# Permanent Secretariat
# Latin American Economic System
# SELA

## “<u>International trade today and the small economies of Latin America and the Caribbean. Asymmetries and special and differential treatment”.</u>

(Document supporting the presentation delivered by the SELA Permanent Secretariat at the Seminar – Workshop “The Greater Caribbean and international trade negotiations”, organised by the Association of Caribbean States, Port of Spain, Trinidad & Tobago, July 14-15, 2003).

CONTENT

# I. Contemporary international trade trends

Eight major trends that characterise global trade can be summarised:

1.- The growth or dynamism of world trade exceeds that of production.

2.- During the period 1990-2000, international trade in services increased at a rate of 6.5% per annum.

3.- International trade concentration levels have continued to increase.

# I. Contemporary international trade trends

4.- Accelerated intra-industrial trade development.

5.- The importance of “intra-company trade” has increased steadily.

6.- The global market presents a structure that gets even more oligopolic, in which there are relatively “few sellers” that control the market.

# I. Contemporary international trade trends

7.- Large “trade blocs” have been consolidated in recent times.

8.- The international trade system reinforced its multilateral bases after the conclusion of the Uruguay Round and the subsequent creation of the World Trade Organisation (WTO) in January 1995.

# II.- Economic asymmetries in the hemisphere and "small economies"

In general, the issue of asymmetries among countries can be considered after analysing different dimensions that are complementary, although not identical:

a) differences in terms of levels of relative economic development;

b) differences in the economic and social structures of countries belonging to a regional bloc or among the members of the multilateral trade system, and

c) differences in terms of the economic size of the different states.

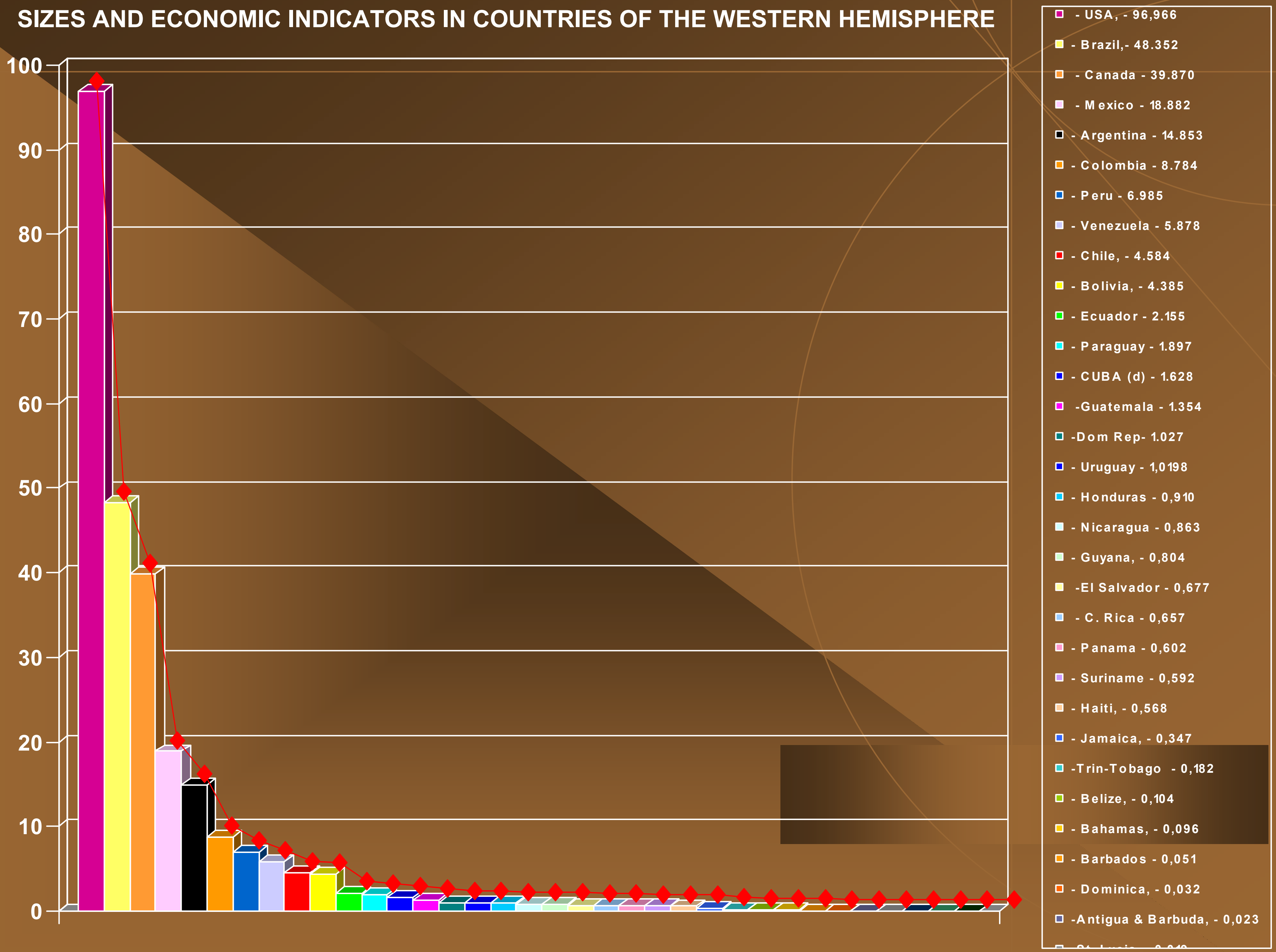
# “Small economies” in the hemispheric context: heterogeneity, vulnerability and structural restrictions

