

2008-2009



Latin America and the Caribbean
in the World Economy

Crisis and opportunities for regional cooperation



UNITED NATIONS

ECLAC

Alicia Bárcena

Executive Secretary

Laura López

Secretary of the Commission

Oswaldo Rosales

Director of the Division of International Trade
and Integration and coordinator of the document

Susana Malchik

Officer-in-Charge
Documents and Publications Division

Latin America and the Caribbean in the World Economy is an annual report prepared by the Division of International Trade and Integration of ECLAC. The Statistics and Economic Projections Division, the Economic Development Division, the Natural Resources and Infrastructure Division, ECLAC subregional headquarters for the Caribbean and the Commission's country office in Washington, D.C. assisted with the preparation of this year's edition. The production of the report was overseen by Oswaldo Rosales, Director of the Division of International Trade and Integration. Mikio Kuwayama, Chief of the International Trade Unit, was responsible for its technical coordination.

In addition to Oswaldo Rosales and Mikio Kuwayama, the following assisted in the preparation of the chapters: Hugo Altomonte, Mariano Alvarez, Raquel Artecona, Inés Bustillo, Claudia de Camino, Jaime Contador, José Elías Durán, Myriam Echeverría, Sebastián Faúndez, Rex García, Sebastián Herreros, German King, Ekaterina Krivonos, Marcelo LaFleur, Roberto Machado, José Carlos Mattos, Graciela Moguillansky, Nanno Mulder, César Ortega, Andrea Pellandra, Gabriel Pérez, Neil Pierre and Ricardo Sánchez.

Several chapters of this edition have drawn on the reports "Trends in US Trade and Trade Policy towards Latin America and the Caribbean", prepared by Craig Van Grassek, a consultant, and "Global Economic Crisis: CARICOM Impacts and Responses", by Professor Clive Y. Thomas, Director of the Institute of Development Studies of the University of Guyana.

The statistical appendix was prepared by Jaime Contador with the assistance of Andrés Yáñez. It is appended to this document as a CD-ROM and is also available online at: http://www.eclac.org/Comercio/paninsal/Anexo2008_2009/ingles/.

Notes

As used in this report, the term "country" refers to a territorial entity that is either a State as understood by international law and practice or a territorial entity that is not a State but for which statistical data are maintained on a separate and independent basis.

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

In the tables, three dots (...) indicate that data are not available or are not separately reported; a dash (-) indicates a nil or insignificant quantity; and a full stop (.) is used to indicate decimals.

United Nations Publication

ISBN: 978-92-1-121710-0

ISSN printed version: 1680-8657 ISSN CD-ROM: 1811-6205

LC/G.2413-P

Sales No.: E.09.II.G.62

Copyright © United Nations, December 2009. All rights reserved

Printed in Santiago, Chile

Requests for authorization to reproduce this work in whole or in part should be sent to the Secretary of the Publications Board, Headquarters, New York, N.Y. 10017, United States of America. Member States and their governmental institutions may reproduce without prior authorization, but are requested to mention the source and to inform the United Nations of such reproduction.

Contents

Foreword	7
Summary	9
Chapter I	
The crisis and its future impact on the global economy	17
A. Introduction	17
B. From financial crisis to global crisis	18
1. The global crisis and the outlook today.....	18
2. The financial crisis	19
3. The recessionary shock and the global economy	21
C. Economic policy to the rescue.....	23
1. United States	23
2. The European Union	24
3. China	24
D. Impact of the crisis on world trade.....	25
1. The downside in the world goods trade.....	25
2. Trade in (modern) services is faring better than trade in goods	28
E. The new role of China and the other BRICs in the world economy	29
1. China: the economic star of the decade.....	29
2. The BRICs and changes in global governance.....	32
F. Containing protectionist pressures and concluding the Doha Round.....	33
1. Subsidies as a form of protectionism	34
2. Protectionism in government procurement	35
3. Other protectionist measures.....	35
4. Responses by the World Trade Organization and incentives to avoid protectionism.....	36
5. The Doha Round	37
G. Combating climate change and resisting ecological protectionism	38
1. At the multilateral level.....	38
2. At the national level.....	39
3. World Trade Organization rules	41
H. Perspectives and long-term impact of the economic and financial crisis.....	41
1. The impact of the crisis will be felt for some time.....	41
2. The impact on trade and the organization of global production.....	43
Bibliography	46

Chapter II

The effects of the crisis on regional trade	49
A. Introduction	49
B. General trends in the regional trade in goods.....	50
C. Regional trade patterns, by origin and destination	55
D. Regional trade patterns, by product group	60
E. General trends in the trade in services.....	62
F. Trends in the other components of the balance of payments	65
G. Regional trade-policy responses	66
1. Brief assessment by subregion	70
H. Conclusions	72
Bibliography	73
Annex.....	75

Chapter III

Opportunities for regional cooperation and integration	79
A. Introduction	79
B. The new global context requires greater regional cooperation.....	80
C. Integration can and should be renewed, but with realistic commitments.....	82
D. Today regional cooperation is more important than progress in trade liberalization	83
E. Proposals for fostering regional cooperation.....	88
1. Protecting and promoting infrastructure investment	88
2. A programme to promote intraregional trade.....	90
3. Increasing regional cooperation on innovation and competitiveness	93
4. A decisive approach to asymmetries	95
5. Strengthening the social aspect of integration.....	97
6. Deepening regional integration through ties with Asia-Pacific.....	98
7. Jointly tackling environmental and climate change challenges	101
F. Funding the proposals	102
G. Conclusions	103
Bibliography	104

Tables

Table I.1	Real annual GDP growth projections.....	19
Table I.2	Main markets: total imports, January-May 2009 compared with January-May 2008.....	22
Table I.3	Selected countries: participation in world trade.....	29
Table I.4	China: ranking among selected trading partners.....	31
Table I.5	Exports of trade services by main category	45
Table II.1	Latin America and the Caribbean: merchandise trade, 2007-2009.....	54
Table II.2	Latin America and the Caribbean (15 countries): merchandise exports and imports, 2003-2008 and first half of 2008 and 2009.....	55
Table II.3	Latin America and the Caribbean: value of merchandise trade, 2003-2006 and half-year periods, 2007-2009	57
Table II.4	Latin America and the Caribbean: exports by product groups and contribution to overall variation, first half of 2008 and 2009.....	61
Table II.5	Latin America (15 countries): merchandise imports by major economic category, 2007 to June 2009	61
Table II.6	Latin America and the Caribbean: share in world services exports, 2000-2007.....	64
Table II.7	Latin America and the Caribbean: foreign direct investment, 1999-2008	65
Table II.8	Latin America and the Caribbean and developing countries: remittance flows, 2002-2010	65
Table II.9	Latin America: trade finance promotion measures adopted by certain governments	67
Table II.10	Latin America and the Caribbean: average applied and bound tariffs by subregion in the agricultural and non-agricultural sectors, 2007	68
Table II.11	Selected countries: new anti-dumping investigations, second half of 2007 to second half of 2008.....	69
Table II.A-1	Latin America and the Caribbean: trade measures adopted between September 2008 and June 2009	75

Table III.1	Latin America and the Caribbean: total exports and intrasubregional exports of each subregional integration scheme, 1990-2008 and first semester of 2009.....	85
Table III.2	Latin America and the Caribbean and reference regions: intraregional exports and their share in world goods trade, 1986-1989, 1994-1997 and 2006-2007	86
Table III.3	Intraregional trade of the Southern Common Market, the Andean Community and the Central American Common Market, 1986, 1996 and 2006	87
Table III.4	Opportunities in trade facilitation	92
Table III.5	Asymmetries in the subregions of Latin America and the Caribbean, 2008.....	95
Table III.6	Main Chinese companies operating in Latin America, mid-2008	100

Figures

Figure I.1	Proportion of the world economy in recession, 1901-2008	21
Figure I.2	Main economies and regions: GDP growth in relation to the same quarter of the previous year, 2008-2009	22
Figure I.3	The decline in exports in selected groups and countries.....	25
Figure I.4	World trade in major global crises	26
Figure I.5	World trade in goods and services: year-on-year growth in current dollar values.....	28
Figure I.6	China: purchases and total holdings of United States government securities.....	30
Figure I.7	China: foreign trade January-April 2009, in comparison with the same period in 2008.....	31
Figure I.8	Estimated support for producers by country and region, 1986-1988 and 2006-2008.....	34
Figure II.1	Latin America and the Caribbean: channels of transmission of the crisis and magnitude of the impact on selected indicators, 2009	50
Figure II.2	Latin America and the Caribbean: monthly variation in the foreign trade index, January 2006 to June 2009.....	51
Figure II.3	Latin America and the Caribbean (15 countries): merchandise trade, 1931-2009.....	53
Figure II.4	Latin America and the Caribbean: foreign trade by main destination, January 2006 to June 2009	56
Figure II.5	Latin America and the Caribbean: trade with the United States, the European Union and Asia, first-semester variation with respect to the year-earlier period, 2008-2009	58
Figure II.6	Latin America (15 countries): trade with China, first-semester variation with respect to the year-earlier period, 2008-2009.....	59
Figure II.7	Latin America and the Caribbean: bilateral trade with China, January 2006 to June 2009.....	59
Figure II.8	Latin America and the Caribbean: intraregional trade, first-semester variation with respect to the year-earlier period, 2008-2009.....	60
Figure II.9	Latin America (15 countries): monthly variation in import indices by major economic category, January 2006 to July 2009.....	62
Figure II.10	Latin America (9 countries): trade in services by country and sector, first quarter 2006 to first quarter 2009.....	63
Figure II.11	Latin America and the Caribbean (selected countries): tourist arrivals, 2007-2009.....	64
Figure II.12	Latin America and the Caribbean and developing countries: trends in remittance flows.....	66
Figure II.13	Latin America and the Caribbean: average value of various tariffs as of December 2007	68
Figure III.1	Latin America and the Caribbean: trends in intraregional trade, 1986-2008.....	84
Figure III.2	MERCOSUR: trends in intraregional trade	84
Figure III.3	Latin America and the Caribbean: comparison of intra-group trade in natural resources and manufactures, 2008	86
Figure III.4	Latin America (4 countries): exports of manufactured goods, by size of company and technology intensity, 2004.....	87
Figure III.5	Infrastructure in selected countries and regions: road density and percentage of paved roads	89
Figure III.6	Latin America (6 countries): infrastructure investment, 1980-2006.....	89
Figure III.7	Selected countries: technological preparedness and competitiveness indices, 2006-2007.....	94

Figures

Box I.1	Automobile sector support in the European Union and the United States	23
Box I.2	The effect of the credit squeeze on trade	26
Box I.3	Commodity markets in 2008 and 2009: boom, bust and recovery.....	27
Box I.4	The impact of the crisis on maritime transport	28
Box I.5	Stronger links among the BRICs	33
Box I.6	Climate change and trade: stylized facts.....	40
Box I.7	Bill before United States Congress to reduce greenhouse gas emissions	40
Box II.1	Comparison between the current crisis and the Asian crisis.....	51
Box II.2	Latin America and the Caribbean: effects of lower commodity exports on the terms of trade	52
Box II.3	The economic partnership agreement between the European Union and the Caribbean.....	71
Box III.1	Is protection always protectionist?.....	81
Box III.2	Facilitating intraregional trade by reducing the use of foreign currency	91
Box III.3	Treatment of asymmetries in regional integration schemes.....	96

Foreword

The 2008-2009 edition of *Latin America and the Caribbean in the World Economy* is divided into three chapters.

Chapter I offers a medium-term view of the current international economic conditions, examining in particular the variables that are most likely to shift global scenarios and affect the position of the Latin America and Caribbean economies in the world economy. The crisis has triggered or accentuated trends such as the growing significance of the emerging economies (with the resulting impact on the region's trade flows), and the differentiated patterns of world trade in manufactures, commodities and services. Chapter I also reviews the debates currently taking place in international forums on climate change and trade, and the various forms of protectionism that have arisen as a result of the crisis.

Chapter II looks at the immediate and long-term implications of the current crisis for regional trade patterns, in terms of origins, destinations and the sectoral composition of trade flows. It also analyses the behaviour of commodity prices, terms of trade, international trade

in services, tourism, foreign direct investment (FDI) and remittances. Lastly, the region's trade policy responses to the crisis are discussed.

Chapter III examines opportunities for regional cooperation in Latin America and the Caribbean. The new international conditions call for greater cooperation among the countries of the region, not only to contain the fallout from this crisis, but also to improve the region's position in the global economy. With this in mind, seven areas of cooperation are proposed: infrastructure, trade facilitation, innovation, reduction of asymmetries, social cohesion, climate change and closer ties with Asia-Pacific. These are all determinants of the region's competitiveness, innovation and productivity in the medium and long terms. In this regard, the consequences of losing the global competitiveness race would be much worse than the effects of the current crisis which, painful as they may be, will be temporary. Conversely, lags in competitiveness, innovation and productivity represent a permanent obstacle to the implementation of growth-with-equity strategies.

Summary

The crisis and its future impacts on the global economy

This chapter examines the global economic and financial crisis from a medium-term perspective, aiming to identify the structural trends that the crisis has generated or exacerbated, and focusing on the factors that most influence the position of the Latin American and Caribbean economies in the global order now taking shape. These include the differentiated dynamics between the industrialized economies and those of China and India and how these impact the region's trade flows, and the differentiated global trade patterns affecting manufactures, commodities and services. The chapter also considers recent international debates on the links between climate change and trade and the main types of measures that may affect trade among those deployed in response to the international economic crisis.

Between the second semester of 2008 and the first semester of 2009, the financial crisis deepened and plunged the global economy into recession. The crisis spread almost instantaneously across the globe, owing to the close financial and trade ties developed among countries as a result of the process of globalization of the last few decades. Thus the global economy entered the deepest and broadest recession seen since the 1930s, which put an end to what had been the greatest boom cycle for forty years (2003-2008). This crisis is unprecedented in terms of its scope, its point of origin in the most dynamic segment (investment banking) of the world's foremost economy,

and the simultaneity and speed of its impacts on output and international trade.

Faced with a crisis of this magnitude, the largest economies have responded with massive fiscal and monetary packages. The United States is deploying the largest fiscal stimulus in the world and the impact of this should be felt most strongly in the second half of 2009. The European Union has adopted a more modest plan, given its powerful automatic fiscal mechanisms. China's stimulus package is one of the largest and represents over 12% of its GDP. The country's massive monetary and credit programme is even larger. As a result, the Chinese

economy continues to grow rapidly on the back of robust domestic demand, although there are some concerns about the possibility of inflation and financial bubbles.

The financial crisis leaves a number of lessons about the limitations of self-regulation in financial markets, in a context of international inter-dependence. The global recession, triggered by the bursting of the property bubble in the United States (the subprime crisis), threw into sharp relief the structural disequilibria in the global economy and revealed the flaws in domestic financial systems—particularly in the United States and Europe—and their international interconnections.

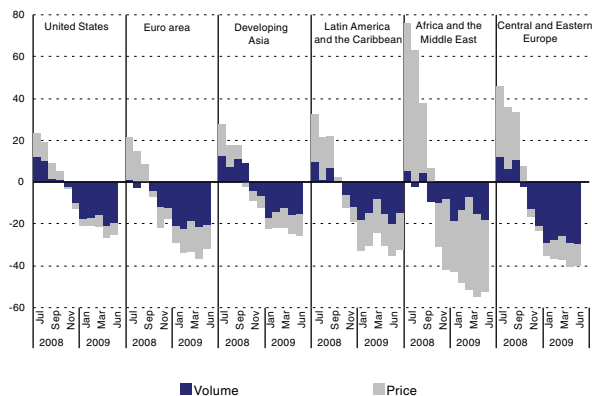
Different types of global structural disequilibria have contributed to the crisis, including: (i) excessive borrowing in the United States, in combination with China's huge levels of savings; (ii) the developing countries' tendency to build up surplus international reserves, which generates a recessionary bias in the global economy, since a flawed monetary order cannot provide stability between the main international reserve currencies; (iii) a financial system that has proved to be ineffective at anticipating and avoiding ever more frequent financial crises and the contagion of better performing economies, and (iv) financial regulation that lags relative to globalization and financial innovation, leading to the internationalization of risk and erosion of governments' oversight capacity.

There are many issues on the financial regulation reform agenda. They include combating distortive accounting practices by incorporating off-balance-sheet transactions, limiting excessive risk-taking and leveraging, reducing information asymmetries, avoiding conflicts of interest and improving the oversight of rating agencies. Given the scope of these issues and the magnitude of the interests at stake, it is not inconceivable that the momentum of reform will slacken once the economy gradually recovers.

As a result of the crisis, world trade plummeted even faster than during the Great Depression. The value of global trade shrank by 37% between July 2008 and May 2009. The drop in the volume of international trade for 2009 overall is expected to be close to 10%.

Although export values have tumbled in all the regions of the world, industrialized and developing countries differ in terms of the volume/price breakdown of the drop (see figure 1). In the industrialized countries, the contraction reflected mainly lower volumes of industrial goods exported. In the second group, the drop stemmed mainly from lower prices for commodity exports; the volume of exports fell less sharply, partly owing to steady demand from China. Global trade in services has suffered less than merchandise trade, owing basically to the resilience of trade in “other services”, such as financial, business and software services.

Figure 1
INDUSTRIALIZED AND DEVELOPING COUNTRIES: TRENDS IN EXPORT VOLUMES AND PRICES, JULY 2008-JUNE 2009
(12-month variation)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis, “World Trade Monitor”, 2009 and official figures for Latin American and Caribbean countries.

Note: The data used for the Caribbean are import data from the United States, the European Union and Latin American countries. Other country groups correspond to the definitions employed by the World Bank.

One structural trend that has been sharpened by the crisis is China's rise in the global economy. In the course of this decade, China has come to play a major role in production, international trade and FDI and has recently increased its international reserve holdings and the internationalization of its companies. For the region, especially for South America, recovery from the current crisis depends largely on sustained growth in the Chinese economy.

One of the collateral effects of the crisis is that the developing countries, led by China, have gained greater weight in the global economy and in its governance. Between 2000 and 2008 this group of countries accounted for two thirds of world output growth, increasing their share from 37% to 45%. The group of countries known as the BRICs (Brazil, the Russian Federation, India and China) have assumed a greater role in international financial governance, by transferring resources to the International Monetary Fund (IMF) at the peak of the financial crisis. This crisis has also led to the Group of Twenty (G20), which includes the main emerging countries, displacing the traditional Group of Eight (G8) as the foremost international forum of economic decision-making. The G20 is expected to foster greater coordination as regards fiscal stimuli, financial stabilization and the reform of the international financial system. These are, admittedly, long-term goals, and thus far those expectations are not being fulfilled.

Large numbers of developed and developing countries have introduced trade measures to try to contain the impact of the global crisis on their economies. These measures include tariff hikes, antidumping duties, non-tariff barriers such as import licences and more stringent technical standards, subsidies to the banking sector, the

automobile industry and agriculture, discriminatory public procurement practices and restrictions on immigration or on the hiring of foreign workers, among others. Despite these signs of protectionism, the experience of the 1930s is unlikely to be repeated, owing to the existence of global value chains and a multilateral framework of rules in the World Trade Organization (WTO), and the fact that nowadays most countries have flexible exchange rates. Nevertheless, the protectionist measures taken in response to the crisis highlight the need to conclude the Doha Round of trade talks as soon as possible.

Another issue that has come strongly to the fore recently is the need to combat climate change and resist what is known as “green protectionism”. Climate change is being addressed in many forums today, both at the multilateral level and within some of the world’s largest economies. A new multilateral framework for reducing greenhouse gas emissions, engaging all the largest emitting economies, is one of the goals of the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), to be held in Copenhagen in December 2009. Should such an agreement fail to be reached, the industrialized countries are more likely to take unilateral measures that could restrict the region’s exports to their markets. It is therefore essential that the Latin American and Caribbean countries participate in an active and coordinated manner in the negotiations under way in UNFCCC. This will require full respect for the principle of common but differentiated responsibilities. Developing countries must also be guaranteed access to the financial and technological resources they need in order to undertake greater commitments, without compromising their development strategies and free from protectionist measures in third markets.

The talks on the liberalization of trade in environmental goods and services in the framework of WTO offer interesting opportunities for the region. The negotiations have identified a broad range of goods and services that can be used for different environmental purposes (such as wind or hydroelectric turbines, photovoltaic cells, solar water heaters, and equipment for renewable energy production and for the management of solid and dangerous waste), and for mitigation of climate change. Lower tariff and non-tariff barriers to trade in these goods would make them more accessible and thus help to shift the region’s production patterns towards lower carbon emission levels. It is therefore essential that the countries of the region engage actively in the negotiations, ensuring that their particular circumstances are taken into consideration.

The impact of the crisis goes beyond present circumstances and recovery will be slow and uncertain. Growth in the industrialized countries will be sluggish in

the near future owing to slack global demand, given the huge impact of the crisis on wealth across the globe and the high unemployment rates expected in Europe and the United States in 2010-2011. The financial sector could remain weak because of balance sheets which have yet to be cleaned up, the impact of the recession itself and the fact that the banks have yet to find a substitute for earnings from real estate securitization.

In spite of the uncertainty, however, the structural tendency towards globalization will likely persist, driven by technological developments. The crisis will not slow the pace of technological change nor the speed of its spread to production and international trade. In the post-crisis period, there will still be rewards for export-oriented economies that are based on competitiveness and technological innovation. After two or three slacker years, international trade will again be a source of opportunities, particularly for firms that form part of global value chains.

Despite its historic magnitude, the crisis is temporary and the global economy will return to a path of globalization and expansion. Crises are a source of opportunities: the firms to gain most from new opportunities will be those that, as well as making short-term adjustments in response to the crisis, adopt medium- and long-term international positioning strategies. The Latin American and Caribbean region is losing ground at the global level, not only in manufacturing value added but also in natural resources and services, particularly modern services (see chapter II). Efforts are needed to deepen the export industry by diversifying, incorporating more knowledge and reorienting towards fast-growing products and services.

In order to rise to the challenges of the post-crisis period, governments need to play a stronger role in the economy (the “visible hand”). Few can now doubt that stronger State involvement is needed in regulation, bailing out crisis-hit sectors, promoting growth, compensating for social imbalances, driving innovation and mitigating the effects of climate change. The problem is that governments in the North are highly indebted, which limits their room for manoeuvre. The fiscal space is also shrinking in Latin America and the Caribbean, and the public sector is still in need of extensive modernization and reform. With an uncertain global economy, balancing market and government is essential for reforming the global economic system. So are public-private partnerships for rising to the challenges of competitiveness, innovation and export diversification.

The crisis makes it all the more important for the countries of the region to expedite and intensify changes in their production structure with social equity. International integration policies in Latin America and the Caribbean have evolved from the trade

liberalization of the 1980s to the export orientation strategies adopted today. Given the emergence of global value chains and the growing importance of innovation in production and trade, the region must now adapt its internationalization strategies, shifting the focus: (i) from trade liberalization and export promotion towards corporate internationalization strategies; (ii) from inter-industry integration into international trade to integration into global value chains or into niches of high-tech goods and specialized services in the case of smaller countries; and (iii) from national positioning to plurinational alliances, based more strongly on the integration of production chains and regional cooperation.

The impact of the crisis on regional trade

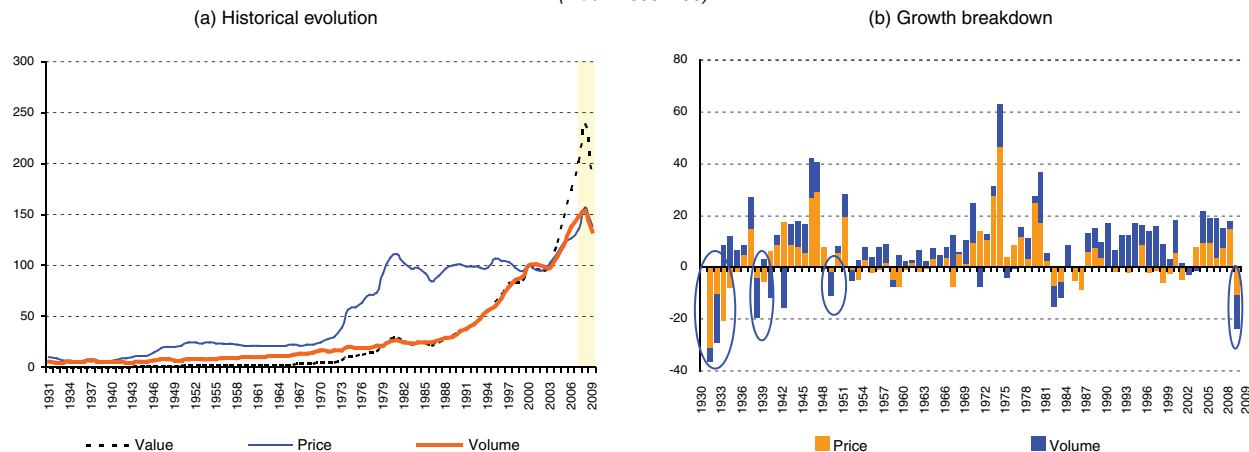
The region has endured an external shock greater than those caused by either the Asian crisis or the external debt crisis. In fact, projections for 2009 show year-on-year drops of between 35% and 45% in FDI flows, between 5% and 10% in remittances, 29% in the prices of the region's export commodities and 25% in export values. The external

shock has not drastically impacted GDP or employment, which shows that the region is better prepared this time thanks to the combination of an international boom period (2003-2007) and improved economic policy management.

The downturn in regional trade is unprecedented in recent history. A comparable drop in volume and prices has not occurred in 70 years (1937-1939), in the case of exports, and in 27 years (1982), in the case of imports.

Since the crisis broke out, trade flows have fallen substantially across the region, regardless of origin and destination. China is the only country to have maintained steady demand for commodities and this has helped to offset the region's poor external trade conditions overall. Latin American worldwide exports will increase in value in the second semester of 2009, so that the drop for the year overall (25%) will be smaller than that seen in the first half of the year (31%). Nevertheless, ECLAC estimates that the volume of regional trade (exports and imports) will shrink by 13% in 2009, more than the 10% projected for world trade (see figure 2). In 2009 the volume of exports of the Latin American and Caribbean region will drop by 11% and its imports by 14%.

Figure 2
LATIN AMERICA AND THE CARIBBEAN: TRENDS IN GOODS TRADE, 1930-2009^a
(Index: 2000=100)



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

The contraction of regional exports masks major differences among subregions and countries. Mexico and the countries of South America and the Caribbean will see their export values drop considerably this year, but the downturn will be smaller in Central America. The dip in manufacturing exports in the Central American countries is partly due to those industries' vertical integration into global

chains, which have suffered from subdued final demand for their products. Those lower export volumes have not been exacerbated by falling prices, however, which has helped to contain the fall. Conversely, several South American commodity exporters have seen a smaller contraction in export volumes, but a sharp fall in prices. On the import side, the slowdown is more evenly spread among the subregions.

By category of goods, in keeping with global trends, the contraction in regional exports is sharper in mining, petroleum and manufactures than in agricultural goods. Exports of some agricultural goods have picked up a little in 2009 and a similar trend (in volume terms) is occurring in some metals and minerals, owing mainly to continued strong demand from China.

Imports into the region slowed heavily across all sectors in the first half of 2009. Although the greatest percentage drop was in fuels, over half of the contraction in total imports was attributable to intermediate and capital goods. Given the direct link between those categories of imports and investment, this drop lessens the region's prospects for a quick recovery.

The smaller drop in services trade as compared to goods trade is confirmed by the data available for the first quarter of 2009. The worst affected category was transport, especially in Costa Rica and Uruguay. This contrasts with the considerable resilience shown by travel—despite the additional shocks to the sector, especially the outbreak of influenza A(H1N1)—and the category “other services”.

Generally speaking, few steps have been taken in the region to restrict trade flows, despite the pressures generated by the crisis. Foreign trade policy responses have varied considerably from one country to another and include measures to increase protection as well as policies to promote trade.

The governments of the region have implemented a variety of trade restrictions, tending to prefer border measures to subsidies. The most common measures are tariff hikes (usually envisaged as temporary), the introduction or increased use of import licences and benchmark values for imported goods, the establishment of import quotas for some products and greater use of trade protection measures, particularly antidumping duties. In some cases the crisis has strengthened calls to explore administered trade options, through sectoral agreements between exporters and importers, for example.

The governments have also taken a number of measures to promote trade, including tariff reductions (mainly in capital and intermediate goods and foodstuffs), cuts in export taxes (especially for agricultural goods), trade facilitation measures and additional export promotion efforts. Many governments have also attempted to find new sources of trade finance to offset the effects of the credit crunch triggered by the crisis.

In general, the region's behaviour in the area of trade policy compares favourably with that of the industrialized economies. This represents a sign of maturity that should be valued and encouraged, since greater protectionism would only worsen the crisis and delay recovery.

Nevertheless, certain trade restrictions have had an impact on intraregional trade, especially in South America, where tensions have arisen within both MERCOSUR and the Andean Community.

The region faces difficult international conditions in the post-crisis period. World trade projections for the next two to three years suggest modest growth amid protectionist pressures and competitive tensions arising from excess production capacity in some sectors. This will fuel mergers and acquisitions, especially in light of the asset value depreciation caused by the crisis. China and other developing Asian countries will continue to become more competitive.

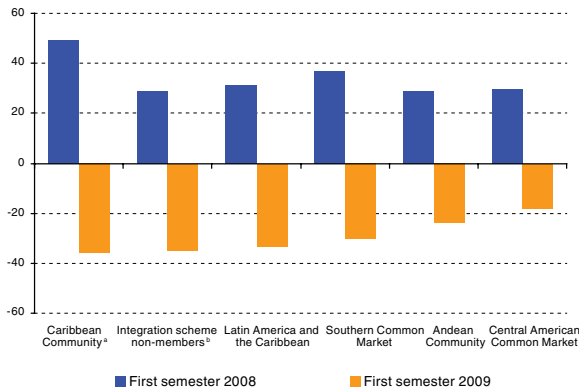
The region's pattern of international integration needs to be rethought. Here again, the countries of the region have not yet fully exploited their comparative advantages in sectors linked to natural resources and ecosystems suitable for tourism, among others.

Opportunities for cooperation and regional integration

Given the magnitude of this crisis, the region is clearly holding up much better than in previous—and in fact smaller—crises. The macroeconomic strengths built up in the boom cycle of 2003-2007 explain the greater resilience to the crisis this time around. This is the first time that the region has faced severe global or regional economic conditions without running into exchange-rate difficulties or badly missing inflation targets. Thanks to the fiscal space achieved in this period and the build-up of international reserves, most of the countries have been able to deploy countercyclical policies, also something unseen in earlier crises. In South America, the relative resilience has also been a reflection of rapid economic growth in China, which has generated a steady demand for natural resources.

Intraregional exports have declined at a similar rate to total exports. In the first half of 2009, the value of intraregional exports dropped by 33% with respect to the same period of 2008, that is by slightly more than the region's total worldwide exports (31%). This is consistent with the traditionally procyclical behaviour of intra-Latin American exports. Trade within the various subregional integration schemes also contracted sharply in the first half of 2009, especially in South America (down 31% in MERCOSUR and 24% in the Andean Community). For the first time in the 2000s, there was a drop in trade among the Central American Common Market (CACM) countries (down 18%). The countries of the Caribbean Community (CARICOM), together with Mexico and Chile, also recorded a sharp drop in their exports to the Latin American region (see figure 3). Intraregional manufacturing exports show a contraction comparable to worldwide manufacturing exports.

Figure 3
**LATIN AMERICA AND THE CARIBBEAN: VALUE OF
 INTRAREGIONAL TRADE, YEAR-ON-YEAR FIRST-
 SEMESTER VARIATION, 2008 AND 2009**
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures provided by the central banks, customs offices and national statistical offices of the countries.

^a On the basis of mirror statistics from the main Latin American trading partners (Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador Guatemala, Honduras and Mexico).

^b Aggregate data for Chile and Mexico.

In order to avoid the errors committed during previous crises, the governments of the region should aim to adopt coordinated, participatory and mutually informed policy responses. In particular, policies must be coordinated in the following areas: (i) countercyclical fiscal policy, since in the absence of coordination there reduces incentives to continue advancing in this direction; (ii) financial regulation, to avoid regulatory arbitration; (iii) re-establishment of capital flows and support for intraregional trade with special financing from regional or development banks, and (iv) measures to avoid protectionism, particularly between countries of the region, since this would hurt SMEs and exports that have greater value added or are more labour-intensive.

The new international conditions call for greater regional cooperation, not only to contain the fallout from this crisis, but also to improve the region's position in the global economy. In this regard, the consequences of losing the global competitiveness race would be much worse than the effects of the current crisis which, harsh as they may be, will be temporary. Conversely, lags in competitiveness, innovation and productivity represent a key obstacle to the success of growth-with-equity strategies. Cooperation on competitiveness and innovation issues is, then, the main challenge facing Latin America and the Caribbean.

The differences that exist in the region today on trade matters should not represent an obstacle to making progress on other, perhaps more pressing, issues. ECLAC proposes pursuing regional cooperation

efforts in seven areas: infrastructure, trade facilitation, innovation, reduction of asymmetries, social cohesion, closer ties with Asia-Pacific and climate change. Specific proposals are made for action in each of these areas.

Measures taken to advance this agenda will give a powerful signal of practical commitment to integration. This, in turn, will enable progress towards unification of markets in the region, by stimulating intraregional trade and investment, improving the region's international position and addressing social challenges and asymmetries.

Headway in those areas will not be possible without a more solid and effective regional institutional framework built up around the subregional integration agreements. These institutions must play a central role in protecting the interests of the smaller countries and helping to mediate among member countries when conflicts of interest arise. Both these roles would help to build confidence in the integration processes.

In the coming years the region will need to preserve the pillar of macroeconomic stability and develop joint programmes of investment in such areas as infrastructure, trade facilitation and innovation. Accordingly, it will be necessary to make available more financing for trade, especially intraregional trade, and to strengthen international financial institutions and endow them with more capital and greater capacity to lend rapidly to avert balance-of-payments crises. Regional financial institutions must be enhanced through increased capitalization and complementarity with development banks.

It is important to integrate trade policy with policies on productive development, innovation and FDI. A key objective of internationalization strategies should be integration into global production and marketing chains linked to natural resources, by forging mutually beneficial technology partnerships (for example, to apply biotechnology advances to agro-industry, mining, forestry and fisheries).

The countries of the region must strengthen links between goods, services and investment. As services become increasingly important in the value chain, they represent the principal source of value added in many products. This is particularly true for consultancy, advertising and marketing services, legal advice, accounting and finance, information and communications technologies (ICTs), and engineering and quality control. As new technologies spread, competitive leads tend to take the form of international value chains. Massive access for companies, especially SMEs, to modern services is crucial for stimulating productivity.

Other trade-related services, such as transport, infrastructure and financial services, are important components of systemic competitiveness. Transport costs can strongly impact competitiveness, sometimes

even more than tariff levels or exchange rates. Greater use of ICTs can help to make trade facilitation measures (port logistics, customs procedures, harmonization of standards, e-commerce and management of rules of origin) into key tools of export competitiveness. Developing competitiveness also requires stronger rating and oversight institutions and the adaptation of exports to technical standards (ISO 9000 and ISO 14000) and sanitary and phytosanitary rules. In all these areas more rapid progress can be made if existing regional cooperation forums are used to coordinate action.

It would be a mistake to underestimate the potential of natural-resource-based activities to drive high levels of productivity, technology spillovers and forward and backward linkages. The production and export of certain primary goods can make intensive use of skilled labour, technology and know-how. In manufacturing, the challenge is to join the respective global production and marketing chains with higher-value-added inputs and components to promote horizontal intra-industry trade and attract the type of FDI that grows linkages with the rest of the economy.

Public-private partnerships are essential to progress in innovation and export diversification. Export diversification and technology-building strategies are more likely to bear fruit in the presence of a strong public-private alliance that can survive changes of government and adhere to a long-term vision. Links between firms, universities and technology centres must be strengthened so as to increase public and private investment in innovation. Otherwise it will be possible neither to diversify exports nor to build in know-how and technology.

It is necessary to combat protectionism and work towards a swift conclusion of the Doha Round negotiations. Traditional protectionist threats have re-emerged across the globe and new issues have arisen, such as security, private quality standards and diverse measures on trade and climate change. Given the seriousness of the international situation, the Doha Round of trade

talks should be concluded as soon as possible, seeking a balanced outcome that reflects the declared objective of contributing to development. This is urgent since, as things stand, the countries could raise tariff levels right up to the bound tariff ceilings without breaching their WTO commitments. It is also essential to avoid protectionism, particularly the sort that could limit intra-regional trade. Regional integration must not be allowed to become a victim of an international crisis that was not of the region's making. In facing the new challenges, much would be gained from defining common criteria and acting with a single voice in the respective international forums.

The Latin American and Caribbean countries need to take a more coordinated approach to tightening ties with Asia-Pacific. The Latin American and Caribbean region has yet to fully assimilate the significance of Asia-Pacific, despite that region's growing importance as a trade partner. Still less has any sort of coordinated strategy been developed among countries or groups of countries to forge closer trade and strategic investment links. Thus far, approaches by the Latin American countries have tended to be sporadic and isolated, and a number of bilateral trade agreements have been signed. Although these agreements are important, they are not enough to generate the scale and critical mass needed to encourage trade and technology partnerships between the two regions, nor to reduce the sharp asymmetry between the large volumes of trade and small levels of investment.

In a less favourable global context than in previous years, the region needs to redouble its efforts to build broadened regional economic forums and undertake cooperation initiatives that can unlock the synergies of the different subregions. Increased cooperation within the Caribbean, South America and Mexico-Central America is no longer merely a major political objective, but also an economic imperative if the region is to integrate into a global economy that is less dynamic but more competitive and increasingly structured around global value chains.

Chapter I

The crisis and its future impact on the global economy

A. Introduction

This chapter examines the medium-term outlook for the international economy and identifies the more structural trends that have emerged or intensified as a result of the crisis, particularly in the realm of international trade. The goal is to identify the factors that might affect the participation of the economies of Latin America and the Caribbean in the new global configuration, such as the differences in growth dynamics between the industrialized countries and China and India and their differentiated impacts on the region's trade flows, the varying trends in the demand for manufactures, raw materials and services, and the remnants of the protectionist barriers erected during the crisis that prove difficult to dismantle afterwards. The chapter also considers recent international debates on the links between climate change and trade and examines the various trade-related measures adopted in response to the international economic crisis.

The considerable depth, synchronicity and scope of, first, the recent financial crisis and then the ensuing economic one, together with the sharp contraction of international financing in the last quarter of 2008 and of world trade from then through to the end of the first semester of 2009 (the time at which this publication was written), seriously undermine the possibility of the post-crisis dynamics and features of the world economy bearing any resemblance to those seen prior to the crisis. The last section of the chapter analyses several of the significant transformations

that will be wrought in the global economy as a result of this crisis, which has exacerbated some latent trends and initiated new ones. Slower growth in the world economy over the next few years, protectionist measures that will not be easily eliminated when economic activity picks up again, more limited access to external financing, and the need to tackle climate change are some of the issues examined.

The consequences of the economic crisis will be manifold. First, recovery will be slow, gradual, and subject

to numerous risks associated mainly with the time needed to restore the health of the banking sector in several countries. Second, establishing new global regulations to address both structural imbalances (savings-investment) and financial regulation will be extremely difficult. The financial sector will undoubtedly not be the same after the drastic reduction of worldwide reserves, the drying up of liquidity, the increase in risk aversion and the measures adopted to lower the risk, leverage and opacity of financial instruments. Third, the growing fiscal deficits and public-debt levels of many countries of the Organisation for Economic Co-operation and Development (OECD) will need to be reined in, which will have a negative impact on financing for developing economies. Fourth, the crisis has underscored the increasingly influential role played by China in the world economy; this country is now the third largest economy and the second largest

exporter in the world, as well as the gravitational core of global industry and one of the fiercest competitors on the international market. On its heels and heading in the same direction are Brazil, the Russian Federation and India (which together with China constitute the “BRICs”). Latin America and the Caribbean will become increasingly dependent on China, India and the other Asian economies to fuel the region’s export growth. Fifth, the crisis has accelerated the restructuring of production around the globe, which has implications for competitiveness and will require the adoption of more up-to-date production and international marketing models. Strengthening the presence of regional firms in Latin American and global value chains is one of the main challenges of internationalizing production. The region needs to, above all, boost its presence in the modern services sector. Finally, climate change is also reshaping global production chains (see section H for further details).

B. From financial crisis to global crisis

1. The global crisis and the outlook today

During the second half of 2008 and the first half of 2009, the financial crisis worsened and hit the global economy hard. The close financial and trade ties forged among economies by the globalization process over the preceding decades enabled the crisis to spread almost instantaneously to practically every country of the world. This triggered the deepest and broadest recession since the 1930s and ended the growth cycle that had lasted from 2003 to the first half of 2008 and had been the most expansionary in four decades.

In the aftermath of the major recession of 2009, the European Union, Japan and the United States will most

probably post weak growth in 2010 (see table I.1). China and India are projected to grow by 8% and 5%, respectively, in 2009 and similarly in 2010. The countries of Latin America and the Caribbean have been affected by the global economic slowdown in different ways according to their trade and financial ties. Mexico, for example, has been hit the hardest on account of its close links with the United States economy. One outcome of the crisis is that the advanced and the emerging economies will tend to converge more rapidly.

Table I.1
REAL ANNUAL GDP GROWTH PROJECTIONS
 (Percentages)

Country/Region	International Monetary Fund			World Bank			OECD			ECLAC		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
World	3.1	-1.4	2.5	3.0	-1.7	2.8						
Advanced economies	0.8	-3.8	0.6	0.7	-4.2	1.3	0.8	-4.1	0.7			
United States	1.1	-2.6	0.8	1.1	-3.0	1.8	1.1	-2.8	0.9			
Japan	-0.7	-6.0	1.7	-0.7	-6.8	1.0	-0.7	-6.8	0.7			
Euro zone	0.8	-4.8	-0.3	0.6	-4.5	0.5	0.5	-4.8	0.0			
Other advanced economies	1.6	-3.9	1.0	2.4	-4.8	2.2						
Emerging and developing economies	6.0	1.5	4.7	5.9	2.1	4.4						
China	9.0	7.5	8.5	9.0	6.5	7.5	9.0	7.7	9.3			
India	7.3	5.4	6.5	6.1	5.1	8.0	6.5	5.9	7.2			
Latin America and the Caribbean				4.2	-2.2	2.0				4.2	-1.9	3.1
Mexico	1.3	-7.3	3.0	1.4	-5.8	1.7	1.4	-8.0	2.8	1.3	-7.0	2.5
Central America										4.3	-1.1	3.1
The Caribbean										1.5	-1.2	0.5
South America										5.5	0.1	3.4
Central and Eastern Europe	3.0	-5.0	1.0	4.2	-1.6	0.6						
Middle East	5.2	2.0	3.7	6.9	2.5	3.0						
Africa	5.2	1.8	4.1	4.8	1.0	3.7						

Source: International Monetary Fund (IMF), *World Economic Outlook Update*, Washington, D.C., July, 2009; World Bank, *Global Development Finance*, Washington, D.C., 2009; Organisation for Economic Co-operation and Development (OECD), *OECD Economic Outlook*, No. 85, Paris, June, 2009; and Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean, 2008-2009* (LC/G.2410-P), Santiago, 2009.

