5 | 3.4 |
| Other machinery and transport equipment | 2.5 | 2.1 | 1.2 | 0.8 | 2.9 | 2.5 | 2.0 | -12.2 |
| Textiles | 2.8 | 2.8 | 10.1 | 23.3 | 2.4 | 2.6 | -15.6 | 13.2 |
| Clothing | 1.9 | 1.7 | -10.6 | 11.9 | 1.7 | 1.9 | -17.5 | 16.7 |
| Other consumer goods | 8.2 | 8.4 | -0.2 | 23.2 | 8.2 | 8.1 | -8.8 | 3.0 |
| Other products | 1.9 | 1.5 | 10.2 | -1.0 | 1.4 | 0.5 | 67.6 | -65.9 |
| Total for all sectors | 301,166 | 362,131 | -3.8 | 20.2 | 107,463 | 112,409 | -15.5 | 4.6 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

Figure II.4

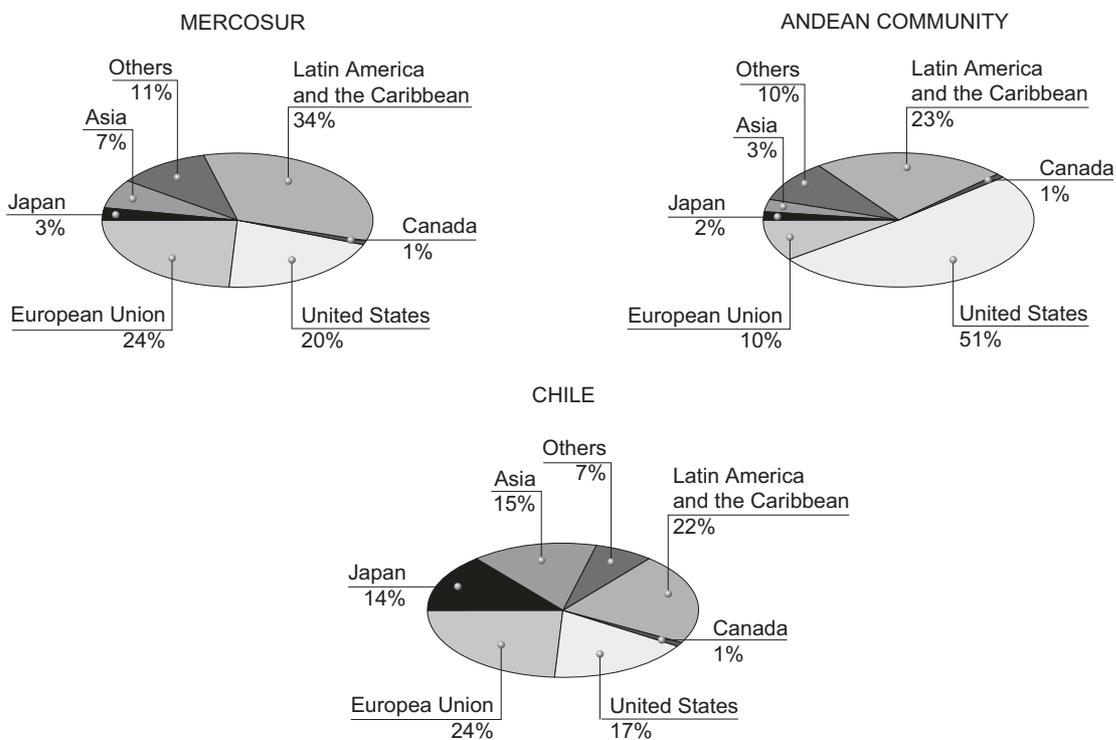
**LATIN AMERICA AND THE CARIBBEAN:
MAIN EXPORT MARKETS, 2000**
(Percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

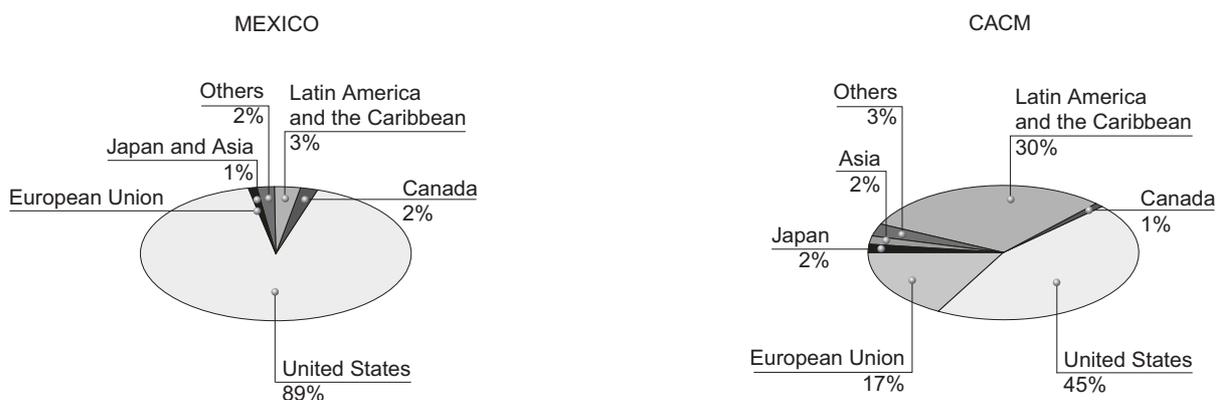
Figure II.5a

**SOUTHERN COMMON MARKET (MERCOSUR), ANDEAN COMMUNITY AND CHILE:
MAIN EXPORT MARKETS, 2000**
(Percentages)



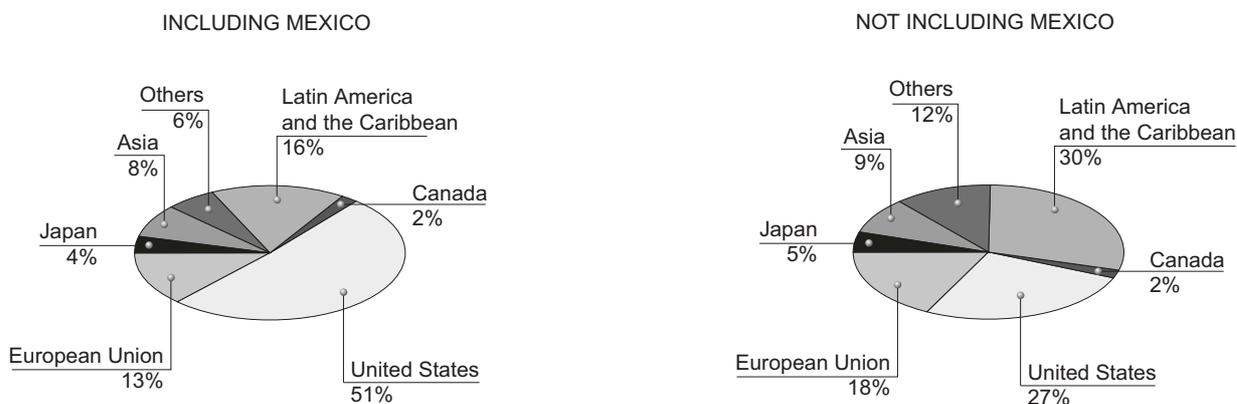
Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

Figure II.5b
**MEXICO AND CENTRAL AMERICAN COMMON MARKET (CACM):
 MAIN EXPORT MARKETS, 2000**
(Percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

Figure II.6
**LATIN AMERICA AND THE CARIBBEAN:
 MAIN COUNTRIES OF ORIGIN OF IMPORTS, 2000**
(Percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

C. Intraregional trade in Latin America and the Caribbean in 2000

All the Latin American and Caribbean countries have taken steps to negotiate bilateral and multilateral free trade agreements with regional markets as part of their efforts to improve the international position of their economies. In addition, for several decades, the governments of the region –with the exception of Chile and Mexico– have sought to deepen the regional integration of their economies by establishing partial customs unions which have boosted trade growth within these areas to varying degrees. Likewise, regional integration has enabled member countries to adopt common positions in negotiations with third countries or groups of countries, such as the discussions on the Free Trade Area of the Americas (FTAA) and talks between a number of countries or groups of countries and the European Union (see chapter IV).

This section examines the main trading features of the region's countries from the perspective of exports by integration schemes –CARICOM, the Andean Community, CACM and MERCOSUR– with an emphasis on intraregional trade. Chile and Mexico are discussed at the end of the section, as they are not full members of any integration scheme.¹⁰

1. Caribbean Community (CARICOM)

In 2000, the CARICOM countries' total exports were equivalent to just over US\$ 6 billion, which was an increase of 18% with respect to 1999. This growth was largely a reflection of an increase in the value of fuel exports by Trinidad and Tobago, the region's main exporter. The region's external trade thus saw an upturn by comparison with the preceding period, during which exports grew by less than 11%. In the last three years, trade within CARICOM has accounted for around 18% of the member countries' total exports, although this proportion dropped slightly –from 18.5% to less than 18%– between 1998 and 2000 (see table II.16).

In 1997, the most recent year for which information is available on the origin and destination of CARICOM

trade flows in the ECLAC Foreign Trade Data Bank for Latin America and the Caribbean (BADECEL), 17% of exports were shipped within the bloc, and consisted chiefly of commodities (63%), of which a little over half were fuels. Even given that the member countries are service economies, commodities accounted for a smaller share of intraregional trade (63%) than of exports to the rest of the world (70%). Trinidad and Tobago is the leading CARICOM exporter, accounting for almost half of the Caribbean's total goods exports and almost three quarters of intra-CARICOM exports. Jamaica follows, with a quarter of total exports and a third of exports to the rest of the world, though only 5% of total exports within CARICOM.

Within a smaller group of countries for which updated information is available, intraregional trade grew rapidly in 2000, though the region's external trade grew even more strongly, at rates of 28% and 36.5%, respectively. These figures include petroleum exports by Trinidad and Tobago, which have a powerful bearing on the final average (see table II.17).

2. Andean Community

In 2000, the Andean Community's intraregional exports accounted for approximately 9% of the member countries' total exports, which was similar to their 1999 level and less than those of earlier years. The decrease in the proportion of trade within the Community was attributable to an expansion of 36% in total exports, which in turn was largely a reflection of increased shipments by Venezuela. On average, intraregional trade expanded at a slightly higher rate than extraregional trade –36% and 31%, respectively– mainly as a result of increased exports by Colombia, Ecuador and Peru (see tables II.16 and II.17).

Quarterly trade performance within the Andean Community displayed a sharp downturn in trade between the five countries in the first quarter of 1999, followed by an upswing that started in the next quarter and brought

10 There are other countries in the region –the Dominican Republic, for example– which are not members of a regional integration scheme, but which cannot be included in this section as the statistical information available is incomplete.

Table II.16
LATIN AMERICA AND THE CARIBBEAN:
TOTAL EXPORTS AND EXPORTS BY SUBREGIONAL INTEGRATION SCHEME
(Millions of current dollars and percentages)

| Grouping/Year | 1990 | 1995 | 1998 | 1999 | 2000 | January-September | |
|--|---------|---------|---------|---------|---------|-------------------|-------------------|
| | | | | | | 2000 | 2001 ^a |
| Latin American Integration Association (LAIA) | | | | | | | |
| 1 Total exports ^b | 112,694 | 167,192 | 251,345 | 264,235 | 332,565 | 229,738 | 227,310 |
| Annual growth (%) | 10.6 | 36.8 | -1.6 | 5.1 | 25.9 | 23.3 | -1.1 |
| 2 Exports within LAIA | 12,302 | 28,168 | 43,231 | 34,776 | 43,195 | 31,437 | 31,700 |
| Annual growth (%) | 13.2 | 26.2 | -5.0 | -19.6 | 24.2 | 24.9 | 0.7 |
| 3 Intra-LAIA exports (2:1) (%) | 10.9 | 16.8 | 17.2 | 13.2 | 13.0 | 13.7 | 13.9 |
| Andean Community | | | | | | | |
| 1 Total exports | 31,751 | 33,706 | 38,896 | 44,603 | 60,709 | 42,740 | 39,358 |
| Annual growth (%) | 30.2 | 13.6 | -16.5 | 14.7 | 36.1 | 31.4 | -7.9 |
| 2 Exports within Andean Community | 1,324 | 3,472 | 5,411 | 3,940 | 5,370 | 3,794 | 4,224 |
| Annual growth (%) | 31.0 | 21.5 | -3.7 | -27.2 | 36.3 | 35.9 | 11.3 |
| 3 Intra-Community exports (2:1) (%) | 4.2 | 10.3 | 13.9 | 8.8 | 8.8 | 8.9 | 10.7 |
| Southern Common Market (MERCOSUR) | | | | | | | |
| 1 Total exports | 46,403 | 61,890 | 80,227 | 76,305 | 85,692 | 64,788 | 68,445 |
| Annual growth (%) | -0.3 | 13.9 | -2.9 | -4.9 | 12.3 | 18.0 | 5.6 |
| 2 Exports within MERCOSUR | 4,127 | 12,048 | 20,027 | 15,164 | 18,078 | 13,245 | 11,994 |
| Annual growth (%) | 7.3 | 17.8 | -2.2 | -24.3 | 19.2 | 18.8 | -9.4 |
| 3 Intra-MERCOSUR exports (2:1) (%) | 8.9 | 19.5 | 25.0 | 19.9 | 21.1 | 20.4 | 17.5 |
| Central American Common Market (CACM) | | | | | | | |
| 1 Total exports | 3,907 | 5,496 | 11,077 | 11,633 | 11,242 | 8,890 | 7,690 |
| Annual growth (%) | 9.2 | 7.2 | 19.4 | 5.0 | -3.4 | 4.2 | -13.5 |
| 2 Exports within CACM | 624 | 1,228 | 2,242 | 2,333 | 2,545 | 1,947 | 2,060 |
| Annual growth (%) | 8.9 | 6.0 | 20.3 | 4.1 | 9.1 | 11.3 | 5.8 |
| 3 Intra-CACM exports (2:1) (%) | 16.0 | 22.3 | 20.2 | 20.1 | 22.6 | 21.9 | 26.8 |
| Caribbean Community (CARICOM)^c | | | | | | | |
| 1 Total exports | 3,634 | 4,113 | 4,651 | 5,182 | 6,132 | ... | ... |
| Annual growth (%) | 11.6 | 3.1 | -0.8 | 11.4 | 18.3 | ... | ... |
| 2 Exports within CARICOM | 469 | 521 | 859 | 957 | 1087 | ... | ... |
| Annual growth (%) | 2.9 | 2.6 | 9.4 | 11.4 | 13.6 | ... | ... |
| 3 Intra-CARICOM exports (2:1) (%) | 12.9 | 12.7 | 18.5 | 18.5 | 17.7 | ... | ... |
| Latin America and the Caribbean^d | | | | | | | |
| 1 Total exports | 120,572 | 177,336 | 267,073 | 281,050 | 349,939 | 243,074 | 238,800 |
| Annual growth (%) | 6.5 | 32.6 | -0.8 | 5.2 | 24.5 | 23.1 | -1.8 |
| 2 Exports within Latin America and the Caribbean | 16,802 | 35,065 | 51,674 | 42,624 | 57,858 | 37,854 | 38,100 |
| Annual growth (%) | 8.2 | 20.1 | -5.6 | -17.5 | 35.7 | 21.9 | 0.7 |
| 3 Intra-regional/Total (2:1) (%) | 13.9 | 19.8 | 19.3 | 15.2 | 16.5 | 15.6 | 16.0 |

Source: ECLAC, International Trade and Integration Division, on the basis of official information.

^a Preliminary figures.

^b From 1992 on includes *maquila* exports from Mexico.

^c Includes Barbados, Guyana, Jamaica and Trinidad and Tobago.

^d Includes LAIA, CACM, Barbados, Guyana, Jamaica, Panama and Trinidad and Tobago, together with official information from the subregional groupings (MERCOSUR, Andean Community, CACM and the most representative countries of CARICOM). Consequently, the figures given here differ from those obtained by aggregating data from the previous tables.

trade back to pre-financial-crisis levels by the second quarter of 2000. Colombia accounts for 42% of the Andean Community's intraregional exports, followed by Venezuela (31%), Ecuador (13%), Peru (8%) and Bolivia (6%) (see table II.18 and figure II.7).

According to data from BADECEL, Bolivia's exports

to other member countries consist mainly of commodities (91%), specifically food products (84%).¹¹ Ecuador's exports to the Andean Community are also mainly commodities, chiefly fuels (36%) and food (22%), while its manufacturing exports account for 40%. However, manufactures account for only 4% of its exports outside the

Table II.17

**LATIN AMERICA AND THE CARIBBEAN:
INTRAREGIONAL AND EXTRAREGIONAL TRADE BY GROUPING, 1999 AND 2000**
(Growth rates)

| Grouping | Intraregional trade | | | | Extraregional trade | | | |
|----------------------------------|---------------------|-------------|--------------|-------------|---------------------|-------------|--------------|-------------|
| | Exports | | Imports | | Exports | | Imports | |
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| MERCOSUR^a | -24.3 | 19.2 | -24.6 | 12.4 | -3.0 | 13.5 | -14.4 | 6.0 |
| Argentina | -24.9 | 18.8 | -20.7 | 9.3 | -4.4 | 10.7 | -18.0 | -11.7 |
| Brazil | -23.7 | 14.5 | -28.6 | 16.2 | -2.4 | 15.3 | -12.2 | 13.5 |
| Paraguay | -42.1 | 79.9 | -34.8 | 18.3 | -10.4 | -26.7 | -33.6 | 11.8 |
| Uruguay | -34.3 | 1.6 | -11.4 | 3.9 | -0.6 | 3.4 | -12.2 | 2.8 |
| Andean Community | -27.2 | 36.3 | -19.6 | 30.3 | 17.4 | 31.3 | -20.5 | 5.7 |
| Bolivia | -8.0 | 6.0 | -10.2 | 1.7 | 10.4 | 3.4 | -22.8 | 0.6 |
| Colombia | -22.7 | 31.4 | -24.2 | 12.1 | 14.7 | 9.8 | -27.9 | 7.7 |
| Ecuador | -12.3 | 37.9 | -37.4 | 37.4 | 8.6 | 4.8 | -47.7 | 8.3 |
| Peru | -26.8 | 26.5 | -12.7 | 39.5 | 7.5 | 11.3 | -17.7 | 5.3 |
| Venezuela | -37.7 | 30.2 | -2.6 | 48.0 | 24.9 | 55.7 | -5.1 | 4.6 |
| CACM^b | 4.1 | 9.1 | 3.8 | 14.2 | 11.9 | -2.3 | -0.9 | 6.1 |
| Costa Rica | -40.1 | 7.9 | -4.0 | 3.5 | 36.2 | -14.8 | -4.0 | 0.6 |
| El Salvador | 1.7 | 18.1 | 6.4 | 28.8 | -16.1 | 11.8 | -0.7 | 19.4 |
| Guatemala | 5.5 | 3.2 | -20.2 | 26.8 | -9.0 | 12.9 | 0.7 | 4.9 |
| Honduras | -18.3 | 39.4 | 2.7 | 9.8 | -22.7 | 42.2 | 3.3 | 9.9 |
| Nicaragua | 123.7 | 13.2 | 50.0 | -5.5 | -25.5 | 28.0 | 1.5 | 2.2 |
| Caribbean Community | 7.7 | 27.7 | 12.0 | 13.1 | 13.4 | 36.5 | -5.0 | 12.5 |
| Barbados | 1.8 | 0.0 | 0.1 | 40.8 | -0.6 | -6.5 | 5.2 | 2.4 |
| Dominica | 14.4 | -0.1 | -1.3 | 19.8 | -22.8 | -3.2 | -2.7 | 7.9 |
| Jamaica | -5.4 | 4.0 | 18.3 | 9.0 | -4.8 | 5.3 | -5.2 | 10.1 |
| Saint Kitts and Nevis | -6.5 | 113.0 | -2.2 | 31.9 | -15.6 | 11.1 | 2.1 | 27.3 |
| Saint Lucia | 15.0 | -9.4 | 8.7 | -1.1 | -3.9 | -24.1 | 7.9 | -1.4 |
| Trinidad and Tobago | 9.5 | 35.3 | 23.9 | -4.8 | 30.3 | 58.6 | -10.1 | 21.9 |
| Saint Vincent and the Grenadines | -6.0 | -3.6 | -0.4 | 4.2 | -2.3 | -2.6 | 6.1 | -26.7 |
| Chile | -4.0 | 16.7 | -5.3 | 32.3 | 8.1 | 16.6 | -23.8 | 13.6 |
| Mexico | -30.9 | 21.0 | 13.4 | 49.0 | 18.3 | 22.0 | 13.4 | 34.1 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the United Nations Commodity Trade Statistics Database (COMTRADE).

^a Southern Common Market.

^b Central American Common Market.

11 For Bolivia, exports outside the Andean Community include a higher share of manufactures than exports to other member countries (32% compared with 9%). This is mainly due to the inclusion in merchandise exports of leasing payments for aircraft used by Bolivian airlines.

subregional group, which consist mainly of fuels (53%) and food (39%).

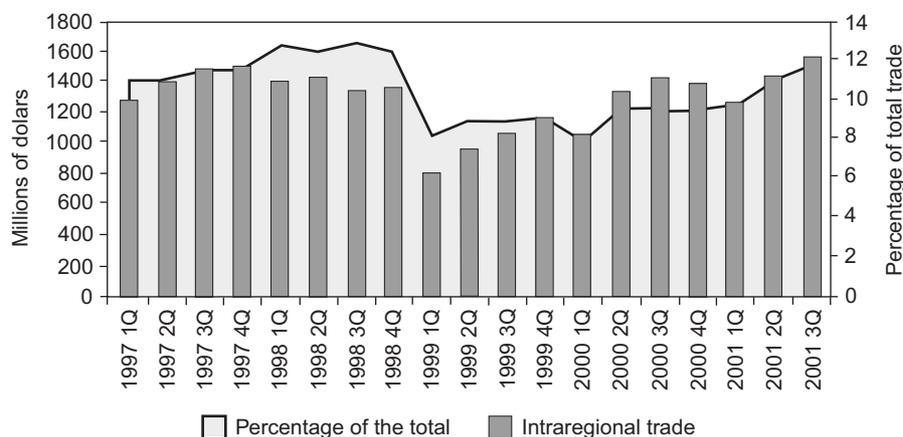
By contrast, Colombia's exports to other Andean Community countries are mainly manufactures (76%), of which a large proportion are chemicals (23%). The automotive industry also accounts for a significant share (10%). In fact, more than 50% of intra-Community manufactures trade originates in Colombia, including a considerable

share of machinery and transport equipment (66%) and clothing (85%). This contrasts markedly with the structure of the country's exports outside the Andean Community, which is exactly the opposite, with 76% consisting of commodities, mainly fuels (50%) and food (20%).

Peru's exports to other Andean Community countries are more diverse: 52% are manufactures, including a significant proportion of chemicals (18%) and textiles (8%)

Figure II.7

ANDEAN COMMUNITY: INTRAREGIONAL TRADE QUARTERLY VALUES, 1997-2001
(Millions of dollars and percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of official figures.

Table II.18

ANDEAN COMMUNITY:
INTRAREGIONAL TRADE, QUARTERLY VALUES, 1998-2001
(Millions of dollars and growth rates)

| Country | 1998 | 1999 | | | | 2000 | | | | 2001 | | | Growth 2001 a/ | | |
|--------------|--------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|------------|------------|
| | I Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | I Q | II Q | III Q |
| Bolivia | 83 | 49 | 68 | 63 | 111 | 55 | 87 | 92 | 71 | 67 | 95 | 97 | 22.7 | 8.9 | 5.9 |
| Colombia | 469 | 338 | 402 | 452 | 442 | 447 | 511 | 584 | 624 | 562 | 651 | 792 | 25.7 | 27.5 | 35.7 |
| Ecuador | 127 | 91 | 95 | 120 | 139 | 141 | 184 | 210 | 127 | 193 | 235 | 185 | 36.5 | 27.6 | -11.8 |
| Peru | 94 | 85 | 78 | 91 | 94 | 101 | 104 | 117 | 124 | 120 | 133 | 128 | 19.4 | 28.8 | 9.1 |
| Venezuela | 578 | 232 | 306 | 324 | 358 | 312 | 438 | 412 | 432 | 314 | 304 | 346 | 0.7 | -30.6 | -16.1 |
| Total | 1,351 | 795 | 949 | 1,049 | 1,144 | 1,056 | 1,324 | 1,414 | 1,379 | 1,257 | 1,419 | 1,548 | 19.0 | 7.2 | 9.4 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the web site of the Andean Community (<http://www.comunidadandina.org>).

^a Growth rate with respect to the same period of the preceding year.

while commodity exports consist of food (16%) and non-ferrous metals (26%). By contrast, commodities account for the bulk of Peru's exports to third countries (64%), again largely food (25%), ores and other minerals (13%) and non-ferrous metals (20%). Chemicals account for a small share (less than 2%) of exports outside the Andean Community, as do textiles (around 2%), which is a reflection of the regional concentration of these industries. By contrast, clothing—which accounts for just 2% of intraregional exports—represents over 7% of exports outside the region and around half of Colombian manufactured exports.

Venezuela's intraregional exports are also quite evenly distributed between manufactures and commodities (51% and 49%, respectively), while extraregional exports consist chiefly of fuels (89%), with manufactures accounting for only a small proportion (6.5%). Fuels are also the most significant category in intraregional exports (36%), together with food (8.5%) and non-ferrous metals (4.3%). Manufactures exported to other Andean countries include petrochemicals and iron and steel products, of which Venezuela accounts for 83% of intraregional exports.

3. Central American Common Market (CACM)

In 2000, the intraregional exports of the CACM member countries were equivalent to 23% of their total exports, which was higher than the 1999 figure of 20% (see table II.16).¹² El Salvador is the leading intraregional exporter, with a share of over 29%, followed by Guatemala (27%), Costa Rica (25%), Honduras (12%) and Nicaragua (5.5%). As shown in tables II.17 and II.19, the growth rates of Costa Rican and Salvadoran exports within CACM were higher than the figures for exports outside the group. The data indicate that intraregional exports continued to expand, while shipments to third countries decreased (see tables II.16 and II.19 and figure II.8). These figures must be approached cautiously, however, firstly because customs offices do not differentiate between final destinations and transit ports, and secondly because the data do not accurately reflect *maquila* operations, which account for a significant portion of exports from El Salvador, for example, to the United States.

Intraregional exports by Costa Rica consist chiefly of manufactures (71%) and food (27%). Exports of manufactures include chemicals (23%), other semi-manufactures (21%) and electrical machinery and apparatus (8.3%). Almost 90% of the country's exports go to third countries, but CACM is a major destination for products such as iron and steel, textiles and chemicals. Costa Rica differs from the rest of Central and South America in that its exports outside the region also consist mainly of manufactures (65%). This is a reflection of major changes in the country in the wake of the installation of the Intel plant: office machines and telecommunications equipment now represent 35% of exports outside CACM, followed by clothing (7.7%).¹³

El Salvador's exports to CACM countries are mainly manufactures (66%), of which a significant proportion are chemicals (18%), while foods (23%) are the largest category within commodity exports (23%).¹⁴ Meanwhile, shipments to third countries consist chiefly of commodities (71%), of which 66% are foods.

Similarly, 66% of Guatemala's exports to other CACM countries are manufactures, including a large share of chemicals (26%), while commodity exports consist largely of foods (31%). The country's exports outside CACM are mainly commodities (83%), chiefly foods, which account for 67% of total exports.

Of Honduras' exports to CACM, 55% are manufactures, of which a large proportion are chemicals (26%), while commodity exports consist almost entirely of foods. Two thirds of exports to third countries are foods, and about a quarter are manufactures. In the case of Nicaragua, both intraregional and extraregional exports are chiefly commodities—80% and 92%, respectively—especially foods (71% and 90%).

4. Southern Common Market (MERCOSUR)

In 2000 the intraregional exports of the MERCOSUR countries accounted for about 21% of their total exports. Although this share of total exports is very close to the 1999 figure (20%), it continues the downward trend from the peak of 25% recorded in 1998 (see table II.16). Exports within MERCOSUR increased by 19% in 2000, which was an upturn after the contraction of 24% re-

12 CACM intraregional trade may be overestimated because figures sometimes include certain flows of goods that are actually bound for Mexico or the United States, but which pass through a member country.

13 Costa Rica's share of intraregional trade in office machines continues to be tiny, and practically all imports of these products come from outside the region. In addition, the contraction in Costa Rican exports in 2000 (-11%) is attributable to a reduction in exports of these items.

14 COMTRADE data do not accurately reflect *maquila* operations.

Table II.19
**CENTRAL AMERICAN COMMON MARKET (CACM):
 INTRAREGIONAL TRADE, QUARTERLY VALUES, 1998-2001**
(Millions of dollars and growth rates)

| Country | 1998 | 1999 | | | | 2000 | | | | 2001 ^a | | | Growth 2001 ^b | | |
|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|------------|------------|--------------------------|------------|-------------|
| | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | I Q | II Q | III Q |
| Costa Rica | 144 | 121 | 129 | 138 | 152 | 139 | 159 | 159 | 175 | 165 | 167 | 100 | 18.3 | 5.0 | -37.2 |
| El Salvador | 106 | 168 | 132 | 99 | 97 | 255 | 199 | 149 | 146 | 184 | 179 | 179 | -28.0 | -10.4 | 19.9 |
| Guatemala | 194 | 141 | 150 | 148 | 154 | 161 | 174 | 170 | 176 | 209 | 228 | 244 | 29.7 | 31.3 | 44.0 |
| Honduras | 43 | 75 | 74 | 60 | 53 | 84 | 87 | 69 | 61 | 95 | 93 | 75 | 12.6 | 6.7 | 8.5 |
| Nicaragua | 25 | 36 | 32 | 27 | 25 | 42 | 37 | 31 | 29 | 46 | 44 | 54 | 10.3 | 18.1 | 71.5 |
| CACM | 444 | 542 | 517 | 471 | 480 | 692 | 667 | 588 | 598 | 698 | 711 | 651 | 0.9 | 6.6 | 10.8 |

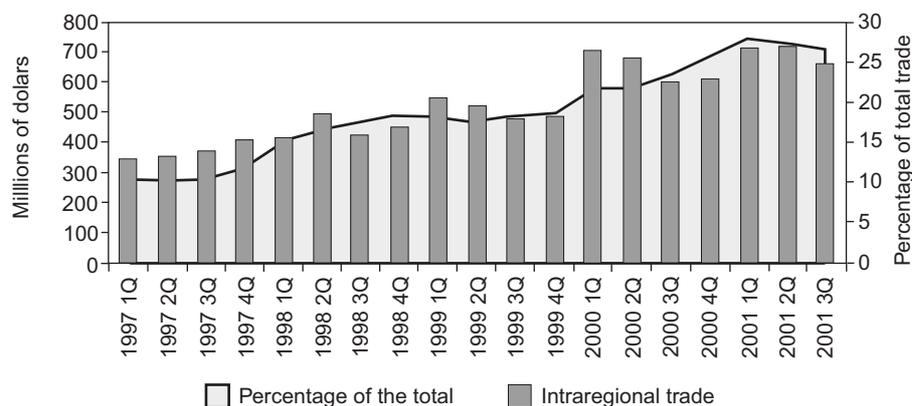
Source: ECLAC, International Trade and Integration Division, on the basis of information from International Monetary Fund (IMF), *Direction of Trade Statistics*, various years, and official sources in the respective countries.

^a Preliminary figures.

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

Figure II.8

**CENTRAL AMERICAN COMMON MARKET (CACM): INTRAREGIONAL TRADE
 QUARTERLY VALUES, 1997-2001**
(Millions of dollars and percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of official figures.

corded the previous year (see table II.17). Meanwhile, total exports expanded by 12%, recovering from their 5% decrease in 1999. Argentina and Brazil, the largest MERCOSUR economies, together account for around 90% of intraregional exports (47% and 43.5%, respectively), while Uruguay represents less than 6% and Paraguay, less than 3.5%.

Quarterly data indicate that, despite the upturn in MERCOSUR trade growth observed from the fourth

quarter of 1999 on, intra-MERCOSUR trade has not recovered the high proportions seen in 1997-1998 (see table II.20 and figure II.9).

Almost half of Argentina's exports to other MERCOSUR countries consist of manufactures, of which automotive products and chemicals account for over 65%. Together with the trade figures for Brazil and Uruguay, this points to a pattern of intra-industry trade specialization in these segments within MERCOSUR.

Exports to Brazil are heavily weighted towards foods (27%) and fuels (22%). By contrast, Argentine exports outside MERCOSUR consist mainly of commodities (73%), of which two thirds are foods and one fifth are fuels. Chemicals and transport equipment still account for a relatively small share of Argentine exports to third countries (5% and 2%, respectively). In fact, almost 80% of the country's automotive exports go to other MERCOSUR countries, with the overwhelming majority bound for Brazil.

As mentioned previously, Brazil is a large exporter of manufactures and the other countries of the region provide major markets for its industries: over 80% of Brazil's exports to both MERCOSUR and non-MERCOSUR countries of the region are manufactures. These exports are fairly diverse and include motor vehicles and parts thereof (18%), chemicals (14%) and office machines and telecommunications equipment (10%). In fact, although more than 90% of the MERCOSUR countries' manufactured imports come from third countries, 96% of intraregional trade in manufactures originates in Brazil. Brazilian exports outside Latin America and the Caribbean are divided fairly equally between manufactures and commodities (49% and 48%, respectively). There are two clearly distinct groups, however: exports to the European Union, Japan and Asia, which consist mainly of commodities and semi-manufactures (60%, 72% and 60%, respectively), and exports to Canada and the United States, which consist chiefly of manufactures (66% and 75%, respectively).

Paraguay's exports—both to MERCOSUR and to third countries—consist mainly of agricultural products, although manufactures account for a quarter of exports outside MERCOSUR as against 17% of exports within the grouping. The country's small volume of manufactured exports consists mainly of other semi-manufactures, textiles and clothing (6%, 2% and 3%, respectively). By contrast, Uruguay's position in MERCOSUR is different from its trading position in relation to third countries. Over half (55%) of its exports to MERCOSUR are manufactures, while its commodity exports consist almost entirely of foods (40% of the total).

5. Chile

Chile is an associate member of MERCOSUR, but has not become fully integrated into the regional scheme owing, among other reasons, to the fact that its tariffs are much lower than the MERCOSUR common external tariff (CET). At the same time, Chile has maintained the unilateral liberalization policy it instituted in 1980

and has complemented it with an active strategy of boosting external trade through the negotiation of free trade agreements, mainly with other Latin American countries.

In 2000, Chile's exports, for which MERCOSUR was the main destination within the region, amounted to a total of US\$ 18 billion. MERCOSUR accounted for 9.4% of those exports—with over half of that share going to Brazil—followed by the Andean Community (6.7%), Mexico (4.5%) and then the CACM and CARICOM countries with much smaller shares of 0.6% and 0.1%, respectively. Chile's main markets lie outside the region, however, as extraregional exports account for 78% of the total. The European Union is Chile's main extraregional market (25%), followed by the United States (16.5%) and then by Japan and the other 11 Asian countries, each with a share of around 14%. Exports to Canada, with which Chile has a free trade agreement, represent a mere 1% of the total.

An analysis of the composition of Chile's exports shows that commodities, mainly foods and non-ferrous metals, account for just over half of shipments to other countries of the region—66% of exports to Mexico and 56% of those to the rest of Latin America and the Caribbean. At a more disaggregated level, commodities, again chiefly foods and non-ferrous metals, account for approximately 60% of exports to CACM and MERCOSUR countries, and 71% of exports to Brazil. Chile's main manufactured exports to the region are chemicals and machinery and transport equipment to MERCOSUR (11% and 9%, respectively) and to the Andean Community (13% and 7%, respectively), together with other semi-manufactures (17%).

Commodities account for a larger share—87%—of Chile's extraregional exports, principally non-ferrous metals (31%) and foods (25%). Japan and Asia are the main destinations for Chilean commodities, absorbing 98% and 96%, respectively, of total exports to these regions, followed by Canada (89%), the European Union (86%) and the United States (78%). Consequently, the main markets for manufactured exports are the countries of the region other than Mexico and Brazil (38%), the United States (20%), the European Union (14%) and Mexico and Brazil (10% each). In other words, three quarters of Chile's manufactured exports go to other countries on the American continent.

6. Mexico

In 2000 Mexican exports, including *maquila* products, represented about US\$ 166 billion, and imports were worth a little over US\$ 174 billion. Total exports ex-

Table II.20
**SOUTHERN COMMON MARKET (MERCOSUR):
 INTRAREGIONAL TRADE, QUARTERLY VALUES, 1998-2001**
(Millions of dollars and growth rates)

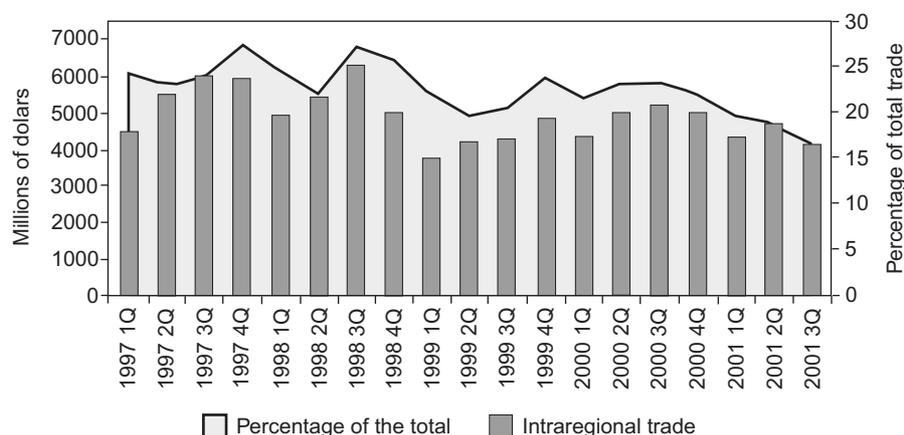
| Country | 1998 | 1999 | | | | 2000 | | | | 2001 | | | Growth 2001 ^{a/} | | |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------------|-------------|--------------|
| | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | I Q | II Q | III Q |
| Argentina | 2,121 | 1,499 | 1,807 | 1,793 | 1,972 | 1,883 | 2,103 | 2,270 | 2,146 | 1,873 | 2,090 | 1,916 | -0.5 | -0.6 | -15.6 |
| Brazil | 2,031 | 1,533 | 1,623 | 1,696 | 1,976 | 1,678 | 1,930 | 2,089 | 2,048 | 1,728 | 1,851 | 1,537 | 3.0 | -4.1 | -26.4 |
| Uruguay | 135 | 116 | 179 | 144 | 135 | 134 | 175 | 126 | 118 | 115 | 140 | 127 | -14.2 | -19.9 | 0.9 |
| Paraguay | 344 | 269 | 212 | 281 | 341 | 251 | 340 | 266 | 254 | 250 | 206 | 160 | -0.2 | -39.5 | -39.7 |
| MERCOSUR | 4,631 | 3,417 | 3,822 | 3,913 | 4,424 | 3,945 | 4,549 | 4,751 | 4,566 | 3,966 | 4,288 | 3,741 | 0.5 | -5.7 | -21.3 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the Latin American Integration Association (LAIA), Centre for Foreign Trade Studies Foundation (FUNCEX) and MERCOSUR (<http://www.mercosur.org.uy>).

^a Growth rate with respect to the same period of the preceding year.

Figure II.9

**SOUTHERN COMMON MARKET (MERCOSUR): INTRAREGIONAL TRADE
 QUARTERLY VALUES, 1997-2001**
(Millions of dollars and percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of official figures.

cluding *maquila* output were equivalent to approximately US\$ 87 billion. Mexico's external trade grew strongly over the year, at rates of 22% for exports and 23% for imports. Exports to Latin America and the Caribbean grew at a similar rate after having contracted in both 1998 (-10%) and 1999 (-28%).

The United States absorbs 89% of Mexican exports, while the region accounts for less than 3%. Within Latin America and the Caribbean, the main markets for Mexican exports are the Central American countries and the

Andean Community (27% and 26%, respectively), followed by MERCOSUR (18%), Chile (8.5%) and CARICOM (4.6%). In general, exports to these regions are chiefly manufactures –mainly chemicals and machinery and transport equipment– varying from 74% in the case of CACM to just over 90% in the case of MERCOSUR and Chile. By contrast, over half of exports to CARICOM are commodities, given the significance of fuels.

