

2008-2009



Latin America and the Caribbean
in the World Economy

Crisis and opportunities for regional cooperation

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UNITED NATIONS

ECLAC

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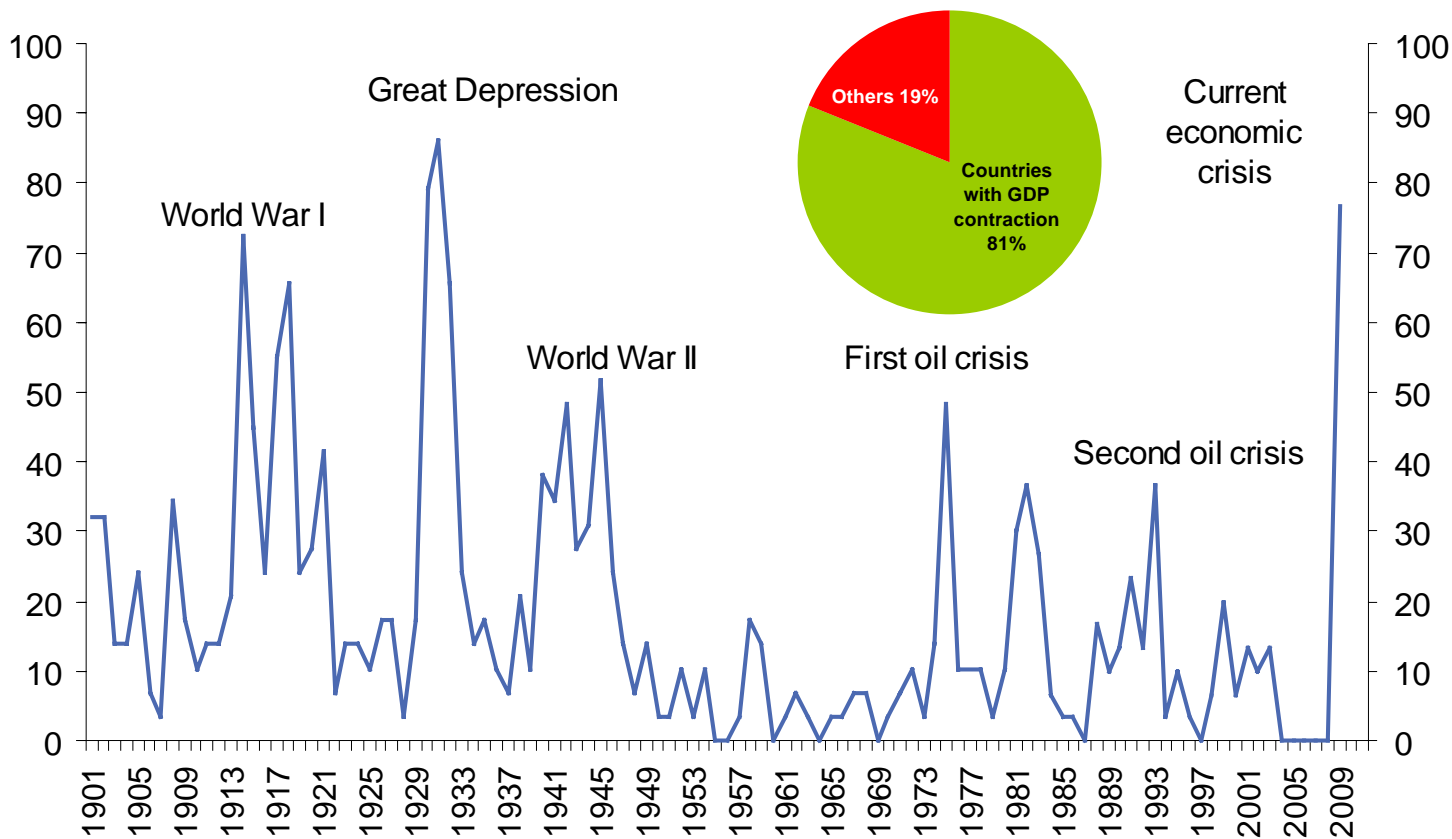


1. Global crisis: impact on the world economy and trade

The crisis is global.

The world has not seen a simultaneous economic contraction in so many countries since the Great Depression (nearly 80% of the world's economies and GDP)

NUMBER OF COUNTRIES IN RECESSION IN THE SAME YEAR ^a
(Percentages of total number of countries)



Source: ECLAC, on the basis of data from Maddison and IMF estimates for the most recent periods (2009).

^a Covers 29 economies. Growth rates are expressed in constant internationally comparable currency.

Boom cycle, crisis and slow recovery...

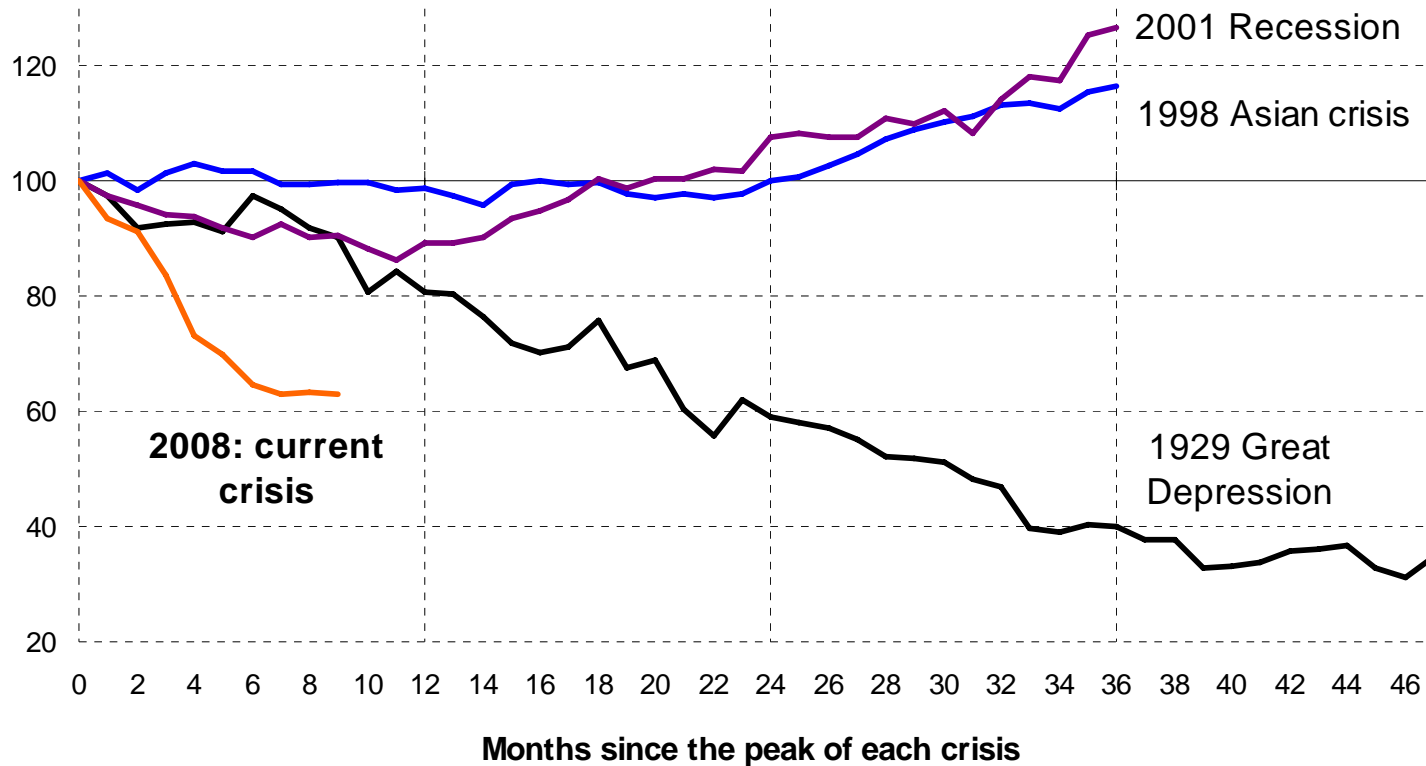
GDP GROWTH RATE: WORLD, SELECTED REGIONS AND COUNTRIES
(Annualized growth rates)



... except for China and India, which show signs of decoupling

World trade has dropped further and more sharply than in previous crises

VALUE OF WORLD TRADE DURING SELECTED PERIODS
(Index: pre-crisis period = 100)