2. The financial crisis

Between the second semester of 2008 and the first semester of 2009, the financial crisis worsened and spread around the globe, causing the deepest and broadest recession since the 1930s and triggering a simultaneous plunge in production and international trade. This crisis is unprecedented in terms of its scope, its origin in the world's dominant economy (specifically in investment banking, the most dynamic segment of the United States economy), and the simultaneity and speed with which it was transmitted to every corner of the globe. In a context marked by turbulent financial markets, limited access to credit, rising unemployment and a substantive devaluation of assets, the world economy will contract in 2009 for the first time since the Second World War. This contraction will hit all the world's largest economies, except China. One of the main consequences of the crisis has been the drastic decline of world trade, generated largely by the sharp drop in lending for trade transactions and the greater vulnerability of traded goods to the fall in worldwide demand. As a result, global trade is expected to shrink

by about 10%. The previous contraction in world trade occurred in 1982 and was less severe. Not since the 1930s has the world experienced a trade slump of this magnitude.

The onset of this recession signalled the end of the most expansionary cycle in 40 years: the growth period that stretched from 2003 to mid-2008. One unique feature of this cycle was that the savings surpluses of the South, mainly through the current account surpluses of China, the other Asian economies and the oil-based economies, financed the real-estate and stock market bubbles of the North. This enabled the United States to grow beyond its potential, without inflationary pressure and with low interest rates, which resulted in a large current account deficit and soaring debt levels among families, businesses and government alike. The bursting of these bubbles shook the United States economy, the very heart of the world financial system, as well as the Japanese and European economies, and did not spare the developing countries as many were unprepared from

a financial viewpoint. The crisis also severely affected several small and open emerging countries, which are more reliant on the European and United States markets and in whose national economy manufacturing exports play a larger role. This accentuated some of the trends seen prior to the crisis: the shift from the Atlantic to the Pacific of the driving force of the global economy; and the growing weight of China and the increasing number and strength of its ties with the other Asian economies.

The recessionary shock rocked the foundations of the most buoyant segment of the world's predominant economy, the United States financial sector, and its most dynamic element, investment banking, in particular. The bankruptcy of Lehman Brothers and the bail-out of American International Group Inc. (AIG) in October 2008 marked the start of the second phase of the financial crisis. The demise of two of the financial sector's most influential institutions had a devastating effect on financial markets. Prior to the folding of Lehman Brothers, the action taken by the authorities had suggested that efforts would focus on stemming systemic risk, in other words, on preventing the failure of large financial establishments that could cause the credit markets and economic activity to tumble with them. Allowing Lehman Brother to collapse, however, sent out a completely different message: it seemed that the authorities were, in mid-crisis, going to prioritize controlling moral hazard; and financial entities, regardless of their size, could go bust. The immediate reaction was panic. Credit evaporated and, for a couple of weeks, the world was on the verge of financial collapse (Machinea, 2009). Uncertainty about the health of other banking and non-banking institutions produced a widespread plunge in demand for debt instruments, and hence the total collapse of their prices and market. This forced credit rating agencies to lower the ratings of several prestigious institutions that had operations all over the world. Entities with ties to these institutions had to lower their debt exposure and began to call in their loans, which created a vicious circle. The collapse of Washington Mutual at the end of September signalled the biggest commercial banking crisis in the history of the United States, and the large European banks also began to find themselves in troubled waters. The panic in the financial sector abated somewhat only when the United Kingdom made a series of announcements on the recapitalization of the banking sector, the clean-up of impaired assets ("toxic assets"), and the extension of guarantees on bank liabilities and when substantial and coordinated injections of liquidity were made by the world's main central banks.

In Europe, assets linked to the United States financial market risked incurring huge losses. The fear

of contagion had a devastating effect on credit markets and resulted in many bank interventions. The most dramatic case occurred in Iceland, where the collapse of the banking system and the inadequate response of authorities plunged the country into economic and political turmoil. The other European governments, recognizing the strong financial connections in the region, took decisive action to minimize the repercussions of Iceland's financial collapse on other economies.

The crisis also had a disproportionately heavy impact on Eastern Europe, where economies had been growing at rapid rates on the back of abundant external borrowing. Latvia, for example, had problems managing the sharp contraction of its economy, which was marked by considerable exchange-rate instability, high unemployment, civil unrest and limitations imposed by the austerity programme agreed to with the International Monetary Fund (IMF). Other countries in the area are encountering similar difficulties and several have resorted to IMF loans to tackle the crisis. The high levels of short-term external debt of Eastern European countries are forcing them to seek financing just when international markets are facing serious liquidity constraints.

The financial crisis has provided a number of lessons on the limitations of self-regulation in financial markets with high levels of international interdependence. The global recession, set in motion by the bursting of the property bubble in the United States (the subprime mortgage crisis), revealed the structural disequilibria in the global economy and uncovered the flaws in domestic financial systems —particularly in Europe and the United States. The imbalances vary in nature: (a) the excess borrowing in the United States and the excess saving in China; (b) the developing countries' tendency to build up international reserves, which generates a recessionary bias in the global economy since the flawed international monetary system is unable to provide stability among the main international reserve currencies; and (c) an international financial system that has turned out to be ineffective in terms of reducing the volatility of financial instruments, anticipating and averting the increasingly frequent financial crises, and opportunely supplying the financing needed to prevent balance-of-payments crises and the contagion of economies that are on sounder footings.

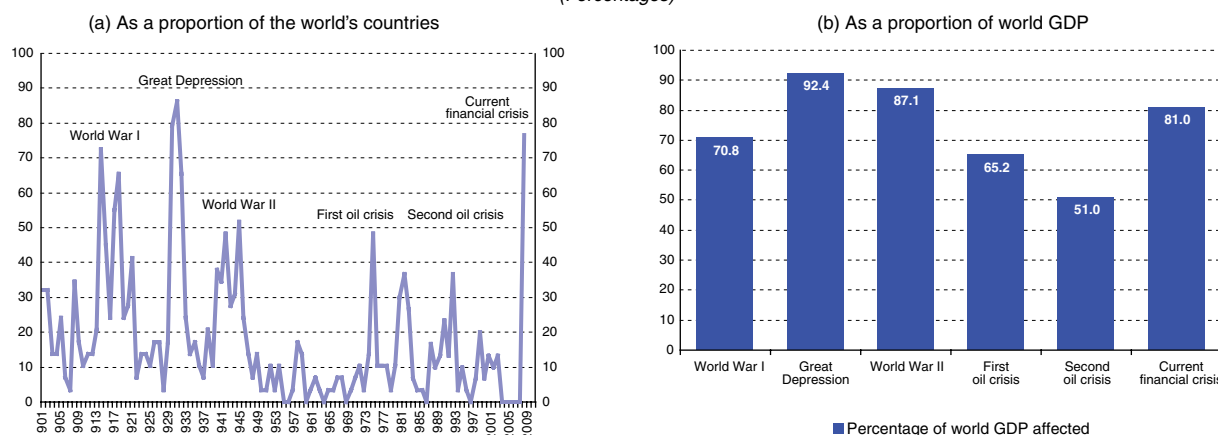
The crisis has also exposed the notable deficiencies of financial regulation and supervision, particularly with regard to the principal financial instruments and markets. Today, all international organizations agree on the need for stricter and more technically advanced oversight, especially of high-risk funds, leverage ratios in financial institutions and the activities of credit-rating agencies.

3. The recessionary shock and the global economy

In the second half of 2008, the severe financial crisis and the loss of confidence worldwide plunged the global economy into the worst recession since the Second World War. Another factor contributing to the world economic slowdown was the restrictive monetary policies applied in several countries up to the third quarter of 2008 to contain inflationary expectations. With slumping production in OECD countries and the

sharp deceleration of economic activity in the rest of the world, global economic growth turned negative in the fourth quarter of 2008. The recession is unique in its synchronicity around the globe (see figure I.1). The main international organizations have projected a drop in the volume of world trade in 2009 of between 10% and 13%, the first contraction since 1982 and the largest since the Great Depression.

Figure I.1
PROPORTION OF THE WORLD ECONOMY IN RECESSION, 1901- 2008 ^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of "Maddison Historical Statistics" [online] <http://www.ggdc.net/maddison> and International Monetary Fund (IMF), World Economic Outlook, April 2009.

^a On the basis of 29 countries' economic growth rates calculated in internationally comparable constant currency.

In the second quarter of 2009, the United States economy posted its fourth consecutive quarter of negative GDP growth (see figure I.2.a). Comparison of the annualized variation between consecutive quarters shows a smaller downturn in the second quarter than in the three preceding quarters, however, thanks to smaller negative rates in non-residential investment and in exports.

The financial crisis, weak external demand and a surge in unemployment pushed the euro area into a recession in the third quarter of 2008. Low levels of confidence among businesses and consumers dampened domestic demand. Austria, Germany, the Netherlands and Slovakia witnessed the steepest drops in economic activity but, at the end of 2008 and the beginning of 2009, it was the countries of Eastern Europe that suffered the largest slumps, posting year-on-year contractions of between 40% and 50%.

The recession in the Japanese economy started earlier and was deeper than the recession in the United States and the euro area, largely on account of the significant decline in net exports, which have a greater impact on GDP in Japan than in the other advanced economies. In addition to facing lower external demand, Japanese exports suffered from the marked appreciation of the yen. The plunge in exports, in turn, hit private investment and triggered a sharp increase in bankruptcies. Private consumption also came down in the last few quarters as a result of worsening conditions in the labour market, which resulted in high unemployment.

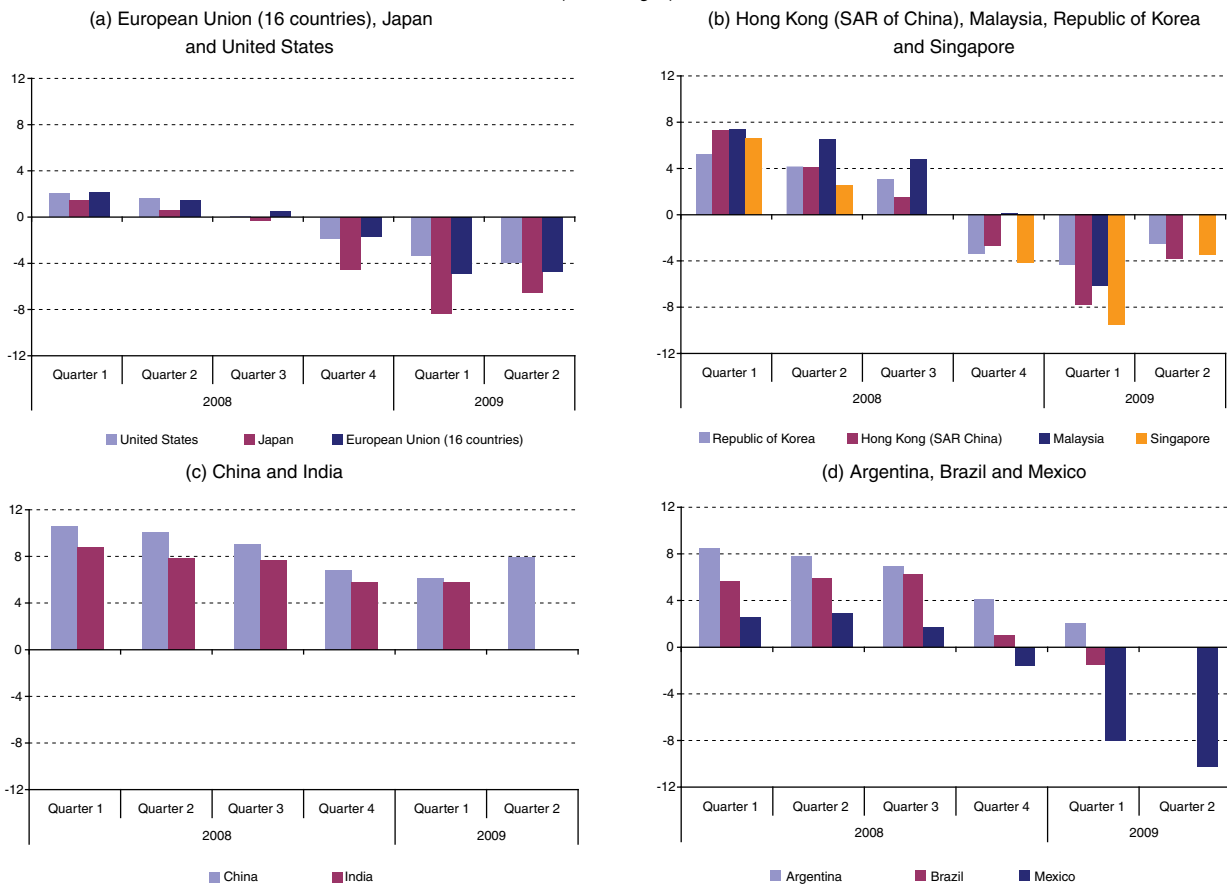
In Asia, the weight of manufacturing and "Asian Factory" exports in the region's economies have translated into major economic contractions. The South-East Asian countries have suffered from the decline in Chinese exports, which was in turn triggered by the slump in demand for manufactures in industrialized countries

(see figure I.2b). China and India, in comparison, have much larger domestic economies, which have enabled them to sustain high growth rates (see figure I.2.c). In the case of China, the relative importance of processing trade with its low value added, means that the decline in demand for manufactures has had only a limited impact on the country's economy.

The impact of the slowdown in the world economy has affected the countries of Latin America and the Caribbean in different ways according to their trade

and financial ties (see figure I.2.d). In Mexico, the sharp downturn in the United States economy has resulted in a plunge in exports and a sharp contraction of the domestic economy. Argentina and Brazil experienced a major slowdown at the end of 2008, but their trade ties with China and their greater dependence on agricultural commodity exports—demand for which has been less severely affected by the crisis (see table I.2)— have partially offset the impact of the contraction of the industrialized economies.

Figure I.2
MAIN ECONOMIES AND REGIONS: GDP GROWTH IN RELATION TO THE SAME QUARTER OF THE PREVIOUS YEAR, 2008-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of reports of the national statistical offices of the United States, Japan and the European Union, and the Organisation for Economic Co-operation and Development (OECD).

Table I.2
MAIN MARKETS: TOTAL IMPORTS, JANUARY-MAY 2009 COMPARED WITH JANUARY-MAY 2008
(Percentages)

Sectors	United States			European Union		
	Value	Volume	Price	Value	Volume	Price
Agriculture	-8.7	-7.2	-1.5	-9.1	-10.1	0.9
Mining and Petroleum	-52.7	-25.6	-27.1	-36.3	-12.2	-24.0
Manufactures	-27.2	-27.3	0.0	-20.7	-25.6	4.9
Total	-32.0	-26.1	-5.9	-22.4	-16.0	-6.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States Department of Commerce and the Statistical Office of the European Communities (EUROSTAT).

C. Economic policy to the rescue

The magnitude of the crisis sparked intervention by fiscal and monetary authorities on a scale never seen

before, and this extraordinarily bold reaction helped to stave off systemic collapse.

1. United States

The United States has applied the largest fiscal stimulus package in the world. In February 2008, signs that economic activity would experience a sharp deceleration led the United States Congress to approve a US\$ 168 billion tax relief programme. One year later, in February 2009, the government approved an economic recovery plan, estimated at US\$ 787 billion (5.5% of

GDP). Of this amount, US\$ 288 billion are tax reductions and the rest are investments in infrastructure, renewable resources, research and development, technology and education. Funds were set up for the unemployed and for public health care, together with programmes to support the worst-hit sectors, such as the automobile industry (see box I.1).

Box I.1

AUTOMOBILE SECTOR SUPPORT IN THE EUROPEAN UNION AND THE UNITED STATES

In response to falling demand and a subsequent fall in industrial production, many governments of developed countries are implementing rescue measures. Among the hardest-hit industries is the automobile sector, which has posted unprecedented losses.

Revenue of the United States automobile industry declined by 2.5% in 2008, but the crisis will have a stronger impact in 2009. Year-on-year auto sales fell by 66% and 56% in the first two months of 2009. The United States' Big Three (General Motors, Ford and Chrysler) took drastic measures to remain in business and negotiated industry-support plans with the federal government. The first plan provided US\$ 17.4 billion for General Motors and Chrysler (Ford did not receive assistance) in loans to cover operating

costs while the companies restructured. The second plan included a further loan to assist automobile makers while they go through the bankruptcy process and negotiate with their creditors. The aim is for the companies to shed their liabilities in an orderly, expeditious manner and to form alliances with other firms to create more efficient and competitive organizations. On 30 April 2009, Chrysler announced that it was filing for bankruptcy and planning to restructure, and many of its assets were bought by Italian automaker Fiat. On 1 June 2009, it was General Motors' turn. Its European subsidiary Saab also filed for bankruptcy protection, while Opel was sold to a Canadian autoparts manufacturer. Another initiative to hasten the sector's recovery was the introduction of a system of rebates that

allowed buyers to trade in used vehicles as partial payment on new ones.

The European automobile sector has posted similar declines in sales. In 2009, the industry's output is expected to fall by 20% (equivalent to 60 billion euros) in the 27 countries of the European Union. European governments have recognized the importance of supporting the industry and its value chain. In October 2008, France and Germany announced 20 billion euros in assistance to be provided over the next four years through a fund to support production, along with higher competition, innovation and technology standards. In an initiative similar to the rebate programme in the United States, several countries have also announced incentive schemes to spur auto sales.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Treasury Department, *Federal Reserve Statistical Release*, April 2009; Reuters, "Chrysler declares bankruptcy; agreement puts Fiat in control", May 2009; IHS Global Insight, *Impacts of the Financial and Economic Crisis on the Automotive Industry*, 2009; and European Commission, "Responding to the crisis in the European automotive industry", 25 February 2009.

The impact of the stimulus package is expected to peak towards mid-2009. According to official data (see the website www.recovery.gov), at the end of May 2009, only 35% of the funds available had been disbursed. Most spending (84%) consisted of transfers to local governments and physical persons, and 13% went to tax relief (Zandi, 2009). The package is only part of the government's plan for tackling the crisis, however. According to the Milken Institute (2009), the Government of the United States assumed financial

commitments totalling US\$ 9.8 billion.¹ In addition to fiscal spending, these include funding for a range of initiatives, from direct injections of capital (such as the financing of the sale of Bear Stearns and the purchase of debt liabilities) to loan guarantees, tax rebates and better conditions for short-term credit facilities.

¹ The amounts include total funds allocated or disbursed. This figure is not the total cost of these initiatives because, according to the methodology used, it shows the currently established ceiling for the funds provided and/or the costs of the programmes. See Milken Institute (2009).

2. The European Union

The stimulus package adopted by the European Council boosted fiscal spending by 200 billion euros (1.5% of the region's GDP). The European Commission hopes to orient the investments under the plan towards increasing the region's competitiveness in the medium term. Investments were designed to increase energy efficiency, stimulate the development of eco-technology in the automobile and construction sectors and upgrade transportation and information infrastructure. Until mid-2009, the impact was limited. The data obtained by the European Commission and the European Trade Union Institute as at June 2009

show that total spending (implemented or with concrete implementation plans) will be in the order of 1.1% of GDP in the European Union in 2009 and 0.7% of GDP in 2010 (European Commission, 2009; Watt and Nikolowa, 2009, page 12), and the Commission expects the impact on GDP growth in real terms to be an increase by 0.75% in 2009 and 0.33% in 2010. These figures do not take into account the effect of the automatic stabilizers of national budgets, however, such as health insurance and unemployment benefits, which could represent an additional 200 billion euros.

3. China

China is implementing the second largest and second most effective stimulus package in the world.² On 9 November 2008, the Chinese authorities announced a RMB 4 trillion (US\$ 586 billion) stimulus package, equivalent to 12.5% of GDP in 2008. This package, which will be implemented between the fourth quarter of 2008 and the end of 2010, is second in size only to that of the United States, and the authorities expect it to inflate the country's fiscal deficit from 0.1% in GDP in 2008 to 2.9% of GDP in 2009.

The package has three pillars: (i) an investment plan, (ii) a funding mechanism, and (iii) industrial policy measures. Also, during the first quarter of 2009, bank loans mushroomed to RMB 4.6 trillion, more than the amount of the economic stimulus package itself. This unparalleled credit explosion occurred in a very short time span.³

The initial programme received some criticism and was redefined. Its alleged overly heavy focus on physical infrastructure was shifted towards sectors that could contribute most towards raising family incomes and private consumption. Housing, health and education

now account for almost two thirds of spending during the second tranche (the first quarter of 2009), involving the construction or enlargement of some 2,000 county hospitals and over 5,000 rural clinics, and the extension of coverage of medical insurance and medical treatment.

The plan also includes an innovation and competitiveness programme that will run until 2011. This programme targets 10 sectors, including the automotive, steel, shipbuilding, industrial machinery, textiles and light industry, and electronics and information technology sectors. The government plans to spend RMB 600 billion on the extension and integration of three networks: next-generation Internet, third-generation wireless and digital television. An increase in public funds to subsidize automobile purchases in the countryside (RMB 5 billion) is also scheduled. The subsidies for trading in old vehicles have been raised by 40% to RMB 1 billion, and sales tax rebates have been implemented to promote the manufacturing and sale of small-engine (less than 1.6 litres), low-emissions vehicles. This subsidy programme is combined with a special 13% discount and RMB 140 billion of subsidies for the purchase of up to two electrical or electronic devices per family. Approximately 220 million rural families qualify for these subsidies.

² For further details, see Naughton (2009a) and (2009b).

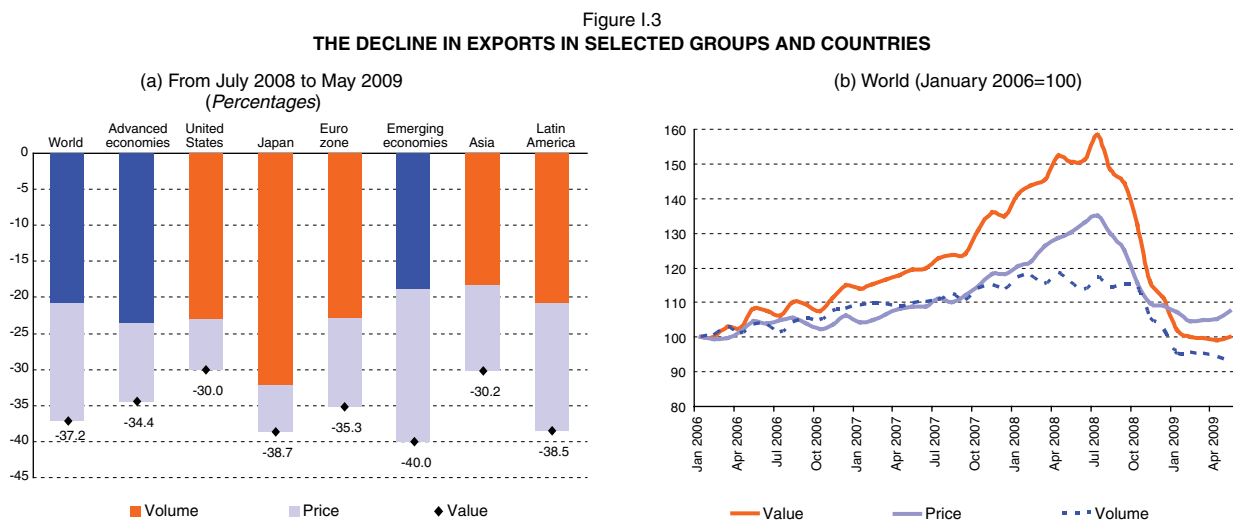
³ The magnitude of this lending package is such that it has raised concerns about its eventual impact on inflation, its possible contribution to the creation of financial bubbles, and its effect on the loan recovery capacity of Chinese banks.

D. Impact of the crisis on world trade

1. The downside in the world goods trade

World trade plummeted as a result of the financial and economic crisis. The world economic crisis has slashed demand drastically, which in turn has driven down international commodity prices. Between the record high posted in July 2008 and May 2009, the value of world trade diminished by 37%, of which 16% was accounted for by the drop in prices (see figure I.3). Exports have fallen in every region of the world.

Between November 2008 and March 2009, for example, over 90% of OECD countries experienced monthly decreases of over 10% in their imports and exports in comparison with the same period the previous year (Araújo and Oliveira Martins, 2009). As a group, the emerging economies have witnessed the sharpest decline in export prices (21%) and a slightly smaller dip in export volumes (18%).

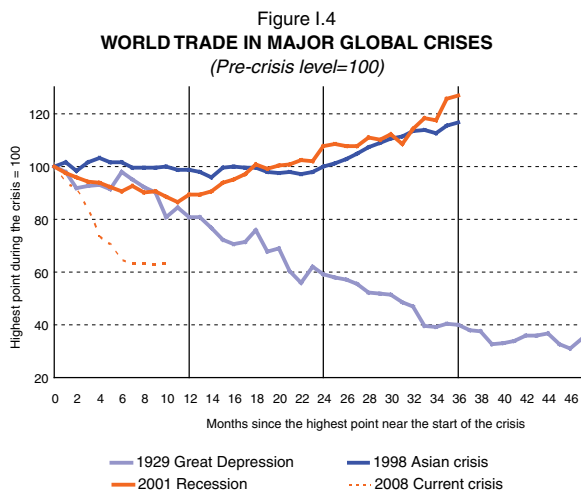


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CBP Netherlands Bureau of Economic Policy Analysis, "World-trade monitor", 2009.

Exports plummeted in nearly every country around the globe. The worst hit were those that exported manufactures to the United States or the European Union, or to both markets, such as Hong Kong Special Administrative Region of China, Japan, Taiwan Province of China, the Republic of Korea and Singapore in Asia, and Belgium, Finland, Germany, Hungary and the Netherlands in Europe. World trade in manufactures dumped and industrial output with it. Part of the plunge was associated with a contraction of consumer spending as expectations worsened suddenly among households and businesses around the globe and unemployment rose. Thanks to the buoyancy of the Chinese economy, international demand for mining and energy commodities remained high in the

first half of 2009. The novel aspect of this crisis for South America, which specializes in exporting commodities, is that it is hastening the shift from reliance on the business cycle of the United States towards reliance on that of China and Asia as a whole.

The drop in world trade in goods has been steeper and has occurred faster than in previous crises, even than in the Great Depression of the 1930s (see figure I.4). During the Asian crisis, the decline in world trade was no more than 6% after 10 months. During the United States recession of 2001, it shrank 12% in 11 months. In the first nine months of this crisis, world trade plummeted 37%. A similar downturn was recorded during the Great Depression, but only 20 months into the crisis.



Source: CBP Netherlands Bureau of Economic Policy Analysis, "World-trade monitor", 2009; League of Nations 1934 *Monthly Bulletin of Statistics*.

Note: Does not include services. Constant dollars. The starting point is the month at which trade peaked before the crisis.

The drop in world trade has been greater than the fall in global GDP for several reasons. First, trade has become increasingly vertically specialized. This means that

a downturn in final demand immediately sends demand for imported goods into a tailspin, and negative shocks spread much more quickly along the value chain among different countries. Also, as trade flows are measured in gross values, inputs cross borders more than once, multiplying the original effect of the decline in demand for final imported goods.⁴ Second, traded consumer durables and investment items are more sensitive to variations in demand than non-tradable goods and services. Third, the fall in trade was accentuated by the need to reduce inventories as demand plummeted abruptly. The effect of inventory reduction on world trade should lessen in the next few months, however.

Fourth, the more limited availability of trade financing is a particularly serious problem in global value chains whose functioning basically depends on funds being opportunely available at different stages. In November 2008, the gap between supply and demand for financing was estimated to be at least US\$ 25 billion and possibly as much as US\$ 100 billion.⁵ Consequently, the prices charged by banks for letters of credit to guarantee exporters' payments were rising to levels above what a standard risk rating would indicate as reasonable (see box I.2).⁶

Box I.2
THE EFFECT OF THE CREDIT SQUEEZE ON TRADE

The clearest indicator of tighter credit is a widening of spreads. Over 2008, because of reduced global liquidity and the reassessment of customer and country risk, spreads on 90-day letters of credit rose from 10 to 16 basis points and, on letters of credit from emerging economies, from 250 to 500 basis points. Average spreads on trade credits increased from a factor of 10 to a factor of 50. In July 2009, the World Trade Organization warned, "Anecdotal

evidence shows that the global market situation remains tense, with increased payment defaults and high costs of credit" (WTO, 2009a).

According to the International Money Fund, external financing has a significant impact on imports, with a negative elasticity of 9.5% for each 10% change in net capital flows (Thomas, 2009). The same is true of the impact on exports: for each 10% cut in financing, commodities

exports fall by 12.7%. The World Bank has also noted the significant impact that financing has on trade and the need to assist developing countries. Nevertheless, case-studies-based evidence from the Institute of Development Studies of the University of Sussex indicates that a lack of credit did not contribute significantly to the drop in exports from February to March 2009 for a group of sub-Saharan countries (Humphrey, 2009).

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

⁴ For a more thorough discussion on the expansionary role of the vertical specialization of world trade flows, see Yi (2003) and (2009).

⁵ There are two types of explanations for this gap between supply and demand. According to public institutions, in crisis situations like the current one, private agents follow the herd, especially when they confuse the risk of a particular operation with country risk. The result is a massive shift of credit from developing countries towards less risky ones. On the other hand, commercial banks (which represent 80% of the world trade financing market) argue that the imposition, as of 2007,

of new capital requirements as a result of the Basel II agreements has had a procyclical effect on capital supply. When market conditions are unfavourable, capital requirements associated with trade financing increase significantly, especially in developing countries. Some banks therefore are advocating a loosening of these requirements for foreign trade transactions, given their low default rate and the existence of collateral (the exported goods) (Auboin, 2009).

⁶ See WTO [online] http://www.wto.org/spanish/news_s/news08_s/gc_dg_stat_12nov08_s.htm.

About half the drop in the value of international trade corresponds to a reduction in the prices of tradable goods, particularly commodities. The prices of these products rose sharply up to mid-2008, came down in the second half of the year and then recovered slightly in the first half of 2009 (see box I.3).

The data for imports of China, the European Union and the United States suggest that the volume of world trade in manufactures seems to have diminished more than the volume of trade in commodities. During the period spanning January-May

2009, import volumes shrank by approximately 25% in the United States and by 16% in the European Union in comparison with the same period the previous year. The contraction was smaller in the case of agricultural goods. Prices fell in both areas in similar proportions except in the case of manufactures.

Chinese imports of agricultural goods such as soybean and cereals remained buoyant in terms of quantity in early 2009, growing by 28% and 49%, respectively. However, minerals and manufactures have fared worse, mirroring the trend seen in Europe and the United States.

Box I.3

COMMODITY MARKETS IN 2008 AND 2009: BOOM, BUST AND RECOVERY

In 2008, the steady upward trend in commodity prices of the three preceding years was reversed. The rapid price rise that had begun in 2005 came to a halt in mid-2008 and was followed by a sharp decline in all commodity groups in the second half of the year. Energy prices experienced the strongest surge in the first half of 2008, and fell more sharply than did other commodities in the second half of the year. Between July 2007 and July 2008, the price of petroleum shot up from US\$ 70 to US\$ 145 a barrel before plummeting to US\$ 40 a barrel in February 2009 and partially recovering up to August 2009, when it stood at US\$ 70 a barrel.

In the first quarter of 2009, some prices stabilized while others rose. Among the commodities that recovered are sugar, wheat, maize, coffee, soybean, copper, zinc and petroleum. Steel, aluminum, coal and natural gas prices appear to have stabilized since January 2009. Despite the recent recovery, however, prices for all commodity groups in 2009 are expected to end up below the levels seen during the 2008 boom. Prices for foodstuffs, except for sugar, will fall by between 20% and 40%, approximately, depending on the product (see table). The price of oil is expected to show a drop of 40% owing,

among other factors, to shrinking demand in 2008 and continued weak demand in 2009. The increased output capacity of the members of the Organization of Petroleum Exporting Countries (OPEC) is helping keep a lid on oil prices. Metal prices are also expected to decline, by an average of 39%, in 2009, with steel products and aluminum projected to fall the most. In 2010, the gradual upturn in global growth is expected to lead to a reversal in this negative trend for commodity prices, which should rise slightly, although without returning to the exceptionally high levels seen in 2008.

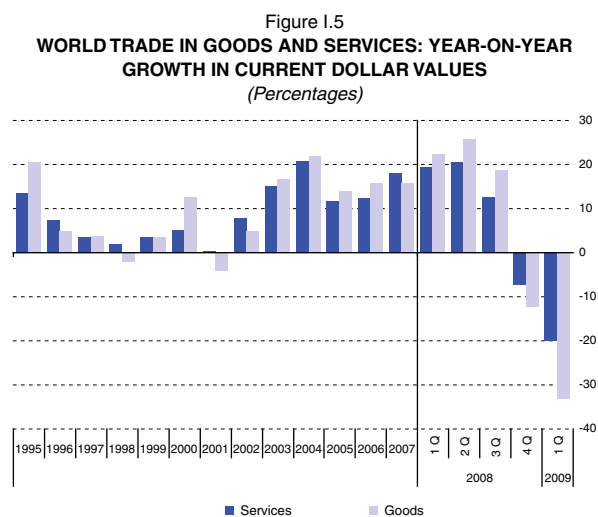
PROJECTED YEAR-ON-YEAR CHANGE IN COMMODITY PRICES
(Percentages)

	2009	2010
Foodstuffs		
Grains	-23.9	11.0
Oilseeds	-30.2	-4.2
Maize	-16.5	13.0
Wheat	-27.6	9.9
Rice	-18.7	-4.0
Soybean	-23.8	-4.6
Soya oil	-39.2	-5.5
Sugar	0.8	11.4
Metals		
Copper	-36.3	12.9
Aluminium	-43.3	-1.1
Iron	-34.7	-12.4
Steel products	-47.9	-3.0
Zinc	-10.3	6.6
Energy		
Coal	-42.6	4.1
Natural gas	-46.8	22.6
Crude oil (West Texas Intermediate)	-39.8	20.0

Source: For petroleum: United States Energy Information Administration (EIA), *Short-Term Energy Outlook*, 7 July 2009; for other products: Economist Intelligence Unit (EIU), *Global Outlook*, 1 July 2009.

2. Trade in (modern) services is faring better than trade in goods

Amid the general gloom surrounding the collapse in world trade, there are some signs of hope in the trade in services sector (see figure I.5). World services data for the first quarter of 2009 show that exports in the transportation (see box I.4) and travel segments shrank at the same pace as goods exports, but that the “other services” segment, which includes financial, business, information and construction services, has weathered the crisis better.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of reports of the International Monetary Fund, *Balance of Payments Statistics* and the Organisation for Economic Co-operation and Development and the United Nations (OECD).

Note: Year-on-year growth rates. The quarterly data is provided by OECD and includes members countries as well as Brazil, the Russian Federation, Indonesia, India and South Africa.

There are several reasons why trade in “other services” seems to be withstanding the current crisis better than trade in goods (Borchert and Matoo, 2009). Trade in other services, especially business services, which is conducted electronically, depends less on financing than trade in goods because companies in this field do not tend to operate on credit as they have little tangible collateral.

Global services production is also less fragmented than global goods production. Consequently, there is less movement of inputs across multiple borders than in vertically specialized goods industries. Finally, demand for some services, such as business services, is more stable than demand for goods. The outsourcing of certain services, such as accounting and information handling, are key to a company’s competitiveness and do not require economies of scale. Another notable factor is that a large proportion of business services are based on long-standing relations built up over the years of interaction between buyer and seller. The crisis seems to have generated new markets for a series of additional services, such as debt processing and legal services for companies facing bankruptcy.

The apparent ability of the services trade to withstand the crisis may, however, be threatened by protectionism. So far, few explicitly protectionist measures have been adopted in the services sector (Borchert and Matoo, 2009), but the new political and social climate that has emerged in many countries, which at times is being shaped by the crisis’ impact on the labour market, results in greater State intervention and anti-immigration stances, which could lead to, among other things, discrimination against foreign companies in process outsourcing.⁷

Box I.4

THE IMPACT OF THE CRISIS ON MARITIME TRANSPORT

The maritime transport sector suffered a severe blow when the crisis broke out in 2008. Trade volumes plummeted and, as a large portion of imports and exports are transported by sea, the natural consequence was a reduction in sea transport.

Maritime transport is divided into two large markets: goods transported in containers and goods transported in bulk. The volume of bulk dry cargo

transported by sea is expected to be 5% lower in 2009 than in 2008. In most countries in the world, exports and imports of bulk dry cargo continue to fall, with the exception of Chinese iron and coal imports. Low steel production levels have caused trade in steel and coal to drop even lower: aggregate world trade in steel is projected to fall by 7.3%, year-on-year, and world trade in coal, by 11.6%.

The volume of container freight has also dropped, although less sharply than that of dry bulk. The reason for this decline is weak demand for transportation services and the excess supply of transport capacity currently available.

ECLAC projects slight growth in container freight for the third quarter of 2009. Nevertheless, similar to the dry cargo fleet, container transport is expected to continue to suffer from excess supply.

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

⁷ Two important examples of this are the “Buy American” government procurement clause of the American Recovery and Investment Act

and the “Buy China” incentives programme introduced in China (see section C.3)

Trade in mode-3 services (sales made by local subsidiaries of transnational companies) also seems to be suffering. Over half of the world services trade is carried out through sales by subsidiaries abroad, and foreign

direct investment (FDI) is therefore a key instrument in this sector. According to preliminary data, global FDI fell in the first quarter of 2009, which will have a marked impact on mode-3 services exports.

E. The new role of China and the other BRICs in the world economy

1. China: the economic star of the decade

Together with the other large emerging economies like Brazil, the Russian Federation and India, China has become a leading actor on the world stage. Between 2000 and 2008, the so-called BRICs accounted for over half of world economic growth and increased their contribution to global GDP from 16% to 22%. The participation of the BRICs in world trade increased from 3% to 13% between 1990 and 2008 (see table I.3). China is currently outperforming the other BRICs. It is coming out stronger from the crisis, which will provide an additional boost to the country's investment plans abroad and the internationalization of its companies.

Together with India, China is one of the few large economies still expanding. According to World Bank estimates, the economies of China and India will contribute 0.9 and 0.3 percentage points, respectively, to global growth in 2009, over three quarters of the positive growth expected in the year.⁸ These projections should motivate the developing countries of Latin America and the Caribbean to realign their own emerging economies in the pursuit of closer South-South ties. For further discussion of the links between China and Latin America and the Caribbean, see chapter III.

Table I.3
SELECTED COUNTRIES: PARTICIPATION IN GLOBAL STOCKS AND FLOWS
(Percentages)

	China				Brazil, Russia, India				Other developing Asian countries						
	1990	2000	2008	Percentage change in 1990-2000	Percentage change in 2000-2008	1990	2000	2008	Percentage change in 1990-2000	Percentage change in 2000-2008	1990	2000	2008	Percentage change in 1990-2000	Percentage change in 2000-2008
Population	22	21	20	15	9	22	23	23	26	25	13	14	14	18	18
GDP (in PPP)	4	7	11	13	18	0	9	11		13	4	4	5	5	6
Trade (Imports+Exports)	2	4	8	6	11	1	3	5	4	6	3	5	4	6	4
Foreign Direct Investment	2	3	6			1	3	5			4	0	2		
International reserves	3	8	29	12	40	na	5	13	na	17	16	19	14	22	11
Oil consumption	4	6	10	28	40	12	9	9	-13	13	3	5	5	16	5

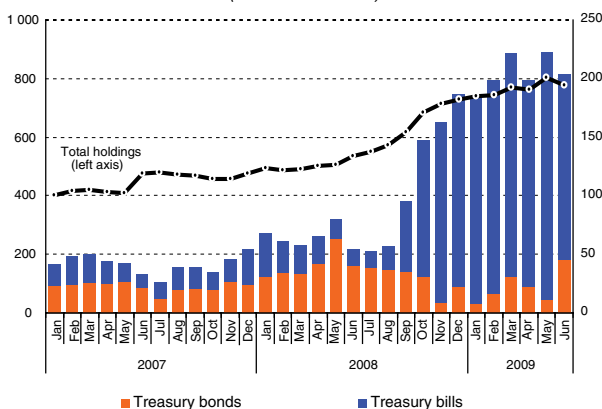
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF), World Economic Outlook, database; World Bank, "World Development Indicators" [online database] <http://devdata.worldbank.org/dataonline/>; Economist Intelligence Unit and British Petroleum.

Note: Foreign direct investment data are for 2007.

⁸ According to World Bank estimates (2008), countries showing positive growth will account for 1.49 percentage points of global growth. Of these, China will contribute 0.91 points and India, 0.27 points (60.9% and 18.0%, respectively). The rest of the world will account for -2.6 percentage points.

China is also emerging from the crisis as a leading actor in international financial markets as it has accumulated 29% of total world reserves and is the largest holder of United States government securities. Since September 2008, China has significantly increased its purchases of United States securities, especially Treasury bills, and has accumulated 24% of all government securities issued by the United States Treasury (see figure I.6).

Figure I.6
CHINA: PURCHASES AND TOTAL HOLDINGS OF UNITED STATES GOVERNMENT SECURITIES
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information provided by the United States Treasury Department.

Note: Treasury bills have a maturity of less than one year. Treasury bonds have a maturity of more than one year.

The Chinese economy suffered less than other developing economies from the global financial crisis because its domestic financial system is less exposed to external shocks thanks to its more closed nature and the controls it imposes on international capital flows. A large fiscal and monetary stimulus package is also managing to reverse the negative trends in industrial output, retail sales and fixed investment and to stem the slowdown of the economy as a whole. In mid-2009, IMF raised the growth projections for China in 2009 to 7.5%, very close to the 8% projected by the Chinese Government. This is largely on account of the massive and effective Chinese economic stimulus package. The question now is how long this mode of growth can be sustained: in the first half of 2009, exports dropped

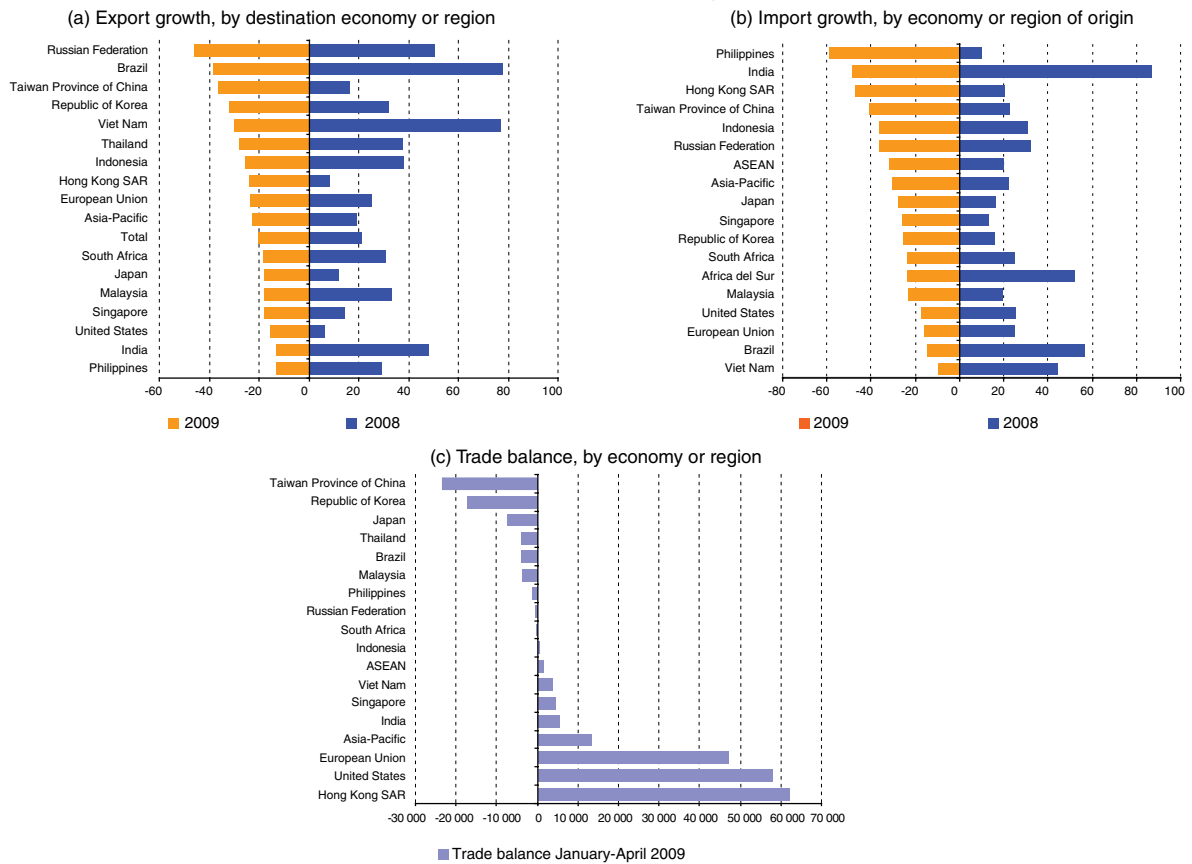
by more than 25% while public investment was up by almost 40%.