Mexico has signed a number of agreements with

countries of the region, including the arrangement known as the Group of Three, which comprises Colombia, Mexico and Venezuela. Trade between these three countries had trended upward until the third quarter of 1998, but fell back sharply in the wake of the financial crisis of

1997-1998 (see table II.21 and figure II.10). Mexico also has a free trade agreement with the Northern Triangle countries of Central America (El Salvador, Guatemala and Honduras) and separate agreements with Costa Rica and Nicaragua.¹⁵

Table II.21

**GROUP OF THREE (G3):
INTRAREGIONAL TRADE, QUARTERLY VALUES, 1998-2001**
(Millions of dollars and growth rates)

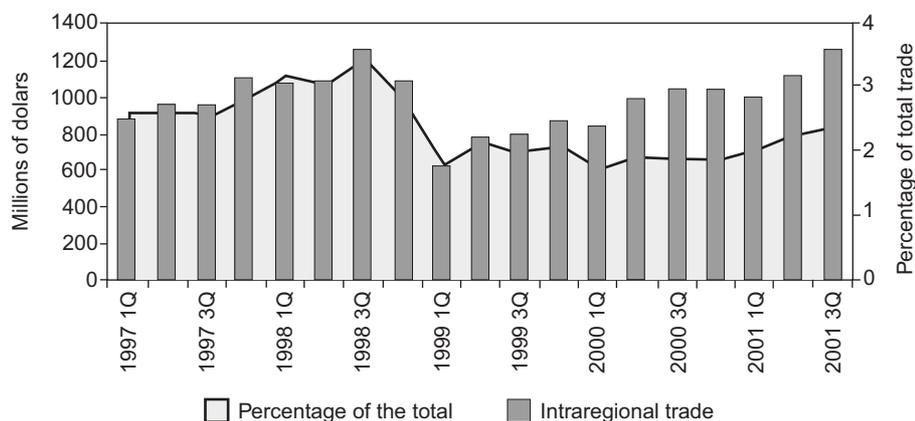
| Country | 1998 | 1999 | | | | 2000 | | | | 2001 | | | Growth 2001a/ | | |
|-----------------|--------------|------------|------------|------------|------------|------------|------------|--------------|--------------|------------|--------------|--------------|---------------|-------------|-------------|
| | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | IV Q | I Q | II Q | III Q | I Q | II Q | III Q |
| Colombia | 303 | 214 | 292 | 311 | 316 | 319 | 381 | 435 | 434 | 386 | 476 | 616 | 21.3 | 24.9 | 41.6 |
| Venezuela | 517 | 210 | 273 | 269 | 335 | 341 | 298 | 326 | 311 | 298 | 326 | 308 | -12.5 | 9.2 | -5.5 |
| Mexico | 261 | 194 | 197 | 200 | 213 | 208 | 242 | 263 | 269 | 296 | 303 | 318 | 42.0 | 25.4 | 21.3 |
| Total G3 | 1,081 | 617 | 763 | 781 | 864 | 868 | 921 | 1,023 | 1,013 | 980 | 1,105 | 1,242 | 13.0 | 19.9 | 21.4 |

Source: ECLAC, International Trade and Integration Division, on the basis of information from the web sites of the Andean Community (<http://www.comunidadandina.org>) and the National Institute of Statistics, Geography and Informatics (INEGI) (<http://dgcnesyp.inegi.gob.mx/cgi-win/bdi.exe>).

^a Growth rate with respect to the same period of the preceding year.

Figure II.10

GROUP OF THREE: INTRAREGIONAL TRADE QUARTERLY VALUES, 1997-2001
(Millions of dollars and percentages)



Source: ECLAC, International Trade and Integration Division, on the basis of official figures.

15 See Pérez and others (2001) for an account of economic integration between Central America and Mexico.

D. Latin American and Caribbean external trade in 2001 and outlook for 2002

As has been mentioned, performance in 2001 indicates that the region is facing a second downturn in external trade in less than three years, coming after powerful growth in 2000 on the back of favourable prices and buoyant external demand. In fact, between January and September 2001 Latin American and Caribbean exports decreased by almost 2%, while imports remained stable. This contrasts with the same period of 2000, in which exports expanded by 23% and imports, by 18% (see tables II.2, II.5a and II.5b).

In the same period, however, Argentina, Brazil, Paraguay and Peru increased their exports, albeit at lower rates than in the same period of the previous year, with the exception of Paraguay. In 2001, according to information from the Secretariat of Foreign Trade (SECEX), Brazil exported a total of over US\$ 58 billion, which represented a growth rate of close to 6%, and accumulated a trade surplus of more than US\$ 2.7 billion thanks to large shipments of both commodities and manufactures and an increase in exports to the United States and the LAIA countries, with the exception of MERCOSUR. By contrast, Chile's exports are likely to have decreased by over 7%, representing a value of close to US\$ 16 billion. This will keep the trade balance at a level similar to that of the preceding year, owing to a downturn in imports. The country's export performance has been hurt by lower prices for its products, including copper, which accounts for 40% of shipments and whose value plunged by 13% with respect to its 2000 price.¹⁶

MERCOSUR has the distinction of being the only group of countries to record an increase in exports (5.6%), despite a 10% contraction in those from Uruguay. MERCOSUR imports were slightly down, however; this was mainly attributable to lower demand in Argentina and Uruguay, given the relative stability of Brazil's imports. In fact, the relatively positive figures for MERCOSUR, which contrast with those for the rest of the region, are basically a reflection of Brazil's performance and the weight of its economy within the regional grouping. The severe economic recession in Argentina, together with a slight increase in exports, have helped to

increase the subgroup's trade surplus, but all these factors have a powerful impact on the internal development of MERCOSUR. Trade within the grouping has slowed appreciably, with levels at the beginning of the fourth quarter of 2001 that were comparable to the post-financial-crisis figures of the first quarter of 1999 (see table II.20 and figure II.8).

The Andean Community recorded growth of around 11% in trade among its member countries, despite an aggregate decrease of over 9% in the exports of those countries as a result of the reduction in petroleum prices. In fact, an expansion of exports by Colombia and Peru and, to a lesser extent, by Ecuador and Bolivia kept intra-Community trade figures high, as trade within the area increased from 9% to nearly 11% of the member countries' total exports (see tables II.16 and II.18 and figure II.7). Nonetheless, merchandise trade deficits will be recorded by all these countries except Venezuela, whose trade balance will narrow by over 30%. In the first three quarters of 2001, as shown in table II.4, United States purchases from Colombia, Bolivia and Venezuela declined by 15%, 16% and 9.5%, respectively.

It is also probable that the CACM countries and the Dominican Republic will be severely hurt by the downturn in United States purchases. This will be reflected in an average decline of 10% in exports, although the contraction will be sharper in Costa Rica and Guatemala, with reductions of 17% and 15%, respectively (see table II.2). Between January and September 2001, United States imports from Costa Rica declined by over 21%, which compounded a considerable fallback recorded the previous year (see table II.4). These countries' imports, in turn, decreased by about 3%. The data on trade within this area do not indicate any negative impact, however; on the contrary, there was an increase in the course of the year (see tables II.16 and II.19 and figure II.7).

Mexico recorded a slight downturn in both exports and imports (2.2% and 1.1%, respectively) in the first three quarters of 2001, owing to a small decrease (around 2%) in shipments to the United States in that period (see table II.4). Data from the Bank of Mexico (BANXICO)

16 In January 2001, the price of copper was 83.325 cents, but in December it stood at 66.315 cents, after having reached a historic low of 59.829 ("A 71,5 centavos llegó el promedio del cobre", *El Mercurio*, 29 December 2001, p. B4).

up to November show a decrease of over 4% in exports and almost 3% in imports, which would keep the trade deficit at nominal values similar to those of 2000.

The attacks on the United States on 11 September 2001 had an effect on tourism in the region that has not yet been quantified. Preliminary data indicate a downturn of over 14% in Mexico's income from tourism. The decrease in travel by United States tourists is also likely to have a strong impact on the Caribbean economies.

It is clear that the main factors driving the expansion of exports in the region as a whole in 2000 were also behind the downturn in 2001. Latin American and Caribbean export growth in 2000 was propelled by growing demand in most of the industrialized economies and, especially in the first half of the year, by the

powerful engine of the United States economy, which was experiencing its longest expansionary cycle of the post-war period, in combination with the increase in petroleum prices. In 2001, however, conditions took a turn for the worse, with generalized global price deflation, a slowdown in growth in the United States, which slipped into recession in late 2001, and a downward revision of growth expectations in the other industrialized countries. This acted as a drag on Latin American and Caribbean external trade growth, with effects that will probably carry over into 2002. Analysts agree that world GDP and trade volume will record meagre growth rates. In particular, trade is expected to expand at a lower rate than world GDP for the second year running (see chapter I).

Chapter III

The quality of Latin America's linkages with the global economy, measured using the Competitive Analysis of Nations (CAN) software¹

Since the early 1990s, ECLAC has been developing the Competitive Analysis of Nations (CAN) computer software for measuring and assessing countries' competitive positions in international markets.² This software uses the Commodity Trade Database (COMTRADE),³ which contains import statistics for 84 countries for the period 1984-1999, classifying products at the four-digit level of the Standard International Trade Classification (SITC), rev. 2. These countries account for approximately 90% of total world imports recorded in the COMTRADE database.

The CAN software is based on the notion that the growth of world demand is stronger for some products than for others. A country specializing in products for which demand is rising quickly will have a more favourable—that is, a higher-quality—international position than a country specializing in products for which demand is less dynamic. This idea is very similar to the premise, contained in the Prebisch-Singer hypothesis, that the income elasticity of demand varies from one product to another. Developing countries usually export products for which the income elasticity of demand is low, resulting in a pattern of international integration that does little to boost their development. Implicit in the Prebisch-Singer hypothesis is the idea that developing countries should strive to become exporters of products for which demand is highly elastic in relation to income.

The CAN program does not calculate or use elasticities; it simply provides a means of charting, on the basis of historical data, the relative growth of demand for different products in different markets and time periods. In CAN, the demand for a product is classified as relatively dynamic if the value of imports of the product has increased more than the average of total imports in a given market over a given period of time. Demand for a product is considered to be relatively stagnant if the value of imports of the product has increased at a lower rate than the market average for that period.

Strictly speaking, it should be noted that the original idea of the CAN designers (Fajnzylber, 1992 and Mendeng, 1991) was based on neo-technological theories of international trade,⁴ according to which the international division of labour is determined by different countries' capacity for innovation. According to Fajnzylber, the type of participation in world trade that is most conducive to development is specialization in sectors that are "bearers of technological progress"; in other words, highly knowledge- and technology-intensive. The idea underlying CAN is that technology-intensive goods show faster growth among world imports. The relative growth of demand is then used as an approximation of the technology-intensiveness of products. Be that as it may, CAN offers a snapshot of the quality of countries' participation in world markets. This chapter presents and analyses some results of the program.

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2 For further information, see <http://www.eclac.cl/software/cepal8d.htm>.

3 COMTRADE is the international trade database of the United Nations Statistics Division in New York.

4 See, for example, Soete (1981).

A. Changes in market shares

At the outset, mention should be made of some relatively straightforward and transparent facts concerning changes in imports from Latin America as a percentage of world imports. Table III.1 shows values in percentages based on figures in current dollars. In the early 1990s, imports from Latin America accounted for 4.5% of the total value of world imports; by the close of the decade, they had risen to 5.6%,⁵ while the total value of world imports had increased from US\$ 3 billion to US\$ 5 billion. Thus, imports from Latin America doubled in value in current dollars, from approximately US\$ 135 billion to US\$ 280 billion. The percentage point of the world market gained by Latin America is attributable almost entirely to Mexico, although the countries of the Central American Common Market (CACM) also gained market share, in some cases recording an even sharper rise than Mexico. Costa Rica's share of the world market is the highest among the Central American countries, but El Salvador and Honduras top the list in terms of percentage growth.

Argentina, Chile and Colombia also increased their share of the world market. However, declines in market share were observed in the other countries, especially Brazil and the two smaller members of the Southern Common Market (MERCOSUR), Paraguay and Uruguay; all the members of the Andean Community except Colombia; and virtually all the Caribbean countries except the Dominican Republic. That is, while Latin America as a whole gained market share, the countries that lost outnumber those that gained. The successes seem limited to the privileged position enjoyed by Mexico and the Caribbean Basin countries in the United States market, the buoyancy of intraregional trade, above all in Central America, and the headway made by Argentina within MERCOSUR and by Colombia in the Andean market.

The right-hand column of table III.1 shows the share of imports from Latin America by countries within its own market; that is, out of total imports by developing countries in the Americas. This market, though much smaller, grew considerably faster in the 1990s than the world market. The total value of Latin America's imports expanded from about US\$ 100 billion in 1990 to

some US\$ 300 billion by the end of the decade. The countries of the North American Free Trade Agreement (NAFTA) performed strongly in this market, with their share growing by almost 10 percentage points, from 42% to almost 52%. While Mexico's share rose slightly, this increase was due essentially to the headway made by the United States, which, by the end of the decade, was the source of nearly half of Latin America's imports in value terms.

MERCOSUR saw a significant increase (1.3 percentage points) in its market share of the region's imports between 1990 and 1996. Nevertheless, in 1999 its share was only slightly higher than at the beginning of the decade. Argentina and Brazil have similar market shares of the imports of developing countries in the Americas (close to 4%), though it should be noted that the market is larger for Argentina than for Brazil. In other words, imports from Brazil are included in the regional total out of which Argentina's share is computed, but this is clearly not the case when Brazil's share is computed. The upturn in Brazil's share at the beginning of the decade and in Argentina's share at mid-decade, and the partial decline suffered by both at the end of the 1990s, are quite significant.

The Andean Community countries showed fluctuations in performance, ending the decade with a lower market share than in 1990. Colombia achieved the most outstanding results, increasing its share to more than 1% in 1996. Despite a dip in 1999, its share at the end of the decade was higher than at the beginning. Peru was the least competitive country in the Community, having recorded a steady decline in all the years considered, to the point where its share was 40% lower in 1999 than it had been in 1990. Venezuela—the largest Andean exporter—exemplified the trend of the group with an uneven performance, ending the decade with a market share of 1.4%, which was considerably lower than its share at the beginning.

The CACM countries proved to be the most successful group in the developing-country market of the Americas and, with a share of nearly 1% in 1999, were second only to the NAFTA countries. This favourable performance was, nevertheless, weaker than those coun-

5 CAN data refer to triennial moving averages. Thus, the period "1990" is in reality the average for the period 1989-1991.

Table III.1
**THE AMERICAS (39 COUNTRIES): CHANGES IN MARKET SHARES,
 BY MARKET OF DESTINATION**
(Percentages)

| | World | | | | Developing countries in the Americas | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|--------------------------------------|---------------|---------------|---------------|
| | 1990 | 1993 | 1996 | 1999 | 1990 | 1993 | 1996 | 1999 |
| NAFTA^a | 17.148 | 18.117 | 19.206 | 20.425 | 42.058 | 47.918 | 47.936 | 51.916 |
| Canada | 4.020 | 4.058 | 4.235 | 4.559 | 2.016 | 1.847 | 2.090 | 1.994 |
| United States | 11.836 | 12.614 | 13.060 | 13.425 | 38.756 | 44.841 | 43.911 | 48.214 |
| Mexico | 1.292 | 1.446 | 1.911 | 2.441 | 1.285 | 1.230 | 1.935 | 1.709 |
| MERCOSUR^b | 1.552 | 1.528 | 1.545 | 1.499 | 8.195 | 8.761 | 9.504 | 8.558 |
| Argentina | 0.365 | 0.373 | 0.475 | 0.472 | 3.194 | 3.014 | 4.362 | 3.879 |
| Brazil | 1.093 | 1.070 | 0.987 | 0.949 | 3.827 | 4.773 | 4.190 | 3.885 |
| Paraguay | 0.034 | 0.024 | 0.028 | 0.022 | 0.423 | 0.271 | 0.359 | 0.251 |
| Uruguay | 0.059 | 0.062 | 0.056 | 0.056 | 0.750 | 0.703 | 0.594 | 0.543 |
| Andean Community | 0.888 | 0.822 | 0.913 | 0.822 | 3.866 | 3.307 | 3.904 | 3.205 |
| Bolivia | 0.024 | 0.019 | 0.020 | 0.017 | 0.338 | 0.167 | 0.170 | 0.136 |
| Colombia | 0.209 | 0.208 | 0.231 | 0.238 | 0.745 | 0.780 | 1.043 | 0.915 |
| Ecuador | 0.098 | 0.107 | 0.111 | 0.101 | 0.478 | 0.424 | 0.442 | 0.405 |
| Peru | 0.114 | 0.101 | 0.115 | 0.105 | 0.545 | 0.407 | 0.383 | 0.324 |
| Venezuela | 0.444 | 0.387 | 0.436 | 0.361 | 1.760 | 1.528 | 1.866 | 1.425 |
| CACM^c | 0.190 | 0.230 | 0.274 | 0.350 | 0.869 | 0.833 | 0.849 | 0.994 |
| Costa Rica | 0.070 | 0.084 | 0.086 | 0.127 | 0.208 | 0.207 | 0.209 | 0.278 |
| El Salvador | 0.022 | 0.029 | 0.043 | 0.050 | 0.182 | 0.191 | 0.178 | 0.220 |
| Guatemala | 0.053 | 0.063 | 0.073 | 0.083 | 0.365 | 0.311 | 0.335 | 0.348 |
| Honduras | 0.035 | 0.044 | 0.058 | 0.073 | 0.056 | 0.074 | 0.084 | 0.106 |
| Nicaragua | 0.011 | 0.009 | 0.014 | 0.016 | 0.059 | 0.049 | 0.044 | 0.042 |
| CARICOM^d | 0.182 | 0.163 | 0.145 | 0.131 | 0.680 | 0.488 | 0.458 | 0.302 |
| Antigua and Barbuda | 0.001 | 0.001 | 0.002 | 0.001 | 0.005 | 0.010 | 0.011 | 0.001 |
| Bahamas | 0.034 | 0.026 | 0.014 | 0.013 | 0.025 | 0.028 | 0.015 | 0.021 |
| Barbados | 0.005 | 0.004 | 0.005 | 0.004 | 0.044 | 0.031 | 0.030 | 0.023 |
| Belize | 0.005 | 0.004 | 0.003 | 0.002 | 0.028 | 0.017 | 0.006 | 0.005 |
| Dominica | 0.005 | 0.006 | 0.005 | 0.006 | 0.014 | 0.014 | 0.008 | 0.006 |
| Grenada | 0.004 | 0.003 | 0.002 | 0.002 | 0.012 | 0.006 | 0.005 | 0.005 |
| Guyana | 0.017 | 0.011 | 0.011 | 0.011 | 0.033 | 0.024 | 0.019 | 0.013 |
| Jamaica | 0.001 | 0.001 | 0.001 | 0.001 | 0.093 | 0.055 | 0.039 | 0.025 |
| Montserrat | 0.009 | 0.012 | 0.012 | 0.011 | 0.000 | 0.000 | 0.000 | 0.000 |
| Saint Kitts and Nevis | 0.044 | 0.041 | 0.038 | 0.033 | 0.003 | 0.001 | 0.001 | 0.000 |
| Saint Lucia | 0.000 | 0.000 | 0.000 | 0.000 | 0.014 | 0.007 | 0.006 | 0.004 |
| Saint Vincent and the Grenadines | 0.001 | 0.001 | 0.001 | 0.001 | 0.019 | 0.013 | 0.009 | 0.005 |
| Suriname | 0.052 | 0.048 | 0.048 | 0.044 | 0.041 | 0.026 | 0.023 | 0.016 |
| Trinidad and Tobago | 0.004 | 0.003 | 0.003 | 0.003 | 0.349 | 0.255 | 0.286 | 0.180 |
| Other Latin American countries | | | | | | | | |
| Aruba | 0.003 | 0.015 | 0.017 | 0.016 | 0.043 | 0.061 | 0.079 | 0.038 |
| Cayman Islands | 0.003 | 0.004 | 0.004 | 0.005 | 0.037 | 0.008 | 0.022 | 0.006 |
| Chile | 0.286 | 0.293 | 0.331 | 0.301 | 1.083 | 1.126 | 1.178 | 1.070 |
| Cuba | 0.037 | 0.025 | 0.024 | 0.017 | 0.123 | 0.053 | 0.051 | 0.026 |
| Dominican Republic | 0.072 | 0.087 | 0.092 | 0.099 | 0.035 | 0.026 | 0.023 | 0.019 |
| Haiti | 0.014 | 0.004 | 0.004 | 0.007 | 0.003 | 0.001 | 0.001 | 0.001 |
| Netherlands Antilles | 0.035 | 0.034 | 0.030 | 0.020 | 0.357 | 0.234 | 0.143 | 0.120 |
| Panama | 0.080 | 0.079 | 0.063 | 0.048 | 0.580 | 0.612 | 0.356 | 0.368 |

Source: CAN (Competitive Analysis of Nations) program, 2001.

^a North American Free Trade Agreement.

^b Southern Common Market.

^c Central American Common Market.

^d Caribbean Community.

tries' achievements in the world market. Lastly, the shares of the 14 small CARICOM economies in the

import market of developing countries in the Americas declined between 1990 and 1999.

B. Qualitative assessment of international integration

The quality of the Latin American countries' international integration can be assessed using the concept of "revealed comparative advantage" (RCA) or degree of specialization.⁶ If M is the total value of imports, and subscripts i and j refer, respectively, to supplier country i and product j , then the formula would be:

$$RCA = \frac{M_{ij}/M_j}{M_i/M} \quad \text{or} \quad RCA = \frac{M_{ij}/M_i}{M_j/M}$$

This indicator shows a country's market share in a given product as a percentage of its share of the global market. In other words, the indicator shows the significance of a product in imports from country i , in proportion to the significance of the product in global imports. Both forms yield the same result. If the indicator is higher than 1, country i is said to have a clear comparative advantage in product j .

The indicator used by CAN to measure the quality of international integration is the RCA in products for which demand is growing rapidly. If a country's global revealed comparative advantage—that is, its RCA in all the dynamic products it exports—is greater than 1, that country has a favourable position in the world market, based on its degree of specialization in products with fast-growing demand. If the indicator is less than 1, the country has an unfavourable position. Of course, it is important to look not only at the absolute level of the indicator, but also at its variation over time. In this regard, it should be noted that the definition of dynamic products as compared to stagnant products depends on the market and time period under consideration; that is, demand for a given product may be classified as dynamic in one period and stagnant in another. Thus, a change in a country's position may be based on a change either in its export mix or in the relative growth of demand by product. In reality, both changes occur simultaneously, which

makes it difficult to interpret changes in the quality of a country's competitive position.

Table III.2 shows the degree of specialization of Latin American countries in high-growth products in the same markets and periods reviewed in table III.1. In the world market, Saint Kitts and Nevis and Haiti were exceptional in that they showed strong and sustained comparative advantages in high-growth products. In Saint Kitts and Nevis, this is attributable to the islands' electronics industry, which dominated its export profile in the 1990s, accounting for more than half of total exports. These firms produce transformers and various electronic components. In Haiti, *maquila* firms are the ones that determine the export profile in the production of garments.

Mexico also enjoys a revealed comparative advantage in high-growth products, which was stronger at the end of the 1990s than at the beginning. This favourable position was due to the boom in the *maquila* industry and the advantages deriving from NAFTA. Mexico's specialization profile is even more remarkable considering that until quite recently, its principal export was oil, yet its RCA in the 1990s contrasted sharply with those of two other oil exporters, Venezuela and Ecuador, which, precisely because of the influence of this industry, had the continent's lowest levels of specialization in dynamic products.

Only three other countries in the region have a revealed comparative advantage in high-growth products: Grenada, Honduras and the Dominican Republic. Spices are Grenada's main export and demand fluctuates between high growth and stagnant growth depending on the period. Like Saint Kitts, it also exports parts and components for the electrical industry, albeit on a smaller scale. Honduras' export profile is dominated by garment assembly for the United States market. The Dominican Republic has a more diversified export basket than Honduras in its export processing zones; in

6 Concept developed by Bela Balassa in the early 1960s (see Balassa, 1965).

Table III.2

THE AMERICAS (39 COUNTRIES): EXPORT SPECIALIZATION INDEX IN DYNAMIC SECTORS

| | World | | | Developing countries in the Americas | | |
|---------------------------------------|-------------|-------------|-------------|--------------------------------------|-------------|-------------|
| | Period | | | Period | | |
| | 1990-1993 | 1993-1996 | 1996-1999 | 1990-1993 | 1993-1996 | 1996-1999 |
| NAFTA ^a | 1.01 | 1.18 | 1.16 | 1.05 | 1.12 | 1.16 |
| Canada | 0.89 | 0.95 | 1.01 | 0.75 | 0.86 | 0.93 |
| United States | 1.04 | 1.27 | 1.19 | 1.07 | 1.13 | 1.18 |
| Mexico | 1.09 | 1.09 | 1.30 | 0.87 | 0.97 | 0.82 |
| MERCOSUR ^b | 0.63 | 0.96 | 0.44 | 0.98 | 0.96 | 0.79 |
| Argentina | 0.57 | 0.89 | 0.42 | 0.80 | 0.88 | 0.68 |
| Brazil | 0.65 | 1.00 | 0.45 | 1.10 | 1.04 | 0.94 |
| Paraguay | 0.36 | 1.57 | 0.28 | 2.02 | 1.36 | 0.93 |
| Uruguay | 0.72 | 0.59 | 0.60 | 0.85 | 0.76 | 0.91 |
| Andean Community | 0.33 | 0.55 | 0.19 | 0.57 | 0.81 | 0.54 |
| Bolivia | 0.37 | 0.79 | 0.24 | 0.38 | 1.05 | 1.01 |
| Colombia | 0.43 | 0.86 | 0.31 | 1.05 | 1.14 | 0.86 |
| Ecuador | 1.07 | 0.23 | 0.18 | 0.34 | 0.52 | 0.32 |
| Peru | 0.51 | 0.99 | 0.26 | 0.65 | 0.78 | 0.81 |
| Venezuela | 0.10 | 0.36 | 0.12 | 0.51 | 0.77 | 0.37 |
| CACM ^c | 1.04 | 0.76 | 0.77 | 1.52 | 1.04 | 1.14 |
| Costa Rica | 1.33 | 0.66 | 0.76 | 1.49 | 1.20 | 1.28 |
| El Salvador | 0.80 | 1.25 | 0.86 | 1.99 | 1.12 | 1.23 |
| Guatemala | 0.86 | 0.82 | 0.59 | 1.55 | 1.15 | 1.16 |
| Honduras | 1.29 | 0.64 | 1.02 | 1.58 | 0.88 | 1.28 |
| Nicaragua | 0.44 | 0.86 | 0.53 | 1.22 | 0.70 | 0.92 |
| CARICOM ^d | 0.68 | 0.54 | 0.39 | 1.10 | 0.88 | 0.52 |
| Antigua and Barbuda | 0.63 | 0.53 | 0.26 | 3.30 | 0.27 | 0.32 |
| Bahamas | 1.19 | 0.34 | 0.53 | 0.97 | 1.26 | 0.26 |
| Barbados | 1.11 | 0.79 | 0.90 | 2.75 | 1.16 | 1.67 |
| Belize | 2.54 | 0.54 | 0.67 | 3.38 | 1.97 | 1.99 |
| Dominica | 0.91 | 0.34 | 0.21 | 1.78 | 1.34 | 1.10 |
| Grenada | 1.26 | 1.12 | 0.68 | 4.17 | 2.17 | 3.14 |
| Guyana | 0.41 | 0.43 | 0.16 | 0.34 | 0.39 | 0.30 |
| Jamaica | 1.73 | 0.48 | 1.03 | 5.81 | 0.56 | 1.44 |
| Montserrat | 0.60 | 0.97 | 0.25 | 1.20 | 1.12 | 1.81 |
| Saint Kitts and Nevis | 0.75 | 0.65 | 0.65 | 1.46 | 1.06 | 0.85 |
| Saint Lucia | 1.35 | 1.78 | 0.93 | 5.27 | 1.53 | 2.16 |
| Saint Vincent and the Grenadines | 1.77 | 2.16 | 1.74 | 5.16 | 3.79 | 2.63 |
| Suriname | 0.40 | 0.78 | 0.20 | 1.18 | 1.10 | 0.40 |
| Trinidad and Tobago | 2.64 | 0.32 | 0.73 | 2.07 | 0.74 | 1.48 |
| Other Latin American countries | | | | | | |
| Aruba | 0.15 | 0.22 | 0.10 | 2.37 | 1.26 | 0.02 |
| Cayman Islands | 0.88 | 1.03 | 0.70 | 0.30 | 1.15 | 0.66 |
| Chile | 0.32 | 1.17 | 0.47 | 0.62 | 0.86 | 0.86 |
| Cuba | 0.43 | 0.92 | 0.27 | 1.75 | 1.68 | 1.25 |
| Dominican Republic | 1.35 | 0.93 | 1.27 | 0.65 | 1.27 | 1.20 |
| Haiti | 2.31 | 1.90 | 1.63 | 2.24 | 0.97 | 0.66 |
| Netherlands Antilles | 0.13 | 0.45 | 0.49 | 0.92 | 0.92 | 0.16 |
| Panama | 0.96 | 0.36 | 0.45 | 1.59 | 0.87 | 0.89 |

Source: CAN (Competitive Analysis of Nations) program, 2001.

^a North American Free Trade Agreement.

^b Southern Common Market.

^c Central American Common Market.

^d Caribbean Community.

general, however, it is also oriented towards high-growth products.

One argument frequently put forward in favour of intraregional trade integration is that, in the regional market, countries will tend to specialize in more technology-intensive products. According to this theory, the RCA in high-growth products is expected to be higher in the Latin American market than in the world market.

Before the table is considered, two comments are warranted. First, Latin American import information is included in the world market data which have already been discussed, the former being a subset of the latter. Second, growth in demand is determined independently in each market, so that the dynamic products in question may be different in different markets.

The market of developing countries in the Americas shows that, for all the Latin American countries except Mexico, the Bahamas, the Dominican Republic and Haiti, the RCA in high-growth products is indeed greater in the regional market than in the world mar-

ket. It is clear, especially in the case of the CACM and CARICOM countries, that the profile of exports to the regional market is dominated by relatively dynamic products. In other countries, such as those of the Andean Community, MERCOSUR and Chile, the RCA in dynamic products is less than 1. That is, whereas these countries' position is more favourable in the regional market than in the world market, even in the regional market they show greater specialization in stagnant products than in dynamic ones. In most of the countries, the RCA in dynamic products trended downward throughout the 1990s.

In short, in the second half of the 1990s, only four countries in Latin America—Mexico, the Bahamas, the Dominican Republic and Haiti—had a more favourable export profile in the world market than in the market of developing countries in the Americas. Most of the countries show a more favourable pattern of specialization in the regional market than in the world market. Even so, stagnant products predominate in this regional pattern, as shown in table III.3.

C. Quality of the export basket

In addition to the foregoing considerations, it would be helpful to determine what proportion of exports go to dynamic markets and what share to stagnant markets, as this would provide a different measure of overall export quality. The indicator used for this purpose shows the ratio between the share of exports to dynamic markets and the share of exports to stagnant markets, so that values higher than 1 denote a "good" export basket, since they mean that more than 50% of these exports go to dynamic markets. On the other hand, values of less than 1 show a negative bias, insofar as exports are geared mainly to stagnant markets.

Table III.4 shows these indices for the Americas and the Caribbean for the periods and markets considered previously.

In terms of the world market, NAFTA once again shows the best performance, since in all three periods, NAFTA countries (except Canada) exported products primarily to dynamic sectors. Within MERCOSUR, a widespread trend towards exports of stagnant products can be observed, since, with the exception of Paraguay during one period, all the figures reflect the same ten-

dency. The Andean Community shows even less satisfactory indices than MERCOSUR, since only Colombia, Ecuador and Peru had indices higher than 0.5 in any of the periods under consideration. Also of note are Venezuela's low indices, which primarily reflect the stagnation of oil demand in the periods considered. There were wide swings in the performance of CACM, with Honduras performing well, albeit with a marked hiatus in the period 1993-1996, while Nicaragua had the lowest indices in the group. Trends in the CARICOM countries show a few exceptions attributable basically to the heavy dependence of some of these countries on a small number of exports. Those with the highest-quality export baskets were Dominica, Montserrat and Saint Kitts and Nevis, while the indices for the rest were relatively stable, low and decreasing. Lastly, the other Latin American countries do not differ substantially from the bloc as a whole; that is, they have export baskets that are highly dependent on stagnant markets, although Haiti and the Dominican Republic are striking exceptions.

With respect to the market of developing coun-

Table III.3

THE AMERICAS (39 COUNTRIES): EXPORT SPECIALIZATION INDEX IN STAGNANT SECTORS

| | World | | | Developing countries in the Americas | | |
|---------------------------------------|-------------|-------------|-------------|--------------------------------------|-------------|-------------|
| | Period | | | Period | | |
| | 1990-1993 | 1993-1996 | 1996-1999 | 1990-1993 | 1993-1996 | 1996-1999 |
| NAFTA^a | 0.99 | 0.86 | 0.83 | 0.97 | 0.89 | 0.84 |
| Canada | 1.11 | 1.04 | 0.99 | 1.34 | 1.19 | 1.14 |
| United States | 0.96 | 0.79 | 0.80 | 0.95 | 0.88 | 0.82 |
| Mexico | 0.93 | 0.94 | 0.69 | 1.16 | 1.05 | 1.20 |
| MERCOSUR^b | 1.37 | 1.03 | 1.60 | 1.01 | 1.04 | 1.21 |
| Argentina | 1.45 | 1.09 | 1.62 | 1.17 | 1.14 | 1.34 |
| Brazil | 1.35 | 1.01 | 1.59 | 0.94 | 0.99 | 1.08 |
| Paraguay | 3.26 | 0.97 | 2.77 | 1.48 | 1.27 | 2.12 |
| Uruguay | 1.82 | 1.63 | 1.77 | 1.57 | 1.59 | 1.33 |
| Andean Community | 1.66 | 1.35 | 1.86 | 0.57 | 0.81 | 0.54 |
| Bolivia | 2.63 | 1.52 | 2.28 | 2.55 | 1.54 | 1.64 |
| Colombia | 1.69 | 1.14 | 1.80 | 1.07 | 0.93 | 1.21 |
| Ecuador | 1.13 | 1.71 | 2.02 | 1.93 | 1.71 | 1.88 |
| Peru | 1.72 | 1.10 | 1.91 | 1.50 | 1.34 | 1.28 |
| Venezuela | 2.01 | 1.53 | 2.02 | 1.47 | 1.25 | 1.71 |
| CACM^c | 0.96 | 1.19 | 1.24 | 0.65 | 0.96 | 0.86 |
| Costa Rica | 0.88 | 1.48 | 1.35 | 0.85 | 1.04 | 0.87 |
| El Salvador | 1.69 | 0.99 | 1.30 | 0.61 | 1.11 | 0.92 |
| Guatemala | 1.30 | 1.22 | 1.56 | 0.85 | 1.01 | 1.01 |
| Honduras | 1.29 | 1.42 | 1.09 | 1.29 | 1.30 | 0.85 |
| Nicaragua | 2.14 | 1.35 | 2.00 | 1.99 | 1.76 | 1.60 |
| CARICOM^d | 1.32 | 1.35 | 1.65 | 0.93 | 1.11 | 1.48 |
| Antigua and Barbuda | 2.31 | 1.59 | 1.95 | 0.77 | 3.12 | 0.26 |
| Bahamas | 1.58 | 2.00 | 2.21 | 3.25 | 1.44 | 2.42 |
| Barbados | 1.39 | 1.63 | 1.69 | 0.42 | 1.61 | 0.80 |
| Belize | 0.30 | 2.77 | 3.78 | 2.76 | 1.61 | 2.29 |
| Dominica | 2.57 | 2.29 | 2.99 | 2.26 | 1.77 | 1.13 |
| Grenada | 1.61 | 1.42 | 2.33 | 1.02 | 0.78 | 0.76 |
| Guyana | 3.62 | 2.59 | 3.70 | 6.86 | 9.49 | 7.92 |
| Jamaica | 4.11 | 3.29 | 4.23 | 3.71 | 7.00 | 3.33 |
| Montserrat | 3.63 | 2.02 | 4.19 | 3.77 | 2.78 | 2.66 |
| Saint Kitts and Nevis | 1.99 | 1.77 | 2.05 | 1.38 | 1.55 | 1.39 |
| Saint Lucia | 5.73 | 0.58 | 0.37 | 0.25 | 2.37 | 0.97 |
| Saint Vincent and the Grenadines | 3.82 | 2.18 | 3.74 | 1.65 | 2.26 | 3.69 |
| Suriname | 1.99 | 1.35 | 2.07 | 1.51 | 1.24 | 1.89 |
| Trinidad and Tobago | 1.62 | 3.10 | 4.44 | 3.20 | 3.43 | 4.57 |
| Other Latin American countries | | | | | | |
| Aruba | 5.03 | 2.61 | 3.77 | 5.74 | 1.52 | 3.73 |
| Cayman Islands | 3.89 | 2.21 | 1.92 | 3.80 | 1.81 | 0.90 |
| Chile | 1.72 | 0.89 | 1.58 | 1.33 | 1.17 | 1.18 |
| Cuba | 3.00 | 1.70 | 2.54 | 2.14 | 1.43 | 1.80 |
| Dominican Republic | 1.37 | 1.50 | 1.11 | 3.05 | 0.92 | 1.38 |
| Haiti | 1.75 | 2.16 | 1.75 | 5.47 | 5.86 | 1.93 |
| Netherlands Antilles | 2.41 | 1.62 | 1.77 | 1.69 | 1.39 | 2.27 |
| Panama | 1.14 | 1.54 | 1.63 | 0.79 | 1.25 | 1.14 |

Source: CAN (Competitive Analysis of Nations) program, 2001.

^a North American Free Trade Agreement.

^b Southern Common Market.

^c Central American Common Market.

^d Caribbean Community.

Table III.4
THE AMERICAS (39 COUNTRIES): COMPETITIVE POSITION INDEX ^a

| | World | | | Developing countries in the Americas | | |
|---------------------------------------|-------------|-------------|-------------|--------------------------------------|-------------|-------------|
| | Period | | | Period | | |
| | 1990-1993 | 1993-1996 | 1996-1999 | 1990-1993 | 1993-1996 | 1996-1999 |
| NAFTA ^b | 1.01 | 1.05 | 1.47 | 0.73 | 1.13 | 1.37 |
| Canada | 0.80 | 0.70 | 1.08 | 0.42 | 0.69 | 0.86 |
| United States | 1.07 | 1.23 | 1.56 | 0.75 | 1.16 | 1.45 |
| Mexico | 1.19 | 0.89 | 1.99 | 0.51 | 0.84 | 0.68 |
| MERCOSUR ^c | 0.45 | 0.71 | 0.29 | 0.64 | 0.83 | 0.65 |
| Argentina | 0.39 | 0.63 | 0.27 | 0.46 | 0.71 | 0.50 |
| Brazil | 0.48 | 0.76 | 0.30 | 0.79 | 0.95 | 0.86 |
| Paraguay | 0.18 | 1.49 | 0.14 | 1.51 | 1.21 | 0.52 |
| Uruguay | 0.55 | 0.33 | 0.41 | 0.45 | 0.54 | 0.74 |
| Andean Community | 0.20 | 0.31 | 0.11 | 0.30 | 0.62 | 0.37 |
| Bolivia | 0.18 | 0.40 | 0.12 | 0.12 | 0.68 | 0.75 |
| Colombia | 0.27 | 0.58 | 0.19 | 0.70 | 1.11 | 0.70 |
| Ecuador | 1.05 | 0.11 | 0.10 | 0.14 | 0.31 | 0.17 |
| Peru | 0.33 | 0.72 | 0.15 | 0.32 | 0.55 | 0.65 |
| Venezuela | 0.05 | 0.18 | 0.06 | 0.25 | 0.56 | 0.22 |
| CACM ^d | 1.08 | 0.49 | 0.66 | 1.55 | 0.97 | 1.32 |
| Costa Rica | 1.84 | 0.38 | 0.63 | 1.46 | 1.16 | 1.57 |
| El Salvador | 0.63 | 1.12 | 0.80 | 2.85 | 1.03 | 1.44 |
| Guatemala | 0.72 | 0.52 | 0.43 | 1.47 | 1.08 | 1.22 |
| Honduras | 1.44 | 0.36 | 1.04 | 1.16 | 0.63 | 1.50 |
| Nicaragua | 0.25 | 0.53 | 0.36 | 0.48 | 0.35 | 0.67 |
| CARICOM ^e | 0.51 | 0.31 | 0.25 | 0.79 | 0.71 | 0.35 |
| Antigua and Barbuda | 0.37 | 0.27 | 0.25 | 5.70 | 0.10 | 1.88 |
| Bahamas | 0.99 | 0.14 | 0.33 | 0.33 | 0.96 | 0.14 |
| Barbados | 1.02 | 0.41 | 0.79 | 5.37 | 0.80 | 2.61 |
| Belize | 21.21 | 0.18 | 0.47 | 1.88 | 1.22 | 1.22 |
| Dominica | 0.62 | 0.13 | 0.11 | 1.02 | 0.92 | 1.35 |
| Grenada | 1.21 | 0.72 | 30.66 | 8.26 | 3.22 | 6.39 |
| Guyana | 0.19 | 0.15 | 0.07 | 0.02 | 0.04 | 0.04 |
| Jamaica | 1.44 | 0.13 | 0.74 | 2.18 | 0.09 | 0.64 |
| Montserrat | 0.30 | 0.39 | 0.12 | 0.44 | 0.46 | 0.88 |
| Saint Kitts and Nevis | 0.57 | 0.33 | 0.44 | 1.12 | 0.73 | 0.74 |
| Saint Lucia | 0.84 | 3.37 | 12.21 | 38.38 | 0.61 | 1.75 |
| Saint Vincent and the Grenadines | 1.57 | 1.05 | 1.62 | 8.67 | 1.85 | 1.41 |
| Suriname | 0.23 | 0.45 | 0.11 | 0.72 | 0.88 | 0.22 |
| Trinidad and Tobago | 2.77 | 0.09 | 0.43 | 0.63 | 0.24 | 0.36 |
| Other Latin American countries | | | | | | |
| Aruba | 0.05 | 0.07 | 0.05 | 0.30 | 0.95 | 0.01 |
| Cayman Islands | 0.48 | 0.47 | 0.81 | 0.08 | 1.02 | 1.13 |
| Chile | 0.19 | 1.03 | 0.31 | 0.32 | 0.67 | 0.72 |
| Cuba | 0.23 | 0.50 | 0.15 | 1.02 | 1.38 | 0.89 |
| Dominican Republic | 1.54 | 0.55 | 1.61 | 0.26 | 1.52 | 1.03 |
| Haiti | 4.12 | 0.91 | 1.97 | 0.55 | 0.17 | 0.54 |
| Netherlands Antilles | 0.07 | 0.22 | 0.32 | 0.47 | 0.63 | 0.08 |
| Panama | 0.89 | 0.18 | 0.30 | 1.63 | 0.68 | 0.84 |

Source: CAN (Competitive Analysis of Nations) program, 2001.

