A SECTORAL OVERVIEW OF THE EFFECTS OF TRADE AGREEMENTS IN LATIN AMERICA AND THE CARIBBEAN

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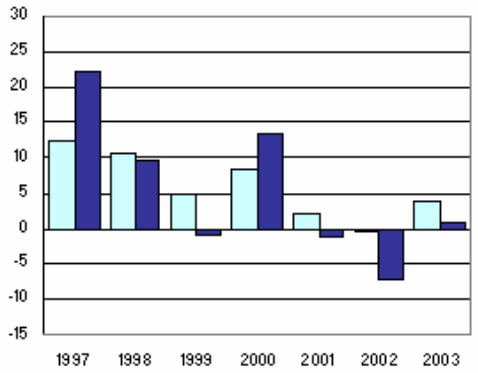
Introduction. During 2002 more than 130 Regional Trade Agreements (RTAs) were registered by the World Trade Organization (WTO) and it was estimated that by the end of 2005, 300 RTAs would be in force. In the Americas, increased trade remains an imminent priority at the heart of the development agenda. The proliferation of free trade and economic integration agreements signed by countries of the region during the past fifteen years has significantly reduced average tariffs and has led the volume of world merchandise and service trade in the region towards a positive trend of recovery (see Figure 1).

The increase in exports and the rise in foreign investment inflows are some positive outcomes of recent trade activities in Latin America. This note will address the effect of these activities in the agriculture, forestry and tourism sectors in the region, and will provide some recommendations to capitalize these trade benefits by promoting the use of sustainable practices in all three sectors.

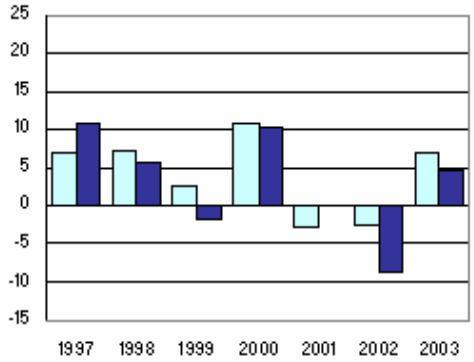
Latin American Exports. In 2004, Latin American exports had the highest estimated growth of the past two decades according to figures from the Inter-American Development Bank (see Figure 2). This performance consolidates a fledgling recovery that began in 2003 (9.9% export growth), which reversed two consecutive years of decline in exports earnings. This strong export showing was driven by both intra and extra-regional exports. Intra-regional exports were particularly robust, 42% against 20% for extra-regional sales.[1]

Figure 1.

Volume of world merchandise trade in Latin America, 1996-2003 (percentage change)



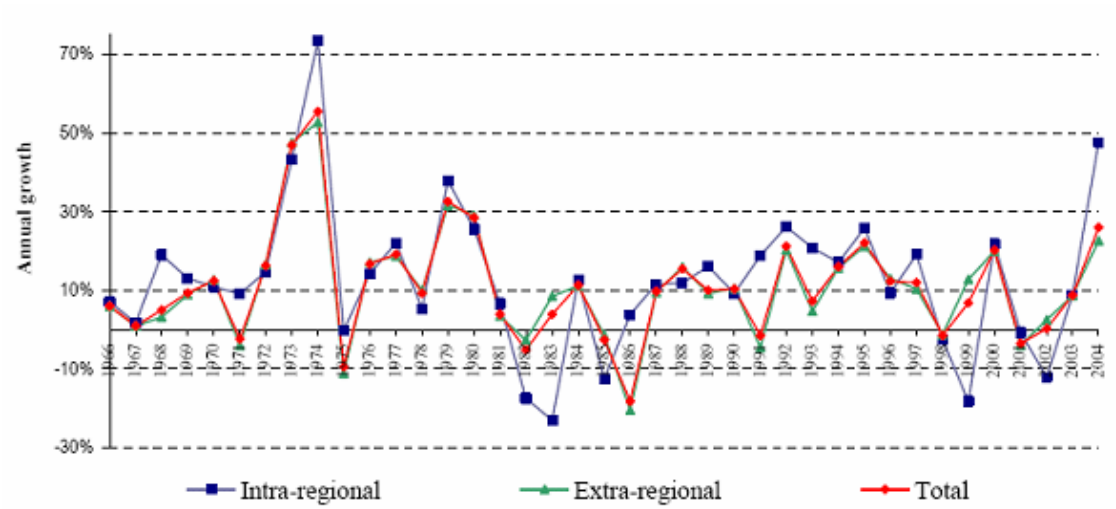
Volume of world commercial service trade in Latin America, 1996-2003 (percentage change)