China's trade figures fell spectacularly in the first few months of 2009. Between January and April 2009, imports and exports tumbled 28% and 20%, respectively, in comparison with the same period in 2008. In the same period in 2007, by contrast, these indicators had climbed by 28% and 21% (see figure I.7). China's exports to its largest markets, the United States (19% of total exports) and the European Union (20% of total exports), shrank by 16% and 24%, respectively, while those to the Asia-Pacific region fell by 23%. The crisis has had a greater impact on imports from neighbouring countries, which represent half the country's total imports.

Most Asian economies depend on medium- and high-tech manufacturing exports. The principal goods are transportation equipment and machinery, two products that are highly sensitive to the business cycle in the developed countries. The contraction of demand in the current crisis has been much sharper than during the Asian crisis or the dot-com crisis in 2001 (IMF, 2009b). The collapse of demand in the industrialized countries is still having serious repercussions on intra-Asian trade based on Asian value chains (the so-called "Asian Factory"). This trade has China as its hub and consists mainly of transportation equipment and machinery (ECLAC, 2005, 2008c), and serves as a platform for its neighbours' exports to the developed countries.

China's rise to prominence in world trade has been meteoric. In the last decade, the country has taken a dominant position in global trade and become a major trading partner for many of the world's countries, including the economies of Latin America (see table I.4). The trade leaps China has recorded in the past 10 years are astounding, in terms of both imports and exports. In 2000, China was the United States' tenth export market and the twenty-second largest market for the European Union. By 2008, it was the third most important destination for United States goods and the fifteenth for the European Union. Similar jumps have been observed in its relations with the African economies, but the most notable progress has been in its trade with the economies of Latin America: China is now the region's second largest export destination and its second largest import supplier.

Figure I.7
CHINA: FOREIGN TRADE JANUARY-APRIL 2009, IN COMPARISON WITH THE SAME PERIOD IN 2008
(Millions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Chinese Customs Bureau.
Note: Amounts in RMB were converted to dollars at the rate of US\$ 1= RMB 6.8. Asia-Pacific includes the ASEAN countries, Australia, Hong Kong (Special Administrative Region of China), India, Japan, New Zealand, Republic of Korea and Taiwan Province of China.

Table I.4
CHINA: RANKING AMONG SELECTED TRADING PARTNERS

	Exports		Imports	
	2000	2008	2000	2008
Advanced economies	8	3	4	1
United States	10	3	4	1
European Union	22	15	10	4
Germany	15	11	10	4
Spain	31	17	9	5
France	14	10	11	9
Japan	3	2	2	1
Emerging and developing economies	11	4	9	2
South Africa	18	5	8	3
Ghana	20	11	10	2
Zambia	47	4	10	3
Latin America and the Caribbean	16	2	9	2
Argentina	6	2	4	3
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	35	4	15	2
Peru	4	2	13	2
Venezuela (Bol. Rep. of)	37	3	18	3
Costa Rica	26	2	16	3
Mexico	25	5	6	3
Cuba	5	2	5	2
Uruguay	4	5	7	4
Bolivia (Plur. State of)	18	10	7	6
Ecuador	20	17	12	4
Developing Asia	9	6	7	4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Direction of Trade Statistics [online].
Note: In drawing up this ranking, China's position is relative only to other countries, not regions. In the case of the European Union countries, trade with other member countries is calculated on an individual basis.

2. The BRICs and changes in global governance

The group of countries known as the BRICs have a major part to play in international financial governance. China, the Russian Federation, India and Brazil ranked first, third, fourth and seventh, respectively, as holders of international reserves at the end of 2008. In 2009, China contributed US\$ 50 billion to IMF, and Brazil and the Russian Federation contributed another US\$ 20 billion. These contributions have given the BRICs greater legitimacy within IMF, inasmuch as they were actually lending to the Fund in the midst of the financial crisis and the OECD-wide recession—circumstances in which developing countries would in the past normally have flocked to IMF for financing.

The economic and financial crisis has raised the profile of the main emerging economies in world economic governance. In previous crises, the international financial system was controlled exclusively by the Group of Seven (G7) countries. This time, however, decisions are being made by an expanded group known as the Group of Twenty (G20), which includes the main advanced and emerging countries.⁹ This group is the formal expression of a new world.

G20 met in November 2008 in Washington, D.C. and again in April 2009 in London. At the London meeting, G20 approved a US\$ 1.1 billion support package to stimulate credit, growth and employment in the global economy, with fresh resources for IMF and additional lending through multilateral development banks. The Group also took a number of steps to strengthen the global financial system by setting up a Financial Stability Board (FSB) including all G20 countries, Financial Stability Forum members, Spain and the European Commission. FSB will work with IMF to provide early warning of macroeconomic and financial risks and define appropriate compensatory measures. G20 also decided to extend regulation and oversight to all financial institutions, instruments and markets including, for the first time, hedge funds. Other measures refer to the prevention of excessive leveraging and the creation of buffers of resources to be built up in good times, which can be used to soften the impact of

crises when conditions change. Regulatory oversight will extend to credit rating agencies to ensure that they meet the international code of good practice, particularly to prevent unacceptable conflicts of interest.

At the G20 meeting in London a major reform of IMF was also announced, which will triple its resources to support additional lending and change lending procedures in order to offer larger amounts under conditions more conducive to stability.

As a sign of the changing times on the international stage, the crisis led the BRICs to meet for the first time. The meeting took place in June 2009 in the Russian Federation. Although China's rise in the global economy is the most prominent development, the BRIC concept overall is gaining importance on the international agenda as the four countries become increasingly coordinated (see box I.5). The BRICs do, however, have to deal with trade and strategic challenges before they can define common stances. Brazil and the Russian Federation are commodity exporters, whereas China is a major importer. Brazil, China and India are important players in the Doha Round, whereas the Russian Federation is not a WTO member. China and the Russian Federation are trade rivals in Central Asia, as are China and India in the Indian Ocean countries. China's manufactures are beginning to compete with those of Brazil in the South American market. Several developing country members of G20 have filed antidumping complaints against Chinese manufactures.

The crisis has showed that the relative strengths of the BRICs vary widely in terms of competitiveness, innovation and financial and technological capacities. Accordingly, whereas China and India continued to register rapid economic growth even at the peak of the crisis, output contracted in other two countries. Underlying this disparity are differences in economic and institutional strengths that will hinder any decision-making by the BRICs that could have a substantial impact on the world economy, at least in the short run.

⁹ This group of ministers of finance and presidents of central banks was created at the end of the 1990s after the Asian crisis, and seeks to foster global economic and financial stability by making proposals to reform the international financial architecture and through national policy cooperation and coordination. The group's

members are: Argentina, Australia, Brazil, Canada, China, the European Union as a group, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Republic of Korea, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States.

Box I.5

STRONGER LINKS AMONG THE BRICS

In June 2009, Brazil, the Russian Federation, India and China (the BRICs) held their first meeting, in Yekaterinburg (Russian Federation). The BRICs, which represent 40% of the world's population and 22% of world GDP (in PPP terms), took the opportunity to engage with a number of issues, but did not adopt common measures. Among other things, they discussed the reform of the international financial architecture with a view to better regulation and the creation of a more stable and predictable reserve currency, reform of the United Nations and the tightening of intra-BRIC links.

Intra-BRIC links are in fact growing stronger. China is the highest-ranking trading partner for both Brazil and the Russian Federation, for example. The four countries also have significant financial

ties. The Chinese Development Bank is to lend US\$ 10 billion to PETROBRAS (Brazil) for developing recently discovered oil reserves. In return, PETROBRAS will provide China with 150,000 barrels of crude oil per day in 2009 and 200,000 barrels per day in 2010. The Chinese Development Bank will also lend US\$ 800 million to the National Bank for Economic and Social Development (BNDES) of Brazil for financing development projects in the country. In addition, the Chinese State oil company Sinopec will conduct oil explorations in two areas of Brazil.

As well as their growing trade and financial ties, the BRICs are considering the use of their own currencies in bilateral trade, consistently with China's strategy of increasing the yuan's prominence with respect to the dollar. The Russian

Federation already sells oil to China in roubles and Brazil and China are exploring a number of mechanisms for using their own currencies in trade operations. In addition, China holds US\$ 95 billion in swap contracts with six countries in Asia and Latin America and is in talks with several others. The use of swaps heightens the importance of the yuan as an international currency. China also operates a number of bilateral payment agreements with its trading partners. In July, China authorized the use of the yuan for trade with Hong Kong Special Administrative Region of China, the ASEAN countries and Macao Special Administrative Region of China. Brazil set up a system of local currency payments for its trade with Argentina at the end of 2008 and is studying a similar arrangement with China.

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

F. Containing protectionist pressures and concluding the Doha Round

Engaging in protectionist measures is a risky response to the current crisis. Protectionist measures are damaging to consumers and business competitiveness and they delay necessary adjustments that would generate new opportunities and stimulate investment, which would help to fuel the global recovery. Protectionist and discriminatory measures can also generate chain reactions, making all the economies worse off.

Protectionism takes many forms. As well as tariffs and import quotas, other types of measures can be protectionist, such as direct subsidies to domestic producers. Competing on the basis of subsidies is highly destructive, because it delays adjustments in uncompetitive firms and sectors. Once granted, subsidies are difficult to withdraw and they tend to be regressive since they often respond more to political and business pressure groups than to the needs of, say, SMEs. Subsidy-based competition places developing countries at a disadvantage, since they lack the fiscal space to compete with the industrialized world on this footing.

Many countries introduced trade restricting measures between 2008 and the end of June 2009, including most members of G20, despite the commitments

made by the Group's leaders at the summits in Washington, D.C. (November 2008) and London (April 2009) not to introduce new measures to this effect.¹⁰

Generally speaking, the industrialized countries have used subsidies, while the developing countries have opted for border measures. The industrialized countries have responded to calls for subsidy protection from sectors hurt by the crisis, such as the automobile industry, financial services and agriculture. The developing countries, on the other hand, have made greater use of tariff rises, import licences and minimum customs values, among other measures.¹¹ This difference between the two reflects the fact that the developing countries have fewer budget resources for industry support than the developed countries.

¹⁰ According to the World Bank, despite the commitment adopted by the G20 leaders in November 2008 to avoid taking protectionist measures, 17 of the 20 members had introduced trade restricting measures by late February 2009 (Newfarmer and Gamberoni, 2009). See also WTO (2009a).

¹¹ For a review of the measures adopted in Latin America and the Caribbean, see chapter II and ECLAC (2009b).

Many developing countries have bound their tariffs under WTO at much higher levels than the tariffs they actually apply. They could, therefore, raise their tariff protection up to the bound tariff ceiling without breaching

any multilateral commitments.¹² Although tariffs have been raised at times in a number of countries since the crisis broke out, there has been no widespread move in that direction as yet.

1. Subsidies as a form of protectionism

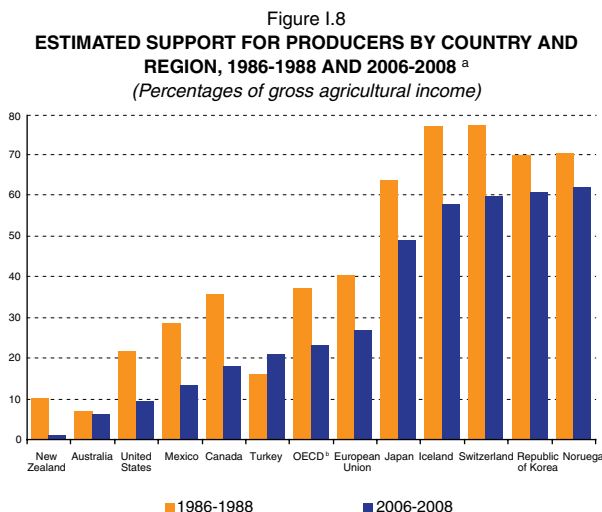
The automobile and financial services sectors have been massively subsidized in the industrialized countries. These supports have often taken the form of rescue packages and have sometimes involved the nationalization of the subsidized firms. The sheer magnitude of the transfers involved raises questions about their potential trade-distorting effects. The automobile sector offers a clear example. According to Newfarmer and Gamberoni (2009), the automobile sector had received some US\$ 48 billion in subsidies by the end of February 2009, of which US\$ 42.7 billion (89%) were granted in industrialized countries.

Subsidies that openly target specific sectors are, by definition, actionable. In other words, they can be disputed under the WTO dispute settlement mechanism. But Brunel and Hufbauer (2009) argue this is unlikely to happen in the case of the automobile sector, however, since almost all the main automobile-exporting countries are subsidizing their respective industries. These authors also draw attention to the risk of this situation, inasmuch as a proliferation of specific subsidies not questioned under WTO may gradually lead to de facto exemption of the automobile sector from the multilateral rules, which would establish a dangerous precedent for other industries.

The situation is even more complicated in the services sector, owing to the lack of strong multilateral disciplines. Unlike the provisions concerning merchandise trade, the General Agreement on Trade in Services (GATS) under WTO does not establish broad disciplines on subsidies.¹³ Accordingly, WTO members have considerable leeway to subsidize services without contravening their multilateral commitments. Massive subsidizing of financial services sectors in the developed countries has underscored the need to reach agreement on services disciplines in the framework of the respective Doha Round negotiations.

There are also worrying signs in agriculture. In the last 20 years, the magnitude of support for agricultural producers, as a proportion of their gross income, has decreased in OECD countries (see figure I.8). There are signs that this trend has been reversed since the outbreak of the crisis, however. The industrialized countries have bound their agricultural subsidies in WTO at much higher

levels than they have actually disbursed, which gives them plenty of room to increase them. Gamberoni and Newfarmer (2009) have projected a 22% increase in trade-distorting domestic support for United States agriculture in 2009, as a result of the fall in the international prices for a number of products since mid-2008 (see chapter II). The European Union reintroduced subsidies for dairy exports in January 2009, and the United States did so in May. All this is building up an environment of subsidy-based competition which is hurting exporters in developing countries (including several in the region) that do not subsidize their agricultural exports.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), *Agricultural Policies in OECD Countries 2009: Monitoring and Evaluation*, Paris, 2009.

^a The data for Mexico refer to 1991-1993 and 2006-2008. Austria, Finland and Sweden are included in the OECD total for every year, and in the total for the European Union as of 1995. The European Union is defined as EU-12 for 1986-1994, EU-15 for 1995-2003, EU-25 for 2004-2006 and EU-27 as of 2007.

^b Organisation for Economic Co-operation and Development.

¹² Bouët and Laborde (2008) estimated that, in an extreme scenario in which all WTO members raised their applied tariffs all the way up to currently bound tariff rates, the average level of protection would double and world trade would shrink by 7.7%.

¹³ GATS simply established a mandate to begin negotiations with a view to establishing multilateral disciplines on subsidies. This issue forms part of the talks on services taking place in the framework of the Doha Round.

2. Protectionism in government procurement

In addition to subsidies, a number of government procurement measures discriminate basically against developing countries. One such is the American Recovery and Reinvestment Act (ARRA) in the United States. The “Buy American” clause in ARRA stipulates that the funds approved under the legislation must go to public works that use iron, steel and manufactured goods produced in the United States.¹⁴ Although signatories to the Agreement on Government Procurement under WTO and countries that have free trade agreements with the United States are exempted from the clause, the scheme discriminates against suppliers from the majority of developing countries, particularly China, India and the Russian Federation.

China has gone in this direction too, with a “Buy China” policy. In June 2009, as part of its economic stimulus package, China adopted a plan under which government investment projects must use locally produced goods and

services unless these cannot be obtained under reasonable commercial conditions in China (*Financial Times*, 2009). The Chinese authorities have indicated that this plan is intended to counteract alleged discrimination against Chinese suppliers by local Chinese governments in public procurement processes associated with the economic stimulus package. A number of foreign suppliers have said that the opposite is true, however, inasmuch as Chinese products are favoured in those processes. Unlike the United States and like most of the developing countries, China is not a signatory to the WTO Agreement on Government Procurement and therefore has a wide margin to favour local producers in this area.

Given the difficult global economic conditions, it is not a good sign that some of the world’s largest economies are taking measures of this sort. There is a greater risk of protectionism in government procurement than in other areas, since it is not regulated by multilateral disciplines.

3. Other protectionist measures

The possible impact of other decisions should also be monitored. These include increased use of antidumping measures, financial protectionism and barriers to worker migration. This is in addition to measures linked to climate change which are being studied or implemented in industrialized countries and could have major protectionist effects (see section G for more details on the link between trade and climate change).

The incidence of antidumping measures increased in the second half of 2008. The start-up of investigations and the adoption of antidumping duties both increased in relation to the second half of 2007, by 17% and 45%, respectively. Most of the new investigations were initiated by developing countries (led by India), while the imposition of definitive duties was led by the United States. China was the main target, both of new investigations and of definitive duties and, in both cases, the main sectors involved were metals, chemicals, plastics and textiles (WTO, 2009a). Given that the number of investigations

increased in the second half of 2008, it is likely that the application of definitive duties will increase towards late 2009 and in the first semester of 2010, since this type of investigation lasts between 12 and 18 months.

A number of measures adopted in the financial sphere are biased towards local firms, even though at the London summit the G20 leaders pledged to avoid restricting world financial flows. According to a recent report from the Institute of International Finance, such measures include discrimination against branches of foreign banks in the distribution of bailout funds, the requirement for nationalized banks to confine lending to local clients, and the requirement for banks that conduct international transactions to maintain higher levels of liquidity in their home country. For example, Evenett and Jenny (2009) note that British banks that have received government assistance have been encouraged to redirect their lending towards the local market.

The task of evaluating the extent and impact of financial protectionism is complicated by the difficulty of distinguishing between the direct effects of government policy and the effects of the market. The data provided by the Bank for International Settlements

¹⁴ This condition applies to funds of US\$ 48 billion for transport projects and US\$ 30 billion for infrastructure projects (*Bridges Weekly Trade News Digest*, 2009a).

show a sharp contraction in bank lending to emerging countries. Combined bank assets in the four emerging regions (Eastern Europe, Latin America and the Caribbean, Africa and Asia-Pacific) shrank by 10% (US\$ 282 billion) in total, and those of Asia-Pacific banks, which accounted for about half of the percentage drop registered during the Asian crisis, contracted 18%. This is not the consequence of regulatory action taken in the banks' origin countries alone, but also of greater risk aversion and the global liquidity crisis (financial deleveraging). Even without pressure from governments, in the circumstances, financial institutions are likely to confine their activities to their main geographical markets at the expense of secondary markets in other countries. Although such action does not contravene any international legal obligation, such as the GATS, it can exacerbate financial problems in developing countries.

The crisis is also affecting immigration policy.

Several industrialized country governments have taken steps to limit immigration, giving rise to what has been called "people protectionism" (*The Economist*, 2009a). Although demographic dynamics mean that the population reaching retirement age in 2015 will exceed the number of young people entering the labour market, the major economies have recorded steep drops in the hiring of immigrants, both in absolute terms and as a percentage of occupied posts.

Several countries have reduced the number of immigrants admitted under official programmes.

Spain, for example, reduced the quota of foreign recruits under its voluntary return programme from 15,731 in 2008 to 901 in 2009. Other countries that have taken similar

measures include Italy (which is admitting no seasonal workers in 2009), the Republic of Korea and Australia. A number of countries (such as Spain) that maintain lists of occupations for which there is a shortage of domestic workers, giving foreigners with the appropriate skills preferential treatment, have reduced the scope of such lists drastically. Others, such as the United Kingdom and Canada, have introduced more stringent rules for employers wishing to hire foreign workers. In the United States, the "Employ American Workers Act" attached to the fiscal stimulus bill imposes strict conditions on any company that receives government bailout money and wants to hire foreigners under the country's H-1B visa programme. Some industrialized countries, including Spain and the Czech Republic, are even paying immigrants to return to their countries of origin, on the condition that they do not re-enter the country to which they had emigrated for a given period (for example, three years).

Limiting flows of immigrants has risks. A report by OECD (2009b) found that it is easier to tighten controls than to loosen them when the economy starts growing again. OECD countries also have genuine shortages of workers in some professions, such as medicine, which cannot readily be covered using only local labour. As a result, these countries could find themselves short of labour when the economy begins to pick up again. A long-term perspective is needed on this issue, to ensure that immigration flows can respond efficiently and flexibly to labour demand. These measures have an impact on developing countries too, mainly through steep falls in remittances. Furthermore the spread of the crisis could encourage people to migrate illegally.

4. Responses by the World Trade Organization and incentives to avoid protectionism

The World Bank and, especially, WTO have been monitoring trade policy developments across the globe since the crisis broke out with the aim of discouraging excesses of protectionism by means of transparency and public scrutiny. In his report of 1 July 2009 to the Trade Policy Review Body, the Director-General of WTO, Pascal Lamy, noted that, "In the past three months, there has been further slippage towards more trade restricting and

distorting policies, but resort to high-intensity protectionist measures has been contained overall". Lamy added that: "There have been signs of an improvement in the trade policy environment in the form of more governments introducing trade-liberalizing and facilitating measures, but there is no general indication yet of governments unwinding or removing the measures that were taken early on in the crisis" (WTO, 2009a).

Despite these protectionist outbreaks, however, a number of factors make a repetition of the experience of the 1930s unlikely. First, the rapid spread of vertical specialization in recent years means that countries have fewer incentives to raise barriers to trade. Countries that produce highly vertically specialized goods or whose export products rely on imported inputs have little incentive to raise tariffs or other barriers to trade, since raising their import costs would simply push up their own export production costs.

Second, the trade liberalization rules and commitments negotiated over the last 60 years within the multilateral trade system, first in the framework of the General Agreement on Tariffs and Trade (GATT) and, since 1995, in WTO, form a safeguard against a widespread

return to protectionism. The multilateral framework is reinforced by a binding dispute settlement system within WTO. Additional resistance to protectionist pressure is provided by the network of preferential trade agreements which has been growing since the 1990s, many of which go beyond the commitments reached under WTO.

Third, at an ideological level, isolationist views have been giving way the world over to views that advocate integration into the world economy as a development tool.

Fourth, most countries nowadays have flexible exchange rates. The depreciation of several currencies against the dollar has helped to contain imports and protect the domestic tradables sector. These regimes have, in turn, helped to avoid a wave of competitive devaluations such as those that occurred during the Great Depression.

5. The Doha Round

The intensity of the crisis has shown the urgent need to conclude the Doha Round. The outbreak of this crisis and the resulting increase in trade restricting measures in a large number of countries have led many stakeholders—governments, business circles and academics—to reassess the importance of bringing the Doha Round of trade talks in WTO to a rapid conclusion.¹⁵

The suspension of the negotiations is partly attributable to election cycles in major countries. For all practical purposes the talks have been suspended since the failure of the “mini-ministerial” meeting of July 2008, pending the conclusion of elections processes in two key countries: India and the United States. Precisely those two countries’ differences on agricultural market access were singled out as the main cause of the failure of the mini-ministerial.

In June 2009, following the respective elections, the new trade authorities in the United States and India expressed their interest in resuming the talks with a view

to concluding them at the end of 2010. The immediate challenge is still to reach an agreement on modalities for agriculture negotiations and non-agricultural market access (NAMA).¹⁶ This would enable the talks to move into the final phase in other areas of the agenda (such as services, rules, trade facilitation, and trade and the environment).

The possibilities of concluding the Round will be determined to a great extent by the stance taken by the United States. The negotiators maintain that, for United States agricultural, industrial and services exporters, the potential benefits of market access as they see them today are uncertain and do not justify the high economic and political costs of reducing agricultural subsidies and tariffs in sensitive manufacturing sectors (such as textiles and clothing). The United States has affirmed that this imbalance cannot be redressed unless the advanced developing countries (particularly Brazil, China and India) assume greater liberalization commitments, especially in industrial goods and services.

¹⁵ See Bouet and Laborde (2008), Newfarmer and Gamberoni (2009), and several authors in Baldwin and Evenett (2008) and (2009).

¹⁶ In WTO language, modalities are basic parameters for drawing up lists of commitments. In the case of agriculture and NAMA, the main parameters to be agreed upon are the percentages by which agricultural and manufacturing tariffs and agricultural subsidies will be reduced. The most recent proposed modalities were presented by the chairs of the two negotiating groups in December 2008.

G. Combating climate change and resisting ecological protectionism

In the last few years, the environmental sustainability of economic activities, including trade, has reached the core of international debate, especially with regard

to climate change. The issue of climate change is being addressed in many forums today, both at the multilateral level and within some of the world's largest economies.

1. At the multilateral level

At the multilateral level, climate change is being addressed under the United Nations Framework Convention on Climate Change (UNFCCC) and in WTO. The negotiations under the Convention are aimed at defining commitments to reduce greenhouse gas (GHG) emissions as of 2012, when the first commitment period of the 1997 Kyoto Protocol ends. In particular, broader reduction commitments are being sought from all the largest polluters. This means that, unlike the Kyoto Protocol, whose binding commitments apply only to the industrialized countries, the new instrument will widen commitments to at least the main developing economies. It is hoped that agreement can be reached at the fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change to be held in Copenhagen in December 2009. Negotiations on trade and the environment are also taking place in the framework of the Doha Round of WTO and aim, among other things, to liberalize trade in environmental goods and services (see box I.6 for a summary of the main links between climate change and trade).

The underlying issue is the balance between the need to foster economic growth and the need to cap carbon dioxide emissions. Generally speaking, there is a disagreement between the industrialized and the developing countries on this issue. The industrialized countries aim to achieve significant reduction commitments from all the main emitting countries (including the emerging economies), whereas the developing countries argue that any commitments made should not curtail their growth and development possibilities and stress that they need technical and financial assistance to assume greater commitments. Thus far, the OECD countries

account for 77% of all GHG emissions, but emissions from developing countries are steadily increasing. Between 2005 and 2030, the volume of GHG emissions from OECD countries is projected to increase at an average annual rate of 0.5%, while that of developing countries will rise at 2.5% per year.

The success of the Copenhagen conference is important to future efforts to combat climate change. It is therefore essential that the countries of the region engage actively in the negotiations, ensuring that their particular circumstances are taken into consideration. This will require full respect for the principle of common but differentiated responsibilities. Developing countries must also be guaranteed access to the financial and technological resources they need in order to undertake greater commitments, without compromising their development strategies or being penalized by protectionist measures in third markets.

A number of modalities are being considered for establishing commitments on greenhouse-gas reduction in a post-Kyoto-Protocol regime. One reduction modality would be to apply certain country parameters, such as level of income, volume of emissions per capita, growth rate and other indicators. A second modality would be to apply an emissions ceiling to certain industries (such as cement, steel, paper and pulp, metallurgy, chemicals, aluminium, and air and maritime transport) and allow more efficient units to trade reductions with less efficient ones in order to meet the sector's overall commitments. A third possibility would be to raise barriers to imports from countries whose climate change mitigation measures are weak or non-existent, based on the carbon content of products, including transport, or on the protection

measures adopted by the exporting countries. The fourth modality would be to impose an internationally agreed—but locally collected—levy on the carbon content of different fossil fuels. This last option appears to be the one that would least distort markets. It would also allow some of the resources raised to be channelled to the least developed countries through an international fund (ECLAC, 2009a).

Regardless of which option is chosen, there is an obvious effort to make reduction modalities more flexible, which contrasts with the single dimension approach (a certain percentage with respect to base-year emissions) established in the Kyoto Protocol. This greater flexibility, together with the adoption of binding commitments by the United States and the main developing economies, should lead to a more effective regime than the current one.

Whatever multilateral framework emerges, it must respect the basic principles established under WTO and in other international agreements. For example, given that mitigation and adaptation measures will be applied to sectors that are open to international trade, some of them—such as the extension of free emissions permits—could

be considered subsidies, which are governed by the WTO Agreement on Subsidies and Countervailing Measures. Although some rules are relevant to mitigation and adaptation measures, doubts exist as to their interpretation and applicability in this context (see section G.3). For example, with respect to national rules on product characteristics—such as requirements relating to energy efficiency or GHG emissions, or labelling rules—it is not yet clear whether WTO allows distinctions to be made on the basis of the production process, rather than the specifications of the product itself (Cosbey and Tarasofsky, 2007).¹⁷

The WTO negotiations on environmental goods and services open up interesting opportunities for the region. These talks have identified a broad range of goods and services that can be used for different environmental purposes and for climate change mitigation.¹⁸ Lower tariff and non-tariff barriers to trade in these goods would make them more accessible and thus help to shift the region towards lower-carbon production. Moreover, some of the region's countries, including Argentina, Brazil and Mexico, are major world exporters of some renewable energy product lines.

2. At the national level

At the country level, numerous initiatives have been taken on climate change, especially in the industrialized nations.

In the United States, the House of Representatives approved a bill on climate change in June 2009 (see box I.7). Other industrialized countries, especially in Europe, are considering the possibility of applying measures to imports in relation to the traceability of GHG emissions generated in the process of production and transport to destination markets (what is known as the “carbon footprint”). For example, as of 2011 France will require all locally-produced and imported goods that cause an environmental impact, including foods and related products, to carry carbon footprint data. Some supermarket chains in the United Kingdom, such as Tesco, have shown an interest in creating and promoting the use of carbon-footprint labels on their products.

Country-level initiatives in these areas fall into three categories: (i) border adjustment measures (basically taxes on imports levied according to particular criteria);

(ii) public financing and subsidies for promoting the use of renewable energy and low-emissions technologies; and (iii) energy labelling schemes that require products to carry carbon footprint data that encompasses production and transport to destination.

There is a risk that some of these initiatives may be used in a protectionist manner. Many of them, in fact, are explicitly intended to compensate for the competitive disadvantages of certain industrialized-country production sectors as compared with their developing-country competitors that are not subject to binding emissions reduction commitments.

The potential impact on competitiveness is directly related to the problem of carbon leakage, since the competitiveness losses arising from the application of more stringent environmental requirements encourages energy-intensive firms to move to countries where restrictions are slacker.

¹⁷ See Pauwelyn (2007) for a comprehensive analysis.

¹⁸ For example, wind or hydroelectric turbines, photovoltaic cells, solar water heaters, and equipment for renewable energy production and for the management of solid and dangerous waste.

Box I.6

CLIMATE CHANGE AND TRADE: STYLIZED FACTS

Climate change may be expected to impact international trade in three ways:

- Through temperature changes, which are expected to undermine agricultural productivity and make water scarcer, and thus damage fishing and forestry;
- Through rising ocean levels and increasingly frequent extreme weather events, which will jeopardize trade infrastructure (port facilities, buildings, highways, railways, airports and bridges) and trade routes; and
- Through snow cover changes, coastal degradation and a greater number of extreme weather events, which may be expected to erode tourism demand.

These outcomes will, in turn, alter comparative advantages and geographic production patterns, mainly in the agricultural and food industries. The geographic realignment of producers will facilitate a shift between supply and demand, but also bring

protectionist pressure to bear on traditional producer countries as well as those that suffer the greatest disruptions in their supply, transport and distribution chains.

The link between climate change and trade is not unilateral. According to WTO (WTO/UNEP, 2009, p. xi), trade affects the environment through changes in the volume of economic activity (scale), in production structures (composition) and in the use of more advanced production methods (technology). The net impact depends on each country's production structures, but empirical studies show that more open trade leads to higher carbon dioxide (CO₂) emissions in developing countries, since the volume effect tends to neutralize the technology and composition effects. Conversely, in the OECD countries, increased trade translates into an environmental improvement.

At the global level, the effects tend to work in opposite directions. The reallocation

of production among countries could help reduce emissions, provided that the most energy-intensive activities are transferred to locations with higher energy efficiency. However, this effect would be offset by higher emissions resulting from increased international transport. Ninety percent of the volume of global trade (excluding trade among European Union countries) is carried out by sea. This is, in fact, the most efficient transportation method, since it contributes only 12% of all annual CO₂ emissions from the transportation sector. By contrast, highway transportation accounts for 73% of all emissions from this sector. More than 30% of intraregional trade in Latin America relies on this inefficient method, owing to the region's economic and geographic characteristics. Investment and upgrading work in the region's transportation infrastructure would, therefore, have a strong impact on trade-related emissions.

Source: World Trade Organization (WTO)/United Nations Environment Programme (UNEP), Trade and Climate Change, Geneva, 2009; Economic Commission for Latin America and the Caribbean (ECLAC), "Latin American Modal Split in International Transport - Year 2006" [online] <http://www.eclac.org/cgi-bin/id.asp?id=34756>.

Box I.7

BILL BEFORE UNITED STATES CONGRESS TO REDUCE GREENHOUSE GAS EMISSIONS

The American Clean Energy and Security Act of 2009 was passed by the United States House of Representatives in June 2009. The purpose of the legislation is to reduce greenhouse gases (GHGs) to no more than 17% of their 2005 level by 2050 by establishing an emissions trading system. The bill proposes distributing 85% of the permits free of charge at first, then phasing out free permits starting 2026.

The law would raise production costs for companies in the United States owing, among other things, to the need to purchase emissions credits, the requirement to use more environmentally friendly production techniques and the effect of the new

rules on the price of energy inputs. This additional cost could diminish business' ability to compete with producers in other countries and might even lead to carbon leakage—the relocation of energy-intensive industries to countries with fewer restrictions.

The bill includes measures to offset United States companies' possible competitiveness losses. Starting in 2020, a border tax would be charged on goods produced in countries that had not adopted emissions-reduction commitments under a relevant international agreement or had not independently adopted reduction commitments equivalent to those in effect in the United States.

The provisions have sparked debate in the United States regarding their compatibility with World Trade Organization rules. President Obama himself has expressed doubts as to whether unilateral measures of this nature would be appropriate. Such measures could have a strong impact on both the volume and the profitability of exports from Latin American and the Caribbean to the United States.

In the coming months, the Senate must draft its own bill on climate change. Then the two versions—those produced by House and Senate, respectively—must be reconciled in order to produce a definitive text.

Source: Craig Van Grasstek, "Trends in U.S. Trade and Trade Policy Towards Latin America and the Caribbean", 2009; "Climate talks in US Senate expose divide among democrats", Bridges Weekly Trade News Digest, vol. 13, No. 26, 15 July 2009.

3. World Trade Organization rules

Indirect border tax adjustments appear to be permitted under existing rules. Under article II of GATT, a border tax adjustment is a levy on an imported product similar to the tax applied to a comparable domestic product. The GATT Working Party on Border Tax Adjustments determined that taxes levied on products (indirect taxes such as consumption, sales and value added tax) were eligible for adjustment, but direct taxes borne by producers, such as property or income tax, were not. Here, doubts have arisen as to whether firms' participation in cap and trade systems may be included in the category of domestic taxes or charges, which would make it eligible for border adjustment. Paragraph 2(a) of article II of GATT cites two types of border adjustment: (i) a charge on an imported product similar to a domestic product, and (ii) a charge on articles from which the imported product has been manufactured. This second category is now a matter of debate, however.¹⁹

Two major challenges are involved in implementing border measures. One is to substantiate the measure (that is, to place a precise value on losses in competitiveness and those caused by carbon leakage) and the other is to determine

a fair price to be applied to foreign products in order to harmonize prices with the domestic cost of complying with an emissions trading regime (WTO/UNEP, 2009).

Exceptions to the GATT provisions could be justified in virtue of article XX of the Agreement, which allows WTO members to take measures to protect human, animal or plant life or health or to conserve exhaustible natural resources. The manner in which this exception is interpreted will be crucial for limiting the protectionist impact of the border measures now being discussed in a number of countries, principally the United States. WTO jurisprudence indicates that a climate-change-related border measure that is incompatible with a basic provision of GATT may be defensible under article XX on two conditions: first, that the measure is related to the climate-change objective being pursued and, second, that the measure does not constitute "arbitrary or unjustified discrimination" or a "disguised restriction of international trade" (WTO/UNEP, 2009 p. xxi). The issue is still fraught with major ambiguities, however, which will probably be gradually cleared up as jurisprudence of the dispute settlement panels evolves.

H. Perspectives and long-term impact of the economic and financial crisis

1. The impact of the crisis will be felt for some time

Recovery will be slow, gradual and perhaps inconsistent, given the magnitude of the negative wealth effect and the lagged effects in the job market. The main causes of the slow recovery are: weak global demand, high unemployment, balance sheets which have yet to be cleaned up and the fact that the financial sector has yet to find a substitute for earnings from real estate

securitization. Given that the evolution of the labour market lags behind investment and production, after two semesters of recession in the industrialized economies, the OECD countries will register unemployment rates close to or slightly above 10% in 2009 and 2010. This worsens the uncertainty surrounding bank solvency and the resurgence of protectionist measures.

There are many risks along the road towards even a slow recovery, however, and much will depend on how long it takes to clean up bank balance sheets in several countries. The clean-up operation still has some way to go. It is not simply a matter of outlawing subprime mortgages in the United States; now there are

¹⁹ This discussion is not closed, inasmuch as a panel on the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") of the United States found that certain tax adjustments on imported products used in the production process were consistent with GATT. For further detail, see WTO/UNEP (2009).

also the bad loan portfolios resulting from the recession and the effects of the economic slowdown on credit card lending and traditional bank loans. Banks need further capitalization, especially in Europe, and financing gaps need to be closed in Central and Eastern Europe.

One of the greatest challenges is the need for overall regulation of the economy, both to correct structural imbalances (saving-investment) and to govern financial affairs. The crisis showed that deregulated financial markets are not self-correcting and do not advance economic and social efficiency. In the absence of external rules and better internal ethics, it will be difficult to prevent the financial sector from externalizing risks and costs and passing them to other stakeholders, parasitism will prevail and the market will correct itself only when forced to do so by a severe crisis. In the context of global financial crisis, regulation cannot be limited to the national domain since finance is globalized. Effective financial regulation calls for the implementation of global standards or at least reasonable convergence between the national standards of the largest economies. Otherwise regulatory arbitration will cancel out the effects of isolated national efforts. Any regulatory reform implemented must cover the following issues: monitoring of capitalization levels in the financial system; avoidance of over-dependence on short-term borrowing; reduction of risk-taking by limiting the use of complex financial instruments and opaque transactions; effective accounting of transactions and their reflection in companies' balance sheets; increased transparency; modernization of normative standards; and steps to increase the technical capacity of financial supervisors.

Underlying the financial crisis are structural disequilibria that need to be redressed. During the boom cycle of 2003-2007, the savings surpluses of the South—mainly through the current account surpluses of China, the other Asian economies and the oil-exporting economies—financed much of the real estate and stock market bubbles of the North. In this period, global demand was driven by the United States economy, owing to private spending which grew at rates well above potential output. This did not translate into inflationary pressures thanks to an abundant supply of low-priced manufactures, basically from China. The results were large trade and current account deficits in the United States and hefty surpluses in China. As a counterpart to this massive trade imbalance, China built up large stocks of United States financial assets, which enabled the United States to finance its deficit without having to raise interest rates. Accordingly, at the end of 2007, before the subprime mortgage crisis broke out, the United States was absorbing 49% of world savings and China, Japan and Singapore were generating over a third of them (21%, 12% and 2%, respectively) (Rosales, 2009). This pattern of huge deficits in the United States and no less

massive surpluses in China cannot go on indefinitely and United States households will have to adjust their portfolios and cut back their debt. They will thus cease to drive the world economy, at least to the extent they did in the boom years. China, meanwhile, must afford greater priority to its domestic market and limit its support for exports.

Another major challenge for the future is to contain fiscal deficits and public-debt growth in many OECD countries, especially the United States, which is expected to run a deficit of over 13% of GDP in 2009, partly because of the high cost of financial bailouts and demand stimulus packages.²⁰ To what extent is the deficit sustainable? For now, interest rates are low and the Treasury has been able to continue auctioning bonds. However, the combined effects of dollar value erosion, interest rates converging on zero and market conditions could push interest rates up in the short term. This, together with rapidly expanding public debt, could lead to higher interest payments and a larger portion of public spending going to service the debt. In the European Union, the fiscal deficit and public debt are rising rapidly, partly as a result of the recession and the fiscal responses to the crisis. OECD has estimated the European Union's public-sector deficit at 5% of GDP in 2009 and 7% in 2010. Similar figures are projected for Japan. Reflecting the larger fiscal deficit, the national account balances of the industrialized economies are expected to show higher total debt figures in the next few years.²¹

The industrialized countries' fiscal imbalances will dictate heavy borrowing requirements, which will compete with the financing needs of the developing economies. This will push up international interest rates, making external financing more costly for developing nations. The need to narrow the fiscal deficit will also erode the contribution of public spending to economic activity. As a result, at least for the next three years, the developing economies will need to increase their domestic savings rate in order to finance the required levels of investment.

Finance will not return to its pre-crisis footing. Even when the OECD economies recover, a return to the excessive levels of risk, leveraging and opacity of financial instruments seen before the crisis seems unlikely. The crisis has also slashed wealth stocks all over the world, especially in the industrialized countries. Accordingly, the scenario of virtually infinite, low-risk liquidity has been replaced by one of tighter liquidity and variable risk. The link between financial and production flows

²⁰ Forecasts issued by the White House.

²¹ OECD (2009a) estimates that G10 public debt will rise from 78% of GDP in 2007 to 114% in 2014. IMF estimates bear this out, with a gross debt projection of 63% of GDP in 2009 for the United Kingdom, 115% for Italy and 217% for Japan.

and foreign trade will have to be redefined. With global liquidity in shorter supply, capital flows to developing countries will shrink and, as noted earlier, the high borrowing needs of OECD governments will compete with the needs of developing countries. New factors, such as sovereign funds and the internationalization of

Chinese firms, may come to play an even greater role in the de facto architecture of international finance, given the vast liquidity built up by Chinese firms and banks and the petroleum-exporting economies, on the one hand, and the low yields now being produced by United States Treasury bonds, on the other.

2. The impact on trade and the organization of global production

The sharp contraction in global trade in 2009 will be followed by a modest 1% upturn in 2010. According to WTO (2009a) projections for 2009, the volume of trade will drop by 10% in real terms, as exports will contract by 14% in the industrialized economies and 7% in the developing countries. Projections by IMF and OECD for world trade are even more negative, at -11% and -13%, respectively. ECLAC estimates an 11% fall in the volume of the region's exports (see chapter II).

