



LATIN AMERICA AND THE CARIBBEAN IN THE WORLD ECONOMY: 2005 TRENDS

The study recently published by the Division of International Trade and Integration of ECLAC considers that 2005 will be a good year for trade in the countries of the region. Despite a favourable international context, there are still serious problems of competitiveness. The region needs to increase productivity, promote technological innovation and take a proactive part in worldwide networks.

The conclusions of the study include the need to update integration; to take a strategic view of the links to be constructed with China and the countries of the Pacific; to manage free-trade agreements so as to increase and diversify exports; to step up the pace of work and improve coordination with the developing countries on the Doha Round, and to gradually incorporate the demands of security into competitiveness policies, ensuring that they do not become protectionist barriers (traceability, food safety and maritime and port security).

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THE CURRENT STATUS OF THE GLOBAL ECONOMY AND THE OUTLOOK FOR THE REGION

The upturn in the global economy that began in the second half of 2003 continued to strengthen during most of 2004, when its growth rate reached a 30-year high. Although this boom took in many of the world's regions, it was most pronounced in developing Asia. This group of countries' performance was strongly influenced by the exceptional performance of a few of its members, such as China (9.5% GDP growth in 2004) and India (7%). Even if Asia is factored out of the calculations, however, the developing regions still posted an impressive 5% growth rate in 2004. What is more, it was probably the first time in the last 30 years that the developing countries entered a growth phase ahead of the developed nations. The buoyancy of the Chinese economy alone accounted for 15% of the global recovery in 2002-2003.

The recent revaluation of the yuan must be analysed in the light of these factors. The United States' large external imbalance can only be dealt with by limiting absorption and adjusting relative prices. To achieve the former, the United States must tighten its fiscal and monetary policies to gradually rein in the expansion of expenditure and bring it into line with potential GDP. The latter takes the form of a devaluation of the United States dollar relative to the currencies of economies that are benefiting the most from trade with the United States, namely the Chinese and Asian economies. Given the United States' significance in the world economy, a slowdown there, coupled with a marginal downturn in the developing Asian economies, will have to be accompanied by a higher level of activity in Europe and Japan if the global economy is to avoid a hard landing. These two elements, which are essential in order to dismantle current global financial imbalances, have yet to be factored into growth projections, however.

Most such projections point to a slackening of growth in world output in 2005 and 2006, with rates of between 3.0% and 4.3%. The main factors involved here are: (i) the dampening effect on global demand of higher oil and commodity prices; (ii) exchange-rate adjustments among the main international currencies; (iii) the uncertainty generated by steeper interest-rate hikes; (iv) difficult fiscal situations in many countries, and (iv) the threat of global neo-protectionism associated, in particular, with reactions to the increase in Chinese exports.

NEGOTIATIONS IN THE MULTILATERAL TRADING SYSTEM: WTO AND REGIONAL EXPECTATIONS

The negotiating and working agendas established at the Fourth Ministerial Conference of WTO, held in Doha in 2001 (the Doha Round), cover market access issues, the refinement of trade rules and topics that deal explicitly with the concerns of developing countries. However, the debates that arose in the wake of that conference and, in particular, after the following conference, held in Cancún, Mexico, in September 2003, have pushed back the conclusion of this round beyond its original deadline.

The main stumbling blocks to progress in these talks were encountered in the work on agricultural reform and the debates on the development dimension (including special and differential treatment and implementation-related issues). The Fifth Ministerial Conference inherited this climate of discord, which was exacerbated by the controversy over the so-called "Singapore issues", which the developing countries have staunchly resisted. The disagreements that had arisen in the aftermath of Cancún were broadly resolved by a decision taken on 1 August 2004, known as the "July package". Although no new date has been set for the completion of the Doha Round, it is tentatively expected to conclude in 2006. This will depend, however, on the outcome of the forthcoming Sixth Ministerial Conference, to be held in the Hong Kong Special Administrative Region of China in December 2005.

In the formation of country groupings based on common negotiating stances, the Latin American and Caribbean region has come to play an important and, to some extent, leadership role among the developing countries. Structural and policy-based differences exist, however, making it difficult to arrive at a consensus position on all the issues under consideration. Given the countries' differing economic sizes, production and commercial structures, trade policies and development strategies, unified action in all the areas under negotiation is a highly complex undertaking. This hinders efforts to formulate a "regional" proposal for Doha, on the one hand, and, on the other, encourages the

formation of shifting alliances among countries of the region. The challenge here is to build upon those areas where the countries' views do converge while providing scope for subtly differing stances on the rest without undercutting the cohesiveness of the countries' positions on the main issues, especially agriculture and the development dimension. Under these circumstances, it is all the more important to devise strategies for positioning the countries within the development process. The countries of the region are also increasingly aware of the need to complement trade agreements with domestic policies (forming what has come to be known as the "domestic agenda") in such areas as competitiveness, infrastructure, technological innovation and the modernization of small and medium-sized enterprises (SMEs).