^a Percentage of exports of dynamic products/percentage of exports of stagnant products (PE (DP)/PE (SP)).

^b North American Free Trade Agreement.

^c Southern Common Market.

^d Central American Common Market.

^e Caribbean Community.

tries in the Americas, the situation is somewhat different. The NAFTA countries have lower indices in this market than in the world market, although, with the exception of Mexico, they have shown steady improvement. MERCOSUR, on the other hand, shows better indicators, with Paraguay outperforming the other members in the first two periods. The Andean Community, even in the regional market of developing countries in the Americas, shows a sharp bias towards exports to stagnant markets, with indices that rarely exceed 0.7. The performance of CACM is the exception, since it stands out from the other groups with indices generally above 1, except in the case of Nicaragua, which concentrates, on average, more than two thirds of its exports to the regional market in stagnant products. The CARICOM group's performance has fluctuated, but the quality of its export basket has improved considerably in this market, with Dominica, Saint Kitts and Nevis, Saint Lucia, Montserrat, Barbados and Belize posting good results (while the Bahamas and Suriname slipped back). Lastly, indices for the rest of Latin America have been unstable, though Cuba has maintained a relatively high level of exports of dynamic products. Indices for the Cayman Islands

and the Dominican Republic have been on the upswing since 1993.

Thus, with the exception of a few countries, Latin America's export mix in the world market and in its own market has generally been dominated by products for which demand has been flat.

In sum, the analysis based on the CAN software reveals that, while Latin America as a whole increased its share of the world market, most countries in the region individually lost market share. Export success has been limited to just a few countries (Mexico, the Central American countries, Argentina and Colombia) and to special situations (advantages in terms of access to North American and other subregional markets). The quality of export specialization, measured in terms of relative orientation towards dynamic products, is still deficient in Latin America, and no signs of improvement were observed in the 1990s except in the case of Mexico. Within their own regional market, the Latin American countries maintain a stable but relatively small market share. Their export profile in this market is of higher quality, meaning that it shows a relatively stronger bias towards high-growth products, but in many cases it still cannot be described as favourable.

Part 2



Regional integration in Latin America and the Caribbean in 2000-2001

Chaptero IV

Regional intregation in Latin America and the Caribbean: recent trends

A. Trends in regional intregation in Latin America and the Caribbean, 2000-2001

The year 2001 was another difficult year for the regional integration process, which has not yet recovered from the consequences of the various financial crises that have affected the regional economy since early 1998. More recently, these adverse conditions have been exacerbated by the stagnation of the United States economy after almost 10 years of rapid growth (see chapter I). As mentioned earlier, this last factor particularly affects the Mexican, Central American and Caribbean economies, as they are closely linked to that of the United States.

Consequently, very little progress was made towards establishing customs unions and free trade areas, and there were even some reversals of previous achievements. This was manifested by the meagre results of the negotiations under way, the deviation of national tariffs from the common external tariff (CET) and the many restrictions placed on imports, including those from member countries of the integration schemes. Nonetheless, the participating countries, apart from making efforts to re-establish the four customs unions, have stepped up trade negotiations with their main extraregional trading partners and with other countries of the region.

In the first three quarters of 2001, trade within the Latin American Integration Association (LAIA) appears to have lost momentum, growing by scarcely 0.7% in

relation to the same period of the preceding year, while total exports from the LAIA countries fell slightly (-1.1%). These lacklustre results are explained primarily by the low levels of growth in intra-LAIA exports from Argentina and Brazil and in Mexican exports to the United States. Over the same period, total exports from the Central American Common Market (CACM) decreased by about 13.5%, while intra-CACM exports increased by about 5.8%.¹

The experience of the past 20 years has shown that episodes of slow growth or recession caused by external crises have a negative impact on integration processes in terms of both the enhancement of their institutional aspects and the development of intraregional trade. In these circumstances, countries usually adopt various measures that restrict imports, with the aim of adjusting their economies to the adverse environment. For example, they may adopt exchange-rate measures;² change tariffs on third-country imports without consulting the other members of the subregional scheme or impose tariffs on imports from the latter; take contingent protection measures such as anti-dumping measures, countervailing duties and safeguards; or make ad hoc use of phytosanitary, zoosanitary and technical measures, often without clear justification. They may also resort to a number of

1 No comparable data are available for the Caribbean region.

2 See chapter V (Macroeconomic coordination in the subregional integration schemes).

bureaucratic and informal practices that hinder commercial transactions that are already under way. These are extremely damaging, as they generate uncertainty among economic agents and discourage future operations.

With regard to the institutional aspects, these circumstances generally result in delays or gaps in countries' compliance with prior agreements, a manifest incapacity to agree on programmes to strengthen integration and, in general, a resurgence of unilateralism among partners with regard to the formulation and implementation of trade policies. The partner countries' dissatisfaction with the frustrating results of regional integration processes and their lack of confidence that integration schemes can offer practical solutions to their most pressing problems may lead them to seek temporary arrangements such as closer trade relations and understandings with third countries or other schemes, and even threats to suspend participation in the scheme of which they are members.

It has also been observed that, in a number of cases, the authorities of the member countries, concerned at the sluggishness of the integration process and the risks to which it is exposed at times of crisis, have proposed that the scheme should be revitalized. This "forced march" strategy usually includes efforts to correct, extend and even accelerate the integration process. In practice, none of these objectives have been met in a satis-

factory manner, nor can they be achieved unless the environment for integration improves dramatically. In brief, integration processes usually exhibit procyclical behaviour in terms of the regional market's contribution to growth and with regard to the real possibility of making headway in institutional aspects.

Despite these difficulties and the sometimes ill-suited solutions applied to them, the countries have retained their confidence in integration programmes and in the need to intensify them, as by nature they are long-term projects. This commitment is particularly important in the current circumstances, as the countries address multiple demands for participation in far-reaching trade negotiations at the multilateral level (World Trade Organization), within the hemisphere (Free Trade Area of the Americas) and between regions (with the European Union and Asia-Pacific Economic Cooperation). The countries cannot meet these demands effectively unless they unite their individual negotiation capacities and present a common position based on an effectively integrated and significant market. Apart from this strategic consideration, there is still validity in the traditional argument in favour of integration schemes, which has gained added relevance in the current context of globalization: that integration is an essential means of improving countries' access to more dynamic trade and foreign investment flows.

B. Trends in the subregional integration schemes

1. Southern Common Market (Mercosur)

Introduction

MERCOSUR was established a decade ago with the signing of the Treaty of Asunción in March 1991. Until recently, this integration process made significant progress that even surpassed the expectations of many analysts. The agenda for the establishment of a free trade area went into effect automatically between 1991 and 1995. The greater part of the common external tariff (CET) was introduced over the next five years, although lately there have been some setbacks in that area. Its basic

structure includes an average tariff of 11%, duties on imported inputs of 6% to 12% and tariffs of 18% to 20% on products for final consumption.³

The clearest indicators of this successful development have undoubtedly been in the area of trade. From 1990 to 1998 exports among the four participating countries grew more than fivefold, increasing from US\$ 4 billion to US\$ 20 billion, while the relative share of intraregional transactions grew from 8.9% to 25% of the countries' total exports over the same period.⁴ This striking increase in the volume of trade is an important consideration with

³ A detailed description of the structure and early development of MERCOSUR is given in Izam (1997).

⁴ In this connection, it should be noted that the share of intraregional trade for the countries concerned is already about 15% in the case of Brazil

regard to the bloc's future prospects, especially as an equally significant and growing proportion of this trade is intrasectoral. In addition to the results in terms of increased trade, there has been equally outstanding growth in direct investment among the four countries.⁵

The development of intraregional trade and investment

The uneven development of the two large MERCOSUR economies, Brazil and Argentina, has been the main reason why institutional development has stagnated and internal tensions have increased within this integration scheme. One of the factors associated with the downturn in reciprocal trade is the disparity between the countries' exchange-rate regimes, as Brazil's exchange rate is floating while Argentina's is fixed.⁶ The stagnation of Argentina's economy over the past three years and its current recession have prompted the authorities to implement a series of tariff and non-tariff measures to slow down imports, regardless of origin, and to promote exports. Brazil, too, has used a variety of measures to manage its external trade. It increased tariff dispersion in relation to the CET, and trade disputes intensified between the two countries. Tensions also arose between them with respect to the fiscal measures applied by some Brazilian states to attract foreign investment.

As a result, exports within the subregion, which had fallen by 24.3% in 1999 and recovered to some extent (19.2%) the following year, again fell back by 9.4% in the first three quarters of 2001. In this last period the grouping's total exports grew by a modest 5.6%, so that the relation between intra-subregional and total exports fell to 17.5%—more than seven points below the peak of 25% reached in 1998.

Despite these setbacks in trade, the Brazilian market continues to attract Argentine firms, including small and medium-sized ones. Between August 2000 and August 2001, 130 Argentine firms set up units in Brazil, with a total investment of US\$ 13 million. Similarly, the Argentine market is still of interest to Brazilian firms. In the year 2000 alone, Brazilian investments in Argentina

exceeded US\$ 1 billion. It is estimated that the Brazilian capital stock installed in Argentina exceeds US\$ 8 billion and generates more than 8,000 direct jobs.

Recent developments

(a) Tariff and anti-dumping measures

In July 2000, the MERCOSUR countries agreed to maintain national drawback systems until the end of 2005; initially, that regime was to have been eliminated in 2000. As of 2001, the member countries could not unilaterally adopt new special import regimes that would allow the application of tariffs lower than the CET for products that would remain in the importing country or be used as inputs for products exported within the bloc.

In August 2000, the Argentine authorities imposed minimum prices for poultry imports from Brazil, claiming that the way they had been marketed amounted to dumping. In November, the Common Market Group established an arbitral tribunal to settle the issue of the anti-dumping duties that Argentina had imposed. The arbitral tribunal authorized the application of quotas to imports of Brazilian poultry, but later Argentina proceeded to impose minimum prices. In September 2001, the Brazilian government set a precedent by taking the dispute to WTO.

At the end of March 2001, Argentina authorized the duty-free import of 1,338 products that were considered capital goods. As part of the same package of measures, the Argentine government increased the tariff for some 2,000 consumer goods to 35%. The fact that computer and telecommunications products were included in the list of exemptions raised concern among Brazilian government authorities. Consequently, at the beginning of the following month, Argentina agreed to revise the list of capital goods with a zero tariff to exclude products such as printers and mobile telephones. In return, Brazil agreed to consider an overall review of the CET for telephony and telecommunications products, and the countries agreed to maintain the reduced CET until December 2002.

and over 30% in the cases of Argentina, Uruguay and Paraguay.

5 In 1993 Brazilian direct investment in Argentina barely reached US\$ 80 million, whereas four years later it had already risen to US\$ 425 million. Over the same period, Argentine direct investment in Brazil rose from 1.1% to 2.5% of the total invested in Brazil, in a period when total direct investment in that country increased from US\$ 6 billion to US\$ 21 billion. While these amounts are impressive in themselves, they have been accompanied by an even more significant change. Prior to 1986, three quarters of the investments between Argentina, Brazil and Uruguay were concentrated in services, especially commercial banking. In contrast, 10 years later, most bilateral investments were being made in goods-producing sectors.

6 See chapter V.

At the end of June, Argentina imposed a surcharge on imported motorcycles, which affected Brazilian producers in that area. Argentina based the measure on the 1994 Protocol of Ouro Preto, which permits the application of surcharges to products manufactured in export processing zones.

At the beginning of July, Argentina reduced its differential tariffs on automotive products, computer and telecommunications products and capital goods produced in non-MERCOSUR countries, leaving the import duty on such merchandise at 8%. Within a few days, the government of Brazil suspended all trade negotiations with Argentina, including those on the automotive agreement, the CET, duty-free zones, anti-dumping measures, trade protection measures, sugar and electronic commerce.

Also in July, Brazil and Uruguay signed an agreement to facilitate imports from the Manaus and Colonia free zones, granting CET exemption for 17 products from those zones, two of which were of interest to Uruguay (bottles and syrup for soft drinks). The Manaus free zone could export goods up to a value of US\$ 20 million in 2001, and Uruguay would apply the CET to any exports in excess of that amount. The agreement would have to be approved by Argentina and Paraguay.⁷

In the second half of the month, Uruguay decided to raise temporarily its tariffs on all imports, including those from MERCOSUR. This has had little impact on the MERCOSUR members, but its unilateral adoption was considered a violation of the countries' prior agreement.

A new trade conflict arose in September, when Argentina imposed a 25% tariff on imports of a specific make of bicycle of Uruguayan origin, claiming that this was a case of "triangulation" of Chinese products.

In the same month, however, the four countries also reached a number of agreements. At the end of the year, MERCOSUR would eliminate from the CET the overall surcharge of 3% that had been adopted in 1997. As of December the lists of exceptions would no longer be valid and all products would be included in the CET, with the sole exceptions (until 2006) of computer products and capital goods. The countries also agreed to discuss the development of a common regime for the import of capital goods not manufactured within MERCOSUR, to replace the current "ex-tariff" mechanism adopted by Brazil for products for which there were no domestic equivalents. This would eliminate the possibility of unilaterally adjusting tariffs according to domestic supply.

(b) Non-tariff measures

At the beginning of April 2001, Brazil and then Uruguay suspended imports of agricultural products from areas where pockets of foot-and-mouth disease had been detected. This affected almost 30% of Argentina's agricultural exports. The inclusion of wheat among these products was considered a retaliatory measure for Argentina's reduction of tariffs on capital goods.

In the middle of the same month Argentina adopted an incentive regime to promote the domestic manufacture of capital, computer and telecommunications goods through a tax bond issue. In addition, the first change was made in the peso-dollar convertibility and parity regime: the euro was included as an anchor for money creation, at a proportion of 50% for the dollar and 50% for the euro, although this measure would not be applied until parity was reached between the two currencies.

In May 2001, Argentina set minimum prices for imported footwear and textiles, regardless of origin, with the stated aim of preventing a form of tax evasion that consisted in undervaluing these products.

(c) Automotive programme

In August 2000, Argentina adopted a standard that diverged from what the countries had agreed to under the automotive programme by setting a minimum content requirement of 30% local components. This step provoked a hostile reaction from the Brazilian government, which pointed out that the standard included a breakdown of sets of parts that could raise the local content requirement to almost 50%. The Brazilian government declared the MERCOSUR automotive agreement to be void because of the harmful effect that Argentina's decree could have on sales of Brazilian vehicles, and Argentina then decided to modify the decree.

In late November Argentina and Brazil agreed on a new bilateral trade regime for this sector. Argentine manufacturers were to use at least 30% domestic parts or 44% domestic sets of parts. In return, Brazilian manufacturers were given additional time (two years for passenger vehicles and three years for utility vehicles) to adapt to those standards. An Automotive Committee was established to monitor trade in vehicles within the bloc. This agreement will remain in effect until January 2006, when the countries expect to introduce free trade within MERCOSUR.

7 Uruguay has seven free zones, Brazil has just one and Argentina has a law allowing each province to establish its own free zone.

At the beginning of May 2001, the MERCOSUR automotive policy was established (a precondition for its registration with WTO, to replace national automotive programmes). In 2001, Brazil adopted import tariffs of 9.9%, 11% and 13% on automobile parts, whereas Argentina's import tariffs were 8%, 9% and 10%, subject to import quotas. Both Argentina and Brazil will apply a 35% rate to imports of passenger vehicles from third countries. Uruguay's tariffs will be 23%, 20% (in 2006) and 2% for imports of automobiles, trucks and automobile parts, respectively. Uruguay will gradually reduce its tariffs from 23% to 7% for the import of automobiles manufactured in Argentina and Brazil, and Uruguay has agreed that these two countries may impose quotas on its exports of automobile parts. The margin of preference among the countries of the bloc is 100%, but with monitoring to ensure balanced trade.

Nevertheless, in the course of 2001 problems arose with the agreement's implementation when trade in this sector accumulated an imbalance of about 30% in favour of Argentina over Brazil, whereas the maximum allowable imbalance was 10.5%. Another source of friction was the mass migration of automobile parts manufacturers from Argentina to Brazil. From the beginning of 1999 to September 2001, more than 20 such firms moved to Brazil. This is one reason why the sector has fallen far short of meeting Argentina's requirement that at least 30% of the parts contained in each car manufactured in the country must be locally produced. To address such problems, Argentina brought the automotive sector into the competitiveness programme by reducing taxes on interest and profits and taking steps to reduce labour costs.

(d) *The agreement to "revitalize" MERCOSUR*

The Presidential Declaration of December 2000, adopted at the nineteenth meeting of the Common Market Council, officially announced the "revitalization" of MERCOSUR. The agreement includes common goals for macroeconomic convergence: maximum inflation targets of 5% for the period 2002-2005 and 4% after 2006 (except in Paraguay), and consolidated public-sector net fiscal debt of not more than 3% of GDP in MERCOSUR, Bolivia and Chile in 2002. Brazil was allowed a transition period up to 2003 with a maximum rate of 3.5%. Future targets will be set in 2005, with the aim of progressively reducing these values starting from their average levels for 2002-2004.

The participants in the December 2000 meeting also

adopted: (i) the MERCOSUR automotive agreement; (ii) an agreement with South Africa to pursue future negotiations on a free trade agreement; (iii) a cooperation agreement among the central banks of the MERCOSUR countries, aimed at preventing money laundering; (iv) a 0.5% reduction of the CET as of January 2001 and an agreement to discuss a further 2.5% reduction at the Common Market Council's next meeting; (v) an agreement dispensing with the need for translation of administrative documents for purposes of immigration among the four countries, Bolivia and Chile; (vi) an agreement to establish preferential immigration lanes for citizens of MERCOSUR countries, Bolivia and Chile at the airports of the six countries; and (vii) the MERCOSUR Presidential Declaration of Fundamental Consumers' Rights.

At the end of January 2001, it was announced that a harmonized consumer price index would be developed for MERCOSUR and the associated countries and would be calculated systematically starting in 2005.

In July 2001 the Presidents of the member countries resumed their negotiations. They decided to set up a negotiating group for which the President of IDB would act as a special adviser. They also agreed that the issue of dispute settlement should be dealt with at the highest level, in view of the divergent views currently held (Brazil prefers a standing appeals body, whereas the other partners want a standing tribunal).

In late September 2001, the Argentine Industrial Union formally proposed that MERCOSUR should be suspended, and suggested a kind of quarantine for the grouping until the differences between Argentina and Brazil were resolved. In October the Brazil-Argentina Chamber of Commerce requested urgent negotiations, given the loss of competitiveness of Argentine products in the Brazilian market.

In view of various signs of dissatisfaction with the current status of the customs union, in October 2001 Brazilian and Argentine ministers agreed to: (1) reaffirm their support for the CET in negotiations on market liberalization (WTO, FTAA, European Union and the "four plus one" agreement with the United States); (2) work towards establishing a common currency; (3) resolve existing trade problems; and (4) establish a temporary bilateral mechanism, subject to the approval of the other two MERCOSUR members, for the application of safeguards in accordance with WTO rules. It was felt that these actions should focus on the footwear, textiles, pulp and paper, steel and poultry sectors.⁸

8 Argentine industrialists questioned the agreement on safeguards because this option does not eliminate the competitiveness differential result-

Negotiations with third countries

Another special feature of MERCOSUR is its member countries' commitment to negotiate jointly with third countries. The clearest reflection of this is the fact that the four countries participate with one voice in the FTAA negotiations.

In addition to participating in negotiations at the hemispheric level, the MERCOSUR countries have made efforts to strengthen their ties with other areas. There is a process under way to multilateralize preferences with the Andean Community, and negotiations with the European Union have intensified. MERCOSUR has sought to expand its relations with the countries of the hemisphere, including those of the North American Free Trade Agreement (NAFTA) and the Caribbean Community (CARICOM), and also with other countries such as Australia, New Zealand, the Russian Federation, the Association of South-East Asian Nations (ASEAN) countries, China, Japan, South Africa, India, Canada and Switzerland.

Formal negotiations between MERCOSUR and the European Union were initiated with the signing of an institutional cooperation agreement in 1992. In December 1994, the European Council confirmed its willingness to negotiate a framework agreement on interregional cooperation between the European Community and its member States, on the one hand, and MERCOSUR and its States parties, on the other; this agreement was signed in Madrid in December 1995.

In early July 2001, MERCOSUR and the European Union presented separate proposals at the fifth meeting of the bilateral negotiating committee. MERCOSUR offered to open all tariff lines to negotiation, and proposed that tariffs on most trade should be eliminated within 10 years and that the liberalization process should cover both tariff and non-tariff restrictions, with more generous offers on the European Union's part, while MERCOSUR should retain its freedom to adjust the CET.

The European Union surprised the MERCOSUR negotiators by proposing that tariffs on all services and goods, including agricultural products, should be lifted. Within 10 years, 90% of trade between the two blocs would be duty-free. Under the European proposal, tariffs would be lifted in several stages: tariffs on paper,

fresh fruit, oils, textile fibres and leather would be lifted immediately; those on machine equipment and ceramics, meats and other products, after four years; those on processed products (orange juice, poultry meat), after seven years; and those on the remaining products, after 10 years. Barriers to trade in wines and spirits would be eliminated gradually through separate negotiations. The most sensitive products would remain subject to the quota system. It should be noted that the proposal made no reference to agricultural subsidies, as the European Union wishes to negotiate this issue within WTO. The European Union also asked MERCOSUR not to alter the CET during the negotiations.

At about the same time, Brazil and Mexico had to give up their efforts to reach a bilateral agreement, after 18 months of negotiations, because the MERCOSUR members had undertaken to negotiate jointly as from 30 June. Differences had arisen between the two countries with regard to chemical, iron and steel, electrical and electronic products and footwear.

The practical results achieved thus far include the existing free trade agreements with Bolivia and Chile, which have enabled these two countries to develop uniquely close relations with the grouping. The fact that these six countries are sometimes referred to as an "extended MERCOSUR" implies that other countries in the region might have the opportunity to join the original group at some point in the future. Accordingly, in September 2001 Venezuela made a formal request to join MERCOSUR as a new associate member.

Conclusions

To date, very little progress has been made along the lines of the measures called for in the revitalization agreement. For example, more conflicts have arisen with respect to market access. The harmonization of incentives for investment, production and exports has been delayed by bureaucratic red tape. Meanwhile, the CET has been riddled with exceptions of various kinds. The issues of trade defence and competition rules have not been discussed at any meeting, nor has progress been made in establishing effective dispute settlement mechanisms. Lastly, the issue of common technical standards is under

ing from the devaluation of the real. In Argentina it was hoped that Brazil would agree to a system of exchange-rate bands for bilateral parities and that whichever country exceeded the limits would compensate the other. This argument was not accepted by the Brazilian negotiators, who pointed out that, even with the existing parities, Argentina enjoyed persistent surpluses in bilateral trade. On several occasions representatives of Paraguay and Uruguay also expressed their desire for some type of mechanism to compensate for the losses caused by this devaluation. The Brazilian view has always been that any compensation would require prior proof of damage to local producers.

discussion, but there are strong differences of opinion among the four countries.

These factors, together with the uneven performance reflected by the countries' macroeconomic indicators, seem to paint a rather dark picture of the future of MERCOSUR.

There are at least two sets of arguments, however, which show that the social cost of reversing the process would be unacceptably high. The internal argument is that the agents involved still see advantages in consolidating the integration process. The volume of trade, bilateral investment flows and the degree of complementarity already reached in production processes all bolster this perception.

In fact, a recent survey of more than 200 Argentine firms showed that 58% of Argentine entrepreneurs consider the 10-year experience of MERCOSUR to be positive, while 17% consider it neutral and only 21% have a negative view. Only 10% would support withdrawal from MERCOSUR. In Brazil, surveys carried out in the industrial sector show that a growing number of firms take the four countries' joint market into account in their investment plans.

Thus, although the initial decision to integrate was a political one, taken in response to the lack of interaction among the economic agents of the countries in-

volved, there is now a critical mass of economic interests that make the cost of opting out of MERCOSUR very high.

The external argument in favour of maintaining and strengthening MERCOSUR is based on the four countries' experience with regard to the advantages of joint negotiation with third parties. In both the negotiations to establish FTAA and those with the European Union, it has been clear that the presentation of a united front has brought results.

In the case of the European Union this aspect is even more central, in view of the European Commission's mandate to negotiate with a customs union, which implies that the CET should be maintained. In addition to the negotiations in the framework of FTAA, a parallel "four plus one" negotiating process was recently started with the United States.

Thus, various factors that foster cohesiveness have become stronger and are expected to keep the four countries united around their common aims. While current conditions are not objectively conducive to a deepening of the process of creating the common market, in line with the experiences of other regions, there are at least some compelling reasons to believe that MERCOSUR is likely to be preserved and gradually extended in the coming years.

2. Andean Community

Introduction

The Andean Customs Union as such has been in operation since 1995, when the CET adopted by Colombia, Ecuador and Venezuela entered into force at the four basic levels of 5%, 10%, 15% and 20%. Ecuador was authorized to maintain tariffs five points higher than the CET for close to a thousand sub-items, while Bolivia essentially applies a flat-rate tariff of 10%. Since mid-1997, Peru has been gradually rejoining the Andean free trade area, with a tariff reduction programme that should be completed by the end of 2005. Currently, the Andean

Community's average tariff is estimated at 11.7% (ECLAC, 2001e, p.115).⁹

The text modifying the Cartagena Agreement entered into force in April 1997, and the Andean Pact came to be known as the Andean Community of Nations. On 1 August 1997 the new General Secretariat of the Andean Community became operational, replacing the previous technical body, the Board of the Cartagena Agreement. The General Secretariat unites within a single body the responsibility for carrying out the decisions taken by the Community's two highest governing bodies, the Andean Presidential Council and the Andean Council of Minis-

9 The Andean Community also has a special system of price bands and variable tariffs for a wide range of agricultural products (Decision 371), through which member countries seek to protect their main agricultural products from the effects of variations in prices and subsidies on international markets (see ECLAC, 2001d, p. 178, and Izam and Onffroy, 2000). In addition, trade in the automotive sector is regulated by a complementarity agreement between Colombia, Ecuador and Venezuela that guarantees reciprocal free trade when the vehicles assembled in those countries comply with the specific origin requirement, whereas rates of between 10% and 35% are applied to imports from third countries, depending on the type of vehicle (see ECLAC, 2001d, p. 176).

ters for Foreign Affairs. The Secretary-General has the authority to act as a political spokesperson with special responsibility for cultivating the Community's image outside the region. Prior coordination of its external action has enabled the Community to participate with one voice in a growing number of outside negotiating forums. The Andean nations have thus managed to establish official joint representation in the negotiations with MERCOSUR and in the FTAA process.

Despite the major economic and even internal political difficulties they have faced, the Andean countries remain committed to the integration efforts they began more than 30 years ago. In this, they are motivated not only by the results achieved in the actual integration of their economies, as reflected in increasing trade flows and, more recently, in significant intraregional investments, but also by the aim of strengthening their positions through joint action in future international negotiations, the most urgent of which concern the consolidation of a free trade area between the Andean Community and MERCOSUR.

The development of intraregional trade and investment

As a result of the reforms introduced by the Andean countries, both in the integration scheme and in their respective economies, intra-subregional trade grew rapidly from the early 1990s until 1998, when the international crisis began to take its toll. At the same time, the share of intra-subregional exports in relation to total exports recovered quickly, reaching levels of close to 12% by the end of this period.

In response to the unfavourable external conditions that emerged in 1998, exports within the subregion fell by 27.2% in 1999, and then made a remarkable 36.1% recovery in 2000. Additional growth of 11.3% is estimated for the first three quarters of 2001; this compares favourably to the 7.9% drop in total Andean exports. Because of these changes, intra-subregional exports probably now account for no more than 10.7% of total exports from the grouping, which is more than three points lower than the record high of 13.9% reached in 1998.

For much of the past decade, the Andean countries have also been quite successful in attracting foreign direct investment (FDI). It is estimated that annual FDI flows to the Andean Community increased from

US\$ 1.14 billion in 1990 to about US\$ 9.8 billion in 1997, with a cumulative value over the period of US\$ 36 billion.¹⁰ The main incentives for these inflows were the liberalization and deregulation of the countries' economies, the privatization processes they carried out and the greater assurances they provided to investors. The impact of integration is most obvious in the case of intra-Community investment. Although investment between the Andean countries represents a very small proportion of total FDI, its growth is noteworthy, as is the fact that it usually goes to sectors other than those that receive FDI from outside the subregion. Almost two thirds of these flows are between Colombia and Venezuela.

The aftermath of the financial crisis and the economic and political difficulties that almost all the member countries have had to face in recent times have resulted in slower and more uncertain progress towards their established goals. At the same time, trade disputes have become more frequent, as some of the countries have adopted unilateral measures that have had a strong impact on intra-subregional trade. These measures include temporary surcharges on imports from the subregion and the application of formal and informal non-tariff restrictions to particularly sensitive imports. Nevertheless, economic stagnation in the subregion and the scarcity of foreign exchange have probably been even more harmful to the development of intra-Community trade.

In the case of Ecuador, the economic crisis and the dollarization process that began on 1 January 2000 were largely to blame for the contraction in that country's imports from the subregion. Intra-Andean road transport was made even more difficult by hindrances to the entry of Colombian trucks into Venezuela and the subsequent retaliatory action taken by Colombia with regard to traffic from Venezuela.¹¹ In view of the recent increase in Venezuela's imports, its authorities announced in mid-2001 that they would limit imports of all origins, but later they retracted in the face of protests from their integration partners.

Recent developments

At their Twelfth Summit, held in June 2000, the Presidents of the Andean countries reaffirmed their commitment to complete the formation of a common market by 2005, by establishing conditions allowing the free circulation not only of goods, but also of services, capital and

10 Data taken from the home page of the Andean Community (www.comunidadandina.org).

11 Ecuador has always required that merchandise arriving at its borders from other Andean countries must be transferred to its national vehicles.

persons. On that occasion, the Presidents also signed an additional protocol to the Cartagena Agreement, the “Andean Community Commitment to Democracy”, which authorizes the Council of Ministers for Foreign Affairs to suspend the participation in the Community of any member country in which the democratic order is disrupted.

With regard to liberalization in the service sector, Community Decision 439 concerns the establishment of a common Andean services market in 2005. The agreement covers all modes of service provision, and the signatory countries undertook to eliminate, through yearly negotiations, all restrictions that are inconsistent with the principles of most favoured nation and national treatment. The process is beginning with the preparation of an inventory of existing provisions and procedures that hamper the free flow of services. Practical steps were also taken in the transport and telecommunications sectors. In June 2001, the Community adopted Decision 503, which made national identity documents the only requirement for nationals and resident aliens wishing to travel in the subregion as tourists.

The Andean countries are also making a joint effort to achieve the gradual harmonization of macroeconomic policies by defining criteria for convergence with regard to inflation, public debt and fiscal deficits. At the Twelfth Summit, the Ministers of Finance acted on their commitment to gradually harmonize the member countries’ macroeconomic policies by agreeing to reduce inflation to single-digit levels and by developing common fiscal goals. Further consideration was given to this subject at the fifth meeting of the Advisory Council, held in June 2001, where the participants decided that, as from 2002, the public-sector deficit should not exceed 3% of GDP¹² and the balance of the public debt should not exceed 50% of GDP at the end of each fiscal year. At the same meeting, the Council also clarified the first convergence goal by announcing a deadline of 31 December 2002 for the attainment, by all the countries, of single-digit annual inflation.

The countries are now evaluating a proposal from the General Secretariat for a unified common external tariff which all of them would apply beginning in May 2002. The attainment of this objective has been complicated by the reopening of the debate in the subregion on the suitability of the CET structure in view of the current unfavourable environment. Peru undertook a study

on this subject and would be in favour of reducing tariffs on capital goods. In September 2001, Colombia announced that it would reduce tariffs on imports of capital goods, while Ecuador will probably insist on maintaining differential treatment.

Negotiations with third countries

In line with their support for the open regionalism model, the countries have continued to negotiate with third countries with a view to improving their access to external markets. At the Meeting of the Presidents of South America, held in Brasilia from 31 August to 1 September 2000, the heads of State of the region had signed a commitment to complete, by the end of 2002, their negotiations on the establishment of a free trade area between the Andean Community and MERCOSUR. Multilateral negotiations between the two groupings began in 1998 but were later delayed, essentially because some Andean countries feared that imports from MERCOSUR that were protected under a strict free trade regime would endanger the survival of their temperate-climate agriculture. Brazil broke this impasse by opening unilateral negotiations with the Andean countries for the establishment of a tariff preference area. Subsequently, Argentina negotiated a similar agreement with the Andean countries.

After signing agreements on fixed tariff preferences with Brazil and Argentina in August 1999 and August 2000 (partial-scope Economic Complementarity Agreements 39 and 48, respectively) the Andean countries pursued their negotiations for similar agreements with Paraguay and Uruguay. Nevertheless, in mid-2001, Paraguay announced its decision to discontinue the negotiations because the Andean countries’ proposals with regard to margins of preference did not meet its expectations. Uruguay, for its part, had already stated by the end of April that it was not interested in negotiating a fixed preferences agreement. However, it would clarify its interests during the negotiation of a joint free trade agreement with the Community.¹³

With regard to the negotiations on the establishment of a free trade area between the Andean Community and MERCOSUR, an initial meeting was held in Asunción on 27 April 2001 to define the scope of the agreement and the timetable for the negotiations. In the following

12 For the period between 2002 and 2004, the ceiling could temporarily be raised to 4% of GDP.

13 See General Secretariat of the Andean Community, Developments in Andean Community trade negotiations with third countries in recent months, August 2001, www.comunidadandina.org.

months the two parties exchanged proposals on the text of the agreement, having decided to hold the next negotiation meeting in Montevideo at the end of July.¹⁴

In November 2000 the Andean Community held its second negotiation meeting with the countries of Central America's Northern Triangle (El Salvador, Guatemala and Honduras), and in March 2001 the parties exchanged consolidated lists of offered and requested preferences, without yet having set a date for the next meeting. The Community's attempts to build closer relations with the CARICOM countries, Cuba and Panama are still in a preliminary phase.

Since the beginning of 2001, the Andean countries have been taking steps with the United States authorities to renew and extend the Andean Trade Preferences Act, which expires near the end of 2001. On 16 November the United States Senate began consideration of a proposal to extend preferences under the Act to wearing apparel, but excluding Venezuela as a beneficiary country.

In addition, the General Secretariat and the European Commission are continuing to negotiate the renewal of the scheme of preferences for the Andean countries under the European Union's Generalized System of Preferences (GSP) for the decade 2005-2014. It is already anticipated that the European Union will require the beneficiary countries to undertake to comply with the main labour standards of the International Labour Organization (ILO) and with certain environmental protection requirements.

The Andean Community countries are also continuing to participate, with joint representation, in the FTAA negotiations. Also, Ecuador assumed the presidency of the FTAA process after the Ministerial Meeting on Trade (Buenos Aires, 7 April 2001), and will be responsible for the preparations for the seventh Ministerial Meeting, to be held in October 2002.

Conclusions

The Andean Community has thus far managed to weather the difficult economic and political conditions affecting its member countries, partly because of the high degree of institutionalization achieved by the grouping. This is manifested, for example, by the arrangement for joint representation in the FTAA and MERCOSUR negotiations and by the renewal of the Andean Trade Preferences Act. To consolidate the customs union, the countries must reach agreement on the reform of the CET, which will require the full reintegration of Peru into that arrangement. Also, the countries should refrain from applying unilateral measures that hinder free trade among them. In the same vein, they should make efforts to comply scrupulously with the opinions issued by the relevant Community bodies in respect of trade disputes, to strengthen the operation of the integration agreement and thereby enable the countries to enjoy the advantages of an expanded market.

3. Central American Common Market (CACM)

Introduction

The CACM member countries signed the Protocol to the General Treaty on Central American Economic Integration (Guatemala, 1993), with the ultimate aim of establishing an economic union encompassing all the signatories. In the mid-1990s targets were set for the implementation of a CET with a floor of 5% for raw materials and capital goods not produced in the region

and a ceiling of 15% for final goods. In 1996 it became necessary to make this range more flexible, and the countries were allowed to lower to zero tariffs on raw materials and capital goods not produced in Central America. The simple average of the tariffs currently applied is estimated to be around 7%.

Aside from these elements of flexibility, all the Central American countries except Honduras have successfully reached the established minimum and maximum

14 It should be noted that trade between the Andean Community and MERCOSUR reached a record high of US\$ 5.59 billion in 2000 after contracting significantly in 1998 and 1999. In general, petroleum and petroleum products account for more than 50% of Andean exports to MERCOSUR, whereas Andean imports are much more diversified. The leading imports include motor vehicles (5%) and radiotelephony broadcasting and receiving apparatus (4%), followed by soya bean oil and oil-cake, flint maize and soya beans. The Andean Community's trade balance was negative throughout the past decade. See General Secretariat of the Andean Community, Trade between the Andean Community and Mercosur, 1990-2000, August 2001, www.comunidadandina.org.

Table IV.1
**INTRAREGIONAL EXPORTS^a AS A PERCENTAGE OF TOTAL EXPORTS,
 1998-2000**

| | 1998 | 1999 | 2000 |
|-----------------|------|------|------|
| Costa Rica | 19 | 9 | 11 |
| El Salvador | 49 | 54 | 55 |
| Guatemala | 29 | 32 | 30 |
| Honduras | 19 | 20 | 20 |
| Nicaragua | 22 | 28 | 26 |
| Central America | 25 | 21 | 23 |

Source: Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), 2001.

^a Does not include *maquila* exports.

targets of 0% and 15%, respectively, by means of a variety of tariff reduction schedules. However, the Central American customs union is weakened by the fact that these countries do not all use the same customs code. This means that, in practice, the same product can be subject to different tariffs in different countries of the region. Moreover, in some cases the countries continue to levy specific duties.