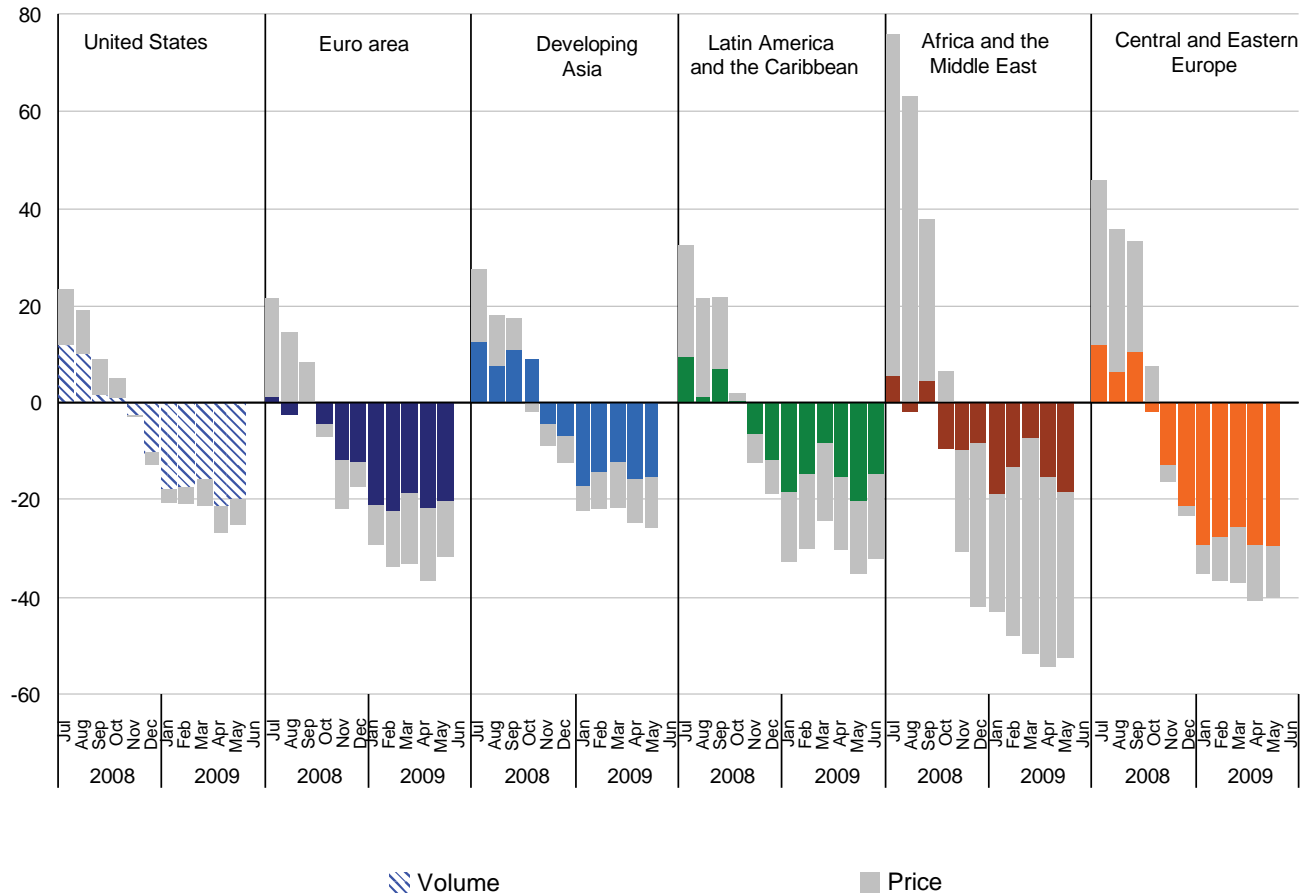


but there are preliminary indications that the worst is over...

Source: ECLAC, on the basis of Netherlands Bureau for Economic Policy Analysis (CPB) [online] <http://www.cpb.nl> and League of Nations, *Statistical Yearbook of the League of Nations, 1932-33* and *Monthly Statistical Bulletin*.

Starting in the third quarter of 2008, the drop in exports has been drastic and synchronized in all world regions

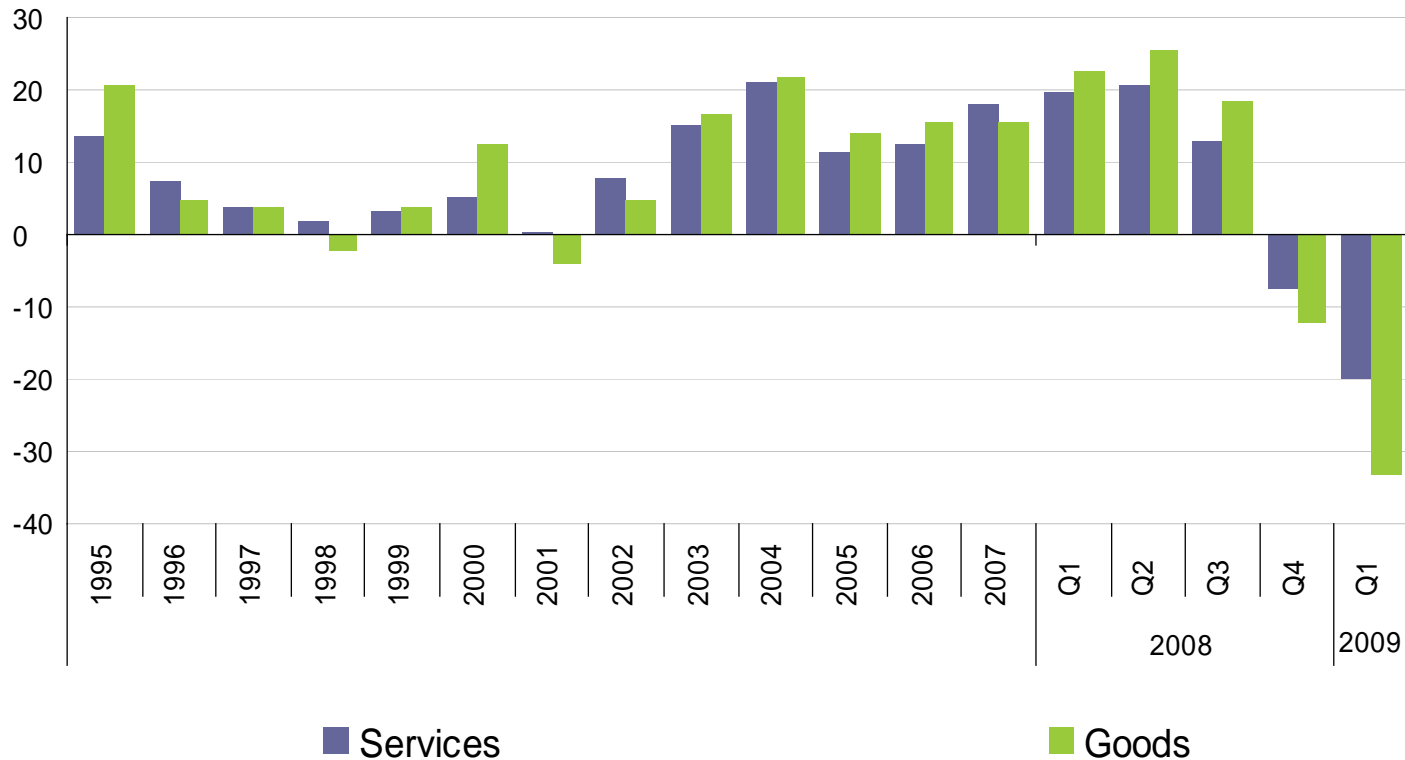
SELECTED REGIONS AND COUNTRIES: RATES OF EXPORT GROWTH
(12-month cumulative variation)



Source: ECLAC, on the basis of official data.