2004-2005: A CRITICAL BIENNIUM FOR REGIONAL INTEGRATION

For the second year in a row, 2004 saw a reversal of the downward trend in intraregional trade observed in 2001 and 2002, although the figures still fell short of the record level posted in 1997. Intraregional trade in Latin America and the Caribbean remains low (17%) by comparison with Asia (34%) and the European Union (62%). It is also markedly procyclical.

The low density of trade within subregional integration groups is attributable to various factors, such as slow economic growth, the small size of subregional markets, and the presence of similar export structures that tend to be concentrated in natural resources and that consequently cater primarily to industrialized markets. Furthermore, the infrastructure for trade within such groups generally displays greater shortcomings than the infrastructure used for world trade. In addition, trade flows within subregional groups are increasingly made up of manufactures, which are highly sensitive to the business cycle. The growth rate's instability therefore ends up deterring export diversification.

The importance of the gradual harmonization of the various rules and disciplines employed by subregional integration schemes as a contributing factor in the region's competitiveness has been somewhat underestimated. Efforts should be made to regionalize the rules of origin on a plurilateral basis encompassing all the countries involved. This would provide a powerful boost to intraregional trade and investment decisions. In the same vein, countries that have trade agreements with the United States and with each other could work towards recasting their rules of origin within a plurilateral framework. The regionalization of rules of origin, together with the mutual recognition and harmonization of technical, sanitary and phytosanitary standards, would send a clear signal of commitment to the idea of a unified market. Similar efforts could be made in the area of dispute settlement with a view to establishing a single system encompassing all subregional agreements, together with the economic complementarity and bilateral trade agreements existing among all the countries belonging to any of the subregional schemes (plus Chile and Mexico, which do not belong to any of them). Making progress towards a single dispute settlement mechanism and making its decisions binding would be another strong signal of concrete rather than merely rhetorical commitment to integration.

RESURGENCE OF PROTECTIONISM

One major factor that may curb the growth of the region's export sectors is adoption of protectionist measures by industrialized economies, particularly the United States and the European Union. Although the number of cases brought before the WTO Dispute Settlement Body dropped from 38

per year between 1995 and 2002 to a mere 18 in the two and one-half years between January 2003 and June 2005, the proportion of complaints lodged against developed countries in relation to dumping and export subsidies actually increased.

With this major debate providing the backdrop, the end of the Agreement on Textiles and Clothing and the consequent elimination of quotas that impede access to the main markets in question have led to a significant increase in Chinese textile and clothing exports to the United States and the European Union. The production sectors of these countries are now up in arms, and politicians and trade authorities have reacted publicly to the situation. In the first four months of 2005, world exports of Chinese textiles climbed by 18.4%. Although this was lower than the growth rate recorded in the first four months of 2004, exports to the United States were up by 71% and those to the European Union by 48%. Both trading partners have reacted by initiating protectionist measures in the textile sector, while continuing to insist on the need for a revaluation of the Chinese currency. In response, the Chinese authorities decided to apply fairly hefty tariffs on exports of 74 categories of textile products, although this decision was later revoked as a result of continued pressure to revalue the yuan.

The agricultural sector is both the icon of industrialized economies' protectionism and the focus of recent victories won by developing countries protesting these distortions. One such example is provided by the favourable rulings won by Brazil from multilateral bodies in the cases it has brought against European sugar subsidies and United States cotton subsidies. The judgements delivered by the WTO Dispute Settlement Body on subsidies and domestic support have backed up the developing countries' position on these matters and have upped the stakes of the Doha Round, since certain aspects of these issues could have been addressed in the negotiations had the WTO not already ruled them incompatible with its rules and therefore in need of adjustment.

Given that these are sensitive sectors in the respondent economies, WTO credibility will be called into question as long as these policies remain unchanged. This reopens the debate on reforming the WTO Dispute Settlement Body itself with a view to guaranteeing the effectiveness of its rulings, since shortcomings in its current procedures allow losing governments to "buy" their way out of the obligation to change a protectionist rule by offering compensation or simply by weathering the retaliatory measures. This often occurs when the case is lost by a developed country that has the economic capacity to offer compensation or neutralize the negative effects of retaliatory measures. The challenge to the credibility and effectiveness of WTO rulings is particularly serious when the parties involved are major players in the world economy and are denouncing practices in breach of multilateral WTO agreements. The most recent example is the Boeing/Airbus dispute, with the world's two largest civil aircraft manufacturers confronting each other in what is set to become the more extensive and complex case ever handled by WTO.

CHINA IN THE NEW GEOGRAPHY OF TRADE AND WORLD PRODUCTION

China has come to represent 4% of world GDP and is the sixth largest economy (or the second, measured by purchasing power) in the world. It has thus become a major player in world markets following its accession to WTO and the opening of its economy. From less than 2% of total exports in 2000, China came to account for almost 6.5% in 2004, ranking as the world's third largest exporter. It also ranks third in the world in imports, which expanded by 36% in 2004. As of 2004, China became a major actor in the production and consumption of and trading in a number of

products which are economically important on the global scale (see table 1).

China is now a key trading partner for many of the region's countries, and the Latin American and Caribbean region is China's main supplier of a number of very important mining and food products. Since China's manufacturing exports are less expensive, it has clearly been influential in the decline seen in the prices of steel, zinc, tin, toys, textiles and clothes, and electronics. This has added up to a net improvement in the terms of trade for Latin America, in general, and for South America, in particular.