The global economic crisis has severely curtailed world trade, FDI and private bank lending, which has produced a short-term deglobalization process. It will take a few years to regain the more dynamic trends seen before the crisis, but the partial deglobalization in finance will probably be temporary, reversed by the prevailing structural trends of rapid technology change and its yet faster application to production activities. The main innovations are those taking place in information and communications technologies (ICT), biotechnology and nanotechnology. As progress in those areas converges, it will reconfigure firms' technology and production capacities and external competitiveness, as well as relations among the different sectors of the economy. Given the current economic crisis, future achievements depend more than ever on the ability to absorb the new techno-organizational paradigms in a creative manner (ECLAC, 2008a).

One structural trend that has been intensified by the crisis is China's rise in the global economy. Although to a lesser extent, this trend also encompasses the other BRICs: India, the Russian Federation and Brazil. As in 2008, the industrialized countries' GDP will suffer heavily in 2009 and 2010, while China and India will continue to experience rapid economic growth. Consequently, China and India will gain greater weight in the world economy in 2010 and will continue to do so throughout the decade.

China has acquired dominance in the global economy in several areas. Today China is the world's third largest economy and second largest exporter. It consumes about a quarter of the global annual supply of steel, aluminium, copper and iron and a third of the world's annual oil supply. It is also the gravitational core of world manufacturing. By dint of massive investments in education, infrastructure and innovation, China is becoming one of the leading competitors in the world today. In the next few years the country will become even more influential and will accordingly claim a greater role in the reform of the international financial system and in the governance of the international economic system.

Centre-periphery relations will need to be rethought. If the experience of China and other Asian economies in the last three decades shows anything, it is that convergence with the income levels of the central economies, albeit slow, is possible. A number of these peripheral economies are approaching the technology frontier in several fields and are major exporters of manufactures, services and certain technologies. They are also the largest holders of international reserves and suppliers of world savings. It may be time to bring these factors into the analysis and acknowledge the existence of two different groups on the periphery: the traditional exporters of raw materials with little value added and the innovators that can compete successfully in the global arenas of the knowledge economy. The next step should be to look into the possibility that intra-periphery relations too may be prejudicial to peripheral economies that still export natural resources with little value added (Rosales, 2009). This is an increasingly important concern, given that South-South trade is developing into an engine of world growth and that the Latin American and Caribbean region is developing ever closer economic and trade ties with China.

The crisis will intensify processes of production restructuring and will have an impact of competitiveness.

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

Models of production and foreign trade will need to be adapted to the new post-crisis conditions. As noted earlier, trade and international financing will be sluggish in the immediate post-crisis period and will face greater competitive pressure and vestiges of protectionism that may take some time to subside. Businesses' typical short-term reaction when such a major crisis occurs is to cut costs, postpone investment, shorten decision-making horizons and try to protect main markets and clients. As well as responding defensively, however, firms need to reformulate their long-term business models and give due consideration to the opportunities that arise. Detecting and locking into new opportunities and using the latest technology and business organization tools could in fact help companies to redefine competitive advantages. Using outsourcing or offshoring as part of a prospective business strategy is more enticing than using them to do the same as before. Post-crisis global and regional value chains will tend to be reconfigured as a function of their ability to recover from the crisis, their access to scarce raw materials and the revaluation of geographical or logistic advantages, such as proximity to the main centres of consumption or the possession of critical masses of human resources in specific technological areas.

Strengthening the presence of regional firms in regional or global value chains is one of the main challenges involved in internationalizing production.

This effort should start with the activities most closely linked to the main export products, by exploring forward and backward linkages and developing competitive advantages in engineering, biotechnology or related business services, for example. This will pave the way for diversifying exports and enable exporters to gain a foothold in other new business networks and engage in

a corporate learning process that can serve as a basis for scaling up their operations regionally or globally.

The work of internationalization stands to benefit from convergence between trans-Latin enterprises and the regional cooperation and integration processes.

Trans-Latins have made more progress along this road than any other type of firm in the region. A closer study of these firms' development and an evaluation of the benefits of such convergence would serve not only to update the integration schemes but also to make them more relevant to business decisions and to the design of policies on trade, innovation and production support. For example, if training and quality certification efforts were focused on SMEs that met the specific requirements of certain segments of trans-Latin value chains, those SMEs would stand a better chance of joining trans-Latin value chains as indirect exporters.

The region needs to become more competitive in modern services. The data on the impact of the crisis on international trade show that services are holding up better than merchandise and that, within services, the "other services" category (all services other than transport and travel) is proving least affected. This last category includes communications, informatics, insurance, financial services, franchises and business services (legal, accounting, auditing, consultancy, advertising, research and development, environmental and other services), which are essential for enhancing competitiveness and productivity. The Latin American and Caribbean region lags particularly in these "other services", which are the fastest-growing segment in world trade (see table I.5). The Asian countries as a group have increased their share of global services exports. China and India, this group's foremost exporters, more than tripled their market share thanks to the dynamic growth of their "other services" export component (for an analysis of these modern services and the region's lag in this regard, see ECLAC (2007) chapter III).

If the region is to progress towards the timely provision of services in this category, it must make progress in the formation of value chains, gain a larger competitive presence in outsourcing and offshoring operations and reduce logistics costs. Accordingly, strengthening the role of services in regional integration is another major challenge for the region on the road towards achieving greater competitiveness. For the Caribbean, as well as continuing to upgrade tourism activities, more resolute exploration of health service exports and related services could be a worthwhile route to take (Bernal, 2007).

Table I.5
EXPORTS OF TRADE SERVICES BY MAIN CATEGORY
(Percentages of world total)

		1990-1991 ^a	1995-1996 ^a	2000-2001 ^a	2007-2008 ^{a b}	Increase/ decrease ^c
United States	Total services	19.3	18.7	19.5	14.6	-4.7
	Transport	16.8	14.9	14.0	10.3	-6.5
	Travel	19.8	18.7	19.9	14.0	-5.7
	Others	20.6	21.2	22.1	16.8	-3.8
European Union	Total services	48.4	45.1	44.1	46.8	-1.6
	Transport	44.0	43.2	43.1	45.2	1.2
	Travel	47.1	43.6	41.7	42.0	-5.1
	Others	52.9	47.7	46.4	50.0	-2.9
Latin America and the Caribbean	Total services	3.7	3.5	3.8	3.0	-0.7
	Transport	3.2	3.1	3.1	2.8	-0.4
	Travel	5.4	5.0	6.0	5.3	-0.1
	Others	2.7	2.6	2.6	2.0	-0.7
The Caribbean	Total services	0.5	0.5	0.5	0.3	-0.3
	Transport	0.2	0.2	0.2	0.1	-0.1
	Travel	1.2	1.0	1.1	0.8	-0.4
	Others	0.2	0.2	0.2	0.1	-0.1
ASEAN ^d	Total services	3.8	5.5	4.6	4.6	0.8
	Transport	2.6	5.0	5.5	5.4	2.8
	Travel	5.1	6.8	5.7	6.0	0.8
	Others	3.6	4.7	3.3	3.6	0.0
China	Total services	0.8	1.6	2.1	3.7	2.9
	Transport	1.0	1.0	1.2	4.1	3.0
	Travel	0.8	2.3	3.6	4.1	3.3
	Others	0.6	1.4	1.6	3.1	2.5
India	Total services	0.6	0.6	1.1	2.8	2.2
	Transport	0.4	0.6	0.6	1.2	0.7
	Travel	0.6	0.6	0.7	1.4	0.7
	Others	0.7	0.5	1.7	4.2	3.6
World ^c	Total services	803	1 215	1 482	3 541	9.1
	Transport	226	307	346	817	7.9
	Travel	271	420	468	904	7.3
	Others	306	489	668	1 821	11.0

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

^a Biennial annual averages.

^b For China, India and the Caribbean, the figures shown correspond to 2007.

^c Change in percentage points between 2007-2008 and 1990-1991. In the case of the percentages for the world total, the figures refer to annual growth rates between 1990 and 2008.

^d Association of South-East Asian Nations.

Climate change is another force that is restructuring global production chains. In the agricultural sector, cooler temperatures at low latitudes will reduce the productivity of the main cereal crops, which will be damaging for many of the developing countries. In the other regions, higher temperatures will have a positive impact on agricultural output, but over-heating would be prejudicial. Water is expected to be in shorter supply, owing to glacial melting, reduced precipitation and droughts. Higher sea levels and more frequent extreme weather events pose risks to trade infrastructure (port facilities, buildings, roads, railways, airports and bridges) and trade routes (ECLAC, 2009a).

As a result of the global crisis, China, India and the other Asian economies will become the main sources of export growth for Latin America and the Caribbean.²² The international trade repercussions of the

crisis have been felt above all in manufacturing around the world and in trade relations with the United States. Natural-resource-exporting economies —like those in South America— have not been hit so severely, since China's high growth rates have kept international demand for those products high. Conversely, Mexico and Central America have faced tougher competition from Chinese manufactures in the United States, which could hasten structural changes in certain industries, especially in maquila. The manufacturing segments likely to be the worst hit by the crisis are clothing and textile inputs. The slowing momentum of these two industries was further weakened by the expiry in early 2005 of the Agreement on Textiles and Clothing, which pitted them in stiffer competition against Asian countries such as China, India and Bangladesh.

²² See ECLAC (2008) for a full analysis of economic and trade relations between China and Latin America.

Bibliography

- Alix Partners (2009), “2009 Manufacturing-outsourcing cost index™. Overview & highlights” [online] http://www.thedeal.com/dealscape/jscript/AlixPartners_2009_Manufacturing_Outourcing_Cost_Index_HIGHLIGHTS.pdf Chicago, May.
- Araújo, Sónia and Joaquim Oliveira Martins (2009), “The great synchronisation: what do high-frequency statistics tell us about the trade collapse?”, VOX [online] <http://www.voxeu.org/index.php?q=node/3751>, 8 July.
- Auboin, Marc (2009), “Restoring trade finance: what the G20 can do”, *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R. Baldwin and S. Evenett (eds.), London, Centre for Economic Policy Research.
- Baldwin, R. and S. Evenett (eds.) (2009), *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, London, Centre for Economic Policy Research.
- BIS (Bank for International Settlements) (2009), *BIS Annual Report: Rescue, Recovery, Reform*, Basel, June.
- Bernal, R. (2007), “The globalization of the health-care industry: opportunities for the Caribbean”, *CEPAL Review*, No. 92 (LC/G.2339-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (CEPAL), August.
- Bloomberg (2009), “Climate plan faces challenge after narrow US House victory”, 29 June.
- Borchert, Ingo and Aaditya Mattoo (2009), “The crisis-resilience of services trade”, *Policy Research Working Paper*, No. WPS 4917, World Bank, 28 April.
- Bouët, A. and D. Laborde (2008), “The potential cost of a failed Doha round”, *IFPRI Issue Brief*, No. 56, International Food Policy Research Institute (IFPRI), December.
- Bridges Weekly Trade News Digest* (2009b), “Climate talks in US Senate expose divide among democrates”, vol. 13, No. 26, 15 July.
- (2009a) “Criticism grows as ‘Buy American’ rules written into law”, vol. 13, No. 6, 18 February.
- Brunel, Claire and Gary Clyde Hufbauer (2009), “Money for the auto industry: consistent with WTO rules”, *Policy Brief*, No. 09-4, Washington, D.C., Peterson Institute for International Economics.
- Cosbey, Aaron and Richard Tarasofsky (2007), *Climate Change, Competitiveness and Trade*, Chatham House.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2009a), “Cambio climático y desarrollo en América Latina y el Caribe: una reseña”, *Project documents*, No. 232 (LC/W.232), Santiago, Chile.
- (2009b), The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 30 June 2009 (LC/L.3025/Rev.2), Santiago, Chile.
- (2008a), *Structural Change and Productivity Growth, 20 Years Later. Old problems, new opportunities* (LC/G.2367(SES.32/3)), Santiago, Chile.
- (2008b), “Latin American Modal Split in International Transport – Year 2006” [online] <http://www.cepal.org/cgi-bin/getProd.asp?xml=/Transporte/noticias/noticias/6/34756/P34756.xml&xsl=/Transporte/tpl/p1f.xsl&base=/tpl/top-bottom.xslt>.
- (2008c), *Latin America and the Caribbean in the World Economy, 2007. Trends 2008* (LC/G.2383-P), Santiago, Chile. United Nations publication, Sales No. E.08.II.G.36.
- (2008d), *Economic and Trade Relations between Latin America and Asia-Pacific. The Link with China* (LC/L.2959), Santiago, Chile, October.
- (2007), *Latin America and the Caribbean in the World Economy, 2006. Trends 2007* (LC/G.2341-P), Santiago, Chile. United Nations publication, Sales No. E.07.II.G.85.
- (2006), *Latin America and the Caribbean in the World Economy, 2005–2006* (LC/G.2313-P), Santiago, Chile. United Nations publication, Sales No. E.06.II.G.67.
- European Commission (2009), *Public Finances in EMU 2009*, Commission Staff Working Document [online] http://ec.europa.eu/economy_finance/publications/publication15390_en.pdf.
- Evenett, Simon and Frédéric Jenny (2009), “Bailouts: how to discourage a subsidies war”, *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R. Baldwin and S. Evenett (eds.), London, Centre for Economic Policy Research.
- FAO (Food and Agriculture Organization of the United Nations) (2008), *The State of Food Insecurity in the World 2008. High Food Prices and Food Security: Threats and Opportunities* (TC/M/I0291/S), Rome.
- Financial Times* (2009), “‘Buy China’ policy set to raise tensions”, 16 June.

- Humphrey, J. (2009), "Are exporters in Africa facing reduced availability of trade finance?", Brighton, University of Sussex, unpublished.
- IMF (International Monetary Fund) (2009a), *Regional Economic Outlook: Asia and Pacific*, Washington, D.C., May.
- (2009b), *World Economic Outlook*, Washington, D.C., April.
- Kose, M. Ayhan, Christopher Otrok and Eswar Prasad (2008), "Global business cycles: convergence or decoupling?", *IMF Working Papers*, No. 08/143, Washington, D.C., International Monetary Fund (IMF).
- Kulish, Nicholas (2009), "Aided by safety nets, Europe resists stimulus push", *New York Times*, 26 March.
- Naughton, Barry (2009a), "The scramble to maintain growth", *China Leadership Monitor*, No. 27, Hoover Institution, Stanford University, January.
- (2009b), "Understanding the Chinese stimulus package", *China Leadership Monitor*, No. 28, Hoover Institution, Stanford University, April.
- New York Times* (2008), "Obama opposes trade sanctions in Climate Bill", 28 June.
- Newfarmer, Richard and Elisa Gamberoni (2009), "Trade protection: incipient but worrisome trends", *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, Richard Baldwin and Simon Evenett (eds.), London, Centre for Economic Policy Research.
- OECD (Organisation for Economic Co-operation and Development) (2009a), *OECD Economic Outlook*, vol. 2009/1, No. 85, Paris, June.
- (2009b), *International Migration Outlook Special Focus: Managing Labor Migration Beyond the Crisis*, Paris, 22 July.
- Oloff, Phil, Jon Shure and Nicholas Johnson (2009), "Federal fiscal relief is working as intended" [online] <http://www.cbpp.org/cms/index.cfm?fa=view&id=2831>, 29 June.
- Pauwelyn, Joost (2007), "U.S. federal climate policy and competitiveness concerns: the limits and options of international trade law", *Working Paper*, No. 07-02, Nicholas Institute for Environmental Policy Solutions, Duke University.
- Rodrik, D. (2009), "Growth after the crisis", Harvard Kennedy School [online] <http://ksghome.harvard.edu/~drodrik/Growth%20after%20the%20crisis.pdf>
- Rosales, O. (2009), "Globalization and the new international trade environment", *CEPAL Review*, No. 97 (LC/G.2400-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (CEPAL), April.
- Stern, Nicholas (2006), *The Economics of Climate Change. The Stern Review*, London, Cambridge University Press.
- The Economist* (2009a), "People protectionism", 1 July.
- (2009b), "Not just straw men", 18 June.
- Thomas, A. (2009), "Financial crisis and emerging markets trade", *IMF Staff Position Paper*, No. 09/04, Washington, D.C., International Monetary Fund (IMF).
- UNCTAD (United Nations Conference on Trade and Development) (2009), *Global Economic Crisis: Implications for Trade and Development*. Report by the UNCTAD secretariat (TD/B/C.I/CRP.1), Geneva, May.
- United Nations (2009a), *World Economic Situation and Prospects as of Mid-2009*, New York. United Nations publication, Sales No. E.09.II.C.2.
- (2009b), *The World Financial and Economic Crisis and its Impact on Development Report of the Secretary-General (A/CONF.214/4)*, New York.
- United States, Government (2009) "Investments by Agency - Available and Paid Out", [online] <http://www.recovery.gov/?q=content/investments-agency&sort=obl&order=desc>, 21 May.
- Watt, Andrew and Mariya Nikolova (2009), "A quantum of solace? An assessment of fiscal stimulus packages by EU Member States in response to the economic crisis", *ETUI Research Working Paper*, No. 2009.05, June.
- World Bank (2008), *World Development Report 2009. Reshaping Economic Geography*, Washington, D.C., December.
- WTO (World Trade Organization) (2009a), Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments (JOB(09)/62), Geneva, 1 July.
- (2009b), "WTO Secretariat reports increase in new anti-dumping investigations", *Press Release*, No. 556, Geneva, 7 May.
- WTO/UNEP (United Nations Environment Programme/World Trade Organization) (2009), *Trade and Climate Change*, Geneva.
- Yi, Kei-Mu (2009), "The collapse of global trade: the role of vertical specialization", *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R. Baldwin and S. Evenett (eds.), London, Centre for Economic Policy Research.
- (2003), "Can vertical specialization explain the growth of World Trade?", *Journal of Political Economy*, No. 111.
- Zandi, Mark (2009), "U.S. fiscal stimulus revisited" [online] http://www.economy.com/dismal/article_free.asp?cid=116000&src=msnbc, 22 June.

Chapter II

The effects of the crisis on regional trade

A. Introduction

As indicated in chapter I, the dramatic outbreak of the global economic crisis in September 2008, followed by its transmission from the financial sector to the real economy, triggered a sharp contraction in the volume of world trade and the emergence of protectionist signals—most worryingly in the industrialized economies. Latin American and Caribbean countries—despite weathering this crisis better than previous ones—have had to deal with sharp drops in their trade levels as well as serious constraints on the variables linked to the external sector. Various border measures have been applied in the region to close widening trade deficits by restricting imports. While these do not add up to a systematic trend towards curtailing trade flows, they have had a less than desirable effect on subregional trade circuits, particularly in South America. The overall regional picture is mixed: although some countries have introduced measures to restrict imports, several others have taken steps to boost them.

This chapter reviews the trend of regional trade during the current financial crisis, by comparing it with various stages of the region's economic development, particularly the Great Depression of the 1930s. It then analyses trade-flow trends in the current juncture, based on the monthly figures for intra- and extra-regional trade between the region's countries and their leading trade partners (the

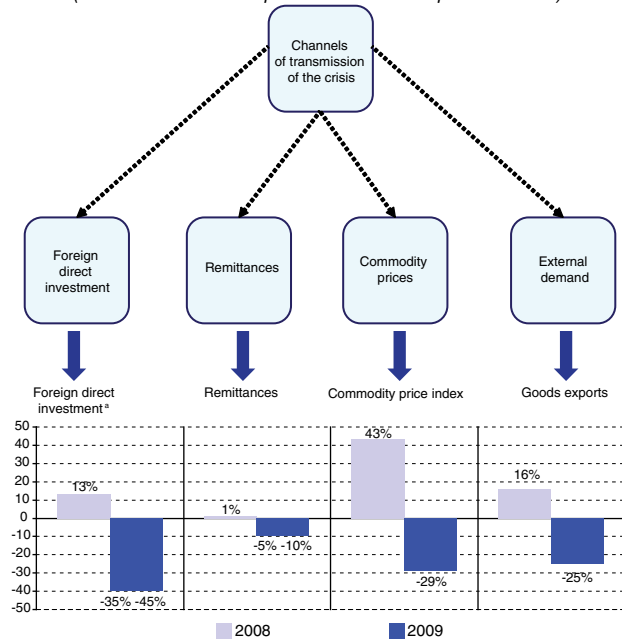
United States, the European Union, Asia and the region itself) and the sector-composition of the leading exports (agricultural, mining and manufactured goods) and imports (capital goods, intermediate imports, consumer goods and fuels).

The chapter also reviews the behaviour of raw materials prices; the evolution of the terms of trade; and

flows of services, tourism, foreign direct investment (FDI) and migrant remittances. In short, the aim of the chapter is to assess the effect of the crisis on the external sector of the region's economies. The chapter goes on to review the trade-policy responses to the crisis adopted in the region and closes with a number of conclusions and policy recommendations.

The Latin American and Caribbean region has not been immune to the strong external shock. Preliminary estimates for 2009, compared with those of the same period in 2008, suggest a 35%-40% drop in FDI inflows, a 9%-10% decline in remittances, a 29% slump in the international prices of the region's commodity exports and a 24% slide in the value of its exports (see figure II.1). In other words, the region is reeling under the impact of a more powerful external shock than that caused by the Asian crisis or the external debt crisis. Overall, it has been coping without suffering drastic repercussions in terms of GDP growth or employment, thanks to the combination of the favourable business cycle from which it is emerging (2003-2007) and improved economic policy management.

Figure II.1
LATIN AMERICA AND THE CARIBBEAN: CHANNELS OF TRANSMISSION OF THE CRISIS AND MAGNITUDE OF THE IMPACT ON SELECTED INDICATORS, 2009
(Rates of variation compared with the same period in 2008)



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

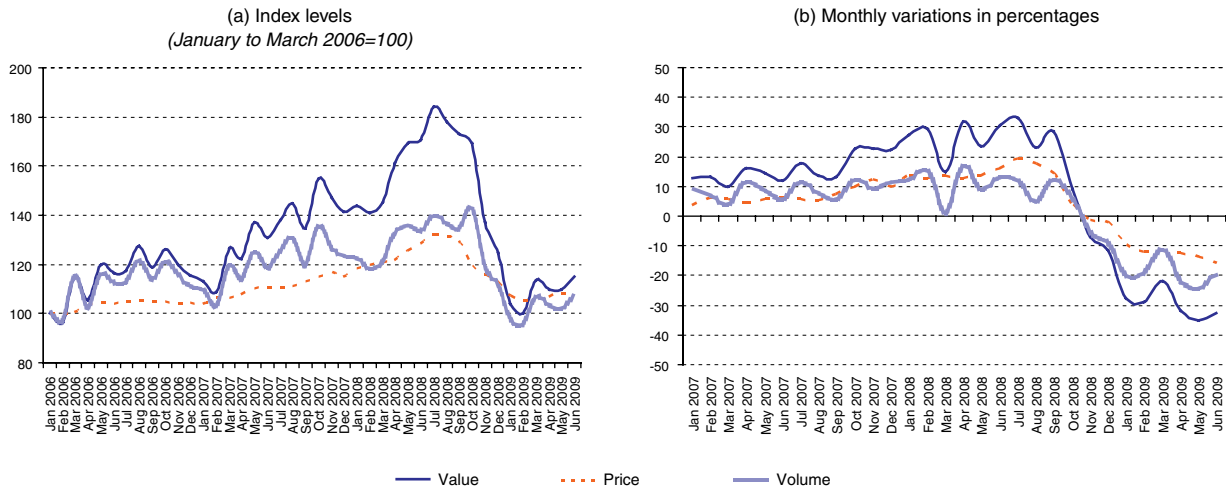
^a On the basis of ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2008* (LC/G.2406-P), Santiago, Chile, 2009 and estimates for 2009.

B. General trends in the regional trade in goods

In 2009, regional trade volumes shrank by around 13%, and exports and imports are predicted to contract by 11% and 14%, respectively. The severe international financial crisis that has buffeted the region since September 2008, spread vigorously into the region's goods markets in the last quarter of 2008 and early months of 2009, causing a substantial and widespread reduction in trade flows.

The foreign trade index, which measures the trend of Latin American and Caribbean imports and exports, clearly captures the synchronized decline in both the value and the volume of trade during those periods. By the end of the first half of 2009, trade flows had shrunk to levels last seen in the first quarter of 2006—a steeper decline than that recorded following the Asian crisis (see figure II.2 and box II.1).

Figure II.2
LATIN AMERICA AND THE CARIBBEAN: MONTHLY VARIATION IN THE FOREIGN TRADE INDEX, ^a
JANUARY 2006 TO JUNE 2009
(Index levels and percentages)

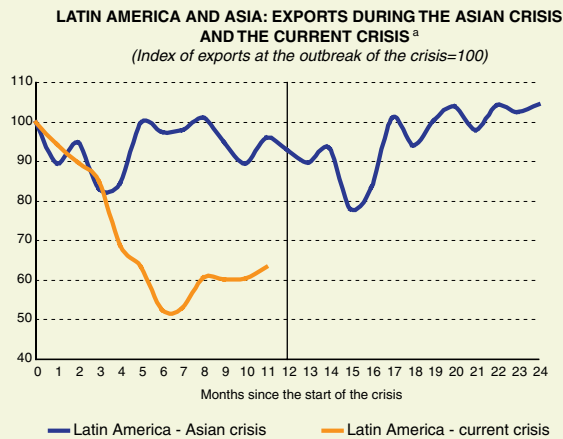


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the national statistical offices, central banks and customs offices of 15 countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay). Information on the Caribbean countries, obtained from the United States Trade Department and the Statistical Office of the European Communities (EUROSTAT), is also included.

^a Calculated on the basis of total trade (exports plus imports).

Box II.1
COMPARISON BETWEEN THE CURRENT CRISIS AND THE ASIAN CRISIS

A comparison of the decline in regional exports during the current crisis and the slowdown that occurred in the 24 months after the start of the Asian crisis (late 1997) shows that the reduction has been sharper this time. Nonetheless, there was a slight upturn in the eighth month, when exports tended to rise before stabilizing, whereas in the Asian case, pre-crisis levels were not regained before month 20. Given that the initial fall in exports was far steeper in the current crisis, it is unlikely that pre-crisis export growth levels will be regained in 2009 (see figure).



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from 15 countries and International Monetary Fund (IMF).
^a The highest level of exports (October 1997 and August 2008, respectively) was taken as the starting point.

The main causes of this sharp slowdown in trade flows include the following:

- the contraction of international demand;
- lower prices for certain commodities (see box II.2);

- trade financing difficulties, particularly in the last quarter of 2008, and
- a stronger procyclical trend in intraregional trade flows, primarily in South America.

Box II.2

LATIN AMERICA AND THE CARIBBEAN: EFFECTS OF LOWER COMMODITY EXPORTS ON THE TERMS OF TRADE

The crucial importance of commodities in the Latin American and Caribbean export basket means that the relevant price trends play a major role in explaining the ups and downs of the regional economy. Between 2003 and 2008, the region experienced a major upswing thanks precisely to the boom in commodity prices, which favoured countries that were net exporters of foodstuffs (especially the Southern Cone), mining products (the Bolivarian Republic of Venezuela, Brazil, Chile, Mexico and Peru, among others) and energy (the Bolivarian Republic of Venezuela, Colombia, Ecuador and Mexico).

This steep climb in commodity prices peaked in mid-2008, to be followed by a steep slide in the second half of the year, which changed the optimistic tone of the

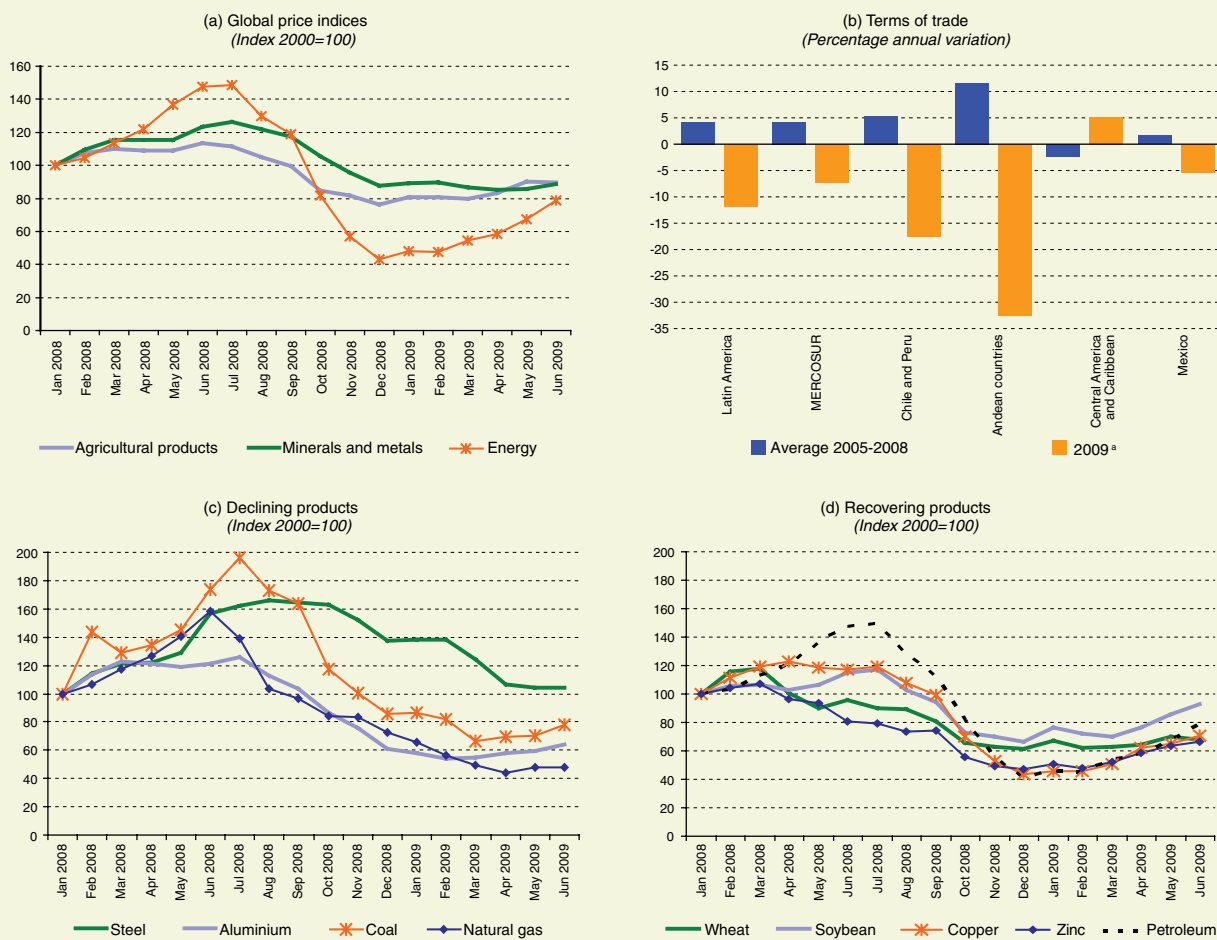
regional export market. In the first half of 2009, commodity prices have been highly volatile, and prospects are uncertain in both the short- and the medium-term. As shown in figure (a), fuel prices, particularly oil, experienced the sharpest rise in the first half of 2008, and also the steepest fall in the second half. The prices of some products have continued to fall, although with a tendency to stabilize (coal, natural gas, aluminium and steel), while others such as oil, zinc, wheat and copper, are showing signs of recovery (see figures (a), (c) and (d)).

The decline in prices, compounded by the intense slowdown in global demand, have had profound effects on the trade flows of the countries of the region, causing a deterioration in the terms of trade in

most cases (see figure (b)). The extent of this depends on the composition of the export basket and consumption patterns, although in the latter case there is less variety between the countries. As also shown in figure (b), countries whose terms of trade improved while commodity prices were rising are those likely to be worst affected in 2009. The deterioration will be particularly severe in countries with fuel-heavy export baskets, since the relevant prices declined by over 50% between July 2008 and April 2009.

As the countries of Central America are net commodity-importers, they have benefited from the steep fall in commodity prices since the second half of 2008. This has helped to reduce their trade deficit.

LATIN AMERICA AND THE CARIBBEAN: COMMODITY PRICES AND TERMS OF TRADE, JANUARY 2008-MAY 2009
(Index 2000=100)



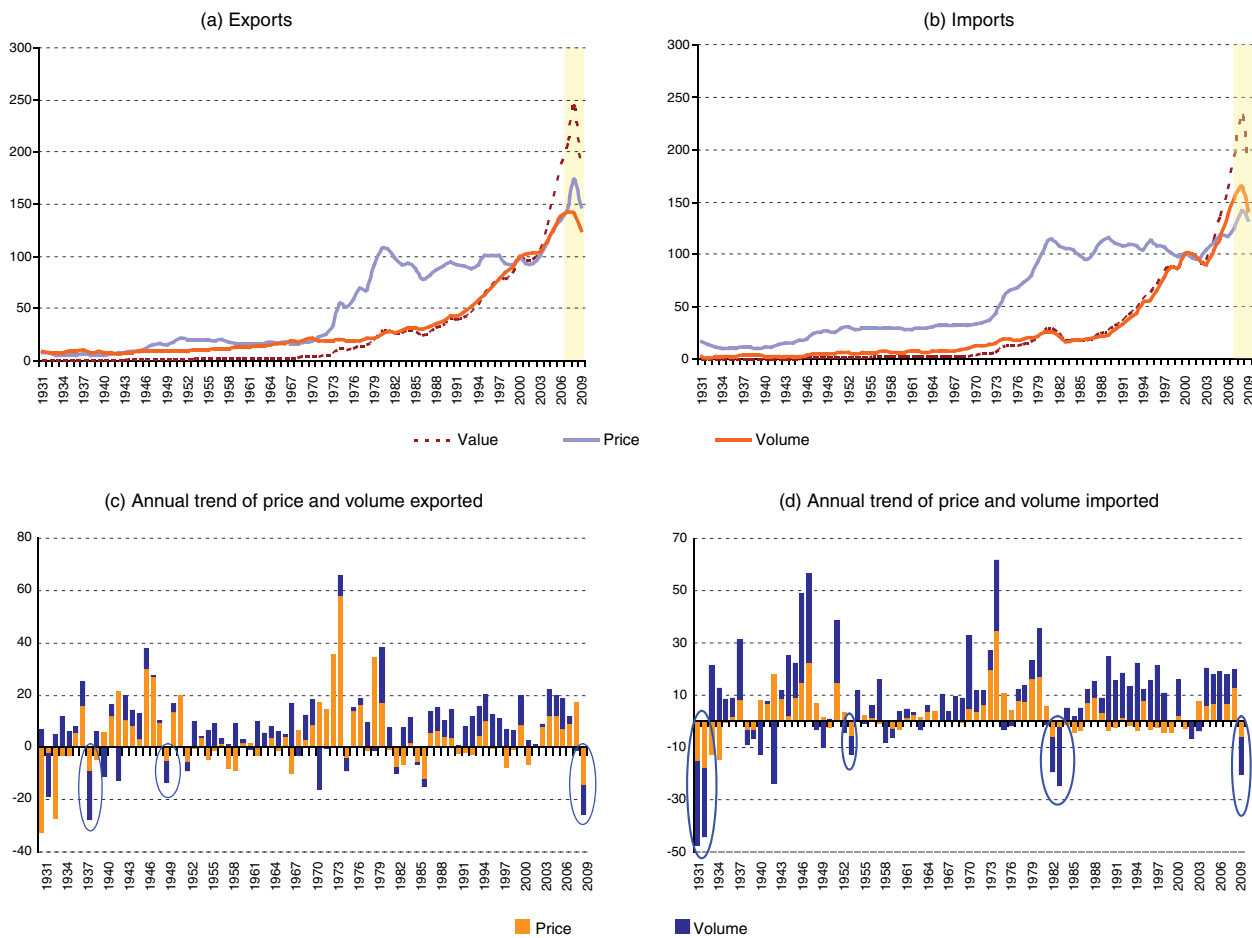
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

^a Projections.

The reduction in regional trade is unprecedented in recent times. To find a similar situation of falling volumes and prices in the region’s trade indices, it is necessary to go back 72 years (to 1937) in the case of exports and

27 years (to 1982) in the case of imports. This implies a historical record that is only surpassed by the sharp slowdown in trade that occurred immediately after the crisis in 1929 (see figures II.3c and II.3d).

Figure II.3
LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): MERCHANDISE TRADE, 1931-2009^a
 (Indices 2000=100)



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

^a Figures for 2009 were projected using monthly data from 15 countries. The relevant baseline series correspond to the period between January 1990 and the last month for which information was available when the estimates closed (April and May 2009, depending on the country). The trend projections used seasonally-adjusted time series. Estimates for the full year are an aggregation of the months reported by the national bodies in question, plus those estimated for the second half of the year in all countries of the sample.

In the first half of 2009, the value of the region’s exports contracted slightly more than that of its imports. Indeed, the value of exports fell by 31% compared with the same period of 2008, with a 15% decline in volume and an 18% drop in prices. During the same period, imports were down by 29% in value, by 25% in volume and by 5% in price (see table II.2). This contrasts sharply with the trend during the period between 2003 and the first half of 2008, when the region enjoyed a strong expansion in trade flows (both exports and imports).

The Caribbean appears to be the subregion most seriously impacted by the fall in export values, while Mexico and Central America have recorded the sharpest declines in import values.

The expected contraction in regional export values masks a wide disparity between the different subregions. Whereas Mexico and the countries of South America and the Caribbean will suffer a sharp contraction in exports this year, the problem will be less severe in Central America.

Manufactured exports in the Central American countries have declined, partly because a large proportion of them are vertically integrated in global chains which have suffered from a drop in final product demand. The result of the smaller volume of external sales, however, has not been compounded by lower prices, so export values have fallen less sharply than in other subregions.

For their part, South American commodity-exporting countries have experienced a smaller contraction in export volumes,¹ but a sharp fall in prices, although an upturn has been observed in several of them since the second quarter of 2009.

In the case of imports, a slowdown is expected across the board (see table II.1).

Table II.1
LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TRADE, 2007-2009
(Annual percentage growth, calculated on the basis of United States dollars at current prices)

	Exports			Imports		
	2007	2008	2009 ^a	2007	2008	2009 ^a
Latin America and the Caribbean (35 countries)	12.3	15.9	-25.0	19.0	21.0	-19.5
Latin America (19 countries)	12.6	15.7	-24.7	19.3	21.3	-20.0
Southern Common Market (MERCOSUR)	17.6	24.5	-22.8	30.6	40.3	-20.9
Andean Community	11.9	28.8	-35.6	30.7	21.4	-16.8
Central American Common Market (CACM)	12.1	9.3	-11.5	15.0	14.0	-16.4
Caribbean Community (CARICOM)	-0.6	23.7	-32.6	14.8	21.9	-11.5
Other countries						
Chile	15.3	-1.8	-23.2	22.6	30.8	-21.0
Mexico	8.8	7.2	-22.0	10.1	9.5	-21.0
Panama	10.1	10.2	-12.0	22.9	19.8	-16.0
Dominican Republic	8.3	-3.0	-16.0	11.7	18.4	-25.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay), and *The Economist Intelligence Unit* for Caribbean countries.

^a ECLAC projections on the basis of preliminary data for January to May.

The value of Latin American exports to the rest of the world is expected to increase in the second half of 2009, such that the fall for the entire year will be less than that reported in the first half. This will be due to the following factors: (i) the partial rally in the prices of the various commodities (such as copper, zinc, oil, wheat and soybean (see box II.2)), attributable to strong demand from China since the second quarter of 2009; (ii) low international interest rates and the depreciation of the dollar, making these commodities more attractive to investors, and (iii) a statistical effect, as the base for comparison is quite low —particularly with respect to the period September-December 2008, when trade flows fell sharply in practically all countries of the region (see table II.1).

Countries that export commodities, particularly oil and minerals, have been hit hardest by the deteriorating terms of trade. The slump in commodity prices is particularly affecting exports from the Bolivarian Republic of Venezuela and Ecuador (oil), Colombia (oil and coal) and the Plurinational State of Bolivia (natural gas). In 2009, the terms of trade are forecast to decline by 32.6%, for these four countries as a whole and by 41.9% in the case of the Bolivarian Republic of Venezuela. In contrast, the Central American countries, whose terms of trade worsened between 2005 and 2008 because they are net importers of fuels and food products, are expected to see their terms of trade recover in 2009 (see box II.2).

¹ Export volumes for products such as copper, zinc and aluminium have actually increased, mainly because Chinese demand has held up, stimulated by the low prices of these products.

Table II.2
**LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): MERCHANDISE EXPORTS AND IMPORTS, 2003-2008
 AND FIRST HALF OF 2008 AND 2009**
(Growth rates with respect to year-earlier period)

	2003-2006 ^a	2007	2008	2008 (first half)	2008 (second half)	2009 (first half) ^b
Exports						
Value						
Latin America and the Caribbean	21.1	12.3	15.9	23.9	7.4	-30.9
South America	27.8	17.0	20.4	29.4	12.8	-31.2
Mexico and Central America	15.9	9.3	7.4	16.7	-0.9	-30.0
Caribbean	22.8	3.6	14.8	18.1	12.4	-36.7
Volume						
Latin America and the Caribbean	8.0	5.9	2.5	7.0	-0.1	-15.3
South America	8.9	7.5	5.6	10.3	1.3	-18.4
Mexico and Central America	9.7	3.9	-1.6	-0.3	-2.9	-11.4
Caribbean	13.2	...	...	37.5	8.6	-12.1
Unit values						
Latin America and the Caribbean	12.7	7.0	8.6	15.8	6.8	-18.3
South America	18.8	8.3	9.5	17.2	10.6	-15.6
Mexico and Central America	6.2	5.0	7.0	17.0	2.1	-20.9
Caribbean	9.6	...	...	-14.6	3.5	-27.7
Imports						
Value						
Latin America and the Caribbean	19.7	19.0	21.0	28.6	17.3	-29.1
South America	27.1	28.8	34.9	42.2	29.1	-27.3
Mexico and Central America	15.3	10.9	10.1	15.9	5.0	-31.7
Caribbean	19.1	12.1	16.4	24.4	15.7	-24.3
Volume						
Latin America and the Caribbean	13.5	10.9	11.3	16.0	7.2	-25.3
South America	18.8	19.6	19.0	22.7	15.8	-20.8
Mexico and Central America	9.7	4.9	1.9	7.1	-2.7	-29.9
Caribbean	5.6	...	...	58.7	25.9	-28.4
Unit values						
Latin America and the Caribbean	5.5	7.3	10.0	10.8	9.2	-5.0
South America	8.3	7.6	13.4	15.8	11.1	-8.1
Mexico and Central America	5.6	5.7	8.0	8.3	7.7	-2.4
Caribbean	13.5	...	...	-21.0	-2.1	3.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay). Information on the Caribbean obtained from the United States Department of Commerce and the Statistical Office of the European Communities (EUROSTAT).

^a Average annual growth rates in the period, based on the aggregate figures for each subregion. The monthly price indices available at the national level were used in each case.