In addition to implementing the CET, the countries have achieved considerable progress in liberalizing trade among themselves. The regionally-produced products that are still excluded from the countries' free trade commitments are sugar, coffee, roasted coffee, wheat flour and ethyl alcohol.¹⁵

The development of intraregional trade

The progress made in liberalizing trade in Central America has helped intraregional trade to recover and develop. Until 2000 the grouping's total exports grew steadily thanks to its close links to the United States economy. Trade within the subregion grew at a similar rate, so that the share of intraregional trade out of the total stabilized at around 20%, not including *maquila* trade (see table 1). If *maquila* exports are included, the

percentage of intraregional trade is barely 14%, which indicates that its development has been somewhat limited. In the first three quarters of 2001, however, total exports apparently contracted by 13.5% with respect to the year-earlier period. Exports within the subregion also recorded a slowdown, but nevertheless expanded by an estimated 5.8%, which is likely to temporarily increase their share of total exports to 26.8% (see table II.17).

Despite this, the countries have repeatedly set up a number of tariff and non-tariff barriers to intraregional trade in sensitive products. El Salvador, for example, prohibits the import of dairy products and their derivatives, on the basis of sanitary requirements. For a four-month period in 1999, Nicaragua imposed a temporary ad valorem anti-dumping duty equivalent to 46% on imports of sweets from Honduras. CACM prohibits the use of safeguard measures, whether bilateral or global, among its members.¹⁶

Recent developments

(a) *Presidential meetings*

In the biennium 2000-2001 the Central American leaders held: (i) three extraordinary meetings (5 April 2000 in

15 In 1999 petroleum was excluded from Annex A of the General Treaty on Central American Economic Integration. In addition, special bilateral regimes were established for trade in the five products mentioned. See Resolution 44-99 (COMIECO-XIII, September 1999). COMIECO is the Council of Ministers of Economic Integration, which is responsible for the coordination, harmonization, convergence and unification of CACM tariff policies.

16 Nevertheless, Costa Rica introduced special safeguard measures in 1999 which continued to be applied in 2000. These measures affected agricultural products æblack beans, paddy rice and husked, semi-milled or polished riceæ and were reported to WTO (G/AG/N/CRI/11, October 2000). Nicaragua also imposed safeguards in 1999, raising the tariffs levied on imports of yellow corn to 30%, on paddy rice from WTO member and non-member countries to 35% and 45%, respectively, on polished rice from WTO member countries to 45% and on sorghum to 30%. In May 2000, tariffs levied on paddy rice from WTO member and non-member countries were raised to 55% and 65%, respectively (Ministerial Agreement No. 026-2000).

Costa Rica, 2 May 2000 in El Salvador and 15 June 2001); (ii) the Fourth Summit of Heads of State and Government of the countries members of the Tuxtla Mechanism for Dialogue and Coordination;¹⁷ (iii) the Third Meeting of Heads of State and Government of the Republic of China, the Central American countries and the Dominican Republic (15 May 2001); and (iv) a meeting with the President of Argentina (4 December 2000) and another with the President of Spain (8 May 2001). Belize participated in all these events, following its accession to the Central American Integration System in 2001.

The presidential meetings have been clearly marked by the will to preserve democracy, alleviate poverty, promote sustainable development, improve integration mechanisms and strengthen multilateralism. In addition, the participants at the meetings reaffirmed the relevance of the Tuxtla dialogue and coordination mechanism for achieving progress in the political, economic, social, environmental and cultural spheres and for advancing cooperation in Meso-America. Lastly, they agreed to adopt the Puebla-Panama Plan, which, among other strategies, would create a logistical corridor from the south of Mexico to the border with Panama. Properly implemented, the Puebla-Panama Plan has the potential to become an engine of economic development for the region.

(b) *The CET and the customs union*

All the Central American countries except Honduras observe the parameters of the Central American CET. Honduras adopted the maximum tariff rate of 15% on final goods in December 2000, but since January 1997 it has imposed a 1% tariff on capital goods.¹⁸ Nicaragua standardized its maximum tariff at 15% for final goods, and eliminated its temporary protective tariff on intermediate and capital goods not produced in Central America (see table 2). As part of this liberalization process, the average tariffs levied by the countries have been reduced considerably.

Perhaps the most significant development in this sphere was the transfer, to section II of the CET, of the

safeguard clauses that had previously been implemented under article 26 of the Convention on the Central American Tariffs and Customs Regime and had expired every six months. This effectively means that the countries can no longer change the tariff lines that come under safeguard clauses at their discretion.

Four Central American countries (El Salvador, Guatemala, Honduras and Nicaragua) attempted to move further ahead in applying the CET by forming a quadripartite customs union. In 1996 El Salvador and Guatemala took the first steps towards creating a customs union with a view to extending free trade to all goods and eliminating customs controls between the two countries.¹⁹ Honduras and Nicaragua joined the formal customs union process in August 2000.²⁰ Within the framework of the customs union, the governments of the four countries resolved to consolidate import tariffs at their current levels for all harmonized segments.²¹ They also agreed to harmonize all remaining tariffs by the end of 2002 and to apply jointly the safeguards provided for in article 26 of the Convention on the Central American Tariffs and Customs Regime.

These efforts included the establishment of a single customs agency at Amatillo, on the border between Honduras and El Salvador, in order to unify border procedures and facilitate the transit of goods and persons. Procedures relating to medicines and sanitary and phytosanitary measures were also harmonized.

Negotiations with third countries

In the last two years the Central American countries made further strides in liberalizing their economies and seeking new markets.²² In 2000, the Northern Triangle countries signed a free trade agreement with Mexico, which came into effect in 2001.²³ The agreement has its roots in the economic complementarity agreements that arose from the Tuxtla I meeting (1991), and is intended to establish an area of free trade in goods and services among the signatories.²⁴ It also seeks to encourage and

17 Comprises the countries of the Central American isthmus, Belize and Mexico.

18 Honduras has not adopted the third protocol to the Convention on the Central American Tariffs and Customs Regime, which lowers the tariff floor from 1% to 0%.

19 Resolution 27-96, Council of Ministers Responsible for Economic Integration and Regional Development (COMRIEDRE), fourth meeting, May 1996.

20 Resolutions 56-2000 and 57-2000, Council of Ministers for Economic Integration (COMIECO), August 2000.

21 Resolution 66-2000, COMIECO, fifteenth meeting, September 2000.

22 In recent years the Central American countries have signed free trade agreements with the Dominican Republic (1998) and Chile (1999).

23 Costa Rica and Nicaragua signed free trade agreements with Mexico in 1995 and 1997, respectively.

24 In 1999, imports from Northern Triangle countries represented only 0.07% of Mexico's total imports. Mexican exports to the Northern Triangle

Table IV.2
TARIFFS LEVIED IN 2001 AND SIMPLE TARIFF AVERAGES
(Percentages)

| | Costa Rica | El Salvador | Guatemala | Honduras | Nicaragua |
|-----------------------|------------|-------------|-----------|----------|-----------|
| Capital goods | 0 | 0 | 0 | 1 | 0 |
| Raw materials | 0 | 0 | 0 | 1 | 0 |
| Intermediate goods | 5-10 | 5-10 | 5-10 | 5-10 | 5 |
| Final goods | 15 | 15 | 15 | 15 | 15 |
| Simple tariff average | 7.1 | 6.9 | 7.1 | 7.1 | 5.1 |

Source: Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), 2001, and official figures.

develop investment flows and to establish mechanisms to prevent trade-inhibiting measures. Based on the structure of NAFTA and of the trade agreements between Mexico and Costa Rica and Nicaragua, the agreement deals with 12 issues relating to market access, trade regulations and other areas.

The free trade agreement between Mexico and the Northern Triangle countries implicitly acknowledges its signatory countries' disparate levels of development, and gives the Northern Triangle countries the benefit of asymmetrical treatment for trade in goods, in the form of longer tariff reduction timetables, greater market-access facilities and grace periods for lowering tariffs from the base rates in place when the negotiations were initiated. According to the tariff reduction lists, the Northern Triangle's industrial products have broader access to the Mexican market than its agricultural goods. Over 70% of Central American industrial products enjoy free access to the Mexican market. By contrast, only 30% of agricultural goods have similar access. Although the Central American countries expect the free trade agreement to bring benefits, it will also generate costs. It might therefore be desirable to develop economic policy tools that transfer some of the benefits from the winners to the losers by laying the foundations for medium- and long-term transition policies that would prevent excessive gains and losses on the part of the economic agents affected by changes in the direction of economic policy.²⁵

Costa Rica signed a free trade agreement with Canada on 23 April 2001. This gives Costa Rica asymmetric market access, as Canada is required to eliminate tariffs immediately on 86% of tariff lines, while Costa Rica

will do so on only 67%. In addition, the timetable for the reduction of tariffs on the remaining goods is 14 years for Costa Rica and 8 years for Canada. The agreement also affords more liberal rules-of-origin treatment to a limited number of Costa Rican exports. It includes a separate annex on fabrics and garments, a sector of special interest to Costa Rica. It further establishes that goods which do not comply with rules of origin owing to the inclusion of imported inputs may nonetheless benefit from the tariff preferences granted by Canada. However, Canada's tariff preferences are not applicable to products from duty-free zones, as these already benefit from export subsidies.

In April 2000, the Central American countries embarked upon negotiations to establish a free trade agreement with Panama. At the most recent of eight rounds of negotiations, held in May 2001, the parties reached a consensus on the regulatory aspect of the agreement. In July 2001 Costa Rica began the first round of negotiations on a free trade agreement with Trinidad and Tobago. The discussions are being based on the text of the 1995 free trade agreement between Costa Rica and Mexico.

Like other countries of the region, the Central American nations enjoy unilateral concessions, subject to rules of origin, granted by Canada, the United States and the European Union, in the framework of the Generalized System of Preferences (GSP).

The tariff preferences afforded by the European Union have been in place since 1971, when they were directed at certain agricultural and industrial products from less developed countries. Initially these preferences

are rather more significant and represent 5% of the bloc's total imports. The Northern Triangle's main exports include both commodities and industrial products, such as rubber (21%), fats and oils (9.1%), beverages and spirits (6.7%), paper and paperboard (6.4%) and leather and undressed hides (4.7%). Mexican exports consist of industrial products: vehicles (13%), machinery and mechanical appliances (8.3%), plastics and articles thereof (8.2%), articles of iron (6.2%) mineral fuels (5%) and electrical machinery (4.2%).

25 See ECLAC (2001e).

were granted for a period of 10 years, then were extended successively up to the present. In 1998, the European Union revised its scheme of generalized tariff preferences by instituting a system of incentives for the period 1 July 1999 to 31 December 2001. The preferences are applicable to chapters 1 to 97 of the Community customs tariff (with the exception of chapter 93, which includes arms) and encompass both agricultural and industrial products.

Article 7 of the new regulations eliminates tariffs on industrial products under chapters 25 to 97 and on certain agricultural products that are designated non-sensitive. In the region, the beneficiaries of this scheme are the countries of the Andean Community and CACM.

Central America also benefits from tariff concessions granted by the United States in the framework of the Caribbean Basin Initiative (CBI). Benefits under the Initiative were expanded by the United States-Caribbean Basin Trade Partnership Act, which became law in October 2000 and will remain in effect until September 2008, or until FTAA enters into force (2005). It extends the Initiative to a number of products that were formerly excluded, with benefits now encompassing: (i) tariff- and quota-free access for clothing made up in the region using United States fabric and yarn; (ii) tariff- and quota-free access for clothing cut and made up in the region using United States fabric and yarn; (iii) free trade in clothing made with fabric produced in the CBI region and United States yarn, up to an annual limit of 250 million square metres of knit fabric; (iv) free trade in T-shirts made with fabric produced in the CBI region and United States yarn, up to 4.2 million dozen knit T-shirts per year (the upper limits on the last two categories will be increased at an annual rate of 16% until 2004, and thereafter by a percentage to be set by law); and (v) free access for any product classified under tariff subheading 6212.10, provided that it is cut and sewn or assembled in the United States or in one of the beneficiary countries.

The main advantage of the Initiative's extension is lower-cost access to the United States market, which makes the region more competitive. The scheme's shortcomings include a lack of clarity with respect to the con-

ditions for obtaining benefits and the fact that few fabric suppliers meet the established requirements. In addition, there is concern that Central America may not be able to take full advantage of its assigned quota.

Conclusions

The CACM member countries have made considerable progress in developing a free trade area and, with the exception of Honduras, have been able to conform to CET convergence parameters. The process is still incomplete, however. Exceptions to free trade persist, and the customs codes used by the Central American countries remain to be harmonized. Despite the will to move towards an economic union, the concrete results achieved thus far have been chiefly in the field of intraregional trade. In fact, macroeconomic convergence has not yet been achieved and the region has reached less than 50% of the targets that were set for the period 1997-2000.²⁶

The countries' joint efforts to gain access to larger markets are another important aspect of integration. They have sought access to the wider North American market by means of agreements with Canada and Mexico, for example. In this sense, the Central American scheme has sought to achieve compatibility between internal and international integration.

It remains to be seen how the elimination of the benefits of the extended CBI will affect the region. Even more significantly, a question arises as to the impact on the duty-free zones of the elimination of export subsidies in 2003, in line with multilateral rules. A preliminary review of the statements made by WTO at the Doha Conference indicates that all the CACM countries may be allowed to request an extension of the deadline for eliminating some of the preferential treatment measures that are currently applied to duty-free zones. It is still not apparent, however, whether requests to that effect are likely to be made. Lastly, CACM has yet to arrive at a common position on the issue of disparities in size and level of development, which should be reflected in the FTAA agreement.

26 The Central American Monetary Council (CAMC) uses eight indicators with established parameters to follow economic trends in the region (CAMC, 2001). These are: (i) annual GDP variation > 5%; (ii) annual rate of inflation < 9%; (iii) average base rate of interest as of December each year < 5% in real terms; (iv) real effective exchange rate index in relation to the United States dollar between 90 and 100 (December 1997=100); (v) ratio of net international reserves in the central bank to monetary base > 100; (vi) ratio of balance-of-payments current account deficit to GDP < 3.5%; (vii) ratio of public-sector deficit to GDP < 2.5%; (viii) ratio of total public debt to GDP < 50%.

4. Caribbean Community (CARICOM)

Introduction

In the 1990s, the CARICOM trade regime underwent a number of reviews intended to lower and rationalize its level of protection. The scheme's common external tariff was to be gradually brought down to a maximum rate of 20%. The exception to this was agricultural products, for which rates of up to 40% would continue to be applied. There were a number of setbacks in the implementation of the four stages of the reform, however, and the final stage has yet to be put into effect in all the countries.²⁷ The simple average of the countries' tariffs is currently around 10%, although the degree of effective protection can still reach fairly high levels, since the tariff structure exhibits a high degree of escalation.²⁸

In 1997, the CARICOM heads of State adopted a series of protocols of amendment to the Community's founding agreement, the Treaty of Chaguaramas, in order to move ahead with the Community's single market and economy. A number of these protocols contain provisions that will make the countries much more open to trade and investment from other CARICOM members. These are Protocol III on industrial policy, Protocol IV on trade policy, Protocol V on agricultural policy, Protocol VII on disadvantaged countries, regions and sectors, Protocol VIII on competition policy, dumping and subsidies, and Protocol IX on dispute settlement.

Until 1999 trade between CARICOM countries expanded more rapidly than total exports. Intra-Community trade currently accounts for some 18% of total exports and is highly significant for the smaller economies and for sales of light manufactures.²⁹

Recent developments

At their penultimate Conference (Saint Vincent and the Grenadines, 2 to 5 July 2000), the CARICOM heads of government confirmed that the basic legal framework for the single market would be in place by the end of 2000, when all the protocols would be integrated into a revised treaty.³⁰ In addition, they agreed that all member countries would sign the agreement establishing the Caribbean Court of Justice by that date. This initiative is to be implemented in the near future and will be based in Trinidad and Tobago. The Court will have the power to play a key role in advancing the CARICOM single market, as it will serve as a regional tribunal for interpreting the provisions of the Community's revised treaty and as a regional court of appeal.

The heads of State affirmed the importance of continuing to present a united front in the FTAA negotiations through the Regional Negotiating Machinery and of ensuring that the favourable treatment currently enjoyed by the Caribbean countries was not diluted. The Regional Negotiating Machinery is unique in the Western Hemisphere and, in view of the region's scarce resources, has become a valuable instrument for obtaining better results in trade negotiations with third countries. Its capabilities were enhanced when the incumbent of the new post of Director-General took up his functions on 1 December 2001, undertaking the responsibilities formerly divided between the Chief Negotiator and the Chief Technical Adviser.

At the most recent Meeting of the Conference of Heads of Government of the Caribbean Community,

27 The four largest CARICOM economies (Barbados, Guyana, Jamaica and Trinidad and Tobago), together with Saint Lucia and Saint Vincent and the Grenadines, have already implemented the last stage of the CET reform (data refer to mid-2001).

28 Moreover, in practice some of these products continue to receive additional protection through minimum price programmes, variable levies, licensing requirements, import quotas and prohibitions. In mid-2001, the CARICOM secretariat noted that five member countries were still applying tariff surcharges and import licensing requirements to some especially sensitive products, such as edible oils, rum, beer and malt. For a comparative analysis of trade and integration policies in CARICOM countries, see ECLAC, 2001e, chap. IV.

29 Because insufficient data are available for recent years, the figures quoted refer only to the four largest CARICOM economies.

30 Recent information indicates that Protocol II has been signed by all the member countries and is being provisionally applied. This includes the negotiation of realistic programmes to remove notified restrictions. Protocol IV has been signed by 13 member countries and is also being provisionally applied. The status of the other Protocols is similar, in that almost all the countries have signed them and declared their provisional application (see CARICOM secretariat, "Establishment of the CARICOM Single Market and Economy: Key Elements", July 2001, www.caricom.org).

which took place from 3 to 6 July 2001 in Nassau, Bahamas, the participants commended the bodies involved in completing the revision of the Treaty of Chaguaramas by incorporating the nine Protocols. In addition, they undertook to bring their national legislation into line with the Community's new legal framework.

In summary, the CARICOM countries share three main interests: (i) further deepening the integration process; (ii) further broadening the process; and (iii) making the best possible use of the negotiating capabilities of the Regional Negotiating Machinery. The different priorities of the individual countries reflect their varying perceptions of the opportunities offered by globalization and by the opening of their markets to other countries, which, in turn, influence the speed with which they implement the agreements on the single market and economy.

Negotiations with third countries

In recent years, the Community has sought to broaden its export markets by stepping up negotiations with non-CARICOM countries. A protocol signed with the Dominican Republic in March 2000 delineated reciprocal tariff reduction schemes with a view to bringing the free trade agreement signed by the two countries in 1998 into effect in 2001 and the free trade area, in 2004. In July 2000 CARICOM signed a trade and economic cooperation agreement with Cuba which provides for the gradual liberalization of trade between the two parties, although in the immediate term its benefits are confined to a limited number of products.

In October 2000 the United States authorities extended the benefits of the Caribbean Basin Initiative to certain items of clothing which are of major export interest to the Central American and Caribbean countries.

The legislation, which is known as the Caribbean Basin Trade Partnership Act, is partly a response to the CARICOM countries' long-cherished aspiration to obtain treatment equivalent to the terms enjoyed by Mexico under NAFTA.

Lastly, in June 2000 the European Union and the beneficiary countries of the Lomé Convention æwhich include the CARICOM countriesæ signed a framework agreement in Cotonou, Benin, which serves as a successor arrangement to the Lomé Convention. It provides for the conduct of specific negotiations with groupings of beneficiary countries in the period 2002-2008. Although the outcome of these negotiations remains to be seen, the European Union is likely to insist on a greater degree of reciprocity and joint responsibility in future understandings.

Conclusions

The CARICOM countries continue to grapple with the dual imperatives of pressing ahead with the single market and strengthening their economies while also striving to achieve a better position with respect to international trade and investment flows. To meet the first objective it is essential that they adopt and fully implement the nine protocols to their founding treaty. With respect to external relations, the region faces the challenge of having to negotiate simultaneously in a wide variety of forums, including WTO and FTAA, and with its main trading partners, the United States and the European Union. The Regional Negotiating Machinery is an effective means of making the region's voice heard and strengthening its negotiating position in these forums; it is therefore essential that this mechanism enjoy the full support of the Caribbean countries.

Chapter V

Macroeconomic coordination in subregional integration schemes¹

Since the early 1990s macroeconomic policy coordination has become increasingly important as a complement to the trade dimensions of the shift towards regional integration. Until recently the debate on this subject was limited to the expert and political circles directly involved in the analysis and design of integration policy, but it has now moved into the public domain. This renewed interest in macroeconomic coordination has arisen from a combination of regional and extraregional factors.

These factors include new qualitative trends in intraregional trade relations, with the reactivation of the existing schemes and the negotiation and signing of various trade agreements, and also quantitative trends, with the rapid development of intraregional trade (see figure V.1).

As trade relations with neighbouring countries have taken on greater significance, the macroeconomic environment in which these relations develop has naturally become an important determinant of their sustainability. In the early 1990s the proposal to broaden negotiations with a view to creating an expanded free trade area of the Americas generated a debate regarding “degrees of readiness” and eligibility to participate in such an area, which encompasses issues of macroeconomic convergence.

The Mexican crisis of 1994-1995 and its effects on the rest of the region focused attention on the new modalities of contagion of financial crises. Although the concept of contagion was not new —witness the debt crisis triggered by Mexico’s 1982 moratorium— globalization and the new trends in financial flows made for a

radically different context in which expectations and market signals became much more important. In the second half of the 1990s these phenomena were evident in the region, which experienced pronounced variations in growth as a result of its conspicuous external vulnerability (see figure V.2).

First, the countries were obliged to reformulate their domestic macroeconomic policy mixes in the wake of the Asian and Russian episodes of the global financial crisis, the effects of which carried over into 2001. In general, domestic exchange rate regimes became more flexible. The most striking episode in this trend was the Brazilian devaluation, but Chile and Colombia also allowed their currencies to float; in fact, *de jure* floating exchange rates are now the most common scheme in Latin America.

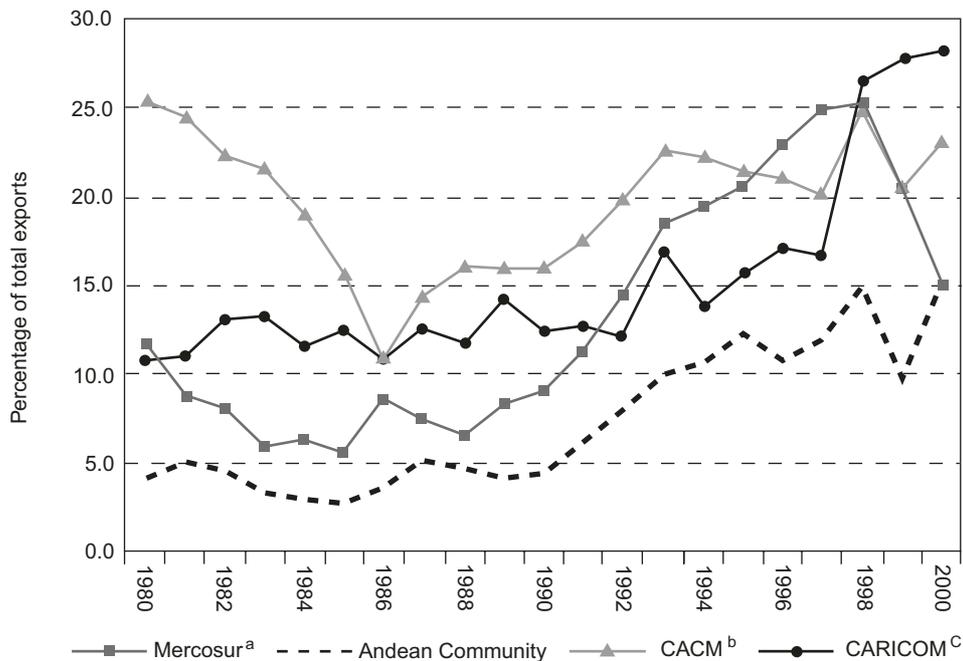
These measures had external effects on regional partners (Argentina, in the case of the Brazilian devaluation) and on the viability of integration schemes, however, which generated a further debate as to which exchange rate regimes would be best suited to deal with the new situations shaped by open regionalism in a globalized world.

Proposals for non-coordinated solutions to this problem —unilateral dollarization, for example— failed to win a regional consensus and were relegated to the category of possible options in the particular cases of very small or highly destabilized economies. Instead, a *de facto* consensus arose concerning the need to define a new domestic policy mix to deal with volatility. This new approach typically involves greater flexibility in

1 This chapter is based on the progress made under a programme of work of the Economic Development Division of ECLAC.

Figure V.1

LATIN AMERICA AND THE CARIBBEAN: SUBREGIONAL TRADE, 1980-2000

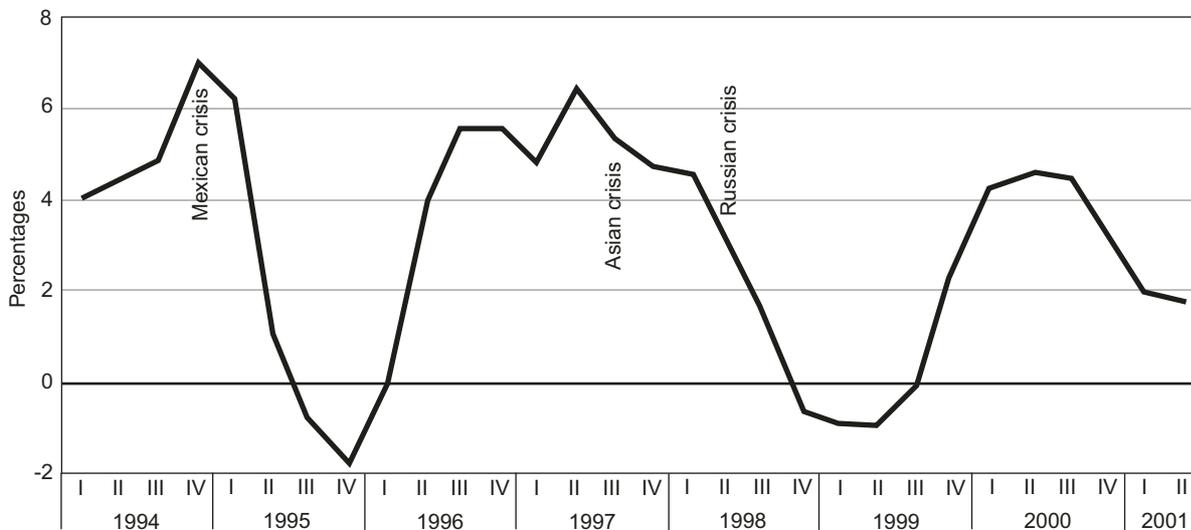


Source: ECLAC, on the basis of official figures.

^a Southern Common Market. ^b Central American Common Market. ^c Caribbean Community.

Figure V.2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT ^a
(Percentages of variation with respect to the same quarter of the previous year)



Source: ECLAC, on the basis of official figures.

^a Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

exchange-rate and monetary policy, and seeks to avoid the procyclical bias of fiscal policy—which tends to exacerbate the instability of growth in Latin America and the Caribbean—by strengthening public finances. Several governments enacted fiscal discipline legislation—including those of Argentina, Brazil, Ecuador and Peru, which set multi-year targets—and established contingency funds.

The features of the new regional and international trade and financial environment have tended to limit the effectiveness of purely domestic responses to large-scale external disturbances, however. As trade and—particularly—financial interdependence has increased, the effects of crisis contagion have largely rendered illusory the possibility of implementing an effective solution individually rather than jointly with the main trading partners.

The debate on the benefits of seeking regional solutions to supranational problems was also fuelled—positively in this case—by the example of Europe and the creation of the euro. In addition, the European solution, which involved the creation of a regional monetary area, clarified three important empirical points with respect to a number of diverging theoretical positions.

The first point was that a macroeconomic convergence scheme and a monetary area were feasible even when the countries involved showed asymmetries in their level of real development or of vulnerability to external disturbances. Second, countries needed to restore macroeconomic stability on the basis of similar objectives in order to deepen trade integration and, conversely, trade processes were a prerequisite for macroeconomic convergence. Third, individual solutions—especially competitive devaluations—were suboptimal strategies, from both the domestic and the regional points of view. In an increasingly interdependent region, as Europe already was in the 1970s, “exporting the crisis” to neighbouring countries had a boomerang effect on the originating country’s economy.

The European experience became even more relevant for Latin America in the wake of the Brazilian devaluation of January 1999. This domestic macroeconomic policy measure had major repercussions on Argentina. The devaluation triggered a crisis that weakened the Argentine economy, but also generated a shock wave that rebounded on Brazil two years later, resulting in a rise in its country-risk rating and in the cost of access to external capital. This obliged the monetary authorities to take drastic macroeconomic measures and seek support from the International Monetary Fund (IMF). This episode, like the European experience of the 1970s, demonstrated that unilateral macroeconomic measures tend to be suboptimal in a context of regional trade integration. In the particular case of MERCOSUR, an attempt was made to prevent the recurrence of this problem by setting up a mechanism for coordination on these aspects.

In addition, there was a great deal of interest in the sequence and rationale of the European Union’s approach to convergence toward a monetary area, in a situation in which the “one country, one currency” principle was being increasingly questioned. Just as the European experience opened the door to greater macroeconomic cooperation and to the creation of a negotiated system of floating exchange rates (the “monetary serpent”), the debate in the Latin American and Caribbean region revolves around convergence towards a common monetary scheme, either pegged to an extraregional currency (the dollar) or in the form of a common monetary area.² In either case, it would be necessary to achieve implicit or explicit convergence towards macroeconomic policies that are compatible with these patterns.

The following sections of this chapter outline the expected gains of macroeconomic coordination, the costs involved and the obstacles that can arise along the way, and the different modalities and strategies for achieving it. The subsequent section gives an account of the Latin American and Caribbean experience of recent years, and the final section summarizes the main conclusions.

2 None of the Latin American economies is large and stable enough to enable its currency to serve as an anchor for a regional system, as in the case of Germany in the European system. This opens up the alternatives of individual convergence towards a common external model (dollarization) or a regional process of coordinated convergence.

A. Expected gains of macroeconomic coordination in the framework of regional integration

Until a few years ago, the costs and benefits of macroeconomic coordination were analysed primarily in terms of trade. One of the main variables from the perspective of trade is the exchange rate and its random fluctuations. Variations in effective demand, which underlie macroeconomic adjustment programmes, rank close behind these in importance.

Intraregional trade suffered as a result of the exchange-rate disturbances that accompanied episodes of macroeconomic imbalance in the 1980s and the domestic absorption adjustment policies that followed balance-of-payments crises. More recently, the viability of MERCOSUR—one of the most promising integration schemes in the recent history of Latin America—was called into question by the large fluctuations associated with the change of exchange regime in Brazil. In CARICOM, the devaluation and the subsequent floating of Trinidad and Tobago's currency in 1988 and 1993, respectively, hindered the implementation of the intraregional trading system's clearing facility for payments in local currency. A number of years earlier, Nicaragua's default had dealt the coup de grace to the Central American clearing system.

It has been well established that disturbances in intraregional trade have development implications for the countries of Latin America that affect much more than the value of exports. In the South American economies—particularly the Andean Community and MERCOSUR—intraregional exports account for the bulk of non-traditional exports, especially manufactures. In the small and medium-sized economies of these subregions, regional markets are indispensable platforms for developing an export diversification strategy. For these economies, which do not have large domestic markets, a significant variation in price or demand in a major regional export market can have serious consequences because of the limitations of their domestic financial markets and the difficulty of absorbing shocks.

Even for an economy such as Argentina's, which is large compared to others in the region, the increase in the value of manufactured exports—external sales of non-traditional manufactures grew at an average annual rate of 30% from 1993 to 1997—was attributable to trade within MERCOSUR (Benavente, 2001). By contrast, for Mexico and the Central American and Carib-

bean countries, the neighbouring United States market has become an increasingly important destination of manufactured exports.

Disturbances in the markets of the countries of the region thus tend to have implications for their neighbours. As shown in figure V.1, variations in intraregional trade are larger than variations in GDP. Effective exchange rate variations, which measure changes in competitiveness with respect to trading partners, are often greater than fluctuations in each regional currency's real exchange rate against the United States dollar. This panorama makes for a highly uncertain environment that is not conducive to investment in either "visibles/tangibles" (physical capital) or "invisibles/intangibles" (marketing, research and development, new technologies).

It is important to stabilize the price fluctuations (relative effective exchange rates) and fluctuations in demand that result from the combination of variations in income and in relative prices, in order to encourage the development of long-term trade relations and investment in increased productive capacity and technological absorption.

However, these considerations, which are based on trade flows and on the growing trade interdependence between many of the region's economies, although important, are not in themselves sufficient to account for the renewed interest in macroeconomic coordination. With financial globalization and the extraordinary development of capital flows, the 1990s saw the emergence of a financial cycle which—viewed with the appropriate perspective—had many features in common with the banking crises that marked the nineteenth century and the first half of the twentieth. As shown in figure V.3, the countries experienced similar changes in financial costs, despite the differences between their macroeconomic fundamentals.

In an environment of highly mobile capital flows and herd behaviour among investors (Ffrench-Davis, 2001), the cycle of massive inflows and outflows of capital is determined by factors that are not always directly linked to the status of each country's economic fundamentals but, increasingly, to market expectations regarding these variables, to sovereign risk perception and to the degree of risk aversion. These three ingredients are intrinsically subjective, and depend to a considerable extent on the

Table V.1

**LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS OF ENERGY AND
MANUFACTURES AS A PROPORTION OF TOTAL EXPORTS, BY GROUPING**
(Percentages and millions of dollars)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Andean Community | | | | | | | | | | |
| Energy ^a | 1.4 | 1.8 | 1.9 | 1.6 | 1.7 | 3.3 | 3.1 | 4.3 | 4.0 | 2.6 |
| Manufactures ^b | 14.6 | 19.5 | 26.7 | 30.6 | 30.7 | 34.7 | 32.7 | 36.3 | 34.9 | 25.9 |
| Total | 4.2 | 6.0 | 7.8 | 9.6 | 10.1 | 12.1 | 10.3 | 11.8 | 13.9 | 9.2 |
| Total exports | 31,759 | 29,238 | 28,318 | 29,666 | 34,544 | 40,276 | 45,532 | 47,685 | 39,073 | 43,427 |
| MERCOSUR ^c | | | | | | | | | | |
| Energy | 8.4 | 15.5 | 20.8 | 45.1 | 40.9 | 41.3 | 47.1 | 43.3 | 33.8 | 32.1 |
| Manufactures | 10.3 | 14.0 | 19.1 | 23.1 | 24.3 | 25.8 | 29.1 | 33.8 | 34.1 | 27.7 |
| Total | 8.9 | 11.1 | 14.3 | 18.5 | 19.4 | 20.5 | 22.8 | 24.7 | 25.0 | 20.4 |
| Total exports | 46,430 | 45,908 | 50,487 | 54,150 | 62,128 | 70,493 | 74,997 | 83,287 | 81,337 | 74,322 |
| CACM ^d | | | | | | | | | | |
| Energy | 13.7 | 15.6 | 21.7 | 24.2 | 20.1 | 16.4 | 23.5 | 28.1 | 33.0 | 26.0 |
| Manufactures | 43.0 | 44.5 | 46.1 | 53.8 | 50.2 | 52.2 | 46.0 | 36.4 | 34.9 | 24.1 |
| Total | 14.1 | 18.3 | 20.2 | 19.3 | 16.8 | 15.7 | 15.6 | 15.9 | 19.5 | 16.0 |
| Total exports | 4,435 | 4,428 | 5,332 | 5,996 | 7,310 | 9,244 | 9,928 | 11,729 | 13,536 | 14,290 |
| CARICOM ^e | | | | | | | | | | |
| Energy | 11.1 | 10.2 | 10.8 | 16.6 | 18.6 | 23.1 | 24.5 | 26.7 | 31.0 | 25.1 |
| Manufactures | 22.4 | 21.9 | 22.3 | 24.2 | 20.2 | 18.4 | 19.8 | 19.6 | 20.9 | 19.2 |
| Total | 11.8 | 11.7 | 12.0 | 17.1 | 14.2 | 15.2 | 16.7 | 16.6 | 18.5 | 19.3 |
| Total exports | 4,345 | 4,089 | 3,654 | 3,261 | 4,132 | 5,070 | 5,039 | 5,238 | 5,068 | 5,098 |
| Latin America and the Caribbean | | | | | | | | | | |
| Energy | 9.4 | 11.0 | 13.0 | 15.1 | 20.0 | 21.1 | 17.2 | 19.1 | 19.0 | 17.6 |
| Manufactures | 21.4 | 24.8 | 21.5 | 23.0 | 22.1 | 21.6 | 20.8 | 22.3 | 20.5 | 14.8 |
| Total | 13.9 | 16.2 | 16.9 | 18.9 | 19.5 | 19.4 | 18.8 | 19.8 | 19.7 | 15.4 |
| Total exports | 121,665 | 119,844 | 145,422 | 155,467 | 180,839 | 221,250 | 248,644 | 277,647 | 273,163 | 291,814 |

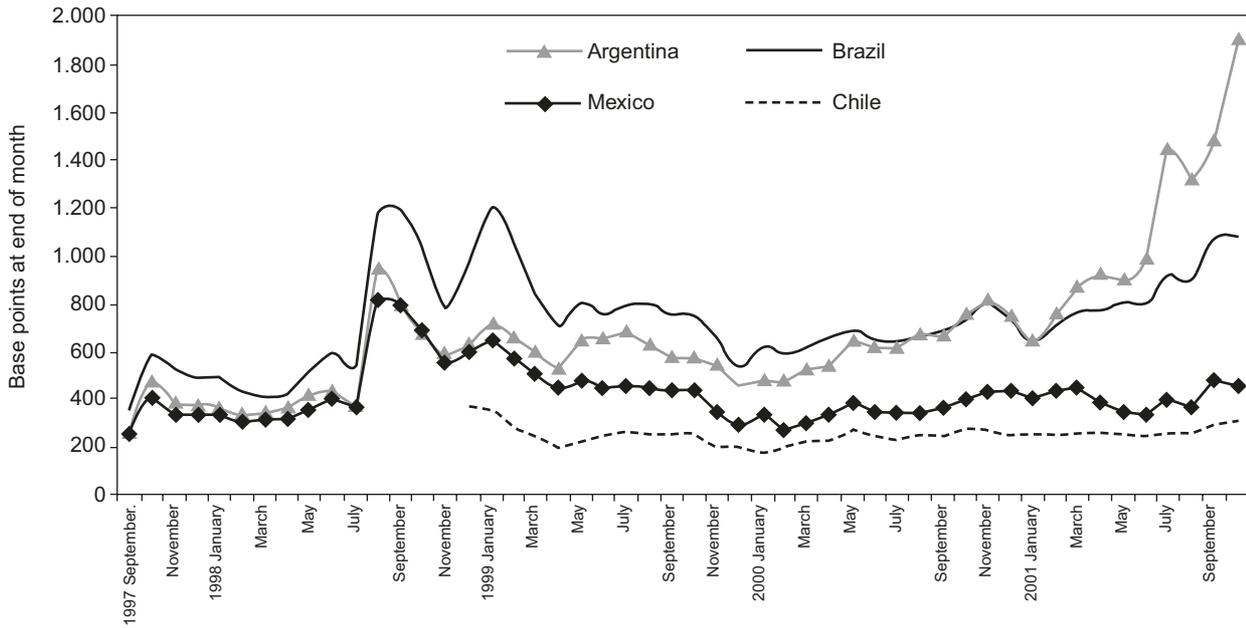
Source: ECLAC, on the basis of the Commodity Trade Statistics Database (COMTRADE).

^a Includes petroleum and petroleum products, natural gas and electricity (Section 3, Standard International Trade Classification (SITC), Rev. 2). ^b Manufactures (5 to 9-68, SITC, Rev. 2). ^c Southern Common Market. ^d Central American Common Market.

^e Caribbean Community.

