LATIN AMERICA AND THE CARIBBEAN IN THE WORLD ECONOMY

2005 TRENDS

José Luis Machinea
Executive Secretary
Agenda

• World economy and trade, 2004-2006
  • WTO negotiations, Doha Round
  • Challenges of regional integration
  • Strategic relations with China
  • Signs of protectionism
  • Trade, security and transport
Economic conditions 2004-2005

In 2004, world GDP and trade were the highest for 30 and 25 years, respectively.

International trade and financial flows have shifted and are now heavily influenced by China and other Asian economies.

The world economic cycle is increasingly dependent on the link between United States and China.

This pattern has a more favourable effect on South America and, to a lesser extent, Mexico, than on Central America.

This is an unstable situation, with threats and major disequilibria that need to be set right.
In 2004, world export growth again outstripped its historical average, coming in at 11% in constant prices.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the World Trade Organization (WTO).
China is rapidly gaining a growing presence in the world economy

CHINA’S PRESENCE IN THE WORLD ECONOMY
(Percentages of the total)

1990

GDP (purchasing power parity in dollars)
GDP (current dollars)
World trade (exports)
Foreign direct investment received

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO).
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Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO).
The United States’ trade deficit with China, Japan and developing Asia is reflected in an increase in the purchase of United States Treasury bonds.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Department of the Treasury and the Department of Commerce of the United States.
Rises in petroleum prices have traditionally pushed up interest rates, but the last four years have differed from this pattern.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the United States.
Current economic conditions are favourable, but built on unsustainable disequilibria

- Growth rates are good at the world level, combined with low inflation and low interest rates.
- China has a positive impact on this pattern: it supplies inexpensive goods that help to sustain domestic demand in the United States and it finances the deficit, with low inflation and rates of interest.
- The impact on the region is uneven: South America and the oil-exporting countries benefit; Central America and Mexico face strong competitive pressures.
- Certain disequilibria and threats persist: a high current-account deficit in the United States and associated modalities of adjustment; revaluation of the yuan and exchange-rate adjustments across the world; hikes in petroleum prices and in interest rates.
United States

Deficit in 2003 = US$ 531 billion
Deficit in 2004 = US$ 666 billion

Current-account disequilibria
(Billions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF) and the balance of payments of the countries.
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- The impact on the region is uneven: South America and the oil-exporting countries benefit; Central America and Mexico face strong competitive pressures.
- Certain disequilibria and threats persist: a high current-account deficit in the United States and associated modalities of adjustment; revaluation of the yuan and exchange-rate adjustments across the world; hikes in petroleum prices and in interest rates.
- The question is how long this cycle can last: as disequilibria sharpen, protectionist trends will increase.
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- World economy and trade, 2004-2006
- **WTO negotiations, Doha Round**
- Challenges of regional integration
- Strategic relations with China
- Signs of protectionism
- Trade, security and transport
WTO: the Doha agenda of negotiations is complex

- **Agriculture**, a core issue with three pillars
  - Market access (tariff escalation)
  - Export subsidies
  - Domestic support for production

- **Non-agricultural market access**
  - Manufacturing
  - Mining
  - Fishing
  - Forestry

- **Trade facilitation**

- **Rules**: antidumping, subsidies and free trade agreements

- **Development issues**
  - Cotton
  - Implementation-related issues
  - Special and differential treatment
The political juncture of Doha is delicate

**United States**
- Large trade deficit overall and with China in particular
- Congressional approval of CAFTA-DR by 1 vote
- Defeats in WTO disputes: Byrd amendment (anti-dumping) and cotton

**European Union**
- Slow growth, with overvalued euro
- Defeat in plebiscite on European Constitution in France and the Netherlands
- Debate on Turkey’s entry to EU
- Reform of Common Agricultural Policy
- Disputes with China over textiles

**Latin America and the Caribbean**
- Growing concern over Chinese exports in Argentina, Brazil, Mexico and Peru
- Intra-bloc trade disputes
The Latin American and Caribbean countries take a multiple approach

While retaining a keen interest in WTO, the countries are engaging in trade diplomacy to secure bilateral free trade agreements with developed economies, especially the United States, Canada, Japan and the European Union.

They are also seeking to deepen linkages with Asian countries, particularly with China.

The negotiating agenda is very broad, and most of the prospective agreements are extraregional.