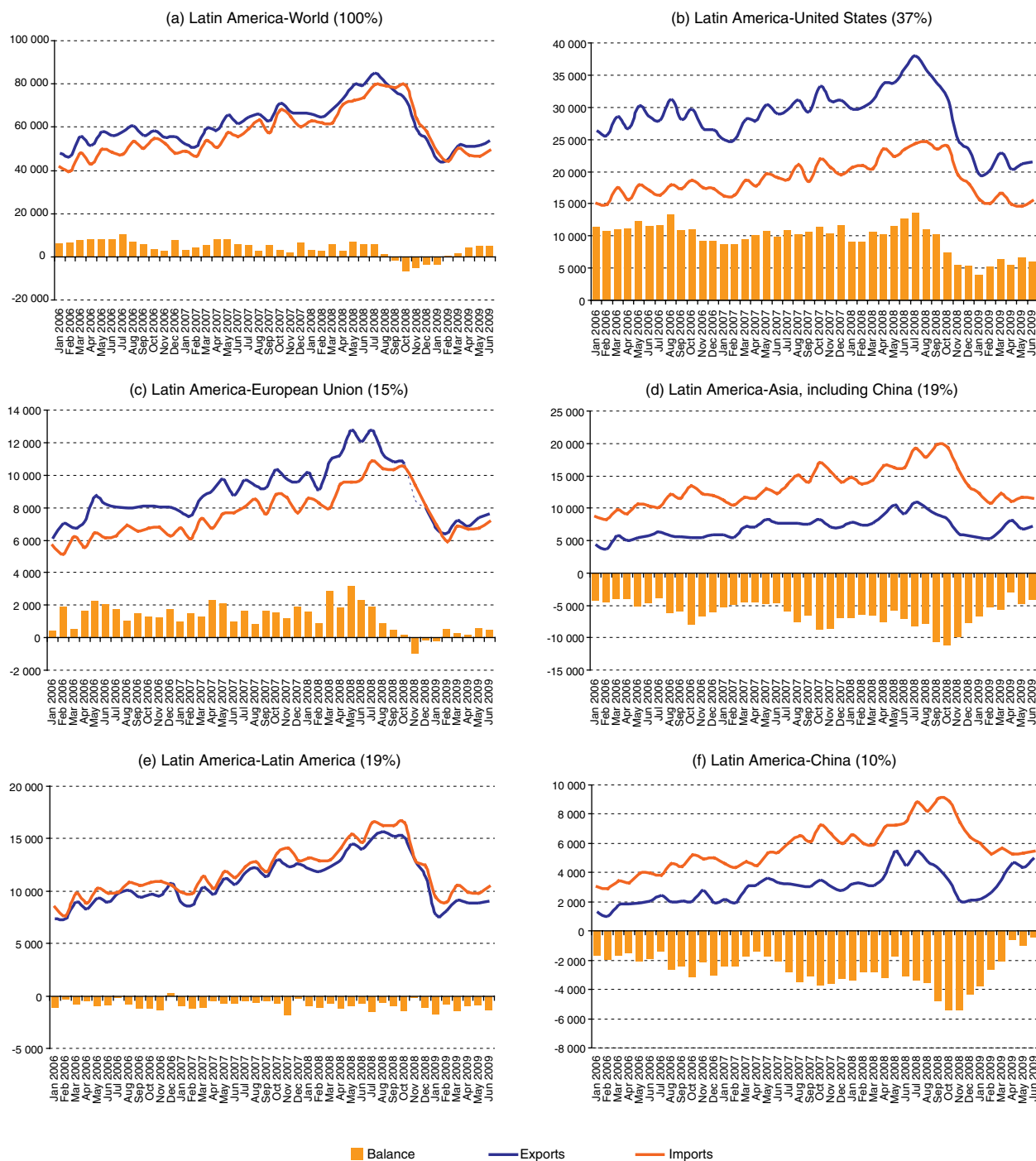
^b Preliminary figures.

C. Regional trade patterns, by origin and destination

The region's exports and imports have declined across the board, irrespective of destination or origin. The monthly trend in Latin American and Caribbean trade flows with the main world regions and partner countries

displays a clearly synchronized slowdown followed by contraction from the third quarter of 2008 through to the end of the first quarter of 2009. Flows have picked up slightly since then (see figure II.4).

Figure II.4
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE BY MAIN DESTINATION, JANUARY 2006 TO JUNE 2009^a
 (Millions of dollars at current prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay). Information on the Caribbean obtained from the United States Department of Commerce and the Statistical Office of the European Communities (EUROSTAT).

^a The figure in brackets indicates the share of each subregion or country in total trade flows (exports plus imports) for the 15 countries considered in the period January-June 2009.

Table II.3
**LATIN AMERICA AND THE CARIBBEAN: VALUE OF MERCHANDISE TRADE,
 2003-2006 AND HALF-YEAR PERIODS, 2007-2009**
(Percentage growth with respect to year-earlier period)

	2003-2006 ^a	2007 (first half)	2007 (second half)	2008 (first half)	2008 (second half)	2009 (first half) ^b
Exports						
United States	17.9	-0.4	8.8	17.5	1.1	-35.3
European Union	22.5	17.0	20.2	28.9	6.9	-36.3
Asia ^c	24.3	37.9	27.7	24.9	11.4	-16.9
China	34.6	73.6	41.4	36.1	17.6	-4.1
Rest of Asia	20.0	20.3	19.4	16.9	7.0	-27.5
Latin America and the Caribbean	28.5	18.3	23.7	31.1	16.3	-33.4
World	21.1	10.4	15.9	23.9	7.4	-30.9
Imports						
United States	11.4	10.0	14.6	22.1	11.4	-29.8
European Union	16.4	19.6	24.1	25.0	19.1	-25.2
Asia ^c	20.9	23.6	24.7	30.5	18.6	-24.5
China	43.3	40.3	38.1	39.8	26.7	-18.3
Rest of Asia	14.6	14.2	16.1	24.1	12.5	-29.1
Latin America and the Caribbean	28.1	17.2	23.0	31.6	20.3	-28.7
World	19.7	16.0	21.7	28.6	17.3	-29.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay). Information on the Caribbean obtained from the United States Department of Commerce and the Statistical Office of the European Communities (EUROSTAT).

^a Average annual growth rates for the period.

^b Preliminary figures.

^c Includes the Association of Southeast Asian Nations (ASEAN), plus Australia, China, Japan, New Zealand and the Republic of Korea. Does not include the Caribbean countries.

Trade with the United States and the European Union decreased significantly in the first half of 2009. Trade flows with the United States retreated on a widespread basis, not only in the case of Mexico and the Central American countries, for which a significant decline was expected. In fact, the value of exports to the United States market fell by even more in the case of the Andean Community (CAN) and the Southern Common Market (MERCOSUR) (see figure II.5).

Trade with the European Union also slackened generally as a result of the recession. Although the contraction of exports to this market was sharpest in Chile and Mexico, it was also considerable in all subregions—except for Central America where levels of bilateral trade between the two zones are small (see figure II.5).

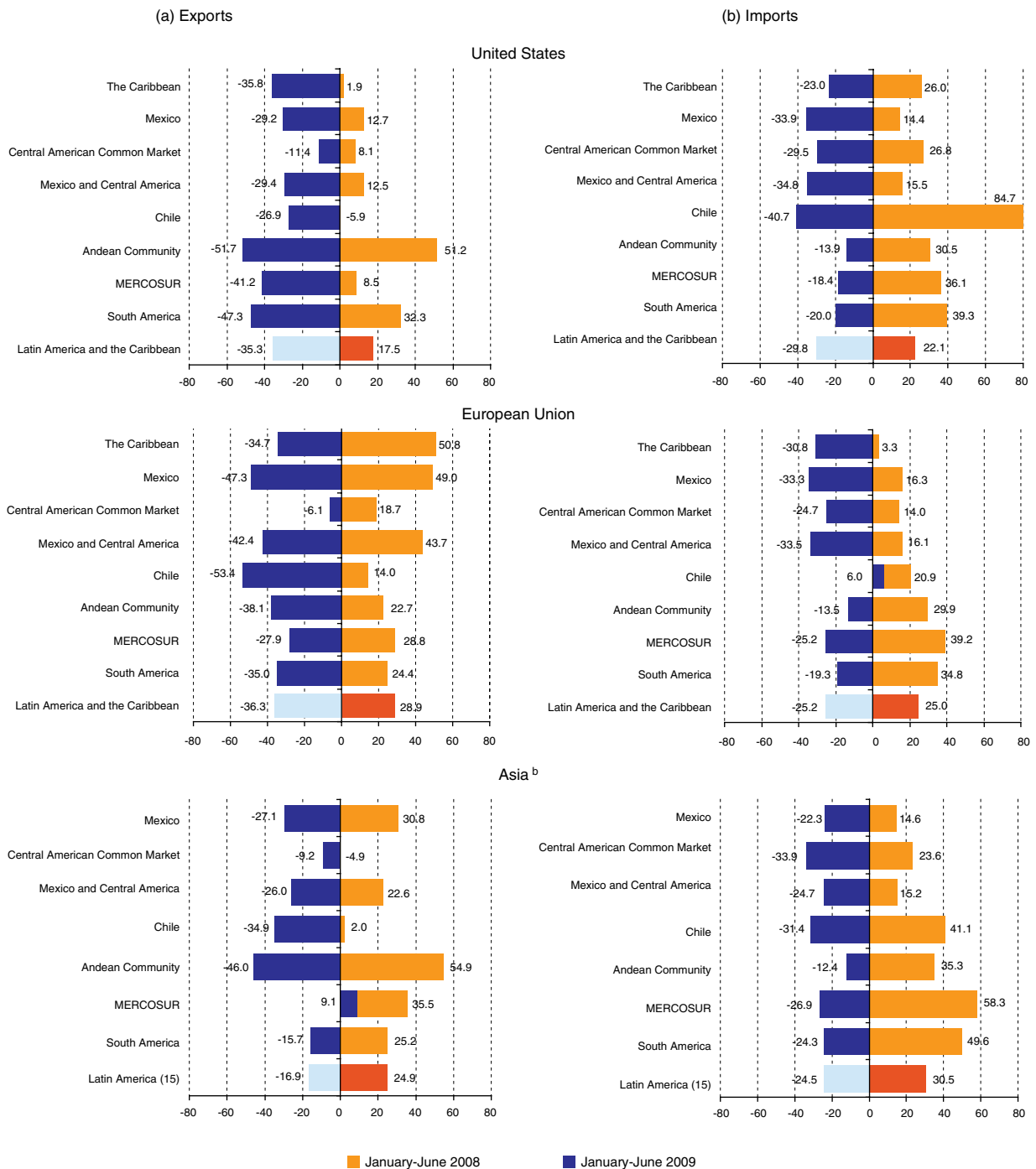
Trade with Asia decreased by less. The region's exports to Asian countries declined by substantially less (between 18 and 19 percentage points) than those targeting the European and United States markets (see figure II.5). Although the Republic of Korea and Japan reduced their imports from Latin America and the Caribbean by 22% and 26% respectively² in the first quarter of 2009, these figures were offset by a smaller drop in Chinese

purchases. This verifies the growing importance of China as a regional export destination.

Trade has declined less with China than with the region's other main trading partners. Official Chinese data report a substantial slump in its trade with Latin America in the first three months of 2009, owing to the fall in commodity prices. Nonetheless, preliminary figures for the first half of the year show that Chinese imports of certain commodities are actually propping up the region's exports to this country, which—with a growth rate of 8% forecast for 2009—continues to absorb large volumes of raw materials. To some extent, the Chinese domestic market has rescued Latin American exports, in particular benefiting several net commodity-exporting countries in South America, for which reason the subregion has again posted surpluses in its bilateral trade with China (see figure II.7). In contrast, Mexico and Central America continue to display deficits, reflecting to the sharp asymmetry in trade flows with China. Export-oriented production in Mexico and Central America is more heavily based on manufactures, and their exports consequently complements China less than the commodities exports of South America.

² According to official data from the Japan External Trade Organisation (JETRO) [online] <http://www.Jetro.go.jp> and the Korean International Trade Association (KITA), statistical databank [online], <http://www.kita.go.kr>.

Figure II.5
LATIN AMERICA AND THE CARIBBEAN: TRADE WITH THE UNITED STATES, THE EUROPEAN UNION AND ASIA,
FIRST-SEMESTER VARIATION WITH RESPECT TO THE YEAR-EARLIER PERIOD, 2008-2009^a
(Percentage calculated on the basis of current dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

^a Based on information only for the 15 countries mentioned.

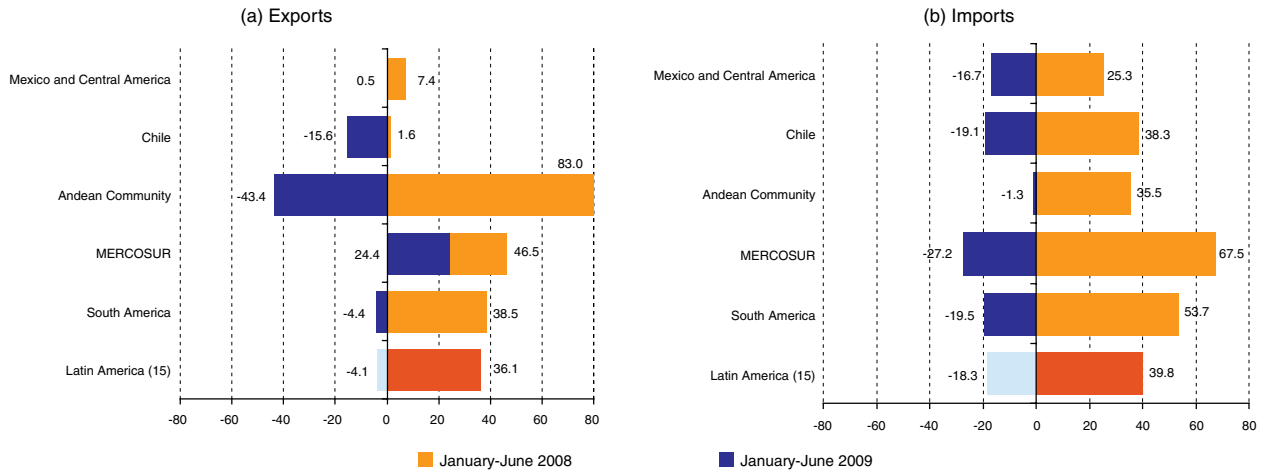
^b Includes the Association of Southeast Asian Nations (ASEAN), plus Australia, China, Japan, New Zealand and the Republic of Korea.

As shown in figure II.6, only MERCOSUR succeeded in increasing its exports to China in the first half of 2009 compared to the same period in 2008, although their rate of expansion slowed sharply. At the opposite extreme is the Andean Community, whose exports slowed abruptly owing to the huge drop in oil and copper prices.

On the import side, the region's demand for Chinese goods has weakened generally, although by less than in

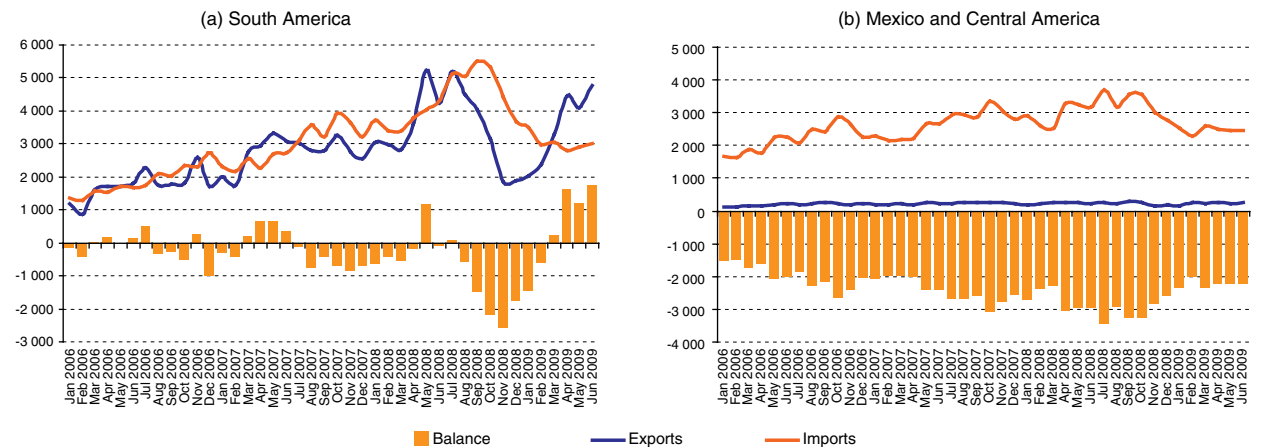
the case of United States, the European Union and for goods from within the region. This has caused problems for productive sectors that compete with Chinese imports. The financial crisis and price falls have triggered the implementation of anti-dumping measures, permits and quotas, among other barriers,³ on products such as textiles, crockery, steel chains, cutlery, tyres and footwear, particularly of Chinese origin.

Figure II.6
LATIN AMERICA (15 COUNTRIES): TRADE WITH CHINA, FIRST-SEMESTER VARIATION WITH RESPECT TO THE YEAR-EARLIER PERIOD, 2008-2009
(Percentage calculated on the basis of current dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

Figure II.7
LATIN AMERICA AND THE CARIBBEAN: BILATERAL TRADE WITH CHINA, JANUARY 2006 TO JUNE 2009
(Millions of dollars)



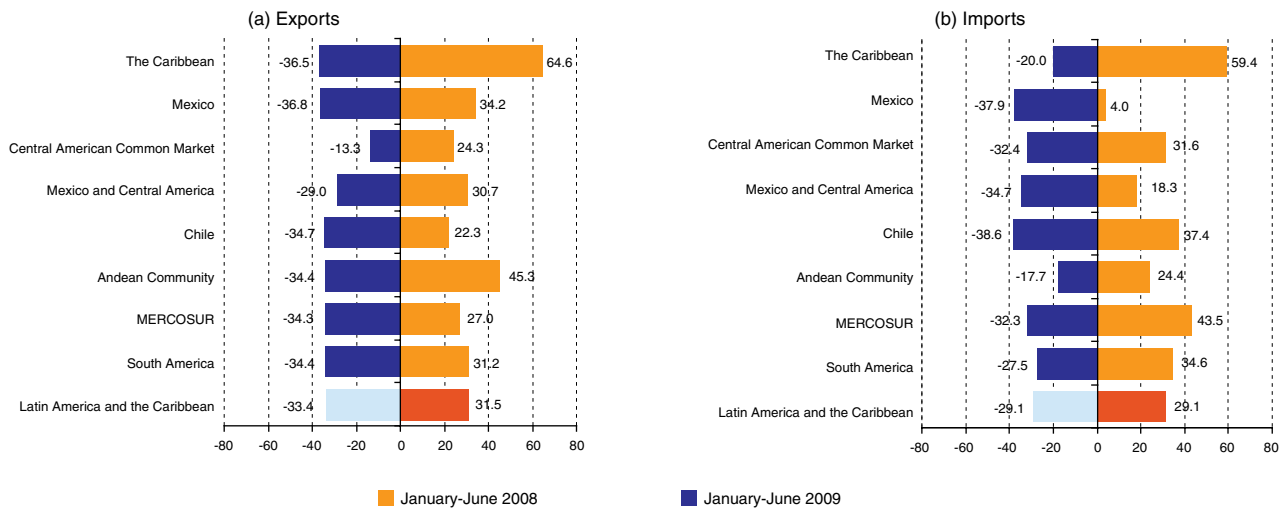
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

³ Section G gives details of some of the trade policy measures implemented by the region's countries in the current crisis.

Intraregional trade flows fell slightly more than the world average. The trade flows of each country and/or subregion with Latin America and the Caribbean as a whole recorded huge drops that were similar in size to those recorded by world trade, on average falling by over 30% (see figure II.8). This pattern was observed in each of the region's four subregional

integration schemes, where trade flows displayed procyclical behaviour (see chapter III). For the first time in a long while, the pattern was also replicated in intrasubregional trade in Central America, which had tended to be less procyclical in the past. Recent events in Honduras might aggravate this trend in the second half of 2009.

Figure II.8
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, FIRST-SEMESTER VARIATION WITH RESPECT TO THE YEAR-EARLIER PERIOD, 2008-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

D. Regional trade patterns, by product group

As has been the case worldwide, the slowdown in regional exports is more pronounced in mining, oil and manufactured products. While the value of the region's agricultural exports has decreased by less than its total exports, foreign sales of mining products and oil have dropped by over 50%, and manufacturing exports have fallen by 24%, particularly those destined for the

United States and European markets (see table II.4). These two items account for 92% of the decline in the region's total exports in the first half of 2009, compared to the same period a year earlier. Despite the weaker commodity prices, export volumes have grown significantly, thus mitigating the effects of the price fall (see box II.2).

Table II.4
LATIN AMERICA AND THE CARIBBEAN: EXPORTS BY PRODUCT GROUPS AND CONTRIBUTION TO OVERALL VARIATION, FIRST HALF OF 2008 AND 2009^a
(Percentage change in value and sector contribution to the total)

Sector	United States ^b			European Union (27) ^c			World ^d		
	First half 2008	First half 2009 ^e	Contribution	First half 2008	First half 2009 ^e	Contribution	First half 2008	First half 2009 ^e	Contribution
Agriculture	18.1	0.8	0.1	3.0	-15.4	-5.0	30.9	-17.0	-2.0
Mining and oil	32.3	-49.7	-17.1	48.3	-42.1	-11.0	47.9	-50.7	-15.9
Manufactures	-0.7	-27.5	-15.5	4.0	-29.7	-12.1	16.0	-23.9	-13.0
Total	12.5	-32.3	-32.3	15.7	-28.1	-28.1	23.9	-30.9	-30.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the United States International Trade Commission (USITC), the Statistical Office of the European Communities (EUROSTAT), and official country figures for 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay) and data from the United States Department of Commerce and EUROSTAT for the Caribbean countries.

^a The contribution to the variation is calculated as the product of the percentage change between the first semesters of 2008 and 2009, and the share of each group in total exports in January 2008-June 2008.

^b Figures obtained from monthly data taken from the USITC database, according to United States imports from Latin America and the Caribbean.

^c Figures obtained from the EUROSTAT database, according to imports of the 27 members of the European Union from Latin America and the Caribbean.

^e Preliminary estimates.

A more detailed product breakdown reveals a sharply falling trend among certain manufactures, such as imports by the United States of motor vehicles, iron and steel, plastics and metal products from the region, which reported variations of -48%, -52%, -50% and -22% in the first half of 2009, respectively. In contrast,

preliminary figures for this period report slight growth in the United States' agricultural imports from Latin America and the Caribbean. In addition, purchases of the region's agricultural products by the European Union have decreased by less than the overall figure, also with a smaller share (see table II.5).

Table II.5
LATIN AMERICA (15 COUNTRIES): MERCHANDISE IMPORTS BY MAJOR ECONOMIC CATEGORY, 2007 TO JUNE 2009
(Percentage shares and growth rates)

Product group	2007	2008	First half 2008	First half 2009 ^a	Contribution ^b
Imports	19.5	21.9	29.2	-28.5	-28.5
Capital goods	24.6	14.6	18.8	-17.0	-2.9
Intermediate inputs	17.4	24.2	30.0	-28.3	-12.2
Consumer goods	15.5	14.2	20.1	-25.2	-6.8
Fuels	31.7	46.0	72.0	-50.7	-6.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

^a Preliminary estimates.

^b The contribution to the variation is calculated as the product of the percentage change between the first semesters of 2008 and 2009, and the share of each group in total exports in January 2008-June 2008.

Commodity exports have recovered slightly in 2009. In 2009 to date, the strong performance of Chinese demand has underpinned recovery among some of the region's commodity exports (particularly agricultural ones), in both price and volume terms. In the first half of 2009, for example, Chinese purchases of soybeans worldwide grew by 36% in volume compared to the same period in 2008. This contributed to an expansion of exports from Brazil of soybeans (7.4%) and soybean flour (5.2%) in

the first three months of the year, during which its sales of maize were also up by 28%.⁴

⁴ Agricultural exports from Argentina declined sharply, however. Various factors, such as persistent drought, high import prices, poor access to credit and tensions between the Government and producers caused the volume of wheat exports to decline by 58% between 2007-2008 and 2008-2009, whereas, according to the Foreign Agricultural Service of the Department of Agriculture of the United States, exports of soybean and maize are expected to shrink by over 50%.

The performance of the mining sector in Latin America shows that world demand for its products remains strong, driven largely by China, which helped to cushion the adverse effect of lower prices on the region's balance of payments. For example, the following pattern was observed between the first quarter of 2008 and the same period in 2009:

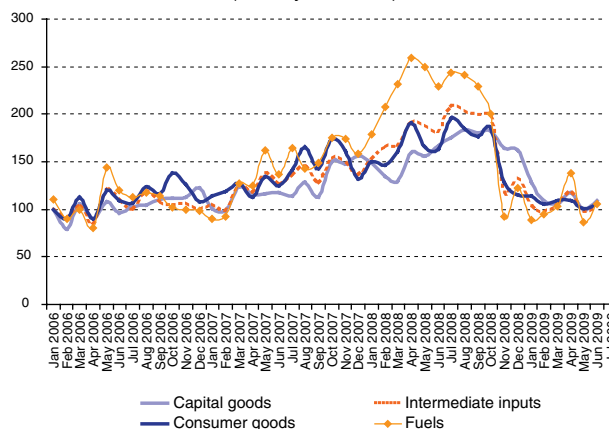
- Chilean exports of refined copper grew by 76% in volume terms, despite a 57% drop in the price of this product.
- Chinese imports of Mexican zinc grew by 447%, and those of Peruvian zinc by 115%, mitigating the loss of export earnings caused by a 52% drop in the price of this product.
- Global Chinese imports of aluminium expanded by 122%, contributing to a 35% increase in Brazilian exports of this product.

Although Chinese oil imports continue to grow, in 2009 thus far there has been a slight reduction in demand from OECD countries, and as a result, global demand is down by 2%.⁵ Even so, the volume of oil exported by the region's countries has fallen by less than its price. Thus, in the first quarter of 2008 and the same period in 2009, the Bolivarian Republic of Venezuela exported just 2% less oil, although the value of its oil exports declined by 55% owing to the price effect. At the same time, the value of Mexican oil exports declined by 58%, reflecting not only lower prices, but also an 11% drop in volume exported.

Regional import demand is sharply lower in all production sectors. This adjustment, which is normal in a crisis that has a major effect on the real economy, occurred suddenly and even before the current financial crisis became more acute. It should be noted that the fuel imports index started to fall as early as mid-2008, whereas

the capital goods and intermediate inputs index was slowing down and dropped definitively only in October 2008 (see figure II.9).

Figure II.9
LATIN AMERICA (15 COUNTRIES): MONTHLY VARIATION IN IMPORT INDICES BY MAJOR ECONOMIC CATEGORY, JANUARY 2006 TO JULY 2009
(January 2006=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the national statistical offices, central banks and customs offices of 15 countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).

Most of the fall in imports is occurring in capital goods and intermediate inputs. Of the overall reduction in imports, 55% is accounted for by capital goods and intermediate inputs. When the decline in fuel purchases is factored in, these three segments account for 77% of the total reduction (see table II.5). These figures should be treated cautiously, however, given the direct link between imports of capital goods, intermediate inputs and investment, and hence, with the region's future recovery prospects.

E. General trends in the trade in services

Service exports decreased by less than goods exports in the first quarter of 2009. Balance-of-payments data for the first three months of 2009, available for nine of the region's countries, confirm the global pattern of a smaller reduction in trade in services than in merchandise trade.

As can be seen in figure II.10, which shows growth rates for the first quarter of 2009 compared to the same period a year earlier, the worst affected sector has been transport, particularly in Costa Rica and Uruguay. On average, the decline was no greater than 10% (see figure II.10c).

Despite additional factors adversely affecting the travel sector, particularly the influenza A virus (H1N1), exports of relevant services remained relatively stable.

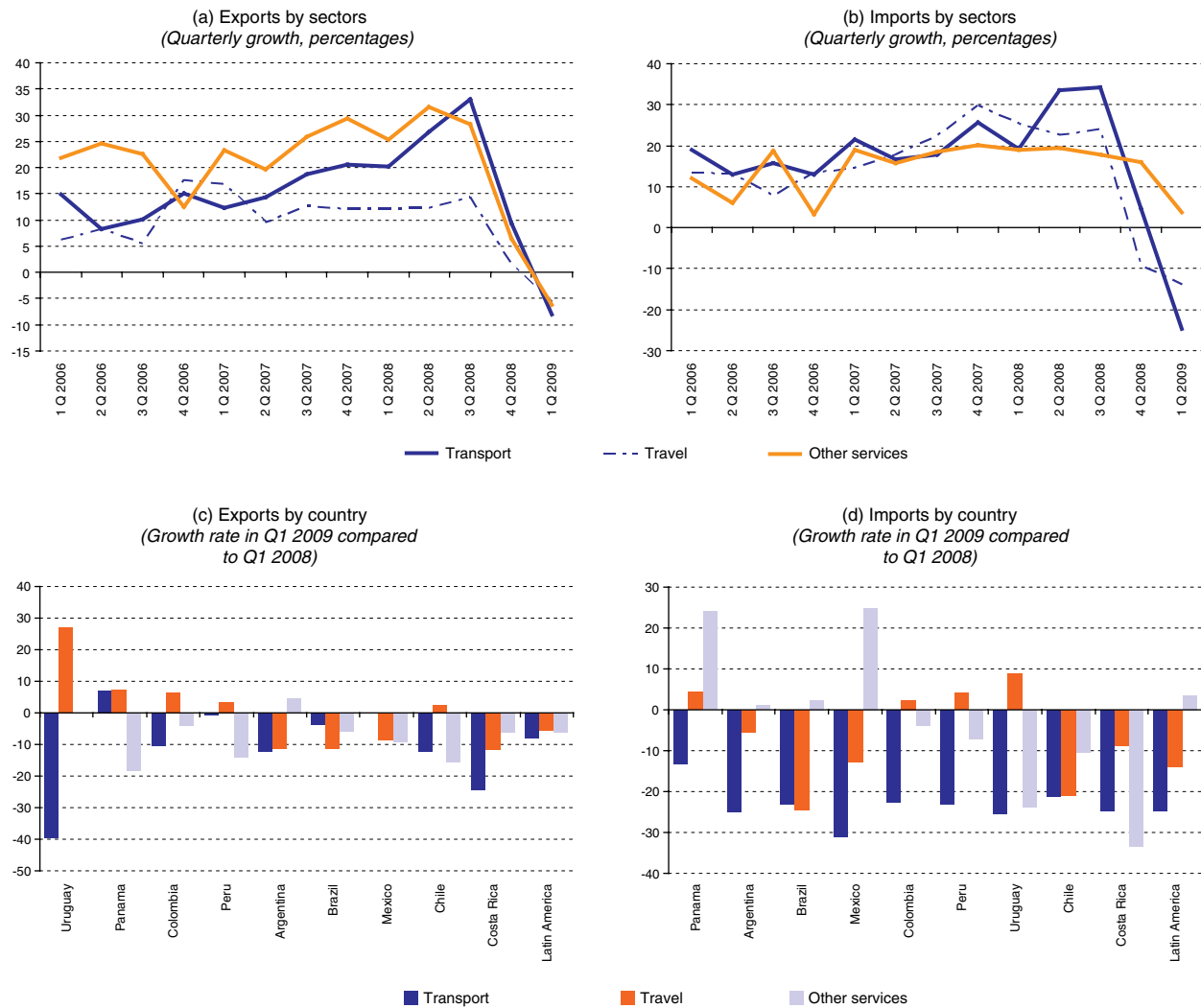
⁵ According to the Energy Information Administration of the United States (EIA, 2009).

Trade in other services followed a quite similar pattern, declining by about 6%.⁶

For the region as a whole, the situation of the various components of the trade in “other services” has varied considerably. However, as noted in the previous chapter, the recent decline in regional exports

of “other services” will not make it possible, for now, to reverse the structural changes witnessed in the region during the last few years of this decade, namely the loss of market share in all categories of world exports except computer services and “other business services” (see table II.6).

Figure II.10
LATIN AMERICA (9 COUNTRIES): TRADE IN SERVICES BY COUNTRY AND SECTOR, FIRST QUARTER 2006 TO FIRST QUARTER 2009



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the balance of payments of nine countries (Argentina, Brazil, Colombia, Chile, Costa Rica, Mexico, Panama, Peru and Uruguay).

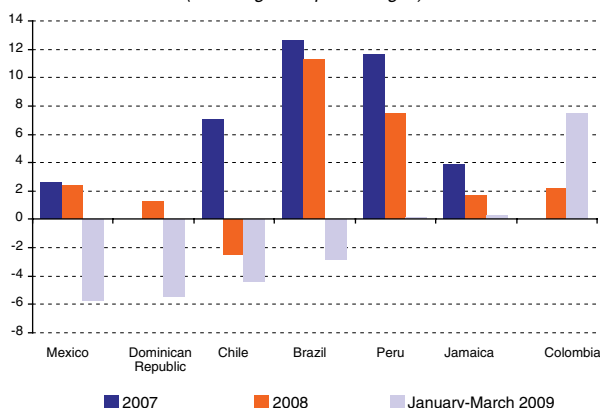
⁶ The available information on tourist arrivals for the first quarter of 2009 also shows a slight decrease on the order of 5%. This confirms the relative stability of income from the sale of travel services up to the end of March (see figure II.11).

Table II.6
LATIN AMERICA AND THE CARIBBEAN: SHARE IN WORLD SERVICES EXPORTS, 2000-2007
(Percentages of world services trade)

	Latin America and the Caribbean			Latin America			The Caribbean		
	2000	2007	Variation 2000-2007	2000	2007	Variation 2000-2007	2000	2007	Variation 2000-2007
Goods	6.2	6.0	-0.2	6.0	5.8	-0.2	0.2	0.2	0.0
Total services	4.1	3.3	-0.8	3.2	2.7	-0.5	0.9	0.7	-0.3
Transport	3.3	3.2	-0.1	3.0	3.0	-0.1	0.3	0.2	-0.1
Travel	6.3	5.7	-0.5	4.5	4.5	0.0	1.8	1.3	-0.5
“Modern” services	2.5	2.0	-0.6	2.3	1.9	-0.4	0.2	0.1	-0.1
Communications	10.0	4.0	-6.0	8.1	3.4	-4.7	1.9	0.6	-1.3
Royalties and licences	0.6	0.5	0.0	0.5	0.5	0.0	0.0	0.0	0.0
Construction	0.9	0.1	-0.8	0.9	0.1	-0.8	0.0	0.0	0.0
Financial	1.8	1.3	-0.5	1.6	1.2	-0.4	0.2	0.1	0.0
Insurance	11.2	4.8	-6.4	10.5	4.5	-5.9	0.7	0.3	-0.4
Computer	1.1	1.6	0.5	0.9	1.6	0.7	0.2	0.0	-0.1
Other business	2.4	2.5	0.1	2.2	2.4	0.2	0.2	0.1	-0.1
Personal	2.6	2.3	-0.2	2.5	2.3	-0.2	0.0	0.1	0.0
Government	4.8	4.3	-0.5	4.1	3.8	-0.3	0.7	0.5	-0.2

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

Figure II.11
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
TOURIST ARRIVALS, 2007-2009
(Annual growth percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the ministries of tourism of the relevant countries.

In contrast, imports of services retreated by over 20%. An analysis of import-related data (see figure II.10b) reveals a general drop in imports in the transport sector in all of the countries studied, averaging around 25%. This reflects the continuing weakness of the world economy and lower activity levels across the region.

In the travel category, the fall was more pronounced in the larger countries —Brazil, Mexico and Argentina—

and also in Costa Rica, where expenditure on foreign travel by residents in the first quarter of 2009 decreased by an average of over 13%, compared to the same period in 2008.

Lastly, total imports in the other services category have also grown slightly, mainly reflecting factors that are not directly related to the financial crisis, such as a 33% increase in equipment hire in Brazil and profit-related outflows (remittances and reinvestment) by Mexican and Panamanian firms under foreign ownership. Sector imports recovered in these three countries.

Activity in the tourism sector, which had contracted in 2008, will continue to decline as a result of the crisis and the health problems caused by the A(H1N1) influenza virus. The economic crisis generated a large slump in demand for tourism services in high-income countries, particularly Europe and the United States. The fall is expected to be even greater in the rest of 2009, as a result of the worsening of the crisis in the real sector of the economy in developed countries and upheavals caused by the A(H1N1) influenza virus in Mexico and the Caribbean. Inbound tourism to those destinations has fallen off sharply since April 2009. The Caribbean Tourism Organization expects arrivals in the Caribbean zone, the region's tourism hub, to drop by between 20% and 35%.

F. Trends in the other components of the balance of payments

The financial crisis has shifted to other domains of the region's participation in the international economy, such as foreign direct investment (FDI) and remittances sent from abroad.

Although FDI posted a historical record in the region in 2008, it is expected to retreat in 2009 owing to the smaller number of investment projects. Inward FDI flows to Latin America and the Caribbean posted a new historical record in 2008, despite slowing sharply compared to the previous year, while investment by Latin American and Caribbean firms reached its second highest level ever. These figures should be interpreted with caution, however, since much of the investment undertaken in 2008 reflected decisions taken before the crisis.

Inward FDI flows to the region in 2008 were 13% up on the previous year's figure (ECLAC, 2009c). This is particularly noteworthy, given a 25% decrease in investment flows to developed countries and a 15% reduction worldwide. Nonetheless, the aggregate figures conceal a highly varied subregional reality (see table II.7). Inward FDI to South America grew by 24% compared to the 2007 figure, fuelled by high commodity prices and strong subregional economic growth. In contrast, in Mexico and the Caribbean Basin, FDI declined by 5% over the same period, largely reflecting this zone's close relations with the United States economy. FDI flows to the region as a whole are expected to fall off sharply in 2009, as the effects of the current financial crisis intensify.

Table II.7
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT, 1999-2008
(Millions of dollars)

Subregion or country	1999-2003 ^a	2004-2008 ^a	2007	2008	Absolute difference 2007-2008	Relative difference 2007-2008 (percentages)
South America	43 365	57 297	72 520	89 862	17 342	24
Mexico	20 295	22 974	27 278	21 950	-5 329	-20
Central America	2 134	5 296	7 045	7 554	509	7
Caribbean	3 067	5 997	6 314	8 935	2 621	42
Total	68 860	91 564	113 157	128 301	15 144	13.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2008* (LC/G.2406-P), Santiago, Chile, 2009.

^a Annual averages.

Remittance income received by the region's countries will also be down in 2009 and 2010. Total remittance flows to developing countries, amounting to US\$ 328 billion, were up by 15.1% in 2008 in relation to the previous year's figure, while flows to the region grew by just 1.4% (see table II.8 and figure II.12). This

largely reflected the adverse effects of the United States recession on the employment and income of Latin American immigrants, particularly in the construction sector.

Remittance flows to the region have been less dynamic than those received by other developing regions since 2007 (see figure II.12).

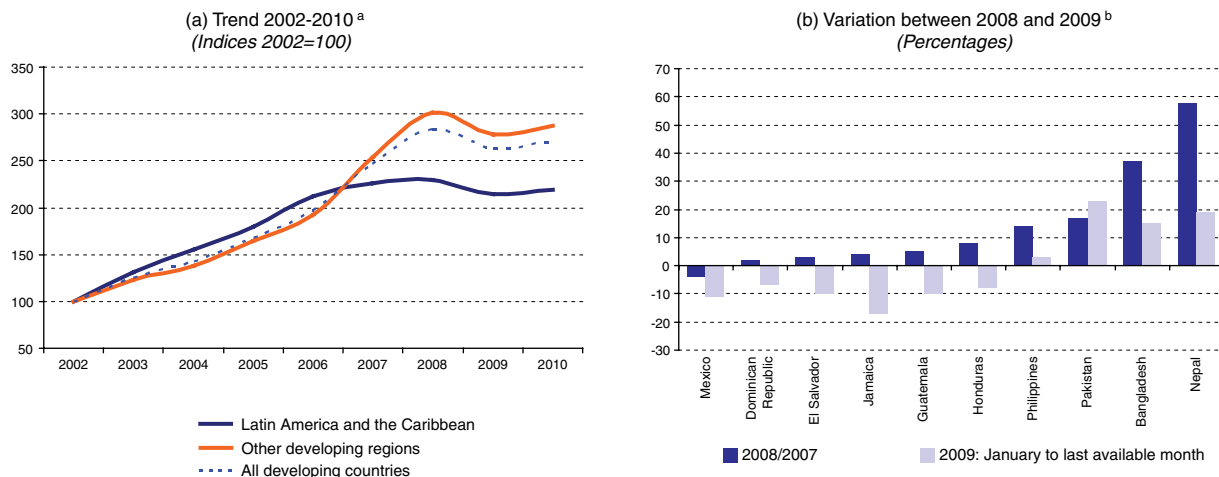
Table II.8
LATIN AMERICA AND THE CARIBBEAN AND DEVELOPING COUNTRIES: REMITTANCE FLOWS, 2002-2010
(Billions of dollars)^a

	2002	2003	2004	2005	2006	2007	2008	2009		2010	
								Base line scenario	Pessimistic scenario	Base line scenario	Pessimistic scenario
Latin America and the Caribbean	28	37	43	50	59	63	64	60.0	58.0	61.0	57.0
Total developing countries	116	144	164	195	228	285	328	304.0	295.0	313.0	294.0

Source: World Bank, *Global Development Finance: Charting a Global Recovery*, Washington, D.C., 2009, and "Outlook for remittance flows 2009-2011: remittances expected to fall by 7-10 percent in 2009", *Migration and Development Brief*, No.10, 13 July 2009.

^a 2008: estimate; 2009 and 2010: forecast.

Figure II.12
LATIN AMERICA AND THE CARIBBEAN AND DEVELOPING COUNTRIES: TRENDS IN REMITTANCE FLOWS



Source: World Bank, *Global Development Finance: Charting a Global Recovery*, Washington, D.C., 2009.

^a World Bank Projections.

^b Preliminary estimates.

The World Bank expects remittance flows to the region to decrease by between US\$ 58 and US\$ 60 billion in 2009, in other words between 6% and 9%. Although a slight recovery is expected in 2010 under the baseline scenario, there will be a slight reduction if the pessimistic scenario prevails (see table II.8). It should be noted

that remittances are the main source of income for the economies in the Caribbean basin and Central America. As can be seen in figure II.12b, several of these have suffered a substantial drop in remittances received in 2009 thus far, contrasting with the growth of remittances received by several Asian countries.

G. Regional trade-policy responses

Despite the crisis the region has generally resisted the temptation of protectionism. Despite the pressure for greater protection that tends to arise in a crisis as serious as the current one, there has been no widespread move to restrict trade. In fact, the international trade responses vary significantly by country and include both measures to increase protection and others pointing in the opposite direction. Appendix II.A-1 contains a table summarizing the measures adopted by the various countries since September 2008, which gives rise to a number of observations.⁷

Some of the region's countries have introduced trade restriction measures. The main ones include the following:

- higher tariffs (generally envisaged as temporary);
- introduction or greater use of import licenses and reference values for imported merchandise;
- establishment of import quotas for certain products, and
- greater use of trade defence measures, particularly anti-dumping duties.

In addition, in some cases the crisis has reinforced pressure to explore “managed trade” options, such as sector-wide agreements between exporters and importers themselves.

There have also been moves towards greater openness, export promotion and trade facilitation. Trade liberalization or promotion measures adopted recently in the region include the following:

- tariff cuts, especially on capital goods, intermediate goods and food products (the latter particularly in Caribbean countries);

⁷ This exercise should take account of the difficulty in distinguishing between measures adopted specifically in response to the crisis and those implemented for other reasons.