Table 1

China : selected products that have a strong influence on the world economy, 2004

(Percentages of world totals)

Product	Production	Consumption	Imports	Exports	Consumption/production ratio	Consumption ranking
Coal	41.1%	38.6%	...	13.7%	93.8%	1
Iron ore	22.8%	36.2%	27.6%	...	158.6%	1
Tin	37.1%	27.6%	...	13.5%	40.4%	1
Meat products	27.2%	27.1%	3.1%	3.5%	99.8%	1
Zinc	23.6%	25.9%	6.8%	13.0%	56.1%	1
Steel	25.8%	22.4%	2.6%	13.5%	86.7%	1
Aluminium	22.8%	21.0%	5.6%	...	90.5%	2
Lead	25.0%	19.6%	2.6%	29.9%	77.2%	2
Copper	12.9%	19.6%	25.3%	...	157.3%	1
Cereals	18.3%	18.8%	7.1%	2.7%	102.5%	1
Soybean	8.6%	16.8%	34.3%	0.4%	165.6%	2

Nickel	7.6%	10.6%	21.7%	3.9%	144.4%	3
Bananas	9.0%	9.7%	3.0%	0.4%	106.0%	3
Petroleum	4.3%	8.3%	7.1%	0.8%	191.5%	2
Sugar	7.4%	8.1%	2.1%	1.0%	107.8%	2
Natural gas	1.5%	1.5%	95.6%	14

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Division of International Trade and Integration, based on official figures.

Latin American exporters are actively competing in Chinese markets with exporters from other regions, and particularly with those from the economies of the Association of South-East Asian Nations (ASEAN). It is therefore in the Latin American and Caribbean countries' interests to strengthen linkages with businesses in Asia, building partnerships and promoting different modalities of cooperation, in order to maintain the buoyancy of their exports of raw materials and semi-processed goods to the Chinese and Asian markets. This will require, in turn, deeper knowledge of those markets.

In 2004, Chinese government authorities embarked on a particularly busy itinerary of South American visits. President Hu Jintao conducted State visits to Argentina, Brazil and Chile, as well as Cuba, and Chinese ministers and deputy ministers accompanied high-level business delegations to practically every South American country. During all of these tours, important commitments were made to strengthen economic and trade relations. The Presidents of Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Chile and Peru have also recently paid visits to Beijing, and many more ministerial and business visits have been paid by these and other countries to China in 2004-2005.

These overtures have resulted in almost a hundred public agreements and commitments, which are the outward manifestation of this interesting juncture in economic relations between China and South America and of their mutual interest in moving forward towards a strategic relationship. China has used a variety of formulas –sometimes in combination– to seek closer relations with the Latin American countries: different sorts of trade agreements, direct investment, especially in infrastructure and energy, joint ventures with State enterprises, and special agreements on science and technology. The negotiation of a free trade agreement with Chile opens up a new avenue for establishing more permanent trade and investment links.

TRADE, SECURITY AND TRANSPORT

The events of 11 September 2001 in New York and the attacks of 11 March 2004 in Madrid, as well as other incidents of a similar nature, have prompted countries to adopt a series of measures to

defend themselves against threats to food security and merchandise transport. The United States, for example, has passed the Bioterrorism Act, which came into effect in mid-December 2003 and is intended to protect the security of the country's food supply.

In order to access these countries' markets, food shipments must comply with new legislation requiring them to provide a full account of the relevant production chain. The life history of a foodstuff is referred to as its "traceability" or "trackability" and provides certain assurances of food security, improves quality management and risk evaluation, boosts consumer confidence and permits the implementation of corrective measures in the event of quality or safety shortfalls. Firms that do not provide proper and timely information to a destination-market country seeking to track a product's entire production chain in the event of any suspicion of tampering may find the product barred from that market, impounded, returned or destroyed. Although these rules have been created in response to a justifiable demand for security, the exporting country faces the challenge of ensuring that they do not turn into market-entry barriers, especially for SMEs that may not have the capacity to meet the new requirements quickly.

Recent events affecting the security of the world's transport and infrastructure have not only led to the adoption of more stringent international regulations (International Ship and Port Facility Security Code (ISPS), Bioterrorism Act, traceability, technical standards, sanitary and phytosanitary measures), but have also pushed up the costs of international trade. In mid-2005, a sample of 107 ports worldwide revealed that the average increase in security costs was US\$ 8.53 per container, with a mean incremental cost for the region that is much higher than the average and three times higher than the average in Australia and the United States, even though many countries in the region have not yet invested in electronic scanners to check container contents.

Some security measures adopted in the face of terrorist threats have received the support of the international community, while the legitimacy of others has been questioned in view of their unilateral nature. An ongoing dialogue among all parties concerned is called for, and financing mechanisms for implementing the measures need to be expanded and improved. This would help reduce the high costs of purchasing advanced equipment and technology to enable countries, especially those in Latin America and the Caribbean, to comply with the new security standards.