Exports Imports

Source: Prepared by GS/OAS with data from the WTO International Trade Statistics for 2004.[2]

Figure 2. Annual Growth of Latin American Total, Intra and Extra-Regional Merchandise Export: 1966-2004 (current US$)



Source: Inter-American Development Bank, *Integration and Trade in the Americas: A Preliminary Estimate of 2004 Trade*. Periodic Note Dec. 2004

According to analysis, four main development factors may have served as catalyst for this positive performance of exporters in the region:

a) The stronger performance of the US economy.
b) A set of more competitive exchange rates, despite a recent appreciation of the regional currencies against the dollar.
c) The recovery of crisis-stricken countries as Argentina, Uruguay and Venezuela.
d) The breakneck growth of China, which has been boosting both prices and volumes for the region's all-important mining and agricultural exports.

Table 1 shows Latin America's total merchandise exports for 2003 in terms of destinations. It can be noted that inter-regional trade flows in Latin American countries only account for 15.6% of the total share of their trade flows; while trade with North America and Western Europe accounts for 71.4%.

Table 1. Share of inter-regional trade flows in Latin America's total merchandise exports

North America	57.8%
Latin America	15.6%
Western Europe	13.6%
C./E. Europe/Baltic States/CIS	1.2%
Africa	1.4%
Middle East	1.2%
Asia	7.6%

Source: WTO, International Trade Statistics, November 2004.

In 2004, the Andean Community and MERCOSUR had the highest growth in exports with 37% and 28%, and intra-subregional exports of 44% and 39%, respectively. These two trade blocs were the main drivers of Latin American extra- and intra-regional exports. MERCOSUR's performance was strongly influenced by the external development factors mentioned before, as well as the adoption of a floating exchange rate regime and the resulting real devaluation, along with improvements in the political stability of member countries. Intra-regional trade was driven mainly by the growth of the member countries, reflected for instance in exports to Argentina, particularly those from Brazil (72% growth in 2004).[3] These numbers should not only serve as an incentive to continue strengthening trade activity within the region, but also to work towards sustainability of exports that target North America and Western Europe.

The Caribbean Community (CARICOM) also shows similar trends in terms of growth in exports at the intra-regional level. CARICOM's intra-regional total exports as a proportion of total exports grew from 12.4% in 1990 to 19.4% in 2000.[4]

Foreign Direct Investment Inflows for Latin America. In 2004 global FDI inflows rose modestly, following large declines in their value in 2001. Inflows in Latin America increased for the first time in 5 years, reaching US$68 billion; this represents a 44% increase from 2003. The most remarkable rises where seen in MERCOSUR followed by Central America and the Caribbean where FDI inflows rose to US$30 billion, 32% more than in 2003.[5] In addition, the rise in FDI inflows in the region is related to an increase in incentives for investors from the strengthening in protection of investors' rights (see Table 2).

Table 2. Protecting Investors[6]

Country	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	D.R.	Ecuador	El Salvador	Guatemala	Guyana	Haiti	Honduras	Jamaica	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela
Disclosure index	7	1	5	8	7	2	3	1	6	1	5	4	1	3	6	4	3	6	7	3	3
Director Liability Index	2	5	7	4	1	5	0	5	2	3	4	3	5	8	0	5	4	5	5	4	2
Share Holder Suits Index	7	7	4	5	9	2	9	6	6	7	4	4	4	5	5	6	7	6	7	8	2
Investor Protection Index	5.3	4.3	5.3	5.7	5.7	3	4	4	4.7	3.7	4.3	3.7	3.3	5.3	3.7	5	4.7	5.7	6.3	5	2.3

Source: World Bank Group, Doing Business: Benchmarking Business Regulations (http://www.doingbusiness.org/)

