Agenda

- The world economic environment is favourable but involves some risks
- Selected indicators for LAC
- China and India are new strategic partners for LAC
- The Doha Round faces an uncertain future
- LAC: Bilateral agreements and the need for a renewal of the region’s integration processes
The world economic environment is favourable,…

- The world economy will grow at a rate of over 4.5% (PPP) (3.5% at current prices) in 2006, and a similar rate is projected for 2007. If these projections are borne out, the region will have completed five years of rapid growth.

- The global business cycle in 2003-2007 has been one of the best in the last 30 years.

- China and India are accounting for 1/3 of world GDP growth.

- Despite high oil and energy prices, the world economy continues to grow rapidly, inflation is low, and global exports are extremely buoyant.

- But the period of low interest rates is coming to an end.

- The most likely scenario is a gradual adjustment of international imbalances.
Major risk factors remain

- Oil price trends (geopolitical risks and their impact on inflation).
- Higher interest rates and a sharper slowdown in the US real estate boom would increase the chances of a recession.
- China’s economy in danger of overheating.
- The failure of Doha could trigger protectionist pressures.
- New risks for the global economy: avian flu.

- (Chapter VI)
Agenda

- The world economic environment is favourable but involves some risks

- Selected indicators for LAC

- China and India are new strategic partners for LAC

- The Doha Round faces an uncertain future

- LAC: Bilateral agreements and the need for a renewal of the region’s integration processes
LAC exports are outpacing the world economy’s growth rate

Exports and GDP by volume, annual growth rates
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the World Trade Organization (WTO) and the ECLAC Economic Projections Centre.
In 2003 - 2006, export growth has been driven by price increases, especially for metals and petroleum. In 2006, projections indicate prices will remain high. Chile and the Andean countries have benefited the most from these trends.

**2003-2006 (Annualized rates)**

- **Chile**: 9.3%
- **Andean Community**: 8.2%
- **MERCOSUR**: 11.9%
- **Latin America**: 8.3%
- **Mexico**: 6.0%
- **Central America**: 6.5%
- **Dominican Republic**: 4.9%
- **Costa Rica**: 6.6%
- **Paraguay**: 5.6%
- **Honduras**: 6.7%
- **Guatemala**: 5.7%
- **Panama**: 5.0%
- **Argentina**: 9.6%
- **Uruguay**: 14.4%
- **Brazil**: 12.9%
- **Colombia**: 8.5%
- **Bolivia**: 12.7%
- **Ecuador**: 7.4%
- **Peru**: 13.8%
- **Venezuela (BR)**: 7.1%

**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the ECLAC Economic Projections Centre.
As a regional average, the terms of trade improved, but many small countries sustained net losses.

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

• The world economic environment is favourable but involves some risks

• Selected indicators for LAC

• China and India are new strategic partners for LAC

• The Doha Round faces an uncertain future

• LAC: Bilateral agreements and the need for a renewal of the region’s integration processes
The region’s exports to China and India are more heavily concentrated in natural resources and resource-based manufactures than its exports to Latin America and the rest of the world are.
Agenda

- The world economic environment is favourable but involves some risks
- Selected indicators for LAC
- China and India are new strategic partners for LAC
- The Doha Round faces an uncertain future
- LAC: Bilateral agreements and the need for a renewal of the region’s integration processes
DOHA ROUND MILESTONES


WTO

Fourth Ministerial Conference, Doha
Doha Development Agenda

Fifth Ministerial Conference, Cancún
No results

July Package
Framework agreement

Sixth Ministerial Conference, Hong Kong, China

Timetable set out in Hong Kong
• 30 April: market access modalities
• Conclusion of Doha Round

First half of year
• Problems and delays
  24 July
• Impasse: negotiations suspended

Other projected dates
• 2008: Implementation of Doha Round
• 2013: End of agricultural export subsidies
What led to the negotiations’ suspension?