Services exports are resisting the crisis better

WORLD TRADE IN GOODS AND SERVICES: GROWTH IN EXPORT VALUES
(Annual and quarterly growth rates relative to year-earlier period)



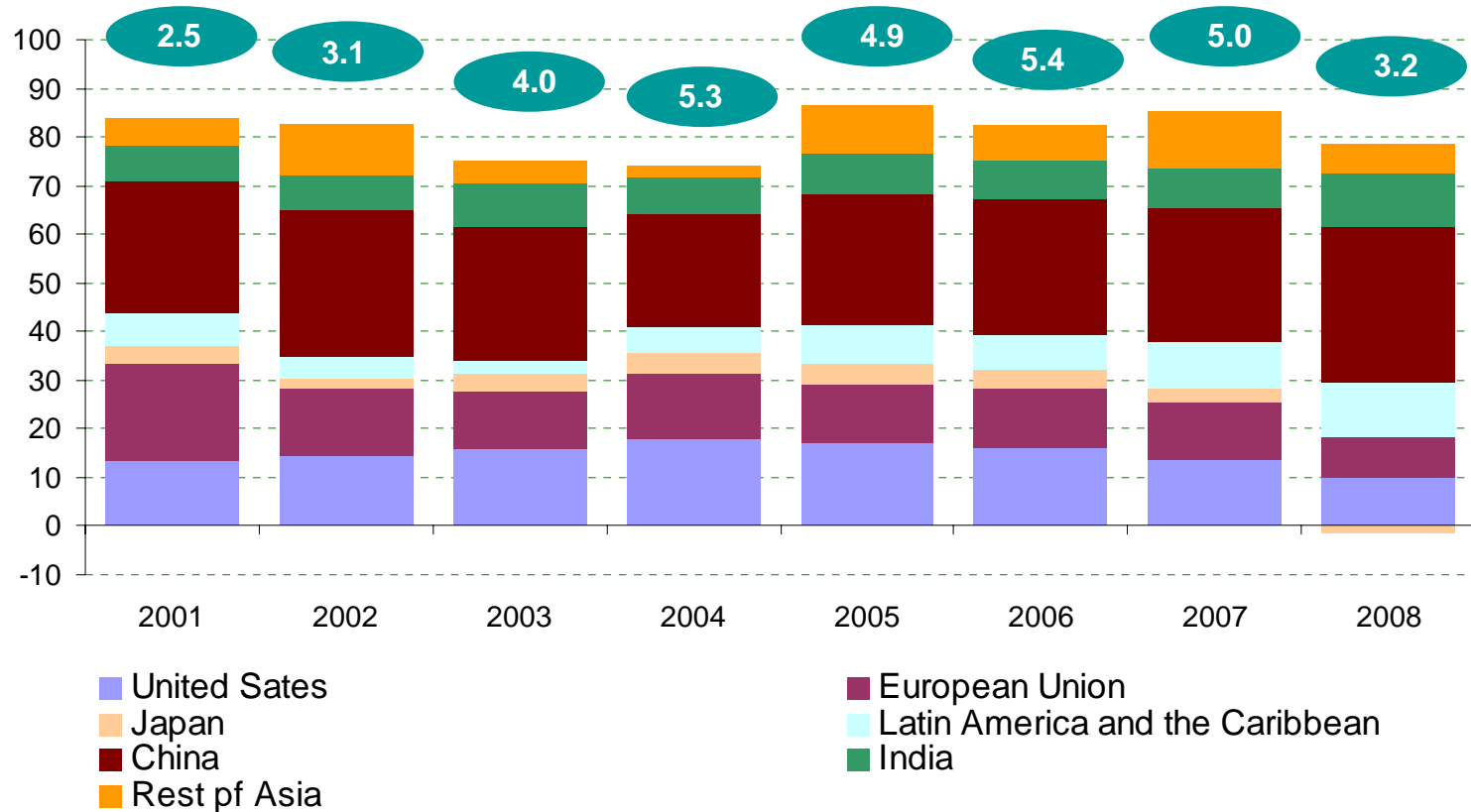
Source: ECLAC, on the basis of official data.



2. The new role of China in the global economy

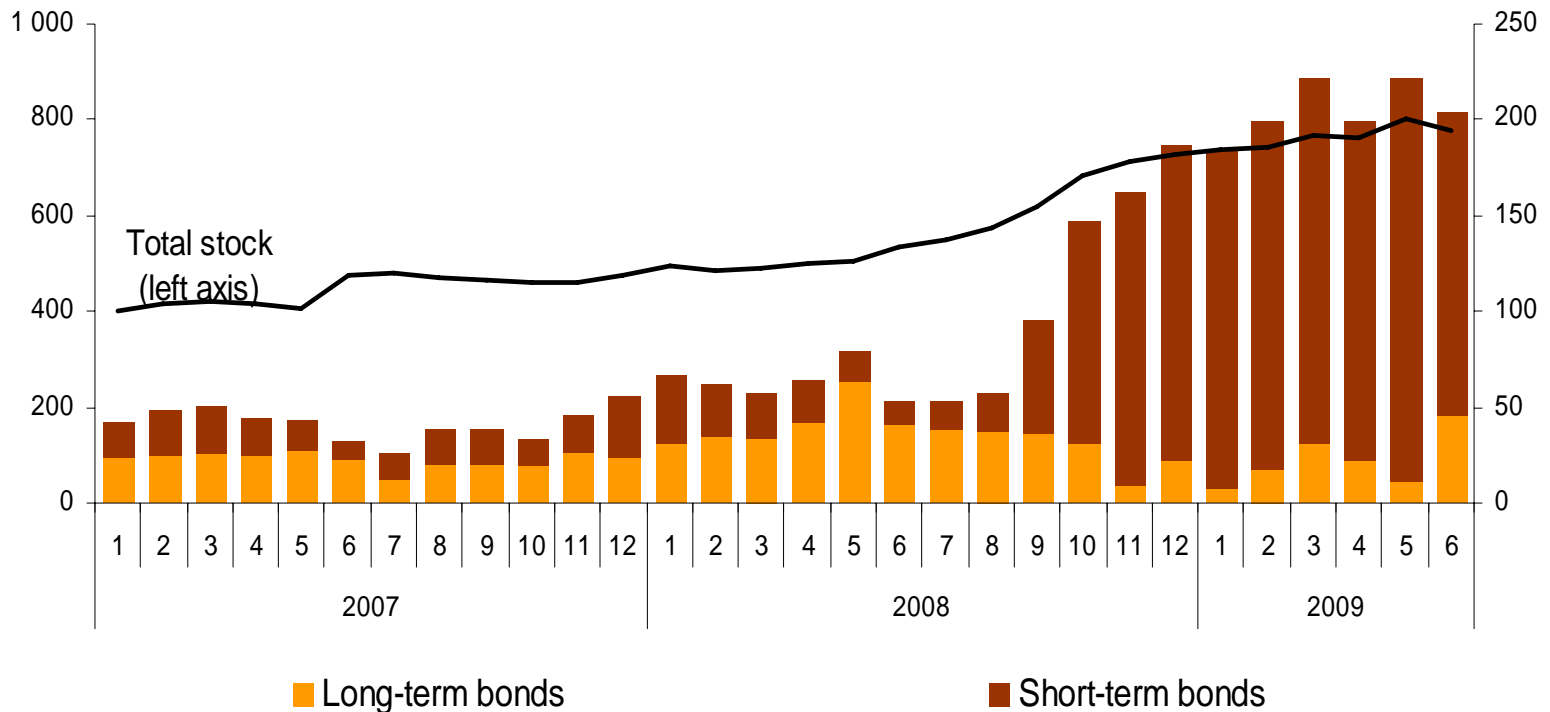
In the last seven years, nearly 40% of world growth is accounted for by China (30%) and India (8%)
(in PPP terms)

SELECTED REGIONS AND COUNTRIES: CONTRIBUTION TO WORLD GROWTH
(Percentages)



Following the crisis, China emerges as a fundamental source of financing of the fiscal deficit in the United States

CHINA: PURCHASES AND STOCK OF UNITED STATES TREASURY BONDS
(Billions of dollars)



China holds 29% of total global foreign reserves and is the largest holder of United States Treasury Bonds

In this decade China has become an important trade partner for the region, especially for South America

CHINA: RANKING AS TRADE PARTNER FOR SELECTED COUNTRIES

	EXPORTS (destination)		IMPORTS (origin)	
	2000	2008	2000	2008
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
China is important as a buyer from the region...			... and as a seller to the region.	
<ul style="list-style-type: none"> • In the top 5 in 10 countries • In the top 2 in 6 countries 			<ul style="list-style-type: none"> • In the top 5 in 23 countries • In the top 2 in 5 countries 	