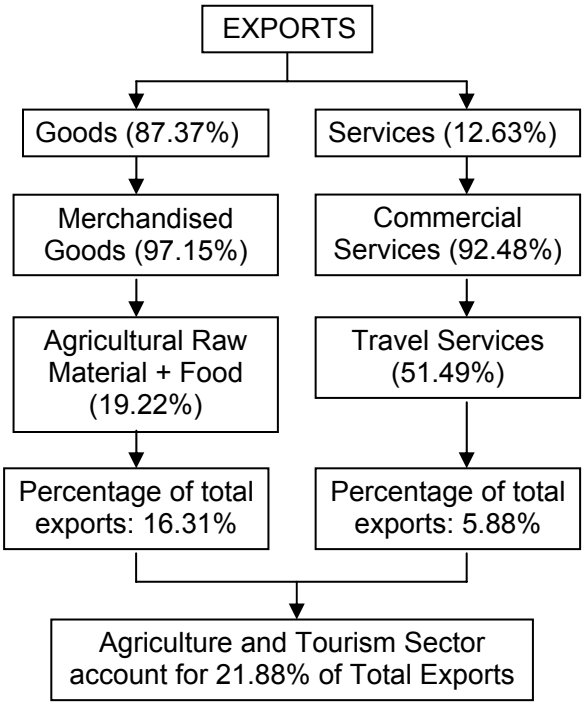
Sectoral Performance. Efforts to increase trade and investment in the Western Hemisphere have been effective in terms of profits and economic growth. In fact, exports of goods and services accounted for one quarter of the region's GDP in the year 2003.[7] However, it is still necessary to determine how the significant upsurge in exports and FDI in the region has affected the sustainability of the activities in the agricultural, forestry and tourism sectors.

Figure 3 shows the most recent data available (2003) of the performance of the agriculture and forestry sectors in terms of exports in Latin America and the Caribbean.

The importance of exporting goods and services for the region was stated by the Secretary General of the OAS: "Increasing trade remains a top priority and the main engine of growth for the region, while the key challenge facing Latin American and the Caribbean countries in order to sustain a steady rate of growth lies in making every effort to increase the degree of processing on their natural-resource-based exports and assembled goods and in boosting their services exports."[8]

In terms of trade outcomes, the percentages of exports in these sectors are relatively low, especially considering that the region has historically enjoyed comparative advantages in them. To better understand the performance and benefits of trade negotiations on the agriculture, tourism and forestry sectors, we will examine recent developments in each.

Figure 3. Performance of the agriculture and forestry sectors in terms of exports in Latin America and the Caribbean (2003)



Source: Prepared by GS/OAS with data from the *World Development Indicators 2005.*[9]

Trade and Agriculture: Trade negotiators at the WTO were supposed to reach an agreement on trade rules concerning agricultural products, manufactured

goods, and different services by December 2005 to meet the Doha Round commitments deadline. Developed and developing countries are finding it difficult to reach consensus on the trading of agricultural products not only at WTO but on bilateral and regional negotiations. The main concern is the diverse effects that trade liberalization would have on the different economies in terms of poverty reduction and development. The central issue is related to the wellbeing of small-scaled farmers; in fact, there are relevant disparities between how furthering trade liberalization would affect subsistence farmers as opposed to farmers that could be globally competitive. It is also essential to consider the proportion of a country's workforce in the agricultural sector, since there is a positive correlation between this factor and the probability that trade liberalization could increase poverty.

There are valid arguments made by both developed countries and developing countries on trade of agricultural products; the former are pressing for more liberalization, while the latter are demanding more protection.

The main argument for developed countries, is that "[t]he movement of workers from low-productivity, low-income subsistence farming to higher-productivity agriculture or to work in sectors such as manufacturing and services is a desirable step in the process of development."[10] This process could take years and it must be accompanied by complementary policies, since trade policy alone cannot guarantee that the large agricultural workforces will be absorbed by more productive sector. Developing countries claim that an average of 68% of the population in low-income countries makes its living through farming. Even in middle-income countries, 25% of the population is engaged in agricultural activities. For countries with a large numbers of subsistence farmers, it would be impossible to create sufficient job opportunities, in the short to medium term, to absorb these displaced farmers.[11]

After the failed trade talks in Cancun (2003), the most recent advance in terms of agriculture is the following concession for Least Developed Countries (LDC): "Developing country Members will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment."

Although this looks like a plausible way around the complex issues related to agriculture and trade, the main obstacle now lies in defining the scope of such flexibility and the classification of special products and ensuring that the compromise is sustainable.