Lack of political will for consensus-building and insufficient leadership by major industrialized stakeholders

Principal differences:
- European Union: access to agricultural markets
- United States: domestic supports for agriculture
- Developing countries: access to non-agricultural and service markets and, secondarily, access to agricultural markets
AGRICULTURAL SUBSIDIES ARE VERY HIGH

Estimated producer supports, by country
Percentage of producer income corresponding to subsidies, 2004
(Percentages of total exports) Annual averages, 2003-2005

INEQUITIES IN THE WORLD TRADING SYSTEM HINDER DEVELOPING-COUNTRY EXPORT GROWTH

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from OECD.
What led to the negotiations’ suspension?

- Lack of political will for consensus-building and insufficient leadership by major industrialized stakeholders

- Principal differences:
  - European Union: access to agricultural markets
  - United States: domestic supports for agriculture
  - Developing countries: access to non-agricultural and service markets and, secondarily, access to agricultural markets

- Difficult to see the “big picture” in terms of the overall progress made

- Due to delays in decision-making, the countries failed to seize the opportunities open to them at this political juncture
Pascal Lamy was right when he said:

“The trauma generated by the collapse of global trade talks may not yet register on the streets of New York, Paris or Tokyo ... But for cotton growers in West Africa, rice farmers in Thailand and beef producers in Latin America, the reverberations are already being felt.”
Risks of failure at Doha

- **Erosion of multilateralism**
  - Harm done to developing countries
  - Persistent asymmetries in trading system
  - Erosion of WTO dispute settlement system

- **New bilateral and regional agreements**
  - Trade diversion
  - Potential blocs
  - Higher transaction costs (rules of origin)

- **Threat of protectionism as world economy slows or if global trade imbalances persist**
  - China (manufactures)
  - India (services)

- **Even so, a door remains open for the resumption of talks**
  - Meeting of G-20
Possible post-Doha trade scenarios

Discretionary review of the Generalized System of Preferences in the US
  – Benefits targeted at least developed countries

Integration in Asia
  – **ASEAN Economic Community (2015):** Free flow of goods, services, investment, transport and telecommunications
  – **China+ASEAN (2010):** Incorporation of services and investment
  – **Japan proposes Asia-wide accord:** Japan-China-India-Republic of Korea-ASEAN-Australia-New Zealand

Interest in Asia
  – **Free trade in APEC:** Free Trade Area of the Asia Pacific (FTAAP)
  – **US-ASEAN:** Trade and Investment Framework Arrangement (TIFA)

European Union Trade Commissioner interested in negotiating with ASEAN
Agenda

- The world economic environment is favourable but involves some risks
- Selected indicators for LAC
- China and India are new strategic partners for LAC
- The Doha Round faces an uncertain future
- LAC: Bilateral agreements and the need for a renewal of the region’s integration processes
Diverging trends in regional integration

Regional integration has lost momentum in South America, but the integration process is becoming consolidated in Central America and is strengthening in the Caribbean as it prepares to negotiate with the European Union.

In CARICOM, the smaller countries have joined in the customs union process. Headway has also been made in designing a development fund.

The diversity of trade options in South America has an impact on subregional schemes.

The use of tariff preferences in extraregional trade is gaining ground in LAC.
Trends in tariff preferences granted by LAC

As percentages of total exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Intraregional preferences</th>
<th>Extraregional preferences</th>
<th>No preferences</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>8.4</td>
<td>91.6</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>11.2</td>
<td>31.6</td>
<td>57.2</td>
</tr>
<tr>
<td>2000</td>
<td>11.7</td>
<td>45.6</td>
<td>42.7</td>
</tr>
<tr>
<td>2005</td>
<td>12.0</td>
<td>51.0</td>
<td>37</td>
</tr>
</tbody>
</table>

Percentage of free trade in 2005: 66% Intraregional, 62% Extraregional

Diverging trends in regional integration

Regional integration has lost momentum in South America, but the integration process is becoming consolidated in Central America and is strengthening in the Caribbean as it prepares to negotiate with the European Union.

In CARICOM, the smaller countries have joined in the customs union process. Headway has also been made in designing a development fund.

The diversity of trade options in South America has an impact on subregional schemes.