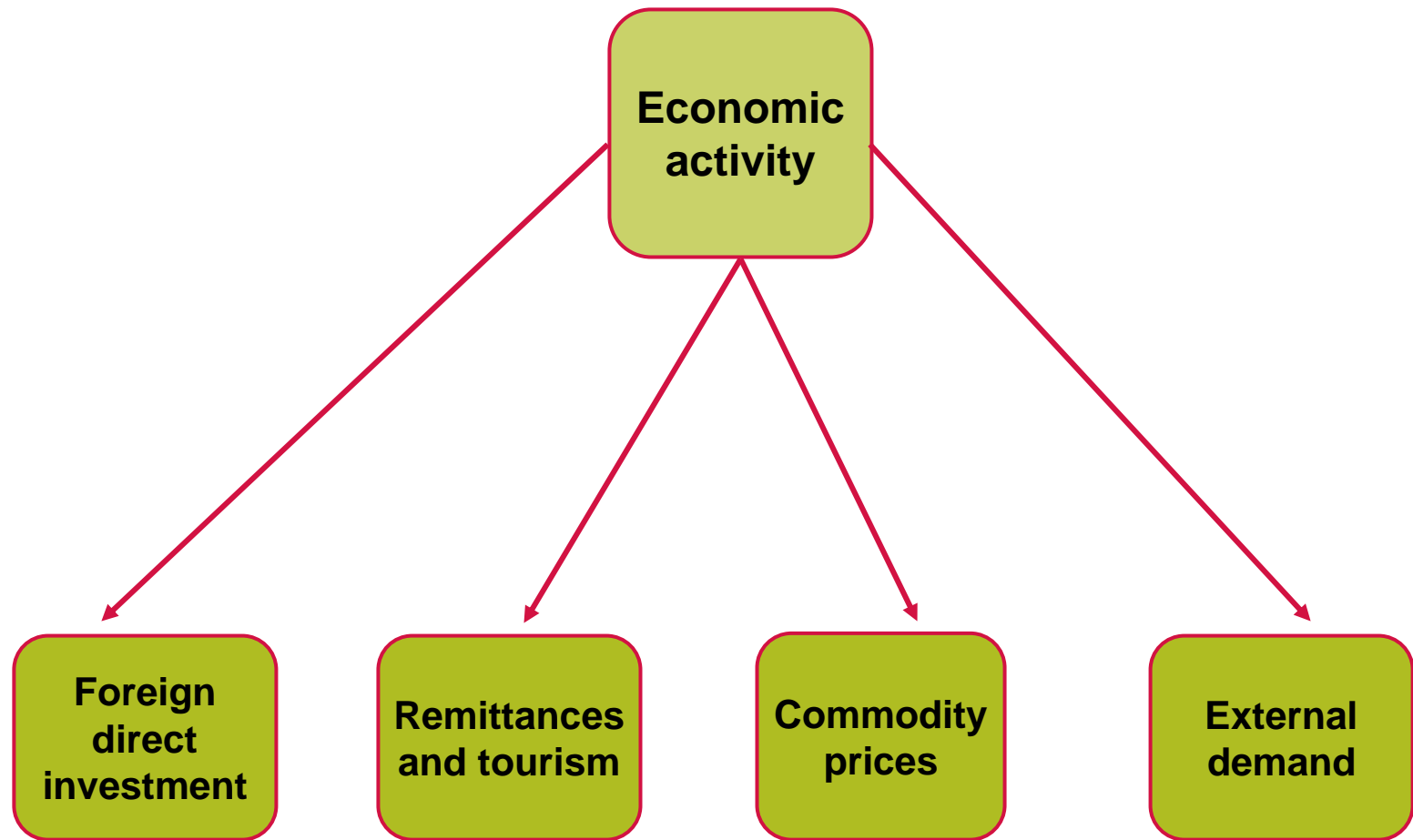
Source: ECLAC, on the basis of official data.



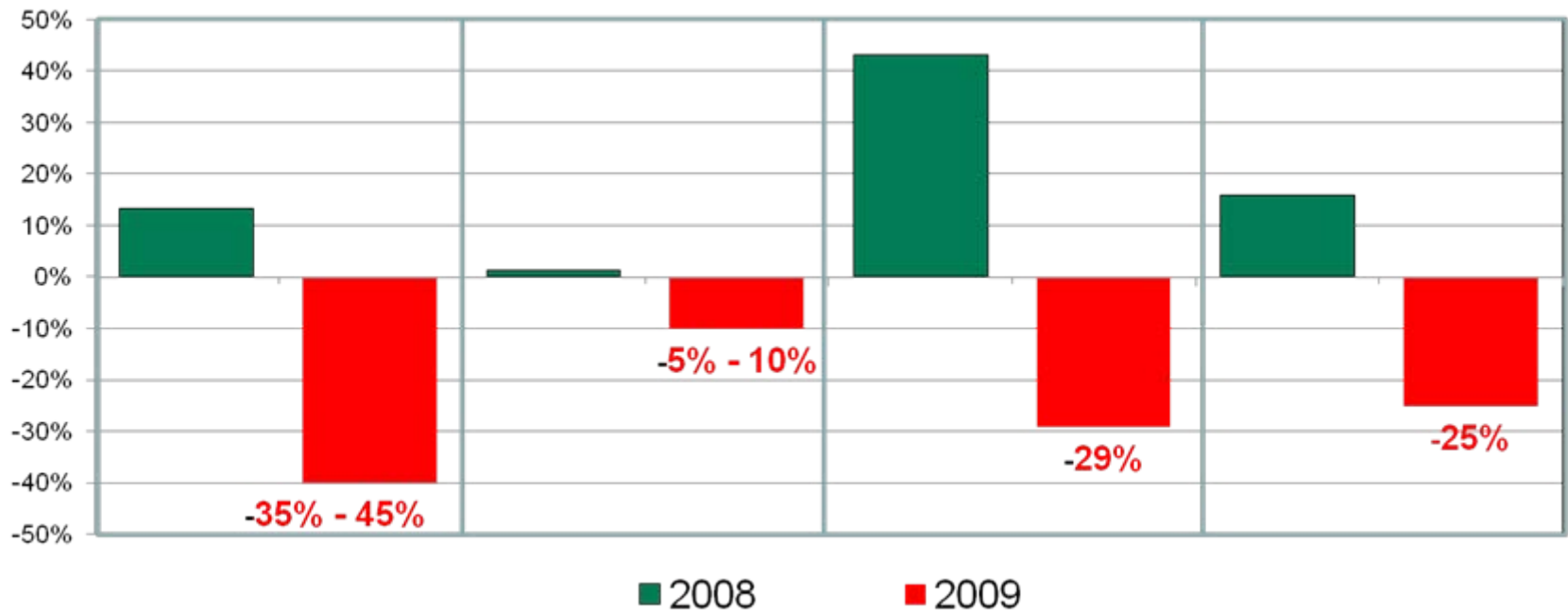
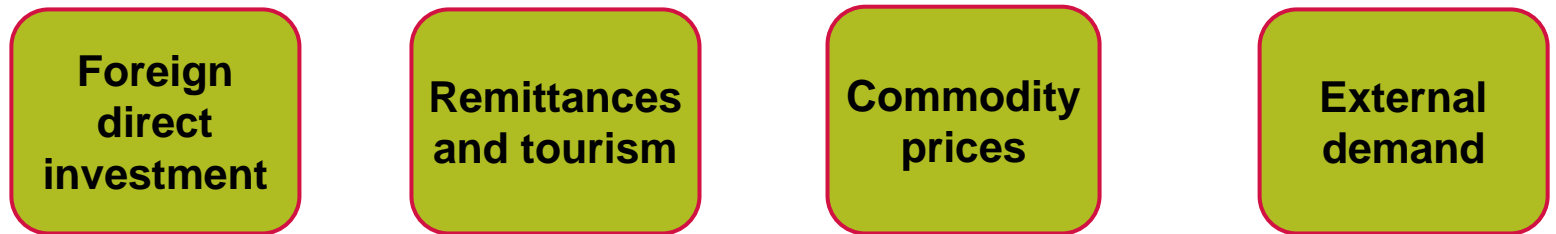


3. The impact of the crisis on regional trade

The crisis has been transmitted to Latin America and the Caribbean through four channels: FDI, remittances and tourism, commodity prices and external demand



