LEONARDO MARTINEZ-DIAZ

4 MAKE TRADE A PRIORITY

The Context

The global economic crisis poses a significant threat to the global and hemispheric trading system. Slumping demand in the United States has directly hit the export sectors of many Latin American economies, and the collapse in commodity prices has dealt a considerable blow to the hemisphere's commodity exporters. As terms of trade and current accounts deteriorate across the region, many countries are considering—and sometimes adopting—protectionist measures. The hemisphere's relatively open trade regime, which was running out of steam even before the crisis hit with full force, is not only at a standstill, but is danger of breaking down.

Despite this risk, trade was largely left off the agenda at the Summit of the Americas. The Summit's March 26 Draft Declaration of Commitment makes only one substantive reference to trade, in which leaders recognize "the positive contribution of trade among our nations in the promotion of growth, employment and development." Leaders also agree that they will "continue to insist on an open, transparent and rules-based multilateral trading system." This article argues that the hemisphere's leaders need to be much more pro-active on the trade front, and that they should use the summit and other hemispheric forums to coordinate regional policies that can help preserve—and perhaps later advance—the open trading regime.

The Challenge

Hemispheric trade boomed in the years before the crisis. Between 1996 and 2007, the cumulative growth of U.S. exports to Latin America was higher than to all other regions and to the world as a whole. While Mexico was the most important U.S. trading partner in the region, U.S. trade with Argentina, Brazil, Colombia, and Peru, was growing at double-digit rates. Thanks in large measure to the commodity-price boom, terms of trade gains led huge cumulative trade surpluses for Latin American exporters in 2004-08—some $500 billion above what it would have been had export prices remained flat. This growth in trade took place even while hemispheric trade talks stagnated; the region's trade deals in the 2000s were mostly bilateral and relatively small in terms of trade volumes.

The crisis has led to an abrupt deterioration of the trade balance in most countries in the region. After more than five years of booking trade surpluses, Brazil reported a trade deficit in December and is expected to run a current account deficit of over $30 billion in 2009. Mexico, Latin America's second-largest economy, is also seeing its current account deficit grow quickly; the IMF expects it to run a current account deficit of about $25 billion next year. Hardest hit by the U.S. recession will be those countries that trade most intensively with the United States, especially Mexico, Venezuela, and Ecuador. Latin America's terms of trade gains are deteriorating as commodity prices drop, though should remain at relatively high levels in 2009, according to JP Morgan analysts. Countries where commodities represent a very significant fraction of total exports will also feel the global recession most intensely. These include Venezuela, Peru, Chile and Ecuador.

As the crisis begins to hit the productive sectors of the region's economies, resulting in higher unemployment, many countries are contemplating, or have already implemented, protectionist measures. Ecuador has adopted some of the most aggressively protectionist responses, raising tariffs between five and 20 percent on 940 products. In November, Brazil and Argentina proposed raising Mercosur's common tariff, but after Paraguay and Uruguay rejected the measure, Argentina unilaterally imposed tariffs on a wide range of goods, including food, farm machinery, steel, iron, textiles, and shoes.

In Brazil, the government attempted to introduce widespread licensing arrangements and import controls, but opposition from the private sector has led to a temporary standstill on these protectionist measures. Meanwhile, Mexico imposed tariffs on $2.5 billion of U.S. goods in retaliation for a ban of its trucks on American roads. While this is only the latest episode in a long-running trade dispute, it has not helped improve the trading climate. Overall, protectionist measures in the region will likely focus on labor-intensive sectors, as governments try to contain unemployment and its political and social ramifications.

Hemispheric Opportunity

Working together with the three Latin American countries in the G-20—Mexico, Brazil, and Argentina—the United States should work at the hemispheric level to help preserve the hemisphere's open trading system. At a minimum, the hemisphere's trading partners should consider the following measures:

- **Make a public commitment.** Going beyond the language currently agreed, leaders should follow the initiative of the G-20 and make a strong commitment to free trade, pledging to avoid protectionist measures as much as possible.

- **Increase trade finance.** Trade finance is drying up in the region. In Brazil, which accounts for more than 40 percent of regional trade financing, banks are renewing just half of existing trade financing lines. Mexico and Argentina are facing similar financing problems. The Inter-American Development Bank recently raised the limit of its Trade Finance Facilitation Program from $400 million to a maximum of $1 billion, but much more can be done if the Bank's largest shareholders are willing to push this envelope further. The U.S. and other mature economies should also encourage their export credit agencies to support their own countries' financial institutions to keep trade lines open in Latin America.

- **Beef up trade surveillance.** Member countries are already required to report protectionist measures to the WTO. However, a regional mechanism should be developed to keep track of tariff and non-tariff trade restrictions and to provide regular, publicly-available analysis of new restrictions and their economic and employment impact. By making these restrictions and their impact transparent, peer pressure could be brought to bear to limit protectionist moves.

- **Aid for trade.** Several low-income Latin American countries receive trade-facilitation economic assistance from bilateral and multilateral donors. Among other things, this assistance finances projects to help bring products to foreign markets and to upgrade customs systems. Where possible, disbursement of this assistance should be expedited.

- **Renew trade preferences for Bolivia.** In October 2008, the Bush Administration suspended Bolivia's trade privileges, excluding the country from the 1991 Andean Trade Preference Act, which affords some South American countries lower tariffs on certain exports to the United States. As a result, U.S. officials estimate that between 20,000 and 30,000 Bolivians will lose their jobs. Restoring these preferences would demonstrate the capacity of open trade to help some of the poorest people in the hemisphere during a major global recession.

Want to Know More?

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