The use of tariff preferences in extraregional trade is gaining ground in LAC.

Many countries in the region are working to form partnerships with countries outside the region (United States, European Union, Japan, China, Asia in general).

There is a danger that rule-making in regional agreements may lag behind extraregional accords.
Who are the LAC countries’ main trading partners?

### Percentages of total exports, 2000-2004

<table>
<thead>
<tr>
<th>Countries</th>
<th>Latin America</th>
<th>United States</th>
<th>European Union</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERCOSUR</td>
<td>28.9</td>
<td>19.6</td>
<td>23.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Paraguay</td>
<td>65.5</td>
<td>3.5</td>
<td>8.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Uruguay</td>
<td>44.5</td>
<td>12.0</td>
<td>20.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Andean Community</td>
<td>22.3</td>
<td>39.7</td>
<td>11.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Bolivia</td>
<td>59.1</td>
<td>16.4</td>
<td>9.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Central American Common Market</td>
<td>22.5</td>
<td>63.0</td>
<td>8.7</td>
<td>2.3</td>
</tr>
<tr>
<td>CARICOM</td>
<td>25.6</td>
<td>43.4</td>
<td>16.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.2</td>
<td>88.8</td>
<td>3.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>3.1</td>
<td>88.5</td>
<td>3.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Chile</td>
<td>20.3</td>
<td>17.2</td>
<td>24.8</td>
<td>22.4</td>
</tr>
<tr>
<td>Panama</td>
<td>21.6</td>
<td>48.3</td>
<td>22.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Venezuela (Bolivarian Rep. of)</td>
<td>15.2</td>
<td>42.0</td>
<td>6.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Cuba</td>
<td>9.6</td>
<td>0.0</td>
<td>39.5</td>
<td>6.7</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>15.3</td>
<td>56.4</td>
<td>12.0</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE). Figures for Central America have been adjusted for maquila and EPZ exports.

**NOTE:** black: > 40%; blue: 20% - 39%; dark red: 8% - 19%; grey: < 8%.
What is the next step for the region?

- The FTAA remains stalled
- The Andean Trade Promotion and Drug Eradication Act (ATPDEA) expires in December 2006
- The South American Community of Nations is falling off pace
- The Bolivarian Republic of Venezuela withdraws from the Andean Community, joins MERCOSUR and is promoting the People’s Trade Agreement
- Colombia and Peru sign FTAs with the United States
- Uruguay is ready to negotiate with the United States
- Latin American countries on the Pacific coast launch a partnership initiative oriented towards trade with Asia
- Need for convergence in regional agreements ... moving towards an FTA in the region
Important events in the Andean area

• Need to maintain the benefits of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which expires in December 2006.

• Half of the Andean countries’ exports to the United States are included in this regime.

• This regime is broader and more beneficial than the GSP.
US imports from Andean Community countries that qualify for ATPDEA tariff preferences have been increasing since 2003.

Important events in the Andean area

- Need to maintain the benefits of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which expires in December 2006.
- Half of the Andean countries’ exports to the United States are included in this regime.
- This regime is broader and more beneficial than the GSP.
- Its expiration could have a particularly severe impact on Bolivia and Ecuador, which are relatively less developed.
- Now that negotiations have been concluded, there is concern in Colombia and Peru about whether the three countries’ Congresses will approve their FTAs.
- In response to these negotiations, the Bolivarian Rep. of Venezuela withdraws from the Andean Community and joins MERCOSUR.
Need for a renewal of regional integration processes

The integration process in South America must be brought back up to speed and deepened before progress can be made towards Latin American integration.

The South American Community of Nations is the starting point, but it has to be strengthened.

ECLAC proposes a deeper form of integration based on a renewed form of open regionalism.