Chile, Mexico and, recently, Costa Rica have been particularly active in pursuing free trade accords.
Agreements in Latin America and the Caribbean

**EXISTING** (agreements signed)

**Intraregional**
- Andean Community: Bolivarian Republic of Venezuela, Bolivia, Colombia, Ecuador and Peru;
- Southern Common Market (MERCOSUR): Argentina, Brazil, Paraguay and Uruguay / Bolivia, Chile;
- Central American Common Market (CACM): Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua;
- Chile – Andean Community, CACM, Mexico, Panama;
- Mexico – Central America; Mexico – Uruguay
- Mexico – Bolivia; Andean Community – MERCOSUR;
- Caribbean Community (CARICOM); CARICOM – Costa Rica;
- CARICOM – Bolivarian Republic of Venezuela; CARICOM – Colombia
- Group of Three: Bolivarian Republic of Venezuela, Colombia, and Mexico; CACM – Dominican Republic

**Extraregional**
- **North**
  - **Chile** – Canada, United States, European Union, European Free Trade Area (EFTA); **Mexico** – United States, Canada, EFTA, European Union, Japan;
  - CAFTA–DR – CACM, Dominican Republic - United States
  - **Costa Rica** – Canada

- **South**
  - **Chile** – Republic of Korea; **Chile** – New Zealand, Singapore, Brunei;
  - **MERCOSUR** – India (450 products)

**Prospective** (being negotiated)

- CARICOM – MERCOSUR
- Andean Community – El Salvador, Guatemala and Honduras;
- Mexico – MERCOSUR

- MERCOSUR – European Union;
- CARICOM – European Union;
- CARICOM – Canada

- Chile – China; Peru – Thailand;
- MERCOSUR – Southern African Customs Union (SACU)
- Brazil – Morocco: Brazil – Egypt

- Brazil – Morocco: Brazil – Egypt
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In 2004, Latin American and Caribbean intraregional trade expanded by 34%. The intraregional trade coefficient remains below its historical peak, however.

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

- Low level of openness
- Intraregional trade has not regained the levels seen before the Asian crisis
Intraregional trade is lagging behind in South America

Intra-group exports as a percentage of total exports

- Andean Community
- MERCOSUR
- Central American Common Market
- CARICOM
- Latin America and the Caribbean

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information. Central American Common Market intraregional trade does not include maquila.
Traits of regional integration

- Low level of openness
- Intraregional trade has not regained the levels seen before the Asian crisis
- Intraregional trade is concentrated in value-added goods that are highly sensitive to the business cycle
Integration schemes lean towards exports with higher value added

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information
* Preliminary figures.
Traits of regional integration

- Low level of openness
- Intraregional trade has not regained the levels seen before the Asian crisis
- Intraregional trade concentrated in value added goods that are highly sensitive to the business cycle
- Weak institutional structure, especially as regards dispute settlement
- Poor credibility, since community rules are not enforced
- Lack of macroeconomic coordination and management of asymmetries
Central America

• CAFTA-DR is the principal landmark in the subregion. It comes into effect in January in the Dominican Republic, El Salvador, Guatemala and Honduras.

• The subregion has been characterized by low growth, trade deficits –offset by remittances– and stiff competition from Chinese products in the North American market.

• Implementation of CAFTA-DR implies a major challenge in terms of competitiveness and infrastructure.

• In terms of regional integration, subregional initiatives have been undertaken to facilitate intraregional trade and develop strategic partnerships to promote overall competitiveness.
CARICOM

• Strategic aim of single Caribbean market and economy by 2008
  – Customs union, mobility for goods, services and labour, harmonization of legislation and regulations, as well as policies on taxes, competition and trade protection

• Dispute over access to the European Union market for bananas and sugar

• Call for special and differential treatment within WTO and FTAA (as small island developing States)

• Concerns over gradual dismantling of preferences in Cotonou agreement (2000) and Doha Round
  – Management of asymmetries in CARICOM
Proposals for regional integration

- Strengthen institutional structure
- **Gradual harmonization of rules**
  - Make rules of origin plurilateral
  - Harmonize rules relating to the Agreement on Sanitary and Phytosanitary Measures and technical rules
  - Standardize customs and trade protection procedures
- **Standardize dispute mechanisms**
  - Single mechanism for entire region, using WTO procedures
- **Multiple negotiating levels**
  - Work on consistency among different levels of commitment within each group
- **Infrastructure and energy: encourage Asian and multilateral investors**
  - Keen interest in “energy ring”
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In 1990, China accounted for less than 5% of world consumption of certain products.

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage of World Consumption (1990)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tin</td>
<td>10.0%</td>
</tr>
<tr>
<td>Zinc</td>
<td>5.0%</td>
</tr>
<tr>
<td>Soybean</td>
<td>12.0%</td>
</tr>
<tr>
<td>Aluminium</td>
<td>4.0%</td>
</tr>
<tr>
<td>Copper</td>
<td>5.0%</td>
</tr>
<tr>
<td>Nickel</td>
<td>3.0%</td>
</tr>
<tr>
<td>Sugar</td>
<td>6.0%</td>
</tr>
<tr>
<td>Petroleum</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

In 2004, China accounted for over 20% of consumption of tin, zinc, soybean and aluminium, and its consumption of other goods had risen considerably.