Figure V.3

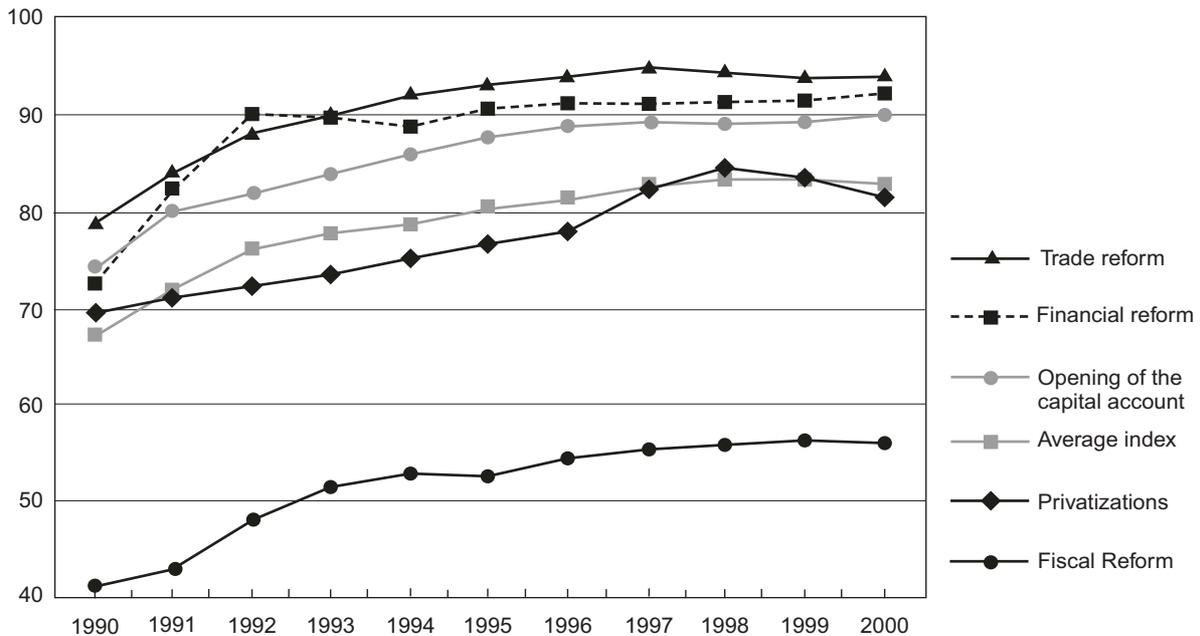
SPREADS OF LATIN AMERICAN EUROBONDS OVER UNITED STATES TREASURY BONDS



Source: ECLAC, on the basis of data from J.P. Morgan.

Figure V.4

LATIN AMERICA AND THE CARIBBEAN: STRUCTURAL REFORM INDICES, 1990-2000



Source: ECLAC, *Economic Survey of Latin America and the Caribbean, 2000-2001*.

developments observed in neighbouring or structurally similar economies.

This trend has been reinforced by the globalized nature of the financial portfolio management strategies pursued by institutional investors, whose influence began to grow in the early 1990s. Today, expectations about a particular country are closely associated with what has come to be known as the “global investment climate” and with events in other emerging economies. This investment climate has a strong regional connotation: each country’s ratings are inevitably affected by what is happening in neighbouring countries.

Given that international market agents often make little distinction between emerging economies—and still less when they are neighbours—exclusively domestic responses to external financial disturbances of a global nature tend to be at best suboptimal. In addition, individual country measures to contain external shocks can jeopardize the progress of trade integration if they include protection mechanisms that harm trade or undermine reciprocal trust.

In response to this new situation, the countries of the region have embarked on a dual strategy to reduce their vulnerability to the swings of international finances. One element of this strategy has been the advocacy of better financial governance at the world level and reform of the financial architecture and of the modalities of development financing (ECLAC, 2000a). Another element has been the pursuit of regional responses to global challenges, with the twofold objective of reducing the risk of misalignment between neighbouring countries that are financially and commercially interdependent and of attaining the critical mass needed to gain credibility in in-

ternational markets. This strategy is particularly attractive to countries that have achieved stability most recently, as they benefit by importing credibility through the association of their macroeconomic policy with that of countries whose longer tradition of stability has earned them a good reputation. The European example—the Maastricht criteria—and the convergence criteria adopted by the subregional integration schemes in Latin America and the Caribbean demonstrate that the feasibility of such an arrangement depends on the adoption of strict rules governing macroeconomic equilibria on the domestic front (inflation, fiscal deficit) and externally (external debt).

This last dimension of coordination is closely related to the fact that the domestic credibility of each country’s policy has been strengthened by deeper trade integration and regional macroeconomic policy coordination. The reform process undertaken in the countries of the region and their convergence towards a more homogeneous macroeconomic model through stabilization efforts have made it feasible to coordinate macroeconomic policies. The countries have made visible headway in reforming their economies, and share a common model of economic and political institutions which are less autonomous and more open and transparent than before (see figure V.4). The achievements of macroeconomic stabilization, especially the control of inflation and measures to strengthen public finances, demonstrate that the macroeconomic authorities share a set of common goals and are capable of achieving them. Regional trade and macroeconomic coordination are expected to help institutionalize these reforms by improving their legitimacy and acceptability and consolidating the achievements of stabilization.

B. Costs and obstacles

Policy coordination requires policies that have common objectives and are administered simultaneously. This implies negotiation with trading partners regarding the mix of macroeconomic measures needed to achieve a shared goal. In turn, negotiation entails a loss of leeway for domestic authorities—as they can no longer establish their macroeconomic policy unilaterally—and a transaction cost, as all the partners in the strategic alliance must renounce a degree of freedom once they have agreed on a common goal and common instruments.

The goals must therefore be consistent with the countries’ long-term national interests, so that some of them will be prepared to accept possible short-term costs. Although it would appear to be stating the obvious to say that coordination affords benefits only if the common model is a good one, or at least perceived as good by the partners, the reality of the negotiations and the decision-making procedures do not always guarantee that this is in fact the case. The more partners and objectives are involved, the more complicated the negotiations become,

resulting in a classic “prisoner’s dilemma”.

Once the partners have reached agreement on the objectives, they must also select compatible instruments. This raises a difficulty —though not an impossibility— when the countries have very different exchange-rate or fiscal regimes. Exchange-rate regimes, in particular, are key factors in a context of free movement of capital since, in these conditions, the nominal anchor of the exchange rate also largely determines the parameters of monetary policy. In practice, however, floating exchange rates are not entirely free in developing countries, especially in Latin America. There are a number of reasons for this, including the bouts of high inflation in the continent’s recent history and the collective memory of prices indexed to the exchange rate, as well as the fact that large sectors of domestic finance are dollarized, which raises the spectre of devaluation. These considerations, together with more concrete concerns about the burden of private and —especially— public external debt, limit the real range of acceptable nominal devaluation, even in the framework of a free float.

In a context of external constraints, macroeconomic regulation therefore requires sufficient domestic financial depth, a solid banking system and adequate national saving. National saving depends largely on the rate of public saving achieved by means of a suitable fiscal policy. In particular, any concerted policy that takes a counter-cyclical approach to external disturbances must be backed up by strong public finances, or the ability to finance a larger fiscal deficit from domestic sources without crowding out domestic credit.³

Ultimately, the debate on the coordination of macroeconomic policy revolves around two means of achieving it. The first calls for rigid adherence to exogenous rules, like the gold standard in the nineteenth and part of the twentieth centuries or as proposed by the supporters of dollarization. The set of rules which define macroeconomic policy *ex ante* in these circumstances guarantees *de facto* nominal convergence of the economies: stability of the nominal exchange rate and convergence of the underlying rate of inflation and the base rate of interest. Convergence towards an external model may or may not represent an optimal policy for the countries that adopt it, however. The technical arguments for and against such a strategy include the familiar debate on

optimal monetary areas and have more recently included economic policy considerations.

Given the structural differences between the United States and the Latin American economies, a *de facto* convergence towards a dollar-defined exogenous model would not necessarily result in a macroeconomic policy suited to the particular circumstances of the regional partners. In the absence of a large economy with an established tradition of monetary stability that could mirror Germany’s role in the European experience, the alternative of *de facto* convergence towards a dollar model would require the regional partners to have sufficiently autonomous, flexible and efficient domestic macroeconomic policy instruments to put a regional proposal into practice.

In analysing voluntary alignment in terms of the “supply” of and the “demand” for coordination, ECLAC (1992) argued that the countries not only must be prepared to relinquish a degree of autonomy in order to arrive at a cooperative arrangement, but must also be in a position to meet their commitments and exercise effective control over their policy instruments. This would appear to exclude countries that still display major domestic macroeconomic imbalances and to limit the participation of those that are implementing stabilization programmes with strict exogenous rules, such as those imposed under agreements with IMF.

These eligibility criteria do not differ greatly from the requirements for participation in a regional free trade scheme (ECLAC, 1996). For the countries of the region, however, meeting the common conditions in terms of macroeconomic policy represents a greater challenge than fulfilling the requirements of their trade commitments. Usually, macroeconomic coordination schemes are technically more complex than trade agreements and more difficult to oversee and to comply with, given that trends in many macroeconomic indicators —inflation, fiscal deficit, exchange rate, debt— are driven by a variety of forces whose means of transmission are not always well established.

Unlike trade liberalization strategies, which can sometimes absorb a degree of turbulence (unrestricted liberalization), regional coordination schemes therefore tend to be gradual and to involve several stages and modalities.

3 In other words, the capacity to implement a counter-cyclical policy is built during the expansionary phase of the business cycle.

C. **Modalities, strategies and stages of macroeconomic convergence**

In order to reach cooperative agreements in situations that are usually marked by the “prisoner’s dilemma”, the parties must be aware of each other’s goals, constraints and policy approaches, and a formal or informal mechanism is needed to penalize non-cooperative practices. The most informal mechanism of this type is the establishment of a reputation for trustworthiness and fair play, which arises from the mutual learning process generated by repeated interaction between macroeconomic negotiating teams in regional discussion forums.⁴

In the absence of a formal cooperation agreement, the achievement of a consensus on some of the objectives of macroeconomic policy is an important step towards acceding to the benefits of trade integration agreements. Unlike coordination, consensus does not imply a loss of autonomy for domestic macroeconomic policy beyond specific non-recurring commitments, and still less does it oblige domestic authorities to abide by strict exogenous rules. The Group of Eight meetings are an example of an informal framework for achieving greater policy coordination—particularly in economic policy—among the world’s leading economies. At the regional level the Rio Group performs some of the same functions.

In the framework of subregional integration schemes, such consensus-building normally functions as a direct complement to free trade agreements by reducing transaction costs. This kind of cooperation may cover highly technical aspects and even extend to the administrative procedures that are the usual modus operandi of the executive branch in each State. For example, the partners may facilitate regional trade by harmonizing certain taxes and indirect tax regulations or by ensuring compatibility between customs procedures. The standardization of accounting rules and financial regulation facilitates financial transactions and investment. Another important step is the standardization of the statistical indicators used to steer and evaluate macroeconomic policy. Authorities in different countries can engage in dialogue much more easily if they have a common understanding of the concepts of

public accounting or a shared definition of inflation targets, for example.

Although these measures are important, however, they do not radically affect the national management of macroeconomic policy, though they may restrict the use of certain policy tools (owing, in particular, to the adoption of common regulations or tax rules). As in the case of trade liberalization, the harmonization of these instruments, once agreed upon, does not require follow-up or further negotiation except in the case of non-compliance or unforeseen difficulties.

Genuine coordination of macroeconomic policy requires continuous monitoring of the internal and external economic conditions of the member countries and a regional dialogue concerning trends in each of the participating economies and the joint measures they should take in the event of disturbances. Coordination therefore requires institutional and political commitments of a greater magnitude than those involved in a simple trade agreement. It also requires the establishment of a relatively frequent timetable of contacts between policy makers, which is a key distinction between these two processes.

In the long term, policy coordination and the standardization of instruments and rules pave the way for macroeconomic convergence, which may be defined as a situation in which domestic policy requirements are sufficiently aligned to avoid conflicts and to obviate the need for costly arbitration. This type of convergence, which makes it possible to identify macroeconomic objectives, does not differ greatly from the situation in confederate and federal States, and represents the current stage of Europe’s integration process. At this stage, it is easier to incorporate into the objectives of macroeconomic policy equity-oriented normative aspects that complement the traditional objectives of fiscal policy, beyond nominal and real stabilization of growth trends.

A step that is very important for successful coordination and essential for the transition from coordination to convergence is the establishment of an insti-

4 The Commission’s network for macroeconomic dialogue (REDIMA) is intended to serve as an informal discussion mechanism to strengthen this process.

tutional structure that, first, serves as a catalyst in meetings of national experts and, second, can act as an oversight body for agreements. A supranational arbitration structure is necessary in order to avoid non-cooperative practices (such as tax competition to at-

tract investment) when different objectives come into conflict, such as reducing direct taxation to attract investment versus consolidating public saving or promoting greater equity in disposable household income after tax and transfers.

D. Regional experiences

Regional integration schemes reflect the general tendency to complement trade agreements with arrangements for strengthening macroeconomic harmonization, although there are a number of differences associated with each grouping's particular features and degree of institutionalization.⁵

1. Caribbean Community (CARICOM)

This is probably the region in which coordination and macroeconomic convergence have made the most progress. In 1992 the CARICOM heads of government decided that the region should begin convergence towards monetary integration. The arguments in favour of this monetary union were based on the need for greater domestic macroeconomic stability, the desirability of increasing the subregion's capacity to deal with external disturbances (by pooling international reserves, for example) and an expected increase in intraregional trade and investment flows. Monetary integration would also boost competitiveness and improve the international position of the Caribbean countries. Achieving this objective, however, depends essentially on the completion of a logical sequence of steps towards economic convergence, for which macroeconomic policy coordination is a necessity (Kendall, 2000).

Also in 1992, the central bank governors presented a set of convergence criteria, known as the 3-12-36-15 criteria. They required that the countries maintain international reserves equivalent to three months of import cover

for a period of at least 12 months; that the exchange rate be pegged to the dollar for 36 consecutive months, without external debt payment arrears; and that debt servicing account for less than 15% of the value of goods and services exports.

In 1996, the reserve criteria were amended to require three months of import cover or 80% of the central bank's current liabilities. In addition, the fixed parity rule was made more flexible for the countries that had floated their currency, through the introduction of a band with a total width of 3%. After a transition period, in 2000 it was expected that all the CARICOM countries would be integrated into a Caribbean Monetary Authority.

To complement the criteria on monetary aspects and macroeconomic equilibria, an effort was made to harmonize taxation, standardize the tax structure among the countries of the subregion, establish a policy of tax incentives in keeping with international standards and avoid tax competition between the countries to attract investment.

This ambitious programme encountered a number of obstacles. In the monetary area, there were difficulties in ensuring that monetary convertibility agreements were reflected in domestic banking practices, especially in countries with floating currencies. This called into question other objectives of the programme, especially the creation of a single financial market in the subregion.

A number of countries have had difficulty in aligning their domestic macroeconomic policies with regional criteria. This is largely due to the fact that meeting the convergence criteria demands very different efforts in different countries, particularly in fiscal affairs, currency

5 The North American Free Trade Agreement (NAFTA) is perhaps an exception to this pattern. This trade grouping has no macroeconomic coordination programme, but it is clear that, at least for Mexico, NAFTA has had far-reaching implications for the management of economic policy, especially the objectives of macroeconomic policy and the reform of the institutional framework. The main objective of Mexican monetary policy—to reduce inflation to the rate of its main trading partners—clearly acts as an anchor for the economy within the North American economic area. The country has also adapted its regulatory frameworks to facilitate the financial integration of its economy; these efforts were stepped up by the reform and liberalization of the banking sector after the severe crisis of 1995.

stability and international reserves (Jamaica and Guyana are the countries that have had the most difficulty).

Despite these obstacles, the CARICOM countries continue to move towards the objective of a single market. The revised Treaty of Chaguaramas, which was signed by the heads of government in July 2001, incorporates additional protocols which provide for the free circulation of people, capital and services, and the right of establishment.

2. Andean Community

The members of this group formalized their interest in moving towards greater macroeconomic coordination at the second meeting of the Advisory Council of Treasury or Finance Ministers, Central Bank Presidents and Economic Planning Officers of the Andean Community in October 1998. The Council requested that a group of government experts be formed to make recommendations on convergence criteria. The Andean Presidential Council, at its meeting in Cartagena in May 1999, reaffirmed the decision of the Advisory Council and emphasized that each member country must achieve economic stability in order for trade relations in the subregion to flourish and for progress to be made towards the goal of an Andean common market. In the same month, convergence criteria were adopted on inflation and a commitment was made to reduce inflation to single-digit levels.

In June 2001, the Advisory Council of Treasury or Finance Ministers, Central Bank Presidents and Economic Planning Officers set a deadline of 31 December 2002 for reaching the inflation target and agreed to review the convergence criteria in the fourth quarter of 2002, in terms of both level and volatility. At that meeting it was also decided to broaden the convergence criteria in the area of public finances, with the following requirements:

(i) starting in 2002, the public-sector deficit should not exceed 3% of GDP, although during a transition period from 2002 to 2004 the limit could be raised to 4%;

(ii) domestic and foreign consolidated public-sector debt should not exceed 50% of GDP, with a transition period ending in 2015;

(iii) in the event of a recession, defined as a negative year-on-year variation in real GDP for two consecutive quarters, the fiscal deficit rules would be made more flexible. In such an event, however, the countries would have the obligation to regularize the situation within the following 12 months.

At the same meeting, the Council decided to formally establish a Permanent Technical Group to moni-

tor the convergence targets. In parallel with the macroeconomic coordination programme, task forces address issues of indirect tax harmonization and double taxation. In the area of Andean financial integration, efforts are being made to converge towards the standardization of prudential criteria and oversight schemes, in order to regulate the conditions for the liberalization of financial services.

3. Central American Common Market (CACM)

Since its creation in 1960 (article X, concerning monetary cooperation, of the General Treaty on Central American Economic Integration), CACM has envisaged a monetary union with a Central American peso as a complementary objective to trade and industrial integration. Mounting economic and extra-economic difficulties in the 1980s prevented the implementation of this plan, however. In the 1990s, it became feasible to resume the process following the reactivation of domestic economies and intraregional trade and the normalization of the political situation. The thirteenth Presidential Summit, in particular, confirmed the intention that the countries of the Central American isthmus should move towards macroeconomic convergence and financial integration.

Technical work conducted in 1993 and 1994 provided a basis for the definition of macroeconomic convergence criteria in the framework of the Central American Monetary Council. These criteria currently comprise eight parameters: a GDP growth target of 5% in real terms, with inflation below 9%; a real interest rate on deposits of 5%; a bilateral real exchange rate index in relation to the United States dollar of between 90 and 110 (1997=100); full coverage of the monetary base with net international reserves; a current-account deficit on the balance of payments of less than 3.5%; a consolidated public-sector deficit of less than 2.5% of GDP; and total public debt of less than 50% of GDP.

In 2000 the extent of compliance with the convergence indicators was established at 50% with respect to the eight indicators, and was expected to reach 60% in 2001. The main problems were encountered in the fiscal and external sectors.

Coordination has also been extended to the financial area, with the adoption, beginning in 1995, of resolutions on financial harmonization. In the framework of the Central American Council of Comptrollers of Banks, Insurance Companies and other Financial Institutions, model minimum standards were adopted for the supervision of banks, stock markets and investment.

4. Southern Common Market (MERCOSUR)

Unlike the previous cases, this grouping does not have a highly developed institutional structure. MERCOSUR formally established macroeconomic coordination objectives after the countries' economies had suffered the effects of the disturbances caused by the international crisis of 1997-1998 and the devaluation of the real in January 1999. The effects of economic policy measures on intraregional trade highlighted the need to coordinate the countries' macroeconomic responses to such fluctuations.

In 2000 the authorities of the MERCOSUR countries took several important steps to establish an efficient system of cooperation among the main policy makers and to foster a climate of mutual trust and a better understanding of the constraints faced by each government. This new stage in the MERCOSUR process began formally with the Ministerial Declaration of Buenos Aires (29 April 2000), in which the member and associated countries clearly indicated that the future of MERCOSUR hinged on macroeconomic convergence and coordination.

They also declared that the existing exchange regimes were compatible, provided that the countries implemented effective macroeconomic convergence and coordination to guarantee a sustainable fiscal position and price stability. Since a common statistical base was essential for the purposes of defining and monitoring convergence goals, the countries decided to begin work on the harmonization of statistics on fiscal balances, public debt and inflation.

The Ministerial Declaration also provided for the formation of a Macroeconomic Monitoring Group, an informal body made up of experts from the four States members of MERCOSUR and the associated countries (Bolivia and Chile). The Group's first task was to standardize statistical indicators and prepare a coordination proposal based on a set of maximum parameters, which was approved by the national authorities at the eleventh meeting of the Executive Board of the MERCOSUR Joint Parliamentary Commission (Florianopolis, Brazil, 13-15 December 2000).

The targets presented at the meeting will come into effect in 2002 and last until 2010. The ceiling established for inflation is 5% per year from 2002 to 2005, and a new target of not more than 4% will be set in 2006. Public debt is to be reduced to a maximum rate of 40% of GDP by 2010. To reach this figure, the proposal established three-yearly transitional targets and ceilings for the consolidated public-sector deficit, which may not exceed 3% of GDP in 2002, although Brazil was allowed

a higher ceiling of 3.5% for 2002 and 2003.

These advances were overtaken, however, by a severe crisis in Argentina, which created an emergency situation in which the newly created mechanism could not be put into practice, as three different economic authorities took office in Argentina in a single quarter. The authorities that took office in late March 2001 sought to shore up government revenue in the immediate term and to improve the economy's competitiveness through exchange-rate adjustments. In addition to these domestic measures, however, the new approach included a subregional component, as an agreement was negotiated with the country's MERCOSUR partners to increase the external tariff on consumer goods to 35%.

5. Conclusions

The regional and international experience of the 1990s shows that the incorporation of macroeconomic variables into trade integration schemes has become important for the continuity and deepening of subregional agreements. Increasingly, momentum is transmitted not only by trade variables, as in the past, but also by financial variables. Together with the flaws in the international financial market—at least from the point of view of the emerging economies—this increases the gains that can be expected from coordinating domestic macroeconomic policies and presenting the same signals to market agents.

Although major differences in exchange-rate regimes limit the scope of macroeconomic coordination by reducing the instruments available for dealing with the consequences of external events, they are not an obstacle to coordination if there is convergence among the main objectives of domestic macroeconomic policies, particularly price stability and the strengthening of public finances. Even in countries that have a flexible exchange rate, a number of structural features limit the use of the exchange-rate tool, and the currency float thus tends to be "dirty". Where access to external financing is constrained in the event of external disturbances and domestic financial markets are shallow, monetary and fiscal policy are responsible for stabilization and shock absorption, respectively, when external turbulence occurs.

In the last 15 years the countries of the region have pursued stabilization policies and reforms that have partly evened out the differences among the domestic economies. The European experience has shown that it is not necessary to wait for the achievement of theoretically optimal conditions before coordinating policies, but rather

that the process of coordination itself strengthens the process of real convergence.

Coordination involves costs and risks, however, which stem from inconsistencies between the objective situation and domestic perceptions and from traditional political economy concepts such as the prisoner's dilemma or moral hazard. Accordingly, coordination requires a gradual implementation strategy directed at (i) strengthening the parameters for the harmonization of domestic policy criteria (from the methodology used

to calculate indicators to the regulatory framework for financial supervision); and (ii) encouraging contacts between decision-makers to build mutual trust and a reputation for reliability in meeting commitments.

The experience of Europe and Latin America also indicates that cooperation between countries requires a supranational institution to act as a catalyst and steer the process. Such institutions initially serve to promote and facilitate meetings, and later to oversee —albeit informally— the fulfilment of agreements.

Part 3



Trade and multilateral negotiations

Chapter VI

United States barriers to Latin America and Caribbean trade¹

A. Introduction

This chapter updates the information contained in *Latin American Integration in the World Economy, 1999-2000*. Information is provided on tariff and non-tariff barriers faced by Latin American and Caribbean exports in the United States market as a contribution to transparency and the elimination of obstacles to the free flow of trade in the Americas. Latin American and Caribbean exports encounter similar obstacles in other industrialized and developing countries.

The classification of trade-inhibiting measures cor-

responds to the definition used in the United States Trade Representative's yearly publication *National Trade Estimate Report on Foreign Trade Barriers*. Based on this classification, this chapter focuses on the three areas that are most relevant to Latin America and the Caribbean: imports policies (e.g. tariffs and other import charges, quantitative restrictions, import licensing, customs barriers); export promotion instruments, including subsidies; and standards, testing, labeling and certification.

1 This chapter is a modified version of the document ECLAC (2001), which corresponds to the seventh annual report issued by the ECLAC Washington Office, updating information contained in previous reports. It is intended to compile and make available information on trade-inhibiting measures that Latin American and Caribbean exports encounter in the United States.

Table VI.1

AD VALOREM DUTY RATES FOR UNITED STATES IMPORTS, 2000

| | Total value | Dutiable value | Duties collected | % Duty free | AVE Dutiable (%) | AVE Total (%) |
|---|--------------------|-------------------|------------------|--------------|------------------|---------------|
| World | 1,205,339,019 | 407,734,091 | 19,753,669 | 66.17 | 4.84 | 1.64 |
| Western Hemisphere | 435,147,111 | 60,031,328 | 1,881,408 | 86.20 | 3.13 | 0.43 |
| NAFTA | 363,794,331 | 27,907,387 | 395,350 | 92.33 | 1.42 | 0.11 |
| Canada | 229,059,929 | 6,482,606 | 81,502 | 97.17 | 1.26 | 0.04 |
| Mexico | 134,734,402 | 21,424,781 | 313,848 | 84.10 | 1.46 | 0.23 |
| Latin America and the Caribbean (including Mexico) | 206,087,180 | 52,231,042 | 1,799,904 | 74.66 | 3.45 | 0.87 |
| Andean Pact | 28,545,756 | 15,152,631 | 192,508 | 46.92 | 1.27 | 0.67 |
| Bolivia | 184,250 | 33,578 | 3,546 | 81.78 | 10.56 | 1.92 |
| Colombia | 6,680,611 | 2,645,002 | 60,297 | 60.41 | 2.28 | 0.90 |
| Ecuador | 2,266,975 | 1,259,662 | 6,380 | 44.43 | 0.51 | 0.28 |
| Peru | 1,985,389 | 578,919 | 72,144 | 70.84 | 12.46 | 3.63 |
| Venezuela | 17,428,531 | 10,635,470 | 50,140 | 38.98 | 0.47 | 0.29 |
| Mercosur | 17,177,475 | 6,487,317 | 357,801 | 62.23 | 5.52 | 2.08 |
| Argentina | 3,094,608 | 1,928,299 | 55,549 | 37.69 | 2.88 | 1.80 |
| Brazil | 13,731,571 | 4,481,580 | 296,184 | 67.36 | 6.61 | 2.16 |
| Paraguay | 42,055 | 1,995 | 105 | 95.26 | 5.26 | 0.25 |
| Uruguay | 309,241 | 75,443 | 5,963 | 75.60 | 7.90 | 1.93 |
| Chile | 3,257,520 | 1,128,829 | 20,052 | 65.35 | 1.78 | 0.62 |
| CACM | 11,771,512 | 4,157,401 | 673,146 | 64.68 | 16.19 | 5.72 |
| Costa Rica | 3,555,153 | 429,119 | 46,374 | 87.93 | 10.81 | 1.30 |
| El Salvador | 1,925,054 | 866,234 | 146,806 | 55 | 16.95 | 7.63 |
| Guatemala | 2,603,452 | 1,450,451 | 237,658 | 44.29 | 16.39 | 9.13 |
| Honduras | 3,090,922 | 1,117,259 | 192,389 | 63.85 | 17.22 | 6.22 |
| Nicaragua | 596,931 | 294,338 | 49,919 | 50.69 | 16.96 | 8.36 |
| CARICOM | 3,875,613 | 1,062,754 | 32,178 | 72.58 | 3.03 | 0.83 |
| Antigua and Barbuda | 2,286 | 231 | 8 | 89.90 | 3.46 | 0.35 |
| Bahamas | 272,794 | 60,406 | 367 | 77.86 | 0.61 | 0.13 |
| Barbados | 38,451 | 4,341 | 474 | 88.71 | 10.92 | 1.23 |
| Belize | 91,073 | 13,021 | 1,310 | 85.70 | 10.06 | 1.44 |
| Dominica | 6,938 | 3,555 | 62 | 48.76 | 1.74 | 0.89 |
| Grenada | 27,072 | 2,940 | 8 | 89.14 | 0.27 | 0.03 |
| Guyana | 126,700 | 17,396 | 551 | 86.27 | 3.17 | 0.43 |
| Haiti | 296,713 | 82,289 | 13,074 | 72.27 | 15.89 | 4.41 |
| Jamaica | 631,452 | 108,182 | 11,636 | 82.87 | 10.76 | 1.84 |
| Saint Kitts & Nevis | 36,808 | 2,521 | 117 | 93.15 | 4.64 | 0.32 |
| Saint Lucia | 22,208 | 7,452 | 1,066 | 66.44 | 14.30 | 4.80 |
| Saint Vincent and the Grenadines | 8,800 | 216 | 7 | 97.55 | 3.24 | 0.08 |
| Suriname | 135,279 | 872 | 34 | 99.36 | 3.90 | 0.03 |
| Trinidad and Tobago | 2,179,039 | 759,332 | 3,464 | 65.15 | 0.46 | 0.16 |
| Other countries | 4,675,152 | 1,382,606 | 204,215 | 70.43 | 14.77 | 4.37 |
| Dominican Republic | 4,378,235 | 1,319,946 | 203,427 | 69.85 | 15.41 | 4.65 |
| Panama | 296,917 | 62,660 | 788 | 78.90 | 1.26 | 0.27 |
| All other Western Hemisphere | 2,049,752 | 1,434,722 | 6,158 | 30.01 | 0.43 | 0.30 |

Source: United States Department of Commerce, International Trade Administration (www.usitc.gov).

B. Import policies

1. Tariffs

As is well known, United States tariffs do not constitute a major barrier to Latin American countries' exports. In 2000, 74.7% of all United States imports from the region entered duty-free,² down slightly from the 1999 figure of 76.5%. The trade-weighted tariff for all United States imports has decreased from 1.81% in 1999 to 1.64% in 2000. Furthermore, duties collected on exports from Latin America and the Caribbean to the United States were reduced to about 0.87% of the total value in 2000 (see table VI.1).

The ad valorem equivalent (AVE)³ for total United States imports from the Latin American and Caribbean region in 2000 was 0.87%, while United States imports from the world as a whole were subject to an average duty rate of 1.64%. Within the region, countries from the Central American Common Market (CACM) paid a total AVE of 5.72%. Exports from Mercosur paid 2.08%, CARICOM 0.83% and the Andean Community 0.67%. Overall, the North American Free Trade Agreement (NAFTA) countries, which include Canada and Mexico, levy the lowest duty rate of 0.11%.

In 2000, 65% of all United States imports from Central America entered the market duty-free, but the AVE on dutiable goods from the CACM countries was 16.19%, which was the highest rate of all the Latin American subregions. The countries that face the highest ad valorem duty rates are El Salvador, Guatemala, Honduras and Nicaragua, which all pay levies of over 16%, mostly due to their textile and apparel imports. In 2000 over 60% of all imports from South America, and over 73% from the Caribbean entered the United States duty-free. United States duty-free imports from Venezuela accounted for only 39%, partly due to the large volume of petroleum exports from this country, which did not enter duty-free. The proportion of the other Andean countries' exports entering duty-free was considerably higher.

On the other hand, on 18 May 2000, President

Clinton signed into law the Caribbean Basin Trade Partnership Act (CBTPA). This partnership will allow the Caribbean Basin Initiative (CBI) countries to obtain the same preferential tariff and quota as under NAFTA on certain textiles and apparel. CBTPA extends duty-free and quota-free treatment to certain apparel manufactured in the CBI region using fabric of United States origin, as well as limited quantities of apparel up to the equivalent of 250 million square metres assembled from fabric woven in the CBI region using United States yarns. These duty-free quotas cover such items as shirts, knit blouses, pants and underwear made from knit and fabric. In addition, the legislation sets a cap for T-shirts made from United States yarn of 4.2 million dozens per year, which will rise by 16% per year from 1 October 2000 to 30 September 2004. Congress will reexamine the cap figures in the final year.⁴

2. Trade Remedy Legislation

In 2000-2001, two negative final determinations were reached on antidumping (AD) and countervailing duty cases (CVD), while five new AD and three new CVD cases were initiated (see box VI.1). Nine Administrative Reviews were announced, as well as a Suspension Agreement with Brazil regarding steel. In addition, under the Sunset Review, the United States Department of Commerce (USDOC) and the International Trade Commission (ITC) revoked 24 AD/CVD cases and issued continuances in 18 others from Latin America and the Caribbean as of July 2001 (see tables VI.2 and VI.3).

Positive AD and CVD Determinations

The United States Department of Commerce (USDOC) started investigations on seven cases at the request of United States enterprises, issued preliminary duty margins and, in one case, final duty margins. The

2 The share of duty-free imports is calculated as (Total value - Dutiable value)/Total value.

3 The ad valorem equivalent is the average duty rate, expressed as the percentage of duties collected over the total value of all imports entering the United States.

4 USTR, "Caribbean Basin Trade Partnership Act" (www.ustr.gov/regions/whemisphere/camerica/factsheet.html).

Table VI.2

**ANTIDUMPING DUTIES ON IMPORTS FROM LATIN AMERICA AND
THE CARIBBEAN IN EFFECT AS OF 30 APRIL 2001**

| Countries | Items | Date begun |
|------------------|---|-------------------|
| Argentina | Barbed Wire and Barbless Wire Strand | 11/13/1985 |
| | Light-walled rectangular tube | 05/26/1989 |
| | Seamless Line and Pressure Pipe | 08/03/1995 |
| Brazil | Oil Country Tubular Goods | 08/11/1995 |
| | Iron Construction Castings | 05/09/1986 |
| | Carbon Steel Butt-Weld Pipe Fittings | 12/17/1986 |
| | Brass Sheet and Strip | 01/12/1987 |
| | Frozen Concentrated Orange Juice | 05/05/1987 |
| | Industrial Nitrocellulose | 07/10/1990 |
| | Silicon Metal | 07/31/1991 |
| | Circular Welded Non-Alloy Steel Pipe | 11/02/1992 |
| | Cut-to-Length Carbon Steel Plate | 08/19/1993 |
| | Stainless Steel Wire Rod | 01/28/1994 |
| | Silicomanganese | 12/22/1994 |
| | Stainless Steel Bar | 02/21/1995 |
| | Seamless Pipe | 08/03/1995 |
| Chile | Fresh Atlantic Salmon | 07/30/1998 |
| | Preserved Mushrooms | 12/02/1998 |
| Mexico | Porcelain-on-Steel Cooking Ware | 12/02/1986 |
| | Gray Portland Cement And Cement Clinker | 08/30/1990 |
| | Circular Welded Non-Alloy Steel Pipe | 11/02/1992 |
| | Cut-to-Length Carbon Steel Plate | 08/19/1993 |
| | Oil Country Tubular Goods | 08/11/1995 |
| | Stainless Steel Sheet and Strip in Coils | 07/27/1999 |
| | Large Diameter Carbon Steel Seamless Pipe | 08/11/2000 |

Source: ECLAC Office in Washington, D.C., on the basis of data from the International Trade Administration.

Table VI.3

**COUNTERVAILING DUTIES ON IMPORTS FROM LATIN AMERICA AND
THE CARIBBEAN IN EFFECT ON 30 APRIL 2001**

| Countries | Items | Date begun |
|------------------|----------------------------------|-------------------|
| Brazil | Heavy Iron Construction Castings | 05/15/1986 |
| | Brass Sheet and Strip | 01/08/1987 |
| | Cut-to-Length Carbon Steel Plate | 08/17/1993 |
| Mexico | Carbon Steel Flat Products | 08/17/1993 |

Source: ECLAC Office in Washington, D.C., on the basis of data from the International Trade Administration.

International Trade Commission (USITC) also announced two positive determinations of reasonable indication of material injury or threat of material injury to a domestic industry.

(i) *Certain Large Diameter Seamless Carbon and Alloy Steel Standard Line and Pressure Pipe from Mexico*: On 26 June 2000 USDOC published a notice of affirmative final determination of sales at less than fair value of this product and issued the final weighted-average dumping margin for the investigated company.⁵ On 13 July 2000 USITC determined that an industry was materially injured or threatened by imports of a certain large diameter seamless carbon and alloy steel standard line and pressure pipe from Mexico (USITC, 2000). USDOC published an amended final antidumping duty determination on 11 August 2000.⁶

(ii) *Certain Hot-Rolled Carbon Steel Flat Products from Argentina*: On 4 December 2000 USDOC initiated AD investigation on this Argentine product, based on a petition filed by nine United States steel companies, the Independent Steelworkers Union and United Steel Workers of America. On 3 May 2001, USDOC

announced the preliminary AD margins.⁷ In addition, on 8 February 2001 USDOC announced a preliminary countervailing determination for carbon steel flat products from Argentina. The petition was filed against Siderar of Argentina by ten United States steel companies, the Independent Steelworkers Union and Independent Steelworkers of America. The net subsidy rate is 40.79%.⁸

(iii) *Honey from Argentina*: On 29 September 2000 USDOC received an AD petition on honey from Argentina, filed jointly by the American Honey Producers Association and the Sioux Honey Association. USDOC initiated AD investigation and made public the following preliminary AD determinations on 11 May 2001.⁹ On 26 October 2000, USDOC also initiated a CVD investigation to determine whether manufacturers, producers or exporters of honey from Argentina receive subsidies. On 13 March 2001, USDOC published the preliminary results of the investigation, which determined that countervailing subsidies had been provided to Argentine producers and/or exporters of honey. The cash deposit rate of estimated countervailing du-

Box VI.1

ANTIDUMPING AND COUNTERVAILING DUTIES

Under the antidumping (AD) law, duties are imposed on products imported to the United States when the Department of Commerce determines that the merchandise is being sold at a price that is lower than the producer's sales in the country of origin (home market), or at a price that is lower than the cost of production. The difference between the price in the foreign market and the price in the United States market is called the "dumping" margin.

Domestic industries that allege that imports are being sold at less than fair value, or are being subsidized by a foreign government may file an antidumping or countervailing duty petition with either the United States Department of Commerce or the International Trade Commission. The domestic industry may claim that it is being materially injured, that it is in threat of such injury, or that the establishment of a

domestic industry is prevented by the above actions.

After an initial review, a preliminary determination is made. This either rejects the petition and dismisses the case, or agrees that dumping or subsidization has occurred, causing actual or potential harm to domestic industry. At that point a preliminary duty is established.

Antidumping duties should be equal to the difference between the price of the merchandise in its home market and the price of the import in the United States. Countervailing duties should be equivalent to the amount of the subsidy per unit produced. A final review is then issued and final duties are determined in the same manner provided that the preliminary duty is upheld. If the decision dismisses the case, all bonds posted at the United States Customs Office during the temporary duty period are returned.

⁵ *Federal Register*, vol. 65, No. 123, 26 June 2000.

⁶ Tubos de Acero de Mexico: 15.05% and all others: 15.05%. *Federal Register*, vol. 65, No. 156, 11 August 2000.

⁷ Siderar Saic: 44.59%; all others: 40.60%. *Federal Register*, vol. 66, No. 86, 3 May 2001.

⁸ ACA: 49.93%; Radix: 60.67%; ConAgra: 60.67%; all others: 49.93%. *Federal Register*, vol. 66, No. 35, 21 February 2001.

⁹ *Federal Register*, vol. 66, No. 92, 11 May 2001.

ties, applicable to all exporters and producers country-wide is 6.55% ad valorem.¹⁰

(iv) *Welded Large Diameter Line Pipes from Mexico*: USDOC initiated AD duty investigations on 23 February 2001, and calculated an estimated dumping margin of 49.86%.¹¹

(v) *IQF Red Raspberries from Chile*: USDOC initiated AD and CVD investigations on 28 June 2001, on subject merchandise from Chile. The preliminary determination will be made no later than 140 days after this date. In addition, on 16 July 2001 USITC determined that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from Chile of individually quick frozen red raspberries, which are alleged to be subsidized by the Government of Chile and sold in the United States at less than fair value.¹²

Administrative review

Upon requests from interested parties, USDOC conducted nine annual reviews of dumping margins and subsidy rates. Under Section 751 of the Tariff Act, USDOC and USITC are authorized to review certain outstanding determinations in which changed circumstances warrant review and revocation.