The ECLAC proposal revolves around the convergence of integration agreements.
Proposal for convergence

Access: speed up convergence of tariff reduction lists
The intraregional liberalization process will not be completed by 2006 or by 2014

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Paraguay</th>
<th>Uruguay</th>
<th>Chile</th>
<th>Bolivia</th>
<th>Colombia</th>
<th>Ecuador</th>
<th>Peru</th>
<th>Venezuela (Bolivarian Rep. of )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>76</td>
<td>85</td>
<td>82</td>
<td>72</td>
<td>58</td>
<td>3</td>
<td>4</td>
<td>7</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>62</td>
<td>72</td>
<td>70</td>
<td>89</td>
<td>65</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Paraguay</td>
<td>96</td>
<td>97</td>
<td>98</td>
<td>68</td>
<td>18</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>92</td>
<td>92</td>
<td>93</td>
<td>72</td>
<td>62</td>
<td>3</td>
<td>8</td>
<td>17</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>85</td>
<td>83</td>
<td>84</td>
<td>84</td>
<td>0</td>
<td>96</td>
<td>96</td>
<td>81</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>81</td>
<td>83</td>
<td>89</td>
<td>80</td>
<td>99</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>15</td>
<td>14</td>
<td>1</td>
<td>21</td>
<td>97</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>69</td>
<td>75</td>
<td>18</td>
<td>32</td>
<td>46</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>64</td>
<td>69</td>
<td>7</td>
<td>58</td>
<td>86</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Venezuela (Bolivarian Rep. of )</td>
<td>2</td>
<td>27</td>
<td>18</td>
<td>22</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Paraguay</th>
<th>Uruguay</th>
<th>Chile</th>
<th>Bolivia</th>
<th>Colombia</th>
<th>Ecuador</th>
<th>Peru</th>
<th>Venezuela (Bolivarian Rep. of )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>76</td>
<td>85</td>
<td>82</td>
<td>72</td>
<td>100</td>
<td>24</td>
<td>17</td>
<td>65</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>62</td>
<td>72</td>
<td>70</td>
<td>100</td>
<td>100</td>
<td>24</td>
<td>10</td>
<td>57</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Paraguay</td>
<td>96</td>
<td>97</td>
<td>98</td>
<td>98</td>
<td>100</td>
<td>16</td>
<td>8</td>
<td>48</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>92</td>
<td>92</td>
<td>93</td>
<td>100</td>
<td>100</td>
<td>13</td>
<td>25</td>
<td>40</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>96</td>
<td>99</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>56</td>
<td>64</td>
<td>1</td>
<td>49</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>86</td>
<td>91</td>
<td>41</td>
<td>65</td>
<td>46</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>100</td>
<td>100</td>
<td>7</td>
<td>71</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Venezuela (Bolivarian Rep. of )</td>
<td>53</td>
<td>83</td>
<td>26</td>
<td>22</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: South American Community of Nations convergence database.
Proposal for convergence

- Access: speed up convergence of tariff reduction lists
- Customs disciplines
- Origin: standardization and then accumulation
- Sanitary and phytosanitary regulations
  - Chapter VI looks at areas in which regional cooperation is called for in order to deal with foot-and-mouth disease and avian flu
- Dispute settlement
- Make headway in intraregional trade facilitation based on the criteria formulated in the Doha Round
Trade facilitation

- Technical assistance in implementation of agreements, with consideration being given to how it relates to special and differential treatment.
- Binding nature of commitments regarding sufficient and secure financing.
- Importance of physical infrastructure, information systems, and institutional and human resources capacity-building.
- Address cross-border trade issues relating to transit, infrastructure and logistics, particularly in the case of landlocked countries and small island States.
Main messages

- The international economic environment remains favourable.
- Reinforce the region’s commitment to Doha’s successful conclusion.
- A strategic assessment of ties with Asia and the Pacific.
- Reinforcement of regional integration.
- Convergence of trade agreements in the region.
  - Flexibility, multiple speeds and a shared ultimate objective.
- Complement trade strategies with gains in competitiveness and technological innovation. (Chapter V reviews the experiences of Australia and New Zealand in this regard.)
LATIN AMERICA AND THE CARIBBEAN IN THE WORLD ECONOMY, 2005-2006

José Luis Machinea  
Executive Secretary  
Economic Commission for Latin America and the Caribbean  
Santiago, 12 September 2006