Annex Nº 1 Summarises information concerning the resource endowments, human development and economic performance of each county in the Western Hemisphere

This table arranges countries according to each of the size variables: the population, which is an approximation of the work force, the area, which is an approximation of the availability of natural resources, and the GNP as an indicator which - up to a certain point - expresses the capital (capital-product ratios can be considered constant in short periods).

Column 4 of the table defines an indicator of the size of each country that combines population, area and GNP. Since the analysis or consideration of “human capital” is key to the study of problems concerning international insertion and given that this is also a more comprehensive table of the level of “development”, the HDI (human development index) is included in the calculations performed. A (PSPH) index is therefore calculated, which adjusts the population by the human development indicator, and although there are a few limitations, it captures in one single measure, a variable of a country’s resource endowment adjusted by “human capital”.

# SIZES AND ECONOMIC INDICATORS IN COUNTRIES OF THE WESTERN HEMISPHERE



With the quantitative results of applying the methodology used in Table No. 1, the 32 countries of the FTA that are currently participating in the FTAA negotiations can be classified – roughly – into three large groups, in terms of *economic size*.

Group 1. “Relatively large economies”: (3) Brazil, Mexico and Argentina.

Group 2. “Medium sized economies”: (4) Colombia, Peru, Venezuela and Chile.

Group 3. “Small economies”: (25) Bolivia, Ecuador, Paraguay, Guatemala, Dominican Republic, Uruguay, Honduras, Nicaragua, Guyana, El Salvador, Costa Rica, Panama, Suriname, Haiti, Jamaica, Trinidad & Tobago, Belize, Bahamas, Barbados, Dominica, Antigua & Barbuda, Grenada, St. Lucia, St. Vincent and the Grenadines; and St. Kitts & Nevis.

## - The structural limitations of “small economies”.

- The “reduced” size of their domestic markets presents certain obstacles to productive specialisation.
- Most “public services” are characterised by the indivisibility, which means that for “small countries” their per-capita cost would be generally high.
- The heavy dependence on imports and foreign capital, causes these “small economies” to rely strongly on exports for their growth and development.

## - The structural limitations of “small economies”.

- Relatively scarce “resource endowment and economic assets” has a tendency to cause exports to focus on a few goods and services.
- Concentration in one or a few markets is also involved in the small export base and in the “forced saving of transport costs”that are typical of small economies.
- Many auxiliary activities associated with foreign transactions – such as infrastructure development, port services, transportation and marketing services, insurance services, experimental research and development, etc – are also subject to minimal scales.

## - <u>The structural limitations of “small economies</u>”.

- “Size” limitations may also have certain repercussions on “human capital”.

- Limitations in the financial and administrative resources of small economies also affect their capacity to negotiate and implement international trade agreements.

However, some believe that the <u>disadvantages resulting from size can be reabsorbed by means of regional integration and the internationalisation of productive activities</u>. Nevertheless, since 1980, developments in growth and international trade theories have indicated that instead of facilitating convergence in levels of productivity and revenue, trade among asymmetrical countries may explain the increase in the revenue gap observed at the international level.

In light of the foregoing, there are growing opinions that reiterate the intrinsic weakness of “small economies” in dynamically incorporating themselves into international trade and finance flows. These point out that:

- The reduced domestic market – which prevents returns to scale from being achieved – has significant implications not only in terms of competitiveness but also in the <u>organisation of domestic markets.</u>

- “Free” access to foreign markets does not automatically resolve socio-economic problems, which are <u>not always caused by “demand tightness</u>”.