(i) *Brazilian Frozen Concentrated Orange Juice (FCOJ)*: On 6 June 2000 the Department of Commerce conducted an administrative review on this product imported from Brazil, in response to a request by the petitioners and one producer/exporter of the subject merchandise. The period of review was from 1 May 1998 to 30 April 1999 for Citrovida Agro Industrial Ltda. On 11 October 2000, USDOC made changes to the weighted average dumping duties and reduced the margins from 26.27% to 25.87%. On 7 November 2000, USDOC issued amended final results stemming from allegations that an error had been made in the final re-

sults due to a failure to apply the proper United States dollar/Brazilian real exchange rate. The final revised dumping margin is 14.77%.¹³ In addition, on 4 June 2001, USDOC announced its thirteenth period review covering 1 May 1999 to 30 April 2000, with a preliminary determination that Citrovida Agro Industrial Ltda./Cambuhy MC had made sales of FCOJ below the normal value. The preliminary dumping margin rate is 15.98%.¹⁴

(ii) *Certain Cut-to-Length Carbon Steel Plate from Mexico*: On 24 January 2001, USDOC decided to amend the final results of the administrative review of the AD order on certain cut-to-length carbon steel plate from Mexico. This review covered one producer of the merchandise, Altos Hornos de México S.A.¹⁵ As a result, USDOC amended the final results of review to correct one error in implementing the major input rule.¹⁶ The amended weighted average dumping margin was 20.34%. USDOC later reduced the margin to 11.68% (13 March 2001).¹⁷

(iii) *Gray Portland Cement and Clinker from Mexico*: On 14 March 2001, USDOC published the final results of an administrative review of the AD order on gray portland cement and clinker from Mexico. The review covers one manufacturer/exporter, CEMEX, S.A. and its affiliate, Cementos de Chihuahua S.A. Based on comments received, USDOC reduced the AD duty margin from 39.34% to 38.65% (14 May 2001).

(iv) *Oil Country Tubular Goods from Mexico*: This USDOC administrative review covers exports of the subject merchandise to the United States by Tubos de Acero de México S.A. (TAMSA) and Hylsa S.A. de C.V. The final margins were published on 21 March 2001 (TAMSA: 0%; Hylsa: 0.79%).¹⁸

(v) *Fresh Atlantic Salmon from Chile*:¹⁹ On 30 August 1999, USDOC published a notice regarding the initiation of an administrative review of AD on fresh Atlantic salmon from Chile, covering the period from

10 *Federal Register*, vol. 66, No. 41, 1 March 2001.

11 *Federal Register*, vol. 66, No. 37, 23 February 2001.

12 *Federal Register*, vol. 66, No. 125, 28 June 2001.

13 *Federal Register*, vol. 65, No. 197, 11 October 2000 and vol. 65, No. 216, 7 November 2000.

14 *Federal Register*, vol. 66, No. 16, 10 June 2001.

15 *Federal Register*, vol. 66, No. 16, 24 January 2001.

16 On 13 December 2000, AHMSA notified DOC of an incorrect adjustment factor to implement the major input rule for direct material costs in its amended results of 12 December 2000. DOC corrected an apparent typographical error, which dropped a zero from the factor, thus resulting in its overstatement.

17 *Federal Register*, vol. 66, No. 49, 13 March 2001.

18 *Federal Register*, vol. 66, No. 55, 21 March 2001.

19 The AD and CVD cases against fresh Atlantic salmon from Chile were initiated in July 1997. The case alleging subsidization was dismissed, but the United States Department of Commerce imposed an AD duty order following determination that sales of fresh Atlantic salmon from Chile were damaging the United States market. A dumping margin of 2% to 11% was therefore issued in July 1998.

28 July 1998 to 30 June 1999. On 8 August 2000, the USDOC determined that sales had been made below normal value.²⁰ USDOC instructed the United States Customs Service to assess AD duties on shipments of fresh Atlantic salmon from Chile entered or withdrawn from warehouse for consumption on or after 15 December 2000. The final dumping margins have been revised for several manufacturers/exporters.²¹ On 13 August 2001, however, USDOC announced the final dumping margins resulting from the review covering sales of fresh Atlantic salmon from 11 Chilean producers/exporters. The margins for all 11 are either zero or de minimis for the period from 1 July 1999 to 30 June 2000.²²

(vi) *Porcelain-on-Steel Cooking Ware from Mexico*: On 24 October 2000; USDOC published preliminary results of an AD order on porcelain-on-steel cooking ware from Mexico (the review covers Cinsa, SA and Esmaltaciones de Norte América, SA). On 1 March 2001, USDOC made changes to the preliminary results margin and released the final results for the two reviewed firms.²³

Negative AD and CVD determinations

USITC generally decides, within 45 days of the filing of a petition, whether there is a reasonable indication of material injury to a United States industry. If this determination is negative, the investigation is terminated by both USDOC and USITC. Two negative determinations were announced for the period 2000-2001.

(i) *Certain Cold-Rolled Steel Products*: On 3 March 2000, USITC adopted a final antidumping and countervailing duty decision on certain cold-rolled steel products from Argentina and Brazil. The Commission determined that no industry in the United States was materially injured or threatened with material injury by reason of imports of the subject merchandise. No countervailing duty or antidumping duties could therefore be imposed on these imports.²⁴

(ii) *Spring Table Grapes from Chile and Mexico*:

USDOC initiated AD duty investigations on 15 May 2001, regarding Chilean and Mexican table grapes. The preliminary determination was to be made no later than 140 days after this date. On 12 June 2001, however, USITC issued a negative determination which terminated the investigation (USITC, 2001).

Suspension agreement

Several antidumping and countervailing duties were filed during the steel crisis. In September 1998, the industry and the unions filed an AD and a CVD case against hot-rolled steel from Brazil. The final dumping margin ranged from 41.27% to 43.40%. In July 2000, the Department of Commerce suspended dumping and countervailing duties investigations and reached an agreement with Brazilian steel producers to establish reference prices and an annual quota of 295,000 metric tons (MT).²⁵ The reference prices for each product ranged from 327 to 390.35 dollars per MT (USDOC, 2000, p. 105).

3. Safeguard

Section 201 of the 1974 Trade Act provides a procedure whereby the President may grant temporary import relief to a domestic industry that is seriously injured by increased imports. Relief may be granted for an initial period of up to four years, and the action may be extended to a maximum of eight years. Unlike action to redress unfair trade, to gain protection under Section 201, a domestic industry only has to prove that imports have caused serious damage or are a substantial threat.

As of August 2001, the United States invoked the Safeguard Clause for four imported products. This measure affects wheat gluten (effective June 1998), lamb meat (effective July 1999), certain steel wire rod or rod wire (effective March 2000), and circular welded carbon quality line pipe (effective March 2000), and applies to all countries with the exception of Canada,

20 *Federal Register*, vol. 65, No. 153, 8 August 2000.

21 Cultivos Marinos 0.01%; Eicosal 0.18%; Fiordo Blanco 1.46%; Linao 0.00%; Mainstream 0.00%; Mares Australes 0.00%; Pacific Star 3.94%; Pacific Sur 0.00%; Tecmar 0.01%; all others 4.57%. *Federal Register*, vol. 65, No. 242, 15 December 2000.

22 *Federal Register*, vol. 66, No. 156, 13 August 2001.

23 The following are the final weighted average margin percentages effective as of 1 March 2001: Cinsa 10.39%; ENASA 17.69%. *Federal Register*, vol. 66, No. 41, 1 March 2001.

24 These investigations were started on 2 June 1999, following receipt of petitions by Bethlehem Steel Corporation and seven other United States steel companies along with the United Steelworkers of America. *Federal Register*, vol. 65, No. 54, 20 March 2001.

25 1 MT = 2,204.600 pounds.

Mexico, CBI countries and the Andean Trade Preference Beneficiaries. Quantitative restrictions on wheat gluten and the tariff-rate quota on lamb meat will be effective for three years and one day. A tariff-rate quota on wire rod will apply to all countries except Canada and Mexico and will also be for a period of three years. Import relief for welded carbon quality line pipe will take the form of an increase in duty of 19%. All countries are eligible for this duty.

4. Quantitative restrictions (sugar tariff-rate quota)

In order to protect domestic sugar producers from a lower world price for sugar, the United States sugar program has kept the domestic price of sugar, on average, nearly twice as high as the world price. By law, the sugar program supports the domestic price of sugar

by offering non-recourse loans to sugar processors at a rate of 18 cents per pound for raw cane sugar and 22.9 cents per pound for refined beet sugar.

USTR allocates shares of the tariff-rate quota (TRQ) among some 40 designated countries. Sugar imported under TRQ is either assessed as tariff-free or subject to a 0.63 cent-per-pound tariff, while imports above this limit are subject to a tariff of 15.82 cents per pound. The tariff-rate quota for sugar is therefore actually administrated as a quota. As part of the sugar programme, USTR sets quotas on a yearly basis for countries that export sugar. Whenever the Secretary of Agriculture “believes that domestic supplies of sugar may be inadequate to meet domestic demand at reasonable price”, however the Secretary may modify previously established TRQ amounts.²⁶ The countries subject to quotas are granted “most-favoured-nation” status and the rate of duty is 0.625 cents per pound (raw value).

Table VI.4
SUGAR TARIFF-RATE QUOTA
(Fiscal year 2001 allocation)

| Countries | % of total United States imports | Metric tons |
|--|----------------------------------|----------------|
| Argentina | 3.99 | 45,283 |
| Barbados | 0.65 | 7,372 |
| Belize | 1.02 | 11,584 |
| Bolivia | 0.74 | 8,425 |
| Brazil | 13.45 | 152,700 |
| Colombia | 2.23 | 25,274 |
| Costa Rica | 1.39 | 15,797 |
| Dominican Republic | 16.33 | 185,346 |
| Ecuador | 1.02 | 11,584 |
| El Salvador | 2.41 | 27,381 |
| Guatemala | 4.45 | 50,549 |
| Guyana | 1.11 | 12,637 |
| Haiti | 0.64 | 7,258 |
| Honduras | 0.93 | 10,531 |
| Jamaica | 1.02 | 11,584 |
| Mexico | 2.20 | 7,258 |
| Nicaragua | 1.95 | 22,115 |
| Panama | 2.69 | 30,540 |
| Paraguay | 0.64 | 7,258 |
| Peru | 3.80 | 43,177 |
| Saint Kitts and Nevis | 0.64 | 7,258 |
| Trinidad and Tobago | 0.65 | 7,372 |
| Uruguay | 0.64 | 7,258 |
| Latin America and the Caribbean Total | 64.05 | 715,541 |

Source: ECLAC Office in Washington, D.C., on the basis of data from United States Trade Representative.

Most countries in Latin America and the Caribbean were exempt from this duty since they were beneficiaries under the Generalized System of Preferences (GSP). The only Latin American country whose exports do not receive duty-free treatment under GSP is Brazil, due to its competitive advantage in this industry.

For fiscal year 2001, the new tariff-rate quota on sugar imports that may enter the United States at the lower duty is 1,117,195 metric tons (USTR, 2000a). Table VI.4 shows the country-by-country allocation based on historical patterns of raw and refined sugar as a percentage of total United States imports. Latin America and the Caribbean will supply 64.05% (715,541 metric tons) of total United States sugar imports during fiscal year 2001. This represents a slight decrease of 17,742 metric tons in sugar exports by Latin America and the Caribbean with respect to the previous year (733,283 metric tons).²⁷ In fact, throughout 2000 the actual total amount of sugar imports entering the United States from Latin American countries was 1,006,266 metric tons.²⁸ As stipulated in the United States sugar program, imports above the tariff-rate quota are assessed at 15.82 cents per pound, which in this case represents US\$ 95.2 million²⁹ in customs duty.

Mexican and United States officials failed to resolve a long-standing dispute over how to calculate the surplus that Mexico may ship to the United States market. The United States maintains that Mexico may ship up to 250,000 tons of sugar surplus per year, providing that Mexico falls under the definition of a net surplus

producer of sugar. The United States defines net sugar surplus by calculating total sugar production minus consumption of sugar and High Fructose Corn Syrup (HFCS). Mexico, on the other hand, uses a formula that measures sugar surplus by calculating sugar production minus consumption of sugar HFCS. Mexico sustains that its interpretation of the provision would permit the shipment of up to 600,000 tons of sugar (Inside United States Trade, 2001, p.1). The disagreement between the two countries has arisen as a result of the discrepancy between the formulas that each side applies.

In October 2000, Mexico and the United States had formal contact for the first time since Mexico informed the United States of its intention to request a dispute settlement panel under NAFTA. Since then, the United States has agreed to extend Mexico's market access to 116,000 tons of sugar in its allocation for the fiscal year 2001 (Inside United States Trade, 2000a).

For fiscal year 2001, Mexico will be allowed to ship up to 70% of its outstanding TRQ of 105,788 metric tons raw value before 30 June 2001. The remaining 30%, in addition to any residual quantity not shipped prior to 30 June, may enter during the final quarter (July-September) of financial year 2001. The United States Department of Agriculture (USDA) argues that this fulfils the United States commitment to provide Mexico additional duty-free market access for sugar in financial year 2001 under NAFTA. By 2008, all restrictions on Mexican sugar imports to the United States market will cease.

C. Export promotion policies

1. Market access instruments

Section 301

The United States' main statute for unilaterally addressing what is perceived as unfair trade practices affecting United States exports of goods or services falls under Section 301 of the Trade Act of 1974. Section

301 gives USTR the power to respond to *unreasonable, unjustifiable, or discriminatory practices* that burden or restrict United States commerce. Once a petition has been filed with USTR, or USTR itself initiates a process, an investigation begins into the foreign government policy or action. During each investigation USTR must conduct consultations with the foreign government involved. If no agreement is reached by the con-

²⁷ *Federal Register*, vol. 64, No. 216, 9 November 1999.

²⁸ ECLAC, on the basis of USDA (2000).

²⁹ 1 MT = 2,204.600 pounds.

clusion of the investigation, or through the dispute settlement procedures that are available, USTR has authority to implement a number of serious trade restrictions, such as import duties or fees.

A major dispute arose between the United States and Mexico over High Fructose Corn Syrup (HFCS) a sweetener widely used in soft drinks and other products. USTR initiated an investigation in May 1998, in response to a Section 301 petition filed by the Corn Refiner Association Inc. The United States challenged several aspects of Mexico's action to limit Mexican imports of HFCS. In particular, the investigation focused on whether the Mexican government had encouraged an agreement between the domestic sugar and soft drink bottling industries to limit the latter's purchases of HFCS. Following Mexico's imposition of a final antidumping measure in January 1998, the United States held consultations with the country in June 1998, before referring the complaint to a WTO dispute settlement panel in October that year.

On 27 January 2000, a dispute settlement panel at the World Trade Organization (WTO) established that Mexico's threat of injury determination violated the antidumping (AD) agreement in several respects. The panel also found that Mexico had acted improperly in imposing final AD duties for the period during which the provisional measure was in place. On 24 February 2000, WTO adopted the panel's report, with which Mexico will be obliged to comply (USTR, 2000b). Mexico refunded antidumping duties collected during the seven-month period and provided a new justification for the original duty rates, which were kept in place.

In October 2000, the United States requested the WTO Dispute Settlement Body (DSB) to form a panel to establish whether Mexico's re-determination was inconsistent with the recommendations and rulings of DSB. On 22 June 2001, the WTO Dispute Settlement Body ruled that imposition by Mexico of antidumping duties on imports of HFCS from the United States was inconsistent with the requirements of the WTO Antidumping Agreement. The Body also ruled that Mexico's steps to comply with an earlier adverse WTO panel ruling were insufficient (USTR, 2001b).

Super 301

Super 301 is an annual process by which the United States Trade Representative reviews United States trade expansion priorities and identifies priority foreign country practices, the elimination of which would have the greatest potential to increase United States exports, either directly or through the establishment of a beneficial precedent.

Although USTR has not identified in any Latin American country "priority foreign country practices", within the meaning of the Executive Order, it lists examples of practices that the Administration is monitoring closely (USTR, 2001c). Those practices include: treatment of patents by Argentina and Brazil; Brazilian and Mexican Customs Valuation Practices; Mexico's TRQ for beans.³⁰ Mexican sanitary measures and other restrictions imposed on live swine have also been listed.³¹

Special 301 (USTR, 2001d)

Under Special 301, USTR must identify those countries that deny adequate and effective protection for intellectual property rights (IPR). Countries with policies that most adversely affect the United States are designated "Priority Foreign countries", and must be investigated under Section 301. No country may be designated "priority" if it has engaged in good faith negotiations with USTR to address the respective problem. Those countries at risk of receiving the "priority" designation are placed on a watch list that is updated annually by USTR.

The United States also uses the categories of "Priority Watch List", and "Watch List" to identify countries whose practices generate concern on the part of the United States. Countries placed on the "Priority Watch List" become the focus of increasing bilateral attention concerning the problem areas. Several Latin American and Caribbean countries were included in the 2001 Special 301 Report: Argentina; Costa Rica, Dominican Republic and Uruguay. The following countries figured on the Watch List: Bolivia, Brazil, Chile,

30 On 30 November 2000, the United States requested NAFTA consultations with Mexico regarding United States exports of beans to Mexico. As a result, on 18 April 2001, USTR reached an understanding with Mexico's Secretariat of Economic Affairs on the country's allocation of the TRQ. Mexico will now allocate the NAFTA TRQ for beans on a regular schedule, with auctions held each March and June. Under NAFTA, exports of dry beans to Mexico will be free of all duties in 2008.

31 On 10 July 2000, the United States requested consultations with Mexico regarding a Mexican antidumping measure on live swine from the United States, as well as sanitary and other restrictions imposed by Mexico on imports of live swine weighing more than 110 kilogrammes. Consultations held on 7 September 2000 resulted in Mexico issuing a protocol designed to allow a resumption of United States shipments of live swine weighing 110 kilogrammes or more into Mexico.

Colombia, Guatemala, Jamaica, Peru, and Venezuela.

In addition, on 8 November 2000, USTR announced that El Salvador would not be placed on the Watch List in its Special 301 out-of-cycle reviews and USTR recognized steps by Bahamas to strengthen its copyright protection.³²

2. Export promotion programmes

Products from Latin American and Caribbean countries frequently encounter competition from subsidized United States goods in their domestic markets as well as in other export markets. United States export support programmes facilitate export transactions overseas by creating more incentives for exports, credit opportunities for potential buyers, and overseas infrastructures that facilitate the storage of United States agricultural products. The comprehensive farm bill approved in April 1996 maintains most United States export support programmes, albeit many at lower funding levels following the WTO agreement on agriculture. Essentially, this law is intended to support an export strategy designed to increase United States agricultural exports at a rate faster than the global increase.

Export assistance programmes

The United States runs several export assistance programmes, such as the Export Enhancement Program (EEP); the Dairy Export Incentive Program (DEIP); the Market Access Program (MAP); the Foreign Market Development Program (FMD); and the Emerging Market Program (EMP).³³ They are directed at promoting United States agricultural products.

Export credit guarantee programmes

The United States Department of Agriculture operates four credit guarantee programmes. The Export Credit Guarantee Program (GSM-102) is the largest United States export promotion programme, adminis-

tered by the Commodity Credit Corporation (CCC). The other three are the Intermediate Credit Guarantee Program (GSM-103), the Supplier Credit Program and the Facility Guarantee Program.³⁴ Importantly, USDA views its credit guarantee programmes as commercial programmes —not export subsidies.

GSM-102 and GSM-103 are designed to support and encourage United States agricultural exports in eligible countries. In addition to facilitating United States exports, these programmes also help developing countries and other countries that face credit problems to finance purchases of necessary food and other agricultural products. These two programmes guarantee that United States banks will finance such transactions for exporters shipping United States products on credit to foreign importers in eligible countries (USDA, 1999a). CCC usually insures up to 98% of the principal plus a portion of the interest.

GSM-102 is by far the largest of the four export credit guarantee programmes. It guarantees repayments of short-term credit (90 days to three years) and allows foreign buyers to purchase United States agricultural products from private United States exporters. By 6 April 2001, GSM-102 allocations of about US\$ 4 billion had been awarded to 21 countries and 11 regions including the Caribbean, Central America, South America, Mexico, Peru and the Dominican Republic (see table VI.5).

The GSM-103 Intermediate Export Credit Guarantee Program covers financing periods of more than three and up to ten years. This programme is designed to help developing countries make the transition from financing to cash purchases. By 6 April 2001, US\$ 193 million of intermediate credit guarantees had been made available for sales to Latin American countries (see table VI.6) (USDA, 2001a).

A minimum annual amount of US\$ 5.7 billion is available for the Export Credit Guarantee Program and the Intermediate Export Credit Guarantee Program. The Federal Agriculture Improvement and Reform Act (FAIR) Act mandates a minimum annual programme level of US\$ 5.5 billion for GSM-102 and GSM-103, but it provides for flexibility as to the amount available for each programme. The provisions of the Food, Agri-

32 USTR designated Paraguay for Section 306 Monitoring to ensure its compliance with the commitments made under bilateral intellectual property agreements with the United States. Under Section 306 of the Trade Act of 1974, USTR can move directly to trade sanctions if there is slippage in a country's enforcement of bilateral intellectual property rights agreements. Paraguay was identified as a Priority Foreign Country in January 1998.

33 For a description of those programmes see ECLAC 2001, chapter V.

34 Approximately US\$ 195.5 million was allocated to emerging markets worldwide for the financial year 2001. However, no applications were received in financial year 2001.

culture, Conservation and Trade (FACT) Act of 1990 establish that a minimum of US\$ 1 billion be made available for direct credits or export credit guarantees to emerging markets during fiscal years 1996-2002. Under these terms, US\$ 200 million is made available annually, increasing the minimum annual programme

level for GSM-102 and GSM-103 from US\$ 5.5 billion to US\$ 5.7 billion (USDA, 2001a).

Eligible commodities within these programmes include barley, malt, cotton, dairy products, feed grains, fresh fruits, oilseeds, vegetable oil, vegetable oil soapstocks, meat (chilled or frozen), planting seeds,

Table VI.5

**GSM-102 ALLOCATIONS AND APPLICATIONS FOR COVERAGE,
FISCAL YEAR 2001, 6 APRIL 2001**
(Millions of dollars)

| Countries | Announced allocations | Exporter applications received | Balance |
|----------------------|-----------------------|--------------------------------|---------------|
| Caribbean region | 95.0 | 25.60 | 69.40 |
| Central America | 110.0 | 69.57 | 40.43 |
| Dominican Republic | 25.0 | 0.00 | 25.00 |
| Mexico | 500.0 | 255.60 | 244.4 |
| Peru | 80.0 | 2.80 | 77.20 |
| South America region | 370.0 | 134.10 | 235.90 |
| TOTAL | 1,180.00 | 487.67 | 692.33 |

Source: United States Department of Agriculture, 6 April 2001.

Table VI.6

**GSM-103 ALLOCATIONS AND APPLICATIONS FOR COVERAGE,
FISCAL YEAR 2001, 6 APRIL 2001**
(Millions of dollars)

| Countries | Announced allocations | Exporter applications received | Balance |
|-----------------|-----------------------|--------------------------------|--------------|
| Central America | 10.00 | 0.00 | 10.00 |
| Mexico | 35.00 | 2.20 | 32.80 |
| South America | 5.00 | 0.00 | 5.00 |
| TOTAL | 50.00 | 2.20 | 47.80 |

Source: United States Department of Agriculture, 6 April 2001.

Table VI.7

**SUPPLIER CREDIT GUARANTEE PROGRAM (SCGP) ALLOCATIONS
AND APPLICATIONS FOR COVERAGE UNDER ALLOCATIONS,
FISCAL YEAR 2001, 6 APRIL 2001**
(Millions of dollars)

| Countries | Announced allocations | Exporter applications received | Balance |
|-----------------|-----------------------|--------------------------------|--------------|
| Central America | 15.00 | 15.00 | 0.00 |
| Caribbean | 10.00 | .800 | 9.20 |
| Mexico | 100.00 | 57.63 | 42.37 |
| South America | 20.00 | 0.24 | 19.76 |
| TOTAL | 145.00 | 73.67 | 71.33 |

Source: United States Department of Agriculture, 6 April 2001.

potatoes, peanuts, poultry, rice, livestock, wheat, wood products, almonds and corn products. However, USDA will consider any agricultural commodity that is of 100% United States origin, or that will have the effect of expanding or maintaining the market for United States exports. Furthermore, GSM-103 is focused on a more limited number of products, such as wheat and breeder livestock.

The Supplier Credit Guarantee Program (SCGP) became effective in financial year 1996. This programme is intended to encourage United States exporters to expand, maintain and develop markets for United States agricultural commodities and products in areas where commercial financing may not be available without a CCC payment guarantee. This programme also helps United States exporters who wish to provide short-term credit (180 days or less) directly to their foreign buyer. SCGP is similar to the export credit guarantee program GSM-102, but CCC guarantees a substantially smaller portion of the value of exports (currently 65%) (USDA, 1999b). In June 2000, the United States Department of Agriculture amended the CCC supplier credit guarantee program (SCGP) for the Central American region. This amendment increases the programme allocation from US\$ 10 million to US\$ 15 million. The countries included are Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Farm Service Agency Loan (FSA)

FSA supports farmers through commodity programmes, farmer operating and emergency loans, conservation, domestic and overseas food assistance, and disaster programmes that improve the economic stability of agriculture and the environment. Furthermore, the Department of Agriculture's Farm Service Agency provides direct and guaranteed loans to farmers who are unable to obtain loans from the Farm Credit System or from other commercial lenders. All FSA loans provide some subsidy value or credit enhancement to the borrower. However, because of lower interest rates and reduced lending activity in the late 1990s, FSA has become a less important source of credit for many direct borrowers. Nevertheless, special low-interest rates for direct lending programmes have been used extensively.

FSA is required by law to lend at least 25% of its direct loans each year at the limited-resource rate. Limited-resource rates are set at half the rate on 5-year United States Treasury notes, but not below 5%. Other FSA loan rates include the "Emergency Disaster Rate", which is fixed at 3.75% for the life of the loan. The "Beginning Farmer Down Payment Rate" is available for qualified farmers, and consists of a 10-year loan at a fixed rate of 4% to finance down payments on farm real estate purchases. Others may be able to obtain 4% loans under joint financing arrangements with commercial lenders.

D. Standards and regulations

As discussed in a previous issue of this publication, exporting to the United States can be difficult due to the complex system of standards and regulations at the federal, state and local level (ECLAC, 2001). Standards and regulations may unintentionally create major barriers for foreign firms attempting to enter the United States market. United States authorities must ensure that bio-engineered goods entering the country are safe for humans and the environment, for example. There are four federal agencies responsible for ensuring the safety of plants, animals, seafood, microorganisms and other products: the Animal Plant Health Inspection Service (APHIS), the Environmental Protection Agency (EPA), the Food and Drug Administration (FDA), and the Food Safety and Inspection Services (FSIS).

1. Phytosanitary regulations

Once a phytosanitary rule is proposed by the USDA and published in the Federal Register, it is subject to a 90-day comment period, after which the final rule may be issued and assigned a legally effective date. All shipments of fruits and vegetables are subject to an inspection process in both the originating country and the allowed ports of entry. This may further slow the process.

Phytosanitary barriers affect a large portion of the fruits and vegetables entering the United States market. For example, grapes and apples require special cold treatment while yams and other vegetables require methyl bromide treatment. Mangos need a hot water dip and certification stating they have received this treat-

ment. All these products also need specific documentation certified by the APHIS representative in their respective country. In many cases, the product also requires an import licence, which may constitute an additional obstacle. If the product does not pose a threat to the market, then it is granted entry without an import licence. Otherwise, a licence is required to enter the country. In the case of Argentine fruit and citrus products, the list is limited because of the threat of fruit fly. Products that are admitted are usually subjected to a number of tests and treatments before shipping.

Mexican avocados

In December 1999, the rules regarding imports of Mexican avocados were again amended to require handlers and distributors to enter into compliance agreements with the Animal and Plant Health Inspection Service.³⁵ It was also obligatory to repackage the avocados after entry to the United States. These modifications were intended to ensure that distributors and handlers were familiar with the regulations and that any crate used to repackage the avocados in the United States would carry the same obligatory information as the original crates in which the fruit was packed in Mexico.³⁶

In May 2000, Mexico requested United States permission to sell avocados as far west as Wyoming and extend the shipping season by two months. That request is still pending. In August 2000, various United States state agriculture departments æwith support from Mexican avocado growers, United States importers and several Texas legislaturesæ also urged USDA to relax the current restrictions on imports of Mexican avocados. In statements submitted to USDA on 9 August, state agriculture officials from Illinois, Michigan, Minnesota, North Dakota, Pennsylvania and Texas expressed support for the expansion of the current season for Mexican avocado shipments to the United States. They were also in favour of increasing the number of states in which Mexican avocados may be sold. Supporters for the expansion of avocado imports argue that the current system has been successful in providing Mexican avocados to the United States market without the occurrence of any pests.

However, Californian growers argued in August that USDA should withdraw approval for the entry of Mexican avocados to Kentucky and Virginia because the mean temperatures of these states are high enough to encourage the development of fruit flies. Furthermore, Californian growers contended that USDA should consider that fruit fly development, may be fostered in mean temperatures above 50 degrees Fahrenheit (Inside United States Trade, 2000b), which is lower than the current USDA standard of 70 degrees Fahrenheit. By this measure, Californian growers presented a list of states which they allege should be excluded from consideration for imports of avocados from Mexico. Lastly, the argument of the Californian growers against the expansion of Mexican avocado shipments stressed that USDA does not have the resources to monitor and enforce regulations on increased imports, citing cases of illegal shipments that have reached warmer states over the past three years.

At the same time, with the support of several California House lawmakers the Hass Avocado Promotion, Research and Information Act of 2000 was signed into law on 23 October 2000. The Act authorizes the creation of a 12-member Hass Avocado Board to administer the programme under the supervision of the Agricultural Marketing Service and to fund Board-developed promotional programmes in the United States. The 12-member Hass Avocado Board comprises seven domestic producers and two importers, plus three swing positions based on current level of imports (USDA, 2001b).

The Board would collect an assessment of 2.5 cents per pound on fresh domestic production and on fresh and processed imports of Hass avocados. The rate could be raised to a maximum of five cents per pound. Furthermore, the Act stipulates that assessment on all imported Hass avocados be paid immediately upon entry to the United States, while assessment on domestically-grown Hass avocados sold in the United States can be paid more than 60 days after the sale occurs.

Argentine citrus

The regulations in “Subpart-Fruits and Vegetables” restricted the importation of fruits and vegetables from

35 Restrictions on imports of Mexican avocados have been in effect since 1914. This ban stemmed from the fear of infection of the domestic industry by imported weevils and fruit flies in avocados from Mexico. On 31 January 1997, USDA issued a final ruling that lifted the 84-year ban and permitted United States imports of Mexican Hass avocados from Michoacán under the “system approach”. The new rule allowed imports of fresh Hass avocados grown in approved orchards in the Mexican state of Michoacán, to 19 Northeastern States during the winter months of November to February. *Federal Register*, vol. 62, No. 24, February 1997.

36 *Federal Register*, vol. 54, No. 233, December 1999.

any part of the world in order to prevent the dissemination of plant pests, especially fruit flies, which are not common in the United States. “Subpart-Citrus Fruit” regulations restricted imports of fruits and peels of all genera from specified countries including Argentina, in order to prevent the introduction of citrus canker into the United States. On 12 August 1998, a proposal was presented to amend the citrus regulation to recognize a citrus-growing area in Argentina as canker free. Following comments and hearings, this proposal was approved.

On 15 June 2000, USDA announced a final ruling on amendments made to the legislation on fruits and citrus imported from Argentina. USDA certified four Argentine states free of citrus canker and eligible for export to the United States. Grapefruit, lemons, and oranges could be exported, with shipments to non-citrus producing states starting August 2000. The regulation required Argentina to follow certain safety-related procedures in order to prevent the introduction into the United States of sweet orange scab and citrus black spot.³⁷

USDA will phase in this regulation over a period of four years. Any problems encountered during the first phase-in implementation period will delay the implementation of the next phase-in until they are corrected. In addition to these requirements, during the first stage of the implementation in 2000-2001, fruit will be eligible for entry into 34 northern tier states only. Fruit will not be allowed entry into any citrus-producing states or any of the ten buffer states that border them. The second stage will begin with the 2002 shipping season and will allow eligible fruit to be shipped to the 34 first-stage states and the ten buffer states. In 2004, phase three will allow eligible fruit to be shipped to all areas of continental United States.³⁸

Guatemalan raspberries

In May 1997, Guatemala voluntarily halted imports of the fruit after an outbreak of cyclospora in the United States. FDA banned United States imports of Guatemalan raspberries carrying the cyclospora parasite from 15 March to 15 August 1998.

In November and December 1998, FDA representatives visited a number of raspberry farms to determine if their growing procedures conformed to the Model Plan of Excellence (MPE) program, which would allow their produce entrance into the United States markets. Raspberries from farms found conforming to the programmes were not detained for physical examination. On 15 March 2001, however a new import alert was issued regarding Guatemalan raspberries, which required all raspberries entering the United States, with exception of those grown on approved farms, to undergo examination at the port of entry. For the 2001 spring growing season from 15 March to 15 August 2001 Guatemalan raspberry farms will again be required to conform to MPE in order to export to the United States. Farms following MPE procedures should not be subject to detention for physical examination.³⁹

Chilean fruits

On 31 May 2000 the United States Department of Agriculture imposed restrictions on imports of certain fruit from Region I, the northernmost part of Chile, and the Metropolitan Region, which includes greater Santiago, due to the threat of the Mediterranean fruit fly. All Medfly host fruit originating from these regions must undergo treatment before or during export to the United States or upon arrival, in order to prevent the spread of this pest across the United States borders. On 31 October 2000, however, the United States Department of Agriculture announced that it would no longer regulate the Metropolitan Region of Chile for Medfly. APHIS reduced the quarantined area following a review of the efforts to eradicate Medfly in the Metropolitan Region conducted by Chile’s Ministry of Agriculture.⁴⁰

Meat import regulation

The United States operates a “zero risk” policy, which bans all meat imports from countries that have suffered recent outbreaks of foot and mouth disease or rinderpest. To be eligible to export meat to the United

37 *Federal Register*, vol. 65, No. 116, 15 June 2000.

38 USDA, “Allows limited importation of citrus from Argentina” (www.aphis.usda.gov/lpa/press/2000/06/acitrus.txt).

39 Four farms/growers are exempt from detention for physical examination: Finca El Injertal, Finca Nuevo Paraíso, Finca San Jorge and Finca Karmel. In addition, only the following exporters are allowed to ship berries for the farms listed above: Café S.A., Cofruga, Mayacrops and Planessa. Food and Drug Administration (FDA), Office of Regulatory Affairs, Import Alert #20-04, “Detention without physical examination of imported raspberries from Guatemala”, 15 March 2001.

40 USDA, “USDA reduces restrictions on imports of Chilean fruit” (www.aphis.usda.gov/lpa/press/2000/10/chilefly.txt).

States, a country must have been free of outbreaks of both diseases and must have ceased vaccination for them at least one year before. Individual exporters must then contact their veterinary services to request an inspection, at the company's own expense.

Beef: On 28 June 2000, APHIS amended the regulations governing the import of certain animals, meat and other animal products. This included imports from Argentina of any bovine parts that are not, by standard practice, included in the bovine carcass that is placed in a chiller for maturation after slaughter. Items prohibited from import include all parts of bovine heads, feet, hooves, and internal organs. In addition, bovines slaughtered for the export of fresh beef from Argentina to the United States are required to undergo ante- and post-mortem inspections for signs of foot and mouth disease. Representatives of the Animal and Plant Health Inspection Service must also be allowed access to the establishments where bovines are slaughtered.⁴¹ This regulation is partly intended to prevent the introduction into the United States of diseases such as rinderpest, foot and mouth disease, African swine fever, hog cholera, and swine vesicular disease. On 2 August 2000, Argentina and the United States agreed to suspend exports of fresh Argentine beef to the United States market due to the detection of foot and mouth virus in cattle.

In December 2000, the ban was lifted and amended regulations required fresh beef from Argentina to be accompanied by a foreign meat inspection certificate issued by an authorized veterinary official of the Government of Argentina. The ban on beef has since been reinstated however (USDA, 2001c).

The whole of Uruguay had been considered foot and mouth free, until 13 December 2000, when USDA removed the region of Artigas from the list of foot and mouth free zones following an outbreak of the disease. On 25 April 2001, Uruguay confirmed two more cases of foot and mouth, this time in the city of Palmitas. In consequence, USDA prohibited the import from Uruguay of susceptible animals and their products produced on or after 23 March 2001 (USDA, 2001d).

On 23 February 2001, USDA lifted the temporary suspension of imports of Brazilian beef and associated products. USDA made a field visit to review and analyse data for a bovine spongiform encephalopathy (BSE) risk assessment. Upon completion of this assessment

USDA was assured that Brazil had taken sound measures to prevent BSE and therefore lifted the import ban. USDA has determined that there is no evidence of BSE in Brazil and therefore no risk of BSE introduction associated with the import of Brazilian beef and beef products.

Brazilian beef products must meet three conditions to enter the United States, however. First, shipments must be certified as containing beef products from cattle that were born and raised in Brazil and not from imported sources. Second, beef must come from cattle born after Brazil's enactment of the ruminant-to-ruminant feed ban in 1996. Lastly, shipments must carry a statement certifying that the cattle used in the products were exclusively grass-fed and did not consume any animal proteins (USDA, 2001e).

USDA had previously suspended imports from Brazil on 2 February 2001, pending the release of data to complete a BSE risk assessment. Lastly, certain recognized regions within South American countries that meet the disease-free requirements for the export of bovine products may export even if the country as a whole has not been declared disease free.⁴² In addition to recognizing specific regions that may export beef, the United States also distinguishes levels of risk within regions. Import conditions and restrictions vary according to risk class and region from which products are exported.

Mexican pork: Due to the existence of hog cholera in Mexico, pork and pork products from Mexican states must meet specific requirements to be imported to the United States. Section 94.20 of the Code of Federal Regulation on APHIS provides an exception for fresh pork and pork products from the states of Sonora and Yucatán, however.⁴³ On 14 June 2000, parts of Mexico were added to the list of regions allowed to export animal products to the United States. This amendment to the respective regulation allows the entry to the United States for export to third countries of fresh (chilled or frozen) pork and pork products from the Mexican states of Baja California Sur, Campeche, Coahuila, Nuevo León, Quintana Roo and Sinaloa. The reason for this amendment was that the threat of hog cholera exposure resulting from shipments of pork and pork products from these states transiting the United States is minimal. Furthermore, no outbreak of hog cholera has been recorded in any of these areas since 1993.⁴⁴

41 *Federal Register*, vol. 65, No. 125, June, 2000.

42 *Federal Register*, vol. 62, No. 208, October, 1997.

43 Section 94.20 includes the provisions that were added in 1992 to the regulations on the importation of certain animals, in order to prevent introduction of diseases into the United States market.

44 *Federal Register*, vol. 65, No. 115, 14 June 2000.

Fresh pork from four other Mexican states —Baja California, Chihuahua, Sonora and Yucatán— has already been cleared to transit the United States via land border ports for export to third countries.

2. Marine Mammal Protection Act

Yellowfin tuna embargo

In 1992, a General Agreement on Trade and Tariffs (GATT) Dispute Settlement Panel ruled against unilateral legislation on the part of the United States to protect dolphins by means of an embargo on yellowfin tuna imports. This legislation has been the focus of much attention since (ECLAC, 2001, chapter V). In April 2000, after many requests from a number of environmental groups, a federal court ruling halted the implementation of a United States labeling standard set by the same environmental groups. The new labeling standard would have allowed fishermen to label their tuna “dolphin safe” if the methods used to catch it could be shown to reduce dolphin deaths by at least 99% (ECLAC, 2001, chapter V). The United States Department of Justice filed an appeal in this case on 18 May 2000 and the hearing was held on 11 December 2000. On 23 July 2001, the appellate court upheld the lower court’s ruling. Bilateral consultations under the Agreement on the International Dolphin Conservation Program (AIDCP) are scheduled for September 2001.

On 3 August 2000, the Government of Mexico requested formal emergency consultations regarding AIDCP, changing the United States with failing to fulfil its commitments to effectively open its markets under AIDCP. Mexico, the largest component of the Eastern Tropical Pacific purse seine fishery fleet, indicated that it was considering the possibility of pulling out of AIDCP and of taking the case to the WTO (USDOC, 2001). In addition, on 1 August 2001, the National Marine Fisheries Service (NMFS), Office of Protected Resources issued a scientific research permit to the NMFS Southwest Fisheries Science Center to conduct a chase-recapture experiment on dolphins in the Eastern Tropical Pacific Ocean (ETP) as part of the stress studies mandated in section 304(a)(3) of the Marine Mammal Protection Act. The permit is accompanied by an Environ-

mental Assessment, which concludes that the research will not cause a significant impact to the environment under the National Environmental Policy Act.⁴⁵

Shrimp embargo

P.L. 101-162 (Section 609) prohibits the import of shrimp harvested by means which are harmful to sea turtles, unless the United States Department of State certifies that the harvesting nation has either a sea turtle protection programme similar to that of the United States, or a fishing environment which does not pose a threat to sea turtles. United States sea turtle conservation programmes include the requirement for commercial shrimp boats to use sea turtle excluder devices (TEDs), to prevent the animals from drowning in shrimp trawls. Shrimp embargoes began on 1 May 1996, following an announcement by the United States Court of International Trade to the effect that all nations failing to enforce the use of TEDs on shrimp trawlers would be barred from exporting shrimp to the United States. The only way for a country to avoid this embargo was to obtain approval from the United States for a comparable programme to prevent the accidental death of sea turtles in shrimp fishing (Larach, 1999).