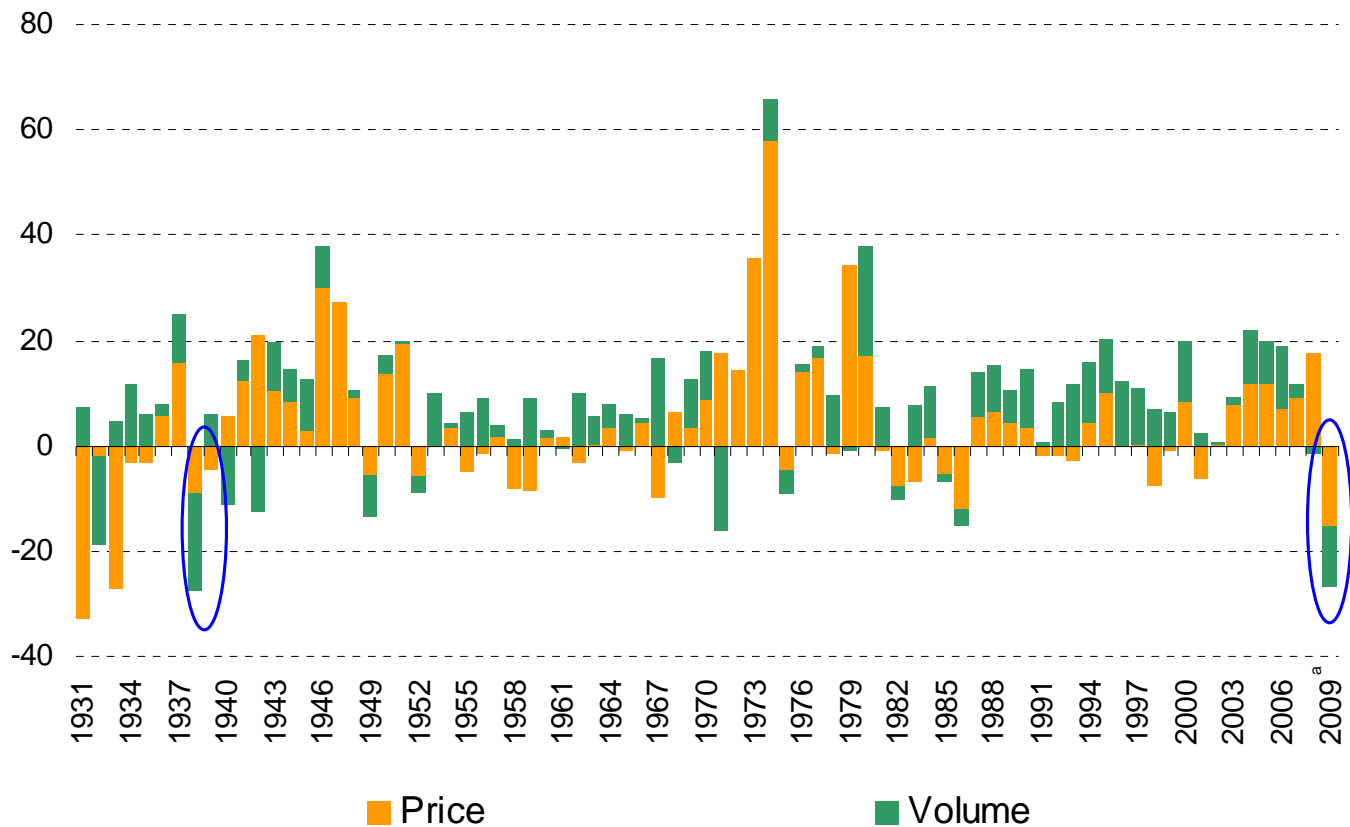
Growth estimates for all of these channels are negative for 2009



Source: ECLAC, on the basis of official data.

The downturn in trade has no recent precedent: a comparable drop in exports has not occurred for 70 years...

LATIN AMERICA AND THE CARIBBEAN: PRICE AND QUANTITY OF EXPORTS, 1931-2009
(Annual growth rates)

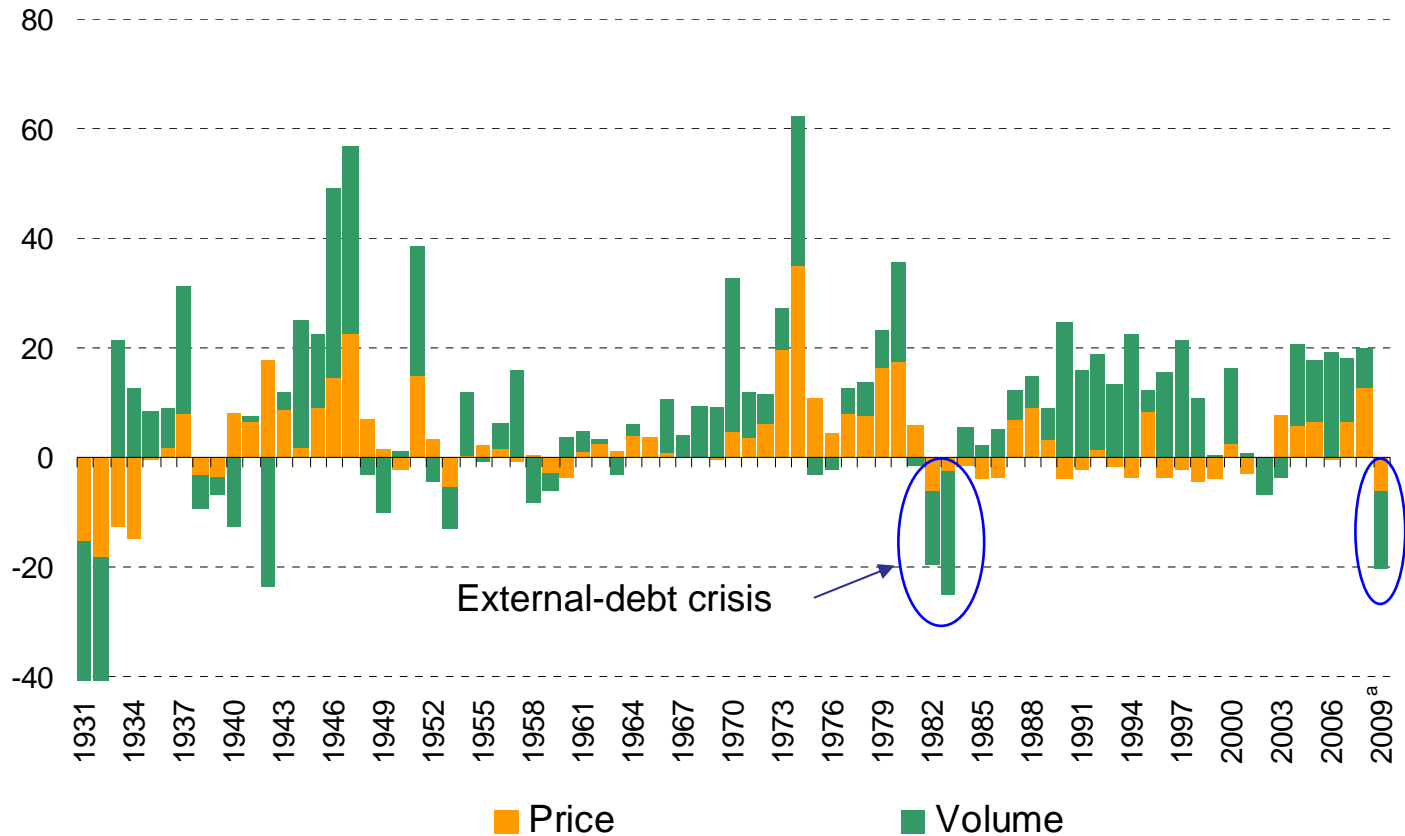


Source: ECLAC, on the basis of official data.

^a 2009 projections provided by International Trade and Integration Division.

...and the nearest parallel in imports occurred 27 years ago

LATIN AMERICA AND THE CARIBBEAN: PRICE AND QUANTITY OF IMPORTS, 1931-2009
(Annual growth rates)



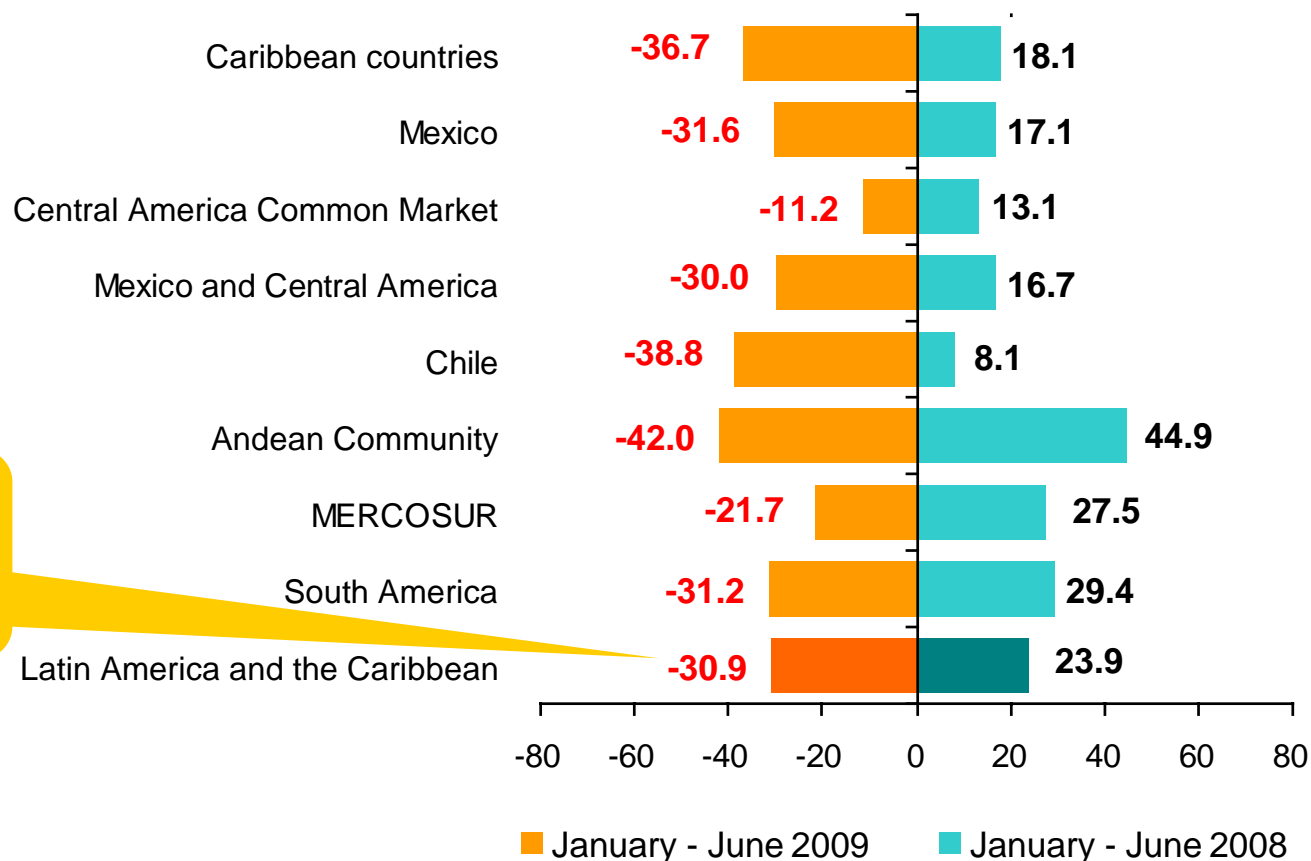
Source: ECLAC, on the basis of official data.