- In order to take advantage of the growing demand generated by the potential increase in exports, <u>there must be an “elastic” supply</u> in competitive conditions.

- Quite often, the foregoing calls for considerable investment efforts and technological enhancements that are not always attainable in the short term.

- "Free trade" based on <u>reciprocity</u> – as in the case of the FTAA – involves explicit and mandatory commitments to liberalise domestic markets.

- It has also been expressed that "small economies" have a greater tendency toward or are more vulnerable to coercion measures on the part of their larger foreign partners, regarding matters that are not purely trade-related.

# III.- Special and differential treatment in favour of small economies or less developed countries

In trade terms, SDT must consist of two essential elements:

- Non-reciprocal improvements in access to the markets of industrialised countries by the goods and service exports of less developed countries or small economies.
- Granting of flexibility and discretionality in the designing of the policies of the less developed countries with respect to their own markets.

In the multilateral context, the results of the Uruguay Round involved a “minimisation” or “erosion” of the disciplines that guaranteed Special and Differential Treatment.

The relative erosion or “minimisation” of the content of SDT has also been observed in the “trade integration” agreements of the region during the nineties, namely NAFTA and MERCOSUR.

- However, in the “historical” sub-regional integration processes – MCCA, CAN, CARICOM – some of the traditional components of SDT are maintained in favour of the less developed economies of those schemes.

- Annex No. 2 and Annex No. 3 of this presentation summarise the differences among these integration agreements in this respect, in terms of the traditional areas on the trade agenda, as well as “new topics”.

There are still many obstacles to be overcome in order for SDT commitments to be complete and for their implementation to resolve the problem concerning asymmetries, at the multilateral level and also in the FTAA.

1. There has been no consensus, neither at the hemispheric nor multilateral level, regarding which indicators and instruments should be used to define “small economies”.
2. In the case of the countries of the FTA, there are significant contradictions, not only between the “small economies” and the rest of the nations
3. The granting of greater degrees of “discretionality” for small economies, with a view to designing autonomous industrial and development policies that seek to overcome their structural limitations, may clash with the “essence” of various agreements incorporated into the FTAA proposal.

4. The industrialised countries of the hemisphere have been reluctant to consider the issue of support for “small economies” through financial resources, to the extent necessary in order to overcome the existing asymmetries.
5. As is evident in the successful European integration experience, free trade on its own is not enough to guarantee the convergence of development levels. It is therefore imperative to not only transfer resources from the wealthier regions to the less prosperous, but to also gradually move toward greater work force mobility.

# IV.- Possible lines of action of the FTA in hemispheric trade negotiations with respect to SDT.

<u>General:</u>

1. Bearing in mind the complex problem of “small economies” in the current international context, it has become vital to outline the design of economic - macroeconomic and structural - policies to develop said economies; as well as a wide range of international support mechanisms for these nations.
2. The specialised organisations of the region, including the sub-regional, must work as quickly as possible to support a consensus in theoretical-methodological terms, to define the “small economies” of the region.

3. It may be wise for a clear mandate to be issued to the pertinent regional organisations (SELA, ALADI and ACS) for a proposal to be drafted on the minimal content to be included in the concept of “special and differential treatment” in the current conditions of the international system.

4. Facilitate in the framework of SELA – as the organisation with the largest membership in the Latin American and Caribbean region – discussions toward reaching consensus on asymmetries and SDT, which could assist in defining the regional position in the WTO and in FTAA negotiations.

## Specific:

1. Continue efforts to identify the structural characteristics of the productive systems of the different small economies in the region.
2. Continue expanding the number of countries in the region that have performed analyses toward identifying “sensitive sectors”, based on the examination of trade criteria, as well as social and development criteria.
3. Prevent the countries of the region and their negotiators from strictly limiting themselves to the agreements of the last multilateral trade round, and by extension the WTO provisions in the area of SDT; although in their demands they could assess the benefit of establishing a phased system of asymmetrical and preferential treatment within the hemisphere.

4. While discussions and negotiations on “market access”, should be defined according to the principle of “national treatment”, they should also increasingly incorporate the SDT perspective.
5. The chapter or disciplines related to “commercial safeguards” is one of those which, among the traditional questions concerning “market access”, could play a pivotal role in the application of SDT. Equal consideration is due to “rules of origin” and “subsidies”.
6. Seek to exempt from the application of agreements that regulate the “new trade topics”, “small economies” that do not have the real capacity to implement or “enforce” such agreements. The TRIP’s agreement and possibly those associated with “competition policies”, “government procurement” and “investment policies”, in the WTO as well as the FTAA, should take “precedence” over matters concerning market access and agricultural trade.

SELA