As of 2 May 2001, 14 Latin American countries were certified as meeting the conditions of the United States Sea Turtle Conservation Program requiring commercial shrimp boats to use TEDs. The countries that meet the standards are Belize, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Suriname, Trinidad and Tobago, and Venezuela. Twenty-six countries were certified as having fishing environments that do not pose a danger to sea turtles and continue to harvest shrimp using manual rather than mechanical means to retrieve nets or use other fishing methods. These nations include Bahamas, Dominican Republic, Haiti, Jamaica and Peru. Furthermore, three Latin American countries æArgentina, Chile and Uruguayæ have shrimp fisheries in cold water where the risk of taking sea turtles is negligible. Imports of shrimp from all other nations will be prohibited unless harvested by aquaculture, in cold water, or by a specialized technique that does not threaten sea turtles (United States Department of State, 2000).

45 National Oceanic and Atmospheric Administration (NOAA), Office of Protected Resources, “Dolphin Interactions with the Eastern Tropical Pacific Tuna Purse Seine Fishery” (http://www.nmfs.noaa.gov/prot_res/PR2/Tuna_Dolphin/tunadolpin.html).

Chapter VII

The new round of multilateral trade negotiations: The negotiating process

A. Introduction

The multilateral trading system consists of an interrelated set of non-discriminatory rules, which have been agreed upon by the participating countries, to regulate government policies and practices affecting international trade. The basic mechanism of the multilateral trading system has been the General Agreement on Tariffs and Trade, which was established in 1947 and is generally referred to by its acronym, GATT. The original agreement was confined to tariff commitments, but it was later expanded to embrace negotiations on disciplines relating to non-tariff measures. The system has evolved through successive and increasingly complex rounds of negotiations within the GATT framework, the last of which was the Uruguay Round.

The agreements reached at the Uruguay Round – the eighth round of multilateral trade negotiations to be held since the signing of GATT in 1947 – resulted in the creation of the World Trade Organization (WTO).¹ WTO now provides the legal and institutional foundation for the current multilateral trading system. Since its establishment in 1995, the basic function of WTO has been to administer and implement the multilateral agreements emanating from the Uruguay Round.²

Seven years after implementation of these agreements began, the most important recent event for the multilateral trading system has been the Fourth WTO Ministerial Conference, held in Doha, Qatar, from 9 to 14 November 2001.³ On this occasion, the 142 WTO member countries adopted a wide-ranging Work Programme and negotiation agenda to be concluded by January 2005. Most of the topics on this agenda stem from the Uruguay Round agreements, either as commitments undertaken or in connection with their implementation. This chapter seeks to analyse the preparations and discussions leading up to the definition of this broad agenda, which generated a great deal of uncertainty in the run-up to the Doha meeting.

The chapter is organized as follows. An initial background section covers basic aspects of current discussions arising from the implementation of Uruguay Round commitments, which have led to the recent approval of the WTO Work Programme drawn up at the Doha Conference. The second section summarizes the debate and the progress made in implementing the Uruguay Round agreements, the negotiations envisaged thereunder and the new concerns that have arisen since the conclusion of the Round.

1 See Hoekman and Kostecki (1995) and Sáez (1999) on the evolution of the multilateral trading system, the constitution of WTO and the scope of the Uruguay Round agreements. The text of the latter is contained in GATT (1994).

2 WTO principles and summaries of the agreements can be found in WTO (1998).

3 This conference was originally scheduled to end on 13 November, but had to be extended to give the participants time to reach a consensus.

B. Background on the recent evolution of the multilateral system

The commitments stemming from the Uruguay Round include a requirement to convene ministerial conferences at least once every two years. The Ministerial Conference is now the top-level authority of WTO and can take decisions on issues arising from the Uruguay Round agreements or on proposals made by member countries. To date, four sessions have been held: in Singapore (December 1996), Geneva (May 1998), Seattle (November-December 1999) and, most recently, in Doha, Qatar (November 2001).⁴ This last meeting generated expectations concerning the opening of a new round of multilateral negotiations, in view of the difficulties encountered at the Seattle session.

Efforts to improve and deepen the multilateral trading system on an ongoing basis since the Uruguay Round have primarily been based on the agreements reached during that round. Firstly, there is a set of commitments aimed at carrying forward a review and negotiations on specific sectors or aspects covered by the agreements. The corresponding tasks represent what has come to be known as the “built-in agenda”. In this framework, the sessions of the Ministerial Conference serve as an important mechanism for the review and renewal of commitments within the multilateral system. The participants in the Singapore and Geneva meetings proposed that a number of commitments should be deepened and expressed an interest in examining issues not yet addressed by the multilateral system. The preparations for the Seattle meeting therefore had to deal with a series of demands from member countries aimed at improving the system and perhaps leading to the launch of a new global round of negotiations.

Nonetheless, during the preparations for the Seattle Conference and at the meeting itself, no consensus could be reached on the direction of future negotiations, for various reasons, including the following:

- (i) The countries’ difficulties in agreeing on a negotiating agenda for a future round;
- (ii) Differences between developed and developing

countries regarding further progress in trade liberalization and a deepening of certain disciplines;

- (iii) Concerns and proposals raised by developing countries regarding the “implementation” of the agreements;⁵
- (iv) A questioning of the discussion and decision-making process in WTO, which currently consists of 144 member countries and which reaches decisions by consensus; and
- (v) Intensified debate on the globalization process, the identification of the multilateral system and WTO with that process and its effects on development goals.

This last issue found public expression in street demonstrations organized by non-governmental organizations and other groups representing a variety of civil-society interests (Tórtora, 1999a; LATN, 1999; Bernal, 2001).

From that time in late 1999 to the present day, WTO and its member countries have worked to overcome the problems that prevented the Seattle meeting from reaching a satisfactory conclusion. These efforts have basically focused on restoring confidence in the multilateral system, which was severely tested during the third session of the Conference; overcoming problems in the implementation of agreements; pushing ahead with the negotiations and actions called for by the “built-in agenda”, with broad mandates for negotiations on agriculture and services; and exploring and assessing the viability of launching a new round that would include new issues not envisaged in that agenda (WTO, 2000a, 2001c, 2001d). In considering the complexity and interdependence of these various tasks, a number of comments are called for regarding the issues of implementation and of the opening of a new round of negotiations, as these are the areas in which the positions of the various countries have been the hardest to reconcile.

Activities undertaken to address problems with the implementation of negotiated agreements were organ-

4 Information on the proposals, conduct and outcomes of these meetings can be found on the WTO web site (<http://www.wto.org/>). Stocktaking assessments made before the Seattle and Doha conferences are contained in WTO (1999a) and (2001b), respectively.

5 On the effects of the Uruguay Round agreements on developing countries see UNCTAD (1999a), and on Latin America and the Caribbean see ECLAC (1999b), Leiva (ed.) (1994), among others.

ized in response to concerns expressed, in particular, by developing countries. One of these concerns arose in 2000, upon the conclusion of the transition periods provided for in agreements that make great demands on these countries, such as those relating to investment, intellectual property and export subsidies. The commitments on these issues have severely tested these countries' institutional trading systems, revealing their limited capacity to fully comply with the relevant agreements. Developing countries are also concerned at what they consider to be incomplete implementation of agreements by developed countries (Silva, 2001). In this regard, persistent restrictions on access to developed-country markets for certain goods that are particularly important for developing countries, such as agricultural products and textiles, require special attention.⁶ Both of these sectors had been excluded from multilateral regulations before the Uruguay Round.

There were some factors that pointed to the need for a new wide-ranging negotiation effort, but there were also arguments for maintaining only the commitments already included in the built-in agenda. One of the factors that would be conducive to a new round of negotiations was the chance to mount a renewed effort to counter the protectionist trends that resurfaced as a result of the world economic slowdown. In addition, more wide-ranging negotiations might promote a desired rebalancing of interests⁷ while discouraging the conclusion of multiple preferential agreements at the regional level and the potential proliferation of plurilateral agreements.⁸ Developed countries were the leading supporters of the idea of the early commencement of a new round, and they based their arguments on these grounds.

The arguments against starting a new round include the lack of consensus on the agenda and depth of the negotiations to be launched, the need to solve implementation difficulties before beginning a new round and the technical capacity requirements entailed by the introduction of additional issues for multilateral negotiation, on top of the various other negotiations that the countries are involved in at the bilateral or regional

level. Most of these arguments reflect concerns raised by developing countries, most vigorously by India, Malaysia, a number of African, Central American and Caribbean countries, the so-called "Like-Minded Group", the Group of 77 and the Group of Seven, led by Uruguay (Silva, 2001).

There were also major differences regarding the issues to be included in the agenda for a future round.⁹ Such differences were observed not only between developed and developing countries, but also among developed countries themselves, especially over the treatment of agriculture and anti-dumping. In relation to agriculture, the United States, backed by the main exporters of agricultural products, organized in the Cairns Group, wanted the liberalization process initiated by the Uruguay Round to be deepened as a matter of relative urgency.¹⁰ These countries' proposals were at odds with the more cautious approach advocated by the European Union and Japan, among others, which called for special treatment for agriculture in view of its "multifunctional" nature. As regards disciplines on anti-dumping measures, the negotiation of which was not envisaged in the built-in agenda, Japan, and to a lesser extent the European Union, clashed with the United States by calling for a review of the corresponding Uruguay Round agreement. The countries that wanted to include this issue in the negotiations proposed a review of the agreement's provisions with a view to reducing the degree of discretion and protectionism with which the agreement could be implemented, thus reducing its trade-distorting effects.

In addition, the formulation of new rules or the deepening of existing ones on the environment and on competition and investment policies are other issues that fundamentally divide the European Union and Japan from other countries, especially developing ones. At the same time, the proposal made in Seattle to include labour regulations in the negotiation process is no longer on the agenda, even though it was broadly defended by the developed countries. In contrast, there was relative consensus among the various countries that negotiations should be held on the further liberaliza-

6 This concern is supported to some extent in a recent WTO publication (2001e).

7 A counter-argument is that negotiations on agriculture and services alone, as foreseen in the built-in agenda, would also offer a relatively balanced scenario.

8 On complex issues, a number of proposals have emerged that could be endorsed initially by a limited group of countries under a plurilateral agreement. This would be a way to expand trading opportunities more rapidly, should WTO fail to make progress.

9 Differences on issues of timing and priority are analysed in Silva (2001).

10 The Cairns Group currently consists of 17 countries with differing levels of development, including 9 in Latin America and the Caribbean. The interest expressed by this organization was confirmed at the group's meeting in Punta del Este on 4 and 5 September 2001 (Cairns Group, 2001).

tion of industrial products, even though this issue was not included in the built-in agenda. Various proposals in this regard were made during the preparations for the Conference, and the issue gained support as an area for negotiation from then on. Developing countries have had a special interest in negotiations on this topic because tariff escalation in respect of certain industrial products limits their chances of expanding their exports of higher-value-added products.

Preparations for the Fourth Conference, led by WTO, included a series of meetings with different groups of countries, organized either regionally or on the basis of the various situations of the organization's members. These meetings, together with other consultations, succeeded in narrowing the wide gap that existed between the different positions in late July 2001 regarding a possible negotiating agenda, leading to the relative convergence of views expressed in the draft document prepared by the organization.¹¹ The second draft Ministerial Declaration, dated 27 October 2001, contained proposed decisions on implementation-related issues and concerns, together with a "Draft Declaration on Intellectual Property and [Access to Medicines] [Public Health]". With the objectives of the multilateral system in mind, the draft Ministerial Declaration established a broad and balanced Work Programme (WTO, 2001f).

The proposals with which the deliberations in Doha began were reflected, to a significant extent, in the Ministerial Declaration and in other final documents of the Fourth Conference (WTO, 2001g). The Declaration basically includes the following aims in the Work Programme:

- (i) Addressing implementation problems either under specific negotiating mandates or by referring certain issues to the relevant WTO bodies for study with a view to facilitating subsequent decisions;
- (ii) Pursuing negotiations on the built-in agenda, agriculture, services and aspects of intellectual property;
- (iii) Starting negotiations on market access for non-agricultural products, on certain environmental issues and on the clarification and improvement of

certain rules (including anti-dumping, regional integration agreements and the Dispute Settlement Understanding);

- (iv) Continuing work on new issues such as competition, investment, trade facilitation, transparency in government procurement, certain environmental issues and electronic commerce, with a view to future negotiations after the fifth Ministerial Conference; and
- (v) Continuing and deepening actions on various issues of interest to developing countries and launching work programmes on small economies, the relationship between trade, debt and finance, and the relationship between trade and transfer of technology.

To this set of issues, the final Declaration adds a number of recommendations on the organization and management of the Work Programme. First, the negotiations envisaged should be concluded by 1 January 2005,¹² with the fifth Ministerial Conference taking stock of the progress achieved. The first meeting of the Trade Negotiations Committee, the body in charge of the Work Programme, should be held by 31 January 2002. Except for the work in relation to the Dispute Settlement Understanding, the negotiations are expected to be treated as a "single undertaking". Nonetheless, agreements reached before the negotiations are concluded may be implemented on a provisional or a definitive basis.

In complementary fashion, the Decision on Implementation-Related Issues and Concerns contains a long list of recommendations to address developing countries' concerns with regard to various aspects of agreements on many topics.¹³ The Decision reaffirms or specifies the content of a number of measures; endorses recommendations and proposes studies by specialized bodies to make special and differential treatment provisions operational; takes note of measures already taken to solve certain implementation problems; and advocates the continuation of certain efforts concerning special treatment, especially for the benefit of the least developed countries (LDCs). The Decision also instructs the Committee on Trade and Development to find ways to make special and differential treatment provisions more effective.

11 The status of various issues prior to the Fourth Conference can be found in WTO (2001f).

12 A number of results are expected in the interim, including those in relation to the Dispute Settlement Understanding (May 2003), evaluation of implementation issues referred to WTO bodies for priority consideration (end of 2002) and the inclusion of provisions for special and differential treatment in the Agreement on Agriculture (March 2003).

13 The Decision addresses issues contained in the agreements on agriculture, sanitary and phytosanitary measures, textiles and clothing, technical barriers to trade, investment, rules of origin, subsidies and countervailing measures and intellectual property, and in two articles of GATT 1994 (on anti-dumping and customs valuation, respectively).

The declaration on intellectual property and public health recognizes the effect that intellectual property protection has on the prices of pharmaceutical products. From that standpoint, it reaffirms that the Agreement does not and should not prevent governments from tackling public health problems, and it attempts to clarify the Agreement's provisions which provide flexibility for this purpose, and especially the availability of certain instruments. These include "compulsory licences",¹⁴ the right to determine when a public health crisis constitutes a "national emergency" and a number

of special considerations for LDCs.

In short, although it may seem premature to make an assessment of the results of the Doha Conference, the final documents show that special consideration was given to developing countries' complaints and concerns. In more general terms, greater attention seems to have been paid to the development dimension than at previous sessions. The scope of these results can be better understood by examining the types of issues that were under discussion during the preparations for the Conference. This is the subject of the following sections.

C. Thematic areas of discussion and negotiation

Potential issues for negotiation in a possible new round began to emerge at the Ministerial Conferences held in Singapore (1996) and Geneva (1998). These issues include the environment, electronic commerce, labour standards, investment, competition policies, transparency in government procurement and trade facilitation.¹⁵ In the preparations for the Seattle Conference (1999), traditional trade policy issues such as non-agricultural tariffs and anti-dumping regulations also resurfaced.

Lastly, there is a set of institutional and consistency issues that could result in important decisions for improving the multilateral system, without necessarily giving rise to negotiations. These include the transparency of the system and its decision-making processes, cooperation between WTO and other multilateral agencies, the dispute settlement system and capacity-building in developing countries. Several of these were the subject of decisions to negotiate or recommendations for study over the next few years. Where appropriate, these issues will be touched upon in the various sections of this chapter.

1. Issues on the built-in agenda

In March 2001, the member countries agreed to launch a second phase of preparations for negotiations on trade in agricultural products and in services, as a result of the work done in 2000 by the Committee on Agriculture and the Council for Trade in Services of WTO. The future negotiations were to press ahead with reforms in both of these sectors, and the intention was to take stock, in March 2002, of the proposals received with a view to launching the final phase of the negotiating process. In late July 2001, however, a WTO report indicated that no work programme existed for these negotiations, suggesting that they would probably be linked to other issues in a future round.

*The agricultural sector*¹⁶

The WTO Agreement on Agriculture has the long-term objective of establishing a fair and market-oriented agricultural trading system.¹⁷ To this end, the Agreement contemplates commitments in three areas: market access,

14 In the event of an abuse of rights by a patent holder, governments can grant "compulsory licences" authorizing a competitor to manufacture a licensed product or use a licensed procedure, subject to certain conditions aimed at protecting the legitimate interests of the patent holder.

15 In some references the four last-mentioned issues are termed the "Singapore issues", referring to the Conference at which they were institutionalized as WTO work areas.

16 In WTO the agricultural sector is defined, in annex 1 of the Agreement on Agriculture, as the set of products belonging to chapters 1 to 24 of the Harmonized Commodity Description and Coding System (HS), excluding fish and fish products, and also including certain non-food products derived from agricultural activity that come under other HS chapters. Other goods are referred to as "non-agricultural" or "industrial" products for the purposes of multilateral regulations.

17 The sector is also affected by the Agreement on the Application of Sanitary and Phytosanitary Measures, in respect of which there is no commitment to new negotiations. Nonetheless, it has given rise to a number of disputes and poses major challenges for developing countries.

domestic supports and export competition. Several key elements in these areas are explained below.

As a result of the Uruguay Round, a “tariffication” process was begun to replace non-tariff border measures, so that tariffs and tariff reduction are now the main mechanisms governing market access for agricultural products. The tariffs that resulted from this process reached virtually prohibitive levels in some cases. Nonetheless, the availability of special safeguards and tariff quotas keeps some degree of discretion in the system.¹⁸ As regards domestic supports (or internal assistance) in the form of subsidies, each country committed to across-the-board reductions, except in respect of measures that have minimal effects on trade.¹⁹ There were also commitments to reduce export subsidies. Unlike other categories of goods, agricultural products may still be supported by subsidies, which are applied by countries that have a large amount of resources to allocate to them; thus, they are usually provided only by developed countries. The Agreement also contains a “peace clause” that reduces the chance that agricultural subsidies will be disputed by other countries. This clause will expire in 2003 unless the new negotiations provide otherwise.

In respect of all the commitments, developing countries have been granted less stringent requirements and longer compliance periods, and special account has been taken of the impact of reform on LDCs and net food importers.

The main long-term objective of ongoing reform in the sector, as envisaged in article 20 of the Agreement on Agriculture, is to achieve “substantial progressive reductions in support and protection resulting in fundamental reform.” In practice, the reform process should reflect the experience gained in implementing reduction commitments,²⁰ the effects of these commit-

ments on trade, non-trade concerns and special and differential treatment.

A recent assessment by the WTO secretariat shows that there are still some outstanding problems in the three commitment areas (market access, domestic supports and export competition). Effective market access in this sector should encompass conditions that go beyond the tariffs and non-tariff measures faced by countries. The existence of domestic or export subsidies affects the way the market develops and, therefore, the conditions of competition that agricultural exporters face (WTO, 2001h).²¹ Accordingly, many of the problems detected have particularly strong effects on export growth in developing countries where the agricultural sector plays a major role.

In taking stock of the first year of preparations for the negotiating process envisaged in the built-in agenda, the WTO secretariat found that it had received 45 proposals and 4 technical submissions from 125 of the 140 member countries. This stocktaking exercise was carried out at a special session of the Committee on Agriculture, held from 26 to 28 March 2001, where it was established that the second phase of the Work Programme would be executed as follows:

- (i) Detailed consideration would be given to all issues and policy options put forward by member countries;
- (ii) The discussions would be based on article 20 of the Agreement on Agriculture and on members’ proposals and their subsequent development;
- (iii) Special and differential treatment would be regarded as an integral part of all elements of the negotiations;
- (iv) The exercise would be conducted in formal and informal meetings at special sessions of the Committee on Agriculture until March 2002, when there would

18 These safeguards are easier to use in coping with sudden import surges than the general system of safeguards in WTO. General conditions of access are described later in this section.

19 Measures that have to be reduced because they distort production or trade are grouped together in the so-called “amber box”, and are expressed in terms of an aggregate measurement of support (AMS). Measures which are exempted from reduction are included in the “green box” category, and encompass policies such as general public services, direct payments to producers that do not stimulate production, assistance for structural adjustment and some programmes to assist agricultural development in developing countries. Another category of permitted measures with no reduction commitment, known as the “blue box”, covers direct payments made to compensate farmers for limiting their production.

20 The transition period is 6 years for developed countries and 10 years for developing countries, which means that the Agreement should begin to be implemented in full in 2005.

21 This assessment pointed to a number of persistent problems, including high bound tariff rates and gaps between bound rates and those actually applied; lack of transparency resulting from the use of specific or mixed tariffs; the prevalence of tariff peaks; tariff escalation; low percentage take-up (“underfill”) of tariff quotas and difficulties in administering them; increasing use of special safeguards based on prices; lack of consolidation of AMS commitments and their increase in some cases; and the maintenance of significant levels of export subsidies (WTO, 2001j, pp. 40-85).

be a formal stocktaking of the progress of negotiations (WTO, 2001i).²²

In global terms, there is a wide range of positions stemming from differences in the way countries or country groups view the agricultural sector. At one extreme, the countries organized as the Cairns Group seek to match the disciplines affecting the sector with those applicable to other (non-agricultural) products and to make market access more transparent.²³ At the other end of the spectrum are the European Union and Japan, which want to keep special treatment for agriculture in view of its multiple dimensions and objectives. Between these two positions, there are proposals for a progressive move towards smaller tariff disparities, higher quotas and lower domestic and export subsidies.

As was the case in the preparations for the Seattle meeting, the main areas of disagreement on these proposals are related to the treatment of non-trade concerns, including multifunctionality; the mechanisms and permissible levels of support for production, particularly in the blue and green boxes; regulations on export subsidies and other forms of assistance, such as guarantees and subsidized credits; and the retention of the special safeguard mechanism.

The various proposals differ less on the following issues:

- (i) Continuation of tariff reductions, despite differences over the timetable and methods to be used;
- (ii) Strengthening of the administration of tariff quotas;
- (iii) Stronger disciplines with regard to export restrictions and credits;
- (iv) Reduction of distorting effects arising from the practices of State trading enterprises; and
- (v) Preservation of special and differential treatment for developing countries, and especially LDCs, in terms of market access, greater flexibility in the application of disciplines and the provision of technical assistance and capacity-building.

Proposals from the countries of the region fall basically into two broad categories. First, there are coun-

tries in the Cairns Group, specifically MERCOSUR members, that want the reform to be expedited and deepened. Second, a number of Central American and Caribbean countries, either independently or as part of a group of developing countries, have submitted proposals on special and differential treatment and on more transparent and stable market access.²⁴ These two types of proposals reflect sharply differentiated and widely varying patterns of specialization across countries, including the case of single commodity producers.

Despite the differences between the categories described in the preceding paragraph, closer coordination can be expected between the countries of the region, particularly the members of the Latin American Economic System (SELA). Such coordination could reflect a variety of factors. First, all of them are developing countries that share the goals of reducing poverty and promoting development. Second, agriculture is relatively important to the region's economies (accounting for one quarter of all employment and 14% of GDP) and increased its share of global exports in the period 1990-1999. In addition, these countries would logically support the preservation of special and differential treatment, given the duality of sectors within their agriculture. They also share non-trade concerns such as food security, rural poverty, urban migration and rural development. Lastly, it should be noted that none of them apply high levels of subsidies in support of agriculture (Voto Bernales, 2000).²⁵

The main factors likely to promote progress in the negotiations in this sector, within the context described above, include the following:

- (i) The existence of a framework of rules and starting points for continuing the liberalization process. These starting points are found in the lists of Uruguay Round commitments;
- (ii) The holding of simultaneous negotiations to allow an exchange of concessions;²⁶
- (iii) The expiry of the peace clause in 2003, which will restrict the freedom to use subsidies;²⁷ and
- (iv) Needs arising from reforms taking place outside

22 At the Doha Conference it was also decided that the modalities for further commitments should be established no later than 31 March 2003, and comprehensive draft schedules submitted no later than the Fifth Ministerial Conference.

23 The communiqué issued by the Group at its recent meeting, held in Punta del Este from 3 to 5 September 2001, indicates a commonality of view with the United States with respect to the approach and ambition for liberalization of the sector (Cairns Group, 2001).

24 These proposals include the recommendation by one group of developing countries that a "development box" should be created to enable countries in this category to increase their food production capacity and sustain the employment of poor rural populations.

25 Chairman of the WTO Committee on Agriculture during the first phase of negotiations.

26 This process would involve not only the negotiations already under way on services and intellectual property, but also the negotiations agreed to at the Doha Conference.

27 The disappearance of this clause would serve as an incentive to conclude the negotiations within a reasonable period of time, because countries

WTO, such as the expansion of the European Community to countries with large agricultural sectors.

In addition, agricultural trade is expected to increase as a result of several arrangements currently being negotiated, such as the Free Trade Area of the Americas (FTAA) and the extension of networks of European Community agreements and other trade bloc agreements. In general, these agreements will induce countries to seek new ways to expand trading opportunities over and above the progress achieved within WTO.

To summarize, the Agreement on Agriculture was a major achievement of the Uruguay Round that brought the sector into the system of multilateral trading rules. Nonetheless, the treatment of agricultural products still differs significantly from that applied to other goods under WTO rules. Disparities exist both in market access conditions and in possibilities for defining sectoral policies. Examples of the former include higher and more dispersed tariff rates, while in the policy area there is broader scope for applying subsidies. These two aspects seriously inhibit market access for products that are important for developing countries and generate market distortions that obstruct healthy competition between the main producers. Negotiating proposals in the sector have therefore sought to minimize distortions while preserving conditions that enable countries to improve the operation of the sector within their development strategies. The results of the Doha meeting also reflect this tendency.

The services sector

The General Agreement on Trade in Services (GATS) is the first and only set of multilateral rules applicable to international trade in services. The Agreement operates under the principles of non-discrimination (through the most-favoured-nation (MFN) clause), transparency and progressive liberalization. Based on these principles, the Agreement contains three main elements: (i) a framework of basic obligations applicable to all countries; (ii) schedules of specific national

commitments in areas to be progressively liberalized; and (iii) specific rules governing certain categories of services, such as the movement of natural persons, transport, financial services and telecommunications.²⁸ Thus, the commitments made by countries can be either horizontal or related to specific sectors.²⁹

The built-in agenda on services included a commitment to draw up regulations, through working groups, on the issues of emergency safeguard measures, government procurement and subsidies (GATS articles X, XIII and XV). This work has been proceeding relatively slowly and the relevant negotiations have not yet concluded. The period for negotiations on emergency safeguard measures (a subject that has aroused great interest) has been extended from December 2000 to March 2002. On domestic regulation (GATS article VI), the respective working group has drawn up regulations for accountancy services, whose applicability to other sectors is currently being reviewed. In the Committee on Specific Commitments, progress has also been made in recognizing the “autonomous liberalization” undertaken by member countries since the previous negotiations.³⁰

The built-in agenda in GATS also envisages further rounds of negotiations, the first of which was scheduled to begin in 2000. As established in part IV of the Agreement (article XIX), the aim of these global negotiations is to achieve a progressively higher level of liberalization. This can be attained through bilateral, plurilateral or multilateral negotiations. Progressive liberalization involves improving market access, extending coverage in terms of the sectors committed and reducing or eliminating the restrictive effects of the measures notified. The process envisages greater flexibility for developing countries. In addition, GATS provides for the establishment of negotiating guidelines based on an assessment of trade in services in overall terms and on a sectoral basis with reference to the objectives of the Agreement, including facilitation of increasing participation by developing countries in world trade.

The first phase of the process, which began in Janu-

with high levels of subsidies would be vulnerable to actions under the WTO Agreement on Subsidies and Countervailing Measures (the SCM Agreement).

28 GATS differs from the current framework governing merchandise trade (GATT 1994) in that it only includes MFN treatment as a general rule, with the possibility of exemptions under certain conditions. Pursuant to the agreement's provisions, the first review of these exemptions took place in 2000. General descriptions can be found in WTO (1998) and ECLAC (2001e).

29 For information on GATS, see ECLAC (2001e), chapter 10.

30 For information on the progress made on the various issues, see the annual report of the Council for Trade in Services and the “services week” reports issued in 2000 (WTO, 2001k).

ary 2000, has been conducted through special sessions and meetings of various subsidiary bodies of the Council for Trade in Services, such as the Committee on Specific Commitments, and working groups on domestic regulation and GATS rules (WTO, 2000a). In May of that year, a road map was drawn up with a view to organizing the proposals and discussions around common basic elements. By the time this initial phase of negotiations concluded in March 2001, some 70 proposals had been received from more than 40 members, with the promise of many more to come (WTO, 2001k).³¹

Under the resolutions adopted at the end of the initial phase, the focus of the second stage of negotiations, which lasts until March 2002, would move forward from rule-making to market access.³² This new phase would have to take account of a number of objectives and guiding principles. The first of these is to continue working on the basis of the progressive liberalization provided for in articles IV and XIX, which refer, respectively, to the increasing participation of developing countries and the negotiation of specific commitments. Another principle is to give flexibility to developing countries and priority to LDCs in order to increase their participation in world trade in services. Lastly, the negotiations are to take place within the existing structure and principles of GATS. Accordingly, no sector or mode of supply is to be excluded a priori. MFN exemptions are to remain subject to negotiation, as stipulated in the annex on article II, and negotiations on safeguards under article X are to be completed in March 2002. In addition, members are to aim to complete the negotiations on domestic regulation, government procurement and subsidies, referred to in articles VI, XIII and XV, respectively, prior to the conclusion of negotiations on specific commitments. As regards negotiating modalities, it was decided that liberalization should be advanced through negotiations at various levels and that the main method of negotiation should be the request-offer approach (WTO, 2001k).

In following these guidelines, developing countries

would have flexibility to define their liberalization offers in terms of number of sectors, modes of supply and progressiveness of market access (WTO, 2001e). Developing countries also expect tangible progress to be made on implementation issues relating to commitments under mode 4 –movement of natural persons– and the effective implementation of GATS article IV on increasing the participation of developing countries (AITIC, 2001a).

The guidelines established within WTO in late March 2001, which were subsequently endorsed in the Doha Ministerial Declaration, are consistent with the proposals made by the leading multilateral players. These proposals reveal a relative consensus on the need to maintain the structure of the Agreement –a bottom-up or positive list approach– and widespread interest in extending its coverage in terms of sectors and modes of supply. As regards the negotiation process, there seems to be agreement on the use of the request-offer approach while also exploring complementary methods, including the cluster approach.³³ Domestic regulation is a relative priority within the disciplines being studied. The issues of greatest debate include at least the following: imbalances in commitments across countries and sectors, the formulation of emergency safeguards, ways of giving credit for autonomous liberalization and different starting points from which to continue reform of the sector.³⁴

The countries of Latin America and the Caribbean have been relatively active in the negotiating process, making contributions in the following areas, among others:³⁵

- (i) Assessment of trade (Argentina);
- (ii) Negotiating guidelines from MERCOSUR and a broad group of developing countries, which basically reinforce the idea of progressive liberalization and consideration for developing countries; and
- (iii) Proposals in specific sectors, including those from MERCOSUR on distribution services, from Venezuela on energy and from a group of Central

31 Up to early May 2001, communications containing proposals related to the following areas: (i) sectoral negotiating proposals covering about 20 sectors; (ii) horizontal proposals (totalling five from three developed countries); (iii) assessment of trade (two, including one from Argentina); and (iv) negotiating guidelines (six, of which two come from developing countries: one from MERCOSUR and another from a group of 23 mostly Latin American countries) (WTO, 2001e).

32 The Doha Ministerial Declaration also requires that initial requests for specific commitments be submitted by 30 June 2002 and initial offers, by 31 March 2003 (WTO, 2001g).

33 This approach involves negotiations on groups of sectors taken as a whole, in the case of sectors that are interdependent for the supply of services.

34 For analyses on this subject, see LAIA (2000), AITIC (2001a) and WTO (2001e).

35 According to documents posted on the WTO web site up to mid-May 2001.

American and Caribbean countries on the tourism sector. The proposals submitted reveal these countries' concern at the limited results of the Uruguay Round, the importance of certain sectors for their economies and their endorsement of the overall orientation of GATS. These characteristics can also be seen in the evaluation of regional commitments contained in another ECLAC document (2001e, chapter. X).³⁶

Negotiations on services should in principle be less controversial than those on agriculture, as they are part of a broader agenda of continuous and progressive negotiations. Nonetheless, there are asymmetries between countries with different levels of development in terms of the share of the services sector in their trade, their areas of specialization and the dynamism of the sector. There are also differences between priority sectors and modes in each category of countries, and this adds a degree of complexity to the negotiating process. Moreover, a number of systemic elements that need to be resolved outside the Agreement are likely to have a particular impact on these negotiations.³⁷ Some of these issues are reviewed in the section below on implementation.

Intellectual property rights

Intellectual property rights are the rights that can be given to "creators" to prevent others from using their inventions, designs or other creations. How to protect such rights has become a source of growing concern, especially among producers of ideas and knowledge, as these have become an increasingly important component of goods and services. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) established common minimum international standards for the protection of such rights, subject to the same principles of non-discrimination as other WTO agreements and operating through national and MFN treatment. These standards should also contribute to innovation and the transfer of technology, to the

mutual advantage of producers and users.³⁸

This Uruguay Round agreement draws together and complements the obligations contained in the main agreements of the World Intellectual Property Organization (WIPO) already in existence before WTO. These agreements are the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works (copyright). The TRIPs Agreement provides for enforcement mechanisms, including judicial review of administrative decisions that infringe intellectual property rights. Compliance can also be achieved through the WTO dispute settlement mechanism.

The legislation contained in the Agreement applies to different types of creations, which can be divided into two categories: (i) patents on products or processes, industrial designs and models, layout-designs of integrated circuits, geographical indications and trademarks; and (ii) copyright and related rights³⁹ and trade secrets. These two categories receive different treatment: whereas the creations in the first category have to be registered to receive protection, those in the second receive it automatically. Registration includes a description of the object of protection, which is therefore a matter of public record. The holder of an intellectual property right may grant a licence for someone else to make use of the invention. Under certain conditions, governments can adopt measures such as compulsory licensing to prevent anti-competitive licensing practices, which represent an abuse of such rights.

Unlike the agreements on agriculture and services, the TRIPs built-in agenda contains only limited negotiation commitments. The anticipated topics for negotiation included two issues relating to the protection of geographical indications, namely: (i) the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits;⁴⁰ and (ii) increased protection for individual geographical indications (articles 23 and 24 of the Agreement, respectively). In addition to these original commitments, it has been proposed that this higher level of protection

36 The main conclusions of that study show that, on average, the countries of the region have made commitments in fewer sectors than developed countries; a larger number of them have signed commitments in the financial services, tourism and travel sectors; the region's countries have also made deeper commitments on market access and national treatment for the first three modes of supply; and horizontal limitations are less significant in their commitments than in those undertaken by developed countries.

37 A recent WTO assessment notes the following issues in this regard: governmental services, electronic commerce and Internet access provision, access to networks and competition safeguards, and the development dimension (WTO, 2001e, pp. 123-132).

38 The content of the Uruguay Round agreements can be found in GATT (1994); a summary of their key aspects, in WTO (1998); and the status of implementation and revisions prior to the Seattle meeting, in WTO (1999a) and before the Doha meeting, in WTO (2001b).

39 This includes computer programs and contains rules on rental rights.

40 According to the Doha Ministerial Declaration, these negotiations should be completed by the fifth session of the WTO Ministerial Conference.

should be extended to geographical indications relating to other products. This issue could be the subject of future negotiations.

The built-in agenda also included commitments to review certain TRIPs provisions, including the one on exceptions to patentability in respect of plants and animals and essentially biological processes (article 27.3). This issue has been under discussion since 1999 and has given rise to debate on aspects such as the pros and cons of different types of protection, the treatment of moral and ethical issues relating to intellectual property rights over life forms, how to deal with traditional knowledge and the rights of the communities where genetic material originates and the relationship between the TRIPs Agreement and the United Nations Convention on Biological Diversity.⁴¹ The agenda also includes a review of the scope and modalities for filing non-violation complaints. What is at issue here is whether, unlike the GATT and GATS agreements, the TRIPs Agreement should continue to ban non-violation complaints, or whether they can be authorized.⁴²

A number of major reviews of the implementation of commitments under the Agreement are also envisaged. The first of these are the reviews of domestic laws and regulations at the end of the transition period for developing countries, which were to have been carried out in 2000.⁴³ In practice, these reviews were conducted in 2000 and 2001, and several countries have requested an extension of the transition period because of the institutional capacity needed to adapt their legislation to the commitments undertaken. In any event, there was a commitment to review the implementation of the Agreement five years after its entry into force; in other words in 2000 (article 71.1).⁴⁴ In addition, proposals were made at the Seattle Conference with a view to strengthening provisions on technology transfer from developed countries to LDCs (article 66.2). On this issue, one suggestion is to draw up an illustrative list of incentives

that developed countries could offer their firms and institutions in order to encourage and promote technology transfer.⁴⁵ In complementary fashion, information has been gathered with a view to devising ways to support technological capacity-building. In all these areas, developing countries have made comments and suggestions that form part of the work on implementation discussed in the following section.

In recent years, new concerns and proposals have been put forward in relation to the TRIPs Agreement. These include the relationship between electronic commerce and intellectual property rights, the extension of these rights to additional products, including those deriving from new technologies, and the relationship between TRIPs and public health.

This last issue warrants additional explanation, since it is becoming increasingly relevant. The debate has centred on the patentability of pharmaceutical products, and two key points have emerged: (i) the fact that patents serve public health policies by offering incentives for the research and development of new pharmaceuticals; and (ii) the commitment to prevent the Agreement from hindering access to existing pharmaceuticals, especially for the poorest countries. Several arguments have been put forward on these two issues. Some countries contend that the Agreement's existing flexibility enables governments to address public health problems and that patent protection is only one of the issues affecting the health problems of poor countries. Developing countries, on the other hand, have made a variety of proposals: that the provisions giving room for manoeuvre to address health problems should be increased and clarified; that legal action should not be taken on TRIPs and public health issues under the dispute settlement procedure; and that the implementation deadline for the Agreement, particularly for its health-related aspects, should be extended (WTO, 2001m and 2000b).⁴⁶

The Doha Conference made significant progress

41 Among other things, the TRIPs Agreement grants private monopoly rights, while the Convention on Biological Diversity grants sovereign rights over biological resources within the borders of the respective State (AITIC, 2001b).

42 Under the GATT and GATS agreements, countries can file complaints with the Dispute Settlement Body (DSB) if they can show that they have been deprived of an expected benefit because of a government measure taken by another country, even if it does not violate any of the agreements. In the TRIPs Agreement, this procedure was banned for the first five years after the Agreement's entry into force.

43 The periods established for implementing the Agreement were as follows: 1 year for developed countries, 5 years for developing countries and (under certain conditions) transition economies and 11 years for LDCs.

44 In its most recent annual report, WTO indicated that discussions were still being held on how to approach this review (WTO, 2001j).

45 The decision on implementation adopted at the Doha meeting includes more specific commitments on this issue.

46 The proposal made by the "African group", along with 17 other developing countries, including 11 from Latin America and the Caribbean, can be found in Third World Network (2001). Among other things, this proposal presents an exhaustive analysis of the instruments available for government action on this issue. The gaps between the various proposals for study and negotiation in this field, as of mid-2001, is described in WTO (2001n).

in this regard, largely because of the emphasis placed on the issue of public health in relation to TRIPs in the Ministerial Declaration. At the same time, it issued a specific declaration on this subject (see the relevant reference in WTO, 2001g). The latter declaration begins by recognizing the health problems afflicting developing countries and LDCs and the need for the TRIPs Agreement to be part of the wider action to address those problems. As already mentioned, this declaration recognizes the effect of intellectual property protection not only on prices, but also on the development of new medicines. From that standpoint, it reaffirms and clarifies the flexibility that the Agreement gives governments to tackle public health problems. In particular, it underscores the flexibility to use certain instruments such as “compulsory licences”⁴⁷ and the right to determine when a public health crisis constitutes a “national emergency”. In complementary fashion, it sets out a number of special considerations for LDCs.