Trade and Tourism: At the start of the new millennium, tourism is firmly established as the number one industry in many countries and the fastest-growing economic sector in terms of foreign exchange earnings and job creation. International tourism is the world's largest export earner and an important factor in the balance of payments of most nations. Activities in this sector are associated with poverty alleviation since it has become one of the world's most important sources of employment. It stimulates enormous investment in infrastructure, helping to improve the living conditions of local people. Tourism also provides governments with substantial tax revenues. Most new tourism jobs and business are created in developing countries helping to equalize economic opportunities and to prevent residents of rural areas from moving to overcrowded cities.[12] The World Tourism Organization predicts the value of tourism in the world economy will grow tenfold over the next 10 years and impacts of this sector will be felt across a broad spectrum.

Trade in international tourism accounted for less than 7% of LAC's total trade activity in 2003, which is incongruent with today's global tendency, since the region is characterized by LDCs that are rich in natural resources and cultural heritage. Therefore, tourism exports profits should represent a larger proportion of overall economic activity. The world economy needs a successful Doha Development round; tourism should be part of the final package with balanced and structured liberalization to help develop the export capacity of LDCs. This is reflected in paragraph 15 of the Doha Development Agenda[13] which establishes that "The negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries."

Trade and Forestry: It is not easy to report trade of forest products in statistics terms. According to the Center for International Trade in Forest Products (CINTRAFOR),[14] there are different factors that can contribute to discrepancies in trade statistics between two countries. Nevertheless, this situation does not exclude forest products from the general trading panorama. Actually, the growth in public awareness of the importance of forestry certifications is significantly strengthening the forestry sector market. A recent CINTRAFOR publication[15] points out that "[i]n recent years, growing consumer awareness of the environmental effects of the products they purchase has resulted in a demonstrated change in

buying behavior. The tremendous rise of the organic food industry illustrates the desire and willingness by consumers to pay a price premium for food products that meet certain environmental standards. The emergence of forest eco-certification standards demonstrates that greater market share will go to companies that can demonstrate higher levels of environmental sustainability." In this case competitiveness is a key factor in sustainable forest management and production.

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[1] World Trade Organization, International trade statistics 2004, November 2004

[2] Inter-American Development Bank, *Integration and Trade in the Americas: A Preliminary Estimate of 2004 Trade*. Periodic Note December 2004

[3] Inter-American Development Bank, *Integration and Trade in the Americas: A Preliminary Estimate of 2004 Trade*. Periodic Note December 2004

[4] Source: The CARICOM Secretariat, *CARICOM's Intraregional Trade Vol 1, 1990-2000*. Published 2002

[5] United Nations, United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2005, Geneva, 2005.*

[6] Investors Protection: Doing business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protection: transparency of transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index)
Disclosure Index: The index ranges from 0 to 10, with higher values indicating greater disclosure.
Director Liability Index: The index ranges from 0 to 10, with higher values indicating greater liability of directors
Shareholder Suits Index: The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction
Investor Protection Index: The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index The index ranges from 0 to 10, with higher values indicating better investor protection

[7] Prepared by GS/OAS with data from The World Bank's *World Development Indicators 2005*

[8] INSULZA, Jose Miguel. *Speech at the U.S Chamber of Commerce.* September 19, 2005.

[9] The World Bank. *World Development Indicators 2005.*

[10] POLASKI, Sandra. *In Agricultural Trade Talks, First Do No Harm*. "Perspectives" Carnegie Endowment Organization, Fall 2005

[11] Idem

[12] World Tourism Organization. http://www.world-tourism.org/aboutwto/eng/menu.html (Last Accessed 26 October 2005)

[13] The Doha Development Agenda - Supachai Praises Negotiators' Efforts in Market Access Talks, Urges Governments to Work Toward Agreement. World Trade Organization.

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[14] EASTIN, Ivan; PEREZ-GARCIA, John. *Discrepancies in Forest Products Trade Statistics.* CINTRAFOR, Working Paper 95. October 2004

[15] PEREZ-GARCIA, John; ROBBINS, Alicia. *Consumer Willingness to Pay for Renewable Building Materials: An Experimental Choice Analysis and Survey*. CINTRAFOR, Working Paper 96. January 2005