^a 2009 projections provided by International Trade and Integration Division.

The region's exports fell by 31% in value in the first half of 2009, with all destinations affected

LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE EXPORT GROWTH IN THE FIRST HALF OF 2008 AND 2009

(Growth rates relative to the year-earlier period)



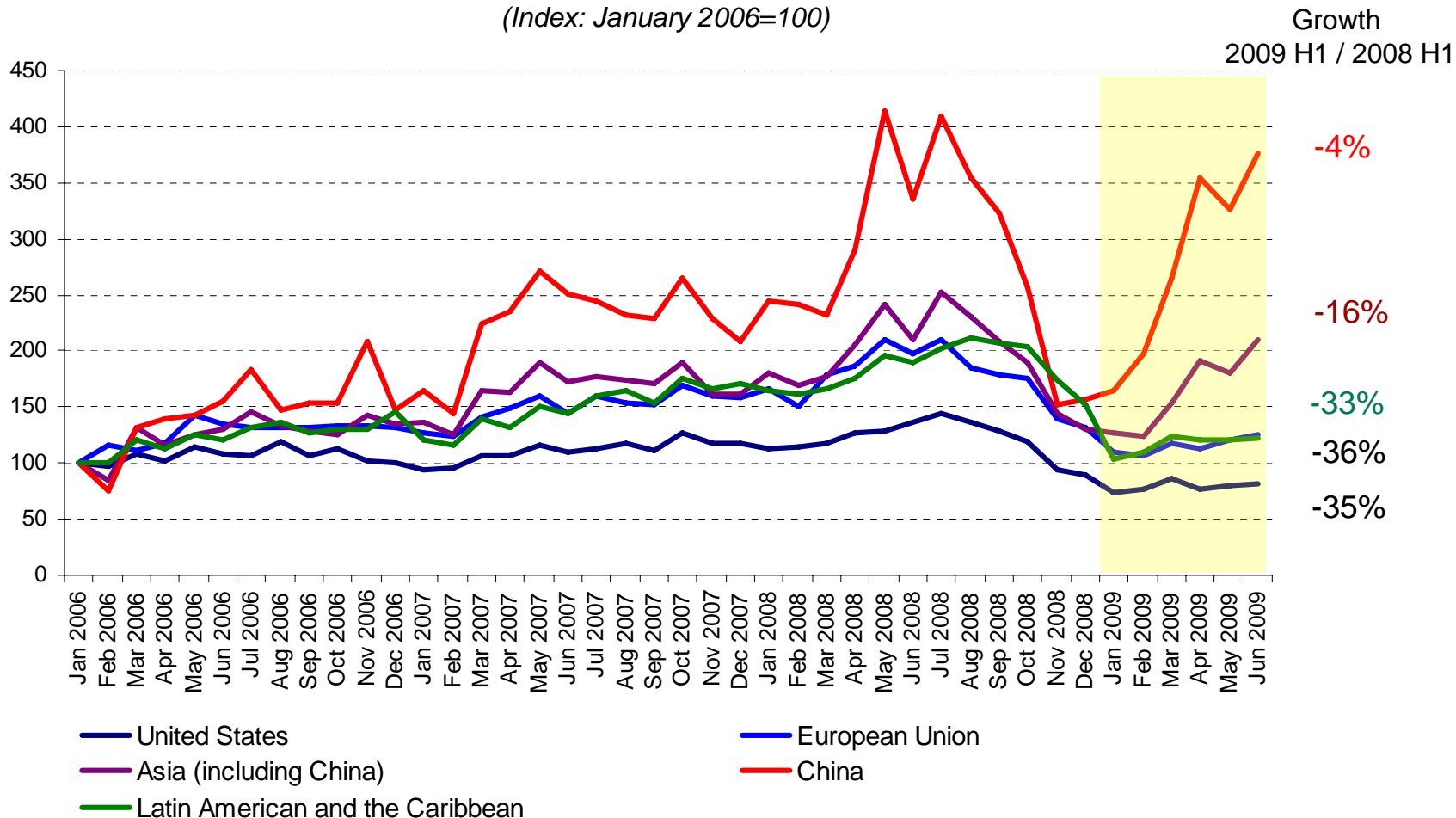
In volume terms, exports fell by 15%

Source: ECLAC, on the basis of official data.

Exports have fallen regardless of destination, but those to China have dropped the least

LATIN AMERICA AND THE CARIBBEAN: MONTHLY INDEX OF EXPORT VALUES BY MAIN DESTINATIONS

(Index: January 2006=100)

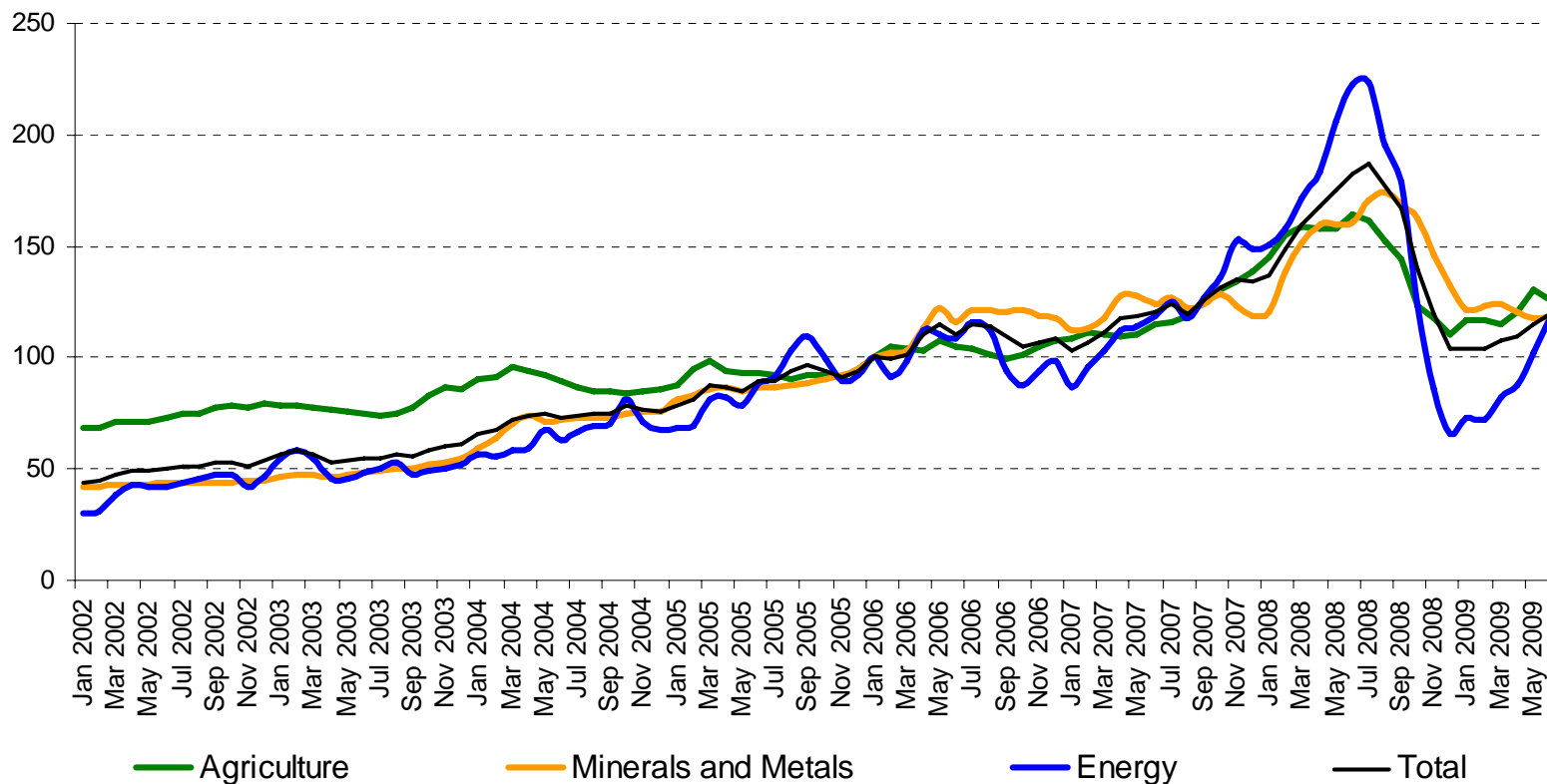


Source: ECLAC, on the basis of official data.