- reduction in export taxes, particularly on agricultural products;
- trade facilitation measures, and
- various efforts to intensify export promotion.

Also worth noting is the general action by governments in the region to increase the provision of trade finance, to mitigate the credit crunch caused by the crisis (see chapter I).

In South America, a group of countries made some US\$ 3.7 billion available for trade financing, while members

of the Central American Common Market (CACM) decided to set up a special fund for this purpose in the framework of negotiations on a prospective partnership agreement with the European Union (see table II.9). The region's countries have also applied measures such as streamlining VAT rebate mechanisms for exporters and increasing the number of firms eligible for export credit lines. They have also participated actively in discussions on trade financing held in the Working Group on Trade, Debt and Finance of the World Trade Organization (WTO).⁸

Table II.9
LATIN AMERICA: TRADE FINANCE PROMOTION MEASURES ADOPTED BY CERTAIN GOVERNMENTS
(Millions of dollars)

Country	Amount	Objectives	Financing entity/guarantor
Argentina	500	Prefinancing of exports and working capital	Banco de Inversión y Comercio Exterior (BICE)
Brazil	2 000	Expansion of credit lines for preshipment operations	National Bank for Economic and Social Development (BNDES)
	60	Opening of export credit lines	Unibanco (private bank), with a syndication agreement with the World Bank
Chile	50	Additional funds from the programme to cover bank loans to exporters (COBEX)	Production Development Corporation (CORFO)
Colombia	910	New funds for export promotion	Andean Development Corporation (CAF), Inter-American Development Bank (IDB)
Ecuador	100	Opening of credit lines for foreign trade operations	National Finance Corporation (CFN)
Uruguay	125	Additional funds for investment projects and export prefinancing	Banco de la República Oriental del Uruguay
	20	Creation of a guarantee fund for exports to collection risk countries	Banco de la República Oriental del Uruguay
Central American Common Market	...	Common economic and credit fund for development of the region	To be created in the framework of negotiations between the Central American Common Market and the European Union

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Institute for the Integration of Latin America and the Caribbean (INTAL), "El comercio internacional, amenazado por la falta de financiamiento", *Carta mensual*, No. 152, March 2009; ECLAC, *The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009* (LC/L.3025/Rev.1), Santiago, Chile, June 2009; World Trade Organization (WTO), "Report to the TPRB from the Director-General on the financial and economic crisis and trade-related developments" (JOB (09)/2), January 2009.

The countries of the region have opted for border measures rather than subsidies. The trade policy measures adopted in the region since September 2008 are consistent with the pattern detected in several recent studies (see, for example, Newfarmer and Gamberoni, 2009). Thus, while the industrialized countries have responded to domestic demands for protection mainly by granting subsidies to various industries in vulnerable situations, developing countries have preferred to use border measures —both tariff and nontariff. Naturally, this reflects the lesser availability of financial resources in developing countries to directly subsidize productive sectors.⁹

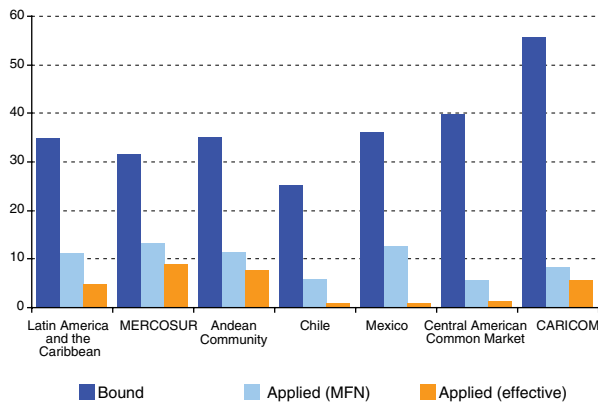
In particular, the region has plenty of room to raise tariffs. The current crisis has highlighted the space available to the region's countries to increase applied tariffs (under the most favoured nation (MFN) clause,

without exceeding bound rates (the maximum levels committed to in the WTO). As can be seen in figure II.13 and table II.10, the average bound tariff (considering both agricultural and non-agricultural products), is three times higher than the applied tariff in South America and Mexico and six times higher in the case of Central America and the Caribbean.

⁸ Following an invitation by the Brazilian Government, the group met to propose solutions to problems of international trade financing in November 2008.

⁹ As an exception to this rule, the Government of Brazil has granted US\$ 1.7 billion in loans to the automotive sector (WTO, 2009a). Nonetheless, this reflects the trend to support that industry that started in the United States and has since spread to most of the main producer countries (see chapters I and IV).

Figure II.13
LATIN AMERICA AND THE CARIBBEAN: AVERAGE VALUE OF
VARIOUS TARIFFS AS OF DECEMBER 2007
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/United Nations Conference on Trade and Development (UNCTAD), *World Tariff Profiles 2008*, Geneva, 2008.

Note: Effective applied tariffs were calculated taking account of preferences negotiated in the trade agreement signed by the different countries.

Table II.10
LATIN AMERICA AND THE CARIBBEAN: AVERAGE APPLIED AND BOUND TARIFFS BY SUBREGION
IN THE AGRICULTURAL AND NON-AGRICULTURAL SECTORS, 2007
(Percentages)

Sectors		Tariff rates	Tariff levels			"Room for manoeuvre"	
			Bound (a)	Applied (MFN) (b)	Applied (effective) (c)	Bound/MFN (d) = (a)/(b)	Bound/effective (e) = (a)/(c)
Agriculture	Latin America and the Caribbean		46.4	15.9	8.1	2.9	5.8
	MERCOSUR		34.9	16.4	12.4	2.1	2.8
	Andean Community		58.3	15.0	12.4	3.9	4.7
	Chile		26.0	6.0	1.5	4.3	17.9
	Mexico		44.1	22.1	3.3	2.0	13.4
	Central American Common Market		43.0	11.1	7.9	3.9	5.5
	CARICOM		98.1	17.3	14.5	5.7	6.8
Non-agricultural market access	Latin America and the Caribbean		33.6	10.6	4.7	3.2	7.1
	MERCOSUR		31.0	12.7	9.6	2.4	3.2
	Andean Community		31.8	11.0	8.7	2.9	3.7
	Chile		25.0	6.0	0.9	4.2	26.5
	Mexico		34.9	11.2	0.6	3.1	57.9
	Central American Common Market		39.6	4.9	1.2	8.1	32.3
	CARICOM		48.2	6.4	4.6	7.5	10.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/United Nations Conference on Trade and Development (UNCTAD), *World Tariff Profiles 2008*, Geneva, 2008.

Note: Effective applied tariffs were calculated taking account of the tariff preferences negotiated in the trade agreements signed by the countries in question. In the agriculture sector, only the preferences negotiated in intraregional agreements were taken into account, except in the cases of Mexico and Chile. Regional results are weightings based on data on the countries' imports of agricultural and non-agricultural products.

In January 2009, Ecuador adopted a balance-of-payments safeguard measure consisting of raising tariffs or introducing import quotas on 630 10-digit tariff items from all origins, for a one-year period. The items covered account for 8.7% of the total universe of 7,230 items and in 2008 represented an import volume of US\$ 4.3

The possibility of raising tariffs is to some extent limited by the various trade agreements signed between the countries of the region. This is particularly true in the case of intraregional trade, which takes place under the various subregional integration schemes — The Andean Community, MERCOSUR, the Central American Common Market and CARICOM — and a vast network of agreements linking those schemes with each other and also with Chile, Mexico and Panama. Nonetheless, there are substantially fewer restrictions of this type in the case of trade with partners outside the region, since this is largely conducted on an MFN basis.

Thus far, however, since September 2008, only two countries have raised tariffs on a significant number of products. These are Ecuador and the Plurinational State of Bolivia, and their respective cases are described below.

billion (23% of the total). According to the Ecuadorian authorities, this measure was taken to restrict imports to correct the country's balance-of-payments deficit. It should be remembered that Ecuador cannot adjust the level of imports through the exchange rate, since its economy is dollarized.

The Ecuadorian safeguard was approved in June 2009 by the WTO Committee on Balance-of-Payments Restrictions, following a favourable report from the International Monetary Fund (IMF). As part of this agreement, Ecuador undertook to suspend the measure no later than 22 January 2010 and to replace most of the newly introduced import quotas with tariffs by 1 September 2009.

Before introducing the balance-of-payments safeguard, Ecuador had made major adjustments to its tariff structure between late 2007 and late 2008, affecting around 5,100 items (70.5% of the total). This entailed lowering tariff rates on a large number of products, especially raw materials, intermediate goods and capital goods not produced locally. As a consequence, the number of tariff lines with a zero tariff grew from 248 (3.4% of the total) to 3,637 (50.3% of the total); but at the same time tariffs were raised on over 1,200 items (mainly consumer goods) to levels above 20%, which in many cases coincide with the WTO bound rates. Ultimately, although these changes increased Ecuador's tariff dispersion, average tariffs fell from 11.7% in 2007 to 10.2% in March 2009, even when the effect of the balance-of-payment safeguard is factored in (WTO, 2009b).

For its part, in June 2009, the Plurinational State of Bolivia added a new 35% rate to its tariff structure, which previously had only ranged from 0% to 20%. The new rate is applicable to 324 tariff lines representing textile, clothing and furniture products. The reason for this measure, as stated in Supreme Decree No. 0125 introducing it, is to protect domestic industry and to encourage the consumption of Bolivian-made products through tariff measures, without affecting the prices of the basic consumption basket or supply to the domestic market.

There have also been cases of widespread tariff cuts. The main tariff reduction in the region over the last

few months is being implemented progressively by Mexico between 1 January 2009 and 1 January 2013 as part of its foreign trade simplification programme. Under this measure, rates of duty will be lowered on 10,900 tariff lines, equivalent to 77% of the universe in the industrial sector. As a result, the average industrial MFN tariff is expected to drop from 10.4% in 2008 to 4.3% in 2013. This reform has been accompanied by many trade-facilitation measures and announcements, including those aimed at promoting the use of information and communication technologies in trade-related procedures.

In addition, Paraguay cut tariffs from 6% to 2% on a large number of capital goods including boilers, condensers for steam machinery, hydraulic cylinders, pistons, freezers and agricultural machinery sourced from non-MERCOSUR member countries. These goods are included in Paraguay's schedule of exceptions to the MERCOSUR common external tariff.

The increase in the number of anti-dumping investigations initiated worldwide in the second half of 2008 was even more pronounced in the region, although not on a generalized basis. "Trade defence" mechanisms, particularly anti-dumping duties, are frequently used by countries in response to domestic demands for protection. At the world level, the initiation of anti-dumping investigations increased by 17% in the second half of 2008 —when the effects of the crisis started to intensify— compared to the same period of 2007 (WTO, 2009d). This trend was also seen in more widespread form in the region, where new anti-dumping investigations increased by 87% in the same period. As a result, in the second half of 2008, Brazil and Argentina were ranked second and fifth, respectively, among WTO members that had initiated the largest number of anti-dumping investigations (see table II.11).

Table II.11
SELECTED COUNTRIES: NEW ANTI-DUMPING INVESTIGATIONS, SECOND HALF OF 2007 TO SECOND HALF OF 2008

Country	2007 (second half)		2008 (first half)		2008 (second half)		Variation between the second half of 2007 and 2008	
	No. of cases	Percentage	No. of cases	Percentage	No. of cases	Percentage	No. of cases	Percentage
Latin America	15	14.9	22	25.9	28	23.3	+13	86.7
Argentina	5	5.0	10	11.8	9	7.5	+4	80.0
Brazil	8	7.9	7	8.2	16	13.3	+8	100.0
Colombia	0	0.0	4	4.7	2	1.7	+2	...
Other countries	2	2.0	1	1.2	1	0.8	-1	-50.0
Rest of the world	86	85.1	63	74.1	92	76.7	+6	7.0
India	31	30.7	11	12.9	42	35.0	+11	35.5
China	0	0.0	2	2.4	11	9.2	+11	...
Indonesia	0	0.0	1	1.2	6	5.0	+6	...
Turkey	6	5.9	13	15.3	10	8.3	+4	66.7
Ukraine	0	0.0	3	3.5	4	3.3	+4	...
Australia	1	1.0	4	4.7	2	1.7	+1	100.0
Republic of Korea	10	9.9	0	0.0	1	0.8	-9	-90.0
United States	24	23.8	12	14.1	3	2.5	-21	-87.5
European Union	9	8.9	10	11.8	9	7.5	0	0.0
Other countries	5	5.0	7	8.2	4	3.3	-1	-20.0
Whole world	101	100.0	85	100.0	120	100.0	+19	18.8

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

This increase in the number of investigations in Latin America and worldwide, in the second half of 2008, will probably lead to a larger number of definitive anti-dumping measures towards the end of this year or in the first half of 2010, since the investigation process generally takes between 12 and 18 months.

In the second half of 2008, China was the country targeted by the largest number of new anti-dumping investigations, both in the region and worldwide, followed far behind by other Asian countries such as Indonesia, Thailand,

Taiwan Province of China and India. Nonetheless, some of the investigations currently under way concern imports from the region's own countries. In terms of the products involved, all are in the manufacturing sector and include various types of textiles, footwear, tyres, crockery, cutlery, electrical appliances and laminated floors, among other products (see annex table II.A-1). Available data for the current year suggest that Argentina and Brazil continue to lead the investigation and application of anti-dumping duties in the region, and China remains their main target.

1. Brief assessment by subregion

(a) South America

Although there is no general trend towards adopting trade restrictive measures, the policies taken by the various governments over the last few months have affected trade within the two main South American integration schemes: MERCOSUR and the Andean Community. In the first case, this has shown mainly through frictions between the two leading economies, Brazil and Argentina. Although these involve problems that existed prior to the current financial crisis, the crisis helped to magnify them, particularly in the industrial trade area. In July 2009, the National Confederation of Industry of Brazil asked the Brazilian Government to initiate a dispute settlement proceeding in the World Trade Organization regarding what it considers to be the excessive time it takes to process non-automatic import licences in Argentina.¹⁰

Secondly, the balance-of-payments safeguard applied by Ecuador has been challenged by Colombia and Peru on the grounds that the measure contravenes Andean Community (CAN) rules. On 27 March 2009 that institution's General Secretariat issued Resolution 1227 authorizing Ecuador to extend the safeguard to intra-subregional trade until 21 January 2010. Nonetheless, it objected to the Ecuadorian national tariff also being applied to imports, since this would not respect the preferences negotiated in the CAN framework.¹¹ Following a petition for reconsideration submitted by both Ecuador and Peru, dated 22 June, the General Secretariat of

the Andean Community issued Resolution 1244, rejecting the petitions and upholding its previous decision.

In response to a new resolution, dated 25 June, confirming the Secretariat's decision, Ecuador reinstated the tariff preferences granted to its CAN partners and the other countries with which it has trade agreements. On 6 July 2009, however, the country decided to apply a one-year safeguard to 1,346 products from Colombia, which consisted of making them subject to the national Ecuadorian tariff. The rationale for this measure, according to the corresponding resolution, was the need to "make corrections for the alteration to the normal conditions for competition caused by the devaluation of the Colombian peso" (Resolution No. 494 of the Foreign Trade and Investment Council, 6 July 2009).

The disagreements that have arisen between Colombia, Peru and Ecuador over the safeguard imposed by the latter could make it harder for these three countries to achieve joint positions in the negotiations for an economic partnership agreement with the European Union. The Plurinational State of Bolivia, the fourth member of CAN, withdrew from the talks in June 2008.

(b) Central America

Central American governments have made considerable efforts to tackle the crisis in a coordinated manner. In December 2008, Heads of State and Government of the countries of the Central American Integration System (SICA) approved a plan of urgent measures to cope with the impact of the international financial crisis on the region. This included a commitment to strengthen the subregional financial system, move towards setting up the customs union, coordinate productive policies, stimulate productive chains, promote intraregional trade (particularly in agricultural products) and prioritize investment in infrastructure to support production.

¹⁰ See "CNI quer abertura de painel na OMC contra a Argentina" [online] <http://www.cni.org.br/portal/main.jsp?lumPageId=40288097122DE18801122F29B2BC0AAB&lumItemId=FF808081228660920122A449A57C1865>.

¹¹ Before the safeguard entered into force, Ecuador granted a 100% preference to all imports from the Bolivarian Republic of Venezuela, Colombia and the Plurinational State of Bolivia that fulfilled Andean Community rules of origin, and also to 99.5% of imports from Peru (see WTO, 2009b).

Trade facilitation has played a key role in the Central American regional integration strategy. In recent months, a Central American Regional Maritime Port Strategy has been prepared, and an expert group has been set up to evaluate the possibility of establishing a Central American railway network to connect ports and freight-generating zones (ECLAC, 2009b).

(c) The Caribbean

The current financial crisis has elicited a renewed commitment to move ahead in the project to turn the Caribbean Community into an integrated economic space—the Caribbean Single Market Economy (CSME) for which the target date is 2015. Although member States have made significant progress in liberalizing intraregional goods trade, which mostly takes place tariff-free, other domains of the

integrated economic space are lagging behind significantly. These areas include services, investment, sectoral and social policies, government procurement and the coordination of monetary and fiscal policies (Thomas, 2009).

In the case of extraregional trade outside the region, the most important event of the last few months was the provisional entry into force, in December 2008, of the economic partnership agreement between the Caribbean Forum of the African, Caribbean and Pacific Group of States (CARIFORUM), which includes the Dominican Republic, and the European Union (see box II.3).

In terms of national responses to the financial crisis, since the outbreak of the crisis several members of CARICOM have temporarily suspended the common external tariff. This mainly affects food products—with the aim of compensating for the rise in their international prices—along with capital goods and raw materials (see the annex).

Box II.3

THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EUROPEAN UNION AND THE CARIBBEAN

Towards the end of 2007, the countries of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) formally concluded the negotiations for an economic partnership agreement with the European Union. The agreement aroused mixed feelings in the Caribbean, both in academic circles and the business community and among economic analysts, and even among some of the governments of the subregion, which resulted in the postponement of the actual signing of the agreement until October 2008.

The agreement replaces the system of preferences established within the framework of the Cotonou Agreement of 2000, which regulates financial, trade and development ties between the group of former European colonies known as the African, Caribbean and Pacific States (ACP) and the European Union. The new partnership agreement is the first to establish formal trade arrangements between the European Union and a subregional group in Latin America and the Caribbean. It also marks the first time that Caribbean countries participate in a reciprocal trade liberalization scheme with a major and economically heftier trading partner.

The agreement covers all the main aspects of trade relations: in addition to market access for goods and services, it covers investment, regulation of the services sector, competition, government procurement, trade facilitation and intellectual property rights. The agreement therefore

imposes stricter obligations than those established in the World Trade Organization. Given the huge asymmetries between the European Union and CARIFORUM in terms of size, level of development and economic might, the costs of adhering to the commitments assumed under the agreements will be far higher in the case of the Caribbean countries. Two instruments have been put in place to address this imbalance: asymmetrical liberalization (both in terms of the products of each party that are covered and the timetables involved) and financial and non-financial assistance for implementing the agreement and strengthening subregional integration.

Many Caribbean countries' exports are heavily concentrated in the services sector, and greater access to the European market in this sector represents a major opportunity for their economies. On the other hand, Caribbean firms will face stiff competition from European service suppliers. Although there is some asymmetry in the scope of the liberalization of services in the partnership agreement, the obligations assumed by the Caribbean countries largely exceed the commitments of developing countries in WTO.

The agreement also opens up some possibilities of temporary employment for Caribbean professionals in Europe. Access to the labour market in the European Union will depend, however, to a great extent, on each member country's specific regulations, and de facto access will certainly be defined

by those regulations, particularly with regard to the technical qualifications required of professionals and the application of economic needs analyses.

The agreement's supporters claim that it will boost development in the CARIFORUM countries by increasing trade, strengthening regional integration and attracting investment. The basic premise of the agreement is that trade is the main vehicle for stimulating development. The agreement's detractors maintain that it is not strongly development-oriented because liberalization alone cannot generate growth and the assistance-related provisions are too vague. Critics point out that the agreement was not preceded by a solid socio-economic impact analysis. Another concern is that it will not be easy for countries with a limited institutional capacity to implement such a deep and far-reaching agreement. Also, the countries of the Caribbean will have to cope with the fiscal impact of a reduction in tariff revenues. Furthermore, within the framework of the agreement, the CARICOM States will grant the Dominican Republic the same treatment they give the European Union and vice versa, which will cause complications because there is no customs union between the Dominican Republic and CARICOM. The main challenge posed by the new economic partnership agreement, however, is to diversify the export base of the CARIFORUM countries because at the moment their exports are concentrated in a few basic products and services.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy, 2007. Trends 2008* (LC/G.2383-P), Santiago, Chile, December. United Nations publication, Sales No. E.08.II.G.36 and C.Y. Thomas, "Global economic crisis: CARICOM impacts and responses", April 2009, unpublished.

H. Conclusions

The analysis of the region's trade flows in 2008 and in 2009 thus far has shown how the current world crisis has clearly moved into the real economy, causing a substantial reduction in the volume and value of trade in nearly all of the region's countries and among its main trading partners (the United States, the European Union, Asia and the region itself). Only China is showing a sustained demand for basic products, which has made it possible to offset the adverse situation facing the region's external trade.

The damaging results of a trade crisis that has no precedent in recent times—it is necessary to go back more than 70 years to find a similar situation—underscores the need to think carefully about the nature of the changes facing the region, since some may well prove structural rather than circumstantial. Projections for world trade over the next two years suggest a modest growth scenario, with many competitive pressures stemming from excess capacity in several production sectors, as China and the Asia-Pacific region become ever-more competitive.

The worsening of the crisis has destroyed export industries that previously had substantial importance and led to highly dynamic technical changes being introduced. This group includes the automotive, iron and steel, chemical and petrochemical industries, all of which display significant reductions not only in domestic industrial production in the individual countries, but also in international trade flows.

The depth of the changes will vary according to the extent and specific pattern of each country's internationalization. Nonetheless, there is a clear need to rethink the region's international engagement, recognizing once again the need for greater efforts to exploit natural comparative advantages in sectors in which the region is relatively strong, including its abundant natural resources, water and an ecosystem suited to tourism. Innovation and technological development are at the heart of the debate that will orchestrate an orderly

exit from the crisis. In any event, the region will find it hard to emerge favourably without harnessing the momentum to promote a broader market and achieve greater cooperation on issues for which progress is lagging (see chapter III).

As in the case of trade flows, the effects of the crisis were not fully reflected in the 2008 figures on foreign direct investment, remittances and tourism in the region. Nonetheless, data available for the second half of 2009 show all of these variables deteriorating sharply.

Despite the gravity of the current crisis and the pressures that naturally arise in this situation, thus far the region has generally been able to resist the temptation to indulge in protectionist practices. Although this partly reflects the trade liberalization commitments negotiated through a vast network of agreements, both intraregionally and with partners from other regions, and also at the multilateral level in WTO, it is a sign of maturity that should be duly recognized and preserved, since an increase in protectionism would merely aggravate the crisis further and make it harder to overcome. In this respect, the region's behaviour on trade compares favourably with that of the leading industrialized economies.

In view of the slump in demand in nearly all of the leading markets outside the region, Latin American and Caribbean governments need to do their utmost to keep intraregional trade open. The specific characteristics of this trade, particularly the involvement of a large number of small and medium-sized businesses and the fact that its composition contains a high density of manufactures and knowledge, make it particularly important to support recovery. Moreover, from a post-crisis standpoint, Latin America and the Caribbean needs to harness the regional integration process to help it cope better with the broad trends unfolding in the world economy. The next chapter explores current openings in Latin America and the Caribbean for strengthening regional cooperation and moving ahead in less conventional aspects of integration.

Bibliography

- Auboin, Marc (2009), “Restoring trade finance: what the G20 can do”, *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R. Baldwin and S. Evenett (eds.), Centre for Economic Policy Research.
- Baldwin, Richard and Simon Evenett (eds.) (2009), *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, Centre for Economic Policy Research.
- (2008), *What World Leaders Must Do to Halt the Spread of Protectionism*, Centre for Economic Policy Research.
- Blandford, David, David Laborde and Will Martin (2008), “Implications for the United States of the May 2008 Draft Agricultural Modalities”, Geneva, International Centre for Trade and Sustainable Development (ICTSD).
- Bouet, Antoine and David Laborde (2008), “The potential cost of a failed Doha Round”, *IFPRI Issue Brief*, No. 56, Washington, D.C., International Food Policy Research Institute (IFPRI), December.
- Brunel, Claire and Gary Clyde Hufbauer (2009), “Money for the auto industry: consistent with WTO rules?”, *Policy Brief*, No. PB09-4, Washington, D.C., Peterson Institute for International Economics, February.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2009a), The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009 (LC/L.3025/Rev.1), Santiago, Chile, June.
- (2009b), *Enfrentando la crisis. Istmo Centroamericano y República Dominicana: evolución económica en 2008 y perspectivas para 2009 (evaluación preliminar)* (LC/MEX/L.904), Mexico City, ECLAC subregional headquarters in Mexico, April.
- (2009c), *Foreign Direct Investment in Latin America and the Caribbean, 2008* (LC/G.2406-P), Santiago, Chile.
- (2008), *Latin America and the Caribbean in the World Economy, 2007. Trends 2008* (LC/G.2383-P), Santiago, Chile, December. United Nations publication, Sales No. E.08.II.G.36.
- EIA (Energy Information Administration) (2009), *Short-Term Energy Outlook*, June.
- Evenett, Simon and Frédéric Jenny (2009), “Bailouts: how to discourage a subsidies war”, *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R. Baldwin and S. Evenett (eds.), Centre for Economic Policy Research.
- FAO (Food and Agriculture Organization of the United Nations) (2009), *Food Outlook*, June.
- Financial Times* (2009), “‘Buy China’ policy set to raise tensions” [online] <http://www.ft.com/cms/s/0/66454774-5a7c-11de-8c14-00144feabdc0.html>, 16 June.
- Hufbauer, Gary Clyde and Jeffrey J. Schott (2009), “Buy American: bad for jobs, worse for reputation”, *Policy Brief*, No. PB09-2, Washington, D.C., Peterson Institute for International Economics, February.
- INTAL (Institute for the Integration of Latin America and the Caribbean) (2009a), “Recesión y proteccionismo “dentro de las reglas”: los riesgos para el sistema multilateral de comercio”, *Carta mensual*, No.150, January.
- (2009b), “El comercio internacional, amenazado por la falta de financiamiento”, *Carta mensual*, No. 152, March.
- Newfarmer, Richard and Elisa Gamberoni (2009), “Trade protection: incipient but worrisome trends”, *Trade Note*, No. 37, Washington, D.C., World Bank, March.
- Thomas, Clive Y. (2009), “Global economic crisis: CARICOM impacts and responses”, April, unpublished.
- USDA (United States Department of Agriculture) (2009), “Foreign Agricultural Service, Production, Supply and Distribution” [online] <http://www.fas.usda.gov/psdonline/psdQuery.aspx>.
- WBMS (World Bureau of Metal Statistics) (2009), *World Metal Statistics, 2009*, June.
- World Bank (2009a), “Swimming against the tide: How developing countries are coping with the global crisis”, background paper prepared for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, 13-14 March.
- (2009b), *Global Development Finance: Charting a Global Recovery*, Washington, D.C.
- (2009c), “Outlook for remittance flows 2009-2011: remittances expected to fall by 7-10 percent in 2009”, *Migration and Development Brief*, No. 10, 13 July.
- WTO (World Trade Organization) (2009a), Report to the TPRB from the Director-General on the financial and

- economic crisis and trade-related developments (JOB (09)/2), Geneva, January.
- (2009b), Consultations with Ecuador. Overview of the situation and outlook for the balance of payments taking into account internal and external factors that affect the situation. Revision (WT/BOP/S/15/Rev.1), Geneva, April.
- (2009c), Working Group on Trade, Debt and Finance - Expert Group Meeting on Trade Finance - 18 March 2009 - Note by the Secretariat (WT/WGTDF/W/44), Geneva, March.
- (2009d), “WTO Secretariat reports increase in new anti-dumping investigations”, *Press release*, No.556, Geneva, 7 May.
- (2009e), Notification under paragraph 9 of the Understanding on the Balance of Payments provisions of the General Agreement on Tariffs and Trade 1994. Communication from Ecuador (WT/BOP/N/65), Geneva, March.
- WTO/UNCTAD (World Trade Organization/United Nations Conference on Trade and Development) (2008), *World Tariff Profiles, 2008*, Geneva.

Annex

Table II.A-1

LATIN AMERICA AND THE CARIBBEAN: TRADE MEASURES ADOPTED BETWEEN SEPTEMBER 2008 AND JUNE 2009^a

Country	Type of measure
South America	
	<p>Introduction of "criterion values" for around 1,000 imported products considered to be sensitive.^{b c}</p> <p>Introduction of non-automatic import permits for some 1,200 goods such as textiles, steel, metallurgy products, tyres and footwear.</p> <p>Reduction of withholding on exports of wheat, maize, fresh fruit and vegetables.</p> <p>Creation of a reference price for copper exports.</p> <p>Elimination of export tax (5% as from August 2006) on 35 tariff lines in the dairy product sector.</p> <p>Announcement of a 50% cut in the tax on wine exports.</p> <p>Resumption of maize and wheat exports, which had been closed since June 2008. Authorization to export 6 million tons of maize and 520,000 tons of wheat.</p> <p>Since March 2009, the private sectors in Argentina and Brazil have worked to reach understandings to regulate bilateral trade in sensitive sectors. These negotiations have produced agreements on goods such as dairy products, furniture, batteries, vehicle brakes, paper and footwear. These agreements normally include the introduction of market quotas or minimum import prices.</p> <p>Application of provisional anti-dumping duties on the following products:</p> <ul style="list-style-type: none"> • Crockery, dinner, tea and coffee services from China; • Chain wheels from China; • Acrylic fibre thread from Indonesia; • Pumping equipment for oil extraction from China; • Chains and zips from Peru and China; • Stainless steel cutlery from Brazil and China; • Liquid refrigerant pumps from China; and • Plumbing accessories from China. <p>Application of definitive anti-dumping duties on the following goods:</p> <ul style="list-style-type: none"> • Electric irons from China; • Bicycle frame and fork parts from China; • Low-carbon steel chains from China; • Air-conditioning equipment from Thailand; and • Electrical connection terminals for cable sections from Germany and China. <p>Initiation of anti-dumping investigations in the following cases:</p> <ul style="list-style-type: none"> • Plumbing accessories from China; • Polyester fibres from China, India and Indonesia, and textured polyester threads from China, Indonesia and Taiwan Province of China; • Woven fabrics of taffeta ligament, from Brazil and China; • Food-processing apparatus from Brazil and China; • Floor sheeting from Germany, China and Switzerland; • Footwear from China; • Denim fabrics from China; • Knives with stainless steel blades and plastic handles from Brazil and China; • Recordable compact discs from Paraguay; • Wrought iron piping accessories from Brazil and China; and • Elevator motors from China.
Argentina	
Bolivia (Plurinational State of)	Tariff increase to 35% on 324 tariff lines, including textiles, apparel and furniture, since June 2009.
Brazil	<p>Application of provisional anti-dumping duties on bus and truck tyres from China.</p> <p>Application of definitive anti-dumping duties on the following products:</p> <ul style="list-style-type: none"> • Certain types of paper from Finland and the United States; • Butyl acrylate from the United States; • Viscous fibres from Austria, China, Indonesia, Thailand and Taiwan Province of China; and • Graphite electrodes from China. <p>One-year suspension of definitive anti-dumping duties on imports of ammonium nitrate from the Russian Federation and Ukraine.</p>

Table II.A-1 (continued)

Country	Type of measure
Brazil	<p>Initiation of anti-dumping investigations on the following items:</p> <ul style="list-style-type: none"> • Propylene polymer films from Argentina, Chile, Ecuador, the United States and Peru. • Ball-point pens from China; • Bicycle tyres from China and India (revision of existing duties); • Footwear from China; • Metallic magnesium from China (revision of existing duties); • Synthetic fibre blankets from China; and • Polyethylene terephthalate resins from Argentina (revision of existing duties). <p>Removal of seven iron and steel products from the Brazilian schedule of exclusions from the MERCOSUR common external tariff. As a result, these products cease to be duty-free and pay a tariff between 12% and 14%.</p> <p>Extension until 30 June 2009 of import quotas on retread tyres from Paraguay and Uruguay.</p> <p>Inclusion of 306 products on the “ex-tariffs” list (a mechanism that temporarily lowers duties on products for which there is no similar domestic product), favouring the acquisition of imported products in the capital goods, electric, metallurgy, paper and pulp, graphics, medical-hospital, automotive, electrical-electronic and other sectors.</p> <p>Government loans totalling US\$ 1.7 billion to the automotive industry.</p>
Ecuador	<p>Tariff cuts on 3,267 tariff lines corresponding to raw materials (from 7.6% to 3.8%) and capital goods (from 6.3% to 2.3%) not produced locally.</p> <p>Imposition of a balance-of-payments safeguard by raising tariffs or introducing import quotas on 630 tariff items at the 10-digit level, from all origins for a one-year period.^d</p> <p>Elimination of tariffs on imported hybrid automobiles.</p>
Paraguay	<p>Counter-crisis programme including a buy-national plan giving a 70% preference for domestic firms in government procurement processes.</p> <p>Rise in tariffs to levels of 10% and 15%, until 31 December 2009, on 19 tariff lines in the chemicals and related sectors (insecticides, fungicides, paints, varnishes and other items), to correct trade distortions within MERCOSUR.</p> <p>Reduction from 6% to 2% of the import duty on certain capital goods from non-MERCOSUR member countries, from 1 July 2009 to 31 December 2013.</p>
Peru	<p>Temporary increase in the rate of drawback of taxes on non-traditional exports (from 5% to 8%).</p> <p>Initiation of safeguard investigation on imports of cotton thread.</p>
Uruguay	<p>Renewal of input imports to be re-exported tax-free (temporary admission).</p> <p>Postponement of the reduction from 2% to 1% of the consular levy on imports, scheduled for June 2009.</p> <p>The advance payment of the Economic Activities Income Tax (IRAE) will be increased from 4% to 8%, which is paid by importers of certain consumer goods such as clothing and footwear.</p> <p>Announcement that customs valuation procedures will be strengthened to prevent the value of clothing and footwear imports being understated.</p> <p>Announcement of a review of tariff protection for vehicles in specific segments.</p>
Venezuela (Bolivarian Republic of)	<p>Introduction of an import quota on vehicles from Colombia (maximum 10,000) in 2009.</p>
Central America and Mexico	
Costa Rica	<p>Submission to Congress of a draft law setting performance requirements for imports of beans and white maize with a preferential tariff in the case of supply shortages. The bill aims to provide incentives to purchase domestically-produced version of these goods. Should domestic production be insufficient, they can be imported at reduced tariff rates. The new law would not be applicable to imports from the rest of Central America or countries with which Costa Rica has free trade agreements.</p> <p>Trade promotion budget increased by US\$ 5 million.</p>
Guatemala	<p>Increase in export promotion efforts by opening new trade offices and speeding up negotiations aimed at signing free trade agreements, including the one with the European Union.</p>
Nicaragua	<p>Import tariffs temporarily lowered or eliminated on various products (edible oil, beans, food pasta and barley, among others) to offset the rise in international food prices.</p> <p>Announcement of steps to open new markets and strengthen trade with the Russian Federation, the Islamic Republic of Iran and countries of the Bolivarian Alternative for Latin America and the Caribbean (ALBA).</p>
Regional	<p>Adoption of the plan of action containing urgent measures to combat the crisis (PAMUC), which includes the following commitments:</p> <ul style="list-style-type: none"> • To move forward in setting up a customs union; • To promote programmes to stimulate intraregional trade, especially in the agriculture sector; • To support creation of the Common Economic and Financial Credit Fund for the development of the region, in the context of negotiations for the economic partnership agreement between the Central American Common Market and the European Union; • To support productive sectors, particularly small and medium-sized enterprise; • To improve productivity, especially in microenterprise and small and medium-sized businesses, among other things by stimulating production chains; • To identify targeted mechanisms for providing incentives to sensitive productive sectors in the region, which are affected by the crisis; • To give immediate priority to investment in infrastructure to support production; and • To promote the coordination of policies to attract foreign investment and the creation of public-private partnerships. <p>Customs agreement between El Salvador and Guatemala, which will help streamline trade.</p>

Table II.A-1 (concluded)

Country	Type of measure
Mexico	<p>Five-year reduction in the general (MFN) tariff applied to 10,900 items, all in the manufacturing sector.^e</p> <p>Trade facilitation measures:</p> <ul style="list-style-type: none"> • Elimination of the estimated price scheme for 332 tariff lines and the specific importers list, among other requirements; • Greater flexibility in criteria to gain the status of "authorized exporter; • Announcement of several measures to promote the use of information and communication technologies in foreign trade, such as the implementation of a digital system for issuing certificates of origin to export to Colombia, and the introduction of a digital one-stop mechanism for all foreign trade procedures; and • Announcement that by November 2012, permanent measures will be implemented to simplify, automate and improve customs and foreign trade procedures. <p>Application of tariffs of between 10% and 45% on 89 agricultural and industrial products from the United States, representing annual imports of US\$ 2.4 billion, in retaliation for the elimination of a 2007 pilot programme allowing a limited number of Mexican trucks to enter the United States. Under NAFTA, there should have been free trade between the two countries since 2000.</p> <p>Introduction of new restrictions on imports of diesel trucks.</p> <p>Elimination of import duties on used parts for vehicle repair.</p>
The Caribbean	
Dominica	Lower tariffs on selected articles, mainly foodstuffs.
Dominican Republic	Initiation of a safeguard investigation on imports of glass bottles.
Grenada	Suspension of the common external tariff on selected goods.
Jamaica	Elimination of tariffs on imports of capital goods and raw materials, as part of the stimulus package.
Saint Kitts and Nevis	Suspension of the common external tariff on 31 food- and non-food products.
Saint Lucia	Suspension of the common external tariff and consumption tax on nine products.
Saint Vincent and the Grenadines	Revision of the common external tariff on certain basic products.
Trinidad and Tobago	Elimination of tariffs on imports of food products such as cheese, rice, oil, sugar, milk and other dairy products.

Source: World Trade Organisation (WTO), *Report to the TPRB from the Director-General on the financial and economic crisis and trade-related developments* (JOB (09)/2), Geneva, January 2009; *Consultations with Ecuador. Overview of the situation and outlook for the balance of payments taking into account internal and external factors that affect the situation. Revision* (WT/BOP/S/15/Rev.1), Geneva, April 2009; Economic Commission for Latin America and the Caribbean (ECLAC), *The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009* (LC/L.3025/Rev.1), Santiago, Chile, June 2009; World Bank, "G20 Countries: actions on trade since April 2, 2009" [online] <http://www.worldbank.org/html/extdr/financialcrisis/pdf/G20TradeFactSheet.pdf>; "Anti Dumping Publishing" [online database] <http://www.antidumpingpublishing.com/Anti-Dumping-News/default.aspx>; "Global Trade Alert" [online database] <http://www.globaltradealert.org>; Secretariat of Economic Affairs of Mexico [online] <http://www.economia.gob.mx/?P=facilidades>; and press information.

^a Excluding measures aimed at promoting trade finance, details of which are given in table II.9.

^b Including autoparts, textiles and apparel, television sets, toys, footwear, refrigerators, lighters, ventilators, leather products and ceramic and metal manufactures.

^c The critical values established "to tackle tax evasion and combat the practice of under invoicing of merchandise imports" (External note No. 91/2008 of the Directorate General of Customs), are defined by the customs as a market reference for each good, and which are then compared with the value declared by the importer to verify whether the latter is paying the taxes owed. Not all criterion values are applicable to imports from all origins, and, if several products, their application is expressly restricted to certain groups of countries. This tends to be the case with the so-called "group 4" consisting exclusively of Asian countries.

^d This measure, notified to WTO by Ecuador on 18 February 2009 (WTO, 2009b), is based on Article XVIII.B and the Understanding on the Balance of Payments provisions of the General Agreement on Tariffs and Trade (GATT) of 1994. The tariff hike amounts to 30% and 35% ad valorem, in some cases from applied levels and in other cases from bound levels, and affects 75 sub-items. Specific duties have also been imposed on 284 sub-items. Lastly, quantitative restrictions were imposed on 23 and 248 sub-items, equivalent to 65% and 75% of their 2008 C.I.F. import value, respectively. The main sectors affected are: consumer durables, transport equipment, textiles, apparel and footwear. Restrictions were also applied on certain fruits, agribusiness products and ceramics, among others.

^e The products for which tariffs are lifted represent approximately 77% of the universe of industrial products. In the case of the remaining 23%, 20% already have a zero MFN tariff.

Chapter III

Opportunities for regional cooperation and integration

A. Introduction

Compared with 2003-2007, which was the most favourable period the world and regional economies had seen in 40 years, the outlook for the future is less encouraging. In the early 2010s the world economy and world trade will experience reduced growth rates, increased competitive tension and protectionist pressure, and tighter access to financing than in 2003-2007. The worldwide post-crisis situation will be marked by the restoration of fiscal equilibrium in the industrialized economies and the need to take decisions on tackling climate change, which will lead to increased costs for businesses and have a decisive impact on the competitiveness of national economies.

Consequently, the countries of Latin America and the Caribbean will have to redouble their efforts to build enlarged regional forums and undertake cooperation initiatives that can unlock the synergies of the different subregions. Closer cooperation within the Caribbean, South America and the Mexican and Central American subregion is no longer merely a major political objective, but also an economic imperative if the region is to integrate into a global economy that is less dynamic but more competitive and increasingly structured around regional or subregional value chains. Thus, measures in areas such as infrastructure, energy, connectivity and trade facilitation will be crucial for competitiveness and growth.

In the current conditions, with demand for the region's products from most of its major partners sharply down, intraregional trade has a key role to play in shoring up

demand. This has yet to occur, however, partly because of the emergence of trade-restricting measures, as discussed in chapter II. Intraregional trade must be kept open, which requires, at the least, observance of the liberalization commitments already entered into. The worst effects of restrictions on intraregional trade flows are borne by SMEs and by those exports that are labour-intensive and higher in value added. Regional integration must not therefore be allowed to fall victim to an international crisis not generated by the region.

In light of these considerations, this chapter will examine the scope for regional cooperation, focusing on seven areas: infrastructure, trade support, innovation, reduction of asymmetries, social cohesion, closer ties with Asia-Pacific and climate change.

B. The new global context requires greater regional cooperation

Given the scale of the current global crisis, the region is clearly holding up much better than in earlier—and in fact smaller—crises. The macroeconomic strengths built up during the boom years of 2003-2007 explain the region's greater resilience this time round. This is the first time that the region has faced severe global or regional economic conditions without running into exchange-rate difficulties or badly missing inflation targets. Thanks to the fiscal space achieved in this period and the build-up of international reserves, most of the countries have been able to deploy countercyclical policies, also something unseen in earlier crises. As a result, the region's GDP has fallen fairly moderately in comparison with the steep drops in output seen in the G8 countries (Mexico is an exception to this, owing to its high trade dependency on the United States).

In South America, the resilience has also been a reflection of high economic growth in China, which has generated a steady demand for natural resources. This has been reflected in rising world prices for a number of the subregion's export commodities.