In 2004, China accounted for 4% of the region’s exports. It is now a main trading partner for several Latin American and Caribbean countries.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries.
New phase in relations between China and Latin America and the Caribbean

• Lively exchange of high-level visits, which exceed those to the United States and the European Union

• Extensive network of export and investment agreements in the fields of:
  – Mining, agriculture, infrastructure, science and technology

• **Challenges for the region:**
  – Identify and build on complementarities
  – Promote business and technology partnerships
  – Encourage intrasectoral trade
  – Become integrated into the regional process of production integration that is taking place in Asia with China at its core
  – Promote flows of investment in this direction
### Some strategic projects of Chinese firms in selected countries of the region

<table>
<thead>
<tr>
<th>Chinese firms</th>
<th>Foreign firms</th>
<th>Type</th>
<th>Sector</th>
<th>Country</th>
<th>Percentages acquired / description of project</th>
<th>Amount (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Minmetals Nonferrous Metals Co. (2004)</td>
<td>Noranda (Yacimientos Doña Inés de Collahuasi y Loma Bayas)</td>
<td>Mergers and acquisitions</td>
<td>Copper</td>
<td>Chile</td>
<td>...</td>
<td>5,000</td>
</tr>
<tr>
<td>China Minmetals Nonferrous Metals Co. (2005)</td>
<td>CODELCO</td>
<td>Partnership</td>
<td>Copper</td>
<td>Chile</td>
<td>Investment and copper storage agreement</td>
<td>2,000</td>
</tr>
<tr>
<td>Chinese government</td>
<td>Cuban firms</td>
<td>Investment</td>
<td>Nickel</td>
<td>Cuba</td>
<td>Ferronickel plants</td>
<td>500</td>
</tr>
<tr>
<td>Baoshan Iron and Steel (2004)</td>
<td>Compañía Vale do Rio Doce</td>
<td>Partnership</td>
<td>Steel</td>
<td>Brazil</td>
<td>Greenfield plant construction</td>
<td>1,400</td>
</tr>
<tr>
<td>Yanguang Group (2005)</td>
<td>Vale do Rio Doce / Itochu Corporation</td>
<td>Partnership</td>
<td>Coal</td>
<td>Brazil</td>
<td>New firm</td>
<td>...</td>
</tr>
<tr>
<td>Sinopec (2004)</td>
<td>Petrobras</td>
<td>Partnership</td>
<td>Petroleum</td>
<td>Brazil</td>
<td>Petroleum extraction</td>
<td>...</td>
</tr>
<tr>
<td>Chinese government (2004-206)</td>
<td>...</td>
<td>Loan</td>
<td>Infrastructure</td>
<td>Brazil</td>
<td>Gas pipeline and export corridor</td>
<td>...</td>
</tr>
</tbody>
</table>
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Protectionist threats in the international context

- End of Multifibre Arrangement. China has difficulties with United States and the European Union.
- Tensions between United States and China over exchange-rate regime.
- Difficulties in approval of CAFTA-DR in United States Congress (relative to sugar and textiles).
- WTO Appellate Body ruling against European Union on sugar regime.
- Report of the Panel on upland cotton subsidies (WTO ruling against the United States).
- Questioning of European Union’s banana regime (WTO ruling against Europe).
- International outsourcing and controversy between United States and India.
- Differences over supply of gambling and betting services (dispute before WTO between Caribbean and the United States).
- Ruling on Byrd amendment.
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The infrastructure shortfall in Latin America means that its security costs are higher than those seen in Asia, the United States and Australia.
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• Main conclusions
Main conclusions

International conditions are favourable but pose major competitiveness challenges
- Trade, terms of trade, inflation, interest rates and attractiveness for investment all favour growth.
- There are major factors of uncertainty whose development needs to be monitored. Competition from China affects Central America and Mexico more than South America.

Explicit policies to promote competitiveness are needed to improve the quality of international specialization
- Increased productivity, technological innovation and participation in international networks.
- Partnerships and training in SMEs.
- Market access, increased legal certainty: contribution of free trade agreements.

Strategic approach to international positioning
- Need for national debates on competitiveness, technological innovation and proposals on international positioning with 10- and 20-year time horizons.
Main conclusions

- Modernized approach to integration.
- Strategic reflection on building linkages with China and Asia-Pacific.
- Strong emphasis needed on public policies to manage free trade agreements in order to expand and diversify exports.
- Step up work and coordination within the region and with other developing regions on Doha Round issues. The current outlook provides no grounds for optimism.
- Gradually incorporate security requirements into competitiveness policies, ensuring that these do not become protectionist barriers.
  - Traceability
  - Food safety
  - Security in ports and on marine transport
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