In 2009, commodity prices have rebounded from their collapse in 2008

LATIN AMERICA AND THE CARIBBEAN: PRICES OF THE MAIN PRODUCT CATEGORIES IN THE REGION'S EXPORT BASKET (JANUARY 2002-JULY 2009)

(Index: January 2006=100)



Source: ECLAC.

In 2009, both exports and imports will fall substantially

LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TRADE, 2007-2009 ^a
(Annual growth rates)

Region / subregion / country	Exports			Imports		
	2007	2008	2009	2007	2008	2009
Latin America and the Caribbean (35)	12.3	15.9	-25.0	19.0	21.0	-19.5
Integration schemes						
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	12.1	9.3	-11.5	15.0	14.0	-16.4
CARIBBEAN COMMUNITY	-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: ECLAC.

^a Data correspond to estimates for January-June conducted by the Division of International Trade and Integration.

The crisis has affected the CARICOM countries through multiple channels

1. A drop in the exports of:
 - energy products (Trinidad and Tobago)
 - minerals (bauxite/alumina from Guyana, Jamaica and Suriname)
 - agriculture (Belize, Guyana, Jamaica, Suriname and others)
 - light manufactures (Barbados, Jamaica, and Trinidad and Tobago).
2. Changes in terms of trade and exchange rates
3. Shortage of credit available to finance trade operations
4. Decrease in Official Development Assistance flows, FDI, remittances and tourism
5. The collapse of some large financial institutions in the region

Caribbean responses to the crisis

(CARICOM Conference of Heads of Government, March 2009)

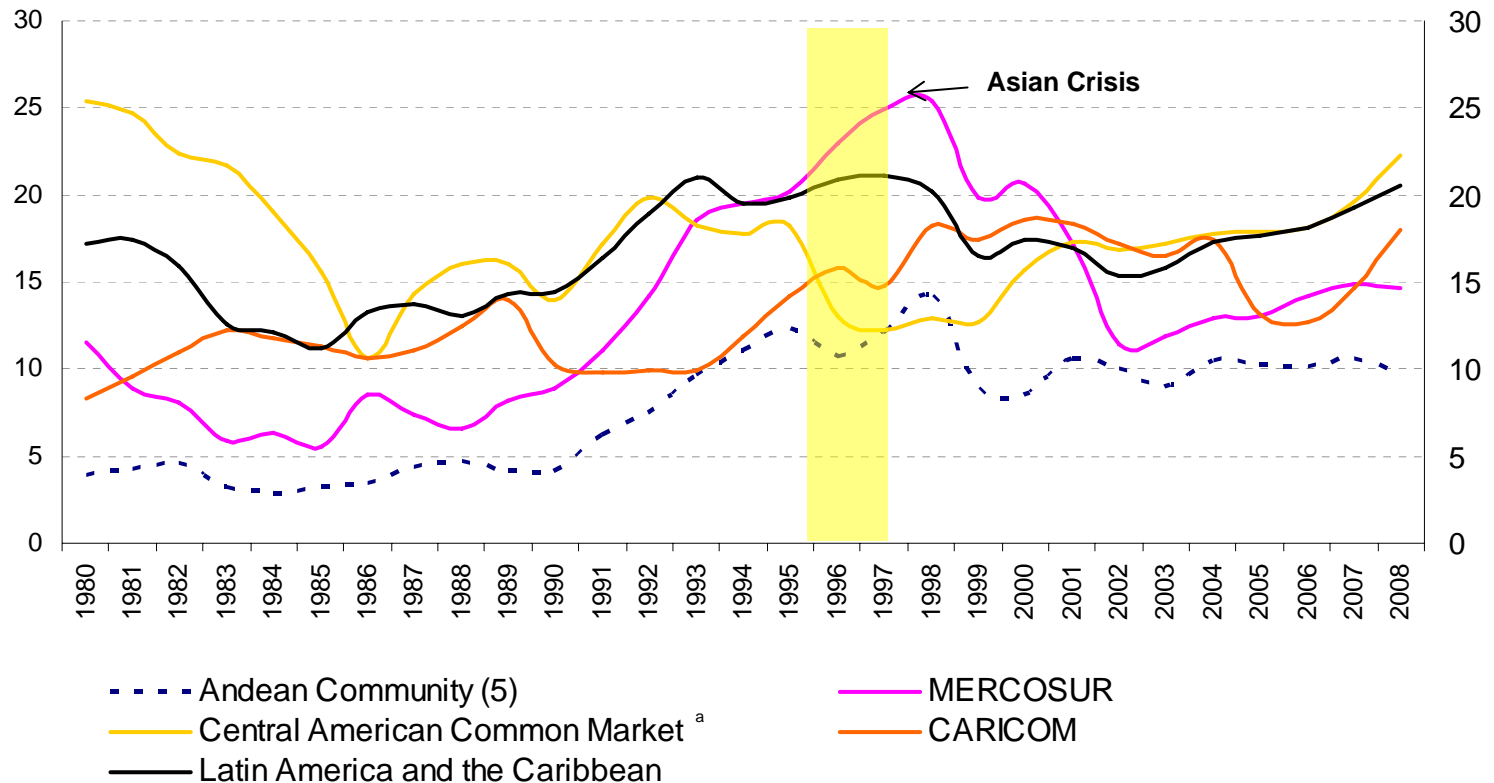
1. Reform financial regulation
2. Intensify efforts to promote the Caribbean Single Market and Economy (CSME)
3. Advance trade negotiations
4. Maintain emphasis on long-term issues, such as climate change, food security, and the reform of the international financial architecture



4. Intraregional trade and trade policy responses

Intraregional trade remains below the levels reached prior to the Asian crisis

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, 1980-2008
(Coefficients)

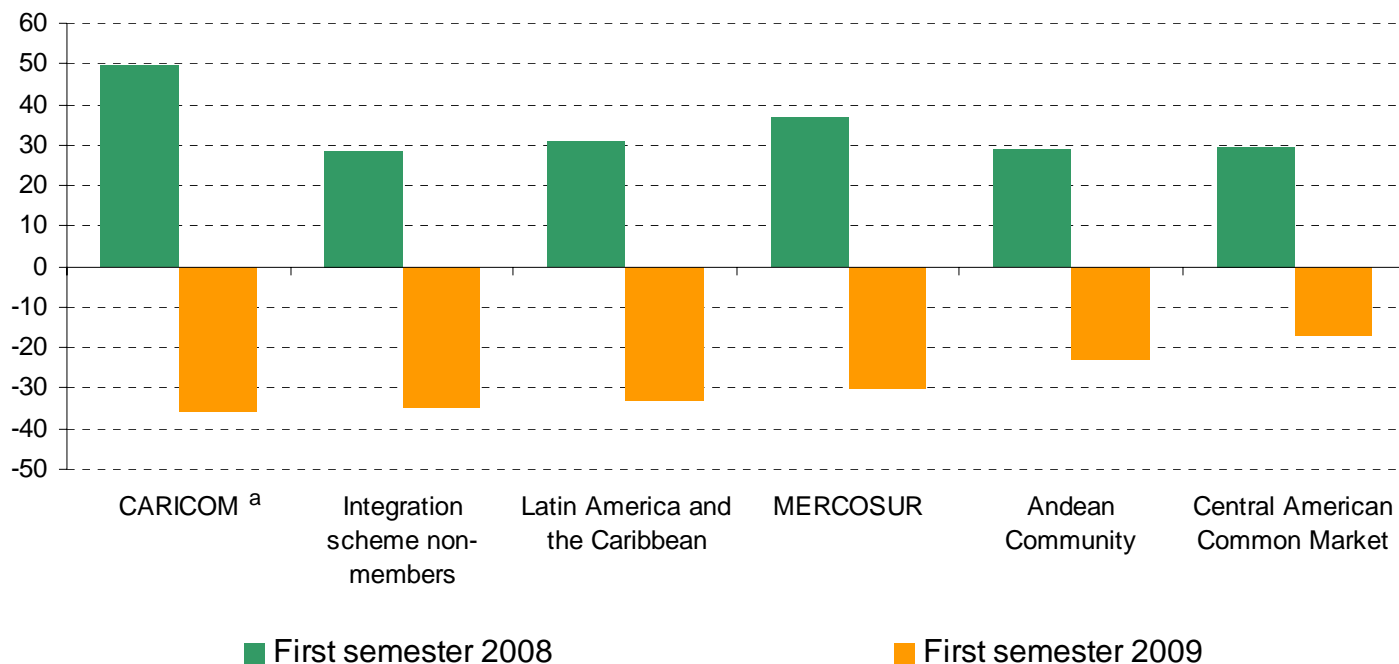


Source: ECLAC, based on official data.