External shocks—falls in export volumes and prices, declining income from tourism and remittances, together with a contraction in foreign direct investment (FDI) flows—are putting serious pressure on the region's public finances. The region has withstood those shocks reasonably well in 2009 on the back of strong fiscal indicators and a solid external sector, but these may deteriorate if the world economy is too slow to recover. Of the variables cited, export prices respond quickest to a recovery, so the pace of the central economies' revival will be crucial in preventing the impact of the crisis from growing further. Ensuring a swift recovery and, in the meantime, facilitating prompt access to international financing are the keys to preventing a significant worsening of the region's economic—and even social and political—prospects.

Demand for policy coordination is mounting. To avoid repeating the errors made during previous crises, the governments of the region should aim to produce

coordinated, participatory and mutually informed policy responses (Velasco, 2009). In particular, policies must be coordinated in the following areas:

- Countercyclical fiscal policies, since the absence of coordination reduces incentives to continue advancing in that direction.
- Financial regulation, since lack of coordination allows room for regulatory arbitrage. The need to improve financial regulation and maintain exchange-rate flexibility is another lesson learned from earlier crises.
- Re-establishment of capital flows, combining access to external financing with measures to deepen domestic capital markets.
- Avoidance of protectionism, particularly between countries of the region (see box III.1).
- Provision of trade financing, especially for intraregional trade.
- Strengthening of international financial institutions, giving them enhanced capital endowments and the capacity to lend quickly in order to stave off balance-of-payments crises, and of regional financial institutions, promoting capitalization and greater complementarity with development banks.

Greater cooperation for competitiveness is urgently needed. Beyond containing the fallout from the current crisis, greater cooperation is needed to improve the region's position in the world economy. This implies dealing with the challenges of productive complementarity, competitiveness and innovation, which will certainly play a greater role in the well-being of the population in the medium and long terms. The consequences of losing the global competitiveness race would be much worse than the effects of the current crisis which, harsh as they may be, will be temporary. Lags in competitiveness, innovation and productivity, on the other hand, represent permanent obstacles to progress in growth-with-equity strategies. Cooperation on competitiveness and innovation issues is, then, a central challenge facing Latin America and the Caribbean.¹

¹ “The greatest challenge now being faced around the world is that of technological progress and knowledge. Each country's position in the global economy depends on its capacity to absorb that knowledge and shorten distances from the technological frontier” (Bárcena, 2009).

Box III.1

IS PROTECTION ALWAYS PROTECTIONIST?

The preceding chapters described the protectionist signals that have arisen, particularly in industrialized countries, in response to the sheer magnitude of the crisis. In this regard, there is concern over whether multilateral, regional and bilateral trade rules leave room for supporting production sectors or enterprises threatened by the recession or by subsidies in the central economies.

The answer is that they do, subject to certain requirements set out in trade agreements or stemming from principles of sound economic policy management. Some of the basic requirements for any policies to support the production sector are listed below:

- **Observance of international commitments:** The commitments undertaken in the World Trade Organization (WTO) and other trade agreements which countries have signed must be honoured. These agreements provide for emergency measures which can be invoked if support is needed.
- **Transparency and non-discrimination:** Sectoral support measures, when warranted, should be primarily

horizontal and implemented openly, without excluding any firm from the respective benefits on the basis of nationality, ownership or other subjective variables. By contrast, selective policies are fully warranted—preferably in the framework of public-private partnerships—in the case of measures to promote competitiveness, innovation, production clusters, adaptation to stricter environmental standards and alliance-building among SMEs.

- **Strictly temporary nature:** The precise duration of the measures should be specified, to avoid permanent, unjustified support and to provide beneficiary industries or enterprises with a clear planning horizon.
- **Limitation of measures to those strictly necessary:** The measures might, for example, be indispensable to protect an industry that is crucial for employment in a given region. In such a case, the authorities must explicitly state that the intervention will be limited to special cases and thus discourage the rapid emergence of protectionist lobbies.

- The application of measures should, preferably, be subject to commitments from business: Lobbying by interest groups may be reduced if government support—temporary and with a precise end date—is made subject to commitments by beneficiary business sectors. These may require businesses to maintain hiring levels, raise competitiveness and prepare plans to innovate or adopt less polluting technologies.
- **A strong future vision:** Support can create a huge fiscal burden if it merely artificially prolongs a decline in production sectors that began before the crisis and was aggravated by it. In such cases, it is more advisable to promote worker training and retraining and the conversion of production assets to be used in sectors with a higher competitive potential.
- **Avoidance of measures that would discourage entrepreneurs:** measures such as import restrictions must not be allowed to undermine the growth of competitive activities that are integrated into global supply chains that need to import inputs in order to export.

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

Regional integration remains the better option.

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

The traditional arguments in favour of integration are reinforced by needs arising out of the current phase of globalization, such as the need to create strategic international partnerships in production, logistics, marketing, investment and technology. In order to achieve growth

with equity in the present-day world, countries now need expanded markets, legal certainty and the convergence of standards and disciplines, together with progress in infrastructure, energy and connectivity and integration into global value networks.

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

C. Integration can and should be renewed, but with realistic commitments

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

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

The time has come to seek greater complementarity between integration into the world economy and regional or subregional integration schemes. The region needs to advance towards deeper integration, with shared disciplines, legal certainty and joint initiatives in infrastructure, energy and connectivity, including cooperation on trade facilitation, logistics and technological partnerships of the type being constructed in the Asia-Pacific region.

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

There are various ways of strengthening integration. The most demanding is to create a common market, including policy convergence and community institutions. While the gradual and realistic establishment of incremental goals can contribute to progress in that direction, the current challenge is much more modest: to protect what already exists, comply with commitments entered into and build bridges of convergence between the various subregional groups. A pragmatic revision of the existing agreements and the

establishment of a realistic timetable for effective compliance, including the incorporation of community agreements into national legislation, would do more than anything else to boost economic actors' confidence in integration.

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

As a result, a number of strategic issues arise:

- **Recognizing diversity among the subregions**

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

- **Acknowledging political obstacles**

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

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

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

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

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

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

The areas of cooperation which arouse the greatest interest, such as infrastructure, energy, connectivity, logistics, aid for trade and trade facilitation, are very much territorially driven. Making those links clear will open up even greater scope for coordination initiatives between subnational governments whose geographical proximity may dictate a greater interest in joint projects

with neighbouring provinces in other countries than in centralized projects in which they would have only a minor role. In the region there are numerous subnational joint initiatives in export and FDI promotion, twinning of local governments and cross-border production programmes. Given the greater flexibility of subnational governments, they are well placed to pilot cooperation projects in energy efficiency, renewable energy sources, environmental technology and climate change.

- **Applying programmatic realism in programming**

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

D. Today regional cooperation is more important than progress in trade liberalization

Although it is important to make progress on freeing up intraregional trade, the proposals made here reflect a greater emphasis on other aspects of regional cooperation. Differing views coexist within the region today as to the role of international trade and modalities of integration into the global economy. The challenge is therefore to build integration on the basis of these differing views. Discrepancies on market access issues should not prevent

progress on other matters that may be more urgent for dealing with competitiveness challenges in the region.²

² Trade issues are not necessarily any more complex than, for example, cooperation on energy and infrastructure. On the contrary, experience shows that the latter areas involve larger numbers of public and private entities and greater regulatory complexities, and that taxation factors and exchange-rate risks are more significant than in trade issues. In any case, these are issues that need to be approached from the viewpoint of regional integration if the emphasis is to be on a future agenda.

In any case, many of the proposals presented below relate to trade facilitation and financing, which are of interest to all the countries of the region and do not give rise to the same disagreements as trade liberalization.

To summarize, the proposals made here focus on seven areas: infrastructure, aid for trade, innovation, reduction of asymmetries, social cohesion, closer ties with Asia-Pacific and climate change.³ The approach adopted is based on the following premises:

- A regional approach to internationalization, on the assumption that regional cooperation is more effective than isolated efforts by each country to lay the foundations for international competitiveness linked to sustainable economic development and social cohesion and inclusion.
- Bottom-up integration, which will become more effective as cooperation grows between the various sectors of the economy, local regions and civil society. This is the case, for example, of areas that share a border or of businesses and communities that have the complementarities or affinities to form clusters.
- Regional cooperation at work, reflected in an approach based on action, coordination and results rather than on “foundational” goals.

In short, rather than expending efforts and resources on sweeping reforms which are scarcely viable in the short term, the idea is to adapt to existing resources and institutions, establish which measures and initiatives garner the greatest consensus, and foster the convergence of public and private stakeholders around practical proposals of mutual interest.

Intraregional trade has yet to recover its historic levels. In the mid-1980s, intraregional trade—measured as intrasubregional exports within each integration scheme as a proportion of each group’s worldwide exports—represented less than 15% of all trade. In the early 1990s this trade began to expand steadily, eventually reaching just over 20% in the Latin America and Caribbean region as a whole and 25% within MERCOSUR and the Central American Common Market (CACM). From 1999 onwards, trade in the region was significantly curtailed by the repercussions of the Asian financial crisis. Exchange-rate turmoil in MERCOSUR and the Andean Community subsequently led to a drop in trade among the South American countries.

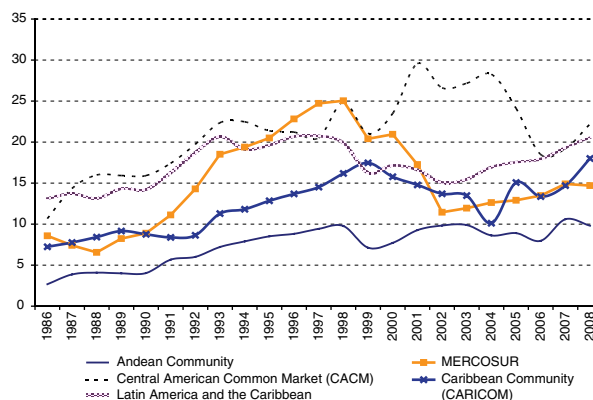
Some 10 years after the Asian and Russian crises, and despite the boom period from 2003 to 2008, intraregional trade did not return to its maximum historic level until 2008 (see figure III.1). More worrisome still, in the first

half of 2009 it was down by around 33% on the first half of 2008—a slightly sharper fall than the decline in the region’s worldwide exports.

Table III.1 shows that the value of the intraregional trade flows of the various integration schemes contracted considerably in the first half of 2009, especially in South America (down 31% in MERCOSUR and 24% in the Andean Community). Trade among the CACM countries declined for the first time in the 2000s (down 18%).

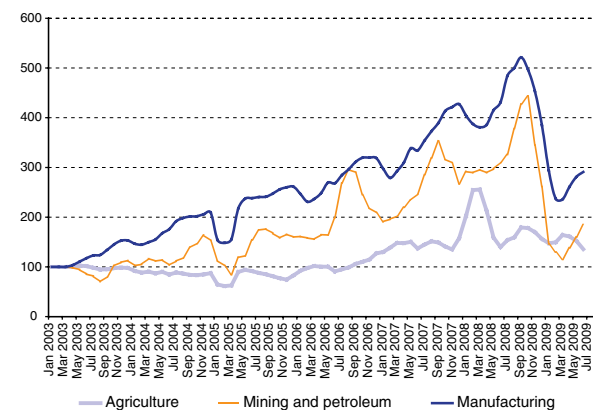
In the specific case of MERCOSUR, intra-group imports of manufactures and of mining and petroleum products dropped sharply from September 2008 onwards. Trade in agricultural goods fell less steeply and recovered somewhat in the first quarter of 2009 (see figure III.2).

Figure III.1
LATIN AMERICA AND THE CARIBBEAN: TRENDS IN
INTRAREGIONAL TRADE, 1986-2008
(Percentages of the total exports of each group or subregion)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Database (COMTRADE).
Note: Data for CACM do not include maquila and free-zone exports.

Figure III.2
MERCOSUR: TRENDS IN INTRAREGIONAL TRADE
(January-March 2003=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Secretariat of Foreign Trade of Brazil (SECEX), the National Institute of Statistics and Censuses of Argentina (INDEC) and the Central Bank of Uruguay.

³ The proposals on infrastructure, aid for trade, innovation and social cohesion are the result of joint efforts over a number of years, corresponding to a forthcoming publication by the Andean Development Corporation and ECLAC.

Table III.1
LATIN AMERICA AND THE CARIBBEAN: TOTAL EXPORTS AND INTRASUBREGIONAL EXPORTS OF EACH SUBREGIONAL INTEGRATION SCHEME, 1990-2008 AND FIRST SEMESTER OF 2009
(Millions of dollars at current prices and percentages)

	1990	1995	1998	2003	2004	2005	2006	2007	2008	January- June 2008	January- June 2009 ^a
Latin American Integration Association (LAIA)											
Total exports (1)	112 694	204 170	251 345	346 145	427 835	506 557	602 803	675 139	786 537	420 736	275 629
Exports to LAIA (2)	13 589	35 471	43 118	39 968	56 778	73 608	93 855	112 242	131 575	63 264	43112
Annual variation in intrasubregional trade	25.1	25.0	-3.7	10.5	42.1	29.6	27.5	19.6	17.2	25.5	-31.9
Intra-community exports as a percentage of total (2:1)	12.1	17.4	17.2	11.5	13.3	14.5	15.6	16.6	16.7	15.0	15.6
Andean Community											
Total exports (1)	31 751	39 134	38 896	54 716	74 140	100 089	126 112	141 120	181 762	103 766	51 897
Exports to the Andean Community (2)	1 312	4 812	5 504	4 900	7 604	10 313	12 737	14 774	17 550	8 384	6 364
Annual variation in intrasubregional trade	26.3	28.2	-2.2	-6.3	55.2	35.6	23.5	16.0	18.8	28.6	-24.1
Intra-community exports as a percentage of total (2:1)	4.1	12.3	14.2	9.0	10.5	10.3	10.1	10.5	9.7	8.1	12.3
Southern Common Market (MERCOSUR)											
Total exports (1)	46 403	70 129	80 227	106 674	134 196	162 512	188 188	221 253	276 345	129 499	97 354
Exports to MERCOSUR (2)	4 127	14 199	20 322	12 732	17 319	21 134	26 700	33 065	40 736	19 881	13 827
Annual variation in intrasubregional trade	7.6	17.8	-1.1	24.9	36.0	22.0	26.3	23.8	23.2	36.8	-30.5
Intra-community exports as a percentage of total (2:1)	8.9	20.2	25.3	11.9	12.9	13.0	14.2	14.9	14.7	15.4	14.2
Central American Common Market (CACM)											
Total exports ^b (1)	4 480	8 745	14 987	18 117	19 767	21 849	24 493	27 457	30 010	13 632	11 881
Exports to CACM (2)	624	1 594	1 944	3 111	3 506	3 945	4 450	5 290	6 461	3 277	2 687
Annual variation in intrasubregional trade	8.9	20.2	24.6	8.3	12.7	12.5	12.8	18.9	22.1	27.1	-18.0
Intra-community exports as a percentage of total (2:1)	13.9	18.2	13.0	17.2	17.7	18.1	18.2	19.3	21.5	24.0	22.6
Caribbean Community (CARICOM)											
Total exports (1)	4 118	5 598	4 790	8 624	10 395	14 148	19 142	19 027	23 536	15 982	10 141
Exports to CARICOM (2)	509	843	1 031	1 419	1 810	2 091	2 427	2 793	3 664	1 692	....
Annual variation in intrasubregional trade	8.2	26.5	5.7	16.3	27.5	15.5	16.1	15.1	31.2	22.3	...
Intra-community exports as a percentage of total (2:1)	10.3	14.2	18.6	16.5	17.4	14.8	12.7	14.7	15.6	10.6	...
Latin America and the Caribbean:											
Total exports ^c (1)	130 214	227 922	280 065	376 590	472 444	568 798	679 714	763 318	884 686	450 351	311 192
Exports to Latin America and the Caribbean ^d (2)	18 727	45 180	56 644	59 635	79 952	99 839	123 354	147 413	170 225	80 812	53 821
Annual variation in intraregional trade	8.2	23.6	-5.2	11.2	34.1	24.9	23.6	19.5	15.5	21.6	-33.4
Intraregional exports as a percentage of total (2:1)	13.9	19.8	20.2	15.8	16.9	17.6	18.1	19.3	19.2	17.9	17.3

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

^a Preliminary figures.

^b Includes maquila.

^c Includes LAIA, CACM, the CARICOM countries, Cuba, the Dominican Republic and Panama.

^d Aggregate of intra-group trade (Andean Community, MERCOSUR, CACM, CARICOM), the trade of Chile and Mexico with the rest of the region, inter-group trade and exports from Cuba, the Dominican Republic and Panama to the other countries of the region.

The low levels of intraregional trade in Latin America and the Caribbean also show up when compared with those for other regions. In the European Union, intraregional trade stands at 67% of total exports, reflecting the depth of integration and the density of intra-industry trade in Europe, and intraregional trade among the Asian economies also far exceeds the figures for Latin America and the Caribbean (see table III.2).

The regional market has a high manufacturing density. Intraregional trade is mostly based on manufactured goods, especially those with a high natural-resource content, and on low- and medium-technology products (see figure III.3). Processed foods, chemicals and pharmaceuticals,

plastics, major appliances (such as cookers, washing machines and heaters), motor vehicles and textiles are among the goods usually exported through intraregional trade networks. Those segments are all largely dependent on SMEs and a small group of large corporations which are highly internationalized within the region.

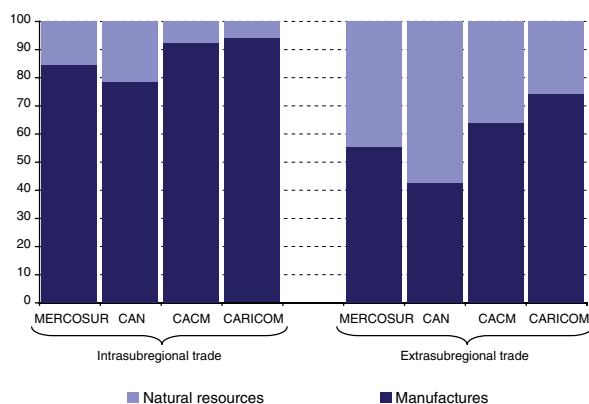
Table III.3 lists the 25 main products exported intraregionally within the region's three largest integration schemes. It shows that manufactured goods dominate intraregional trade and that the regional market accounts for over 40% of total exports in a number of products. The motor vehicle sector is particularly noteworthy as a mainstay of intraregional trade in Latin America.

Table III.2
LATIN AMERICA AND THE CARIBBEAN AND REFERENCE REGIONS: INTRAREGIONAL EXPORTS AND THEIR SHARE
IN WORLD GOODS TRADE, 1986-1989, 1994-1997 AND 2006-2007
(Percentages of worldwide exports)

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

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

Figure III.3
LATIN AMERICA AND THE CARIBBEAN: COMPARISON OF
INTRA-GROUP TRADE IN NATURAL RESOURCES
AND MANUFACTURES, 2008
(Percentages)



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

Note: Southern Common Market (MERCOSUR), Andean Community (CAN), Central American Common Market (CACM), Caribbean Community (CARICOM).

SMEs play a crucial role in the export of high-value-added products to the regional market. Although exports by SMEs revolve around a limited number of sectors, particularly foodstuffs, drinks and tobacco, chemicals, petroleum refining and the metalworking industry, their trade profile differs from that of the large export firms. The region's SMEs export a more diversified range of products, with a larger proportion of labour-intensive goods (involving both skilled and unskilled labour) and products which are differentiated and dependent on economies of scale and on linkages with national goods and services providers. Although the large export firms also operate in some of these sectors, they are located mainly in capital-intensive, natural-resource-based and large-scale segments (FUNDES, 2007; see figure III.4).

Table III.3
INTRAREGIONAL TRADE OF THE SOUTHERN COMMON MARKET, THE ANDEAN COMMUNITY AND THE CENTRAL AMERICAN COMMON MARKET, 1986, 1996 AND 2006
(According to SITC^a Rev.2, 4-digit)

Order	Product	Value of intraregional exports (millions of dollars)			Percentage of total			Intraregional coefficient (Xi/XTotal)*100		
		1986	1996	2006	1986	1996	2006	1986	1996	2006
1	Passenger vehicles	49	1 333	2 931	0.9	5.4	6.6	18.3	87.1	43.8
2	Goods vehicles	82	576	1 801	1.5	2.3	4.1	19.7	64.6	49.8
3	Petroleum gas	329	95	1 758	6.2	0.4	4.0	100.0	99.9	76.2
4	Crude oil	38	1 468	1 625	0.7	6.0	3.7	3.2	22.0	7.4
5	Autoparts	67	921	1 422	1.3	3.8	3.2	15.8	53.8	34.9
6	Television and radio transmitters	1	6	1 191	0.0	0.0	2.7	55.9	41.2	41.4
7	Unground wheat	150	808	1 143	2.8	3.3	2.6	38.1	75.2	72.1
8	Polyethylene	17	194	681	0.3	0.8	1.5	46.4	73.0	49.2
9	Medicines	81	377	590	1.5	1.5	1.3	63.8	65.6	41.1
10	Cosmetics	18	148	457	0.3	0.6	1.0	57.1	76.7	52.1
11	Soy oils	75	236	447	1.4	1.0	1.0	21.0	13.7	10.5
12	Pistons for motor vehicles	15	357	414	0.3	1.5	0.9	4.6	70.5	29.2
13	Oilseed cakes	7	146	406	0.1	0.6	0.9	0.4	2.8	5.6
14	Copper and its alloys	13	70	392	0.2	0.3	0.9	21.0	54.1	42.8
15	Other gases	7	79	379	0.1	0.3	0.9	98.3	66.0	40.5
16	Polypropylene	20	105	342	0.4	0.4	0.8	48.7	50.1	50.2
17	Maize	99	204	338	1.9	0.8	0.8	15.1	15.0	17.5
18	Plastic wrapping	8	102	333	0.1	0.4	0.8	15.5	59.3	55.9
19	Steel ingots and bars	12	67	330	0.2	0.3	0.7	2.7	5.0	13.8
20	Polyvinyls	30	144	329	0.6	0.6	0.7	50.2	54.4	55.1
21	Iron and steel sheets	26	78	325	0.5	0.3	0.7	11.6	40.7	46.7
22	Copper alloys	7	78	318	0.1	0.3	0.7	16.9	7.7	8.9
23	Footwear	21	191	316	0.4	0.8	0.7	2.1	11.2	15.5
24	Soybeans	24	230	316	0.5	0.9	0.7	3.1	11.5	3.9
25	Polymers	18	50	316	0.3	0.2	0.7	56.0	56.3	53.9
	Top 25 products	1 211	8 062	18 900	22.7	32.8	42.9	12.9	27.7	22.9
	Other products	4 113	16 487	25 206	77.3	67.2	57.1	11.9	21.6	14.2
	Total	5 323	24 549	44 105	100.0	100.0	100.0	12.1	23.3	17.0

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

^a Standard International Trade Classification.

Figure III.4
LATIN AMERICA (4 COUNTRIES): EXPORTS OF MANUFACTURED GOODS, BY SIZE OF COMPANY AND TECHNOLOGY INTENSITY, 2004^a
(Percentages)

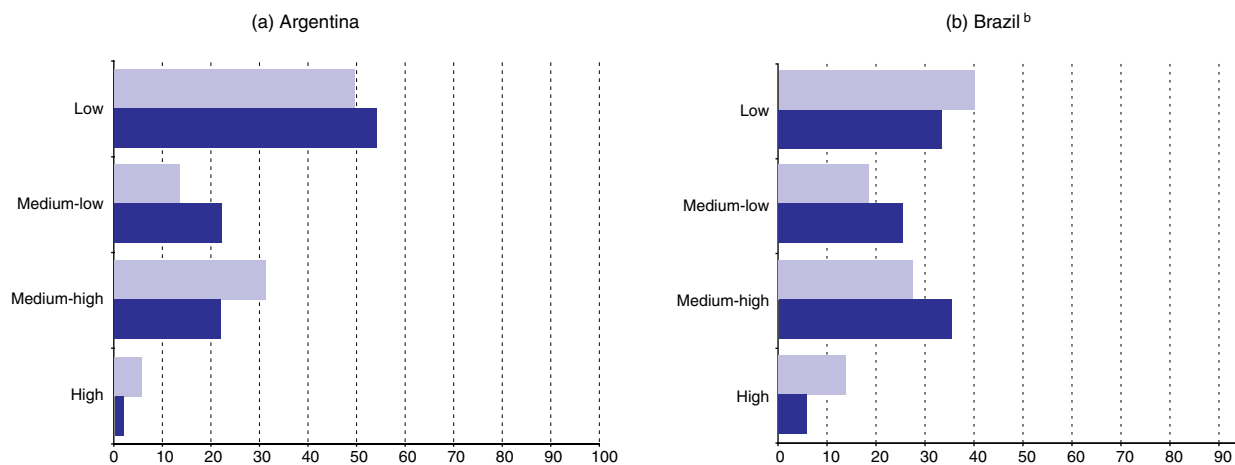
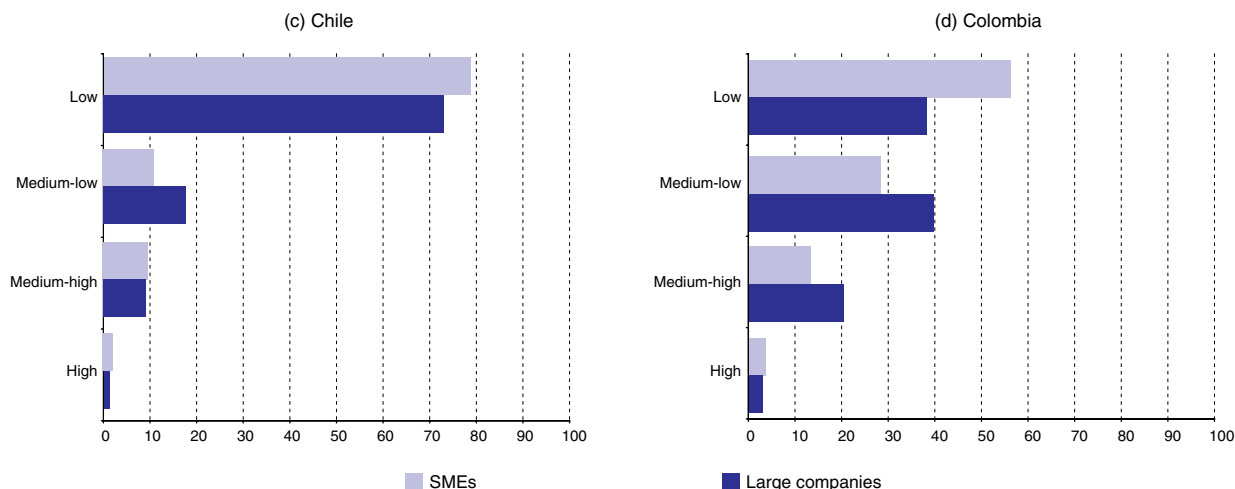


Figure III.4 (concluded)



Source: Foundation for Economic and Social Development (FUNDES), *Estudio comparado sobre el éxito exportador PYME en Argentina, Chile y Colombia*, D. Milesi, V. Moori Koenig and G. Yoguel (coords.), 2007; Brazilian Micro and Small Business Support Service (SEBRAE), *As micro e pequenas empresas na exportação brasileira, 1998-2006*, Brasília, 2008.

^a SMES do not include microenterprises.

^b Figure for 2006.

As for the destination of manufacturing exports, the main blocs are the same for both SMEs and large corporations. SMEs, however, show differences in terms of regional specialization: (i) the exports of Argentine SMEs go mostly to the countries and regions of the Americas (MERCOSUR, CAN and, among the

parties to the North American Free Trade Agreement (NAFTA), to Canada); (ii) Chilean SMEs tend to target the MERCOSUR and Andean Community countries, and (iii) Colombian SMEs export mainly to members of the Andean Community (Bolivarian Republic of Venezuela) and NAFTA (Mexico).

E. Proposals for fostering regional cooperation

1. Protecting and promoting infrastructure investment

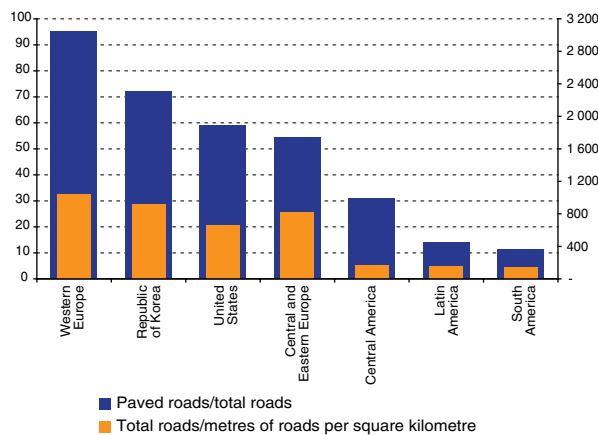
Infrastructure is critical for economic growth, productivity and balanced territorial development, and expanding it helps to reduce regional and local inequalities. The endowment of trade-related infrastructure is key to export development. To a great extent, infrastructure advances or lags determine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

Latin America and the Caribbean suffers from a severe infrastructure deficit (see figure III.5). In the current crisis conditions, it is therefore vital that infrastructure investment is not allowed to fall, as occurred during the external-debt crisis. That was the cause of much of the lost productivity and the competitiveness lags that the region still suffers in comparison with other developing regions.⁴ For example,

⁴ Calderón and Servén (2003) estimate that GDP growth rates in the South American countries would be higher by between 2.6 percentage points (Uruguay) and 5.8 percentage points (Plurinational State of Bolivia) if the region had an infrastructure comparable in quantity and quality to the average in South-East Asia.

while the emerging Asian economies have expended considerable resources on infrastructure investments since the 1980s, in Latin America that spending has fallen from 6% of GDP in the early 1980s to a little over 2% in the early 2000s (see figure III.6). If infrastructure spending is once again allowed to suffer, this will weaken the region's ability to bounce back when the world economy recovers, and its lag in competitiveness will worsen.

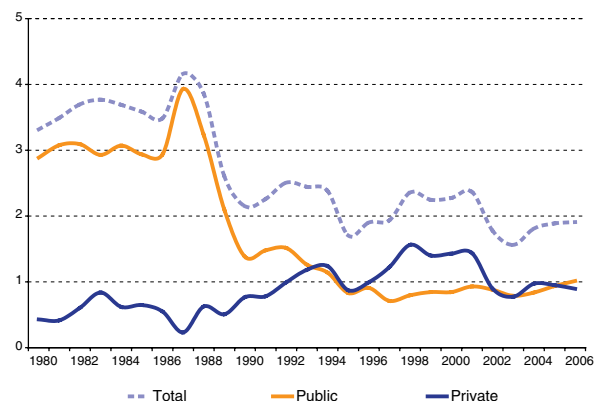
Figure III.5
**INFRASTRUCTURE IN SELECTED COUNTRIES AND REGIONS:
 ROAD DENSITY AND PERCENTAGE OF PAVED ROADS^a**
 (Percentages and metres per km²)



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

^a Simple indices of road availability are used as an approximation to the relative scarcity of infrastructure and logistics.

Figure III.6
**LATIN AMERICA (6 COUNTRIES^a): INFRASTRUCTURE
 INVESTMENT, 1980-2006**
 (Percentages of GDP)



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

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

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

Cross-border development axes, including bioceanic corridors, not only help to increase competitiveness and improve transport times and costs for extraregional trade; they also open up new production and urban planning opportunities, improving the balance at the geographical (between coastal areas and uplands) and social levels, and raising living standards for poor and backward communities, which tend to be located in the interior of the subregions (Maira, 2008).

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

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

- Agree upon an indicative regional or subregional target for infrastructure investment, which might be on the order of 5% of GDP, taking into account the specificities of each subregion or country. Involve multilateral and regional finance bodies in the attainment of that target, developing the necessary programmes and projects through dialogue with the countries.
- Create regional or subregional infrastructure funds involving public resources and regional financial institutions and development banks.
- Engage the Tripartite Committee (IDB, OAS and ECLAC), together with the Andean Development Corporation (CAF), in providing advice to governments for selecting the subregional projects that are most viable technically and financially and those which maximize synergies for the development of border areas.

- Strengthen capital markets and their regulation so that capital and pension funds can play a greater role as sources of infrastructure financing. Complement national or regional efforts by mobilizing greater volumes of resources from private capital, sovereign funds and transnational corporations.
- National authorities should improve their own capacities in the following ways:
 - Move forward towards national and regional infrastructure, transport and logistics strategies which are clear, shared, integrated and sustained over time. This will entail unifying visions at the level of government as well as among business and social sectors, and improving coordination at the regional level.
 - Review policies relating to the regulation of infrastructure services, to ensure that, in addition to encouraging private sector involvement, improvements in this area are effectively passed on to society and become channels for enhancing efficiency, productivity and competitiveness (ECLAC, 2008e).
 - Strengthen national public investment systems, which currently show a variety of weaknesses that undermine the quality of proposed projects and real possibilities of external financing.
 - Improve regulation to ensure greater private participation in infrastructure provision.
 - Support the development of benchmarking systems for the main areas of infrastructure projects, facilitating project comparability and avoiding potential overpricing in bidding processes.
- Organize workshops to share experiences on public-private partnerships for infrastructure projects, in order to draw lessons from successful outcomes or from failures both within and outside the region.
- Strengthen support for the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and for the Meso-America Project by means of the following measures:
 - Continuously monitor potential bottlenecks that could obstruct the progress of priority projects already identified, owing to financing problems. Then create plurinational programmes incorporating solidarity-based support from several countries and financial institutions in the region, in order to expedite the launching of those projects.
 - Organize open-ended meetings to provide parliaments, business organizations and civil society with information on the activities conducted and under way.
 - Organize working groups to facilitate convergence between regulation and oversight systems for land-based and multimodal transport.
- Modernize external trade logistics by means of the following measures:
 - Promote the use of modern transport and distribution methods by export SMEs.
 - Set up smart transport systems in ports and on roads.
 - Create automated systems for all customs formalities and procedures.
 - Prepare an agenda to simplify port procedures and promote competition between and within ports.

2. A programme to promote intraregional trade

A number of experts have proposed the creation of a cooperation programme to promote intraregional trade, in which regionalized financing is combined with a flexible governance structure that brings together and coordinates countries and multilateral and regional bodies, including the private sector.⁵ The idea is not to establish new institutions, but to generate mechanisms for coordination among existing ones in order to take better advantage of their respective advantages and help to mobilize financial resources.

It is suggested that part of such a programme would be the establishment of a regional aid for trade fund, with contributions from donors, associated agencies and other international and private sector entities. National, regional and subregional development banks would also participate. The fund would provide support for building funding packages such as co-financing deals, loans, capital contributions or guarantees. Some of the activities such a fund could support are described below.

⁵ See Stiglitz and Carlton (2006).

(a) Short-term financing of intraregional trade

A central issue in the current financial crisis is dealing with liquidity constraints in external trade transactions. Financing is crucial to facilitate international trade, especially at the level of SMEs, be they exporters or importers. Following the outbreak of the crisis the cost of credit rose sixfold in just a few months. This caused considerable adversity, given that some 90% of the US\$ 14 trillion in world trade is financed by short-term loans. Estimates by the World Trade Organization (WTO) suggest that the liquidity shortfall was around US\$ 25 billion by November 2008.

Although the situation now seems to have improved compared with the fourth quarter of 2008, financing for trade remains tighter than before the crisis. Since part of

the shortfall is affecting intraregional trade, short- and medium-term measures are needed to deal with the situation. National and regional finance bodies should rapidly expand their risk coverage and increase liquidity for external trade transactions, to ensure credit for exports and imports. In the medium term, finance institutions should take steps to inform businesses about the characteristics of their instruments and make them aware of how risk is assessed and trade financing data collected. Much would be gained from expanded regional collaboration in this area among private banks, public bodies, international financial institutions and export credit agencies.

Also along these lines, a number of countries are looking at the possibility of regional or subregional mechanisms to allow a higher proportion of intraregional trade to be conducted in local currency (see box III.2).

Box III.2

FACILITATING INTRAREGIONAL TRADE BY REDUCING THE USE OF FOREIGN CURRENCY

Financing for intraregional trade has been badly dented by the recent profound economic and financial crisis. Hence, the countries of the region are seeking mechanisms to reduce their respective transaction costs. One alternative would be to use foreign currency less often. The only regional mechanism that promotes the use of local currencies is the Agreement on Reciprocal Payments and Credit, created in 1982 by the Latin American Integration Association (LAIA). Under the Agreement, the central banks of 12 countries^a process and clear payments on mutual bilateral trade in goods and some services quarterly. Brokers participate voluntarily in transactions, which are conducted in local currency. At the end of the consolidation period the participating central banks calculate their net bilateral balances, which are expressed and settled in dollars.

The Agreement was widely used in the 1980s—accounting for nearly 90% of intraregional trade in 1989, owing to the widespread liquidity squeeze at that time in the region. During the 1990s, use of the system gradually became less prevalent and by 2003 it had nearly fallen into disuse. Since then, it has made a slight comeback. Today the Agreement is used for approximately 10% of intraregional trade—primarily that of the Bolivarian Republic of Venezuela, all of whose trade must be channelled through it owing to foreign-exchange controls, and to a small extent that of Brazil (the operations of the National Bank for Economic and Social Development, or BNDES) and Colombia.

Various factors explain the limited use of the Agreement today, particularly the high credit risk incurred by central banks (which guarantee payments), the high interest rates charged for debits in Agreement-based accounts compared with other international rates and the growing ease of conducting financial transactions over private banking networks.

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

Under the proposed clearing system, countries would use mainly their own currencies for trade operations. Transactions would be conducted in the exporter's local currency, which would then be converted to the currency of the importing country based on the daily average bilateral exchange rate. Exporters would thus be paid in their own currency, while importers would assume the foreign-exchange risk. This requires a degree of stability in bilateral exchange

rates. The daily exchange rates of local currencies would be calculated in relation to a widely traded currency (the euro or dollar). In addition, the central bank of the exporting country would not be credited until the central bank of the importing country had received the corresponding funds from the importer's commercial bank. Central banks would not therefore assume any counterparty risks beyond that of a trade deficit or surplus. A regional financial entity would serve as a clearing house, adjusting daily or weekly balances based on a widely used currency.

A mechanism such as this could reduce the use of foreign currency in intraregional trade by 70%. The new system would have to be highly efficient to be able to compete with other forms of payment. The adoption of a system based completely on local currency is not considered viable, because countries running a surplus would build up reserves in the currency of those running a deficit, thereby paying them seigniorage. Moreover, liquid spot markets or futures markets do not exist for all the currencies that might be expected to participate.

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

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

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

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

A number of studies have concluded that the trade facilitation talks taking place in the framework of the WTO Doha Round could have a more significant impact on trade flows than the tariff outcomes of the Round itself.⁶ For this reason, trade facilitation is one of the main elements of the WTO aid-for-trade initiative (see (c), below).

In the framework of WTO, the countries of Latin America and the Caribbean have put forward proposals on technical assistance and capacity-building, special and differential treatment and other cross-cutting issues relating to negotiations on trade facilitation. This enthusiasm to some extent reflects the lag the region

suffers in that area. The countries of the region should consider implementing those proposals at the national or regional level, regardless of progress in the Doha Round. Furthermore, at the regional level it would be feasible to implement additional measures beyond the commitments negotiated in WTO. Emphasis should be placed on initiatives to improve transport and logistics, especially in the case of landlocked countries, in accordance with the Almaty Programme of Action.

Table III.4 shows a number of proposals for action in the area of trade facilitation which could feed into regional integration, streamlining of transport flows and lower international trade costs. All these are essential at a time of crisis such as this, when cost control is a determining factor in business decisions.

Table III.4
OPPORTUNITIES IN TRADE FACILITATION

Area	Suggestions for the short term
E-commerce	Seek common ground (such as standards) to enable interconnection among regional actors Eliminate red tape in customs Form businesses partnerships to enhance international competitiveness Strengthen logistical and transport systems Recognize electronic signatures
One-stop counter	Designate a central coordination entity at the national level and a regional centre for system recognition and interconnection Promote coordination and consistency among national systems to facilitate interconnection Use universally accepted systems for paperless trade
Customs procedures	Adopt compatible administrative systems to enable interconnection and reduce the time and costs of procedures Disseminate such systems in the private sector, particularly SMEs Promote regional coordination to expedite procedures Use pre-shipment inspections and other mechanisms to cut waiting times at loading and unloading points Strengthen the use of ICT for security purposes, in accordance with international standards
Streamlining the transport chain	Accelerate regional integration projects, especially those involving infrastructure and interconnections that will benefit landlocked countries Coordinate with the private sector to identify bottlenecks in a timely manner and propose joint projects
Adoption of international (United Nations) standards	Disseminate models for electronic documents (eDocs) available from the United Nations Centre for Trade Facilitation and Electronic Business (CEFACT) Implement e-government systems, especially international standards and classifications, to permit paperless trade
Phytosanitary standards	Ensure consistency with international standards and cooperation and training for the fulfilment of health and safety obligations Put in place sampling and prevention techniques aimed at avoidance or early detection of risks in the production chain, thus forestalling large-scale health emergencies
Interface between the public and private sectors	Create systems for training in ICT use for the benefit of SMEs Strengthen export financing mechanisms, using e-commerce and e-government elements to deal with possible deficiencies in the supply of private financing

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

⁶ Within WTO, trade facilitation involves the systematic rationalization of the procedures and documents involved. The Organization's negotiating mandate has focused on measures relating to three articles of GATT 1994, namely Article V (Freedom of Transit), Article VIII (Fees and Formalities connected with Importation and Exportation), and Article X (Publication and Administration of Trade Regulations).

(c) Aid for trade

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

In 2007, the region represented 8.7% of total aid-for-trade flows, quite a modest figure compared with 44% for Asia and 40% for Africa. Only one of the region's countries, El Salvador, was among the 25 main recipients

of that type of aid in 2006-2007 (IDB/WTO, 2009). Scope for growth therefore exists, provided that the countries articulate their needs coherently. The challenge is to identify substantial projects that can unlock additional flows of resources through more effective and efficient programme management, in accordance with the principles of additionality, sustainability and effectiveness of aid.

Naturally, the realities of the subregions, and therefore their needs, are different. Nevertheless, efforts should aim to attract grants not only for national projects but also for those that involve several countries, such as IIRSA and the Meso-America Project, and have a clear trade facilitation component. The Caribbean subregion will require considerable assistance in fulfilling the commitments arising from the economic partnership agreement concluded recently with the European Union.