Developing countries have anticipated a number of difficulties even before implementing the TRIPs Agreement. Firstly, they have called attention to the inherent asymmetry between developed and developing countries in terms of innovation capacities. For the latter, which are importers of technology, the Agreement entails additional costs. On the other hand, the recommendations made in the Agreement to facilitate technology transfer and provide technical assistance are not strongly binding on countries with capacities in this area. As regards the implementation process, developing countries have had to invest major resources in drafting and promulgating new laws and establishing the institutional infrastructure needed to cope with the changes to legal and customs procedures that the Agreement entails. In addition, although data are limited, it has not been shown that this Agreement has encouraged technology transfer and diffusion, and its effects on economic development are still unclear (UNCTAD, 1999a; Finger and Schuler, 1999). The Doha declarations and decisions represent an attempt to make a significant contribution towards addressing these difficulties.

In summary, the TRIPs Agreement addresses one of the most complex areas introduced into multilateral regu-

lations as a result of the Uruguay Round, and was intended to recognize a new dimension of trade. It is also one of the agreements whose implementation has provoked the most objections from developing countries, which are concerned about the amount of leeway the Agreement allows for their policies. Accordingly, although the TRIPs built-in agenda was limited to review commitments following the Uruguay Round, a number of new concerns have arisen in the implementation process that could actually give rise to new negotiations in this area. These concerns were taken up at the Doha Conference, where various decisions were adopted.

2. Problems relating to the implementation of the Uruguay Round agreements

As part of the built-in agenda, most of the agreements include commitments for partial or global review of their implementation. There have been periodic reviews since the agreements took effect in January 1995, and others were envisaged at the end of each transition period. Nonetheless, implementation has gained a degree of autonomy as a topic of negotiation in its own right, especially since the preparations for the Seattle Conference, and the idea that development goals should be a key theme in any new round has gained acceptance. However, the issue of implementation was one of the obstacles that prevented consensus from being reached in Seattle on proceeding with the negotiations, and again at the Fourth Ministerial Conference in Doha on drawing up an agenda.

It should be borne in mind that the Uruguay Round agreements provided for special and differential treatment for developing countries. This is basically limited to facilities such as exemptions or less stringent requirements on certain commitments, longer transition periods for implementing agreements, technical assistance and non-binding commitments calling on developed countries to provide greater trading opportunities.⁴⁸ The Uruguay Round defined two categories of countries eligible for special and differential treatment: developing countries and LDCs. For the first group of countries, the reciprocity of rights and duties

47 In the event of an abuse of rights by a patent holder, governments can issue “compulsory licences” authorizing a competitor to manufacture the product or use a licensed procedure, subject to certain conditions aimed at safeguarding the legitimate interests of the patent holder.

48 The conceptual debate on the relevance and form that special and differential treatment should take goes beyond the scope of this chapter. Nonetheless, it should be recalled that the basic objectives of such treatment are to introduce equity and fair competition between countries with disparate structural conditions and to avoid distortions stemming from the bargaining power of industrialized countries in the international

envisaged in each agreement takes effect upon the expiry of the longer transition periods allowed for those countries. For LDCs, however, even longer transition periods are granted, together with permanent exemptions from some commitments and the adoption of special initiatives.⁴⁹

In view of this situation, developing countries began to criticize the requirements and conditions that the various agreements imposed on them. Since the preparations for the Seattle meeting, they have argued that it is unrealistic to consider a new global round of negotiations while a series of implementation problems still remain to be resolved. There are various factors that reinforce the developing countries' perception that the implementation of the Uruguay Round agreements is fraught with imbalances, asymmetries and difficulties. The most important of these factors include⁵⁰ limited access to markets, restrictions on policy options, institutional adjustment requirements, problems arising from stricter requirements on their exports and the failure to implement special and differential treatment in any effective sense. These obstacles are explained in greater detail below.

Up to now, expansion of market access in sectors of interest to developing countries has in practice been very limited, particularly in agriculture, textiles and clothing and services. While developing countries acknowledge that the agreements in these sectors have been applied in compliance with the letter of the commitments undertaken, the way they have been implemented has not reflected the spirit of the agreements. Examples include the persistence of tariff peaks and high subsidies for agricultural products, particularly for the type of products that developed countries have chosen in order to comply with the Agreement on Textiles and Clothing (ATC),⁵¹ and a certain status quo in market access for the services sector. Moreover, the few negotiations on merchandise trade that have taken place since the Uruguay Round include the signing of the Information Technology Agreement (ITA), which

clearly benefits producer countries. Furthermore, the tariff reduction agreed to in the negotiating round has been accompanied by the increasing use of non-tariff barriers, including contingency measures (especially antidumping) and the imposition of higher standards.⁵² Lastly, in negotiations on trade in services since the Uruguay Round, the most progress has been made in sectors such as telecommunications and financial services, where comparative advantages lie mostly with developed countries. In contrast, no progress has been made on supply mode 4, movement of natural persons, which is an area of interest to developing countries.

Second, some of the agreements have imposed restrictions on the developing countries' room for manoeuvre in defining their development policies. These include the Agreement on Trade-Related Investment Measures (TRIMs) and the Agreement on Subsidies and Countervailing Measures (SCM). The former rules out the possibility of imposing local content or trade balancing requirements on investments, while the latter limits or eliminates opportunities for using production or trade subsidies. In addition, the general view is that developed countries are likely to be in a better position to implement the types of subsidies permitted since the Uruguay Round, as the SCM Agreement is more tolerant of instruments that generate externalities, such as subsidies for training or technology, in which developed countries have long experience. Developing countries, on the other hand, must reorient their development policies and adjust or construct institutional systems to make this possible (Tussie and Lengyel, 1999).

A third difficulty is that the implementation of some of the agreements has required developing countries to make major institutional adjustments, for which the transition period has been too short. These countries do not have the legal or operating systems needed to fully comply with their commitments, nor do they have sufficient economic and human resources to make the necessary adjustments. This is particularly true in rela-

trading system (UNCTAD, 1999a, p. 138). OECD (2001) reviews the changes made in the orientation of special and differential treatment in the last round and describes the conceptual discussion and the debate on the proposals made since then on both country classifications and more specific issues.

49 Of all the Latin American and Caribbean countries, only Haiti is in this category.

50 UNCTAD (1999a) provides an exhaustive assessment of the main difficulties faced by developing countries in relation to most of the Uruguay Round agreements.

51 The Agreement on Textiles and Clothing (ATC) provided for a gradual dismantling of the quota system that had been put in place for the sector under the Multi-Fibre Arrangement (MFA).

52 A recent WTO report includes an evaluation of market access since the Uruguay Round and of outstanding tasks in that connection. It seems to support the concerns it outlines by identifying areas of special interest to developing countries (WTO, 2001e). On difficulties in access to goods markets, see also Silva and Heirman (1999).

tion to the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), the TRIPs Agreement and the Agreement on Implementation of Article VII of GATT 1994 (customs valuation). These agreements require an administrative context that is often not available in developing countries, impose models that do not match their reality and are particularly onerous because the costs involved were not considered in the negotiations (Finger and Schuler, 1999).

Fourth, other agreements seem to pay little attention to the difficulties faced by developing countries in coping with or meeting the more stringent demands that developed countries impose on their export supply. Such agreements include the SPS Agreement and the Agreement on Technical Barriers to Trade (TBT), both of which contain criteria or procedures to which developing countries object. Among other things, these countries' criticisms relate to the problems they face in participating in standard-setting and to the fact that they lack the legal instruments, knowledge and resources they need to fully comply with certain requirements.

Lastly, the provisions on special treatment for developing countries have not been translated into concrete and effective actions. This is true of virtually all the Uruguay Round agreements in terms of their non-binding commitments. Examples of such provisions include those of the TRIPs Agreement on technology transfer; of GATS on improving developing countries' access to distribution channels and information networks and on liberalization in sectors and modes of supply of interest to them; of the SPS and TBT Agreements on consideration of the special needs of developing countries; and of the Agreement on Implementation of Article VI of GATT 1994 (antidumping) on the exploration of constructive solutions in cases affecting developing countries (see WTO, 1999b).

On the other hand, developed countries seem willing to negotiate on implementation issues, particularly in relation to agreements that favour their interests, such as TRIPs and TRIMs. These countries are also inclined to close the gap between bound tariffs and tariffs applied by developing countries, so as to make their market access conditions more stable and transparent (WTO, 2000c).

To address these problems, developing countries

have made proposals on issues such as extending deadlines and giving greater flexibility for implementing the Uruguay Round agreements, capacity-building, the implementation of special and differential treatment and, as a last resort, a review of the formulation of certain agreements.⁵³ This was the orientation of several of the proposals made by developing countries during the preparations for the Seattle Conference, as reflected in paragraphs 21 and 22 of the draft Ministerial Declaration (19 October 1999) for the Third Conference.⁵⁴ The proposals contained in the draft included the establishment of a working group on implementation, the conversion of commitments on special and differential treatment into concrete proposals, tighter restrictions on the use of anti-dumping measures, greater flexibility for developing countries in applying the SPS Agreement to their products and increased participation by them in standard-setting bodies, faster integration of textiles and clothing into GATT rules, longer transition periods and greater flexibility for developing countries in implementing the TRIMs and TRIPs Agreements, greater tolerance for the use of agricultural subsidies by those countries and tighter restrictions on the use of agricultural subsidies by developed countries (WTO, 1999c).

These proposals have formed the basis for the work on implementation since May 2000, when the WTO General Council decided to hold special sessions to deal with this issue. In June 2000 the Council drew up a work programme, which it expected to complete before the Fourth Conference. Four months later, it consulted the relevant WTO bodies on specific issues in several of the Uruguay Round agreements, which had to be studied with a view to formulating proposals. Then, in December, it issued guidelines for addressing the different issues (Decision of 15 December 2000). This Decision takes into account the reports of the bodies consulted and, among other things, includes the following guidelines:

- (i) Under the Agreement on Agriculture, ensuring the proper administration of tariff quotas and improving the effectiveness of measures to support LDCs and net food-importing countries;
- (ii) Urging international standard-setting organizations

53 There seems to be a growing consensus on the relationship among special and differential treatment, capacity-building and technical assistance (OECD, 2001). In the preparations for the Seattle meeting, developing-country proposals on the development dimension primarily concerned the issues of market access, technical assistance and special treatment for LDCs.

54 The studies carried out as part of the "positive agenda" in UNCTAD (1999b) were major inputs for the draft. Paragraphs 21 and 22 refer to decisions for immediate action ("deliverables") and implementation review mechanisms, respectively.

to ensure the participation of countries at different levels of development throughout all phases of standard development. This relates specifically to the SPS and TBT Agreements;

- (iii) Under the SCM Agreement, reviewing the criteria on export competitiveness and examining specific aspects of the Agreement, taking into account the particular needs of developing countries.

In February 2001, the WTO secretariat prepared a summary of outstanding implementation issues, systematizing proposals arising from the draft Seattle Ministerial Declaration and others formulated during the work carried out in 2000.⁵⁵ In view of the differences that still existed between the positions of the various WTO delegations well into the first half of 2001, Uruguay and six other countries (including Argentina) formulated a comprehensive proposal that would later be used as the basis for further work on implementation.⁵⁶ Top-level WTO officials also used this proposal to prepare a document identifying elements on which early agreement could be reached. This document does not contain proposals on anti-dumping, textiles and clothing or TRIMs, in view of the various consultations still taking place in the respective subsidiary bodies.⁵⁷

In July 2001, in parallel with the preparation of the proposal on implementation, the same WTO officials took stock of the preparatory work undertaken for the Fourth Conference. Their assessment explicitly referred to implementation and other related areas. The authors called attention to the persistence of widely differing opinions as to the scope and level of ambition that an enlarged negotiating agenda for a future global round should have. In particular, they felt that the solutions found for the various implementation-related concerns would condition the approach of LDCs to a possible expansion of the agenda (WTO, 2001n).

This stocktaking of the preparatory work also confirms the existence of a wide range of views on implementation, on the technical feasibility of resolution in certain areas and on the elements that should be addressed in wider negotiations. The authors also stress the need to make special and differential treatment measures more precise and operational. They also raise

the possibility of setting up working groups in several areas of concern to developing countries, including the particular situation of small economies and the relationship between trade, debt and finance and between trade and technology transfer. Lastly, they highlight priorities for technical cooperation and capacity-building and the need to settle the ongoing dispute over predictable funding for such activities (WTO, 2001n).

In late September 2001, the same WTO officials prepared a draft Ministerial Declaration for the Fourth Conference, along with a proposed Decision on Implementation-Related Issues and Concerns. The draft Declaration itself also includes various aspects relating to implementation. It proposes 10 issues for the future Work Programme, which would involve a series of negotiations. These include issues contained in the built-in agenda, transparency in government procurement, trade facilitation and various multilateral rules. The latter include the anti-dumping and SCM Agreements and regional agreements. The relationship between trade and investment and the interaction between trade and competition policy are the only two issues on which the authors leave open the alternatives of either opening new negotiations or continuing to work through the groups already set up for this purpose within WTO. There is another set of eight issues on which the draft Declaration proposes a continuation of the work already begun or the initiation of work in the case of new issues. The issues to be pursued further include electronic commerce and the relationship between trade and environment. Issues on which work in the multilateral framework would be initiated basically include issues of interest to developing countries: small economies; the relationship between trade, debt and finance; the relationship between trade and transfer of technology; technical cooperation and capacity-building; and least developed countries. Lastly, guidelines on special and differential treatment are left pending, and the draft Declaration indicates that the report of the Committee on Trade and Development should be considered (WTO, 2001p).

Meanwhile, the proposed Decision on implementation moved forward on the basis of documents submitted in July, including the G-7 paper mentioned

55 WTO document JOB(01)/14, 20 February 2001, cited in AITIC (2001b). See WTO (2001b).

56 These countries are identified as the Group of Seven (G-7). The proposal covers several of the Uruguay Round agreements and is divided into four types of issues: (i) those on which early agreement could be achieved; (ii) those that have been resolved, clarified or appear relatively less urgent; (iii) those referred to subsidiary bodies for further review; and (iv) those that could be settled after the Fourth Conference.

57 The G-7 and WTO documents mentioned can be found in *Inside US Trade* (2001b). The WTO document was prepared by the Chairman of the General Council in cooperation with the WTO Director-General. A summary of the process is contained in WTO (2001o).

above, together with a more recent proposal from a group of developed countries⁵⁸ and contributions from subsidiary bodies of WTO. The Decision, which is a separate document but forms part of the draft Ministerial Declaration, distinguishes four types of tasks, namely:

- (i) Immediate actions on implementation difficulties in various areas;
- (ii) Recommendations to the Ministers to take decisions on a number of proposals during the Fourth Conference;
- (iii) Recommendations to the Ministers to identify other implementation issues at the current session, for consideration in the context of the future Work Programme proposed in the draft Ministerial Declaration; and
- (iv) A request to provide the technical assistance needed to enable developing countries to fulfil their implementation commitments and strengthen their capacity to participate in future negotiations.

The agreements relating to the issues covered in points (i) and (ii) above include the SPS, TBT, SCM, antidumping and ATC Agreements (WTO, 2001p). In general, these agreements have aroused great interest and debate among developing countries, either because of implementation difficulties or because of the market access obstacles they create for developing countries' exports.

A second draft Ministerial Declaration, prepared in October 2001, built on the September proposals. It specified, with regard to implementation, that future negotiations on the issue should form an integral part of the proposed Work Programme.

Some of the implementation areas would be addressed under specific negotiating mandates, while others would be dealt with on a priority basis by the competent WTO bodies before the end of 2002.

With regard to the draft Decision on implementation that complemented the Ministerial Declaration, the work done in October capitalized on the progress made in designing a procedure for granting extensions to certain developing countries for specific export subsidies.

Nonetheless, the new draft basically retains the diversity of agreements already contained in the September draft (WTO, 2001f).

To conclude this review of the process, it should be mentioned that the Doha Ministerial Declaration retains what was stated on implementation in the draft of 27 October 2001. The same is true of the specific Decision adopted on these issues. In response to the concerns of developing countries, the Decision refers to various aspects of the Uruguay Round agreements on a wide range of issues, reaffirming or specifying the content of certain measures, approving recommendations and requesting studies by specialized bodies with a view to making special and differential treatment operational, taking note of measures that had already solved certain implementation problems and urging the continuation of strenuous efforts on special treatment, especially with respect to LDCs. The measures agreed upon include the approval of certain recommendations drawn up in the framework of the Agreement on Agriculture and relating to the application of measures concerning the possible negative effects of agricultural reform on more vulnerable countries and to the administration of tariff quotas. The decisions relating to the SCM Agreement are complemented by a communication from the Chairman of the General Council on the procedure for granting extensions to certain developing countries for specific export subsidies. In addition, the Decision instructs the Committee on Trade and Development to examine ways to make special and differential treatment provisions more effective (WTO, 2001g).

Participation by the countries of the region in this debate⁵⁹

The Latin American countries have taken a very active part in these discussions and in the preparation of the relevant documents. However, they have done so either individually or in subregional or extraregional groups, without managing to speak with a "regional" voice.⁶⁰ Since the preparatory process for the Seattle Conference, several Central American and Caribbean countries have submitted varying proposals either in-

58 According to other sources, the countries concerned are those known as the "Quad", namely the United States, the European Union, Japan and Canada. The "Quad" proposal is more limited and contains fewer concessions than the one prepared by WTO. These countries are particularly critical of certain concessions in the anti-dumping and ATC Agreements (*Inside US Trade*, 2001c; Bridges, 2001).

59 See also Silva (2001).

60 During the Uruguay Round a group of countries from the region – the Group of Latin American and Caribbean Countries (GRULAC) – was one of the most cohesive of the geographical groupings (Durán, 2001).

dependently or in conjunction with other developing countries,⁶¹ in which they have highlighted the development dimension of implementation problems, the need to improve institutional capacities and the importance of the continued application of preferences by developed countries. On this last point, they have also expressed concern about the practice of making preferences conditional on trade or non-trade issues such as labour, intellectual property and environmental issues.

The countries of the region have also stressed the need for stricter control of contingency measures, anti-dumping and countervailing duties, which have hindered the improvement of market access. In the preparations for the Seattle Conference, several countries formulated proposals on issues concerning productive development and export policies, particularly in relation to the agreements on subsidies, investment and intellectual property. With reference to these agreements, the countries drew attention to the difficulty of carrying out the necessary reforms within the transition periods envisaged and the need to leave a certain amount of leeway for development policies.⁶²

In the preparatory process for the Doha Conference, the Group of Seven, led by two of the region's countries, as mentioned above, played a leading role on implementation issues. In addition, the three countries referred to above participate actively in the Like-Minded Group. The importance attached to the issue was also made clear in the individual presentations given by the countries of the region at the Conference.⁶³

Moreover, the countries of the region have submitted proposals in the ongoing sectoral negotiations on built-in agenda issues and their implementation aspects

(Silva, 2001). MERCOSUR, as a bloc, has been particularly active in relation to the Agreement on Agriculture. At the same time, its member countries, along with several other countries of the region, are major participants in the Cairns Group.⁶⁴ Furthermore, the Central American and Caribbean countries referred to above have submitted proposals on special and differential treatment in the framework of the Agreement on Agriculture. MERCOSUR and other developing countries have also sought to advance their interests in relation to GATS, emphasizing the need to press ahead with progressive liberalization while taking the special conditions of developing countries into account. Differences in terms of specialization and competitive development are probably the factors that explain the differences in the areas covered by the proposals and in their emphases, as well as the lack of a region-wide position in these negotiations.

To summarize this section, it is clear that the solutions found to implementation issues will have an impact on the launch and content of a new round of negotiations. This was confirmed by the Decision on implementation which formed an integral part of the Ministerial Declaration of the Fourth Conference. Beyond this development, a conceptual debate has been opened as to the treatment that developing countries should receive. Much research also remains to be done on the effects that the Uruguay Round agreements are having on the different economies and the influence of other factors on their performance. In both of these areas, the countries of the region have displayed interest, knowledge and a willingness to contribute to the debate.

61 Cuba, the Dominican Republic and Honduras are members of the "Like-Minded Group", which has been very active with respect to implementation proposals since the period mentioned.

62 Several of the countries that made these proposals—in particular Argentina, Colombia and Mexico—made requests for extensions under the TRIMs Agreement that were recently granted.

63 Statements by the countries, issued between 10 and 12 November 2001 under WTO document symbol WT/MIN(01)/ST/, can be found on the WTO web site in the section on the Fourth Ministerial Conference: http://www-heva.wto-ministerial.org/spanish/thewto_s/minist_s/min01_s/min01_statements_s.htmcon.

64 As indicated earlier, this is an agricultural-sector interest group that advocates deeper liberalization with a view to achieving enhanced market access.

D. The negotiation of “traditional” trade policy issues

Since the preparations for the Seattle Conference, countries have put forward proposals to review or deepen the Uruguay Round agreements on two “traditional” trade policy issues, namely industrial tariffs and anti-dumping mechanisms. These topics are traditional in the sense that they have been dealt with ever since the emergence of the multilateral system, either in debate or in specific regulations. In fact, industrial tariffs have been the main focus of the multilateral system’s work since 1948.

In the case of antidumping, the built-in agenda only called for reviews of the implementation of measures, and no new negotiations were envisaged on either of these traditional topics. Nonetheless, when the start of a new round became a possibility, the idea of including industrial products seemed to generate a higher level of consensus. Even the WTO secretariat considered that negotiations on these products would help to promote balance and would create opportunities to generate reciprocal advantages between member countries (WTO, 2001c). Negotiating positions on antidumping disciplines were farther apart, however, particularly between large trading partners, and this issue affects developing countries’ real opportunities for market access.

Both industrial tariffs and anti-dumping mechanisms are major determinants of market access for industrial products. A recent WTO report indicates that the remaining barriers to trade in these products include the following: (i) the gap between bound tariff rates and those actually applied, which undermines the system’s transparency and predictability; (ii) the persistence of tariff peaks and escalation in respect of traditional products of interest to developing countries; (iii) non-tariff barriers (quotas) for textiles and clothing; (iv) increasing use of anti-dumping measures; and (v) the scant participation of developing countries in the Information Technology Agreement (ITA) (WTO, 2001e, pp. 7-44).⁶⁵

1. Industrial tariffs

With regard to industrial tariffs, the Uruguay Round contemplated a gradual 40% reduction in bound tariffs over a five-year period. As a result, average rates on tariffs of this type are currently around 4% in developed countries. In complementary fashion, ITA mandated a lowering of tariffs on the products it covered to 0% between 1997 and 2000.⁶⁶ Nonetheless, a series of products in sectors such as the food industry, textiles, footwear and the automotive industry maintain high tariffs and are often excluded from the General System of Preferences (GSP) that developed countries grant to developing countries. In addition, a series of preferential trade agreements at the bilateral or plurilateral level, generally of a regional nature, have also led to significant tariff reductions for the countries participating in them.

The proposals made in Seattle on industrial products provided additional background material for the preparations for the Fourth Conference. They came from countries at a medium or high level of development, including several Asian nations. The communications sent to the Third Conference related to a variety of issues, as described below. A first area concerned the appropriateness of taking on new negotiations, given the need to address persistent problems; the possibility of balancing the agriculture and services negotiations on the agenda; and efforts to counteract protectionism arising from the crisis. On the specific issues to be dealt with, there were proposals on improving the tariff binding process; on tariff dispersion _peaks and escalation; on specific and “nuisance” tariffs;⁶⁷ and on simplifying tariff structures and complementing this with decreased use of non-tariff measures. Lastly, there were proposals on special and differential treatment. For the main markets _the United States and the European Union_ this basically meant

65 This report does not contain a systematic review of those non-tariff barriers, rules and disciplines that can also represent major obstacles to market access, such as the increasing use of TBT, SPS and countervailing measures (see also WTO, 2000a; Silva and Heirman, 1999).

66 ITA is a plurilateral agreement covering products in the following six categories: computers, software, telecommunications equipment, semiconductors, semiconductor manufacturing equipment and scientific instruments. Currently an ITA II is being negotiated to encompass a larger number of such products (WTO, 1999a).

67 Specific tariff rates are expressed per physical unit of the product, unlike ad valorem tariffs, which are set as a percentage of the price. Nuisance tariffs are tariffs that are so low (under 2%) that collection costs may exceed the amount of revenue they generate.

improving access for exports from LDCs.⁶⁸

At the Seattle Conference, developing countries did not show explicit interest in negotiating on these products. The likely reasons for this include the following: the need to preserve room for manoeuvre to protect certain industries and generate fiscal revenue; the priority given to non-tariff barriers thought to pose the greatest problems for market access; and greater interest in making progress in liberalizing agricultural trade, where they were focusing their negotiating efforts. In these same countries, manufactures have come to represent an increasing share of exports, yet they face high and escalating tariff rates in certain sectors, together with the uncertainty caused by the gap between bound tariffs and those applied by developing countries themselves. These reasons could explain the more proactive attitude of these countries in the process of preparing for the Fourth Conference.

In this new phase, most countries have placed renewed emphasis on the lowering of industrial tariffs as part of the core business of WTO. In the opinion of top WTO officials, there is broad consensus on a number of elements of the negotiations on these products, including coverage, objectives, modalities and special and differential treatment. Coverage should be comprehensive and non-tariff measures should also be included in the negotiations. Objectives should include the substantial reduction of both tariff and non-tariff barriers to trade, with special attention to the problems of tariff peaks and tariff escalation. Agreement on the details of negotiation modalities would be left for the post-Doha period. Lastly, developing countries' interests required the inclusion of special and differential treatment considerations in the negotiating mandate, such as an absence of full reciprocity. A small number of countries were unwilling to lower their tariffs, but the authorities considered that consensus could be reached in the context of broad negotiations (WTO, 2001n).

Negotiations on market access for non-agricultural products, including tariff and non-tariff measures,⁶⁹ were included in the draft Ministerial Declaration proposed in late September. This proposal drew on the current state of debate on this issue and was put forward in approximately the same terms as in the preceding paragraph, as elements for negotiation (WTO, 2001i). Market access was included in the negotiating

proposals of all the leading players in the multilateral system, including the United States, Japan and the European Union (*Inside US Trade*, 2001a; METI, 2001). These countries had also made proposals during the preparations for the previous Conference in Seattle to enhance the liberalization of industrial products. Tariff escalation was also a specific topic of interest in this area for developing countries. In complementary fashion, these countries made proposals to address market access difficulties in the agricultural and textile sectors, in the framework of the negotiations on the Agreement on Agriculture or in the work on implementation (see the previous sections). As is well known, although textiles are industrial products, they are governed by special regulations set out in the Agreement on Textiles and Clothing (ATC). This Agreement involves dismantling the previous quota system over a 10-year period starting from the establishment of WTO.

The Ministerial Declaration of the Fourth Conference effectively included negotiations on market access for non-agricultural products in the Work Programme, in the terms already set out in the September draft and the October revision (WTO, 2001p). The Declaration confirmed that special consideration would be given to the interests of developing countries, through less than full reciprocity in tariff reduction commitments. The Declaration also proposed capacity-building measures to enable LDCs to participate effectively in the negotiations (WTO, 2001g). Similarly, the Decision on implementation included special market access measures with respect to ATC and other recommendations for study and decision on several agreements that affect access conditions. These include the agreements on customs valuation and rules of origin and the question of non-tariff barriers in relation to the TBT and SPS Agreements.

2. Anti-dumping mechanisms

Regulations on anti-dumping mechanisms are contained in the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994. These regulations allow a country to apply anti-dumping measures against imports of a product whose export price is less than its "normal value".⁷⁰ Based on

68 The European Union has developed a proposal on this issue, known as the "Everything But Arms" initiative (see the European Union web site at <http://www.europa.eu.int>).

69 Proposals on anti-dumping and other barriers are usually made separately from those on tariff and para-tariff issues and market access issues in general.

70 This is usually defined as the price of the product in the exporting country's domestic market.

this criterion, importing countries have to show that the dumped imports are causing injury to domestic production and that there is a causal relationship between such imports and the injury caused.

Since the Uruguay Round agreements came into effect, countries have made increasing use of such mechanisms, especially with respect to exports from developing countries, without seeking constructive remedies as provided for in the Agreement. Developing countries perceive anti-dumping actions as imposing a high cost in relation to the value of the exports concerned. Countries also incur direct costs when they must defend themselves against accusations of dumping, and face uncertainty in relation to their most successful exports. Nonetheless, it is developing countries themselves that have most sharply increased the use of such measures in their markets. It has also been noted that these measures are especially harmful for small and medium-sized enterprises (SMEs) and that they generate a climate of uncertainty for trade. They also leave room for the authorities of complainant nations to apply discretionary definitions in various areas of investigations into the existence of dumping and injury. In fact, the majority of anti-dumping cases ought to have invoked safeguard measures instead, since conditions of unfair competition leading to artificially low export prices were not detected.⁷¹ Lastly, in these cases the dispute settlement mechanism basically caters to procedural problems rather than to substantive aspects of the dispute (see, on this subject, UNCTAD, 1999a; Tórtora, 1999b; and WTO, 2000d).

During the preparations for the Seattle Conference, countries such as Japan, Korea and New Zealand submitted proposals to negotiate changes in the anti-dumping agreement. Some Latin American and Caribbean countries, including Brazil, Chile, Colombia and Guatemala, also sent communications on this topic. In general, these proposals referred to the difficulties mentioned in the preceding paragraph, and consequently sought to address areas such as the clarification of disciplines, the review of certain definitions, implementation criteria and procedures, including those relating to dispute settlement. The proposals of some Central American nations, along with those of other developing countries, focused on antidumping in dealing with wider issues of implementation or the special and differential treatment provided for in the

Agreement itself.

Among developed countries, the proposal to review anti-dumping mechanisms in the process of preparing for the Fourth Conference was strongly advocated by Japan and, to a lesser extent, by the European Union. Japan particularly stressed the administrative discretion that the Agreement allowed in the application of anti-dumping measures, arguing that this could give rise to protectionist abuses (METI, 2001). The aim of the proposed review, in terms of clarifying rules, was fiercely opposed by the United States; although that country gradually relaxed its opposition in view of the growing number of cases affecting its own exports, its interest was limited to making processes more transparent, rather than amending the existing legislation. The European Union's acceptance of this topic, on the other hand, reflected a desire to balance the agenda (*Inside US Trade*, 2001a).

In summary, five years into the implementation of the Uruguay Round agreements, market access for goods remains a concern for various economies and constitutes a potential negotiating issue. In this context, industrial tariffs have generated stronger consensus than the anti-dumping agreement as an issue for consideration in a new round of negotiations. Nonetheless, developed and developing countries have had different areas of interest even in relation to industrial tariffs, and also as regards special and differential treatment. There has been clear interest in anti-dumping negotiations among developing countries, which have been hit harder by the use of this mechanism against their exports _not only by developed countries, but increasingly, also, by developing countries themselves. Among developed countries there are more varied positions, to some extent reflecting the complexity that the issue took on during the Seattle Conference. In the end, as mentioned above, the Fourth Conference included both of these issues in the negotiating mandates, in an attempt to embrace the various concerns. It is remarkable, however, that these "traditional" trade policy issues have persisted as areas of interest for negotiation despite the significant progress made on liberalization through successive negotiating rounds, in particular the Uruguay Round, and the accumulation of new issues that have emerged on the agenda for discussion. The latter are dealt with in the following section.

71 Under the relevant WTO agreement (GATT 1994, article XIX), safeguard measures may be used to protect a domestic industry from an unforeseen increase in imports of any product when the increase causes serious injury to that industry.

E. New issues in trade negotiations

Throughout this chapter the preparatory process for the Seattle Conference has been portrayed as a platform for the eventual launch of a new negotiating round in Doha. The proposals submitted during this process contained a number of issues that had been raised since the Uruguay Round or at the Ministerial Conferences held since its conclusion. For that reason, they have been added to the built-in agenda defined in the Uruguay Round agreements, as noted previously. Such issues are described as “new” because they are not governed by multilateral rules and have generally been analysed by working groups within WTO. They include: (i) trade and environment; (ii) trade and investment; (iii) trade and competition policy; (iv) trade facilitation; (v) transparency in government procurement; (vi) electronic commerce; and (vii) trade and labour standards. As these subjects are very wide-ranging and diverse, this section will briefly analyse just a few of them and provide references on the others.

1. The environment and labour rights

The environmental and labour aspects of trade have been treated differently within WTO, yet they have a variety of characteristics in common. Both issues are approached from the premise that the protection and regulations covering them can have an impact on trade. Lower levels of environmental or labour protection in a given country can result in lower costs, which could produce artificially advantageous conditions vis-à-vis that country’s trading partners. The measures available to countries for dealing with unequal levels of protection _such as trade sanctions_ also affect real market access conditions for the products concerned. The multidimensional nature of these issues adds to their complexity with regard to future negotiations. There are different views as to what should be stipulated in multilateral regulations on these two issues. However, on both of them, developed and developing countries have basically been at odds with each other as to the mode and intensity with which any such regulations should

be incorporated. This antagonism was clearly evident in Seattle and was another reason for the lack of results in favour of launching new negotiations. Given developed countries’ interest in creating a level playing field for competition, developing countries consider that any linkages established between environmental or labour regulations and trade could result in greater protectionism against their exports.

These are key issues for major players in the system, such as the European Union and the United States, although an easing of positions can be discerned with respect to the environment. In their most recent statements on possible comprehensive multilateral negotiations, these developed countries have called for clarification of the rules on environmental issues, and particularly of the relationship between international environmental standards and multilateral trade rules. Nonetheless, these two economies attach different priorities to the specific areas to be addressed. While the United States gives more importance to environmental goods and services, along with agricultural and fisheries subsidies, the European Union is primarily interested in health and sanitation issues, in respect of which it highlights the role of the “precautionary principle” (Artigas, 2001).

In its July 2001 assessment of the situation, WTO indicated that there was a convergence between the different positions towards reaffirming the commitment to sustainable development and ensuring that the environmental dimension was not used as a cover for protectionism and that development and environmental policies were mutually supportive. On the other hand, WTO found divergences in the proposals concerning the relationship between its rules and those of other entities and in the debates on the precautionary principle and labelling (WTO, 2001n).⁷² As a result, the draft Ministerial Declaration prepared in September 2001 proposed that the relationship between trade and environment should continue to be studied by the committee set up in the Uruguay Round to develop the respective work programme (WTO, 2001p). The October draft went further in identifying priority issues for study in

72 The ECLAC International Trade and Integration Division is currently conducting research aimed at studying these issues in greater depth in the framework of the SPS and TBT Agreements. See Larach (2002).

this area _such as labelling and the relationship between environmental considerations and the TRIPs Agreement_ and in directing the relevant committee to make recommendations to the Fifth Conference, possibly including the desirability of negotiations on the topic (WTO, 2001f).

Lastly, the Doha Ministerial Declaration formulated a mandate for negotiations and continued work on the environment. It called for negotiations on the relationship between WTO rules and specific trade obligations set out in multilateral environmental agreements, on information exchange between the relevant entities and on the reduction of trade barriers to environmental goods and services. The Declaration also instructed the Committee on Trade and Environment to pursue its ongoing work, giving particular attention to the effect of environmental measures on market access, the provisions of the TRIPs Agreement and labelling requirements for environmental purposes (WTO, 2001g).

On the issue of labour standards, there is still a consensus that this subject should be dealt with through the International Labour Organization (ILO), as decided at the Singapore Ministerial Conference in 1996. Accordingly, WTO is required to collaborate with ILO to clarify the relationship between the different regulations in their respective areas of competence. Concerns about trade-related labour issues are increasingly being raised in the debate on the social effects of globalization, the challenges they represent for trade and the institutional aspects of WTO (*Inside US Trade*, 2001c).⁷³ As a result, labour issues are now less specifically targeted as a negotiating objective than they were in Seattle. The subject does not feature as a specific area of work in the proposed Ministerial Declaration drafts prepared in September and October or in the final text adopted in Doha. Nonetheless, labour clauses are increasingly being included, and with greater force, in trade preference agreements involving developed-country partners.

2. Competition and investment policies

Concern about competition policy in relation to trade stems from the possibility that the benefits of trade liberalization may not materialize because of anti-competitive practices in the private sector. The behaviour of the private sector is starting to have a greater bearing on the conditions of trade, now that governments have gradually reduced the barriers they used to impose on trade and investment.⁷⁴ In 1997, pursuant to a decision taken at the Singapore Conference in 1996, WTO set up a working group to study the interaction between trade and competition policy.

In 1997 and 1998, the group worked on an inventory and analysis of instruments, standards and experiences, and reviewed the main relationships between trade and competition and between policies in those two areas. In 1999 the group focused on the assessment of various aspects of the issue: first, the relevance of the fundamental WTO principles (national treatment, transparency and MFN) to competition policy and vice versa; second, ways of promoting cooperation and communication between countries on this issue; and finally, the contribution of competition policy to achieving the objectives of WTO, including trade promotion.⁷⁵

While the treatment of the first two aspects had generated relative consensus, there was disagreement with respect to the adoption of a multilateral framework to enhance the role of competition policy in the multilateral system.

Recently, there seems to have been greater convergence among a number of countries towards the idea of incorporating and establishing general rules on investment and competition in the negotiations.⁷⁶ However, developing countries have been reluctant to include issues that could inhibit their own policy-making and on which they lack the institutional capacity to apply new regulations. The European Union has been

73 In the case of the United States, labour and environmental issues are becoming very important in the context of trade agreements and preference systems. This can be seen in the proposals on the trade legislative agenda and specifically on the Trade Promotion Authority (USTR, 2001f and 2001g).

74 See ECLAC (1997), WTO (1999a) and UNCTAD (1999a, pp. 108-119).

75 The working group also considered the provisions on competition contained in several of the Uruguay Round agreements. This suggested an alternative way of incorporating the issue into the multilateral system: by reviewing and strengthening the agreements concerned to make them more pro-competitive (UNCTAD, 1999a).

76 On the relationship between trade and investment and the corresponding regulatory aspects, see UNCTAD (1999b, pp. 120-134) and ECLAC (2000b, pp. 25-31).

most forceful in advocating the consideration of both topics in the current process. At the same time, it has moderated the stance it had taken in Seattle by arguing that greater flexibility should be provided to enable developing countries to apply the rules, while emphasizing the cooperation and capacity-building aspects of regulations on competition (*Inside US Trade*, 2001a). On both issues, it has proposed that progress should be made through plurilateral agreements, which new countries would join gradually as their possibilities permitted. However, this strategy could undermine the multilateral system as currently conceived. In fact, for these issues alone, the draft Ministerial Declaration prepared by WTO in September proposed the alternatives of opening negotiations or undertaking further analysis on both issues until the next Conference (WTO, 2001p). The October draft and the Doha Declaration, on the other hand, defined them as negotiating issues as from the Fifth Conference. The Declaration also specifies priorities for the respective working groups and recognizes the needs of developing countries and LDCs for enhanced support for technical assistance and capacity-building in these areas (WTO, 2001g).

3. Other areas and summary

The other new issues (transparency in government procurement, trade facilitation and electronic commerce) have also generated intense activity in various WTO bodies. The first two issues are included among the points envisaged for negotiation after the Fifth Conference, whereas electronic commerce is to be analysed further (WTO, 2001g).⁷⁷

To summarize, the growing importance of these “new” issues shows how policies traditionally considered as domestic are increasingly being incorporated into multilateral rules. In several cases there is a need to clarify the relationship between the regulations of international cooperation agencies and those of WTO in each area. Nonetheless, apart from the labour issue, all of them are the subject of work programmes, either in the groups set up to examine them or as part of the agenda of standing committees or councils established within WTO. In most of these areas there are major differences between the negotiating stances taken by developed and developing countries. The latter feel that technical assistance and capacity-building should be included in the negotiations. These tasks are even more important in the light of the decision taken in Doha to start negotiations on many of these issues, either now or after the Fifth Conference.

77 For the discussion on these issues before the Seattle Conference, see WTO (1999a); for updated reviews in these areas, see WTO (2001j). UNCTAD (1999a) contains a section on electronic commerce from a development perspective. On the issue of trade facilitation, the ECLAC International Trade and Integration Division is conducting a research project, the preliminary results of which are reported in Izam (2001). The pre-Doha status of all these issues is covered in WTO (2001b).

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