^a Data for the Central American Common Market exclude maquila exports.

Intraregional exports declined in all the economic integration schemes. Overall, intraregional trade declined by 33% in the first half of 2009.

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS BY INTEGRATION SCHEME, FIRST SEMESTER 2008 AND 2009.
(Percentages)



Source: ECLAC, on the basis of official data.

^a Includes CARICOM exports to the rest of Latin America and the Caribbean, but excludes intra-CARICOM trade.

Responses to the crisis with an impact on trade in the region

Stylized facts:

- The region has not been immune to the resurgence of protectionist pressures
- However, it is not tending towards widespread protectionism
- Responses vary widely among the countries
- Both trade-restricting and trade-liberalizing measures have been taken
- “Good behaviour” in comparison to industrialized countries
- Intraregional trade has not escaped unscathed, however
- Increasing barriers to intraregional trade is a worrying response to the crisis

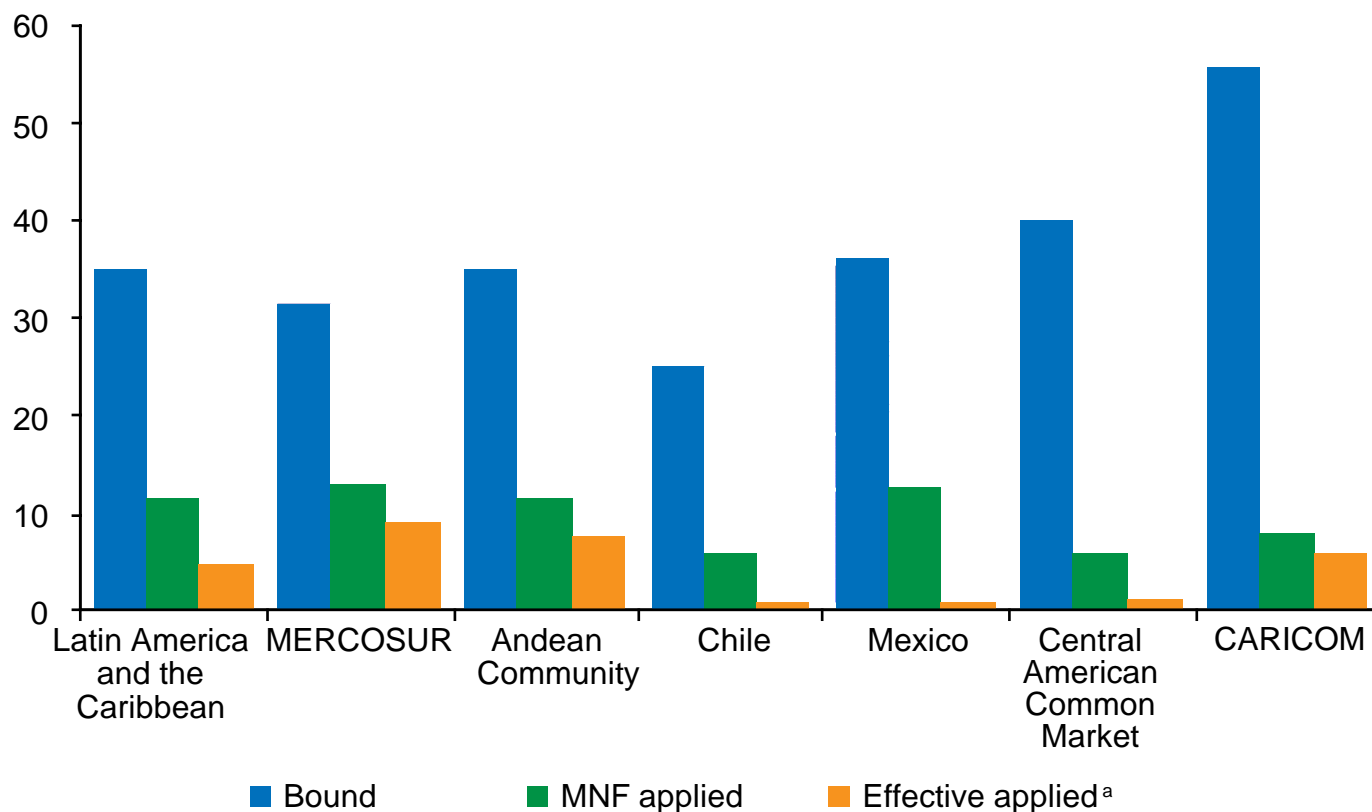
Countries in the region have tended to opt for border measures, as opposed to subsidies in industrialized countries

Main trade-restricting measures:

- Tariff hikes
- Minimum import prices (“benchmark prices”)
- Automatic and non-automatic import licences (with long approval times)
- Proliferation of investigations and antidumping measures
 - Brazil and Argentina ranked second and fifth worldwide in the number of antidumping investigations initiated in the second half of 2008
- New import quotas
 - Imposed by governments or between private enterprises

The countries of the region have made little use of their wide margin to raise tariffs

LATIN AMERICA AND THE CARIBBEAN: AVERAGE RATES BY TARIFF TYPE, DECEMBER 2007
(Percentages)



Source: ECLAC, based on "World Tariff Profiles 2008", WTO-ITC-UNCTAD, Geneva, 2008.

^a The effective applied tariffs are based on the preferential trade agreements signed by each country.

There have also been “pro-trade” responses

- Provision of trade finance
 - Throughout the region
- Trade facilitation measures
 - Especially in Mexico and Central America
- Tariff reductions
 - Generalized: Mexico (industrial sector)
 - Specific: Central America, the Caribbean (foodstuffs), Brazil, Paraguay (capital and intermediary goods)
- Export promotion efforts
 - Especially in Central America
- Export tax reductions
 - Argentina

Developed countries have reacted more drastically than the countries of Latin America and the Caribbean

- United States:
 - “Buy American” clause
 - Automotive and financial sector rescue plans
 - Increases in agricultural subsidies
 - Threat of “green protectionism”: proposed law on climate change
- European Union:
 - Massive support for the automotive and financial sectors
 - Reintroduction of subsidies for dairy exports (followed by the United States)
 - Immigration and foreign worker restrictions



5. Openings for regional cooperation

Spheres of regional cooperation and integration

- Cooperation and integration are necessary to:
 - Mitigate the effects of the crisis
 - Address the post-crisis structural challenges
- Moving towards an integrated regional market would be very positive in terms of scale and credibility
- The current political situation in the region does not favour trade liberalization initiatives, however
- Differences over trade issues should not impede cooperation on more urgent issues to enable progress on issues beyond trade

ECLAC proposes an agenda with 7 pillars

1. Infrastructure
2. Support for intraregional trade
3. Innovation
4. Reduction of asymmetries
5. Social cohesion
6. Closer ties with Asia-Pacific
7. Climate change

The proposal is to move forward pragmatically, building on existing efforts and avoiding sweeping new initiatives





6. Trade and climate change

Trade and climate change: unilateral or multilateral?

- Establish and coordinate a regional stance on climate change to participate actively in ongoing negotiations
 - Copenhagen: magnitude of reduction commitments, financial assistance and technology transfer
 - WTO: Negotiations on environmental goods and services
 - Avoid “green protectionism” in the industrialized economies
- The region needs FDI, innovation and technological partnerships to promote less carbon-intensive competitiveness
 - Move towards an export structure that is less energy-intensive and produces lower GHG emissions
 - Many countries in the region have competitive advantages in producing environmentally friendly products
- There are challenges as well as opportunities



7. The new trade policy

The new trade policy

- **New issues**
 - Labour, environment, security, sanitary and phytosanitary traceability, food safety, carbon traceability, climate change, certification, best practices, corporate social responsibility
- **Multiple objectives**
 - Competitiveness. Innovation and sustainability
 - Internationalization of firms
 - Global value chains
 - Climate change
- **Integrated policy approach (institutional challenge)**
 - Trade
 - Productive development, innovation and technological diffusion
 - FDI
 - Human resources (education and capacity-building)
 - Environment
- **Strengthen the role of the State in two main areas:**
 - Institutional coordination failures
 - Public-private partnerships for a leap in innovation and competitiveness

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