3. Increasing regional cooperation on innovation and competitiveness

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

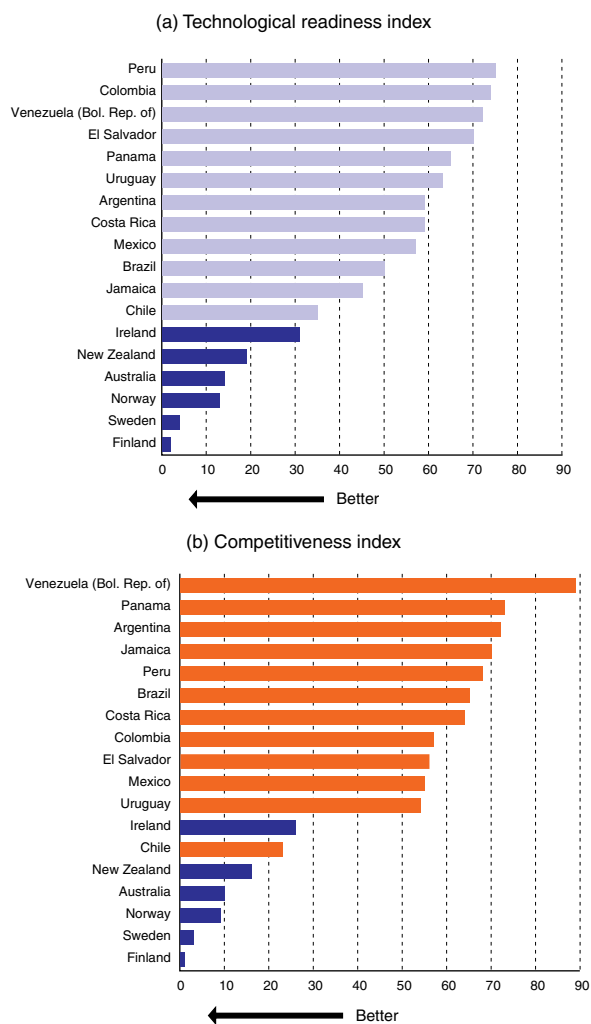
The real challenge in this regard resides in changing production patterns, that is, in the capacity to diversify the production and export base and incorporate greater value and knowledge into exported goods and services. For this it is necessary to strengthen the links between exports of primary goods, manufactures and services through production clusters or value chains, encouraging SMEs to participate in them as direct or indirect exporters. This, in turn, requires greater coordination within government and between government and the private sector. The most successful international positioning efforts⁷ show that it is necessary, on the one hand, to create close public-private partnerships to encourage

innovation and investment in export industries and, on the other, to increase coordination among the various public institutions involved in providing productive and technological support to SMEs, promoting exports and FDI, implementing innovation policy and developing human resources. A number of these issues figure on national competitiveness agendas in the region (ECLAC, 2008c).

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

⁷ See ECLAC (2008a).

Figure III.7
**SELECTED COUNTRIES: TECHNOLOGICAL PREPAREDNESS AND
 COMPETITIVENESS INDICES, 2006-2007**
(In order of the respective global index)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistics from the World Economic Forum, 2007.

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

At first glance, the current crisis may not appear to offer the most propitious conditions for developing policies on changing the production structure, increasing competitiveness and strengthening international integration. Yet crises bring

opportunities as well as threats and often generate efforts to find new paths and build new consensuses.⁸

Use should be made of existing openings for cooperation. In recent years, the countries of Latin America and the Caribbean have made some progress in cooperation.⁹ This has enabled a degree of coordination in science, technology and innovation, but still too little to generate synergies that impact decisions relating to trade, investment and international partnerships involving technology businesses and innovation.

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

A higher profile should be given to regional cooperation on education. Education is not only fundamental for growth, equity and democratic governance. In the context of the knowledge economy, innovation and competitiveness cannot be properly fostered without trained human resources, especially in fields in which the region has or might acquire competitive advantages. The linkages between the educational system and the productive system must be strengthened so that the former can provide the skills needed by the latter. This requires long-term strategies and action plans for education.

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

⁸ It is no coincidence that the radical strategies undertaken to change production patterns in Finland, Ireland, Malaysia, the Republic of Korea and Singapore were developed in response to grave crisis situations.

⁹ For example, 2003 saw the establishment of the Latin American Cooperation for Advanced Networks (CLARA). Sixteen countries participate in CLARA, which seeks to promote cooperation in educational, scientific and cultural activities and coordination between national and international academic networks. At the 2008-2009 intersessional panel meeting of the United Nations Commission on Science and Technology for Development, the competent ministers signed an agreement to create a forum for dialogue and proposals on managing and implementing science, technology and innovation policies.

Proposals for regional cooperation on innovation and competitiveness

- Establish a regional forum for innovation to foster cooperation and joint action and help the countries of the region to meet the challenges posed by innovation and technological development;
- Create a regional cooperation fund for innovation to source financing for the programmes or actions identified at the regional forum or at other forums for cooperation;
- Promote the creation and development of regional business foundations for innovation;
- Prepare an annual report on regional innovation initiatives that will guide relevant regional and national efforts and contribute to the sharing of experiences;
- Continue conducting comparative analyses of national information society strategies through the publication of “country reviews”;
- Support the White Book of e-Government Interoperability in Latin America and the Caribbean as a common framework for regional action and discussion on ICT;
- Develop regional capacity in effective ICT use in the following areas: (i) e-government; (ii) ICT-related industries (for example, creative and cultural industries and those involved in software production); (iii) high-speed networks; (iv) health; and (v) education.

4. A decisive approach to asymmetries

One of the original aspirations for integration agreements was that they would achieve greater cohesion among the parties. Every Latin American and Caribbean integration project has recognized the structural disparities between its members’ respective degrees of development (see table III.5 for indicators of asymmetries and box III.3 for a summary of how the various integration schemes treat these asymmetries). Undoubtedly, low income level, small size and scale of production, small population or landlocked or island status are among the factors that can hamper the economic growth or international integration of a country or its regions, since these factors raise transaction costs and make it difficult for certain sectors of the economy to compete in the global marketplace.

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

Table III.5
ASYMMETRIES IN THE SUBREGIONS OF LATIN AMERICA AND THE CARIBBEAN, 2008
(Factor by which the highest value in the group exceeds the lowest)

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

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

Box III.3

TREATMENT OF ASYMMETRIES IN REGIONAL INTEGRATION SCHEMES

All the integration arrangements in the region—the Cartagena Agreement, which gave rise to the Andean Pact; the Central American Integration Project, now known as the Central American Common Market; the Caribbean Community (CARICOM); the Latin American Free Trade Association and its successor, the Latin American Integration Association (ALADI)—have included special provisions for relatively less developed countries. In addition to special and differential treatment, other measures were introduced to benefit the smaller economies in order to avoid relying solely on market mechanisms to reduce disparities. Such measures were intended to enhance the competitiveness of less developed economies through the use of policy instruments that would encourage industrial development, investment and special project financing. However, because of the external debt crisis and, later, the Asian crisis, as well as the underdevelopment of institutional and physical infrastructure to address asymmetries, these measures were piecemeal and achieved few successes.

In the 1990s, with the initiation of new regional integration projects, non-reciprocal treatment of the relatively less developed economies lost currency and became limited to giving them longer deadlines to attain tariff convergence in the construction of customs unions. This approach stemmed from the agreements of the World Trade Organization negotiated during the Uruguay Round and stressed market mechanisms and national policies as the main instruments for narrowing competitiveness gaps and structural asymmetries among countries and regions participating in integration schemes.

Only in recent years has renewed concern arisen over asymmetries and the

need to implement more effective regional measures to mitigate them, given the failure to narrow the gaps that existed when integration processes began.

In 1999, the Andean Community implemented the Community Policy on Border Integration and Development and the Integrated Social Development Plan. The Community also decided to maintain the preferences for relatively less developed countries in terms of participation in regional project financing as well as trade and tariff rules on market access.

The Revised Treaty of Chaguaramas (2001), which succeeded the 1973 charter agreement of CARICOM, addressed asymmetries through special and differential treatment. It also imposed import restrictions to protect the less developed countries in the group. The most noteworthy aspect of this treaty is that it provides for the creation of a regional development fund to provide technical and financial assistance to disadvantaged countries, regions and sectors. The regional development fund was to be capitalized with US\$ 250 million, US\$ 120 million of which would be contributed by member States and the remainder by the main developed members. The countries have also agreed to create a regional development agency. Neither of these initiatives has yet fully materialized.

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

disparities between the various subnational regions and contribute to making up the lag of the least advantaged.

The Southern Common Market (MERCOSUR) addressed the topic in 2003 and 2004, with the member countries agreeing on a series of measures intended to favour the smaller economies. The most significant was the creation of the MERCOSUR Structural Convergence Fund (FOCEM), which has become an incipient instrument of convergence policy in the following spheres: (i) structural convergence of the less developed economies and regions; (ii) development of competitiveness through productive and employment restructuring and the formation of production chains, among other means; (iii) social cohesion in human health, poverty reduction and unemployment; and (iv) strengthening of the institutional structure. These four areas correspond to the four programmes under which the countries may submit projects. FOCEM was set up with US\$ 100 million, of which Brazil provided 70%, Argentina 27%, Uruguay 2% and Paraguay 1%. Contributions are made annually, and FOCEM may receive funding from international organizations, institutions or third countries. The Fund's resources are distributed so as to favour projects in the group's relatively less developed countries, with 48% allocated to Paraguay, 32% to Uruguay, and 10% each to Argentina and Brazil.

The creation of FOCEM, the consensus for establishing a regional development fund in CARICOM, as well as studies to create a similar fund in the Central American Common Market and the efforts in the framework of Andean Community's Integrated Social Development Plan underscore the political will to persevere with an integration process that will address the concerns of the relatively less developed countries.

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

Unless asymmetries are adequately addressed, the smaller countries will not view the current integration schemes as the best way to boost economic growth and diversify their exports. A special effort must be made to ensure that the various policy areas—infrastructure, logistics, trade facilitation, energy, and so on—take an overarching approach that seeks to asymmetrically benefit smaller economies. The MERCOSUR Structural Convergence Fund (FOCEM) has represented a step in this direction and could be strengthened to give beneficiary countries greater technical capacity to evaluate and propose projects.

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

In South America, the Union of South American Nations (UNASUR) could become a forum for cooperation and for the eventual convergence of the region's different integration schemes. UNASUR should explicitly develop policies to reduce asymmetries by setting up financial funds or mechanisms, developing intraregional production chains, promoting physical and energy integration and cooperating on the management of scarce natural resources. In the Mesoamerican context, the agreements reached

at the Summit of Heads of State and Government of the member countries of the Tuxtla Mechanism for Dialogue and Coordination on the conversion of existing trade agreements between Mexico and Central America into a single partnership agreement provide a framework in which preferential treatment for relatively less developed countries could be addressed. For this to happen, the political will is essential, as is the conviction that the region's potential is enhanced through the progress of all of its members.

5. Strengthening the social aspect of integration

Social affairs must be a part of any regional cooperation proposal. These include aspects of social cohesion, multiculturalism and inclusion, which is the ultimate aim and rationale of integration and of efforts to build regional competitiveness in a way that is compatible with social equity.

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

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

- Support initiatives to raise the quality of social statistics at the national level and seek opportunities to harmonize statistics and make them comparable at the regional level.
- Encourage the identification of best practices in corporate social responsibility at the regional level.
- Evaluate possible mechanisms to reduce the transfer costs of remittances that emigrants send home to their relatives.
- Promote the certification of skills between countries, in order to encourage the intraregional mobility of less skilled workers, and take steps to create

multicountry training programmes, utilizing the common certification.

- Support efforts to make social protection portable, so that workers may retain their acquired entitlements and transfer contributions already made.
- Move towards the reciprocal recognition of professional degrees.
- Promote infrastructure investment in border areas, to encourage the formation of integrated economic areas.
- Support the development of integrated production development strategies in border areas so that social policy measures to protect migrants are taken into account along with economic issues.
- Establish a structural fund for social cohesion that will contribute both to funding productive and employment restructuring processes and to reproducing the best social protection experiences for dealing with crises. Such a fund—which would be endowed with an institutional structure to ensure that it is properly managed—could complement the structural funds of MERCOSUR and draw on European experience. The respective European entities and regional and multilateral financial institutions would be requested to collaborate in its design and implementation.
- Create a social inclusion observatory that would provide governments, academic institutions, congresses and civil society with data needed to monitor social policy and create opportunities for exchanging experiences and disseminating best practices.

6. Deepening regional integration through ties with Asia-Pacific

From 2003 to 2007, per capita GDP in Latin America and the Caribbean rose by more than 3% per year, making this the strongest growth period in 40 years. This was largely the result of the region's growing ties with Asia-Pacific, and in particular with China. Although this was especially true in South America, Costa Rica offers an interesting Central American example of export diversification towards Asia.

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

Unlike Latin America and the Caribbean, Asia-Pacific has traditionally enjoyed *de facto* integration, stemming from the prosperity of intraregional trade flows driven by increasing investment and production complementarity between the manufacturing sectors of the different countries.¹⁰ This integration has been fostered by measures taken to facilitate trade and investment flows and promote public-private partnerships for business development and by the availability of low-cost labour. In recent years, Asia-Pacific has evolved towards a more advanced stage of integration, one of the components of which is necessarily an institutional framework. ASEAN has become the hub of this process through a series of initiatives to free trade with other Asian countries.

The countries of Latin America and the Caribbean should examine the growing integration of production in Asia, centred on China, and strive to join the value chains being formed there. To this end, they should encourage Asian investment in the Latin American

and Caribbean region and outward investment in the other direction, as well as partnerships between local and Asian actors aimed at seizing trade and investment opportunities. It would also be useful for Latin America and the Caribbean to emulate the Asian experience with production integration revolving around regional or subregional value chains.

Asia-Pacific offers multiple possibilities for export and investment agreements in mining, energy, agriculture, infrastructure and science and technology. To make the most of such opportunities, and to do so on a significant scale, will take a concerted partnership-building effort. This will require the Latin American and Caribbean countries to work in a coordinated manner to leverage convergent, transparent, stable policies in order to secure long-term commitments between the two regions. To this end, integration mechanisms in the region should be strengthened with a view to developing a regional focal point for biregional dialogue with China and Asia-Pacific,¹¹ in order to explore mutually beneficial, longer-range initiatives than those that might emerge from isolated national efforts.¹²

Now is the time to forge strategic linkages with China. China has already formulated a foreign policy towards Latin America and the Caribbean, enshrined in an official document that acknowledges the region's potential for comprehensive cooperation on political and economic affairs, as well as social, cultural, legal and security matters.¹³ In the economic sphere, China identifies several areas on which joint progress could be made, including trade, investment, finance, agriculture, industry, infrastructure, natural resources, energy and tourism.

The time is ripe for the Latin American and Caribbean region to identify priorities in its relations with China and to propose a mutually beneficial strategic partnership. The region should respond promptly to China's policy paper

¹⁰ The intraregional trade coefficient among the countries of the Association of Southeast Asian Nations (ASEAN), China, Japan, the Hong Kong Special Administrative Region of the People's Republic of China, the Republic of Korea and Taiwan Province of China rose from 43% at the beginning of the 1990s to 55% in 2006. This coefficient is higher than that of the North American Free Trade Agreement and is quickly approaching the figure for the European Union. Currently, close to 60% of trade in machinery and transport equipment and in parts and components in Asia-Pacific is intraregional. With China as its hub, Asia-Pacific has become a "global factory" of machinery and transportation equipment.

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

¹² Although several such regional focal points exist today, none has yet acquired the status of acknowledged voice for the regional agenda. Progress in creating such a reference would facilitate dialogue between the region and ASEAN and China.

¹³ The paper refers to several guiding principles: mutual respect for territorial integrity and sovereignty, non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence. See "China's Policy Paper on Latin America and the Caribbean" [online] http://english.gov.cn/official/2008-11/05/content_1140347.htm.

with one of its own, following the requisite technical meetings. The two documents could then be reviewed at a summit of the Heads of State of China and the Latin American and Caribbean countries. In preparation for such a summit, a regional programme of trade and investment initiatives to help strengthen the region's economic and commercial ties with China should be drafted.

Regarding investment, although Latin America and the Caribbean as a region is one of the leading recipients of Chinese foreign investment, most of this investment is concentrated in tax havens.¹⁴ Some—but still too few—Chinese companies are now operating in Latin America, especially in the petroleum, transportation and telecommunications sectors (see table III.6). Therefore, the region should actively seek to attract Chinese investment and, at the same time, venture to invest in China.

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

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

China's investment potential is underscored by the fact that in 2008 the country held 28.7% of global international reserves. The outlook for Chinese investment in the region was recently enhanced when the country joined the Inter-American Development Bank. The China Development

Bank, the most highly capitalized financial entity in the world, is also exploring the possibility of a strategic rapprochement with Latin America and the Caribbean. The Bank has offices in 15 countries in the region and is involved in projects in several of them, and runs joint operations with the Andean Development Corporation, the Latin American Export Bank and the Central American Bank for Economic Integration. The work of the China Development Bank could be strengthened by working meetings with regional institutions to discuss investment priorities and the strategic emphasis of the Latin American and Caribbean governments as regards infrastructure, logistics, trade facilitation, technological innovation and human resource development.

Regarding the services sector, nearly all of the countries of Latin America and the Caribbean, with very few exceptions, have a tourism industry that is full of potential but underdeveloped. One immediate task would be to develop joint initiatives with China to promote tourism from that country, for example, by taking steps to facilitate travel by Chinese to and within the region, including visa issuance. Other areas suggested by the Chinese authorities are banking, telecommunications, transportation, education and medical services.¹⁵ China possesses vast industrial and technological capacities that could support the development of telecoms infrastructure and thus improve connectivity in the region's most isolated areas.

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

¹⁴ In late 2006, Chinese non-financial enterprises held US\$ 75 billion in foreign investments, of which US\$ 17 billion was invested in 2006. The region received US\$ 8.5 billion, or 48% of all Chinese foreign investment that year. Most of these funds went to the Cayman Islands and the British Virgin Islands.

¹⁵ Speech by Ambassador Sun Zhenyu, Permanent Representative of China to the World Trade Organization, at ECLAC (2008d).

Table III.6
MAIN CHINESE COMPANIES OPERATING IN LATIN AMERICA, MID-2008

Sector	Petroleum and gas				Mining			Fishing	Telecommunications	ICT	Motorcycles	Electronics		
	China National Petroleum Corporation	China Petrochemical Corporation	China National Offshore Oil Corporation	Sinochem Corporation	China Minmetals Corporation	Shanghai Baosteel Group	Sinosteel Corporation						China Non-ferrous Metal Mining & Construction Group	Shougang Group	Shanghai Fisheries General Corp	Huawei Technologies	Lenovo	Nanjing Jincheng Automovil, S.A.	TTE (TCL Thomson)
Argentina			X					X	X				X	X
Bolivia (Plurinational State of)					X									X
Brazil		X	X		X	X								X
Chile					X								X	
Colombia	X	X						X					X	
Cuba				X					X					
Ecuador	X	X		X										
Mexico	X	X	X									X		X
Peru	X		X				X							
Venezuela (Bolivarian Republic of)	X	X	X											X

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the consulates of China in Latin America and from the Ministry of Commerce of China, *Statistics Bulletin of China's Outward Foreign Direct Investment 2008*.

7. Jointly tackling environmental and climate change challenges

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

Clearly, the region must prepare itself for the challenges of a new, low-carbon global economy. The best way to reduce the risks associated with possible unilateral measures by the industrialized countries is to reach a suitable multilateral agreement. The negotiations under way are complex, among other reasons because of the need to tie the more demanding commitments that must be undertaken by developing countries to the provision of associated financial assistance and technology transfer by the developed countries. The governments of the region need to quickly unify their stance on these topics and, ideally, on the environmental goods and services talks taking place in the framework of the Doha Round of WTO as well. They should also strive to apply the principles upheld in international forums at the national and regional level.

There is also great scope for developing regional cooperation in this area. For example, the business community is keenly interested in establishing common technical standards on environmental matters and on the “carbon footprint”. If each country in the region addresses these issues in isolation, the synergies from collaboration and economies of scale will be lost. Coordinated efforts, on the basis of specific projects and sufficient funding, should encourage universities and technology centres to establish closer ties with the production apparatus and hence develop technologies and processes with a high export potential.¹⁶

Beyond the realm of international negotiations, a central challenge for the region is to incorporate environmentally friendly processes and products into national and regional development strategies. Various types of cooperation will be required, of which ECLAC (2009b) has identified the following:

- Preparation of a register of initiatives launched by the different countries to improve their natural disaster prevention and response capacities and their capabilities regarding adaptation and mitigation.
- Development of specific studies for evaluating the economic impacts of climate change in the various subregions, based on different scenarios, in order to identify adaptation needs and mitigation opportunities.
- Conducting of policy development support programmes in areas such as: energy-efficient industries and buildings; clean production; use of biofuels in industry; improvement of standards for competitive export sectors; and incorporation of externalities in assessments of public and private investment projects.
- Fostering and sharing of experiences in project design for the carbon market.
- Cooperation on adapting national finance institutions and facilities to the requirements of projects for mitigating the impact of climate change.
- Establishment of accredited regional organizations whose operating and management costs are lower than those of extraregional organizations and which are familiar with the region's specific features.
- Coordination of the different approaches in order to increase the region's influence and obtain joint access to international funds for capacity-building and technology transfer.
- Agreement on necessary carbon market reforms, including the evaluation of mechanisms used to finance adaptation measures.
- Coordination of policies for boosting investments in lower-carbon technologies.
- Creation of a business-based climate-change observatory to monitor discussions and progress on the topic and the measures taken by business and government in the industrialized world in order to prepare for the opportunities and challenges that may arise.

¹⁶ A rapid consensus should be reached on automobiles produced within MERCOSUR, as well as on electrical equipment and the chemical industry and paper industries (statement by Enrique Mantilla, President of the Chamber of Exporters of Argentina (EXPORTAR)).

F. Funding the proposals

Several of the proposals mentioned would require the creation of regional or subregional funds to finance cooperation in the areas identified as priorities —infrastructure, aid for trade, innovation and others. The establishment of such funds would be a real signal of the political will of the governments of the region to work jointly and to commit sufficient resources to fundamental areas for regional cohesion and competitiveness. The experience of FOCEM in this regard is illustrative.

The proposal to create various regional funds is not by any means to negate the valuable role played today by regional financial institutions in funding both national and multinational projects, many of which pertain to the fields identified in this chapter. On the contrary: these institutions must play a key role in creating these funds, by providing not only resources —alongside the governments of the region, international financial institutions, governments from beyond the region (in areas such as aid for trade) and, ideally, the private sector— but also their technical know-how in various areas.

With the governments of the region facing difficult fiscal conditions, today there is clearly limited scope for providing fresh resources for funds such as those referred to here. But the horizon of these initiatives corresponds to the medium to long term. So, more than the size of their start-up capital, what is important initially is to get them up and running, then they can gradually be enlarged as the region's economic recovery permits. The key here is the range of projects and forms of interaction among governments that could arise once these funds have an institutional framework. Such initiatives thus offer a way to gradually build cooperation while the bottlenecks

that have slowed the region's growth and competitiveness are being resolved.

The role to be played by regional financial institutions, working closely with development banks, is crucial. These institutions have gained ground in financing regional development, which has led to their being viewed as a legitimate complement to, rather than as a substitute for, their international counterparts. Indeed, the fact that they are governed at the regional level gives a sense of ownership of resources and of a stake in their future that works to the countries' advantage. Given their closer knowledge of the economies of the region, they find it easier to establish contacts with local authorities. This allows them to intervene in a more timely manner, which confers legitimacy over that which could be gained by international financial institutions.

Regional financial institutions have in fact shown comparative advantages over their international counterparts in terms of integration into global financial markets, the development of domestic capital markets and the achievement of conditions for financing and issuing bonds in local currency. They have also made significant contributions to countercyclical financing and they are beginning to work on macroeconomic coordination and the regulation and prudential supervision of the regional financial system. They have thus raised their profile as providers of resources in comparison with the contributions made by the World Bank and IDB. Closer ties between regional institutions and development banks would help to extend the uses of countercyclical resources to include production, infrastructure and logistics activities such as those proposed in this chapter.

G. Conclusions

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

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

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

Crises such as the current one also create opportunities for the region. For example, they lower freight costs, making it cheaper to export to Asia, while slacker extraregional demand makes intraregional trade preferences more attractive. Consumption patterns change, benefitting those who act in time to gain an early-mover advantage. This means that now is the right time to invest in market intelligence, country brand and building the loyalty of importers. Some of these initiatives could be undertaken on a multicountry level to harness synergies and economies of scale, particularly for positioning in the Asian market.

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

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

Bibliography

- Bárcena, A. (2009), Opening remarks at the seminar Public Policies to Encourage Innovation in the Private Sector: A Priority Agenda, Rio de Janeiro, 30 June [online] [http://www.eclac.org/prensa/noticias/discursossecretaria/5/36345/discursoSegib\(1\)30VI.pdf](http://www.eclac.org/prensa/noticias/discursossecretaria/5/36345/discursoSegib(1)30VI.pdf).
- Calderón, Cesar and Luis Servén (2003), “The output cost of Latin America infrastructure gap”, *The Limits of Stabilization: Infrastructure, Public Deficits and Growth in Latin America*, William Easterly and Luis Servén, Washington, D.C., World Bank.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2009a), “Las necesidades de financiamiento externo en América Latina en el 2009”, Santiago, Chile [online] http://www.eclac.org/noticias/paginas/2/35372/PublicEPAL-necesidades_de_financiamiento.pdf.
- (2009b), “Cambio climático y desarrollo en América Latina y el Caribe. Una reseña”, *Project documents*, No. 232 (LC/W.232), Santiago, Chile.
- (2008a), Structural Change and Productivity Growth - 20 Years Later. Old problems, new opportunities (LC/G.2367(SES.32/3)), Santiago, Chile.
- (2008b), *Latin America and the Caribbean in the World Economy, 2007. Trends 2008* (LC/G.2383-P), Santiago, Chile. United Nations publication, Sales No. E.08.II.G.36.
- (2008c), “Crisis internacional y oportunidades para la cooperación regional (LC/R.2150), Santiago, Chile.
- (2008d), *Economic and Trade Relations between Latin America and Asia-Pacific. The Link with China* (LC/L.2959), Santiago, Chile.
- (1994), *Open Regionalism in Latin America and the Caribbean* (LC/G.1801/Rev.1-P), Santiago, Chile. United Nations publication, Sales No. E.94.II.G.3.
- ESCAP (Economic and Social Commission for Asia and the Pacific) (2009), *Navigating out of the Crisis: a Trade-led Recovery* (ST/ESCAP/2538), Bangkok.
- FUNDES (Foundation for Economic and Social Development) (2007), *Estudio comparado sobre el éxito exportador PYME en Argentina, Chile y Colombia*, D. Milesi, V. Moori Koenig and Gabriel Yoguel (coords.).
- IDB/WTO (Inter-American Development Bank/World Trade Organization) (2009), *Implementing Aid for Trade in Latin America and the Caribbean. The National and Regional Review Meetings 2008-2009*, Washington, D.C.
- Maira, L. (2008), “La Comunidad Sudamericana de Naciones y las perspectivas de la integración”, *Las paradojas de la integración en América Latina y el Caribe*, J. Altmann and F. Rojas (eds.), Latin American Faculty of Social Sciences (FLACSO), Fundación Carolina, Siglo XXI.
- Martínez, I. and C. Suárez (2005), “Transport costs and trade: empirical evidence for Latin American imports from the European Union”, *Journal of International Trade and Economic Development*, vol. 14, No. 3.
- Sánchez, R. and G. Wilmsmeier (2005), “Provisión de infraestructura de transporte en América Latina: experiencia reciente y problemas observados”, *Recursos naturales e infraestructura series*, No. 94 (LC/L.2360-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC).
- Stiglitz, Joseph and Andrew Carlton (2006), “Aid for Trade. A report for the Commonwealth Secretariat”, March [online] http://www.unctad.org/sections/ditc_tncdb/docs/ditc_tncd_bpGeneva03-06_en.pdf.
- Velasco, A. (2009), “Chile ante la crisis: políticas anticíclicas y protección social”, presentation at the first meeting of finance ministry experts in follow-up to the Summit of Latin America and the Caribbean on Integration and Development, Santiago, 13 June.



Publicaciones de la CEPAL / ECLAC publications

Comisión Económica para América Latina y el Caribe / Economic Commission for Latin America and the Caribbean

Casilla 179-D, Santiago de Chile. E-mail: publications@cepal.org

Véalas en: www.cepal.org/publicaciones

Publications may be accessed at: www.eclac.org

Revista CEPAL / CEPAL Review

La Revista se inició en 1976 como parte del Programa de Publicaciones de la Comisión Económica para América Latina y el Caribe, con el propósito de contribuir al examen de los problemas del desarrollo socioeconómico de la región. Las opiniones expresadas en los artículos firmados, incluidas las colaboraciones de los funcionarios de la Secretaría, son las de los autores y, por lo tanto, no reflejan necesariamente los puntos de vista de la Organización.

La Revista CEPAL se publica en español e inglés tres veces por año.

Los precios de suscripción anual vigentes para 2009 son de US\$ 30 para la versión en español y de US\$ 35 para la versión en inglés. El precio por ejemplar suelto es de US\$ 15 para ambas versiones. Los precios de suscripción por dos años (2008-2009) son de US\$ 50 para la versión en español y de US\$ 60 para la versión en inglés.

CEPAL Review first appeared in 1976 as part of the Publications Programme of the Economic Commission for Latin America and the Caribbean, its aim being to make a contribution to the study of the economic and social development problems of the region. The views expressed in signed articles, including those by Secretariat staff members, are those of the authors and therefore do not necessarily reflect the point of view of the Organization.

CEPAL Review is published in Spanish and English versions three times a year.

Annual subscription costs for 2009 are US\$ 30 for the Spanish version and US\$ 35 for the English version. The price of single issues is US\$ 15 in both cases. The cost of a two-year subscription (2008-2009) is US\$ 50 for Spanish-language version and US\$ 60 for English.

Informes periódicos institucionales / Annual reports

Todos disponibles para años anteriores / Issues for previous years also available

- *Balance preliminar de las economías de América Latina y el Caribe, 2009, 180 p.*
Preliminary Overview of the Economies of Latin America and the Caribbean, 2009, 172 p.
- *Estudio económico de América Latina y el Caribe, 2008-2009, 370 p.*
Economic Survey of Latin America and the Caribbean, 2008-2009, 362 p.
- *Panorama de la inserción internacional de América Latina y el Caribe, 2008. Tendencias 2009, 112 p.*
Latin America and the Caribbean in the World Economy, 2007. 2008 Trends, 100 p.
- *Panorama social de América Latina, 2008, 262 p.*
Social Panorama of Latin America, 2008, 256 p.
- *La inversión extranjera directa en América Latina y el Caribe, 2008, 160 p.*
Foreign Direct Investment of Latin America and the Caribbean, 2008, 156 p.
- *Anuario estadístico de América Latina y el Caribe / Statistical Yearbook for Latin America and the Caribbean (bilingüe/bilingual), 2008, 430 p.*

Libros de la CEPAL

105 Regulation, Worker Protection and Active Labour-Market Policies in Latin America, Jürgen Weller (ed.)

104 La República Dominicana en 2030: hacia una nación cohesionada, Víctor Godínez y Jorge Máttar (coords.), 2009, 582 p.

103 L'Amérique latine et les Caraïbes au seuil du troisième millénaire, 2009, 138 p.

102 Migración interna y desarrollo en América Latina entre 1980 y 2005, Jorge Rodríguez y Gustavo Busso, 2009, 272 p.

101 Claves de la innovación social en América Latina y el Caribe, Adolfo Rodríguez Herrera y Hernán Alvarado Ugarte, 2009, 236 p.

100 Envejecimiento, derechos humanos y políticas públicas, Sandra Huenchuan (ed.), 2009, 232 p.

99 Economía y territorio en América Latina y el Caribe. Desigualdades y políticas, 2009, 212 p.

- 98 *La sociedad de la información en América Latina y el Caribe: desarrollo de las tecnologías y tecnologías para el desarrollo*, Wilson Peres y Martin Hilbert (eds.), 2009, 388 p.
- 97 *América Latina y el Caribe: migración internacional, derechos humanos y desarrollo*, Jorge Martínez Pizarro (ed.), 2008, 375 p.
- 96 *Familias y políticas públicas en América Latina: una historia de desencuentros*, Irma Arriagada (coord.), 2007, 424 p.
- 95 *Centroamérica y México: políticas de competencia a principios del siglo XXI*, Eugenio Rivera y Claudia Schatan (coords.), 2008, 304 p.
- 94 *América Latina y el Caribe: La propiedad intelectual después de los tratados de libre comercio*, Álvaro Díaz, 2008, 248 p.
- 93 *Tributación en América Latina. En busca de una nueva agenda de reformas*, Oscar Cetrángolo y Juan Carlos Gómez-Sabaini (comps.), 2007, 166 p.
- 92 *Fernando Fajnzylber. Una visión renovadora del desarrollo en América Latina*, Miguel Torres Olivos (comp.), 2006, 422 p.
- 91 *Cooperación financiera regional*, José Antonio Ocampo (comp.), 2006, 274 p.
- 90 *Financiamiento para el desarrollo. América Latina desde una perspectiva comparada*, Barbara Stallings con la colaboración de Rogério Studart, 2006, 396 p.
- 89 *Políticas municipales de microcrédito. Un instrumento para la dinamización de los sistemas productivos locales. Estudios de caso en América Latina*, Paola Foschiato y Giovanni Stumpo (comps.), 2006, 244 p.

Copublicaciones recientes / Recent co-publications

- Gobernanza corporativa y desarrollo de mercados de capitales en América Latina*, Georgina Núñez, Andrés Oneto y Germano M. de Paula (coords.), CEPAL/Mayol, Colombia, 2009.
- Internacionalización y expansión de las empresas eléctricas españolas en América Latina*, Patricio Rozas Balbontín, CEPAL/Lom, Chile, 2009.
- El nuevo escenario laboral latinoamericano. Regulación, protección y políticas activas en los mercados de trabajo*, Jürgen Weller, CEPAL/Siglo XXI, Argentina, 2009.
- EnREDos. Regulación y estrategias corporativas frente a la convergencia tecnológica*, Marcio Wohlers y Martha García-Murillo (eds.), CEPAL/Mayol, Colombia, 2009.
- Desafíos y oportunidades de la industria del software en América Latina*, Paulo Tigre y Felipe Silveira Marques (eds.), CEPAL/Mayol, Colombia, 2009.
- ¿Quo vadis, tecnología de la información y de las comunicaciones?*, Martin Hilbert y Osvaldo Cairó (eds.), CEPAL/Mayol, Colombia, 2009.
- O Estructuralismo latino-americano**, Octavio Rodríguez, CEPAL/Civilização Brasileira, 2009.
- L'avenir de la protection sociale en Amérique latine. Accessibilité, financement et solidarité**, CEPALC/Eska, France, 2009.
- Fortalecer los sistemas de pensiones latinoamericanos. Cuentas individuales por reparto*, Robert Holzmann, Edward Palmer y Andras Uthoff (eds.), CEPAL/Mayol, Colombia, 2008.
- Competition Policies in Emerging Economies. Lessons and Challenges from Central America and Mexico**, Claudia Schatan and Eugenio Rivera Urrutia (eds.), ECLAC/Springer, USA, 2008.
- Estratificación y movilidad social en América Latina. Transformaciones estructurales en un cuarto de siglo*, Rolando Franco, Arturo León y Raúl Atria (coords.), CEPAL/Lom, Chile, 2007.
- Economic growth with equity. Challenges for Latin America**, Ricardo French-Davis and José Luis Machinea (eds.), ECLAC/Palgrave Macmillan, United Kingdom, 2007.
- Mujer y empleo. La reforma de la salud y la salud de la reforma en Argentina*, María Nieves Rico y Flavia Marco (coords.), CEPAL/Siglo XXI, Argentina, 2006.
- El estructuralismo latinoamericano*, Octavio Rodríguez, CEPAL/Siglo XXI, México, 2006.
- Gobernabilidad corporativa, responsabilidad social y estrategias empresariales en América Latina*, Germano M. de Paula, João Carlos Ferraz y Georgina Núñez (comps.), CEPAL/Mayol, Colombia, 2006.
- Desempeño económico y política social en América Latina y el Caribe. Los retos de la equidad, el desarrollo y la ciudadanía*, Ana Sojo y Andras Uthoff (comps.), CEPAL/Flacso-México/ Fontamara, México, 2006.
- Política y políticas públicas en los procesos de reforma de América Latina*, Rolando Franco y Jorge Lanzaro (coords.), CEPAL/Flacso-México/Miño y Dávila, México, 2006.
- Finance for Development. Latin America in Comparative Perspective**, Barbara Stallings with Rogério Studart, ECLAC/Brookings Institution Press, USA, 2006.

Coediciones recientes / Recent co-editions

- Perspectivas de la agricultura y del desarrollo rural en las Américas: una mirada hacia América Latina y el Caribe 2009*, CEPAL/FAO/ICCA, Chile, 2009.
- El envejecimiento y las personas de edad. Indicadores sociodemográficos para América Latina y el Caribe*, CEPAL/UNFPA, 2009.
- Espacios iberoamericanos: la economía del conocimiento*, CEPAL/SEGB, Chile, 2008.
- Hacia la revisión de los paradigmas del desarrollo en América Latina*, Oscar Altimir, Enrique V. Iglesias, José Luis Machinea (eds.), CEPAL/SEGB, Chile, 2008.
- Por uma revisão dos paradigmas do desenvolvimento na América Latina**, Oscar Altimir, Enrique V. Iglesias, José Luis Machinea (eds.), CEPAL/SEGB, Chile, 2008.

Hacia un nuevo pacto social. Políticas económicas para un desarrollo integral en América Latina, José Luis Machinea y Narcís Serra (eds.) CEPAL/CIDOB, España, 2008.

Espacios iberoamericanos: comercio e inversión, CEPAL/SEGIB, Chile, 2007.

Espaços Ibero-Americanos: comércio e investimento, CEPAL/SEGIB, Chile, 2007.

Visiones del desarrollo en América Latina, José Luis Machinea y Narcís Serra (eds.), CEPAL/CIDOB, España, 2007.

Cohesión social: inclusión y sentido de pertenencia en América Latina y el Caribe, CEPAL/SEGIB, Chile, 2007.

Social Cohesion. Inclusion and a sense of belonging in Latin America and the Caribbean, ECLAC/SEGIB, Chile, 2007.

Cuadernos de la CEPAL

93 *Privilegiadas y discriminadas. Las trabajadoras del sector financiero*, Flavia Marco Navarro y María Nieves Rico Ibáñez (eds.), 2009, 300 p.

92 *Estadísticas para la equidad de género: magnitudes y tendencias en América Latina*, Vivian Milosavljevic, 2007, 186 pp.

91 *Elementos conceptuales para la prevención y reducción de daños originados por amenazas naturales*, Eduardo Chaparro y Matías Renard (eds.), 2005, 144 p.

90 *Los sistemas de pensiones en América Latina: un análisis de género*, Flavia Marco (coord.), 2004, 270 p.

89 *Energía y desarrollo sustentable en América Latina y el Caribe*. Guía para la formulación de políticas energéticas, 2003, 240 p.

88 *La ciudad inclusiva*, Marcello Balbo, Ricardo Jordán y Daniela Simioni (comps.), CEPAL/Cooperazione Italiana, 2003, 322 p.

87 **Traffic gestion. The problem and how to deal with it**, Alberto Bull (comp.), 2004, 198 p.

Cuadernos estadísticos de la CEPAL

36 *Clasificaciones estadísticas internacionales incorporadas en el Banco de Datos de Comercio Exterior de América Latina y el Caribe de la CEPAL (Revisión 3)*. Solo disponible en CD, 2008.

35 *Resultados del Programa de Comparación Internacional para América del Sur*. Solo disponible en CD, 2007.

34 *Indicadores económicos del turismo*. Solo disponible en CD, 2006.

33 *América Latina y el Caribe. Balanza de pagos 1980-2005*. Solo disponible en CD, 2006.

32 *América Latina y el Caribe. Series regionales y oficiales de cuentas nacionales, 1950-2002*. Solo disponible en CD, 2005.

Observatorio demográfico ex Boletín demográfico / Demographic Observatory formerly Demographic Bulletin (bilingüe/bilingual)

Edición bilingüe (español e inglés) que proporciona información estadística actualizada, referente a estimaciones y proyecciones de población de los países de América Latina y el Caribe. Incluye también indicadores demográficos de interés, tales como tasas de natalidad, mortalidad, esperanza de vida al nacer, distribución de la población, etc.

El Observatorio aparece dos veces al año, en los meses de enero y julio. Suscripción anual: US\$ 20.00. Valor por cada ejemplar: US\$ 15.00.
Bilingual publication (Spanish and English) providing up-to-date estimates and projections of the populations of the Latin American and Caribbean countries. Also includes various demographic indicators of interest such as fertility and mortality rates, life expectancy, measures of population distribution, etc.

The Observatory appears twice a year in January and July. Annual subscription: US\$ 20.00. Per issue: US\$ 15.00.

Notas de población

Revista especializada que publica artículos e informes acerca de las investigaciones más recientes sobre la dinámica demográfica en la región, en español, con resúmenes en español e inglés. También incluye información sobre actividades científicas y profesionales en el campo de población.

La revista se publica desde 1973 y aparece dos veces al año, en junio y diciembre.

Suscripción anual: US\$ 20.00. Valor por cada ejemplar: US\$ 12.00.

Specialized journal which publishes articles and reports on recent studies of demographic dynamics in the region, in Spanish with abstracts in Spanish and English. Also includes information on scientific and professional activities in the field of population.

Published since 1973, the journal appears twice a year in June and December.

Annual subscription: US\$ 20.00. Per issue: US\$ 12.00.

Series de la CEPAL

Comercio internacional / Desarrollo productivo / Desarrollo territorial / Estudios estadísticos y prospectivos / Estudios y perspectivas (Bogotá, Brasilia, Buenos Aires, México, Montevideo) / **Studies and Perspectives** (The Caribbean, Washington) / *Financiamiento del desarrollo / Gestión pública / Informes y estudios especiales / Macroeconomía del desarrollo / Manuales / Medio ambiente y desarrollo / Mujer y desarrollo / Población y desarrollo / Políticas sociales / Recursos naturales e infraestructura / Seminarios y conferencias.*

Véase el listado completo en: www.cepal.org/publicaciones / A complete listing is available at: www.cepal.org/publicaciones

كيفية الحصول على منشورات الأمم المتحدة

يمكن الحصول على منشورات الأمم المتحدة من المكتبات ودور التوزيع في جميع أنحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب إلى : الأمم المتحدة ، قسم البيع في نيويورك أو في جنيف .

如何获取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Las publicaciones de la Comisión Económica para América Latina y el Caribe (CEPAL) y las del Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES) se pueden adquirir a los distribuidores locales o directamente a través de:

Publicaciones de las Naciones Unidas
2 United Nations Plaza, Room DC2-853
Nueva York, NY, 10017
Estados Unidos
Tel. (1 800)253-9646 Fax (1 212)963-3489
E-mail: publications@un.org

Publicaciones de las Naciones Unidas
Sección de Ventas
Palais des Nations
1211 Ginebra 10
Suiza
Tel. (41 22)917-2613 Fax (41 22)917-0027

Unidad de Distribución
Comisión Económica para América Latina y el Caribe (CEPAL)
Av. Dag Hammarskjöld 3477, Vitacura
7630412 Santiago
Chile
Tel. (56 2)210-2056 Fax (56 2)210-2069
E-mail: publications@cepal.org

Publications of the Economic Commission for Latin America and the Caribbean (ECLAC) and those of the Latin American and the Caribbean Institute for Economic and Social Planning (ILPES) can be ordered from your local distributor or directly through:

United Nations Publications
2 United Nations Plaza, Room DC2-853
New York, NY, 10017
USA
Tel. (1 800)253-9646 Fax (1 212)963-3489
E-mail: publications@un.org

United Nations Publications
Sales Sections
Palais des Nations
1211 Geneva 10
Switzerland
Tel. (41 22)917-2613 Fax (41 22)917-0027

Distribution Unit
Economic Commission for Latin America and the Caribbean (ECLAC)
Av. Dag Hammarskjöld 3477, Vitacura
7630412 Santiago
Chile
Tel. (56 2)210-2056 Fax (56 2)210-2069
E-mail: publications@eclac.org